

1. Introduction

A socio-economic view on the Thai economy is a broad analyze of several hard and soft factors, e.g. we have to take a look at the GDP growth, import and export development in the upcoming months, government revenue but also the unemployment rate, health indicators, education and other factors.

In this short paper I want to take a brief look on the economy and the demographics of Thailand before I'll analyze possible short- and long-term economic issues which could influence the Thai economy.

2. Economic Outlook for Thailand

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Real GDP growth	4.8	4.8	3.8	4.3
Gross agricultural production growth	3.9	4.0	2.5	2.5
Unemployment rate (av)	1.4	1.4	1.4	1.4
Consumer price inflation (av)	2.2	6.3	4.0	3.2
Short-term interbank rate	7.1	7.2	7.3	7.0
Government balance (% of GDP)	-2.4	-1.6	-2.6	-2.6
Exports of goods fob (US\$ bn)	151.1	176.3	186.9	197.3
Imports of goods fob (US\$ bn)	-125.2	-158.9	-173.0	-189.1
Current-account balance (US\$ bn)	14.9	2.1	-1.4	-5.4
Current-account balance (% of GDP)	6.1	0.8	-0.5	-1.7
External debt (year-end; US\$ bn)	59.5 ^b	65.0	60.6	58.5
Exchange rate Bt:US\$ (av)	34.5	33.4	35.0	35.0
Exchange rate Bt:¥100 (av)	29.3	31.5	33.9	35.6
Exchange rate Bt:€ (year-end)	49.2	49.8	48.4	47.3
Exchange rate Bt:SDR (year-end)	53.8	54.3	54.2	54.2

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

2.1.Growth

Current forecast estimate, that the economy will weaken in 2009 and recover in 2010, practically it means, that the real GDP growth declines from 4.8% in the current year to 3.8% in 2009 until it regains to 4.3% in 2010. The tremendous growth in the first half of 2008 (5.7%) was driven by the exports, which couldn't keep their pace due to the global downturn of the world economy. 2008 could be declared as a weak year especially in terms of growth in private consumption and investment, which will strengthen next year and the government investment projects will also have a positive effect on the economic growth.

The growth of the agricultural sector will continue to be around 2.5%, if there are no unusual and harmful weather conditions. The manufacturing sector couldn't continue his path of the first half in

2008, where it almost had a double digit growth rate, for 2009/10 the average will be around 4.2% and the growth in services will average 4.5% a year in 2009-10.

2.2. Inflation

Table 2.1 Quarterly inflation						
Unit: Per cent	2007	2007		2008		
		Q3	Q4	Q1	Q2	Q3
Percentage change from the previous year (%Δyoy)						
- Headline consumer price index	2.3	1.6	2.9	5.0	7.5	7.3
• Core consumer price index	1.1	0.8	1.1	1.5	2.8	2.9
• Raw food	6.5	7.4	3.2	10.3	15.5	17.5
• Energy	2.4	-1.4	12.7	17.2	23.0	14.9
- Producer price index	3.3	1.5	7.0	10.8	15.7	20.6
Percentage change from the previous quarter (%Δqoq)						
- Headline consumer price index	-	0.1	1.5	1.6	4.2	-0.2
• Core consumer price index	-	0.3	0.5	0.5	1.6	0.4
• Raw food	-	0.0	1.8	4.2	8.0	2.6
• Energy	-	-0.2	5.7	3.8	12.4	-6.8
- Producer price index	-	-1.8	3.9	4.1	8.9	2.4

Source: Trade and Economic Index Bureau, Ministry of Commerce

For the 3rd quarter in 2008 we see an almost non-significant decline in the headline consumer price index. The reasons therefore are manifold, on the one side the average oil prices dropped from 37.85 to 36.19 Baht compared to the previous quarter, but on the other side the prices of agricultural products increased due to unfavorable weather conditions. Another important factor was the increase of raw material prices which led to a tremendous yoy change of the Producer Price Index. Thanks to the government policy and the six measures for six months, the Consumer Price Index kept stable even the path through of the high energy cost continued.

The outlook for the upcoming month tells us, that the inflationary pressure will continue until the end of 2008. For 2009 we could expect an average of 4% which is 2.3 points under the current year estimations. The positive development could be justified by the decrease of global crude oil prices and that prices for non-oil commodities will also ease. Beside that global development the tight BOT policy will have also a positive effect on the inflation. For 2010, we have to assume an ongoing high pressure on oil prices and food, which keep inflation at 3.2%.

2.3. Exchange Rate

During the 3rd quarter 2008 the Baht lost 4.6% against the US-Dollar, the development during the quarter was divided in the depreciation which takes place since the end of the 1st quarter 2008 and a short period of appreciation in September 2008 due to the US financial crises and the bankruptcy of Lehmann Brothers. Finally the Baht averaged at 34.29 US-Dollar at the end of September 2008. The

current situation for the Baht could be best described to be set under pressure by the regain of the US-Dollar, the high inflation and a downturn in investor sentiment due to the political instability.

For 2009 the annual average will drop about 2 Units from Bt33.4:US\$1 in 2008 to estimated Bt35:US\$1. This development reflects the forecasted deterioration in the current-account position, a drop in inward portfolio investment, a weakening economy and a general lack of confidence. But it's almost for sure that the BOT will support the Baht, has it has done in the past month already, nevertheless the foreign reserves remain strong at app. US\$100bn.

2.4.External Sector

The September 2008 trade balance had a record surplus of 143 million US-Dollars, the total export value was 15,665 million US-Dollars, which was an increase of 19.5% (yoy). Overall we could assume that the increase was affected by higher export volume and not and price increase. The value of the imports in September 2008, have been 15,525 million US dollars, which is a 38.6% increase (yoy). On the counter side the services, income and transfers account registers a deficit of 845 million US-Dollars. But due to the withdrawal of foreign assets the balance of payments was in a surplus of 2,033 million US-Dollars.

The picture for the 3rd quarter was slightly different, the trade balance had a deficit of 1,296 million US-Dollars, the services, transfers and income account deficit was 1,166 million US-Dollars, the current account had a deficit of 2,461 million US-Dollars and the balance of payments registered a surplus of 503 million US-Dollars.

The forecast tells us, that the global economic situation will have also an effect on the exports of the Thai economy. Another important factor is the high quantity of imported crude oil which will have a big effect on the external account, even if the oil prices decrease currently. This and the already existing deficit on the service and income accounts, tell us that the current account will move into deficit in 2009/10.

3. Soft factors

3.1.Population

Population

(m unless otherwise indicated)

	2003	2004	2005	2006	2007
Total	64.01	65.08	65.09	65.28	65.74
Population growth rate (% change)	0.9	1.7	0.0	0.3	0.7
Population by age:					
Under 15 years	15.69	15.75	15.29	14.81	14.7
% of total population	24.5	24.2	23.5	22.7	22.4
Over 15 years	48.32	49.33	49.80	50.47	51.04

Source: Bank of Thailand, *Economic and Financial Statistics*.

The growth of the Thai population decreased continuously from the 1960s until today. The average in our days is around 0.7% (2003-07), in the early 1980s it was around 1.8% and in the 1960s 3% p.a. In 2007 the Thai population was around 65.7 million people and 22.4% of them were under 15 years

old. The labor force grew on a very fast pace in the years 2003-07 at about 1.5% p.a. and as well as the urbanization does. From 1975 to 2005 the urban population has increased from 24% to 32%, and a further urbanization is expected. The biggest part of the Thai population, officially 10 million people, is concentrated in Bangkok and its suburbs.

3.2.Education

Thailand has one of the highest adult literacy rates in the region (92.6% in 2005) and 80% of the current labor force has received only primary education. The problem for Thailand is lack of quality of the secondary and higher education and the needs of an expanding economy. The net primary enrolment rate was in 1996 at 88%, for secondary education at 64%, but only 22% of the college-age population is enrolled in a tertiary education institution. As of 31st May 2003 over 2,477 Thai students studying abroad and 1,283 of them are in the USA. The National Educational Act (1999), an educational reform program, gives every Thai citizen the right to receive twelve years of free basic public education.

3.3.Health

Regarding the WHO, the health system is ranked at no. 47 out of 191. According to the UN statistic, the life expectancy estimated in 2000-2005 was 67.9 years for men and 73.8 years for women. The doctor-patient ratio is classified as poor by the Political Risk Service and the infant mortality is 21 deaths per 1,000 live births in 2005. The fight against HIV/AIDS during the last years, has been very successful by the government, as of 2001, about 1.8% of the adult population was afflicted with HIV/AIDS.

3.4.Summary 'Soft factors'

To put the soft indicators in a nut shell we can take a look at the human development index, Thailand is ranked at no. 78 out of 177 and has an index of 0.781. Beside this is to mention that Thailand is the highest ranked country in the region which belongs to the 'Medium Human Development' group, before China, Philippines, Sri Lanka, Viet Nam and others.

4. Short-run issues

Currently we can sum up that the Thai economy is influenced by two factors. First of all, the current political situation, this has a big impact on the foreign investors. Interesting are the different perspectives Thailand and the rest of the world have: First of all the Thai people and businesses are not influenced by the political crisis, life continuous without any change, we could assume it as 'business as usual'. The only direct effect could be seen when we take a look on the government spending, infrastructure projects and other big issues are delayed to due political uncertainty. This will have a lasting effect for Thailand and its future development, but doesn't influence the daily life right now. From an international point of view many investors and people are concerned. The best example is the tourism, which was effected immediately during the period of extreme protests. Travelling in Thailand was only affected during the strikes and you shouldn't promenade in the government district, but beside these constraints you couldn't find anything else which chances the situation for tourists. The international view on the political crisis is quiet different and international media focuses on the spectacles, which for sure are part of the crisis, but doesn't present the current situation in Thailand. Beside the personal judgment of people worldwide, the crisis has a real impact for Thailand's international business relations: Investors don't know which government they will face in a few months, with which officials they have to deal if the situation gets worse and how the law

will look like. Investors need security, only a secure business environment is an incentive to invest. Secondly Thailand faces the challenges of the global downturn as every other economy in the world in our days. The global demand for goods decreases tremendously, the exports will decline during the next months and we'll see an effect on the development of the GDP for the current and next year. But even that situation is an opportunity for Thailand, first of all the Policy Interest Rate is at 3.75% which is above the Federal Funds Rate, which is currently at 1% and equal to ECB main refinancing rate. With an interest rate above several major countries could attract foreign capital and increases the liquidity for the Thai economy. Furthermore a global downturn could strengthen the ties within Asia and lead to a positive effect for the long run and open new markets for Thailand. Finally it's true that in the short run Thailand faces many challenges, but with a right policy management they could turn out into a positive effect.

5. Long-run issues

For the long run we could say that Thailand is in a healthy situation, the 1997 crisis is worked out and the economy has recovered. The fundamentals are positive for Thailand, but nevertheless it is important to fight against the current issues in the short run. When the political situation has stabilized and the world economy is back on the road, Thailand will face more the soft factors. The lack in infrastructure investment must be fixed and the described challenges in the society must be fought, if Thailand wants to stay competitive against its neighbors it must work on its education and health system.

6. Summary

Thailand has great opportunities for the future; the fundamentals give us a good outlook, over all the question is how the politics in Thailand will developed and how much the global economy is hit by the financial crisis and its impact. But we shouldn't forget that there are also several other fields the Thai government have to work on to keep the pace with it competing neighbors.

7. Sources

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