2 Recent Economic Developments in Thailand

The agriculture sector remains a key component of the Thai economy, but high industrial growth, the gradual development of a modern infrastructure and increasing trade and investment have substantially transformed the country's economic and social structure over the past two decades.

Thailand's economy has been one of the more successful and resilient in Asia during this period, achieving annual GDP growth of over 7 per cent in the 1960s and 1970s and per capita income growth of 5 per cent. Economic growth slowed significantly during the first half of the 1980s as a result of the economic recession but regained momentum in 1986 with the fall in world oil prices, the implementation of fiscal restraint measures, the promotion of a competitive exchange rate policy and the large influx of foreign investment, particularly in export industries. GDP growth reached 8 per cent between 1986 and 1988, reaching a high of 11 per cent in 1988. The economy continued to expand rapidly in 1989 with GDP increasing to 13.2 per cent, chiefly as a result of strong domestic and export demand as well as increased public and private investments.

Lower oil prices contributed to a reduction of the overall trade deficit in 1986 to close to $700 million, one quarter of its 1985 level, and to a surplus in the current account for the first time in two decades. The trade deficit has since gradually increased, reaching approximately $6 billion in 1989, despite the rapid growth of merchandise exports which more than doubled between 1986 and 1989. Growth of the tourism sector has increased the surplus on the services account but the large trade gap has caused the current account balance to register a deficit in the order of $2.3 billion in 1989, a 25 per cent increase in absolute terms over the previous year. With net capital inflows, the balance of payments is expected to be approximately $4.3 billion, representing more than double the 1988 level.

Through economic diversification and industrialization, Thailand is emulating the successful policies of the Newly Industrialized Economies (NIEs). However, the Thai economy remains dependent on agriculture and is relatively vulnerable to external shocks, given the importance of its exports. While the agriculture sector accounts for approximately 16 per cent of GDP (compared to 25 per cent a decade earlier), it contributes one half of total merchandise exports and ranks first in terms of employment with 60 per cent of the country's labour force. The manufacturing and construction sectors, which are presently growing at a rate of 15 per cent and 20 per cent respectively on an annual basis, represent approximately 28.5 per cent of GDP. Most of this industrial growth is concentrated in Bangkok and the adjoining central region which account for 90 per cent of value-added manufacturing. The prosperity of this region contrasts starkly with the decline of the agricultural sector which dominates the other regions and exacerbates the problem of regional income disparity. Policies to promote industrial development outside Bangkok and incentives to encourage a better regional distribution of investment are being implemented to address this problem.

Thailand offers attractive investment opportunities because of its diversified resource base, its relatively well developed (though increasingly strained) infrastructure, an inexpensive labour force and a favourable policy environment. Investment increased by approximately 40 per cent in 1989 compared to 1988, reaching in excess of $13.5 billion. Japan accounts for approximately half of all foreign investment in Thailand, marking a shift from the situation in 1985 when U.S. investment was 54 per cent compared to 14 per cent today.

In general, the Thai economy is likely to remain strong in 1990 but GDP growth is expected to slow down to approximately 9 per cent due to less demand for Thai exports, a fall in major agricultural prices, and the impact of government anti-inflationary measures on domestic demand. The increased demand for imports (up by 25 per cent in 1989) has continued to press inflation upward to 5.5 per cent in 1989, up from 3.9 per cent in 1988 and 2.5 per cent the previous year. Inflation, income distribution, infrastructure development through public and private sector investment, and human resources development (given the shortage of skilled workers and engineers) will be key issues for Thailand in this period of continued high economic growth.