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## **New realities in global markets and Thailand's economy today**

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## Preamble

As the world economy becomes more and more open thus having both enhancement impacts on and carrying certain disadvantages to allied interdependent national economies, neither the analysis of current economic state nor the forecast of upcoming trends for any country may look feasible without proper consideration of global challenges and major developments. At the meantime, long term cooperation and the utilization of national competitive advantages comprise regional engines to foster the prevailing stream of economic globalization along with other mega trends.

Demonstrating greater vulnerability than previously predicted, the world economy has slowly slipped into a recession by the end of the 20th century, with former locomotives of growth - the high-tech sector and business investment - sputtering. Overall global economic restructuring continues to reshape the world's economic landscape as plant mergers and the relocation of production facilities occur at an accelerated pace, and companies adjust to changing conditions in the world. In spite of this perspective, future prospects are good and the preconditions for a gradual long term economic revitalization of global activity are largely in place. The process of global recovery and revitalization should begin to get back on track as most world organizations are optimistic about overall economic growth<sup>2</sup>.

## 1. Current trends and new realities in the world economy

The growing global middle class—now 2 billion strong—is creating a cycle of rising aspirations, with increased information flows and the spread of democracy giving political clout to formerly disenfranchised citizens. The widespread improvement in recent years in economic policy and management sets the stage for future dynamism. The primary forces transforming the world throughout the first half of the 21st century will originate from the acceleration of economic trends already evident in the late nineties of the 20th century:

- global shift to a knowledge based economy;
- waxing of a technologydriven transformation and servicedriven economy;
- taming of complexity via information technology ;
- greater transparency and accountability of public and private institutions;
- the increasing strength of Eastern markets;
- reduction of xenophobia through economic cooperation;
- the liberalization of the international monetary system;
- the move toward the development of space opening up new frontier for business.

With these in mind, there are a number of general trends that will continue to affect the economy and determine how nations grow while accepting the new terms of the emerging new economic order. Recognizing and understanding how these trends affect local businesses will assist in establishing strategic directions that will benefit local, global companies and attract new investment<sup>3</sup>.

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<sup>2</sup> International Monetary Fund's World Economic Outlook, 2003 and the Toronto Dominion Bank's Global Economic Outlook Report 2003.

<sup>3</sup> Tim Jones, Town of Aurora Economic Development Strategy, Economic Development Division, Toronto, Ontario, Canada, 2003, pp.24-28.

The dominant changes in the world in the first half of the twenty-first century are driven by social, economic, and political trends, which are being facilitated by technological changes. The global economy will increasingly center on intellectual property. Educational institutions will be transformed, both from the tremendous demands imposed by this knowledge-based economy, and from the possibilities enabled by the explosion in information technology.

Economic growth varies greatly from region to region. The new wealth of nations will be the educational base of a country's population, the ability of its sociopolitical institutions to protect freedoms and foster economic growth, and its ability to absorb outsiders and facilitate their integration into their economy. Individual nations will see their sovereignty eroded both through the continued growth of multinational companies, and through the growth of supra-national institutions. Institutions, both public and private, are becoming more open, accountable, and less hierarchically-organized. In the developed world, the greatest force for change in our health care will be less biomedical wizardry and more health education. Transportation landscape will change, as we move away from an oil-based energy economy to a biomass-based solar-powered economy, and as intelligent guidance systems allow cars to move more fluidly across the highways and allow personal flying vehicles to take to the skies in great number<sup>4</sup>.

Political pressures for higher living standards, improved macroeconomic policies, rising trade and investment, as well as diffusion of information technology, increasingly dynamic private sectors and other related factors will combine to promote widespread economic growth.

Because of economic globalization, investment is easily moved across borders. International corporations and small businesses participate in a global marketplace where every one is potentially a customer or a competitor. International economic and trade agreements and alliances also continue to redefine barriers to trade and investment. EU, NAFTA, ASEAN and other regional alliances accords have guaranteed that local companies face the challenges of increased competition in the global market. With the expansion of the Internet and the bridging of the digital divide, all kinds of knowledge based work can now be done anywhere in the world.

The flow of goods and services has been supplanted by the flow of creative talent as the cornerstone of growth in the New Economic Order. Redirection of this flow occurs with increasing movement of creative and innovative people to cities and regions that are more socially tolerant and diverse. The key factor in achieving economic growth is a jurisdictions' ability to attract members of what is dubbed the 'new creative class' - engineers, scientists and entrepreneurs with a talent for innovation<sup>5</sup>. As the economy becomes globally connected and more local jobs are related to international trade, strategic alliances amongst governments and companies are more important than ever. Strategic business alliances factor prominently in business strategies, providing a viable third option to the 'make or buy' decision. Consequently, the role of governments requires building links between local and international companies that can benefit from these alliances. The size of businesses and the preponderance of smaller business units are directly related to the amount of economic growth occurring in various economies. Traditional large corporations are continuing to downsize and downscale their operations to remain competitive in the global economy. Efficiency and the 'bottom line', foundations of small

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<sup>4</sup> World in 2050, John H. Van Drie, [www.johnvandrie.com](http://www.johnvandrie.com), August 6, 2004.

<sup>5</sup> The Rise of the Creative Class, Richard Florida, New York, 2002, p.57.

businesses, had become the key to business survival. Human capital is undoubtedly the most essential asset many companies have in their business and directly related to innovation in the workplace and to creating a product or service that is unique. A key ingredient making possible the New Economy is what economists are terming 'knowledge workers' (doctors, lawyers, scientific-technical workers and senior ranks of management). Today's companies are looking for innovative labour when selecting a new business location. Governments in all jurisdictions are identifying and examining methods to cut costs and reduce taxes through the deliverance of cost effective and private partnership services. Growing interaction among national economic systems during the last few decades takes place due to broader competition and reduction of barriers to trade in goods, services and financial assets. Countries participating in this process have seen their domestic financial markets become more integrated with markets abroad. Two factors shape and characterize this process. First, technological innovation has sharply reduced transportation and telecommunication costs. Some figures taken from an IMF study illustrate this impressive change<sup>6</sup>.

**Table 1. Communication and computer costs**

| Years | Cost of a 3 minute phone call New York to London (in \$ 2.000) | Price of computer and peripheral equipment relative to GDP deflator (year 2000 = 1000) |
|-------|--|--|
| 1960  | 60.42  | 1,869.004  |
| 1970  | 41.61  | 199.983  |
| 1980  | 6.32   | 27.938   |
| 1990  | 4.37   | 7.275  |
| 2000  | 0.40   | 1.000  |

In only 40 years telecommunication costs shrank by a factor of about 150, while computer costs became around 1900 times cheaper. As a consequence, information is now disseminated almost in real-time and at low cost. Second, financial crises have become more frequent. Most of the time, they are driven by rapid inflows and outflows of capital. According to World Bank figures, global debt and equity flows (excluding foreign direct investment) expanded by more than five times since 1991, from \$794 billion to \$3.4 trillion<sup>7</sup>. The other side of the coin is the increased volatility on financial markets.

One of the major concerns is the existence of some fundamental inequalities in the international trade system. Today poor people face twice the tariffs that non-poor face in the global marketplace. In manufacturing, in order to get into the markets of the industrialized countries, poor countries have to pay anywhere from two and a half to seven times more than do other rich countries. International experts Dr. Gobind Nankani<sup>8</sup> and Dr. Richard Newfarmer<sup>9</sup> noticed that the system is emerging in such a way that developing countries' exporters have real problems in market access. WTO Doha<sup>10</sup> and Cancun<sup>11</sup> rounds of negotiations disclosed new prospects to reduce global poverty by some 140 million persons by the year 2015. After the Doha round, then, we can expect major benefits, up to some US\$600 billion of additional income by 2015 shared by both developed and developing countries.

Here is how poverty and poor people interact with the global trading system. First, on average, a poor person in the world faces twice the level of trade barriers as an average rich person. And there are

<sup>6</sup> P. Masson (2001), Globalization: Facts and Figures, IMF Policy Discussion Paper 01/04 IMF, Washington D.C.

<sup>7</sup> World Bank, Global Development Finance 2001, Chapter 2, Trends in private capital flows.

<sup>8</sup> Vice President, Poverty Reduction & Economic Management Dept, World Bank.

<sup>9</sup> Economic Adviser, Trade Dept, and Development Economic Prospects Group, World Bank.

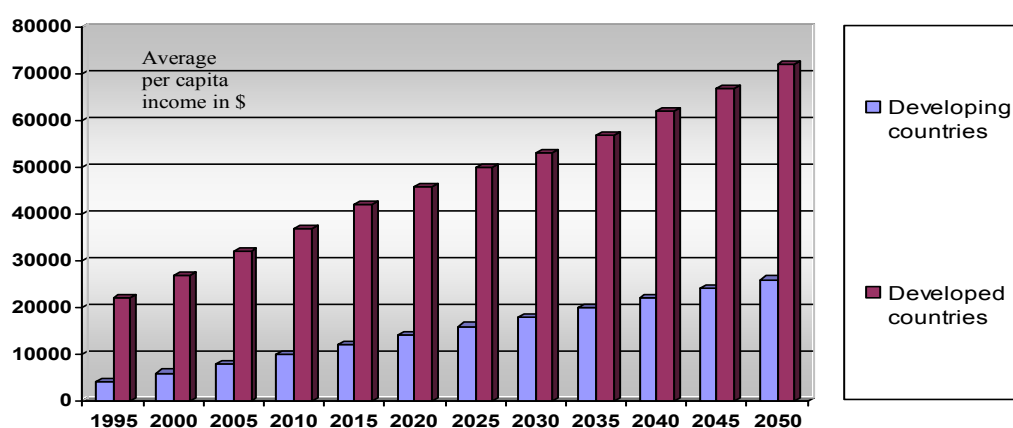
<sup>10</sup> WTO Ministerial Conference in Doha, Qatar 9-13 November 2001.

<sup>11</sup> WTO Ministerial Conference in Cancun, Mexico, 10-14 September 2003.

some 2.7 billion people who live under situations of US\$2 per day in terms of their income. So, 2.7 billion people are facing barriers that are twice as high as that faced by an average rich person. The key issue, as far as poverty and trade is concerned, is market access: market access makes a big difference to the poor, because the poor have access to rich country markets; they can export more goods, particularly agricultural goods and textiles. And if subsidies are dropped by developed countries, then, they will be exporting these goods at higher prices than exist, and hence, the link to income.

It is critically important that the rich countries take action to break the deadlock. According to UN data one billion of the world's six billion people live on less than \$1 a day, and 2.7 billion live on less than \$2 a day. Low-income countries need investments of \$70 to \$80 per head per year from 2006, rising to \$120 to \$160 per year in 2015, it says, adding that many middle-income countries could fund those investments themselves, given adequate debt relief and appropriate, specialized technical assistance<sup>12</sup>.

**Figure 1: Income Gaps**



There is a vital need to use the potential to speed up growth in developing countries further; to raise incomes and reduce poverty. All countries, developing and advanced economies alike, have an interest in its success. But to realize this potential, governments have to tackle inequities in the world trading system and to forge an agreement that benefits the poor. Those are the key messages for coming decades.

## 2. Regional developments

Table Asian developing countries have out-performed the other developing countries by a wide margin in terms of their share of world trade, their share of FDI flows to developing countries, and their ratio of trade-to-GDP. While the average level of protection in the industrial countries is relatively low, there are serious barriers to entry in certain sectors of particular interest to developing countries - including agriculture, textiles, clothing, fish and fish products. Many countries have also expressed concern about preference erosion, tariff escalation and the risks in being left out of the proliferating free trade areas and customs unions. While these considerations clearly are relevant to understanding the trade

performance of Asian developing countries as a group, they are less helpful in explaining why some countries have experienced a dynamic growth of exports while others have seen their exports stagnate or even decline; indeed, in some instances the countries with a poor export performance had better access to industrial country markets than those countries whose exports expanded rapidly. Due to their typically smaller size and less diversified economic structure, many developing countries are more strongly affected by, and more vulnerable to, changes in the international environment than the industrial countries. The countries which have experienced strong export growth have lower levels of import protection than countries with stagnant or declining exports.

**Table 2 : Disparities in global integration**

| Speed of developing countries integration, early 1980s to early 2000s (number of countries) <sup>13</sup> |           |            |                               |                            |                    |                         |
|---|-----------|------------|-------------------------------|----------------------------|--------------------|-------------------------|
| Ranking   | East Asia | South Asia | Latin America & the Caribbean | Middle East & North Africa | Sub-Saharan Africa | Europe and Central Asia |
| Fast integrators  | 6         | 3          | 5                             | 2                          | 2                  | 5                       |
| Moderate integrators  | -         | 2          | 5                             | 4                          | 10                 | 2                       |
| Weak integrators  | 3         | -          | 9                             | 2                          | 10                 | -                       |
| Slow integrators  | -         | -          | 2                             | 5                          | 14                 | 2                       |
| Total   | 9         | 5          | 21                            | 13                         | 36                 | 9                       |

Source: World Bank staff estimates

As it can be seen from the data, developing countries in Asia increased their market share dramatically, while Latin America's share stagnated and those of Africa and the Middle East declined. Most South East Asian countries reported ratios of domestic fixed investment to GDP around 30 per cent during 1985-1994, while those of Latin America and Africa fluctuated around 20 per cent<sup>14</sup>.

The share of developing countries in world exports and imports of commercial services increased. The available data suggest that the developing countries as a group have increased their market shares in all three categories of commercial services - transport, travel and other business services

<sup>12</sup> UN Secretary-General Kofi Annan report (3,000 pages) on January 17, 2005, containing recommendations how to reach the MDGs of halving extreme poverty by 2015 and going beyond to eliminate it by 2025.

<sup>13</sup> Four main conclusions: changes in integration were highly differentiated; countries with the highest levels of integration tended to exhibit the fastest output growth, as did countries that made the greatest advances in integration; sound policies play an important role in determining both growth and the speed of integration. Improvements in the external environment and modest reforms in many lagging integrators suggest that their growth rates may show some improvement in the next decade. To summarize integration trends, the analysis uses a speed of integration index derived from changes between the early 1980s and early 1990s in four of the indicators discussed above: the ratio of real trade to GDP, the ratio of FDI to GDP, Institutional Investor credit ratings, and the share of manufactures in exports. The speed of integration index is the simple average of changes in the four indicators over the period expressed as standardized scores. On the basis of this index, developing countries are grouped in four categories ranging from "fast integrators" (those with the highest index values) to "slow integrators" (those with the lowest; table 2-2). This classification is not intended to derive a precise categorization of individual countries but rather to develop evidence about the factors that might account for large differences in the speed of integration among groups of countries, and the consequences of this for performance.

<sup>14</sup> World Trade Organization Committee on Trade and Development, 16 August 1996. Participation of developing countries in World Trade: Overview of major trends and underlying factors, WT/COMTD/W/15, <http://www.eldis.org/static/DOC4869.htm>.

since 1987. Inadequate and inefficient road/rail/air transport facilities, storage facilities and telecommunications have also acted to limit the supply-side response of developing countries, with the problems being especially serious in the developing world.

South East Asian exporters largely benefited from the strong revival in the electronics market in particular, as a result of increased United States (US) investment demand. The strong growth momentum also translated into fast-rising imports during the period (see Appendix 1)<sup>15</sup>. With some exceptions, business investment, which had been lagging behind since the Asian financial crisis in many East Asian and South East Asian economies, picked up, further supporting growth in domestic demand. In countries where agriculture remains a large source of employment, the sector has generally benefited from favourable conditions, leading to rising rural incomes and consumption. The rebound of economic growth in South East Asia was impressive in 2000-2005. The economies of Malaysia and Singapore performed well above expectations while Thailand and Vietnam continued to show healthy growth. With robust growth in most industrial countries, continued strong demand from the PRC, and the brisk revival of the electronics industry, exports from South East Asian countries expanded substantially. Exports grew well into double digits in most countries. Both agricultural and manufactured exports from South East Asia grew rapidly. Higher capacity utilization, good progress in the resolution of nonperforming loans, low interest rates, and a revival in construction have led a significant pickup in business investment in many countries. In Thailand, capacity utilization surpassed precrisis levels for automobiles, electrical appliances, electronics, and steel. Complementing the strong performance of private consumption expenditures over the past few years, the revival of private business investment growth in Southeast Asia was a long-awaited and welcome development. Inflation remains quite moderate in the subregion, particularly in Malaysia, Singapore, and Thailand. Fiscal deficits as a share of GDP are low in Indonesia and Thailand<sup>16</sup>. With these strong grounds for further economic growth, there is an obvious need to translate growth into employment generation and to address widening income inequalities.

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<sup>15</sup> Asian Development Outlook database.

<sup>16</sup> Asian Development Bank, 2005, Statistical Appendix of Asian Development Outlook 2004 (ADO 2004).

**Table 3 : Fiscal Balance of Central Government (% of GDP)**

| Item                   | 2001 | 2002 | 2003 | 2004      |        | 2005      |        |
|------------------------|------|------|------|-----------|--------|-----------|--------|
|                        |      |      |      | ADO 2004* | Update | ADO 2004* | Update |
| Southeast Asia         |      |      |      |           |        |           |        |
| Cambodia               | -5.6 | -6.6 | -7.0 | -5.8      | -6.1   | -5.6      | -6.0   |
| Indonesia              | -7.6 | -1.7 | -2.1 | -1.3      | -1.3   | -0.8      | -0.8   |
| Lao People's Dem. Rep. | -    | -8.3 | -7.8 | -5.4      | -9.2   | -5.3      | -5.3   |
| Malaysia               | -5.5 | -5.6 | -5.3 | -3.6      | -4.5   | -1.8      | -3.8   |
| Myanmar                | 5.9  | 4.1  | -    | -         | -      | -         | -      |
| Philippines            | -4.0 | -5.3 | -4.6 | -4.2      | -4.2   | -4.2      | -3.6   |
| Singapore              | -0.9 | -1.6 | 6.4  | 3.5       | 3.6    | 3.6       | 3.8    |
| Thailand               | -2.4 | -1.4 | 0.4  | -0.1      | -0.1   | -0.3      | -0.3   |
| Vietnam                | -3.0 | -3.8 | -4.8 | -4.6      | -4.6   | -4.2      | -4.2   |

\* ADO = Asian Development Outlook

As Thailand gets more integrated into the world economy, the global changes and trends continue to impact the overall growth in many ways, thus making the economy more competitive for better utilizing the nation's comparative, absolute and cooperative advantages.

### **3. The impact of global and regional trends on Thailand's economy**

One of the Thai government's main tasks is to upgrade the society to the level of a knowledge-based economy. This involves the acquisition of knowledge which is a learning process involving all sectors of society, both rural and urban, in order to remain competitive in the global economy. "Knowledge-driven growth" takes advantages from the efficient use of available natural, financial and human resources.

The structure of the Thai economy can be described as a dual economy. The first system comprises the technological advanced sector which is directly linked to the dynamics of the new economic order. The second system comprises the community-based or traditional economy which forms the heart of the rural society. In building the much needed economic resilience and immunity within the traditional sector, country is adopting the sufficiency economy approach<sup>17</sup>. Sixty percent of the development budget (around 60 million baht annually) the Thai government allocates directly to the neighbouring

<sup>17</sup> Sufficiency means moderation, reasonableness, and the need of self immunity for sufficient protection from impact arising from internal and external trends. In addition, a way of life based on patience, perseverance, diligence, wisdom and prudence is indispensable to create balance and to develop the capacity to cope appropriately with critical challenges arising from extensive and rapid socioeconomic, environmental, and cultural changes in the world.



countries in the Mekong subregion, namely Cambodia, Laos, Myanmar, and Vietnam<sup>18</sup>. Such development cooperation covers the fields of agriculture, public health, and education. Human resource development in Southeast Asia has implications beyond the region as the ASEAN economies are increasingly intertwined with other regional economies. Thailand cooperates with the United Nations and other international agencies and donor countries in providing assistance in the form of trilateral cooperation to Cambodia and Laos, with the UN.

● **Global shift to a knowledge based economy.** The nation is a learning center for developing countries in Asia. Health care workers from around the region, including Afghanistan, East Timor and Sri Lanka, take training courses in AIDS prevention at Thailand's Chiang Mai University. Thailand is well known not only with well established and well reputed universities like Thammasat University, Mahidol University, Chulalongkorn University and others, but also with continuous efforts to establish a benchmark of education for the 21st century with the careful consideration of progressive developments in the rest of the world. The Thai Department of Intellectual Property (DIP) has in recent years sponsored well-publicized public education initiatives designed to educate the general public that trade in pirated and counterfeited goods creates obstacles for Thailand to evolve from a primarily agrarian economy to an industrialized economy that can compete in the global marketplace. There are four basic foundations that will lead to the success of knowledge-based growth: technological adaptation: the human resources must be able to take the existing technologies and adapt them to the existing environment; educated and skilled labour: the government must concentrate on providing its citizens with enough education; information exchange: exchanging information will reduce the amount of duplicate work; an economic environment that supports the development scheme.

● **Waxing of a technologydriven transformations and servicedriven economy** is one of the main trends of economic development in Thailand. The global market is shifting from the “production economy” to the “servicedriven economy”. An increasing number of organizations are developing a knowledge management scheme as they realize the power of knowledge and information exchange. As a result, many organizations have already shifted the method of doing businesses. Instead of offering goods, they now offer services, information, and ideas. The competitive environments and the emergence of trading blocs in the global market force Thailand to develop a new method to push its economy upward. The service economy is one of the growing sectors in Thailand. The government promoted Thailand as World of Food Asia, exhibition at Impact Muang Thong Thani, as well as Suvarnabhumi international airport to be aviation hub of Asia. In addition, the Thai Spa and Bangkok – Fashion City projects make the country even more attractive for visitors, which in turn positively impacts on the growth of the service industry. The new international airport is a great evidence to support more tourists. Recent years are characterized by a stable increase of tourism and the hotel industry in Thailand. Thailand is one of the beloved countries for international tourists.

● **Taming of complexity via information technology.** For Thailand, there is an approach to the application of ICT in social and economic development laid out in the Framework on National Information

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<sup>18</sup> Proceedings of the Regional Cooperation in Human Resource Development under the New Economy and New Global Competition, Imperial Queen's Park Hotel, Bangkok, 14 March 2001.

Technology Policy during 2001 – 2010 in Thailand (IT 2010) which was approved by the government; and the ICT Master Plan 2002-2006, drawn up in response to rapid technological developments. IT 2010 is expected to serve as a blueprint for the country as it is entering the 'Knowledge-based and Sustainable Society' (KBS) in the 21st century. This is not just a policy on 'technology', but links IT with the social and economic development of the country. The three main components of 'IT 2010 for KBS' are identified as "strengthening information infrastructure and industry", "building Human Capital"; and "promoting Innovation". Five main flagships under the IT 2010 policy are: e-Government, e-Commerce, e-Industry, e-Education and e-Society, all of which operates upon the strong base of information infrastructure and industry. Almost 35,000 schools nationwide have an access to the internet.

- **Greater transparency and accountability of public and private institutions.** The commercial and legal communities in Thailand view the 1998 and 1999 amendments of the insolvency law as positive achievements. The establishment of the Central Bankruptcy Court is widely acknowledged as a major contribution to an improved bankruptcy regime. However, banks do not appear to be filing petitions for bankruptcy or reorganization in numbers commensurate with the magnitude of distressed loans. Thailand will need to consider further reforms to strengthen bankruptcy laws and debt collection, as well as security enforcement.

The government of Thailand is implementing a "big bang" public sector reform programme that will improve both the transparency and accountability of the public sector. E-government is part of this reform programme. According to Thailand's E-government vision by the year 2010, each ministry will have upgraded means for a rapid response, one-stop, round the clock service covering rural areas.

- **The increasing strength of the Eastern markets.** Thailand is very active in the South East Asian region, particularly in the Association of Southeast Asian Nations (ASEAN), the Asia-Europe Meeting (ASEM) and the Asia-Pacific Economic Cooperation (APEC). Thailand formed an FTA with Australia and signed an FTA agreement with New Zealand. The first phase of Thailand's FTA with India already started in 2004 and it is in the process of negotiation on the details of the full FTA. Moreover, Thailand has signed a Framework Agreements with BIMST-EC countries (Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation, and later joined by Bhutan and Nepal) in order to establish an FTA by 2015. The negotiation between ASEAN and these countries is expected to be finished within a few years to become a full FTA by 2015. In the coming years ASEAN may become ASEAN plus 3, by bringing Japan, China, and South Korea to join for the stronger regional blocs. The Greater Mekong Subregion (GMS) was established in 1992 and includes Cambodia, Lao, Myanmar, Thailand, Vietnam and Yunan. The Indonesian-Malaysia-Thailand Growth Triangle (IMT-GT) was established in 1993 with an aim of promoting a growth area under a new trilateral scheme.

- **Reduction of xenophobia through economic cooperation.** The ex-competitor for jasmine rice, Vietnam, and the ex-competitors for rubber, Malaysia and Indonesia, are currently Thailand's strategic alliances for both products. Recently there is a slight increase in exported volume of the products with a significant increase in value. As a consequence Thailand becomes more integrated with other nations to share and exchange the available resources in order to expedite the social development as it can be seen from the strong commitment of the Thai government in the development of strategic alli-

ances and regional blocks like ASEAN, APEC, ACD and others<sup>19</sup>, as well as active participation in international organizations and global mega projects. The goal of the measures is to expand the trade and financial market, increase the competitiveness of the Asian countries with respect to the global market, improve the quality of life of the citizens, and reduce poverty. Additionally, they also assist in the cooperation of political community and bring security to each member nation.

- **The liberalization of the international monetary system.** Free trade cannot be harmonized with long term managed fluctuations of exchange rates or frequent currency interventions. The liberalization of the international monetary system started since 1996, before the economic crisis of 1997 when Thailand had to change from a fixed to a floating currency. The implementation of a managed-float monetary system moderately affected the import/export industries of Thailand. It caused fluctuations of the Thai Baht value, but within an acceptable range. The world economy may slow down to 3.7% in North America, and to 1.6% in EU, and 1.2% in Japan. The current global crisis has a huge impact on the Thai economy. The increase of oil prices leads to imbalances. The GDP moves down and the inflation may go beyond the 3% level. The Chinese Yuan devaluation directly affects the Thai currency because when comparing exports between Thailand and China, Thai exports become more expensive. On the other hand, Thailand can earn advantages in agricultural production but not in industrial production. A good economic indicator for Thailand's economy is the way of promoting exports while energy saving should be encouraged. No doubt, long term policies have to be in line with further liberalization of the monetary systems. However, in urgent cases certain elements of the managed floating policy need not be excluded.

- **The move toward the development of space opening up new frontier for business.** The move toward the development of space may not be a main trend of economic development in Thailand because of lacking technology. However, the IP Star satellite is a big example indicating that Thailand also goes along with this trend. IP Star is a satellite that can provide both satellite and internet services at the same time, manufactured by France and operated by Shin Satellite, a Thai company. Moreover, the budget PC project providing more affordable PC, less than ฿10,000, gives more opportunity for Thai people to access ICT.

The overall impact of the global trend on Thailand's economy is translated into continuous growth and improvement of major economic indicators of the nation. Thailand is considered to be a world leader in niche markets: kitchen of the world, Detroit of Asia, world health service centre, Asia tropical fashion, etc.

#### 4. Current economic highlights

The government "dual track" policy is aimed at strengthening the internal economy simultaneously with exports. It turns into a vital need for Thailand to have sustained growth of at least 5% over several

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<sup>19</sup> Association of South East Asian Nations, Asia-Pacific Cooperation, The Greater Mekong Subregion, Indonesia-Malaysia-Thailand Growth Triangle, Bangladesh-India, Myanmar, Sri-Lanka, Thailand Economic Cooperation, Mekong-Ganga Cooperation, Asia Cooperation Dialogue, Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy.

years to be able to service the public debt and to prevent the total debt escalating beyond serviceable levels.

Agriculture is the primary means of employment, but industry, commerce, and services account for some 80% of the gross domestic product. Thailand is one of the world's largest producers of rice, and this accounts for much of the country's agricultural output. Bangkok is a major centre for the cutting and trading of gemstones, as well as the production of high quality gold and silver jewelry. In the last few years electronics, computers and integrated circuits, have become a major export earner and will play an increasing role in the future. Oil refineries, chemical plants, steel mills and similar industries are mainly centered around Sri Racha that is 30km north of Pattaya and Mab ta Phut just east of Rayong.

**Figure 2 : Thailand's Economy**

| Main Exports          | GDP             |
|-----------------------|-----------------|
| Tin                   |                 |
| Textiles              |                 |
| Fish Products         |                 |
| Rice                  | Construction 7% |
| Tapioca               | Agriculture 13% |
| Jewelry               | Industry 32%    |
| Electrical Appliances | Services 48%    |
| Furniture             |                 |
| Plastics              |                 |
| Integrated Circuits   |                 |

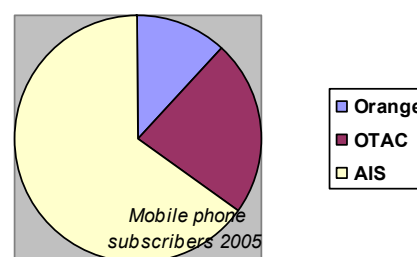
Key off-budget spending programmes, such as the Village Fund are of key importance being injected into the grass roots economy. Thailand has a total of 62 state enterprises, excluding two independent state enterprises and three state owned banks. The total assets of the state enterprises are 5.6 trillion baht (1USD=40B), with liabilities of 5.1 trillion. Revenues total 1.3 trillion baht with net profits of 136 billion baht in 2001, compared with revenue of 1.38 trillion and profits of 77.4 billion the year before.

On the manufacturing side electronic products, television and radio sets, iron and steel and automotive parts are among star exports. These industries, along with the beverage industry and vehicle manufacturing are key engines for current economic growth. Interest rates are expected to remain low benefiting investment and consumption. Developers are confident that the market will remain steady and not slum over the next few years. Thailand's retail sector witnessed an increase in new investment with both local and foreign players in 2002-2005 despite uncertainty and cautious consumer spending. Discount store chains such as Tesco Lotus, Carrefour, Big C, 7-Eleven and Makro have developed new outlets, adding to hundred outlets already in operation. Several changes in Thailand's telecommunications industry, both in the private and public sectors were seen in 2002-2005, however, the absence of a powerful, independent industry regulator, mandated in the 1997 constitution, has resulted in a policy vacuum at a time when the fast changes need a clear sense of direction. The most significant change in the public telecom sector has been in the movement to privatize the two state

telecom agencies. The Telephone Organization of Thailand is in process, but the privatization of the Communications Authority of Thailand was even more difficult.

The mobile phone market has grown beyond expectations, reaching nearly 25 million users, more than 70% of them on low margin pre-paid plans. At the end of 2001 the country has 7.7 million subscribers. While the subscriber numbers soar, industry executives endure sleepless nights amid concerns that the market is reaching saturation.

**Figure 3 : Mobile phones subscribers in Thailand 2005**



A major catalyst to the market boom was the removal of all the phone locks in 2002 and use of the Mobile Equipment Identity (IMEI) codes by service operators. The locks on phones and SIM cards had prevented customers from easily migrating from one system to another. The removal threw the handset market, which had long been a monopoly, wide open. DTAC took the move first, largely to counter TA Orange's soft opening when some handsets were offered free, while more expensive models were half price. The three main operators head off further competition from two newcomers: Thai Mobile, a joint venture between TOT and CAT; and the CDMA IX service operated by Hutchinson CAT Wireless Multimedia, a joint venture with of Hong Kong based Hutchinson.

Thailand is thirsty for energy, both for petroleum products and electricity used for economic recovery, rising transport usage and growing demand in the industrial and commercial sectors. The oil price changes have an essential impact on the economy which consumes nearly 6 million barrels of oil per day.

**Table 4. Major Economic Indicators, Thailand 1997-2004 (%)<sup>20</sup>**

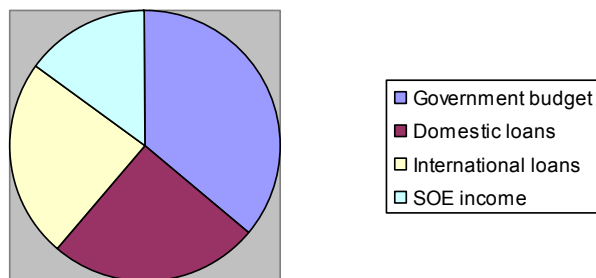
|                               | 1997  | 1998  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------|-------|-------|------|------|------|------|------|------|
| Growth of GDP                 | -1.4  | -10.5 | 4.4  | 4.8  | 2.1  | 5.4  | 6.7  | 6.1  |
| Growth of GDP p.c.            | -2.3  | -11.5 | 3.4  | 4.6  | 0.5  | 4.5  | 5.8  | 6.4  |
| Growth of merchandise exports | 3.8   | -6.8  | 7.4  | 19.5 | -7.1 | 4.8  | 18.6 | 23   |
| Growth of merchandise imports | -13.4 | -33.8 | 16.9 | 31.3 | -3   | 4.6  | 17.1 | 26.9 |
| Current account balance/GDP   | -2.1  | 12.8  | 10.2 | 7.6  | 5.4  | 5.5  | 5.6  | 4.5  |
| Inflation rate (CPI)          | 5.6   | 8.1   | 0.3  | 1.6  | 1.6  | 0.7  | 1.8  | 2.7  |
| Money supply (M3) growth      | 2.0   | 9.5   | 2.1  | 3.7  | 4.2  | 2.6  | 4.9  | 1.9  |
| GDI/GDP                       | 33.7  | 20.4  | 20.5 | 22.8 | 24.1 | 23.9 | 25.2 | 27.1 |
| GDS/GDP                       | 33.6  | 36.1  | 32.8 | 31.0 | 30.0 | 30.5 | 28.7 | 29.6 |
| Unemployment                  | 1.5   | 4.4   | 4.2  | 3.6  | 3.3  | 2.4  | 2.2  | 2.7  |
| Fiscal balance/GDP            | -1.9  | -2.5  | -2.9 | -2.4 | -2.1 | -2.2 | 0.6  | 0.3  |
| Debt service ratio            | 15.7  | 21.4  | 19.4 | 15.4 | 20.8 | 19.6 | 15   | 13.5 |

Investment became a more significant contributor to the final outcome. Investment and consumption grow steadily along with the GDP growth, while the expansion in imports outpaces that in exports, and net exports. Some part of reduced export demand relates to the exports of shrimps due to US anti-

<sup>20</sup> Asian Development Bank, Asian Development Outlook (Hong Kong: Oxford University Press, various years).

dumping measures. Agricultural production fell and the growth rate of manufacturing slightly eased in 2004-2005. Production of chemicals is still strong, partly reflecting high demand from the PRC. Some light manufacturing industries, especially food and beverages, were also hit by avian flu and drought, although they start to recover. The capital goods and technology industries continued to slow down, partly due to declining demand for motor vehicles prompted by higher oil prices and revisions to excise taxes, which caused some consumers to delay purchases. Wholesale and retail trade eased along with hotels and restaurants as a result of the tsunami. Construction, financial services, transport and communications are also among fast growing sectors of the Thai economy. Unemployment has been on a downward trend since the Asian financial crisis, from 4.4% in 1998 to 3.3% in 2001 and 2.7% in 2004. External performance remains strong. Merchandise exports grow mainly a result of sharply higher shipment volumes to the EU, the ASEAN economies, and Japan. The surge in imports was attributable to oil price increases and imports of intermediate products and capital goods. The Government continues its programmes, such as the Village Fund that provides loans to communities, as well as assistance for SMEs. High crop prices in 2003-2004 led to significant increases in farm income which, in addition to government programmes injecting funds into rural districts, contributed to reducing poverty. However, income inequality among different regions and groups remains a problem. Investment plans that call for spending of up to B2.7 trillion (\$69 billion) between FY2005 and FY2008, mainly on infrastructure projects in transport and energy, have been drawn up by the Government. Large-scale projects each costing more than B3 billion account for 56% of the total. The investment will raise GDP growth on average by about 0.2 percentage points a year over the investment period, according to the Ministry of Finance. However, it may also result in a smaller current account surplus. Although spending on infrastructure will boost the competitiveness of the economy, in implementing such a large investment programme the Government should give paramount consideration to debt sustainability and macroeconomic stability<sup>21</sup>. In response to the rehabilitation needs after the tsunami disaster, the Government estimated expected expenditures for emergency and rehabilitation assistance about B10 billion. Of that amount, B5 billion was allocated to immediate programmes, including direct assistance to families, support for industries, and low-interest loans for businesses.

**Figure 4 : Planned funding sources in Thailand**



Economic achievements in Thailand leave no doubts about further growth. In the meantime, implementation of long term strategies require keen analysis of emerging challenges, as well as economic diagnosis of existing concerns and problems. Recent research conducted by the Research Center Alternative identified various impediments that are classified into three conditional groups – major economic problems (income imbalances in provinces, dependence of production factors on external sources, unrest in the southern provinces, population aging, illegal immigration), current targets (limited resources available for research & development, lack of long term competitive advantages in foreign markets, economic slowdown, hyper competition in many industries, foreign trade deficit) and

<sup>21</sup> Asian Development Bank, *Asian Development Outlook* (Hong Kong: Oxford University Press, various years).

short term concerns (tsunami, oil price increase, exchange rates volatility, avian flu, draught) along with certain policy recommendations (see Appendix 2)<sup>22</sup>. Though many problems require a precise professional approach and economic procedures to be undertaken, however, political will need not be underestimated. Hot economic issues were addressed by Thai Rak Thai's (TRT) campaign that later turned into concrete plans of action. Ten issues dominated the party campaign<sup>23</sup>:

- Poverty eradication;
- Reform of the education system;
- Financial assistance for small farmers;
- Extension of the 30-Baht health scheme introduced in 2001;
- New public housing projects for low-income earners;
- Support for infrastructure in Bangkok as part of TRT's "Healthy Bangkok" campaign;
- Improved public care for elderly and children;
- Reform of public administration;
- Fighting corruption;
- Pacifying the unrest in the South.

Needless to say, the majority of problems either resulted from external trends or may be successfully solved taking into consideration the growing influence of global developments. Moreover, some problems are common for the world economy. Poverty Reductions Strategy Projects (PRSP), Millennium Development Goals (MDG) and Copenhagen Consensus are among global initiatives aimed to coordinate the efforts of nations to fight common threats internationally.

## 5. Copenhagen consensus, global challenges and development goals

Sustainable progress in Thailand's economy reflects impressive records of macroeconomic reforms and Government's firm commitment to further improve the quality of life and be better integrated into the world economy. These allowed not only to reach most of the global targets, but also introduce a concept of ambitious projects, mega projects and the "MDG Plus", a combination of pro active policies aimed to further improve set benchmarks<sup>24</sup>. Thailand's scorecard on MDG targets for goals is considered to be one of the best success stories (see Appendix 3)<sup>25</sup>. Demonstrating tangible achievements in meeting the MDG, Thailand has set new, challenging targets of reducing the proportion of poor people to below 4 percent by 2009, doubling the proportion of women in the national parliament, local government bodies and executive positions in the civil service by 2006. It strengthens the nation's results-based and target-oriented approach to development, creating a broad accountability framework against which performance of the Government and its partners will be assessed, as well as improves the initial indicators by quality information, measures of benefits to all members of society and considering regional and ethnic disparities. The following are Thailand's MDG Plus targets<sup>26</sup>:

<sup>22</sup> Classification is based on time horizon and presumed hurdles associated with their reduction and further elimination. In addition, external impacts are also considered. See Appendix for more details.

<sup>23</sup> Cf. B.Gorawantschy, Ueberwaeltigender Sieg fuer die Thai Rak Thai Partei, Bangkok, Konrad-Adenauer-Stiftung; Stefan Chrobot, Thailand nach den Wahlen: Premier Thaksin zwischen Machtzuwachs und Krise im Sueden, Friedrich Ebert Stiftung.

<sup>24</sup> Thailand Millennium Development Goals Report, 2004, Office of the National Economic and Social Development Board, United Nations Country Team in Thailand, pp.1-75.

<sup>25</sup> See Appendix for Thailand's Scorecard on MDG Targets for goals 1 through 7.

<sup>26</sup> In three cases – hunger, safe drinking water and sanitation, and secure tenure – no MDG Plus targets are set.

**Poverty:** Reduce poverty to less than 4 percent by 2009

**Hunger:** Halve the proportion of people who suffer from hunger between 1990 and 2015

**Education:** Universal lower secondary education by 2006

**Gender:** Double the proportion of women in Thai parliament, TAO<sup>27</sup> and executive positions by 2006

**Child health:** Reduce the infant mortality rate (IMR) to 15 per 1,000 live births by 2006

Reduce by half, between 2005 and 2015, the under 5 mortality rate (U5MR) in highland areas, selected northern provinces and three southernmost provinces

**Maternal health:** Reduce the maternal mortality ratio (MMR) to 18/100,000 by 2006. Reduce by half, between 2005 and 2015, the MMR in highland areas, selected northern and 3 southernmost provinces

**HIV/AIDS:** Reduce HIV prevalence among reproductive adults to 1 percent by 2006

**Malaria, tuberculosis and heart diseases:** Reduce malaria incidence in 30 border provinces to less than 1.4 per 1,000 by 2006

**Sustainable development:** Increase the share of renewable energy to 8% of the commercial primary energy by 2011. Increase the share of municipal waste recycled to 30% by 2006

**Safe drinking water and sanitation:** Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation

**Secure tenure:** By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers (globally)

Remarkable progress has been made in reducing poverty in Thailand. Between 1990 and 2002 a steep decline in poverty occurred both in terms of the rate and absolute number of poor from 27.2% to 9.8% and the number of poor dropped from 15.3 million to 6.2 million. Measured by the 1 US\$ PPP/day benchmark the proportion of the poor in Thailand declined from 12.5% to 5.2% over the decade 1990 to 2000. Thailand has thus already reached its MDG poverty target. The Government has adopted an area-based poverty-targeting approach. From 2000 to 2003, the share of poverty-alleviation programmes in the national budget increased from 10.4% to 13.4%<sup>28</sup>. In the meantime, continued progress will need targeted budget allocation, expanded social safety nets, decentralized implementation, better use of analytical tools to improve targeting.

The proportion of undernourished people in Thailand declined steadily from 6.9% in 1990 to 4.2% in 2000. In 2002, undernourishment hit an all-time low at 2.5 percent. Importantly, evidence also suggests that the main cause of protein-energy malnutrition of Thai people is not poverty or deprivation, but the lack of knowledge and nutritional education. The Ministry of Public Health set two targets relating to micro-nutrients. The first is a target of not more than 5% of school aged children to have iodine deficiency. The second is not more than 10% of school-aged children to have anemia due to iron deficiency. Further action is needed to maintain nation-wide nutrition data, undertake analysis to formulate an approach to the emerging nutrition concerns, integrate nutrition education into schools and lifelong learning programmes, expand and enhance the effectiveness and efficiency of school lunch programmes.

<sup>27</sup> Tambon Administrative Organization.

<sup>28</sup> NESDB, *Report on an Analysis of Poverty Alleviation Budget (Fiscal Years 2000-2003)*, December 2002 (in Thai), presents an analysis of the 2003 budget. According to the World Bank, the share of anti-poverty programs in the national budget expanded from 1.1 percent to 4.2 percent during 1993-1999. The calculation was, however, based on a different definition of "anti-poverty programs". For example, health services expenditure was not included, World Bank, *Thailand Social Monitor: Poverty and Public Policy*, November 2001, pp.72-73.



Education. Gross enrolment in upper secondary has more than doubled from 27% to 55% over the decade 1992 to 2002<sup>29</sup>. One area of concern is the retention rate at each successive level of schooling. Recent figures show that 86% of students that enrolled in the first grade stayed on until the sixth grade, while 63% and 42% stayed on until the ninth grade and the twelfth grade respectively. The result is that less than half of the students complete full twelve years of schooling. With nearly 100% literacy, 43% of Thai youth have computer skills and 60% have access to information technology (IT) at school<sup>30</sup>. Priority needs to be given to further education cost reducing, improving the quality of the education curriculum, improving the monitoring capacity, and leveraging ICT to improve learning.

Gender. Girls tend to perform better in school. In 2000, the literacy rate for 15- to 24-year-olds was 98% for men and 97.8% for women. The proportion of women's income compared to men increased from 65.4% to 80.8% over the decade 1990-2000. But, when employers, self-employed workers and family workers are excluded improvement was much less impressive, rising from 78.9% in 1990 to 81.8 percent in 2001. As women move into higher positions the disparities become more pronounced. For example, in the private sector in 2000, income of women was 92% of a man's income and only 79% at the higher/director level. While women represent 59% of all civil service positions, they only hold 14% of high-level executive positions. The number of reported crimes against women is growing<sup>31</sup>. Thailand sets a MDG+ target to double the number of women in the parliament, TAOs, other executive positions, involve more women in decision-making, reduce violence against women, promote know-ledge on gender and women's rights.

The infant mortality rate (IMR) declined from 38.8 to 26 per 1,000 live births representing a drop of about one third. At the beginning of 2001 the IMR was estimated at 22 and the Ministry of Public Health plan is aiming to reduce this to 15 by 2006. The progress on reducing infant mortality is closely tied to maternal health and other development concerns including poverty and hunger. Given the low baseline of 12.8 per 1,000 live births in 1990, the reduction in child mortality by two thirds by 2015 to 4.3 per 1,000 live births was not feasible. MDG+ targets have been set to reduce IMR to 15 per 1,000 live births by 2006, and to reduce by half, between 2005-2015 the U5MR in highland areas, selected Northern provinces and the southernmost provinces. Priority needs to be given to training for health personnel, proactively involve families with their communities, and further improve monitoring capacity. The maternal mortality rate in Thailand declined by two thirds in 1990-2000. The MMR dropped from 36 per 100,000 live births in 1990 to an all-time low of 14 per 100,000 live births in 1999. The increase to 17.6 per 100,000 live births in 2001 and 24 per 100,000 live births in 2002<sup>32</sup> is a result of an endeavour to expand the coverage and improve the technical aspects of data collection. With this in mind the Ministry of Public Health set a target of 18 per 100,000 live births by 2006, as MDG+ target: involve both parents and health personnel in improving health outcomes, provide healthcare for women, improve the training of health service personnel to be effective in detecting and responding to childbirth complications, analyze existing data to develop targeted strategies.

The number of HIV/AIDS patients has fallen from 143,000 in 1991 to 19,000 in 2003. Thailand therefore has already surpassed MDG Target 7. However, the virus continues to spread among certain

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<sup>29</sup> Office of the National Education Commission, Ministry of Education, 2003.

<sup>30</sup> NSO, Youth and Welfare Survey, 2002 (survey of children and youth 11 to 24-year-olds).

<sup>31</sup> Calculated from Pawadee Tonguthai, Gender Equality and Decent Work in Thailand, Working paper #1, A Country Report for ILO/ADB RETA Project 5887, 2002, (2002), citing NSO and Office of the Civil Service Commission (OCSC), Survey of Compensation in the Private Sector, 2000.

<sup>32</sup> Ministry of Public Health, Thailand Health Profile 1999-2000, 2002, p.194, citing Dept. of Health.

groups (young gay men, mobile labourers, sex workers, seafarers and fishermen). In the 15- to 29-year-old age group, women accounted for 61% of new infections in 2003<sup>33</sup>. Only about 28% of young people are using condoms consistently with sexual partners<sup>34</sup>. Reaching the MDG+ target requires such priorities as learning from the past, revitalizing a broader response with political leadership, shifting the focus of prevention, mobilizing the school system, achieving universal access to ARV treatment.

The malaria-related mortality rate has continued to drop until the disease is no longer life-threatening for a large part of the population. Malaria prevention covered 4 to 5 million people in 2001. The percentage of HIV/AIDS to tuberculosis coinfection rose from 14.5% in 1989 to 31.8% in 2001, making tuberculosis the number one cause of death among HIV/AIDS patients<sup>35</sup>. A relatively new and rapid treatment regime for tuberculosis known as the directly observed treatment short course (DOTS) was practiced in every province with an estimated median success rate of 73%<sup>36</sup>. Heart disease is a leading cause of morbidity and mortality among Thais. The increase in heart disease can be attributed to unhealthy consumption habits and physical inactivity. Priorities for progress include regional approaches to combating malaria, monitoring tuberculosis infection among people living with HIV/AIDS, and promoting awareness about heart disease.

Deforestation slowed down, but total forest coverage still dropped from 28% to 25.3% between 1989 and 1998. Protected areas increased from 12.4% to 17.6% of total land area between 1990 and 2001. In honour of the Royal Golden Jubilee, 5 million rai<sup>37</sup> of conserved area is being reforested over the period 1994 to 2007. Important legal and policy measures related to land conservation include the 1992 Forest Rehabilitation Act; the Cabinet Resolution on River Basin Classification; and, the ratification of the Convention on Biological Diversity in 2003. MDG+ targets are aimed to increase the proportion of municipal waste reused and recycled to 30% by 2006 and to increase the share of renewable energy to 8% of the commercial primary energy by 2011<sup>38</sup>.

The proportion of the population having access to safe drinking water increased from 80% to 93% from 1990 to 2000. The share of people using bottled water increased from 5% to 19% between 1990 and 2000<sup>39</sup>. In rural areas, access to quality sanitation increased from 83% to 97%. Regional gaps have been closed<sup>40</sup>. Drinking water quality improvement and better access to piped water are in a process of implementation. Since 1990, over 90% of the Thais own, lease or rent their homes. Housing structures in good condition are only 7% of the population living in houses built with nonpermanent materials<sup>41</sup>. About 4,860 low-income communities (that is 1.37 million households or 6.8 million inhabitants) lived in congested areas. This represents 27 percent of the urban population<sup>42</sup>. Slum dwellers had different levels of insecurity (Central, North regions more than in Bangkok). The Government has launched housing projects aimed to build one million units for the low income people, and

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<sup>33</sup> Patchara Rumankom, *Premature Mortality due to HIV/AIDS in the Thai Population*. Ph.D. Thesis, (Demography), Institute for Population and Social Research, Mahidol University, Thailand, 2002.

<sup>34</sup> Charan Trinavuttipong, Director Dept. of Disease Control, PowerPoint presentation, 7 July 2003.

<sup>35</sup> Ministry of Public Health (MoPH), *Thailand Health Profile 1999-2000*, 2002, p.243.

<sup>36</sup> AIDS, STIs and Tuberculosis Division, DDC.

<sup>37</sup> 1 rai = 1,600 square meter.

<sup>38</sup> Ministry of Energy 'The Energy Strategy: Energy Strategy for Thailand's Competitiveness', November 2003.

<sup>39</sup> Department of Health (DoH), *Water Supply and Sanitation Assessment in Thailand 2002*.

<sup>40</sup> National Statistics Office (NSO), *Population and Social Survey of Congested Areas in Bangkok 1994 and 1998*, and *Population and Social Survey of Congested Areas in Selected Provinces*, 1998.

<sup>41</sup> NSO, *Population and Housing Census*, 2000.

<sup>42</sup> National Housing Authority, *Survey of Low-income Communities*, 2000.

“Secure Home” for slum dwellers. Further progress depends on targeting urban development and housing schemes appropriately and incorporating participatory processes.

Through its foreign policy of “forward engagement”, Thailand is reaching out to other developing countries in support of development and poverty reduction. Thailand is also launching a new initiative called “Friends from Thailand”, a volunteer program dispatching Thai development experts and personnel to other countries in the region to share knowledge and expertise. Thailand is playing a leading role in a wide range of regional and subregional cooperation initiatives such as the ASEAN, APEC and others. Outside Asia, Thailand is now developing partnerships with African countries in support of the New Partnership for African Development, building on a strong commitment to the Tokyo International Conference on African Development. Thailand’s policy of strengthening its partnership with Africa will focus on promoting human security, human development and poverty eradication. Thailand is playing an active role in multilateral global cooperation. Thailand has become a regional and global hub for meetings and conferences on development issues.

Thailand has achieved near-universal coverage in several areas. However, there are discernable patterns of inequality in others. Such inequality is particularly noted among specific geographic areas, such as the Northeast poorest region, other remote and mountainous areas, the three southernmost provinces that are predominantly Muslim populated or population groups, such as orphans, street children, the elderly and people with disabilities, migrants and stateless people, informal sex workers, injecting drug users, men who have sex with men, and other vulnerable and marginalized groups. Thailand pledges strong support to the Millennium Declaration and is mobilizing all sectors of society to take part in meeting the MDG and MDG Plus commitments.

While Thailand is making progress in economic reforms and mega projects to meet millennium targets, as well as to reach out to other poor countries in Asia and Africa, it becomes more complicated to coordinate developed countries efforts to help their developing partners. The issues addressed at the G8 Summit (London, July 2005), clearly demonstrated a growing concern about an even bigger problem than poverty, a problem that escalates global poverty – the unfair conditions for competition in terms of subsidies and other measures of protectionism being used by most of the developed nations. It was noted that the campaign is calling more for trade justice than for aid or debt relief. Aid would be of little use as G8 leaders pressure Africa to “open more markets to privatize services like health and education.” Despite the fact that Africa has been given 500 billion dollars in aid over the last 40 years, it still remain poor since as much as 60 to 70 percent of aid to Africa “goes back to donor countries to pay for consultants and for products they insist be bought from their countries”<sup>43</sup>. Countries failed to get agreement to get all the member countries to commit to increasing foreign aid to an amount equal to 0.7% of national income by 2015. The European Union has agreed to that support, while the US refused. The United States’ current aid level is 0.16% of national income, the smallest percentage of any of the G-8 countries.

Both the efforts of the Government to reach MDG plus targets and the overall economic progress heavily depend on a mix of mega trends in the world economy. In the meantime, a developing country like Thailand may have a significant impact on the growing role of Asian countries in the world.

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<sup>43</sup> Inter Press Service News Agency, G8 SUMMIT: Poverty Campaign Throws a Final Challenge, Sanjay Suri, GLENEAGLES, Scotland, July 08, 2005.

## 6. Forecasting the future: Scenarios for global, regional and national development

A realistic forecast of the local economy cannot be based only on one presumption – either optimistic or skeptic in nature. It needs to consider various scenarios of global, regional and local tendencies, alternative ways of development and feasible scenarios with the assumption of abrupt changes in each of them. The nation has to be ready for a shift of paradigm and development scenarios, if needed. Based on the variety of viewpoints from key considerations the following scenarios are suggested while making attempts to look into the future of the global economy. Each scenario intends to construct a plausible, policy-relevant story of how this future might evolve: highlighting key uncertainties, discontinuities, unlikely or "wild card" events, and identifying important policy and intelligence challenges<sup>44</sup>.

### **Scenario One: Inclusive Globalization.**

A virtuous circle develops among technology, economic growth, demographic factors, and effective governance, which enables a majority of the people in the world to benefit from globalization. Technological development and diffusion—in some cases triggered by severe environmental or health crises—are utilized to grapple effectively with some problems of the developing world. Robust global economic growth—spurred by a strong policy consensus on economic liberalization—diffuses wealth widely and mitigates many demographic and resource problems. Governance is effective at both the national and international levels. In many countries, the state's role shrinks, as its functions are privatized or performed by public-private partnerships, while global cooperation intensifies on many issues through a variety of international arrangements. Conflict is minimal within and among states benefiting from globalization. A minority of the people in the world—in Sub-Saharan Africa, the Middle East, Central and South Asia, and the Andean region—do not benefit from these positive changes, and internal conflicts persist in and around those countries left behind.

**Scenario Two: Pernicious Globalization.** Global elites thrive, but the majority of the world population fails to benefit from globalization. Population growth and resource scarcities place heavy burdens on many developing countries, and migration becomes a major source of interstate tension. Technologies not only fail to address the problems of developing countries but also are exploited by negative and illicit networks and incorporated into destabilizing weapons. The global economy splits into three: growth continues in developed countries; many developing countries experience low or negative per capita growth, resulting in a growing gap with the developed world; and the illicit economy grows dramatically. Governance and political leadership are weak at both the national and international levels. Internal conflicts increase, fueled by frustrated expectations, inequities, and heightened communal tensions; weapons of massive destruction (WMD) proliferate and are used in at least one internal conflict.

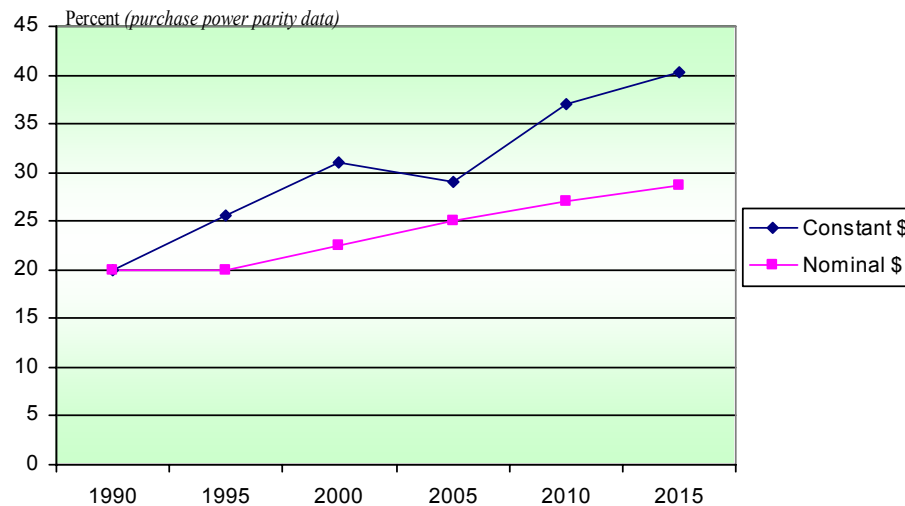
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<sup>44</sup> Global Trends 2015: A Dialogue About the Future With Non-government Experts, *Richard Cooper and Joseph Nye (Harvard University), Richard Haass (Brookings Institution), James Steinberg (Markle Foundation), and Jessica Mathews (Carnegie Endowment for International Peace)*. NIC 2000-02, Washington, December 2000

**Scenario Three: Regional Competition.** Regional identities sharpen in Europe, Asia, and the Americas, driven by growing political resistance in Europe and East Asia to US global preponderance and US-driven globalization and each region's increasing preoccupation with its own economic and political priorities. There is an uneven diffusion of technologies, reflecting differing regional concepts of intellectual property and attitudes towards biotechnology. Regional economic integration in trade and finance increases resulting in both fairly high levels of economic growth and rising regional competition. Both the state and institutions of regional governance thrive in major developed and emerging market countries, as governments recognize the need to resolve pressing regional problems and shift responsibilities from global to regional institutions. Given the preoccupation of the three major regions with their own concerns, countries outside these regions in Sub-Saharan Africa, the Middle East, and Central and South Asia have few places to turn for resources or political support. Military conflict among and within the three major regions does not materialize, but internal conflicts increase in and around other countries left behind.

**Scenario Four: Post-Polar World.** The US domestic preoccupation increases as the US economy slows, then stagnates. Economic and political tensions with Europe grow, the US-European alliance deteriorates as the United States withdraws its troops, and Europe turns inward, relying on its own regional institutions. At the same time, national governance crises create instability in Latin America, particularly in Colombia, Cuba, Mexico, and Panama, forcing the United States to concentrate on the region. Indonesia also faces internal crisis and risks disintegration, prompting China to provide the bulk of an ad hoc peacekeeping force. Korea's normalization and de facto unification proceed. Over time, these geo-strategic shifts ignite longstanding national rivalries among the Asian powers, triggering increased military preparations and hitherto dormant or covert WMD programmes. Regional and global institutions prove irrelevant to the evolving conflict situation in Asia. Given the priorities of Asia, the Americas, and Europe, countries outside these regions are marginalized, with virtually no sources of political or financial support.

**Generalizations Across the Scenarios.** The four scenarios can be grouped in two pairs: the first pair contrasting the "positive" and "negative" effects of globalization; the second pair contrasting intensely competitive but not conflictual regionalism and the descent into regional military conflict. In all but the first scenario, globalization does not create widespread global cooperation. Rather, in the second scenario, globalization's negative effects promote extensive dislocation and conflict, while in the third and fourth, they spur regionalism. In all four scenarios, countries negatively affected by population growth, resource scarcities and bad governance, fail to benefit from globalization, are prone to internal conflicts, and risk state failure. In all four scenarios, the effectiveness of national, regional, and international governance and at least moderate but steady economic growth are crucial. In all four scenarios, US global influence wanes.

**Figure 5 : World Trade as a Percentage of World GDP: 1990-2015**

Note: The constant dollar curve departs from the nominal curve largely because of the fall in price of IT-related traded goods in the 1990s and their expected price decline in the future<sup>45</sup>.

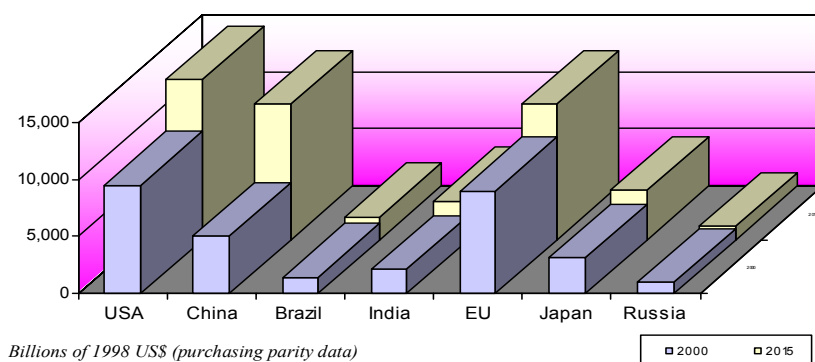
**Alternative scenarios.** Although the outlook for the global economy appears quite strong, achieving sustained high levels of global growth will be contingent on avoiding several potential brakes to growth. Five are described below.

- The US economy suffers a sustained downturn. Given the large trade deficit and low domestic savings, the US economy—the most important driver of recent global growth—is vulnerable to loss of international confidence in its growth prospects that could lead to a sharp downturn, which, if long-lasting, would have deleterious economic and policy consequences for the rest of the world. Key trading partners would suffer as the world's largest market contracted, and international financial markets might face profound instability.
- Europe and Japan fail to manage their demographic challenges. European and Japanese populations are aging rapidly, requiring more than 110 million new workers by 2015 to maintain current dependency ratios between the working population and retirees. For these countries, immigration is a controversial means of meeting these labour force requirements. Conflicts over the social contract or immigration policies in major European states could dampen economic growth. Japan faces an even more serious labour force shortage and its strategies for responding—enticing overseas Japanese to return, broadening the opportunities for women, and increasing investments elsewhere in Asia—may prove inadequate. If growth in Europe and Japan falters, the economic burden on the US economy would increase, weakening the overall global outlook.
- China and India fail to sustain high growth. China's ambitious goals for reforming its economy will be difficult to realize: restructuring state-owned enterprises, cleaning up and transforming the banking system, cutting the government's employment rolls in half, and opening up the economy to greater foreign competition. Growth would slow if these reforms go awry, which, in turn, would exacerbate bureaucratic wrangling and increase opposition to the reform agenda. India's reform drive—essential to sustained economic growth—could be sidetracked by social divisions and by the bureaucratic culture of the public service.

<sup>45</sup> Source: Central Intelligence Agency's Long-Term Growth Model.

- Emerging market countries fail to reform their financial institutions. Although most emerging market countries bounced back from the 1997-98 financial crisis more quickly than expected, many have not yet undertaken the financial reforms needed to help them survive the next economic crisis. Absent such reform, a series of future economic crises in emerging market countries could dry up the capital flows crucial for high rates of economic growth.
- Global energy supplies are disrupted in a major way. Although the world economy is less vulnerable to energy price swings than in the 1970s, a major disruption in global energy supplies still would have a devastating effect. Conflict among key energy-producing states, sustained internal instability in two or more major energy-producing states, or major terrorist actions could lead to such a disruption.

**Figure 6 : GDP by Major Countries and the EU: 2000 and 2015<sup>46</sup>**



Current developments allow outlining forecast figures on world growth and inflation with careful consideration of certain risk factors (see Appendix 4)<sup>47</sup>. Seven risks may challenge global growth in the years to come:

- increasing levels of protectionism leading to the strengthening of regional blocks outweighing anticipated results from economic globalization
- weakening economic potential and purchasing power of emerging and developing market economies as a result of unfair global competition and growth of poverty
- unpredictable shocks associated with the volatile exchange rates fluctuations, US dollar collapse and increase in US saving with a negative impact on economic growth in the North American and global economy
- growing military and antiterrorism expenditures causing unprecedented imbalances of nations' state budgets having an essential impact on world economy
- a gradual shift from low interest rates and high-risk to a more normal level of international liquidity
- economic losses from continuous high oil prices
- presumption of a sudden slowdown in the Chinese economy.

Three factors look more disturbing in terms of both short and long term forecasts. First is the decline in the dollar hurting Europe and some Asian economies, which are experiencing currency appreciation

<sup>46</sup> Source: Central Intelligence Agency's Long Term Growth Model.

and losing competitiveness in the all-important US market. The US economy is experiencing improved international competitiveness, at the price of only modest inflationary pressures from higher import prices. But if investors holding US dollar assets (including foreign central banks) decide to reduce their holdings of the depreciating currency significantly, the dollar could crash. A sudden loss of confidence in the US dollar could precipitate a disorderly decline in the value of the US currency, which could spill over into financial markets and the real economy. Second is the continuous oil prices change as a major risk to the global forecast, and have an impact on global economic growth in two ways. The first, and most important, is the impact on the business sector; by pushing up costs, high oil prices erode profitability and so act as a drag on business investment and job creation. The second risk is that high oil prices push up inflation. Oil price increases are being driven by strong demand rather than reduced supply, suggesting that prices may remain elevated for some time. With little spare oil production capacity available, it would only take small supply disruption to drive prices back up to record levels<sup>48</sup>. Third is the geopolitical security – a major concern in many markets. The list of regions and countries where companies' operations are being hampered by the need to take stringent security measures seems to increase weekly, with the Middle East, North Africa, parts of Asia, Iraq, Iran, Turkey and Russia all being affected. The bombings in many parts of the world along with other existing hot national and ethnic conflicts makes the economic forecast always subject to obvious threat. This would further raise regional tensions, with knock-on implications for the oil price risk premium and hence global economic growth prospects<sup>49</sup>.

**Table 6: World trade<sup>50</sup>**

| % growth, goods      | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| World trade          | 13.3 | -0.4 | 3.5  | 5.5  | 10.4 | 6.8  | 6.9  | 7.4  | 7.8  | 8.1  |
| Developed countries  | 11.6 | 1.9  | 1.6  | 2.6  | 7.4  | 5.1  | 5.1  | 5.7  | 6.2  | 6.4  |
| Developing countries | 18.1 | -6.5 | 8.5  | 12.7 | 17.0 | 10.3 | 10.6 | 10.5 | 10.7 | 11.1 |

Scenarios related to the consumption of oil as a major strategic product are associated with all risks for global forecast. Oil prices at these levels could threaten the present global economic recovery. Developing Asia's economies are particularly vulnerable to an oil shock as most of them are highly dependent on oil imports. In addition, Asia is growing much faster than other regions. Asia now imports more than 44% of the oil it consumes, up from 7% during the 1970s and 1980s and 32% in the 1990s. Oil consumption in Asia is equivalent to 4.5% of its GDP. This is much higher than in industrial countries, which averaged 1.6% of GDP in 2003. Expansionary macroeconomic policies, in particular monetary policies, have provided much support to consumption growth in most Asian economies over the past few years. Consequently, consumer credit expansion has been strong, leading to higher household indebtedness. Lower real incomes due to higher oil prices and higher interest rates would

<sup>47</sup> See Appendix for forecasted figures on world growth and inflation.

<sup>48</sup> There are several rules of thumb often quoted by analysts for the impact of oil price rises on economic growth. The IMF has estimated that a US\$5/b increase could slow growth in the developed world by 0.3 percentage points a year, although OECD estimates show a smaller impact. But past experience of oil price shocks suggests that such a rule of thumb can be misleading, particularly if economies are suffering from other problems such as the high debt levels or external imbalances currently seen in a number of developed markets. Consequently, an oil-induced sharp slowdown in the global economy cannot be ruled out if oil prices rebound.

<sup>49</sup> Pacific Economic Outlook 2005-2006 report, 15/07/2004, Vancouver, Asia Pacific Foundation of Canada.

<sup>50</sup> Source: Economist Intelligence Unit.



significantly raise the debt-servicing burden of households, possibly leading to a substantial rise in default rates in some countries. At the same time, business investment in some Asian economies, which is only starting to firm up after the Asian financial crisis of 1997-98, could also suffer a new setback. Falling profitability could lead firms to curtail business investment and employment plans, affecting growth potential. Finally, higher world interest rates could also affect the emerging financial markets of Asia, reducing their attractiveness to investors. However, current economic environment in developing Asia essentially alleviate the risks with high oil prices:

- the region has a high level of international reserves against short-term BOP deteriorations.
- in spite of strong growth in 2003-2004, inflation has stayed low in many Asian economies.
- the region's oil consumption as a share of GDP has dropped by about half in the last 20 years.
- intraregional trade growth has reduced the region's susceptibility to global slowdowns.

Thus, despite much concern, the current oil price rally is unlikely to impact on developing Asia as severely as earlier shocks, and the region is in a better position to weather the recent run-up in crude oil prices than it was during those shocks. However, the region would still be hurt by a sustained high oil price. The worst-hit Asian economies are Philippines, Singapore, and Thailand<sup>51</sup>.

The overall conclusion is that global economic prospects are looking somewhat better, although there are still some uncertainties ahead of us.

Current trends will impact on growth to ratchet higher still towards five percent in the coming decade as, on the external front, improvements in trade and greater access to international financial markets should be supportive. And on the domestic front, improving fiscal positions, moderating inflation, very large increases in international reserves should allow a policy stimulus to support domestic demand if required. Looking at the economic performance by region the projections show that all regions are expected to enjoy a boost in growth over the short-term forecast.

Emerging global trends : The following global economic trends are significant to all economies and should not be overlooked: With few exceptions, North America's, Japan's and West European economies will not experience the pace of growth experienced in the post-war period. China will form a new centre of economic power in conjunction with neighbouring emerging economies and will further strengthen its global positions. The role of the government will be changed into a backer of sustainable local and regional security and be mostly appreciated at the international level, leaving less space for domestic economic interference. Governments will recognize the need to resolve pressing regional problems and shift responsibilities from global to regional institutions. The economic restructuring process will continue as the economy is impacted by geopolitical instability, slowdowns in the technology sector, and plant closures/mergers/facility relocations. The economy will continue its transition

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<sup>51</sup> British Petroleum. 2004. Statistical Review of World Energy. Available: <http://www.bp.com/statisticalreview2004>. Institute of Intl Finance. 2004. China database. Available: [http://www.iif.com/verify/data/country\\_docs/924db\\_0704.xls](http://www.iif.com/verify/data/country_docs/924db_0704.xls). International Energy Agency. 2004. Oil Market Report, 11 August. Available: <http://www.oilmarketreport.org>. International Financial Statistics Online, August. Available: <http://ifs.apdi.net/imf/ifsbrowser.aspx?branch=ROOT>. World Economic Outlook database, 2004. Available: <http://www.imf.org/external/pubs/ft/weo/2004/01/data/index.htm>. Direction of Trade Statistics CD-ROM, July. 2004. Organization of the Petroleum Exporting Countries. 2004. OPEC Market Indicators, July 2004. Available: <http://www.opec.org/NewsInfo/mi/pdf/MI072004.pdf>. Park, C.-Y. 2004. Higher Oil Prices: Asian Perspective and Implications for 2004-2005. ERD Policy Brief No. 28. Manila: Asian Development Bank.

from a goods-producing to a service-based economy as information-based companies dominate traditional resource-based or manufacturing sectors. The new service-based economy will be divided into a high skill, knowledge-based economy and a low-skilled services economy. The global economy will be prone to periodic financial crises, but its capacity to correct itself will remain strong. The rapid rebound from the global financial crisis of 1997-1998, the limited impact of the recent tripling of oil prices on global economic growth are the most recent manifestations of resilience. Nonetheless, economic liberalization and globalization entail risks and inevitably will create bumps in the road, some of them potentially highly disruptive. Economic crises will recur. The trends toward free markets and deregulation will allow financial markets to overshoot, increase the possibility for sudden reversal in sentiment, and expose individual countries to broad swings in the global market. Any of these could trigger a financial crisis. Turbulence in one economy will affect others. Increased trade links and the integration of global financial markets will quickly transmit turmoil in one economy regionally and internationally, as Russia's financial turmoil in 1998 affected Brazil. Disputes over international economic rules are developing further. The Asian financial crisis revealed differences among countries regarding global financial architecture. As emerging market countries continue to grow, they will seek a stronger voice in setting the terms of international economic governance. A lack of consensus could at times make financial markets skittish and undermine growth.

## **7. Upcoming growth trends in Thailand's economy**

Considering mentioned development scenarios, global growth slowdown, high oil prices, and impact of the tsunami, growth is likely to ease further<sup>52</sup>. The negative impact of the tsunami is estimated at 0.3-0.5 percentage point of GDP, which will be partly offset by government and private sector rebuilding. Consumption growth is forecast to slow. This reflects in part two increases in diesel fuel prices and the higher inflation and interest rates that slow spending. Investment growth will pick up because of post-tsunami reconstruction, high capacity utilization rates in certain manufacturing industries, and stronger corporate profitability. Also, some of the big public infrastructure projects are expected to be under way and the Government plans a supplementary budget that will fund public investments. These factors will more than offset the negative impact on investment of the slowing economic growth and rising interest rates. On the production side, agriculture is expected to slowly recover after the 2004-2005 contraction, provided that the drought eases and avian flu sees no nationwide recurrence. Growth of industry is put in the 7-8% range in coming years, as services growth will slacken reflecting the impact of the tsunami on tourism. GDP growth is expected to edge up to 5.8% in 2006 and 6.0% in 2007.

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<sup>52</sup> Asian Development Outlook database.

**Table 7 : Major economic indicators of Thailand 2004-2007 (in%)<sup>53</sup>**

|                           | 2004 | 2005 | 2006 | 2007 |
|---------------------------|------|------|------|------|
| GDP Growth                | 6.1  | 5.6  | 5.8  | 6.0  |
| GDI/GDP                   | 27.1 | 24.0 | 26.0 | 27.0 |
| Inflation                 | 2.7  | 3.5  | 3.0  | 2.5  |
| Money supply (M2) growth  | 5.4  | 5.5  | 5.0  | 4.0  |
| Fiscal balance/GDP        | 0.3  | 0.0  | 0.2  | 0.2  |
| Merchandise export growth | 23.0 | 10.0 | 5.0  | 8.0  |
| Merchandise import growth | 26.9 | 13.5 | 6.0  | 8.0  |
| Current account/GDP       | 4.5  | 2.3  | 1.3  | 1.3  |

Net exports will be a slight drag on growth for at least the next 2 years as imports are expected to grow faster than exports, largely because of high oil imports and demand for imported capital and intermediate goods. The faster growth of imports will tip the trade balance into deficit and the current account surplus will shrink. However, it is expected that external debt will fall further and that international reserves will be maintained at a comfortable level. Investors will be watching to see if the Government uses the opportunity presented by its strengthened parliamentary position to make a renewed push on corporate and banking sector restructuring, on legal reforms in corporate governance and bankruptcy, and on privatization. Another issue under scrutiny will be the Government's attitude toward off-budget spending now that it is more secure. Off-budget spending has raised concerns about the size of the Government's contingent liabilities. External risks to the outlook include lower than expected economic growth in Thailand's major markets and higher than expected oil prices. The country's active participation in regional cooperation programmes and bilateral economic cooperation frameworks may help it minimize the impact of some types of externally generated problems. Domestic risk factors include drought, threat of a nationwide outbreak of avian flue, and the sociopolitical tension in the south. In addition, close attention needs to be paid to private debt levels because property investment and household debt levels have been rising. Excessive credit expansion could increase the vulnerability of the economy as a whole, and the financial sector in particular, to rises in interest rates. Over the longer-term, a long-standing challenge is higher education, in terms of quality and accessibility. A larger pool of trained employees, especially in technical fields, is needed to help the economy remain competitive.

As the economies worldwide become more interdependent, elimination of artificial barriers for fair trade and the implementation of joint projects will allow countries to develop a win-win situation by proficient use of their cooperative advantages both regionally and internationally.

In summary we may conclude that Thailand's economy is well-positioned to achieve a sustained period of dynamism through 2010 to a long term growth highway. Global economic growth will return to the high levels reached in the 1960s and early 1970s, the final years of the post-World War II "long boom" thus having positive impact on local economy. Dynamism will be strongest among so-called "emerging markets" — especially in the two Asian giants – China, India – and their strategic partners, but will be broadly based worldwide, including in both industrialized and many developing countries. The rising tide of the global economy will create many economic winners, but it will not lift all boats. The information revolution will make the persistence of poverty more visible, and regional differences will remain large. While the previous century's downturns are often associated with the demolition

<sup>53</sup> Source: Bank of Thailand; National Economic and Social Development Board.

caused by unalleviated armed conflict, the 21st century will be characterized by the innovative annihilation of economic growth.

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# APPENDICES

## APPENDIX 1

Selected economic indicators, Developing Asia, 2003-2005<sup>54</sup>

|   | 2003 | 2004        |        | 2005        |        |
|---|------|-------------|--------|-------------|--------|
|   |      | ADO<br>2004 | Update | ADO<br>2005 | Update |
| <b>GDP (annual % change)</b>                  |      |             |        |             |        |
| Developing Asia                               | 6.5  | 6.8         | 7.0    | 6.7         | 6.2    |
| East Asia                                     | 6.5  | 6.9         | 7.3    | 6.8         | 6.4    |
| Southeast Asia                                | 4.8  | 5.7         | 6.2    | 5.4         | 5.7    |
| South Asia                                    | 7.6  | 7.0         | 6.4    | 7.2         | 5.9    |
| Central Asia                                  | 8.4  | 8.1         | 7.9    | 8.4         | 8.0    |
| The Pacific                                   | 4.3  | 2.9         | 2.9    | 2.4         | 2.4    |
| <b>Consumer price index (annual % change)</b> |      |             |        |             |        |
| Developing Asia                               | 2.3  | 3.3         | 3.7    | 3.1         | 4.4    |
| East Asia                                     | 1.2  | 2.6         | 3.0    | 2.4         | 3.8    |
| Southeast Asia                                | 3.1  | 3.6         | 4.2    | 3.8         | 4.2    |
| South Asia                                    | 5.2  | 4.9         | 5.5    | 4.6         | 6.5    |
| Central Asia                                  | 5.4  | 8.6         | 6.9    | 8.3         | 6.4    |
| The Pacific                                   | 8.5  | 5.6         | 5.1    | 6.0         | 4.4    |
| <b>Current account balance (% of GDP)</b>     |      |             |        |             |        |
| Developing Asia                               | 4.6  | 3.2         | 2.8    | 2.9         | 2.1    |
| East Asia                                     | 4.5  | 2.8         | 2.3    | 2.6         | 1.4    |
| Southeast Asia                                | 9.0  | 8.2         | 7.2    | 7.6         | 6.6    |
| South Asia                                    | 1.6  | 0.4         | 1.3    | 0.2         | 0.6    |
| Central Asia                                  | -2.3 | -3.6        | -3.9   | -4.3        | -2.1   |
| The Pacific                                   | -0.6 | 0.9         | 0.8    | -1.3        | -1.7   |

<sup>54</sup> Asian Development Outlook database.

## APPENDIX 2

### Major economic problems

| # | <i>Problems</i>                                      | <i>Description</i>   | <i>Recommended action</i>  |
|---|--|--|--|
| 1 | Income imbalances in provinces                       | Income gaps lead labor move from rural areas to find jobs increasing population density in Bangkok and other big cities                | Spread success stories like OTOP and other pilot projects aimed to create jobs in rural areas          |
| 2 | Dependence of production factors on external sources | Big inflow of capital and technology from other countries, global competition creates constant need for technology improvement         | Establishing own industry producing new technology, equipment, machinery and other means of production |
| 3 | Unrest in three southern provinces of Thailand       | Great uncertainty for investors, damage to tourism industry (20-30% decrease in number of tourists from Malaysia), international trade | -continuous work to solve local problems<br>-improve life standards<br>-active state control           |
| 4 | Population aging                                     | Life expectancy of 71.5 years, elderly can reach 11 billion, labours in agriculture will decrease                                      | -training unskilled labour<br>-more pensions, welfare<br>-better health care                           |
| 5 | Illegal immigrants and economic refugees inflow      | Worsening social and economic problems, including poverty, unemployment, drugs and women trafficking, crime, sanitary issues           | -improve border control<br>-guest workers plans<br>-international assistance and trainings             |

### Current targets

| # | <i>Problems</i>   | <i>Description</i>  | <i>Recommended action</i>   |
|---|---|---|---|
| 1 | Limited resources available for research and development    | Foreign economic competitiveness slowdown due to non sufficient funds directed to research and development  | -increase research and development budgets<br>-joint R&D projects   |
| 2 | Lack of long term competitive advantages in foreign markets | Continuous changes of goods and services composing exports and non predictable current account balance changes and changes in BOP   | implementing national strategy aimed to further improve competitiveness   |
| 3 | Economic slowdown   | An increase in non performed loans at Thai private banks, state owned banks, finance companies and credit financiers, less growth due to the slowdown in world markets, extreme global competition, oil price increase and social unrest in southern region | -continuing started and initiating new mega projects<br>-improving investor's confidence<br>-allocating more state resources for growth |
| 4 | Hyper competition in many industries                        | Higher prices, unemployment due to global overproduction, higher productivity, over supply, severe technology improvement competition   | -macroeconomic cost efficiency analysis<br>-exploring other competitive advantages  |
| 5 | Foreign trade deficit                                       | Oil price increase will jeopardize the current trade balance along with the anticipated reduction of shrimp and textile exports due to external factors   | -encourage pro active foreign trade policies<br>-active export promotion<br>-import substitution  |

### Short term concerns

| # | <i><b>Problems</b></i>   | <i><b>Description</b></i>   | <i><b>Recommended action</b></i>   |
|---|--------------------------|---|--|
| 1 | Tsunami                  | Almost 7% year on year decrease of 2.76mln travelers, 27% decrease only in January compared with the same period of previous year   | -revive tsunami-hit resorts<br>-aggressive PR campaign<br>-promote short haul tourists markets with Asia   |
| 2 | Oil price increase       | Increase in production cost and due to global market price increase, lifting oil subsidies, high local demand (20.7% rise of oil imports in 2005 -- \$16bln)  | -monitoring oil imports<br>-energy saving plans<br>-exploring alternative energy sources   |
| 3 | Exchange rate volatility | Unexpected changes of exchange rates causing loss of competitiveness due to US dollar, oil price, FRS interest rate changes that may reduce investments   | Modest government money control of exchange rates and gradual changes of national currency value   |
| 4 | Avian flue               | Damaged chicken production (4th largest in the world), 90% being exported (Japan, EU, CIS, etc.). Damage was to 70,000 farm families, more than 30m baht, the stock of Charoen Pokphand Co. fell by 12.5%                 | -improved phyto-sanitary measures and standards<br>-better health conditions and quality control<br>-close cooperation with international agencies                           |
| 5 | Draught                  | Damaged agriculture (10bln baht) in 51 provinces, 1.5 bln farmers, 30mln rai of agricultural land (mainly rice) in 2004. In 2005 draught continued damaging agriculture leading to the reduction of GDP growth rate by 1% | -preparation for new season<br>-better utilizing Royal rain making project resources<br>-efficient, optimal irrigation<br>-price increase due to high demand in world market |



## APPENDIX 3

### Thailand's Scorecard on MDG Targets for goals 1 through 7

1. Halve, between 1990 and 2015, the proportion of people living in extreme poverty

*Already achieved* - Poverty incidence reduced from 27.2% in 1990 to 9.8% in 2002.

2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger

*Already achieved* - Proportion of population under food poverty line dropped from 6.9% to 2.2% between 1990-2002 and the prevalence of underweight children under five dropped from 18.6% to 8.5% between 1990-2000.

3. Ensure that by 2015, boys and girls alike, will be able to complete a full course of primary schooling

*Highly likely* Gross enrolment ratio and the retention rate indicate that it is likely that Thailand will achieve universal primary education well ahead of 2015.

4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015

*Already achieved* - Thai girls and boys have had equal education opportunity. There is a small gender gap at the primary level. Girls are outnumbering boys in higher education.

5. Reduce by two thirds, between 1990 and 2015, the under-five mortality ratio

*Not applicable* - Given the low starting point in 1990, this target is considered not feasible and therefore not applicable.

6. Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

*Not applicable* - Given the low starting point in 1990, this target is considered not feasible and therefore not applicable.

7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS

*Already achieved* - Yearly new infections have dropped by over 80% since 1991. HIV continues to spread among some groups. Young people continue to be vulnerable.

8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

*Already achieved for malaria* - Achieved for malaria. The disease is an area-specific problem, and has been effectively managed.

9. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

*Potentially* - Principles of sustainable development, partnership and public participation have been integrated into country policies and programs. But reversing the loss of environmental resources is still Thailand's greatest challenge.

10. Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation

*Already achieved* - Very close to universal access.

11. By 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers (globally)

*Likely* - Most Thai people, including slum dwellers, have secure tenure. Various measures have been implemented and more are underway to improve the slum livelihood.

## APPENDIX 4

| World summary <sup>55</sup>                  |      |      |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|------|------|
| (%)  | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Real GDP growth                              |      |      |      |      |      |      |      |      |      |      |
| OECDa  | 3.8  | 1.0  | 1.5  | 2.0  | 3.3  | 2.4  | 2.4  | 2.5  | 2.5  | 2.5  |
| Non-OECDa                                    | 6.0  | 4.3  | 4.7  | 6.7  | 7.4  | 6.5  | 5.9  | 6.0  | 6.0  | 6.1  |
| Worlda                                       | 4.6  | 2.3  | 2.8  | 3.9  | 5.0  | 4.2  | 3.9  | 4.1  | 4.1  | 4.2  |
| World (market exchange rates)                | 4.0  | 1.4  | 1.8  | 2.6  | 3.9  | 3.0  | 2.9  | 3.0  | 3.1  | 3.1  |
| Regional growth summary                      |      |      |      |      |      |      |      |      |      |      |
| North America                                | 3.8  | 0.8  | 2.0  | 3.0  | 4.4  | 3.3  | 2.9  | 3.0  | 3.0  | 3.0  |
| Western Europe                               | 3.9  | 1.7  | 1.3  | 1.2  | 2.5  | 2.1  | 2.2  | 2.3  | 2.3  | 2.3  |
| Transition economies                         | 7.0  | 4.2  | 3.8  | 5.9  | 6.6  | 5.5  | 4.9  | 4.6  | 4.4  | 4.3  |
| Asia & Australasia                           | 4.2  | 1.8  | 2.6  | 3.7  | 4.6  | 3.3  | 3.4  | 3.6  | 4.0  | 3.9  |
| Latin America                                | 3.7  | 0.3  | -0.5 | 2.0  | 5.6  | 3.9  | 3.5  | 3.3  | 3.6  | 3.6  |
| Middle East & North Africa                   | 5.2  | 2.1  | 1.9  | 4.4  | 5.4  | 5.1  | 4.6  | 4.5  | 4.4  | 4.4  |
| Sub-Saharan Africa                           | 4.5  | 3.3  | 3.6  | 5.0  | 4.0  | 3.8  | 4.0  | 3.9  | 3.8  | 3.5  |
| Inflation (av)                               |      |      |      |      |      |      |      |      |      |      |
| OECD   | 2.2  | 2.1  | 1.4  | 1.8  | 1.9  | 1.8  | 1.9  | 2.1  | 2.1  | 2.1  |
| World  | 18.8 | 18.7 | 15.4 | 9.7  | 5.2  | 4.7  | 2.7  | 2.8  | 2.9  | 2.8  |
| Trade in goods                               |      |      |      |      |      |      |      |      |      |      |
| Developed countries                          | 11.6 | 1.9  | 1.6  | 2.6  | 7.4  | 5.1  | 5.1  | 5.7  | 6.2  | 6.4  |
| Developing countries                         | 18.1 | -6.5 | 8.5  | 12.7 | 17.0 | 10.3 | 10.6 | 10.5 | 10.7 | 11.1 |
| World  | 13.3 | -0.4 | 3.5  | 5.5  | 10.4 | 6.8  | 6.9  | 7.4  | 7.8  | 8.1  |
| a At purchasing power parity exchange rates. |      |      |      |      |      |      |      |      |      |      |
| Source: Economist Intelligence Unit.         |      |      |      |      |      |      |      |      |      |      |

<sup>55</sup> Economist Intelligence Unit, data for different years, Global economic growth in 2004, fastest for over 20 years, By Finfacts Team, Feb 28, 2005, 14:35.

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