Thailand's Investment and Economy

Vichai Hanvivatpong

Lynn University

Follow this and additional works at: http://spiral.lynn.edu/etds

Part of the International Business Commons

Recommended Citation

http://spiral.lynn.edu/etds/104

This Thesis is brought to you for free and open access by SPIRAL. It has been accepted for inclusion in Student Theses, Dissertations and Projects by an authorized administrator of SPIRAL. For more information, please contact liadarola@lynn.edu.
Thailand's Investment and Economy

Vichai Hanvivatpong

Lynn University

School of Graduate Studies

A Graduate Project Submitted to the School of Business Administration of Lynn University

In partial Fulfillment of the Requirements for the Degree of Master of Professional Studies

May 22, 1996
Abstract

Thailand’s economy seems generally strong but faces some important challenges in the medium to long term. The Thai way has produced a confident and dynamic private sector, despite numerous coup and government transitions, but the lack of central planning may cause the problems such as traffic, income distribution.

This research project examined the structure of Thai economy from the past which has helped Thailand in the global economy. The research also discussed the future of Thailand by interviewing the businesspeople, professors, columnists, and Thai people about their opinion on Thai economy.
# Table Of Contents

ABSTRACT.....................................................i

TABLE of CONTENTS........................................ii

CHAPTER 1. STATEMENT OF PROBLEM.......................1
    Introduction...........................................1
    Background and Need for Study.......................3
    Definitions of Terms................................9
    Hypothesis...........................................11
    Assumptions.........................................12
    Limitations.........................................12

CHAPTER 2. REVIEW OF THE LITERATURE.....................13

CHAPTER 3. PROCEDURES AND METHODOLOGY................27

CHAPTER 4. DISCUSSION.....................................37

CHAPTER 5. CONCLUSIONS/RECOMMENDATIONS.................39

REFERENCES...............................................41

APPENDICES................................................

EXHIBITS................................................

TABLES..................................................
CHAPTER 1

STATEMENT OF PROBLEM
CHAPTER 1

STATEMENT OF PROBLEM

How can Thai economy system be improved from the past to the future?

Introduction

Thailand Environment

As Thailand’s economy kicks into high gear, it has become a magnet for foreign investment. Thailand’s economy has grown far faster than that of other Southeast Asian countries, such as Vietnam, Burma. Thailand has become an economic power house, with Thai businesspeople now investing widely in the region.

Thailand has developed an open market economy based on the free enterprise system. Despite frequent government changes consistently in the past ten year, conservative fiscal, monetary, and private sector orientation have been pursued. Close cooperation exists between the public and private sectors. Political and economic stability are assured by a balance of crown, military, bureaucratic, and business interests. (Erlich)

Thailand’s economic development policies are based on a competitive, export-oriented, free market philosophy. Its
economy is in transition, from an agricultural economy to a more open and broadly based one with a large manufacturing sector. Although the majority of the Thai labor force still depends on agricultural production for the major part of their income, manufacturing, wholesale and retail trade, services, and other industries now account for almost two-thirds of the GDP in value terms. Although the government controls much of the public infrastructure through 65 state enterprises, private sector participation is increasing in the tele-communications, transportation, and other sectors in the form of concessions and build, transfer, operate schemes. Manufacturing and construction, the fastest growing sectors of the economy in recent years, are firmly in the hands of the local and foreign investors.

Thailand averaged over 10 percent annual GDP growth from 1988 to 1993. Economic growth in some of Thailand’s major markets contributed to slowing growth from the very rapid pace of the late 1980s. However, most fundamentals of the Thai economy remain strong, and Thailand should maintain healthy economic growth for the foreseeable future. GDP growth picked up in 1995 to 8.5 percent and is projected to decrease just only to 8.3 percent growth in 1996. (Chuensuksawadi 13)
Background of Thailand

Geography:

Location; Situated in the heart of Southeast Asia and as a gateway to Indochina. Thailand borders with Lao PDR in the North and Northeast; the Union of Myanmar in the North and West; the Andaman Sea in the West; Cambodia and the Gulf of Thailand in the East; and Malaysia in the South.

Area; Thailand covers a land area of 513,115 squares kilometers (198,114 squares miles), extends about 1,620 kilometers (1,007 miles) from North to South and 775 kilometers (482 miles) at its widest point from East to West, with having a total land area of 514,000 squares kilometers (200,460 squares miles) or approximately the same size as France, with a coastline of approximately 1,840 kilometers (1,143 miles) on the Gulf of Thailand and 865 kilometers (537 miles) along the Indian Ocean.

Topography; Thailand is divided into four natural regions:

The North, a mountainous region, is a natural forests, ridges and deep, narrow, alluvial valleys. The leading city of this region is Chiangmai.

Central Thailand, the basin of the Chao Phraya River, is a lush, fertile valley. It is the richest and most
extensive rice-producing area in the country and has often been called the "Rice Bowl of Asia." Bangkok, the capital of Thailand, is located in this region.

The Northeast region, or the Korat Plateau, is an arid region characterized by a rolling surface and undulating hills. Harsh climatic conditions often result in this region being subjected to floods and droughts.

The Southern region, a hilly to mountainous, with thick virgin forests and rich deposits of minerals and ores. This region is the center for production of rubber and the cultivation of other tropical crops.

**Cities:** Bangkok, the capital city, is divided into 36 districts which dominates the administrative, financial, industrial and commercial activities of the country. Other major and business cities are Chiang Mai and Chiang Rai in the North, Suratthani and Songkhla in the South, Chantaburi and Rayong in the East, Nakon Ratchasima or Korat and Khon Khaen in the North Eastern.

**Climate:** The climate is tropical with long hours of sunshine and high humidity. There are three seasons; Hot from March to June, Rainy from July to October, Cool from November to February. Average low temperature is 20°c and high temperature is 37°c. The geographic and climatic conditions make the country suitable for the cultivation of
a wide range of tropical and semi-tropical agricultural crops.

**Population:** The country has a population of approximately 58.6 million with an annual growth rate of approximately 1.4 percent. The most important ethnic minority are Chinese. Other minority groups include Malays, Kampucheans, Morn, Lao and various hill tribes.

**Religion:** Buddhism, the national religion, is the professed faith of 95 percent of the population. There is total religious freedom and all major religions can be found in practice.

**Language:** The official national language, spoken by almost 100 percent of the population, is Thai, classified by linguist as belonging to a Sino-Thai branch of the Sino-Tibetian family.

**Workforce:** Thailand total workforce is approximately 33 millions. Thai workers are normally moving between different economic sectors during the seasons, the employment by sector is; Agricultural 47.3%

- Manufacturing 21.5%
- Services 10.3%
- Other 20.9%

**Education:** The Thai population is 93 percent literate. All Thai children are required to attend school between ages 7 and 14. A standard curriculum is taught at the primary
and secondary levels in both private and government schools. Thailand also has a well developed higher education program which includes 45 institutes of higher education throughout the country. The government budget spent for education is about 20 percent of the total in last two years (1994-1995.) The government supports a continued education program in addition to normal curriculum in preparation for the expansion of high technological industrial development. (Anonymous 1)

**Thailand Economy in 1995**

The Thai economy maintained high growth during 1995, although short of projections from 8.8 percent to 8.6 percent. Rapid expansion of exports, tourism, investment, and domestic consumption countered the impact of nationwide flooding and low confidence in the newly elected government. The National Economic and Social Development Board estimated economic growth for 1995 would be 8.6 percent. The Industrial Finance Corporation of Thailand put the figure at 8.6 percent and the Thai Farmers Research Center 8.5 percent. Economic stability, inflation and the current-account deficit were more serious problems than expected. Inflation rose to at least 5.7 percent according to the Commerce Ministry, during the year, compared with 5 percent in 1994. The main reasons were;
- Domestic agricultural prices increased in line with trends worldwide and because of the nationwide floods.
- The world price of oil increased.
- The prices of non-oil imports also increased in-line with global trends and the appreciation of the Yen.
- Some industries and limited capacity to meet increasing domestic demand.

Economists generally, believe inflation will decline in 1996. The Thai Development Research Institute estimated the deficit would be about 7.7 percent of gross domestic product (GDP), or 312.9 billion baht. The deficit reflects the shortage of domestic savings which constitute about 35 percent of GDP, while investment is about 41 percent. The deficit leads to an increase in the country's debt and the risk of economic instability, although it eases inflationary pressure.

With these problems remaining, economic growth in 1996 is forecast to ease to about 8.6 percent by the TDRI. Favorable aspects are an increase in government spending on infrastructure and in foreign direct investment, especially from Japan. Exports are likely to expand by 18-19 percent with good prices for agricultural products. Interest rates are forecast to decrease in the second and third quarters of 1996, led by trends in the U.S. and Germany. An easing of inflationary pressure will see a corresponding relaxation of
monetary policy in Thailand. Since short term capital flow has an impact on the economy, causing marked fluctuations in the money and stock markets, Thailand needs to increase domestic savings. Recently, the government has heavily been promoting provident funds as a mean to attract savings with long term commitment from households. It is expected that not only provident funds would increase long term savings of the country, but they would also beinstrument in the development of the country’s equity and debenture markets. (Anonymous 4) The government may have to put more effort into encouraging public saving in particular or even reducing interest tax on savings which is relatively high at the present. (Chuensuksawadi 13)
Definitions of Terms

Absolute Advantage: The advantage enjoyed by a country because it can produce a product at a lower cost than can other countries.

AGRO-Industry: The agricultural sector.

AFTA: Asean Free Trade Area.

ASEAN: Association of South East Asian Nations, foster close co-operation between the seven member countries- Brunei, Thailand, Malaysia, Singapore, Philippines, Indonesia, Vietnam.

Baht: Thai currency (25 baht= 1 dollar approximately).

BOI: Board of Investment.

CKD: Completely-Knocked-Down.

Comparative Advantage: Theory suggesting that specialization by countries can increase worldwide production. Unless the country has the same absolute advantage in producing all goods and services, there would be some goods and services in which it had less relative advantage. It would gain by importing those and
exporting the ones in which it had an absolute advantage, or the greatest relative advantage.

CPI: Consumer Price Index.
EC: European Community.
FDI: Foreign Direct Investment.
GATT: General Agreement on Tariff and Trade.
GDP: Gross Domestic Product.
GNP: Gross National Product.
IFCT: The Industrial Finance Corporation of Thailand.
INDOCHINA: Countries which consist of Thailand, Lao, Cambodia, Burma, and Vietnam.
LIBOR: London Interbank Offer Rate.
NESDB: The National Economic and Social Development Board.
NIC: Newly Industrializing Country.
TDRI: The Thailand Development Research Institute.
TFCR: Thai Farmers Researcher Center.
**Hypothesis**

Can Thai Economy sustain its growth in the global economy?

The growth rate of Thai economy can retain at the same rate, if Thailand will not rely much on import technology, it should take initiative on technological development which will help Thai economy to sustain its growth and compete in the global economy.

What will happen to Thai agricultural economy in the 21st century?

The agricultural sector will also have to undergo substantial structural adjustment. It has to be more cost effective and more productive than the past due to the increasing cost such as labor, land, etc. The agricultural sector will be very supportive to Thai economy system by providing the low price of food compare to the Newly Industrializing countries (NICs) or the developed countries.
Assumptions of the Study

There are three assumptions in this research study:

1). All interviewees give their opinions honestly.

2). The opinions of the interviewees represents only their 'view about the country economy.

3). All published data that is gathered by researcher are reliable and accurate.

Limitations of the Study

1). The time period for this research is about 15 weeks.

2). The information is based on the past from 1985 to the first quarter of 1995.

3). The interviews were conducted by sending fax which the researcher cannot conduct the interview perfectly due to the lack of communication.

4). Most of the information were gathered from Thailand institutes which most of them are located in Thailand.

5). Some of information are in Thai language.
CHAPTER 2

REVIEW OF THE LITERATURE
CHAPTER 2

REVIEW OF LITERATURE

The Character and Structure of the Economy

Traditionally an agrarian nation. Today Thailand boasts a complex, multi-faceted economy embracing industries employing the latest and most sophisticated technology. Several important factors have contributed to the country's enviable growth. Its principal competitive advantage has been the abundance and diversity of its natural resources. Blessed with large expanses of fertile land and ideal growing conditions. Thailand not only enjoys agricultural self-sufficiency but is also the only net food exporters in the world.

Growth and diversification into new industrial areas have to a large extent been initiated by the dynamic private sector. Innovative private enterprise broadened the nation's agrarian base by exploiting the value-added demand potential of basic staple crops, and at the same time expanded into new product areas in response to world demand. With the government providing infrastructure support and exerting relatively limited control over private industry, a free enterprise system has emerged which has allowed
development to take place at rapid rate consistent with the needs and resources available.

With its agrarian base as the bedrock, the economy has experienced steady growth. The introduction of improved technology and marketing expertise has made Thailand a world leader in the sales of staple commodities. It has also transformed the country into a fast-rising manufacturer of sophisticated products built to international standards which find ready acceptance in the world markets. (Anonymous 6)

Thailand’s primary money earners in the late 1970s were the crops grown on its rich land. Today agricultural products are produced in such quantities that in many commodities the country ranks as the world’s number one supplier. Thus besides being the world’s foremost exporter of tapioca and rice, it is a leader in the production of maize, frozen shrimp, canned pineapple, natural rubber and sugar. Moreover, Thailand’s industrial sector produces a wide number of goods ranging from textiles including the famous Thai-silk and ready-made garments to integrated circuits, plastics, jewelry, footwear, knocked-down furniture and fiber-glass yachts. In recent years in fact, manufacturing has surpassed agricultural products in Thailand’s GNP while tourism has replaced agricultural products as Thailand’s largest source of foreign exchange.
The country's rich reserves of minerals are eagerly sought by the world's industries. In recent years, local factories have been established to manufacture industrial goods from the ores and thereby enhance their value.

The Performance of Private and Public Sector

Over the past two decades, the national income has increased by approximately eight percent per year. Moreover, growth has been broadly based, with all economic sectors participating in the development process. In the last two years, the economy has been growing over 10 percent per annum. The fabric of the Thai economy remained virtually unchanged up to the late 1950s. In the early 1960s, the industrial and service sectors began supplementing agriculture as significant income and employment generators.

Today, Thailand is not predominantly an agrarian country, with about 40 percent of its working population engaged in agricultural production and earning about 13 percent of the national income. Over the years, however, manufacturing sector expanded very rapidly, increasing its portion of the national income from 13 percent in 1960 to 75 percent in 1993. Such a structural change does not, however, imply that agricultural output failed to rise during the period. On the contrary, it increased by about
five percent per year. Moreover, a high degree of diversification took place, enabling Thailand to boost its export items from only three major commodities namely rice, teak and rubber in the early 1950s to more than 10 main agricultural products in 1993. (Anonymous 7)

The industrialization process initiated during the 1960s was geared towards import-substitution. It was succeeded in the 1970s by a drive to produce export-oriented items. By the mid 1970s Thailand was exporting manufactured goods ranging from cement to watch parts, and including canned fruit, garments, chemical products, transport equipment and televisions sets. In 1993 manufactured exported accounted for about 75 percent of total export earnings.

The public sector supports the growth process by providing developmental facilities through the construction of basic infrastructure and by creating a conductive environment for the private sector to operate effective. Despite the steady increase in population, real per capita income have doubled over the past two decades. The proportion of the country’s population living at the subsistence level has declined from around half in the early 1960s to less than a quarter in recent years.(Anonymous 7)

International trade is vital to Thai economy. Thailand’s entry into foreign markets in the mid-19th century enabled its economy to expand rapidly. Today, export and
import transactions together account for about half of the national income. Although there were annual deficits in the balance of trade the balance of payments recorded continuous surpluses throughout the 1960s and early 1970s. Sharp increases in oil price since 1970, however, affected the balance of payments back into surplus position. (Narongchai)

In short, the performance of the Thai economy over the past two decades has ranked high among developing countries. Some basic economic problems such as income disparity, the need to conserve natural resources, the uncertainty of export markets, and the need for improving administrative efficiency, remain to be solved but judging by past performance as well as from the present economic outlook, it is clear that Thailand has the potential to expand its economy and thereby improve the welfare of its citizens.

The Economy’s Transition: Development and Diversification

Traditionally, Thailand’s economy has been based on agriculture. It is only relatively recently that the manufacturing sector has begun to play a significant role in the economy. The transformation in the structure of the Thai economy in the last thirty five years has indeed been dramatic. The agricultural share of the Gross Domestic Product (GDP) has declined steadily from 40 percent in the 1960 to just over 15 percent in 1990. At the same time, the
manufacturing sector has expanded very rapidly, with its share of GDP increasing from 13 percent in 1960 to 75 percent in 1993. The sector employs approximately 7 million people, over 20 percent of the entire labor force. Industrial activities are still highly concentrated in the central region. (Anonymous 6)

The industrial sector grew at an average rate 9.5 percent per year during the 1970s. Its share of the GDP increased from 15.9 percent in 1979. By the 1979 and about 7 percent of total employment. The agricultural share of the GDP has declined from 27 percent in 1970 to 21 percent in 1979. By the 1970s, the Thai economy reached the stage where component parts and other intermediate capital goods could be produced locally and the export-oriented industries assume prominence. Part of this shift resulted from a widespread concern in the early 1970s over limited demand in the domestic market,(calling for a shift in policies from producing for the domestic market to producing) for export. The structure of manufacturing has also changed,

In 1975, food beverages, and tobacco were the most important sub-sector(36.8%) and the major industries were rice milling, sugar, tapioca pellets, frozen seafood, and canned fruits. Another important sub-sector industry was textiles(18%), followed by chemical products(8.2%). Of the chemical products, petroleum refining was the most important
industry. Engineering industries goods, included metal products machinery, electrical and electronic and transport equipment, the combined share of which was 16.4 percent. (Anonymous 7)

In engineering industries, the key industries were motor vehicle assembling and electrical and electronic goods. Wood and paper products together accounted for 8.77 percent. Non-metallic mineral products was dominated by the cement industry with glass products becoming increasingly important.

Production of manufactured goods continued to increase and diversify. By 1980, the developments had changed the structure of Thailand’s manufacturing sector. The relative importance of processing industries had diminished in favor of labor intensive exports which had risen to 11 percent and intermediate and capital goods which by 1980 accounted for almost one-third. A world economic recession prevailed in 1982, Thailand’s agro-industry is fast growing and demand in the agricultural sector together with a slow growth in private investment and construction activities constituted the major force behind the deceleration of manufacturing to the agricultural sector. However, since 1983 the contribution of manufacturing to the GDP has exceeded that of the agricultural sector. Manufacturing production marked a growth rate of 7.2 percent in 1982. Industries which
expanded greatly to respond to the strong demand were automobiles, tires, cement, plywood and furniture, paper and pulp, and beverages. The growing export industries included integrated circuits, textiles and food processing.

By the later part of 1980s, especially since 1987, manufactured products had increased dramatically to become the leading sector of Thai economy. The growth of manufacturing production reached 12.6 percent in 1987. For 1989 the manufacturing output continued to increase at a high rate of 15 percent, due to the favorable conditions in domestic and foreign markets, including the government’s with the relatively stable prices of oil, interest and exchange rates. The government’s efforts were concentrated on revising regulators concerning raw materials and other inputs in order to facilitate local production and increase Thailand’s export competitiveness.

The industrial sector has undergone a rapid diversification process in the past two decades. Industrial production in the 1980s was more evenly spread between a number of sectors ranging from consumer goods, component parts, and intermediate capital goods, to heavy industries. In addition to a wide range of resource base industries and light industries, Thailand has also developed supporting industries. The construction of several automobile engine plants is virtually complete and a major petrochemical
complex that will efficiently utilize Thailand’s large reserves of natural gas to provide inputs to support a broad range of domestic manufacturing is being developed on the Eastern Seaboard southeast of Bangkok. Thailand’s industries are moving towards export-oriented and value added goods, which are highly competitive and readily acceptable on the international market. (Pupphavesa)

**The Exports of Manufactured Goods**

At present, Thailand has moved from being heavily dependent upon the export of agricultural commodities, with less than 13 percent of exports being manufactured products in 1960s, to a position in 1990 where almost 70 percent of its exports were manufactured goods. The country is now regarded as a world class competitive manufacturer for export of a wide range of light industrial products.

Thailand’s export performance in 1987 ranked among the best in the developing world. Total export earnings increased from 146,172 million baht in 1983 to 298,099 million baht. In 1987, Thailand recorded a remarkable growth in exports of manufactured goods, which increased by an unprecedented 45.5 percent, the highest in the Southeast Asian region. The share of manufactured exports increased from 40 percent in 1983 to 61.4 percent in 1987 and 64 percent in 1988. In 1988 Thailand entered a new era in the
automobile industry by exporting "Made in Thailand" Mitsubishi cars to Canada. This historic breakthrough demonstrated that Thailand has the capability to be the production site of a major project designed to export a complex product to a highly competitive market. The "Made in Thailand" Mitsubishi car has already been awarded the prestigious National Safety Mark by the relevant Canadian authorities. This is an internationally accepted quality standard, and led to exports to Portugal and Cyprus. Moreover, completely-knocked-down (CKD) vehicles are being exported to Europe.

In 1989 and 1990, the share of manufacturing exports among the total exports continued to increase, from 64 percent in 1988 to almost 65 percent, with export earnings of over 450 billion baht. In 1989, the new manufactured products export continued to register a high growth rate. Exports included footwear, ceramics and sanitary ware, computer and computer components, furniture components and plastic products. In the 1990s, export-oriented continue to display a strong performance and have a good prospects. Although Thai exports may be affected by increasing trade protectionism and retaliation, Thailand’s export growth will not be greatly affected since the importance of Thai-manufactured exports in world market is relatively small and there is much room for future expansion. (Pupphavesa)
Thailand's Strengths as a Host for Foreign Investors

The basic ingredients for a successful investment project can be found in Thailand. The country is strategically located in the Pacific basin and enjoys long term political stability. The Thai economy is resilient and dynamic with continuing high growth rates, favorable export performance and financial stability. The industrial structure is well diversified and can therefore respond quickly to changes in international demand patterns or increases in protectionism.

Labor resource are cost-effective and are approaching 30 million workers, with the majority being under 30 years old. Thailand has a large domestic market of more than 58 million people with rapidly increasing purchasing power. Land and other basic facilities are inexpensive and there exists extensive infrastructure for industrial use. (Anonymous 9)

The government increased investment outlays for infrastructure during the Sixth Plan period by more than 30 percent (3.27 billion US$). The allocation for transportation increases by almost 70 percent, while those for energy and telecommunication grew by almost 18 percent and include additional resource both for generation and distribution of electricity and for development of domestic and international telephone linkages. Much of the new
infrastructure investment is expected to be carried out by private sector consortium.

The private sector has always been seen as the main engine of growth. Thailand is one of the few countries so liberal towards foreign investors, welcoming them as a teammates in its determines drive for prosperity. The favorable investment climate has induced a substantial increase in foreign investment in Thailand. (Anonymous 6)

The Impact of Foreign Private Capital. (Non-Resident Baht)

Foreign private capital inflows have become more and more important in recent years. In the first quarter of 1995, the private capitals inflows, excluding commercial banks, commanded about 49.77 percent of the country’s total capital inflows and outflows respectively. Also, there has been a structural change in the components of the private capital flows. Since 1991, capital flows in the form of non-resident baht account have become so important. Thai non-resident baht account’s share in the country’s total foreign capital inflows increased rapidly from 15.27 percent in 1991 to 44.65 percent at the end of the first quarter of 1995.

Even though the outstanding figure of the non-resident baht account is very small comparing to the commercial bank’s total deposit outstanding, only 2.32 percent of the total
deposits, its short-term and volatile nature has made it a focus of the authority’s stabilization exercises. However, the quantitative impact of the non-resident baht account on the Thai macro-economy and finance has not been studied widely enough to allow one to make a concrete analytical assessment on the issue. Therefore, Thai Farmers Research Center (TFRC) has found the impact of the private sector’s foreign capital flows, in particular, the non-resident baht account, on various economic variables;

- The non-resident baht account is found to significantly determine the commercial bank’s credit extension. On the other hand, other private foreign capital flows (such as foreign direct investment, loans, and foreign portfolio investment) are found to have a substitution effect on the commercial bank’s lending (i.e., the larger the inflows of other private foreign capital, the smaller the bank’s lending)

- The commercial bank’s credit extension as well as other private foreign capital flows are found to significantly determine the economy’s money supply and inflation rate.

- The commercial bank’s lending, other private foreign capital flows, and money supply are found to significantly determine the country’s real output or the GDP at constant price (or Real GDP).
- Both the non-resident baht account and other private foreign capital flows depend on the difference between the domestic interbank rate and LIBOR.

- The non-resident baht account significantly substitutes the need of the domestic banks to borrow from abroad.

More interestingly, a dynamic simulation also revealed that a change in the non-resident baht account would result in larger changes in the country’s real output, money supply, inflation, and interest rate than those of other private foreign capital flows. This is the case because the non-resident baht account have a significant impact on the commercial bank’s credit extension which will propel further impacts on the money supply, inflation, and the output. On the other hand, even though other private foreign capital flows could generate immediate impacts on the money supply and inflation, its substitution effect on the bank’s loan does not create offsetting forces and eventually lessens its dynamic impact on the economy. (Anonymous 5)
CHAPTER 3

PROCEDURES AND METHODOLOGY
The interview with Mr. Veera Prateepchaikul.

How do you anticipate Thailand’s economic in the next five years? Is it still prosperous?

If the impressive economic growth rate in the past decade which registered double-digit figures and dropped to 8 percent in 1995, Thailand’s economy will still continue to prosper in the next five years even though the growth rate may gradually slide further. There are reasons to be optimistic.

What do you think is/are the strong point(s) of Thailand that will affect foreign investors?

Economic fundamentals still remain strong and Thailand is still a good place for foreign investment compared with other countries in the region such as Vietnam and Burma which are now opening up their countries to embrace foreign investors. Compared with countries in Indochina, especially Vietnam which is fast emerging as a new haven for foreign investment, Thailand still maintain the edges as far as infrastructure, political stability and incentives are
concerned. But to compare with Singapore which has established itself as the financial market of Southeast Asia, Thailand is still has a long way to go.

Do you anticipate any problems of insufficient skilled labor and environment conscious in Thailand?

Thailand also experiences shortage in skilled labor such as engineers to meet increasing requirements for various high-tech industries such as tele-communication, computer and various infrastructure projects. To cope with the shortage, engineers from India were hire to do the jobs. But the country cannot rely on foreign engineers, scientists, computer programmers or technicians if it is to advance in scientific and technological fields. Education must be geared towards producing more scientists, engineers, computer programmers rather than graduates in social science. And more budget should be provided in research and development - an area which has long been neglected.

Increasing environment awareness in Thailand which is in line with global trend will surely add up production costs for investors and may discourage unscrupulous investors who have no respect for environment protection. But to responsible investors, laws and regulations aimed to protect and conserve the environment should not be seen as a
deterrent to their investment. On the contrary though, these will serve the long-term interest of the investors.

How do you foresee Thai government in the next five years? Is political situation going to be any obstruction toward foreign investment?

Given the number of political parties, (about 10) which have won seats in the Parliament and the fact that none of them has the majority in the Parliament, it can be assumed that this condition will prevail for the next five years. It can be anticipated a government in the five years will be a coalition one consisting two or more parties whose stability will depend largely on sharing of mutual benefits. And so long as the vested interest of an individual party is not affected, the coalition government can expect to carry on smoothly.

Politically, Thailand is relatively stable even though the country will continue to see coalition government in charge. The threat of military coup which will destabilize a government has greatly diminished due to the increased public awareness of democratic rule and rejection of any undemocratic means to topple a government.
Do you foresee any major or problems that would obstruct foreign investment e.g. infrastructure, unskilled labor, language, natural resources, traffic congestion?

There are problems which if allowed to persist or untackled, are likely to discourage foreign investors and to drive them to the other countries thought to be more favorable. Traffic problem in Bangkok for an instance gives the first bad impression for foreign investors making their first visit to Thailand. The problem has steadily deteriorated to the extent that the mobility of cars on Bangkok streets averages about 10 kilometer per hour which means fuel wastage and loss of time. Without a mass transit system and efficient traffic management which will help improve traveling in Bangkok, several foreign investors can be expected to shy away from Thailand and to opt for the other countries.

As a result of rapid industrial expansion, Thailand has suddenly found itself running short of the so-called cheap labor in such industries as construction and fishery. A large number of workers from the rural areas which once provided cheap labor to the two industries have been absorbed by industries such as textile and garment, microchips and electronic appliances. This has led to the influx of illegal immigrants from neighboring Burma and Cambodia who fill up the vacancies in fishing industry. A
plan is being mooted by Thai authorities to legally bring in guest workers from Burma or Cambodia to work temporarily in order that they can be monitored.

Are there any problems or support that need government intervention so as to efficiently promote foreign investment?

All previous governments in Thailand and those which are to emerge in the future fully embrace capitalism and a free market economy. Foreign investors should be rest assured that no government in Thailand will ever embark on a policy which will scare away the investors.

Veera Prateepchaikul.

Assistant Editor.

Bangkok Post Newspaper.

The Post Publishing Public Co.,Ltd.
The interview with Mr. Tom Connelly.

How do you anticipate Thailand’s economy in the next 5 years? Is it still prosperous?

Yes, it will still be prosperous and growing at a nice growth rate. One point of concern; the rate of growth will slow, in percentage term. I mean that an economy cannot grow at 8 percent per year forever. As the economy gets bigger, the percentage change will drop, though the nominal increase from year to year will be larger. The business community and policy makers will need to be cautioned that this slight slowing is not a failure; it is probably more healthy and sustainable than double-digit growth rates. When I first came to Thailand, I got a sense that the business and government groups were disappointed with growth under 8-9 percent. Contrast this opinion with the U.S. economy, where economy growth near 2-3 percent is terrific; more than 3% is a recipe for wild inflation and danger. Sure the relative sizes of the economies are much different, but my point lies in the expectation that the business and government people have. Inflation could be a worrisome problem over the next 5 years.
What do you think is/are the strong point(s) of Thailand that will affect foreign investors?

A good attitude about business. "Laissez-Faire" in practice, if not said directly. Excellence workforce that is willing to learn and work hard. A wide variety of opportunities (for example growth is not just limited to property, or farming exports. Finance, manufacturing, transportation, etc. all are growing). An industrializing economy and a rapidly developing domestic market.

Do you anticipate any problems of insufficient skilled labor and environment conscious in Thailand?

Lack of skilled labor will continue to be a big problem. Workers are willing and able to learn, I am sure, but enough skilled workers must exist to keep things running while other workers are being trained. I hope that manufactures realize (Both Thai-owned firms and foreign-owned firms) that they have duty to teach and upgrade their workers' skills, not merely to treat labor as a cost and as some sort of machine. Or to install a "glass ceiling" that keeps Thai people from advancing above a certain level in the firm. It is in the long-term interest of the firm to invest in human resources, skill enhancement and job upgrading. It is clearly in the worker's interest to learn too. Increasing environmental consciousness would be a
plus, though it cannot be seen as a "obstacle" to growth. New business projects should be carefully evaluated for their total costs, including environmental damage. Polluters must pay; government must enforce this rule and worker protection rules. I personally am upset when I see foreign businesses move into a developing country and do things that are illegal and restricted heavily regulated in their home lands. A nation can not simply export its dirty industries to developing countries anymore.

How do you foresee Thai government in the next five years? Is political situation going to be any obstruction toward foreign investment?

It will continue along much as it has in the past. The political situation has not proven to be much of a concern in the past; this attitude will continue, I think. One point is a concern: a stronger sense of commercial law would be more conducive to business. For example, many times an agreement will be made( contract, government' concession, etc.). A firm( Thai or business) will start its business and after a while, the terms of the agreement will need to be changed or subject to renegotiation, often after a change in government.(Examples are most common with infrastructure projects: expressway stage II, Don Muang Tollway, telecom-concessions and master plan, waste treatment plant in
Chonburi, etc.) This might make business people nervous and think twice about investment, since the rules of the game are continually subject to change. However, these problems are rare and do not affect most businesses.

Do you foresee any major factors or problems that would obstruct foreign investment e.g. infrastructure, unskilled labor, language, natural resources, traffic congestion?

Infrastructure is a worry; likewise the absence of skilled labor and the shortage of skilled labor creating a seller’s market, driving wages way too high way too fast, for example the finance sector).

Are there any problems or support that need government intervention so as to efficiently promote foreign investment?

The best way for the government to help (in my idea) would be to make its policy targets explicit (items like rural development, Zone I, Zone II promotion, environmental protection, infrastructure development, etc.) and then think of creative ways connect investment to meet these goals. Examples; build a factory here. Investors get a tax break if they agree to provide a nearby housing for workers and training. Investor must also help pay for infrastructure development. The government can concentrate on measuring
outcomes rather than watching over the business’s shoulder and inspecting, regulating everything. Everyone can gain with a creative solution. I think these types of combined solutions are now being developed by the Thai government.

Tom Connely

Faculty of Commerce and Accountancy

Chulalongkorn University, Bangkok, Thailand
CHAPTER 4

DISCUSSION
CHAPTER 4
DISCUSSION

Since 1993, the Thai economy has averaged 8 percent annual growth, according to World Bank statistics. The growth was mainly driven by exports, private investment as well as the continuing increase in private consumption. Factors contributing to this robust export performance were the sharp increase in agricultural and manufactured exports both in quantity and price terms. (Anonymous 2)

But Thailand can no longer rely on industries such as garments and textiles for economic growth. These industries have already begun an exodus to neighboring, low-wage countries. So the Thai government is encouraging a shift to more sophisticated, value-added industries. The Thai economy is successfully making the transition to medium-tech industries such as gem cutting, seafood production, and computer assembly which need more higher-skilled labor and do not rely only on the cheap labor. (Erlich)

The Thai economy has witnessed changes from an agricultural economy to an industrial economy and later from labor-intensive industries to higher-skilled, higher technology industries. The growing emphasis on exports is simulating major changes within Thailand’s industrial structure. Manufacturing has taken over about 80 percent
of Thailand’s export output and companies have begun to emphasize on increasing the sophistication of their manufacturing systems. These industrial changes are in-line with the Thai government’s long-term goal of transforming the country into a premiere financial, manufacturing and service center in Asia.

Though the growth of the US., Japanese, and EC economies, which are Thailand’s major export markets, were slower than expected, exports to the Asia-Pacific markets continued to expand markedly. The competitive position of Thai exports in the international market as a whole improved significantly.

Thailand is coming to rely less on traditional markets in the West. Although the United States remains Thailand’s second largest trading partner after Japan, exports to U.S., for instance, are set to be over taken by Thailand’s export to ASEAN in the future. Due to the lowering barriers of trade within the region under the Asean Free Trade Area frame work has helped stimulate regional trade. (Vatikiotis)
CHAPTER 5

CONCLUSIONS/RECOMMENDATIONS
Chapter 5

CONCLUSIONS/RECOMMENDATIONS

The Thai economy is now at a crossroads. Over the past few years, major developments in the international arena already had significantly affect Thailand’s future economic development. These include the Uruguay Round of multilateral trade talks and the forming of the regional trade blocks. This is especially true of the Asean Free Trade Area (AFTA), which has been affected Thai industrial competitiveness, and the Common Agricultural Policy reform which significantly reduced Thai tapioca exports to the European Community (EC).

Thai government needs to improve education by allocating national education specifically for secondary learning. It also needs to increase the budget for the research and development which is now relatively low compare to the other country. Infrastructure, which can attract more investors to the country, needs to be improved rapidly. Improving highway, waterplant, electricity, housing in the rural area, will create more jobs to people which also help to expand the income distribution. The government can attract more business to invest in the rural area by providing tax incentives for any business that operate in the rural region. This business zones will have their
difference for the tax incentives depend on the business zones. Improving political condition such as corruption will help Thai government to gain more confidence from the investors.

Telecommunication, Pharmaceutical, Aviation, Tourism, and Entertainment Media, Thailand already has the capacity to expand the above business sector in Indochina which is the region that Thai investors has been waiting to invest due to lack of technologies, low labor cost, and the enormous natural resources that has never been exploited by their country. To remain competitive in the 21st century, Thai industries must improve their efficiency and switch to the producing higher value-added product. Increasing labor skill and quality will help the country to compete in the world export market.
References


India and China

Peace on the border

INDIA and China have a long history of dispute over their shared border. But in talks on August 19th and 20th they agreed to pull back troops from four points in the disputed Sumduron Cho sector, on India's north-eastern border, where the two countries almost went to war in 1986-87. In this sector, rival troops have been posted no more than 50 yards apart in some cases, increasing chances of a clash.

The agreement highlights the improvement in relations since Rajiv Gandhi's visit to Beijing in 1988. Since then, the Indians have moved three divisions from the Chinese border into Kashmir, driving home the point that they now see Pakistan as the chief threat to their security, not China.

Chinese-Indian strains have not disappeared. The border dispute, which led to war, and a humiliating defeat for India, in 1962, remains unresolved. India is unable to tap the enormous hydroelectric potential of Arunachal Pradesh because that would lead to a diplomatic crisis with China, which lays claim to the region. China still also contests the merger of Sikkim with India. And it has been supplying Pakistan with M-11 missiles, which—say the Indians—could conceivably be used to deliver nuclear weapons. The missile is too primitive for that, say the Chinese; India does not believe it.

Memories of 1962 have faded, though, and that is a major gain. Indian pilgrims have for years been allowed to visit places of Hindu pilgrimage in Tibet, and trade with Tibet is expanding. In the border dispute, both governments are willing to maintain the status quo. The next step will probably be an agreement to end intrusions by aircraft. India sees its nuclear capability as a deterrent to the Chinese, but expects no real threat from them in the foreseeable future.

So now it can concentrate on the challenge from Pakistan. Almost every day bullets fly over the line between the Indian and Pakistani parts of Kashmir, and belligerent statements by Pakistanis are interpreted by many Indians as signs of impending war. Almost certainly, that is wrong. But Pakistan's aid to Kashmiri militants makes this a real enough battle by proxy—and big enough for India to be glad to have no Chinese distractions from it.

Thailand

Jam today

PERHAPS it is the time they spend sitting in traffic jams that makes Bangkok's pundits so prone to fretting about economic overheating. In the rainy season especially, they are confronted with the daily discomfort brought by an economy that has, in one respect at least, grown faster than its infrastructure can handle. But the nervous reaction to unexpectedly high inflation figures for July betrayed more than commuter frustration. The consumer price index was up by 5.8% over the previous year. Ever since, stockbrokers, economists, and the newspapers have been agonising over the perils of inflation. Partly for this reason, the stock market lost more than 9% of its value in the five weeks to August 18th.

By Thai standards, the inflation figures were indeed bad, and the rate for 1995 as a whole is expected to stay around 5%. But this is hardly shocking in such a galloping economy. Real GDP growth is on course in 1995 to exceed 7.5% for the ninth successive year. Nor is Thailand's inflation out of line with its regional competitors: above Malaysia's annual 3.5% in July, but well below Indonesia's 9.8%, let alone China's 16.7%.

When food price rises are stripped out, Thailand's core inflation in the first half of the year was actually lower than in the same period in 1994 (4.3% against 4.4%), even though the baht has fallen sharply against the Japanese yen, which might have suggested the opposite. The current-account deficit, likely to exceed $9 billion in 1995, is uncomfortably high at 6% of GDP. But fears of a flight of foreign money after the Mexican crisis proved unfounded.

None of these problems should present imminent danger to a fiscally responsible government; and, for all its frequent changes of government, Thailand has a record of prudent economic management. But the July inflation figures followed the election of July 2nd. The new government, a coalition led by Banharn Silpa-aracha's Chart Thai party, is not trusted by many commentators and investors. They expect it to be corrupt and incompetent.

Mr Banharn's past expertise in Thailand's very expensive type of free elections had earned him the nickname Mr ATM. His activities as interior minister in a cabinet removed by a military coup in 1991 led to suspicions he was "unusually rich", and his assets were temporarily frozen. His many critics are on the lookout for any sign that he and his cabinet may treat the government's coffers as an automatic cash dispenser. They predict a spending spree to repay political favours and to harvest the benefits of the seed money sown to secure political office.

The presence of those with even more doubtful records further encouraged the snipers. The new finance minister, Surakant Sathirathai, has an unblemished record. But he is a 37-year-old lawyer, and may be weak on the economy.

The government's first policy statement to parliament did little to allay fears, although it owed much to the policy of the previous administration. It promised increased spending on infrastructure, but projected only a modest rise in government spending, of 11 billion baht ($440m). Indeed, it stressed monetary discipline. Nonetheless Abhisit Vejaja, of the opposition Democrat Party, was among the more restrained critics when he said the government seemed to be confused between expansion and discipline. On the other hand, as Andy Henderson, of W.I. Carr, a stockbroking firm, noted, it is a bit unfair to blame the government for the July inflation figures, "when it has hardly had time to write a cheque."

The Thai economy does face serious...
China and Taiwan

Enter Mr Lee

The patriarchate of Singapore is perhaps an insufficiently commodious seat for an Olympian such as Lee Kuan Yew. What grander, and genuinely useful, way for the father—officially, now, senior minister—of his small country to occupy the world stage than by forging peace between mainland China and Taiwan at a time when tensions might even lead to war?

This week Mr Lee arrived in Beijing with a Singaporean delegation led by the president, Ong Teng Cheong, just as China launched its second round of missile manoeuvres aimed at intimidating Taiwan's leaders. In Beijing stories were swirling that Mr Lee might even get an audience with Deng Xiaoping, another, if less lively, patriarch. On August 29th Mr Lee heads for Taipei to attend a business forum. In Taipei the stockmarket, shaken by Chinese rumblings, has rallied somewhat on the hope that he might play the intermediary.

Some American diplomats in Beijing have for weeks seen Mr Lee as the best hope to ease cross-strait tensions and so to bring Chinese-American relations out of their nosedive. Though Singapore has had formal relations with China only since 1990, the city state has made up for lost time, with some $9.5 billion of proposed investments there. In return, China has been little bothered by Mr Lee's "holiday" visits to Taiwan. The senior minister, in his younger days a member of the Socialist International, has been as comfortable as any modern communist in extolling neo-Confucian precepts, not least at fashionable conferences in Beijing in honour of the sage. It is undoubtedly the overseas Chinese expected by Beijing's cadres.

Yet, though he would no doubt relish the role of an intermediary, there is a taint that Beijing is about to offer official line is, as ever, that relational Taiwan are China's internal affair, government spokesman said on August 29th that "there are already lots of existing communications at various across the straits. He failed to mention Beijing has chosen to break those barriers when he announced a new visit to America in June—prospects for swift repair are slight. Were he still really in commissary, say cynics) Mr Deng—so th watchful conventional wisdom would have opposed the exiled wards Taiwan's leaders that his challenger, Jiang Zemin, has been unassailable. Yet those Beijing hardliners bent on deposing Taiwan's Mr Lee cheered at the effect that China's appears to be having.

The new missile manoeuvres in Beijing with the Ouki family were slight; the slight reduction of the Manchurian border, a clear signal that China is prepared to settle for the status quo. The Yami don't like the idea at all, and are not convinced that the nuclear waste is safe. Some 600 tribesman, many wearing their traditional combat dress of loin-cloths and leather body armour and carrying spears, recently turned up in the traffic-clogged streets of Taipei. Not only are they against expansion of the waste site, they want the existing waste removed. They say the containers are corroding, and fear that the island's water supply may be contaminated. They claim that the cancer rate and the number of birth deformities have increased, and blame the waste.
THE CHARACTER AND STRUCTURE OF THE ECONOMY

Traditionally an agrarian nation. Today Thailand boasts a complex, multi-faceted economy embracing industries employing the latest and most sophisticated technology.

Several important factors have contributed to the country's enviable growth. Its principal comparative advantage has been the abundance and diversity of its natural resources. Blessed with large expanses of fertile land and ideal growing conditions. Thailand not only enjoys agricultural self-sufficiency but is also the only net food exporters in the world.

Growth and diversification into new industrial areas have to a large extent been initialed by the dynamic private sector. Innovative private enterprise broadened the nation's agrarian base by exploiting the value-added potential of basic staple crops, and at the same time expanded into new product areas in response to world demand. With the government providing infrastructural support and exerting relatively limited control over private industry, a free enterprise system has emerged which has allowed development to take place at rapid rate consistent with the needs and resources available.

With its agrarian base as the bedrock, the economy has experienced steady growth. The introduction of improved technology and marketing expertise has made Thailand a world leader in the sales of staple commodities. It has also transformed the country into a fast-rising manufacturer of sophisticated products built to international standards which find ready acceptance in world markets.

Thailand's primary money earners in the late 1970s were the crops grown on its rich land. Today agricultural products are produced in such quantities that in many commodities the country ranks as the world's number one supplier. Thus besides being the world's foremost exporter of tapioca and rice, it is a leader in the production of maize, frozen shrimp, canned pineapple, natural rubber and sugar. Moreover, Thailand's industrial sector produces a wide number of goods ranging from textiles including the famous Thai silk and readymade garments to integrated circuits, plastics, jewelry, footwear, knocked-down furniture and fibre-glass yachts. In recent years in fact, manufacturing has surpassed agricultural products in Thailand's GNP while tourism has replaced agricultural products as Thailand's largest source of foreign exchange. The country's rich reserves of minerals are eagerly sought by the world's industries. In recent years, local factories have been established to manufacture industrial goods from the ores and thereby enhance their value.

Bounty of the Land and Sea

Rice forms the core of the Thai economic system. The staple food of the nation, it was the country's largest single foreign exchange earner for well over a century. Thailand is the world's leading exporter of rice, earning 34,676 million baht in 1988. In recent years though, agriculturalists have found new uses for paddy land. At the same time, modern technology has opened up new or formerly arid land to crop cultivation. The northeast and southeast, previously considered two of the least fertile areas, are now producing tapioca in large quantities and in 1988, it ranked fourth after rice, earning 21,685 million baht.

The world sugar shortage of the mid-1970s triggered a boom in Thai cane sugar production; in 1982 it ranked as the number three money earner. In addition to raw cane and granulated white sugar, molasses, a by-product of
Cassava cultivation on a major scale was not resumed until 1958, when it was taken up by farmers in the northeast. Foreign demand for tapioca then increased so dramatically that Thailand is now the world's largest exporter. Local factories process it into flour, which is used industrially, and into the chips and pellets sold as animal feed.

Compared with rice, sugar and tapioca, maize is a newcomer on the Thai farming scene, having been grown in large amounts only since World War II. It has, however, climbed steadily since then. In the 1988/89 season, Thai farmers planted 1.95 million hectares of land with local and hybrid strains whose yield was expected to top 5.2 million tons, much of which would go to European and Japanese animal feed markets.

Thailand is the world's third largest producer of natural rubber after Malaysia and Indonesia. Production in 1988 was 960,000 tons—about 930,003 tons of which were exported—compares to production of 617,710 tons in 1984. This substantially higher output was due largely to higher world demand and the effects of the AIDS epidemic on the demand for rubber products. Rubber plantations occupied 1,763,500 hectares in 1988-89, mainly in the south.

Tobacco is another important export crop. The Thailand Tobacco Monopoly, a state enterprise, both imports and exports large quantities of the leaf. Whereas foreign smokers like Thai tobacco's mildness, Thai smokers prefer the stronger foreign varieties. To meet their needs, the Thailand Tobacco Monopoly imports the stronger types to be blended with Thai leaves.

Also in demand abroad are Thailand's numerous garden variety beans. These include mung beans, soya beans and black matpe beans—the source of the famed Far Eastern beansprouts associated throughout the world with oriental cooking. The soya bean is processed into vegetable oil by domestic factories. Other crops grown for their oils include coconuts, peanuts, castor seeds and mint.

Canned rambutan and longan have found ready markets overseas but by far the most important of the country's fruit exports is canned pineapple, of which Thailand is the world's largest exporter.

Flowers are also an important export item. Thailand is one of the world's biggest suppliers of orchids. About 2,000 commercial growers, mostly in the Bangkok area, produced enough blooms in 1988 to earn over 500 million baht in foreign exchange from natural orchids alone. Major markets are Japan and European countries.

In the past, beef production was a profitable farming sideline but in recent years growing demand brought about by the increase in population and urbanization and by a rising standard of living has led to specialization in livestock breeding and commercial stockfarming using scientific methods. High-quality cattle and pigs have been imported to improve local breeds through cross-breeding. It has also been shown that cattle thrive on coconut with suitable grass.

Thailand has export markets for beef in Singapore and Hong Kong and is trying to gain entrance into the potentially large Japanese market. Increased scientific beef cattle production will also be a boon to the fast-growing leather and tanning industry.

Thailand's wide variety of hard and soft-wood forests has created a burgeoning wood industry. Tropical evergreens, hill evergreens, mangroves, deciduous dipterocarps, and mixed deciduous are processed to produce firewood, stick lac, gum venzoin, rattan used in the manufacture of cane furniture, bamboo used both for furniture and paper, dyes, tanning bark and a huge variety of medicinal herbs, leaves and roots.

Thailand's water are every bit as bountiful as its fields and forests. In 1986, marine fishing in Thailand ranked
the country's roughly 3,000-km. coastline approximately 2.6 million tons of marine products a year, makes the industry the seventh largest in Asia.

Freshwater fish abound. Besides the many varieties which breed naturally in rivers, lakes and streams, there are those raised by rice farmers in their flooded paddy fields and harvested together with the rice. In addition, the Inland Fisheries Department is vigorously promoting freshwater aquaculture by farmers with large ponds. Fresher water prawns are also plentiful.

Mineral reserves in Thailand are rich and varied. Mining production in 1988 totaled 44,333 million baht in value added with exports earning 7,631 million baht, accounting for about 1.9 percent of the country's total exports. Tin, for centuries the biggest moneymaker among Thai minerals, remains so today, with the country ranking fourth behind Brazil, Indonesia, and Malaysia. Tin export in 1988 was 13,392 metric tons, earning 2,339 million baht of foreign exchange.

Gemstones, among them the legendary Siamese rubies and sapphires, have also long been mined in Thailand. Thailand's colors gems market is the world's largest. Export of precious stones earned 13,772 million baht in 1988, ranking sixth among Thailand's leading export. In addition, many different minerals, in terms of tonnage, are fluorite, barite, gypsum, manganese and tin. Wolfram and antimony are also important exports.

Minerals mined but not exported include limestone, marl, lignite, potash, kaolinite, ball clay, feldspar, quartz and tantalum, all of which are used by local manufacturers.

In recent years, the limelight has shifted to other modern buried treasures: natural gas and oil in the Gulf of Thailand. In 1988 Thailand imports about 800 million dollars worth of petroleum product. The country's dependence on imported oil rose from 50 percent of the total energy consumption in 1962 to 75 percent in 1981. By producing and utilizing indigenous sources of energy for substitution, such as natural gas, lignite, hydro-power and non-conventional energy sources, Thailand has reduced her dependence on imported oil. Thus, dependence on foreign energy sources was down to 54 percent in 1988.

Natural gas and oil have been discovered in the north, northeast, and in the Gulf of Thailand. The new Eastern Seaboard industrial center comprises a gas separation plant, a petrochemical complex and other manufacturing facilities. Located in three eastern provinces-Chon Buri, Rayong and Chachoengsao - it covers 8.3 million hectares of land. After the successful laying of a 425-km. natural gas submarine transmission pipeline, from the Erawan gas field in the Gulf of Thailand to the onshore terminal and then to the Bang Pakong and south Bangkok power plants, the gas came on stream in 1981.

As a government-owned enterprise, the Petroleum Authority of Thailand [PTT] is engaged in the business of oil supply, oil refinery, gas pipeline operation, gas-processing plant operation and petroleum industry. With the cooperation of other government agencies, PTT has been responsible for the development and exploitation of fossil fuel resources in the country.

**Sector Performance**

Over the past two decades, the national income has increased by approximately eight percent per year. Moreover, growth has been broadly based, with all economic sectors participating in the development process. In the last two years, the economy has been growing over 10 percent per annum.

The fabric of the Thai economy remained virtually unchanged up to the late 1950s. In the early 1960s, the industrial and service sectors began supplementing agriculture as significant income and employment generators. Today, Thailand is still predominantly an agrarian country, with about 65 percent of its working population engaged in agricultural production and earning about 17 percent of the national income. Over the years, however,
The manufacturing sector expanded very rapidly, increasing its portion of the national income from 13 percent in 1960 to 24 percent in 1988. Such a structural change does not, however, imply that agricultural output failed to rise during the period. On the contrary, it increased by about five percent per year. Moreover, a high degree of diversification took place, enabling Thailand to boost its export items from only three major commodities namely rice, teak and rubber in the early 1950s to more than 10 main agricultural products in 1988.

The industrialization process initiated during the 1960s was geared towards import-substitution. It was succeeded in the 1970s by a drive to produce export-oriented items. By the mid 1970s Thailand was exporting manufactured goods ranging from cement to watch parts, and including canned fruit, garments, chemical products, transport equipment and television sets. In 1988 manufactured exports accounted for about 65 percent of total export earnings.

International trade is vital to the Thai economy. Thailand's entry into foreign markets in the mid-19th century enabled its economy to expand rapidly. Today, export and import transactions together account for about half of the national income. Although there were annual deficits in the balance of trade, the balance of payments recorded continuous surpluses throughout the 1960s and early 1970s. Sharp increases in oil price since 1970, however, affected the balance of payments back into surplus position.

The public sector supports the growth process by providing developmental facilities through the construction of basic infrastructure and by creating a conducive environment for the private sector to operate effectively.

Despite the steady increase in population, real per capita income have doubled over the past two decades. At current prices, it increased from 4,000 baht per head in 1970 to 26,653 baht per head in 1988. The proportion of the country's population living at the subsistence level has declined from around half in the early 1960s to less than a quarter in recent years.

In short, the performance of the Thai economy over the past two decades has ranked high among developing countries. Some basic economic problems such as income disparity, the need to conserve natural resources, the uncertainty of export markets, and the need for improving administrative efficiency, remain to be solved but judging by past performance as well as from the present economic outlook, it is clear that Thailand has the potential to expand its economy and thereby improve the welfare of its citizens.
The inflation issue has had various degrees of seriousness among different administrations. The problem itself has been caused by differing events ranging from crop failure due to natural disasters, oil price shocks, commodities and goods shortages, purely speculative bubbles, etc.

During the Prem Administration, inflation was a crisis caused by the second oil price shocks in 1980. The inflation rate in 1980 was a record high of 19.7% prompting the administration to tackle the problem by various means including goods and commodity price controls, commercial banks' credit control, and the strict fiscal discipline from the part of the government itself. These measures helped slashing the inflation rate to only 0.9% in 1983 which was the lowest inflation rate in the modern Thai history.

During the Chatichai Administration, the Thai economy underwent a rapid (or even dubbed as a bubble) expansion induced by phenomenal growth of exports and investment. The fast economic expansion pulled up the country's inflation rate to 5.9% in 1986. But when compared with the real GDP growth rate of 10% of the same year, the inflation level was not considered as too threatening. The government also adopted various inflation control measures such as the balance-budget policy, an improvement in the tax collection system, the issuing of State Enterprises' bonds, etc.

During the brief period of the Anand Administration, the government's inflation control measures include: the government's negotiation with producers and distributors, import of goods from foreign countries, the tariff rate reduction for imported pork, etc.

During the Chuan Administration, the Thai economy was slowing down as it was recovering from the political disruption. The government had constantly checked the producer's cost whenever there was a request for a price increase. Moreover, the government also followed a prudent fiscal and financial discipline. Saving mobilization measures were also introduced.

As for the Banharn Government, the inflation level has gradually inched up as a result of the high commodity and agricultural product prices. Moreover, the interest rate differential and foreign capital inflows have contributed to the overall excess liquidity situation. The Bank of Thailand has been trying hard to take a cap over the liquidity situation and the commercial banks' credit extension. Monetary measures including the issuing of the BOT short-term bills were implemented.

For the next 5 years (1996-2000), it is expected that the country's inflation rate would be around 4.5-5.5%. However, internal and external disturbances could come to affect the inflation level.
The prospect of the US. Rate Cut
could affect the Thai Money Market

Thai Farmers Research Center

June 7, 1995.

The recent US. economic indicators showed that the US. economy might be slowing down at a more drastic rate than earlier expected. Among the gloomy signs are: the 1.9 % fall in factory orders, the 6.4% fall in new home sales, the rise in unemployment insurance claims to the level near 400,000, the weakened demand for consumer loans from the FED survey, and the 2.7% GDP growth of the first quarter which was lower than the initial expectation and the previous quarter growth figure. As a result, financial analysts expressed their doubt over the "soft-landing" status of the US. economy. At the moment, financial markets, both in the US. and elsewhere, are eagerly awaiting an indication from the FED in setting up the US. monetary policy for the second half of the year. It is widely expected that the FED may resort to cutting the Fed Fund rate to boost the economy as soon as it becomes conclusive enough that the economy may be heading toward a recessionary path if no change in the monetary policy occurs.

The prospect of the US. rate cut will probably affect the Thai money market and economy in the following manner. First of all, the rate cut is likely to increase or maintain the interest rate spreads between the US. and emerging market countries and thus increase an incentive for foreign investors to move their capital to the emerging financial markets including Thailand. More liquidity as a result of the foreign capital inflows would probably accelerate the decline in the domestic interest rates. Consequently, there should be more demand for loans as well as an expansion in the domestic economy spending. In other words, the Thai economy would probably experience an expansionary cycle in the second half of the year as a result of the ample liquidity situation and declining interest rate trend. Moreover, the relaxed liquidity situation should probably result in an increase in both the index level and the trade volume in the SET.

However, the Bank of Thailand will certainly keep a very close watch at the credit extension of the domestic commercial banks in order to keep the country's inflationary pressure in check. If the foreign capital inflows keep pouring into the Thai economy as a result of a lower interest rate in the US., the central bank is likely to come up with some control measures aiming to absorb the excess liquidity and neutralize the inflationary pressure caused by the economic activity expansion. The success possibility of such measures, however, depends upon various factors including the size of the foreign capital inflows and the willingness of the central bank in letting the Thai financial system moving along the liberalization and globalization process.

Nevertheless, a pivot point is still the stability of the US. dollar. Naturally, a slowdown of the US. economy together with a lower interest rate should result in a weakened greenback against other major currencies, such as Yen and DM. in particular. But as long as the central banks of the industrial countries stand firm and united in supporting the greenback, a speculative attack at a grand scale may probably not take place. Moreover, if the FED could deliver a right signal that it will always be ready to support the economy with substantive and timely measures, and the US. economy will never be allowed to evolve to a recession state, the US. dollar should probably be able to enjoy a stable path. But if the US. dollar goes wrong (may be because the FED could not deliver a right and well-timed policy signal
On January 23, 1996, the cabinet gave an approval to the scheme for the Thai Trust Fund (TTF) as proposed by the SEC. The objective of the Thai Trust Fund is to create a new investment vehicle for foreign investors in the Stock Exchange of Thailand. Since the Thai Trust Fund has the same nationality as the management company, it is expected to be a move that would overcome the existing regulations placed on foreign holdings of Thai companies; particularly, the ones that state that foreigners could not hold more than 49% of Thai companies' total shares and 25% of commercial banks' and finance companies'. In addition, the Thai Trust Fund program is designed to replace the current illegal practice of foreign holding through nominees which relies entirely on the relationship and trust between foreign investors and local investors who act as nominees on behalf of the former party.

The Thai Trust Fund program would be under the management of the Thai Trust Fund Management Company (TMC) which, for neutrality and confidentiality purposes, is to be owned entirely by the Stock Exchange of Thailand. Under the program, Thai listed companies may participate voluntarily by setting aside a certain proportion of their shares for the program which will, eventually, be invested by foreigners. It is determined that a company could not set altogether more than 24% of its total shares for the program, and for a single trust fund, there would be only 5% of a company's total shares as the maximum. As a result, although it is possible that one company's shares could be distributed in more than one trust fund, it is already set that the portfolio of each Thai Trust Fund shall comprise only one company's shares. Furthermore, in the Thai Trust Fund program, foreign investors would be the ones who make all the investment decisions and thus are fully responsible for their investment, as opposed to ordinary mutual funds in which fund managers make the decisions on behalf of their unitholders. In addition, although the buying and selling orders of foreign investors will be placed through securities brokerage companies in a regular manner, the shares will be delivered to the TMC who, in turn, will issue corresponding investment units to the investors.

The transaction process begins when foreign investors place their buying or selling orders of investment units with designated brokerage firms who in turn will transfer the orders to the TMC and the Stock Exchange's main board. For example, when foreign investors want to buy (sell) shares of a Thai company through the Thai Trust Fund program, the investors would express their interest to purchase (sell) investment units of the company's particular trust fund. The TMC will then check the remaining proportion of the company to ascertain whether there will be any room left for investment. If the shares of the company could be bought (sold) in the Stock Exchange's main board, investment units would be issued to (taken from) the investors. Simultaneously, the actual shares of the company will be transferred into (deducted from) the portfolio of the Thai Trust Fund set up for that company's shares.

Moreover, while foreign unitholders of the fund do not have direct voting rights in the company, the TMC will exercise the fund's voting rights only in accordance with guidelines. In fact, it is expected that the TMC will not exercise the fund's voting right with an exception that a listed company is considering delisting of its shares. Moreover, when the fund receives financial benefits, such as dividend and right issue, the TMC will have the duties to pass those financial rights to the unitholders accordingly. In short, the TMC's functions comprise mainly the acceptance of shares into the fund's portfolio and the issuance of the corresponding investment units or divestiture of shares from the portfolio and redemption of the investment units in accordance with orders from foreign investors.
board and the main board as the prices of the Thai Trust Fund's investment units are tied with the prices of corresponding shares in the main board (i.e., the prices of investment units are equal to those of corresponding shares in the main board plus necessary transaction fees); while the program's investment units offer dividend and right-issue benefits similar to the shares in the foreign board. In addition, the eagerness shown toward the program by foreign investors and the TMC's pledge not to exercise voting right would attract more Thai companies to participate in the program, since it means a great opportunity to tap foreign capital without losing much of Thai shareholders' board control.

However, an important key to the success of the program lies with the program's cost effectiveness when compared with the cost of investing through nominees. Since foreign unitholders are not able to exercise their voting right in the Thai Trust Fund; whereas foreign investors may exercise the right indirectly through their nominees, the program's investment units and their corresponding company shares are not exactly identical although their prices are pretty tied up. Therefore, if the transaction fees of the program and the cost of investing through nominees are more or less the same, the program would certainly fail to attract foreign investors who give high value to the voting right, and the hope to replace the current practice of investing through local nominees with the Thai Trust Fund program would not come to fruition.

In conclusion, the Thai Trust Fund program is certainly a stepping stone for the Thai capital market, especially when Thailand has to compete with other countries in becoming a financial and capital-market center of the region. The success of the program, however, would depend on the degrees of participation from local listed companies as well as the cost effectiveness of the program's transaction procedures. In particular, the TMC's pledge not to exercise the voting right is crucial from the Thai companies' point of view. From foreign unitholders' view, transaction fees charged by local trustees, brokerage companies, custodian banks, and the TMC are all important factors determining the program's over all cost effectiveness.
**ECONOMY**

**Full Speed Ahead**

By Gordon Fairclough in Bangkok

Vijit Supinij, the governor of the Bank of Thailand, doesn't get excited easily. Looking back over the first six months of the year, he said the state of the economy was "satisfactory." As Thailand speeds through yet another year of rapid economic growth, he can be excused for some non-chalance. The central bank says gross domestic product is on target to expand 8.6% this year, the same as in 1994.

Economic indicators are strong almost across the board. Exports are climbing, investment is on the rise and international reserves were a record $35 billion at the end of May. Indeed, the biggest problem the economy faces in the short term is that it may be growing too fast.

The economic expansion is being fuelled by strong domestic demand and surging exports. Thailand's boom has put a lot of money in the pockets of consumers, and they are not hesitating to spend it. Sales of cars and trucks, for example, were up nearly 20% in the first half of the year, compared with the same period in 1994.

Sales of Thai-made goods overseas have also been booming. Exports in the first six months of the year totalled 643.8 billion baht ($26 billion), up 23.8% year-on-year. A strengthened world economy and rising world prices for agricultural commodities helped boost export earnings.

Garments remain the country's top export. But more sophisticated manufactured goods such as computers, computer parts and circuit boards are also among the top foreign-exchange earners. Rice, rubber and other agricultural goods remain important, too.

Imports are also on the rise, reaching 810 billion baht in the first half of the year, up 27.1% from the same period in 1994. By the end of the year, the Bank of Thailand estimates the trade deficit will grow to 273 billion baht.

The current-account figures show the gap between domestic savings and the investment needed to sustain the economy's rapid growth. The costs of Thailand's economic expansion have long been more than the country can afford on its own.

These days, investment is booming. Private investment is expected to rise 11% this year, after an 8.2% gain in 1994. This is pushing up Thailand's import bill, since most capital goods, such as the machinery and tools used in factories, are imported. About half of non-oil imports are capital goods. These should eventually help enlarge Thailand's production capacity, raising export earnings and helping the economy shift from labour-intensive manufacturing to higher value-added products.

Once the current investment cycle peaks, investment should begin to slow and the current-account deficit should start to shrink. By 2000, the central bank estimates that it will amount to just 2% of GDP.

Meanwhile, Thailand must rely on money from overseas to close the gap. Usually, there is more than enough. At the end of June, the overall balance of payments was in surplus by 103 billion baht.

After the Mexican peso collapsed in January, however, foreign funds were in short supply. Spooked investors headed for the exit, and Thailand posted a 10-billion-baht balance-of-payments deficit for the first quarter of the year. The episode "stirred up everybody's awareness of our reliance on foreign funds," says Nopamart Manoleehagul, a spokeswoman for the Bank of Thailand.

When the money finally began to come back in April, it was a flood. More than 120 billion baht poured in during May and June, and economists feared it would fuel inflation.

Central bank Governor Vijit wants to break this feast-or-famine cycle by easing the economy's reliance on short-term funds from abroad and boosting already high domestic savings. In July, he moved to clamp down on inflation by raising commercial banks' cash-reserve requirements on short-term deposits by foreigners. This will force banks to lower interest rates for these overseas customers.

Vijit also announced that the Bank of Thailand would issue 10 billion baht in bonds beginning August 2, in an effort to soak up excess money. "The Bank of Thailand is trying to puncture this liquidity bubble before it begins to add to inflationary pressures," says Scott Christensen, an economist with Jardine Fleming Thanakom Securities in Bangkok.

The central bank is also telling commercial banks to rein in their lending. Credit extended by banks in Thailand grew by 29% in the first six months of 1995, compared with the same period the year before. Part of the reason banks have exceeded the central bank's loan-growth target of 24% is that they feel rich, sitting on large amounts of non-resident baht deposits.

Another reason: They can borrow low-cost funds overseas and lend them on to their Thai customers.

The central bank fears this is adding to inflation. The consumer-price index was up about 5% in the first half of 1995, year-on-year. And the central bank doesn't want to see it go any higher.

But inflation may not be as much of a problem as it seems. Indeed, it may be a blessing in disguise. The rise in the consumer-price index has been due largely to higher food prices. This, says Bandit Nijathaworn, deputy director of the Bank of Thailand's economic-research department, has put more money in the pockets of the nation's farmers.

Farmers' incomes have long lagged behind those of their more affluent
his year, up from a 3.6% growth handicapped by the country's inadequate education system. Poor children, as is expected to expand by But efforts to spread the wealth remain locked out of the better-paying jobs in Thailand's expanding manufacturing and service sectors.

Lack of education is not only a problem for the upcountry poor, but for the entire economy. Thailand is facing a severe shortage of skilled workers that is threatening to put the brakes on the country's rapid economic growth. It is also slowing the shift from labour-intensive manufacturing to higher value-added production.

The Chuan administration raised spending on education and, in April, announced plans to boost private investment in schools, universities and worker training by offering tax breaks, low-interest loans and land grants. The government also said it would start a massive student-loan programme, Thailand's first. The Banharn government is likely to pursue the scheme.

Another top priority for the Banharn government is un-tangling Bangkok's snarled traffic. Traffic jams force many Bangkok residents to spend several hours in their cars each day, and is taking a serious toll on the economy. The Thai Farmers Bank Research Centre estimates that Bangkok's sclerotic traffic costs the country 59 billion baht each year in lost productivity, health problems and wasted fuel.

Deputy Prime Minister Thaksin Shinawatra says he will crack the problem by December. That's certainly an ambitious goal.

Banharn says his government will not stray far from the economic policies of his predecessor. But the government has already said it plans to add 10 billion baht to the budget prepared by the outgoing Chuan administration. It also says it plans to cut taxes. The combination could add to the inflationary pressures already building in the economy.
Labor has been an important socio-economic issue as the Thai economy has witnessed changes from an agricultural economy to an industrial economy and later from labor-intensive industries to higher-skilled, higher technology industries. Various government administrations had coped with the emerging labor issues of their time as could be summarized as follows:

During the Prem Administration, the second oil shock caused a deep recession in the Thai economy. Maintaining employment level was thus a priority to the government at that time. The government's measures include: provincial employment promotion projects and overseas employment opportunities for Thai labor. Overseas employment generated as much as 139.27 billion of baht during 1980-1987. Moreover, the government initiated a job placement and labor protection law in 1985.

The Chatichai Administration gave the labor welfare issue a priority. The social insurance act came into existence in this administration. Economic expansion also caused labor shortages in certain types of workforces, especially skilled and highly skilled labors. To mitigate the shortage problem, long-term training and education plans were set up and coordinated. The government also increased the number of the Thai labor offices in foreign countries to oversee the labor issues of the Thai workers abroad. During 1988-1990, overseas Thai workers were able to send back 72.58 billion of baht from their income.

During the Anand Administration, State Enterprise Labor Unions were abolished, and the Labor Relation Act of 1975 was amended by prohibiting a worker to become a member of a private labor union. However, the government sought to increase the labor welfare through a legal system, such as by amending the welfare law, and also promoted overseas employment of Thai workers by sending envoys to Saudi Arabia and Kuwait after the Saudi Arabia government had denied visa for Thai workers.

During the Chuan Administration, a new ministry of Labor and Social Welfare was created from a department in the Interior Ministry in order to oversee the country’s ever growing labor and social welfare issues. New overseas employment opportunities for Thai workers such as in Malaysia, Japan, and Taiwan besides those in the Middle East were promoted. During 1992-1994, the Thai labor were able to send about 92.17 billion of baht back to the country.

As for the Banharn Government, its labor agenda includes: increasing labor skill and quality as the country's wages are becoming less competitive, continuing the policies of the previous administration especially those related with income distribution and provincial employment, allowing and opening up labor unions, etc. Moreover, the government should continue to promote the overseas employment for Thai workers, especially those in construction as there are huge construction projects going on in Asian countries. Compared with the top 10 exports of the country, the labor income from abroad has been considered to be among the top 10 in terms of the amount of income generated for the country. Therefore, promoting the overseas opportunities for Thai workers is still important for the Thai economy.
Inflation:

The Coming Adversity

Thai Farmer Research Center Co. Ltd.

May 25, 1995

In terms of economic growth and price stability, Thailand has been considered to be quite successful. For the past ten years, she has achieved a high average annual growth rate of approximately 10 percent together with a mild inflation rate of around 4.02%. Inflation in Thailand during the said period could be considered as a result of both Demand-pulled and Cost-pushed inflation. From the demand side, inflation can be caused by an increase in economic activities and spending, an increase in the liquidity, and the income tax reduction. From the supply side, higher cost of production in response to a higher wage rate and/or a rise in other input prices (both domestic and imported) could be major factors.

The inflation rate is expected to be higher in the next few months as a result of the anticipated increase in minimum wage rate (cost-pushed) and the increase in money supply caused by political campaign spending during the coming election season (demand-pulled). Thai Farmers Research Center (TFRC) anticipated that at least 17 billion baht will be circulated nationwide for 45 days up to the election date on July 2. This money will be used for political campaign, poaching of ex MPs from other parties to run under their banners so as to win the most number of seats in the upcoming election as well as for vote buying. However, due to the fact that the political parties have a very short period of time to campaign and the price of paper recently rose by more than 30%, the actual election spending could turn out to be higher than the estimated figure.

The impact on inflation in the country was also analyzed, and it was found that with the money-dumping of 17 billion baht (without change in minimum wage rate), inflation will increase from 5.0% to 5.02%. However, if at the same time, the minimum wage rate also rises 5 baht from 135 baht per day to 140 baht per day, the inflation rate will increase from the existing rate of 5% to around 5.2%. The inflation rate will be higher varying to the higher wage rate increase, that is to say, the inflation rate will be 5.3%, 5.5%, 5.6% if the wage rate increases are 10, 15, 20 baht, respectively. The effects of other combinations between the amount of money-dumping and the increase in the wage rate were also analyzed and presented in the chart as follows:
ECONOMIC MONITOR: THAILAND

Hot Or Not

Is it, or isn't it? Economists wonder if the Thai economy is starting to overheat as it continues to grow at more than 8% a year.

Some of the signs are, at first glance, worrying. At the end of 1995's first quarter, the ballooning current-account deficit stood at 57 billion baht ($2.3 billion), up 64% from the same time last year. Inflation is also climbing—the consumer-price index was up 5.4% year-on-year in April.

But things aren't as bad as they seem. Indeed, Bandid Nijathaworn, deputy director of the economic-research department at the Bank of Thailand, the central bank, says the central bank is confident it can hold inflation below 5% for the year. But the bank has been telling commercial banks to rein in their lending.

The deficit in the current account reflects the chronic gap between Thailand's domestic savings and the levels of investment it needs to sustain its high rate of economic expansion.

"Thailand is going through a period of high capital accumulation," says Bandid Nijathaworn, deputy director of the economic-research department at the Bank of Thailand, the central bank. The ratio of investment to GDP has hovered around 40% for the past three years.

The expanding economy's import bill has risen because capital goods such as factory machinery come from abroad. About half of non-oil imports are capital goods, Bandid says. Imports in the first quarter of the year totalled 399 billion baht, a 28.9% increase over last year.

These imports should eventually help enlarge Thailand's production capacity, boosting export earnings and helping the economy negotiate the transition from labour-intensive manufacturing to higher-technology output. Exports are already growing rapidly. In the first quarter, they amounted to 320 billion baht, up 27% from the same period the year before. Likewise, sales of cars and trucks were up 22.2% and motorcycles 23.7%.

In the meantime, Thailand must rely on foreign capital inflows to make up the "difference. After the collapse of the Mexican peso, however, they were in short supply, and Thailand recorded a balance-of-payments deficit of about 10 billion baht for the first three months of the year. In April, foreign funds flowed in, lured by rising interest rates (13.5% in April) and good stockmarket buys, and the balance of payments returned to surplus.

Inflation may also be less of a problem than expected. April's rise in the consumer-price index was largely due to a 7.5% rise in food prices from year-ago levels.

Non-food prices rose just 3.9%.

Thailand has traditionally been a low-inflation economy because it has long been a surplus food producer. And because it's a relatively open market demand that exceeds domestic supply can be satisfied by imports.

Bandid says the central bank is confident it can hold inflation below 5% for the year. But the bank has been telling commercial banks to rein in their lending.

Indeed, Bandid says, the rise in the consumer-price index may actually be a blessing in disguise. "The rise in food prices has helped to make income increases more balanced," he says. Farmers have been earning more as a result of price increases for their produce. And they're spending more, too. In the first quarter, beer consumption was up almost 35% compared to the same period the year before. Likewise, sales of cars and trucks were up 22.2% and motorcycles 23.7%.

"Inflation is not a problem yet. But we have to monitor it closely," says economist Chesada Loha-unchit, managing director of Tara Siam Business Information. Large amounts of cash will be dumped into the economy as candidates hand out money to woo voters before the July 2 general election. And the minimum wage of 135 baht a day is set to increase, though not to more than 180 baht.

Even so, "fundamentally, the Thai economy is stable and sound. It's still growing quite well," Chesada says.
This has been an important year for Thailand and the international trading system. Developments both within and outside of the Thai government's control will have substantial ramifications for the future of the country's international economic relations. Starting the year with the launching of tariff reductions for the Thai-initiated ASEAN Free Trade Area (AFTA), and with the culmination of efforts to form the Single Market in the European Community (EC), the evolving economic environment is creating many challenges for Thailand. With the passing of the North American Free Trade Agreement (NAFTA), the end of the year will also be meaningful to Thailand as this is when the fate of the Uruguay Round of talks between the signatories of the General Agreement on Tariffs and Trade (GATT) will be determined.

The threat of a collapse in the GATT-based trading system, and concerns over the discriminatory nature of the EC Single Market and NAFTA, have forced Thailand to re-examine its competitive position. With exports accounting for over 28 percent of Gross Domestic Product (GDP) in 1991, however, Thailand is not in a position to react to such challenges in a defensive (i.e., protectionist) manner. With the situation as such, Thailand is encouraging its ASEAN neighbors to more earnestly pursue AFTA in the hopes that it will provide the necessary competition to boost the country's (and the region's) competitiveness and standing in the global economy.

Although Thailand's exports grew by 104.3 percent between 1988 and 1992 (see Figure 3), the share of these exports destined for ASEAN (not including Singapore which acts as a center for entrep{t}t trade) remained relatively low at 4.0 percent (see Figure 4). Thus, the benefits for Thailand from AFTA-induced rises in intra-ASEAN trade are not expected to be as great as the dynamic effects. Furthermore, since Thailand has benefited from increasing flows of foreign direct investment—most of the net inflows, which rose by 494.5 percent between 1987 and 1992 (see Figure 5), come from the Asian and Pacific region (see Figure 6)—the government wants to sustain these inflows. AFTA is seen as a means of doing so, especially in light of the growing competition for scarce capital in the post-Cold War era.
ECONOMY

Development Plan:

- The first National Economic and Social Development Plan of the country was initiated in 1961. Up to the present, from 1961-1991, there have been 6 National Economic and Social Development Plans which have been conducted as policy frameworks for the economic and social development of the country.
- In the period of the 7th plan (1992-1996), it is to provide a balance for the development in all sectors. The economic growth will be maintained and stabilized along with a fair income distribution for majority of people. Human resources will be developed increasing an ability to help themselves and the development of quality of life, environment and natural resource preservation.
- In the next 5 years, it is expected that the country will be exposing more internationally, quality of life and income level will be better. Regional and rural development will be expanding along with a preservation in art and culture. It is also expected that private sector will be playing more important role while reduction and adjustment private role of public sector are required which is only to suitably coordinate with private sector in the development process.

Economic Situation: The Thai economy during 1994-1995 will have strong fundamentals, with high growth potential, fiscal surplus and the manageable level of current account deficit.

- Inflation: Inflation rate is about 5 percent in 1994 and forecasted about 4.8 percent in 1995. The higher income in the agricultural sector will initially improve the income distribution. The payroll adjustment of the government and state employees and the increase in minimum wage will uprise prices of goods and services which may worsen the inflationary pressure in 1994-1995.
- Export growth: The increase in export growth is the result of the expanding world trade and the fluctuation of foreign market competitors. The Thai export market is becoming more competitive and there is an urgent need for an improvement of Thai exports specially those of lower growth rates in 1994 such as garments, jewelry and integrated circuits.
- Fiscal Stability: Fiscal stability is still in good condition with the seven successive years of surplus budget. The government revenue in 1994 will have a growth rate of 17 percent. The disbursement, government spending, and cash surplus for this year will result in a good treasury position for seven consecutive years.
- Investment Condition: In 1994, the growth rate of private investment will increase to 10 percent to satisfy higher demand in domestic and foreign market. The government is planning to speed up the investment in infrastructure projects and accelerate the actual investment spending of the multi-year investment budget. The growth rate of public sector investment will increase from 21.7 percent to 22.1 percent in 1995.
- Agricultural Sector: The recent growth of the agricultural sector is due to the liberalization of import market in some countries. The success of the GATT Uruguay Round will intensify the level of domestic and international competition thus the adjustment of production sector in the agricultural sector is needed in order to remain competitive in the future world market.

Infrastructure Facilities:

- Eastern Seaboard Development Project (ESDP): The project is on two major locations: Laem Chabang (Chonburi Province) and Map Ta Phut (Rayong Province). The projects are included:
  - Industrial zone
  - Export processing zone
  - Business and commercial area
  - Water front industrial zone
  - Inland heavy industrial zone
jobs and increase foreign exchange.

Commenced since 1981, the project is situated for Thai heavy industries which are National Petrochemical Corporation and the National Fertilizer Corporation

- Southern Seaboard Development Program (SSDP) The project situated in the southern provinces of the country. The projects are included:
  - Overland route for transhipments
  - Deep seaports and industrial estate complexes
  - Oil refinery and storage
  - A petrochemical complex
  - Export processing zones

The main objectives of the project are for industrial development, trade and transportation facilitation in Southern part of the country.

In general, commercial infrastructures are being developed and implemented such as telecommunication network aided by Thailand's own satellite, the construction of Bangkok's second international airport has started apart from the country's six international airports, an expanding of highway system project and a mass transit railway system.

Production of main sectors:
- Agriculture: In 1993, agriculture production grew by 0.7 percent, a substantial decline from the previous year due to the unfavorable weather conditions and falling prices of most crops in line with the world market which discouraged farmers to expand production. Livestock output slowed down due to the unfavorable prices of broiler chicken while fishery output recovered. Meanwhile, forestry output continued to decline.
- Manufacturing: In 1993, manufacturing production expanded by 11.5 percent. Strong output growth was observed in sectors producing for domestic consumption, particularly import substitution industries on a result of increased demand. It was also the increased production capacity and efficiency and new entries of producers. For food industry, the output is moderated from last year. The strong growth industries were vehicle and transportation equipments, construction materials and beverages. Production of textiles and petroleum products increased at a slower pace.
- Services: In 1993 output of the service sector grew at the rate of 4.7 percent which was consistent with the expansion of the economy, the recovery of tourism and the recovery of other related businesses. The number of overseas tourists in 1993 reached most 5.8 million representing a growth of 12.2 percent from the previous year. Besides, public health care and educational services also expanded due to increased spending by the government.
- Construction: In 1993, construction grew at a rate of 9.2 percent compared with 2.8 percent in the previous year. This is because of a substantial acceleration in private construction activities particularly housing. The construction of office condominiums continued to slow down due to an excess supply and a rapid expansion during the past two years. The progress in construction of large scale concessioned projects remained moderate which some projects such as the Second State Express Way experienced a delay in land submission and contract dispute. Public sector construction decelerated from last year due to the delay in the approval of the 1993 budget.
During the second half of the year, the Thai economy was expanding continuously from 1994. Strong performances in export, investment, and consumption from the private sector have been contributed to the robust economic growth.

**Export** In the first quarter, export grew 28 per cent due to the trade commitment made in the previous year. Even though many feared that the export performance in the second quarter could tumble as a result of the US dollar depreciation, export was able to register a solid 20 per cent growth.

**Investment** During the first five months of the year, there were 527 projects applying for BOI privilege, a 11 per cent drop from the same period of last year, but the amount of investment increased 55 per cent from 193.34 billion baht of last year to 299.91 billion baht. However, the number of operating projects declined substantially from 127 projects in the first five months of 1994 to only 87 projects in the same period of 1995. The drop in the number of operating projects might reflect the foreign investors' concern about the political uncertainty of the country during that time.

**Production** Production has been expanding strongly especially in the industry sector of which the growth rate was 12.5 per cent.

Drinking water, alcoholic and non-alcoholic beverages grew around 10 to 15 per cent. Vehicle industry expanded 22 per cent. Gasoline 10.5 per cent. Electronic goods, computer and parts also registered high growth during the same period. Agriculture production also increased as there was plenty water for crops in the first half of the year. Moreover, the world prices of major crops rose to the benefit of Thai farmers as natural disaster struck many of the country's main competitors. For instance, cassava price increased 16.8 per cent, raw smoked sheet 22.3 per cent, and soy bean 116.1 per cent. Paddy price, however, dropped slightly by 1.8 per cent from a very high level of last year.

**Foreign Trade** The total export during the first five months reached 531.9 billion baht or a 25.6 per cent increase, and the total import was 667.2 billion baht or a 28.6 per cent increase. The trade deficit was 135.3 billion baht. The top-ten export items including clothes, computers and parts, rubber, electric circuit, shoes and parts, rice, frozen prawns, jewelry, canned sea food, and rubber products, all grew at a rate between 15 to 125 per cent.

During the first five months of 1995, the Thai export destinations changed substantially as the ASEAN market with the combined export value of 106.38 billion baht or 20 per cent of the country's export value exceeded that of the US with the value of 96.27 billion baht or 18.1 per cent of the total export. Japan and the EU had the market share of 16.7 and 14.6 per cent of the country's total export respectively.

Tourist industry also expanded satisfactorily during the first half of the year. There were 3.3 million tourists visiting the country generating about 88 billion baht of income for the industry during the first six months. The number of tourists and the amount of spending increased 13 and 16 per cent respectively compared to the figures of last year. For the entire year of 1995, it is expected that there would be as many as 6.8 million tourists visiting Thailand or a 10 per cent increase. The income generated by these foreign tourists is estimated to be 164 billion baht or a 13 per cent increase.

**Stability** During the first half of 1995, the overall stability of the Thai economy turned out to be satisfactory
bank's of Thailand is expected to maintain a tight monetary policy to curb the inflationary pressure in the second half of the year.


It is expected that the economic growth in the second half of the year would be higher than that in the first half. Lower interest rate trend, foreign trade expansion, private and public expenditure expansion, and clearer policy pictures of the new government all contributed to the economic growth. According to the TFRC quarterly forecast, the growth in the third and fourth quarter of 1995 would probably be 8.4 and 8.8 per cent respectively bringing the annual growth rate of 1995 to be 8.6 per cent.

Also, the recent interest rate cut in the US should sustain the soft-landing status of the US economy and benefit Thailand's export to the US. Moreover, the domestic market is expected to be flooded with foreign funds flowing in to seek the benefit from the interest rate differentials. Eased-money situation should then induce more demand for loans from the private sector. However, some banks, especially those who was aggressive in lending during the first half of the year, would probably find it more difficulty in extending the loans during the second half of the year as the central bank has already placed a cap at 24 per cent for the lending growth in 1995.

Inflationary pressure is expected to subside during the second half of the year as commodity prices are expected to drop sometime soon, and the annual inflation rate would probably be around 5.1 per cent. However, the private and public expenditure expansion in the second half of the year together the increase in the minimum wage to 145 baht per day could result in a higher inflation rate of 5.3 per cent.

Moderate economic expansion in western industry countries throughout the second half of 1995 should benefit Thailand's foreign trade and the tourist industry. In addition, the new government has vowed to take the country to a new global business environment. As a result, we expect to see a continuity of strong investment and business activities in the domestic economy during the second half of the year. The future thus looks pretty bright for the rest of 1995.
Foreign private capital inflows have become more and more important in recent years. In the first quarter of 1995, the private capital inflows, excluding commercial banks, commanded about 49.77 and 49.82 per cent of the country's total capital inflows and outflows respectively. Also, there has been a structural change in the components of the private capital flows. Since 1991, capital flows in the form of non-resident baht account have become so important. The non-resident baht account's share in the country's total foreign capital inflows increase rapidly from 15.27 per cent in 1991 to 44.65 per cent at the end of the first quarter of 1995.

Even though the outstanding figure of the non-resident baht account is very small comparing to the commercial bank's total deposit outstanding, only 2.32 per cent of the total deposits, its short-term and volatile nature has made it a focus of the authority's stabilization exercises. However, the quantitative impact of the non-resident baht account on the Thai macroeconomy and finance has not been studied widely enough to allow one to make a concrete analytical assessment on the issue. Therefore, the Thai Farmers Research Center (TFRC) has developed a structural time-series model to estimate and simulate the dynamic impact of the private sector's foreign capital flows, in particular, the non-resident baht account, on various economic variables. Our main findings are summarized as follows:

- The non-resident baht account is found to significantly determine the commercial banks' credit extension. On the other hand, other private foreign capital flows (such as foreign direct investment, loans, and foreign portfolio investment) are found to have a substitution effect on the commercial banks' lending. (i.e., the larger the inflows of other private foreign capital, the smaller the banks' lending, ceteris paribus.)

- The commercial banks' credit extension as well as other private foreign capital flows are found to significantly determine the economy's money supply and inflation rate.

- The commercial bank's lending, other private foreign capital flows, and money supply are found to significantly determine the country's real output or the GDP at constant price (or Real GDP).

- Both the non-resident baht account and other private foreign capital flows depend on the difference between the domestic interbank rate and the LIBOR.

- The non-resident baht account significantly substitutes the need of the domestic banks to borrow from abroad.

More interestingly, a dynamic simulation also revealed that a change in the non-resident baht account would result in larger changes in the country's real output, money supply, inflation, and interest rate than those of other private foreign capital flows. This is the case because the non-resident baht account have a significant impact on the commercial banks' credit extension which will propel further impacts on the money supply, inflation, and the output. On the other hand, even though other private foreign capital flows could generate immediate impacts on the money supply and inflation, its substitution effect on the banks' loans does create offsetting forces and eventually lessens its dynamic impact on the economy.

For example, a 20 billion baht increase in the non-resident baht account in the second quarter of 1995 would
1995, the increase in the net flows of other private foreign capital would turn out to reduce the country's need for bank loans and cut the loans by 0.208 per cent in the same quarter.

In sum, through the credit extension process of the commercial banks, the non-resident baht account could generate larger and more pervasive dynamic multiplier effects on the Thai macroeconomy when compared with the flows of other private foreign capital. As a result, our econometric study seems to provide an empirical support on the central bank's stability measure in keeping an eye on the flows of the non-resident baht account.
Measures to Boost Long-Term Savings

Thai Farmers Research Center
January 22, 1996

Deterioration of domestic saving has recently been a major concern for the Thai economy. Household savings which were used to be 9.78% of GDP in 1992 slid to only 7.86% of GDP in 1995. The country's saving-to-investment ratio has also dropped from 86.5% in 1994 to only 83.2% in 1995. The problem of investment-saving gap has also demonstrated itself in a form of current account deficit which is expected to exceed 7.1% of GDP in 1995.

At present, long-term (1 year and up) deposits at commercial banks have amounted to only about 14.71% of the total deposit outstanding. This suggests that Thai people may have been using bank deposit accounts mainly for liquidity management and roll-over/short-term saving purposes.

**Provident Funds: An Instrument for Long-Term Saving**

Recently, the government has heavily been promoting provident funds as a mean to attract savings with long-term commitment from households. Provident funds were first launched in 1984 with the year-end outstanding of only 0.56 billion baht. However, they have been growing at a phenomenal rate, reaching the level of 50.74 billion baht at the end of October 1995. The number of fund members also grew rapidly, from 28,413 in 1984 to 641,023 at the end of October 1995. At present, there are 17 finance and securities companies managing 812 such funds altogether.

In August, 1995, the Ministry of Finance allowed commercial banks, securities companies, and life-insurance companies to apply for provident-fund licenses. It is estimated that about 16 applications are now under the authority's consideration. In February of 1995, the Ministry of Finance also allowed savings in provident funds to be eligible for income-tax exemption. In September of 1995, a proposal of civil servants' provident funds were approved by the cabinet pending the final legislative approval in the coming Parliament session.

It is expected that not only provident funds would increase long-term savings of the country, but they would also be instrumental in the development of the country's equity and debenture markets. The growing size of funds would broaden the role of institutional investors in, among the others, the stock market, resulting in a greater stability within. In addition, the continuous flows of investment from provident funds would create constant demand for securities and expedite the development of new markets, such as the debenture market.

However, there are some aspects related with provident funds that should be considered by the authority:

- At present, there are a 15% ceiling and a 3% floor set for the income deducted from an employee's income. It is recommended that the ceiling to be abolished since people should be able to decide how much they want to save. While it may be true that doing away with the ceiling might result in the government losing some tax revenues (since savings through provident funds are tax exempted); in an economic sense, however, the increases in private saving may be more desirable, provided that private saving is usually more productive than public saving.

- The minimum required contribution could be raised from the present level of 3% of employees' income to, say, 5%. According to a preliminary calculation, raising the minimum contribution from 3% to 5% might increase the total fund outstanding by as much as 50%. In a country like Singapore where saving was as much as 48% of GDP, the minimum requirement for contribution from an employee is set to be at least 21% (although it can be changed according to the economic condition of the country).
According to the General Agreement on Trade in Services (GATS), the Thai financial system has to be more opened up for foreign financial institutes by the year 1997. In order to gear up the Thai financial system toward a more globalized and liberalized environment, the government's Financial System Development Plan has laid down a liberalization plan including:

- upgrading the current foreign BIBFs to full-branch status,
- granting more BIBF licenses,
- permitting foreign banks to operate more than one branch,
- permitting foreign BIBFs to have provincial branches.

At present, the overall performance of foreign banks is quite satisfactory even though their market shares in deposit and lending are still much smaller than those of Thai banks.

For foreign banks with full-branch status, their deposits increased satisfactorily during the end of 1990 and May 1995 with a growth rate of 79.47 per cent while loans surged 226.21 per cent during the same period. However, their market share was only 6.89 per cent of the total commercial bank lending as of May 1995. During 1991 and 1994, the average growth rate of the foreign banks' profit was as high as 33 per cent. In 1994, the non-interest income of the foreign banks was 25.22 per cent of the banks' total income reflecting the ability to diversify income bases and provide fee-base services, whereas the non-interest income of Thai commercial banks was on average only 10 per cent.

Moreover, foreign BIBFs have even been very successful in providing off-shore lending. Their Out-Out market share was 89.17 per cent while their Out-In share was 36.56 as of May 1995. On the other hand, the Thai BIBFs share was only 8.87 per cent for the Out-Out and 39.95 per cent for the Out-In. Moreover, Japanese investors have recently been switching to Japanese BIBFs for Out-In loans for their capital rather than bringing the funds in directly from Japan. This change in the source of funds for investment will probably affect the record of Foreign Direct Investment (FDI) and BIBF transaction in the country's capital account.

Foreign banks also have a competitive edge over Thai commercial banks when it comes to offering foreign exchange services and investment banking services. This is a result of world-wide networks of foreign banks that provide them with accesses to financial markets, papers and instruments not available in the domestic money market. For example, foreign banks can provide forward contracts longer than 1 year, whereas the Thai banks can offer only short-term ones. However, the Thai banks still hold an advantage of having established branches throughout the country.

In conclusion, the country's Financial System Development Plan will allow foreign banks to compete better with the existing Thai banks, especially in the areas of fee-base services. Fiercer competition from foreign banks and BIBFs is expected to be around within the next few years. Thai banks would need to adjust their business strategies and make use of their already established provincial branch networks. Merger and acquisition between small or medium-sized banks is another likely solution to the advancing threat from foreign competition.
# TDRI Macroeconomic Forecast

**November 30 1995**

[Click here](#) if your browser understand Netscape HTML extensions.

<table>
<thead>
<tr>
<th>Economic Growth (Real GDP %)</th>
<th>1994</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3.2</td>
<td>1.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Industries</td>
<td>10.9</td>
<td>10.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Services</td>
<td>8.1</td>
<td>8.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Total</td>
<td>8.7</td>
<td>8.9</td>
<td>8.6</td>
</tr>
</tbody>
</table>

| Inflation Rate (CPI %)       | 5.1   | 5.5   | 4.8   |

| Total Investment Quantity (% Increase) | 9.9 | 13.8 | 12.1 |

| Merchandise Export Value (Billion Baht) | 1,118.0 | 1,364.8 | 1,615.8 |
| Value (% Increase)                    | 21.3    | 22.1    | 18.4    |

| Merchandise Import Value (Billion Baht) | 1,344.8 | 1,689.2 | 1,984.7 |
| Value (% Increase)                    | 17.6    | 25.6    | 17.5    |

| Trade Balance Value (Billion Baht)    | -226.8  | -324.3  | -368.9  |
| % of GDP                              | -6.3    | -7.9    | -7.9    |

| Income From Tourism Value (Billion Baht) | 145.2 | 170.8 | 190.0 |
| % Increase                             | 6.8   | 17.7  | 11.2  |

| Current Account Balance Value (Billion Baht) | -211.6 | -312.9 | -357.3 |
| % of GDP                                  | -5.9   | -7.7   | -7.6   |

**Note:** Data for 1994 are from NESDB and the Bank of Thailand.
## The Bottom Line

<table>
<thead>
<tr>
<th>Country</th>
<th>GNP/Per Capita</th>
<th>GDP Growth</th>
<th>Pop. Per Tel.</th>
<th>P eo. per Dr.</th>
<th>Pop. Growth</th>
<th>Lit.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$29,500</td>
<td>2.7%</td>
<td>1.5</td>
<td>609</td>
<td>124.9</td>
<td>0.4%</td>
</tr>
<tr>
<td>US</td>
<td>$23,500</td>
<td>0.9%</td>
<td>1.3</td>
<td>404</td>
<td>256.2</td>
<td>0.7%</td>
</tr>
<tr>
<td>Brunei</td>
<td>$17,500</td>
<td>3.0%</td>
<td>3.8</td>
<td>1,323</td>
<td>0.3</td>
<td>2.8%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>$16,382</td>
<td>5.1%</td>
<td>1.6</td>
<td>933</td>
<td>5.9</td>
<td>0.9%</td>
</tr>
<tr>
<td>Singapore</td>
<td>$15,200</td>
<td>7.1%</td>
<td>2.0</td>
<td>711</td>
<td>3.1</td>
<td>2.0%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$2,965</td>
<td>8.1%</td>
<td>8.8</td>
<td>2,656</td>
<td>18.8</td>
<td>2.6%</td>
</tr>
<tr>
<td>Thailand</td>
<td>$1,660</td>
<td>7.4%</td>
<td>28.5</td>
<td>4,361</td>
<td>58.5</td>
<td>1.4%</td>
</tr>
<tr>
<td>China</td>
<td>$360/$1,900</td>
<td>14.1%</td>
<td>76.9</td>
<td>724</td>
<td>1,180.4</td>
<td>1.4%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$220</td>
<td>8.3%</td>
<td>435.0</td>
<td>3,040</td>
<td>71.7</td>
<td>2.2%</td>
</tr>
</tbody>
</table>