I. ECONOMIC ENVIRONMENT

(1) INTRODUCTION

1. For over three decades, Thailand has pursued an export-led development strategy, which proved successful in transforming the Thai economy into an important exporter of industrial products and brought about rapid economic expansion, especially during the early 1990s. However, the pace of growth slowed down in the 2000s, constrained, *inter alia*, by the deceleration of investment and infrastructure bottlenecks. Although Thailand undertook considerable trade and investment liberalization after the 1997 Asian financial crisis, significant market access restrictions remain in some services subsectors, which may in part be responsible for the modest growth of private investment. The authorities are currently implementing measures to revitalize the economy's dynamism, including by strengthening infrastructure and developing the financial sector.

2. The Thai economy expanded at an annual average of 3.2% in real terms during the period under review (2007-10), a slower pace than the 5.7% average growth registered between 2003 and 2006, partly reflecting the effects of the global economic crisis (2008-09). Throughout most of the review period, growth was driven primarily by exports and to a lesser extent by domestic demand, mainly government consumption, while gross investment lagged behind significantly (Table I.1). GDP per capita rose from US$3,740 to US$4,737 between 2007 and 2010, and Thailand was able to reduce poverty levels and meet its Millennium Development Goals in advance, but significant income and regional disparities remain.

3. Thailand's economy has recorded a persistent imbalance between savings and investment, which is the result of a substantial drop in investment following the 1997 Asian financial crisis, and is reflected in current account surpluses. The sharp deceleration in investment, which has remained below 25% of GDP for most of the period since then, has been identified as a major factor explaining the economy's loss of dynamism during the 2000s.[1] The decline in the importance of investment may be a point of concern in an economy that is in the process of consolidating development, and could worsen production capacity and infrastructure bottlenecks if not addressed. Recognizing the urgent need to increase private and public investment so as to fully realize Thailand's growth potential, the authorities have implemented significant investment projects in infrastructure over the past three years, under the "Strong Thailand" programme (see below), and encouraged private-sector participation in infrastructure development through public-private partnerships. Moreover, the authorities indicated that private investment has started to rebound since 2010, and they expect the saving-investment gap to narrow gradually in the coming years.

4. The Thai economy is characterized by its heavy reliance on exports, whose share in nominal GDP was 71% in 2010. Therefore, the 2008-09 global economic slowdown and the decline in external demand had an adverse impact on the Thai economy, to which the authorities responded swiftly with fiscal stimulus packages and monetary easing, while refraining from adopting trade protectionist measures. Thanks to the stimulus package and strong macroeconomic fundamentals, and supported by a rebound in export demand, the economy was able to weather the global economic crisis and experienced a rapid recovery from the latter part of 2009. GDP grew by 7.8% in 2010, and is expected to increase by 4% to 5% in 2011.

5. In the medium- and long-term, Thailand's economic growth faces several challenges. On the external front, these challenges include the slow economic recovery in its industrialized trading partners, which suggests that strengthening intra-regional trade would help spread risk and diversify the economy; rising oil and other commodity prices, which threaten to increase inflationary

[1] IMF (2010).

pressures; and volatile capital inflows, which exert upward pressures on the Thai currency. Domestic challenges include the need to pursue structural reform (e.g. extending the financial market and completing fiscal reform); improving the country's infrastructure so as to enhance international competitiveness; and substantially increasing investment as a way to rebalance growth, by focusing more on domestic demand, while preserving fiscal stability.[2] The prospects of sustained economic growth would also be enhanced by deepening trade and investment liberalization, especially in the services sector, and improving the overall investment climate so as to boost the domestic and foreign direct investment needed to support the current pace of growth.

(2) RECENT ECONOMIC DEVELOPMENTS

6. Thailand remains a predominately outward-oriented economy, with trade in goods and services representing some 135% of GDP in 2010. As such, it was adversely affected by the recent global economic crisis (2008-09), which caused a sharp contraction in Thai exports of goods and services (-12.5%), manufacturing output (-5.1%) and investment (-9.2%) in 2009. Overall, the economy contracted by 2.3% in 2009. Domestic political tensions also contributed to slowing economic growth during the period under review by reducing consumer confidence and inbound tourism. Since 2010, however, the tourism industry has started to recover, partly due to the implementation of government support measures.

7. On the positive side, the Thai economy has demonstrated remarkable resilience, staging a strong recovery as of the second half of 2009, especially in the first quarter of 2010, with GDP growth of 7.8% in 2010 as a whole. As global demand started to pick up, Thailand's economic recovery was driven by a rebound in exports (mainly manufactured products), which in turn boosted industrial production and investment. Domestic demand also contributed significantly to growth, with government consumption increasing by 6% in 2010, owing to disbursements of fiscal stimulus programmes and other compensation payments, while private consumption rose by 4.8%, supported by higher farm incomes (due to rising crop prices) and better economic and labour-market conditions. Gross fixed capital formation increased substantially (9.4%) in 2010, mainly led by a rebound in private investment (Table I.1).[3]

8. The Thai Government responded swiftly to the global economic crisis with accommodative fiscal and monetary policies aimed at boosting the economy and shoring up producer and consumer confidence. The first stimulus package was geared to supporting the poor through a combination of cash transfers, low-interest loans to farmers, allowances for old people, lower water and electricity prices, free public bus and train services, and other measures to improve income and reduce the cost of living. A second package, the Thai Khem Kaeng (Strong Thailand or TKK) includes investment in physical and infrastructure projects.[4] The TKK was launched in October 2009 and is set to run through 2012, with an estimated total cost of B 1.43 trillion (about US$47 billion) to be financed mostly off-budget.[5] Property tax deductions, exemptions from income taxes for small and medium-sized enterprises, and tax exemptions on income from asset transfers and other debt restructuring transactions have also been implemented to boost the economy. It is estimated that the two packages provided a stimulus of some 3% of GDP in the two fiscal years since FY 2007/08.[6] On the monetary

[2] On the issue of rebalancing growth see Sussangkarn and Nikomborirak (2011).

[3] See also ADB (2010a).

[4] The second stimulus package covers several projects, including transport, water management, and energy and alternative energy, among others. The transport project is the largest, accounting for 28.6% of total investment projects.

[5] As of 3 June 2011, around 80% of the TKK's budget framework had been disbursed (information sourced from the Comptroller General's Department).

[6] Thailand's fiscal year runs from 1 October to 30 September (IMF, 2010).

policy front, in early 2009 the Bank of Thailand (BOT) pursued an accommodative policy, making consecutive cuts to its policy interest rate to a record low of 1.25% per year, with the aim of helping reduce funding costs for borrowers and boosting private investment and consumption.

Table I.1
Selected macroeconomic indicators, 2007-10

	2007	2008	2009	2010[a]
Real GDP (Baht billion, 1988 prices)	4,259.0	4,364.8	4,263.1	4,596.1
Real GDP (US$ billion, 1988 prices)	123.4	131.0	124.3	145.1
Current GDP (Baht billion)	8,525.2	9,080.5	9,041.6	10,103.0
Current GDP (US$ billion)	247.0	272.6	263.7	318.8
GDP per capita at current market price (US$)	3,739.8	4,100.1	3,941.7	4,736.8
National accounts	***%age change based on constant figures***			
Real GDP (2000 prices)	5.0	2.5	-2.3	7.8
Consumption	2.9	2.9	0.1	5.1
Private consumption expenditure	1.8	2.9	-1.1	4.8
Government consumption expenditure	9.8	3.2	7.5	6.4
Gross fixed capital formation	1.5	1.2	9.2	9.4
Exports of goods and services	7.8	5.1	12.5	14.7
Imports of goods and services	4.4	8.9	21.5	21.5
XGS/GDP (at current market price)	73.4	76.4	68.4	71.3
MGS/GDP (at current market price)	65.0	73.9	57.8	63.9
Net exports of goods and services/GDP	8.4	2.6	10.5	7.4
Unemployment rate (%)	1.4	1.4	1.5	1.0
Prices and interest rates	***%, unless otherwise indicated***			
Inflation (CPI, %age change)	2.3	5.5	-0.9	3.3
Core inflation[b] (CPI, %age change)	1.1	2.4	0.3	1.0
Interbank lending rate (overnight average, end-period)	3.8	3.4	1.3	1.4
Commercial bank minimum lending rate (end-period)	6.85-7.13	6.75-7.00	5.85-6.25	6.12-6.50
Exchange rate				
Baht/US$ (annual average)	34.52	33.31	34.29	31.69
Real effective exchange rate (%age change)	5.4	0.0	-2.5	5.5
Nominal effective exchange rate (%age change)	5.9	-0.6	-0.9	4.5
	% of current GDP, unless otherwise indicated			
Central government balance				
Fiscal balance (including net acquisition of non-financial assets)	-1.3	-0.6	-4.2	-2.5
Net operating balance[c]	0.4	0.8	-2.2	-0.2
Revenue	17.5	18.2	16.6	17.9
Tax revenue	15.5	16.1	14.6	15.5
Expenditure	17.1	17.4	18.8	18.1
Net acquisition of non-financial assets	1.7	1.4	2.0	2.3
Public debt	37.1	37.4	44.3	41.9
Saving and investment				
Gross saving	32.8	29.9	29.6	..
Gross investment	26.4	29.1	21.2	..
Savings-investment gap	6.3	0.7	8.4	..
External sector				
Current account balance	6.3	0.8	8.3	4.7
Net merchandise trade	5.2	-0.1	7.4	4.4
Merchandise exports	61.2	64.3	57.2	60.7
Merchandise imports	56.1	64.4	49.8	56.3
Services balance	2.4	1.8	2.1	2.1
Financial account	-0.7	4.5	-1.1	5.4
Direct investment	3.4	1.6	0.3	0.3
Balance of payments	6.9	9.1	9.1	9.8
Terms of trade (2005 = 100)	99.2	97.2	100.3	101.1

Table I.1 (cont'd)

	2007	2008	2009	2010[a]
Merchandise exports (%age change)	18.2	15.9	-14.0	28.5
Merchandise imports (%age change)	9.1	26.8	-25.2	36.7
Service exports (%age change)	22.3	10.0	-10.4	14.3
Service imports (%age change)	21.2	16.9	-14.5	12.6
International reserves (US$ billion)	87.4	111.0	138.4	172.1
in months of imports of goods and services	6.4	6.5	10.7	10.0
Gross external debt (US$ billion; end-period)	74.4	76.1	75.3	96.9
% of current GDP	30.1	27.9	28.6	30.4
Debt service ratio[d]	12.0	8.2	7.5	4.6

.. Not available.
a Estimates.
b Core consumer price index excludes fresh food and energy prices.
c Including central and local government but excluding non-financial public enterprises.
d Debt service payments as % of exports of goods and services.

Source: Office of the National Economics and Social Development Board online information. Viewed at: http://www.nesdb.go.th/; Bank of Thailand online information. Viewed at: http://www.bot.or.th/english/pages/botdefault.aspx; the Fiscal Policy Office, Thailand Public Finance Data online information. Viewed at: http://dw.mof.go.th/foc/gfs/c.asp; and International Monetary Fund, *IMF Country Report No. 10/344;* and data provided by the authorities.

9. The rapid recovery of the Thai economy was underpinned by a stable macroeconomic framework, built through the implementation of sound fiscal and monetary policies since the 1997 Asian financial crisis. These policies resulted in continued current account surpluses, high levels of international reserves, and the consolidation of public finances, while at the same time keeping inflation subdued. In addition, structural reform in the financial sector helped make the banking sector more resilient to the international financial turmoil. All these factors contributed to Thailand's remarkable recovery from the global economic crisis and facilitated the authorities' policy response to it. The Thai economy is expected to continue to grow in the coming years, albeit at a slower pace. According to the Bureau of Macroeconomic Policy of the Ministry of Finance, economic growth will be in the range of 4.0% to 5.0% in 2011, driven by both external and domestic demand (in particular, private consumption and investment).[7]

10. The sectoral composition of the Thai economy has not changed significantly since its last Review. Services continue to be the largest contributor to economic growth, accounting for 42.9% of GDP in 2010 (at current prices), but their share has dropped slightly (Table I.2). In terms of their contribution to GDP, the leading services subsectors are wholesale and retail trade, repair of vehicles, and household goods (13.1%), transport, storage and communications (6.8%), and hotels and restaurants (4.7%), although other subsectors such as financial intermediation and education have expanded rapidly in recent years. Manufacturing remains the second largest contributor to GDP, accounting for 35.6% in 2010, with the vehicle manufacturing and electronics industries showing particular dynamism. The share of agriculture, forestry and fisheries in GDP rose from 10.7% in 2007 to 12.4% in 2010, due mostly to higher commodity prices.

11. The rate of unemployment in Thailand is low by international standards.[8] It declined from 1.4% in 2007 to 1.0% in 2010, after having increased slightly in 2009 (1.5%) under the impact of the economic slowdown (Table I.1). In 2010, services accounted for 41% of total employment, while

[7] Bureau of Macroeconomic Policy (2011).

[8] Reportedly, there seems to be rather a shortage of industrial labour. The Labour Ministry forecasts shortfalls of 400,000 industrial workers in 2011, 700,000 in 2012, and 1.1 million in 2013 (*The Nation*, "Japanese firms wary of Thai labour shortage", 24 April 2011. Viewed at: http://www.asianewsnet.net/home/news.php?id=18663&sec=2 [24 April 2011]).

agriculture, forestry and fisheries employed 38.2% of the total labour force, and manufacturing another 14.1% (Table I.2). According to the labour productivity index, overall productivity per worker grew by 1.4% between 2007 and 2010. However, there are significant differences among sectors, for example, labour productivity in agriculture showed a decrease of 1.0%, while manufacturing alone posted a 4.6% increase. Within the services sector, labour productivity rose by 4.6% in financial intermediation, but decreased in practically all other subsectors, including in some important tourism-related activities, such as hotels and restaurants (-1.7%), as well as in transport, storage and communications (-0.4%).[9]

Table I.2
Basic economic indicators, 2007-10

	2007	2008	2009	2010[a]
Real GDP (Baht billion, 1988 prices)	4,259.0	4,364.8	4,263.1	4,596.1
Real GDP (US$ billion, 1988 prices)	123.4	131.0	124.3	145.1
Current GDP (Baht billion)	8,525.2	9,080.5	9,041.6	10,103.0
Current GDP (US$ billion)	247.0	272.6	263.7	318.9
GDP per capita at current market price (US$)	3,739.8	4,100.1	3,941.7	4,736.9
		Annual %age change		
GDP by economic activity at constant 1988 prices				
Agriculture, forestry and fisheries	1.2	4.2	1.3	-2.3
Mining and quarrying	3.8	0.2	0.9	5.2
Manufacturing	6.2	3.9	-6.1	13.9
Electricity, gas and water	5.1	4.0	0.9	10.1
Construction	2.5	-5.3	0.4	6.8
Services	5.0	1.3	-0.2	4.6
Wholesale and retail trade, repair of vehicles and household goods	5.5	1.0	-0.3	2.7
Hotels and restaurants	4.4	1.6	-0.3	8.5
Transport, storage and communication	6.0	-0.5	-3.8	4.0
Financial intermediation	5.6	8.3	4.0	7.8
Real estate, renting and business activities	3.2	2.5	1.1	3.8
Public administration and defence, compulsory social security	4.6	1.3	0.1	4.0
Education	9.8	0.3	5.3	2.4
Health and social work	7.3	-0.8	2.0	2.8
Social and personal service activity	-5.1	0.7	0.5	14.8
Other services	2.6	1.8	1.9	-1.2
			%	
Share of main sectors in current GDP				
Agriculture, forestry and fisheries	10.7	11.6	11.5	12.4
Mining and quarrying	3.3	3.5	3.4	3.4
Manufacturing	35.6	34.8	34.2	35.6
Electricity, gas and water	2.9	2.9	3.1	2.9
Construction	2.9	2.9	2.7	2.7
Services	44.6	44.4	45.2	42.9
Wholesale and retail trade, repair of vehicles and household goods	14.2	14.2	14.1	13.1
Hotels and restaurants	4.9	4.8	4.9	4.7
Transport, storage, and communication	7.3	7.1	7.2	6.8
Financial intermediation	3.6	3.9	4.1	4.1
Real estate, renting, and business activities	2.5	2.4	2.4	2.3
Public administration and defence, compulsory social security	4.4	4.4	4.6	4.4
Education	4.2	4.2	4.6	4.3
Health and social work	1.9	1.9	2.0	1.8
Social and personal service activity	1.4	1.4	1.4	1.4
Other services	0.1	0.1	0.1	0.1
Share of sector in total employment				
Agriculture, forestry and fisheries	39.5	39.7	39.0	38.2
Mining and quarrying	0.2	0.2	0.1	0.1
Manufacturing	15.5	14.7	14.3	14.1
Electricity, gas and water	0.3	0.3	0.3	0.3
Construction	5.9	6.0	6.1	6.2
Service	38.5	39.0	40.2	41.0
Wholesale and retail trade, repair of vehicles and household goods	15.4	15.5	16.0	16.4

Table I.2 (cont'd)

[9] Data for 2010 cover up to September only (Bank of Thailand, Labour Productivity Index. Viewed at: http://www.bot.or.th/English/Statistics/Graph/pages/LabourProductivityIndex.aspx. [14 April 2011]).

	2007	2008	2009	2010[a]
Hotels and restaurants	6.5	6.4	6.9	7.0
Transport, storage and communication	2.9	3.0	3.0	2.9
Financial intermediation	0.9	1.0	1.0	1.0
Real estate, renting and business activities	2.0	2.0	2.0	2.0
Public administration and defence, compulsory social security	3.5	3.5	3.6	3.9
Education	2.9	2.9	3.0	3.3
Health and social work	1.7	1.8	1.9	1.8
Other community, social and personal service activity	2.1	2.2	2.2	2.1
Other services	0.6	0.6	0.6	0.6
Other	0.2	0.1	0.1	0.1

.. Not available.

a Estimates.

Source: Office of the National Economic and Social Development Board online information. Viewed at: http://www.nesdb.go.th/Default.aspx?tabid=95 [11 July 2011]; and National Statistics Office online information. Viewed at: http://web.nso.go.th/en/survey/lfs/lfs2010_tab.htm [11 July 2011].

12. Between 2007 and 2010, Thailand's GDP per capita rose from US$3,740 to US$4,737. Over three decades of rapid economic growth (albeit with some setbacks, such as the 1997 Asian financial crisis and the global financial crisis in 2008-09) allowed Thailand to significantly reduce poverty levels and to meet its Millennium Development Goal (MDG) of halving poverty between 1990 and 2015, well in advance of the target date. In 2009, the official national poverty headcount ratio was 8.12% or 5.2 million people.[10] However, Thailand has not yet met its MDG *plus* goal of reducing the poverty ratio to 4% in 2009, and income and regional disparities remain.

13. Despite progress in poverty reduction, income inequality, as measured by the Gini coefficient[11], remained practically unchanged during the review period, at 0.43 in 2010.[12] Moreover, the incidence of poverty is still high in the Northeast, the North and the South of the country, as well as among the elderly, children, and farm workers. Alleviating poverty in these regions and among these population groups is one of the Government's top priorities. The fight against poverty also includes mitigating the adverse effects of the recent global economic crisis on the poor, through measures like occupational and retraining programmes for laid-off workers, cash hand-outs to low-income households, free transport services, reduced utility bills, and education subsidies, among others.[13] In February 2011, the Government launched a new support programme, *Pracha Wiwat* (People's Agenda), providing informal workers (taxi drivers and street vendors) greater access to state-owned financial institutions through a special lending scheme.

(3) MAIN MACROECONOMIC POLICY DEVELOPMENTS

(i) Inflation and exchange rates

14. Monetary and exchange policies are the responsibility of the Bank of Thailand (BOT). The BOT's main objective is to ensure price stability as well as the stability of the financial system. Since May 2000, the central bank has conducted monetary policy under a flexible inflation targeting framework. In 2009, the core inflation target range was set at 0.5-3.0% per annum, and was

[10] Information from the National Economic and Social Development Board.

[11] The Gini coefficient measures the inequality of income distribution within a country. It ranges from zero, which indicates perfect equality, with every household earning exactly the same, to 1, which implies absolute inequality, with a single household earning a country's entire income.

[12] CIA World Factbook. Viewed at: http://www.indexmundi.com/thailand/distribution_of_familiy_income_gini_index.html [4 April 2011].

[13] National Economic and Social Development Board (2010).

maintained unchanged in 2010 and 2011. The BOT considers this target range appropriate to keep Thailand's inflation comparable to that of its trading partners, thus helping maintain export competitiveness, as well as building consumer and business confidence and enabling sustainable economic growth.[14] The main policy instrument to achieve the inflation target is the BOT's one-day repurchase (repo) rate.[15]

15. Hikes in the prices of prepared foods and high oil and commodity prices amid robust domestic demand have led to increased production costs and inflationary pressures.[16] Therefore, the focus of monetary policy is now on keeping inflation under control without deterring continued growth momentum. However, the authorities are cautious about the pace of normalization, and the real interest rate remains negative. According to the authorities "…gradual normalization of the policy rate remains appropriate for anchoring inflationary expectations and reducing the risk of financial imbalances in the economy".[17]

16. During the period under review, Thailand managed to keep inflation under control (Table I.1), with core inflation staying within the BOT's target range. In 2008, both headline inflation (CPI) and core inflation increased, mainly on account of higher world oil and food prices. However, in 2009 headline inflation recorded a negative rate (-0.9%) and core inflation fell to 0.3%, due to a notable decline in energy prices, the effect of price controls and subsidies, and the economic contraction. In 2010, inflation showed a moderate pace, with CPI increasing to 3.3% and core inflation reaching 1.0%. Nevertheless, higher food prices and the reduction in excess capacity are exerting new inflationary pressures.[18] According to BOT's projections, there is a risk that core inflation may breach the upper end of the target inflation band in 2011.[19] It is not clear to what extent price controls (Chapter III(4)(iv)) are helping to keep the inflation temporarily in check. However, the use of various measures, including subsidies and maximum prices, may not allow the official data on inflation to fully reflect changes in underlying prices, and hence slow down the economic adjustment necessary to deal with these changes.

17. Thailand maintains a managed floating exchange rate regime. The BOT does not target a fixed level for the exchange rate, and intervenes in the foreign exchange market only in case of excess volatility, particularly resulting from speculative capital flows. Large capital inflows and currency fluctuations since 2009 have led the BOT to intervene several times in the foreign exchange market to keep the baht aligned with other regional currencies.

18. Persistent current account surpluses and strong capital inflows, have exerted upward pressure on the baht over part of the review period, particularly in the second half of 2010 when it reached a 13-year high against the U.S. dollar. Indeed, as Thailand's economic outlook improved and political unrest ended in May 2010, capital inflows increased substantially, leading to strong appreciation of the baht against the currencies of Thailand's major trading partners in 2010 (Table I.1). While a stronger baht affects export industries with high domestic content (e.g. clothing, footwear, wood

[14] BOT online information. Viewed at: http://www.bot.or.th/English/MonetaryPolicy/Target/Pages/Target.aspx? [4 April 2011].

[15] On 13 February 2008, when the BOT-run repurchase market was closed, the one-day repurchase rate was replaced by the one-day bilateral repurchase rate.

[16] BOT online information. Viewed at: http://www.bot.or.th/Thai/MonetaryPolicy/Documents/MPC_42011.pdf [1 June 2011].

[17] Monetary Policy Committee Decision, 9 March 2011, No. 8/2011. Viewed at: http://www.bot.or.th/Thai/MonetaryPolicy/Documents/MPC_22011.pdf. [5 April 2011].

[18] World Bank (2010b).

[19] BOT online information. Viewed at: http://www.bot.or.th/Thai/MonetaryPolicy/Documents/MPC_42011.pdf [1 June 2011].

products, and canned food), capital-intensive industries such as vehicle manufacturing and electronics have benefited from cheaper input imports. Amid concerns of growing inflation, the baht weakened slightly in early 2011, but in the long-run sound economic fundamentals should provide for the relative strength of the Thai currency.

19. The BOT has responded to higher capital inflows by allowing the appreciation of the baht against the U.S. dollar and other major currencies, but at the same time keeping it in line with regional currencies. It has also made sterilized interventions in foreign exchange markets and focused on measures to ease capital outflows, such as lifting the limits on Thai firms to invest and lend abroad, liberalizing opportunities for companies to hedge their foreign exchange exposure, raising the limit on foreign currency accounts held with banks in Thailand, and relaxing regulations on expatriation of export proceeds.[20] In addition, in October 2010 the authorities reintroduced a 15% withholding tax on interest and capital gains earned on Government bonds by foreign investors, a tax that already applied to domestic buyers. The BOT has refrained from using outright capital controls, after the withdrawal in March 2008 of the unremunerated reserve requirement (URR) imposed in late 2006 to curb the baht's appreciation. Should capital inflows continue to increase, the BOT is likely to continue to use the exchange rate as a buffer and implement additional prudential measures, as appropriate. Developing the incipient bond market would also help deal with capital inflows and channel them to corporate investment needs, hence providing the investment boost required to keep the economy growing at a fast pace, while also triggering gains in competitiveness.

(ii) Fiscal policy

20. Fiscal policy formulation is the responsibility of the Ministry of Finance, through the Fiscal Policy Office. Under the policy guidelines established in the Fiscal Sustainability Framework, the Government is committed to maintaining fiscal discipline through four targets: the public debt to GDP ratio must not be greater than 60%[21]; the debt service ratio must not exceed 15% of the budget; capital expenditure must be at least 25% of the budget; and achieving fiscal balance.

21. Overall, Thailand's fiscal position remained sound during the review period. The Central Government's fiscal balance registered a moderate deficit in FY 2007 and FY 2008, before increasing to 4.2% of GDP in FY 2009, owing to a fall in revenue resulting from the economic contraction and tax reductions, and a sharp increase in expenditure driven by the implementation of the stimulus packages. However, the fiscal position improved in FY 2010 as the economy rebounded, resulting in a strong rise in revenue, with the fiscal deficit narrowing to 2.5% of GDP (Table I.1). Total revenue collection increased to 17.9% of GDP in 2010 (mostly from a rise in tax revenues, which represented 15.5% of GDP), while expenditure was equivalent to 18.1% of GDP. Customs and other import duties have continued to decline as a proportion of total tax revenue (5.7% in FY 2010), but this has been offset by increased receipts from taxes on income, profits, and capital gains as well as value-added and excise taxes. On the expenditure side, emphasis has been placed on social development programmes, which accounted for almost 30% of budget allocation in FY 2010.

22. Although the Government has increased borrowing, both in order to finance its fiscal deficit and due to the off-budget stimulus programmes, outstanding public debt, at 41.9% of GDP at the end of FY 2010, was well below the 60% cap established under the Fiscal Sustainability Framework. However, the authorities indicated that the debt burden is expected to peak in 2012.

[20] World Bank (2010b).

[21] The ceiling on the public debt to GDP ratio was increased from 50% to 60% in August 2009 to allow the Government to use fiscal measures to counter the economic downturn from the global financial crisis.

23. Rising revenue has allowed the Government to continue an expansionary policy throughout FY 2011 to support economic growth. Some social programmes, originally included as part of the stimulus packages, have now been transferred to the regular budget.[22] Also, as an exit strategy from the fiscal stimulus, the financing of TKK projects is gradually being transferred to the budget rather than relying on borrowing alone. Overall expenditures are projected to reach 19.8% of GDP in 2011, and the fiscal deficit is expected to widen to 3.2% of GDP.[23]

24. A key challenge for the Thai Government will be to find the additional resources necessary to meet fiscal needs in the coming years, in particular for financing social welfare programmes and infrastructure development, while keeping a sound fiscal position. The Ministry of Finance (MOF) is revising the Fiscal Sustainability Framework with the aim of achieving fiscal consolidation and reducing the level of public debt in the medium- to long-term. In addition, the MOF is conducting a study on tax reform aimed at increasing Thailand's competitiveness, while taking into account the expected increase in the debt burden as well as fiscal constraints. Among the measures that could be considered are increasing the scope and rate of excise duties, new land and environmental taxes, improving the effectiveness of tax collection, widening the tax base by reducing tax exemptions and deductions, and streamlining the tax structure.[24] However, as of end-June 2011, no reform is expected to be undertaken until the new government is in place. On the expenditure side, at the time of writing this report, the Public Finance Act has been approved by the Council of State and is awaiting approval from the new government.

(iii) Balance of payments

25. The balance-of-payments' current account showed a surplus in each year of the review period (Table I.3), reflecting a gross saving rate that consistently exceeded the investment rate. In 2010, the current account posted a surplus of 4.7% of GDP, mainly on account of a sizeable surplus in merchandise trade. With the exception of 2008, the trade balance showed a surplus during the review years, reaching a record high of US$19.3 billion in 2009. Similarly, the services balance showed a positive result throughout the period, despite a drop in tourism receipts in 2009. The income account remained in deficit during the same period, mainly due to the repatriation of profits and dividends of foreign-invested companies in Thailand, while remittances from Thais working abroad exceeded those of foreign workers in Thailand. The financial account has shown a more variable trend, with modest net outflows in 2007 and 2009[25], and significant net inflows in 2008 and, in particular, since mid-2010. The financial account recorded a net inflow of US$17.2 billion in 2010, chiefly in the form of portfolio and other investment such as loans. Inbound foreign direct investment (FDI), which had been declining for several years, picked up in 2010. During the entire review period, the balance of payments recorded a surplus, which in 2010 was equivalent to 9.8% of GDP.

26. Strong capital inflow, current account surpluses, and the BOT's interventions to stem the appreciation of the baht have led to a sharp rise in international reserves, which reached US$172.1 billion at end 2010, equivalent to ten months of imports of goods and services (Table I.1), and the second largest in developing East Asia, after China.[26] Thailand's gross external debt increased during the period 2007-10, to almost US$97 billion (Table I.1). Nevertheless, the debt service ratio

[22] These include a new agricultural price insurance scheme, a pension for old people, a debt refinancing scheme and education subsidies (World Bank, 2010b).

[23] World Bank (2010b).

[24] Puapan (2010).

[25] The deficit in the financial account in 2007 and 2009 was mainly attributable to capital outflows from Thai portfolio and direct investments abroad, reflecting the relaxation of measures on capital outflows.

[26] World Bank (2010b).

declined from 12% to 4.6% over the same period. As a percentage of GDP, gross external debt increased slightly, from 30.1% in 2007 to 30.4% in 2010.

Table I.3
Balance of payments, 2007-10
(US$ million)

	2007	2008	2009	2010
Current account	15,681.7	2,157.4	21,866.0	14,836.6
Goods and services balance	18,703.2	4,456.2	24,892.4	20,616.8
Trade balance	12,782.0	-370.5	19,388.0	14,083.3
Exports	151,258.4	175,233.1	150,743.4	193,655.8
Imports	138,476.3	175,603.6	131,355.4	179,572.5
Services balance	5,921.2	4,826.8	5,504.3	6,533.5
Receipts	30,361.9	33,399.6	29,941.0	34,038.0
Transportation	6,368.8	7,285.0	5,664.4	5,913.5
Travel	16,668.8	18,172.8	15,663.2	19,701.7
Payments	24,440.7	28,572.8	24,436.6	27,504.6
Transportation	5,602.4	7,049.2	5,103.3	6,080.4
Travel	5,143.8	5,011.9	4,338.9	5,055.9
Income balance	-6,960.4	-7,069.3	-7,511.0	-10,584.7
Credit	7,332.0	8,113.1	5,874.2	6,026.8
Compensation of employees	1,634.9	1,898.4	1,637.0	1,763.3
Investment income	5,697.1	6,214.7	4,237.2	4,263.4
Debit	14,292.4	15,182.4	13,385.2	16,611.5
Income on equity	12,394.2	13,529.7	12,157.5	15,386.8
Income on debt	1,898.1	1,652.7	1,227.6	1,224.7
Current transfers, net	3,938.9	4,770.5	4,484.6	4,804.5
Financial account	-1,729.2	12,191.6	-2,777.4	17,200.5
Direct investment (net)	8,312.9	4,446.0	879.3	1,009.7
Direct investment in Thailand	11,330.2	8,539.5	4,975.6	6,319.7
Thailand's direct investment abroad	-3,017.3	-4,093.4	-4,096.3	-5,310.0
Portfolio investment	-6,726.9	-2,080.4	-5,905.3	10,234.5
Assets	-9,632.2	439.8	-8,283.6	1,196.3
Liabilities	2,905.3	-2,520.1	2,378.4	9,038.2
Other investment	-3,315.2	9,825.9	2,248.6	5,956.4
Assets	-6,210.2	13,503.8	5,071.7	-6,178.4
Liabilities	2,895.1	-3,677.9	-2,823.1	12,134.8
Loans	-990.5	268.6	1,441.9	8,718.9
Net errors and omission	3,149.6	10,344.3	5,038.0	-712.7
Overall balance of payments	17,102.2	24,693.3	24,126.6	31,324.4
Reserve assets	-17,102.2	-24,693.3	-24,126.6	-31,324.4

Source: Bank of Thailand (2010) online information. Viewed at: http://www.bot.or.th/English/Statistics/EconomicAndFinAncial/ExternalSector/Pages/StatBalanceofPayments.aspx [29 July 2011].

(4) DEVELOPMENTS IN TRADE AND FOREIGN DIRECT INVESTMENT

27. The ratio of Thailand's total trade (exports and imports) of goods and non-factor services to GDP was 135% in 2010, reflecting the economy's openness and high reliance on foreign trade. In 2009, Thailand was the world's 19th largest exporter and the 17th largest importer of goods. As regards world trade in commercial services, it ranked 16th and 14th as exporter and importer, respectively.[27]

(i) Composition of merchandise trade

28. Thailand's exports consist mostly of manufactured products, which made up 72.5% of total merchandise exports in 2010 (75.8% in 2007) (Chart I.1 and Table AI.1). New and high-tech products have become leading export sectors. Office machines and telecommunication equipment (mainly computer components) are the most important export items, accounting for 18.4% of total merchandise exports in 2010, followed by automotive products, chemicals and other

[27] WTO (2010).

semi-manufactures. The shares of traditional manufactures, such as textiles and clothing, in total exports continued to decline during the review period. Primary products accounted for 24.2% of total merchandise exports in 2010 up from 22.5% in 2007, with the share of agricultural exports increasing to 18.0% of total exports, partly due to higher commodity prices. Rice, fish, and natural rubber are the most important agricultural export items.

29. Manufactured goods represented 67% of total merchandise imports in 2010 (Chart I.1 and Table AI.2). Office machines and telecommunication equipment made up the largest share (13.9% of total imports), followed by chemicals and transport equipment, the latter consisting mainly of motor vehicle parts and accessories. Primary products accounted for 28.6%, slightly less than in 2007. Fuels continued to be the main primary import item (17.4% of total imports), while agricultural goods represented 6.6% of the import bill in 2010.

(ii) Direction of merchandise trade

30. Thai exports to Asian markets and non-traditional destinations continued to increase during the review period and in particular during the global economic crisis, as Thailand sought alternative markets (Chart I.2 and Table AI.3). Shipments to Asia as a whole accounted for 63.3% of Thai exports in 2010 (60% in 2007). In 2010, ASEAN as a group was Thailand's largest market, accounting for 22.7% of total merchandise exports.[28] Among ASEAN, Malaysia and Singapore are the two largest export destinations, although export shares to other ASEAN partners (mainly Indonesia, VietNam, the Philippines, Cambodia, and Lao PDR) have increased in recent years. China has become Thailand's third largest market (after ASEAN and the EU), receiving 11% of total exports in 2010, mostly raw materials and intermediate goods. Exports to some non-traditional destinations such as India, Australia, and Switzerland also increased during the period under review. On the other hand, export shares to the United States, the EU(27) and Japan continued their downward trend, although together these three markets still receive 32.1% of Thailand's exports. A significant part of Thai exports to ASEAN and China are further processed and re-exported to industrial economies.

31. With regard to imports, Japan remains by far Thailand's largest supplier, accounting for 20.8% of total merchandise imports (2010), which consist mainly of capital goods (Chart I.2 and Table AI.4). However, as a consequence of the recent earthquake and tsunami in Japan, it is anticipated that imports from that country will decrease in 2011. ASEAN as a group is the second largest source of imports, making up 17.9% of total imports. The share of imports from China increased in 2010, as did the shares from other countries in the Asia-Pacific region (Republic of Korea and Australia). Imports from EFTA countries, particularly from Switzerland, also increased during the period under review. In contrast, the shares of the United States and the EU (27) declined. Imports from Middle East countries, consisting mostly of oil, made up 11.4% of the import bill in 2010.

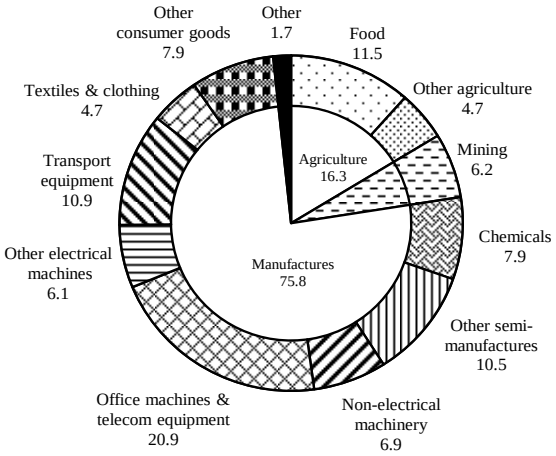
[28] Exports to ASEAN partners increased steeply (by 55.2%) in the first half of 2010, benefiting from tariff cuts that entered into effect in January 2010 under the ASEAN Free Trade Area agreement (ADB, 2010a).

Chart I.1
Composition of merchandise trade, 2007 and 2010

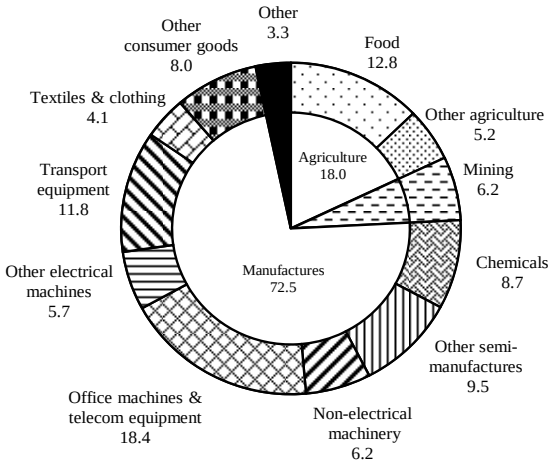
Per cent

2007 **2010**

(a) Exports (f.o.b.)

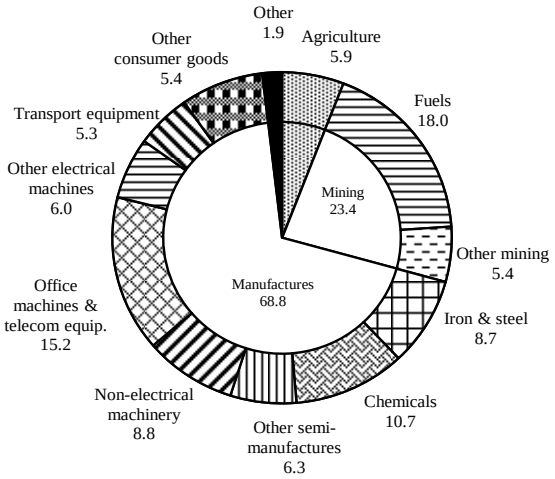


Total: US$153.6 billion

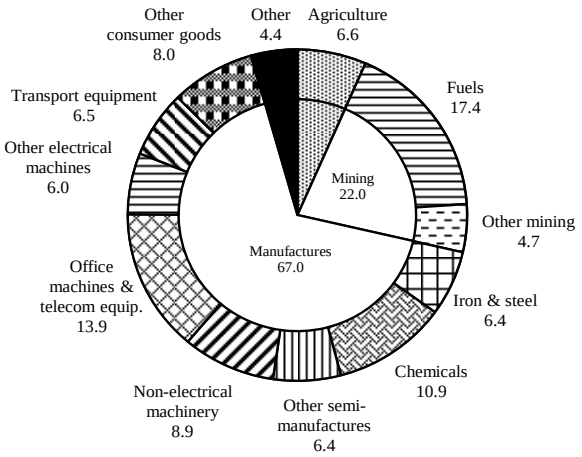


Total: US$195.3 billion

(b) Imports (c.i.f.)



Total: US$143.8 billion



Total: US$182.4 billion

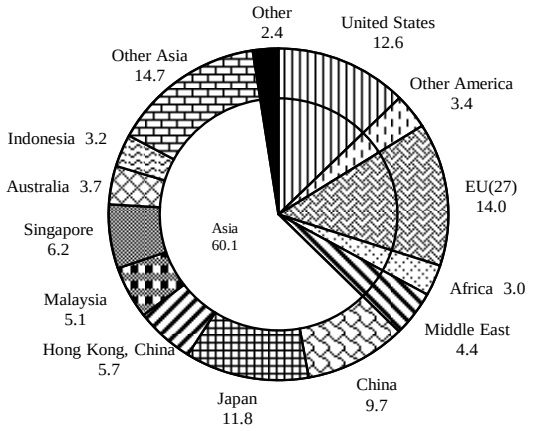
***Source*: UNSD, Comtrade database (SITC Rev.3).**

Chart I.2
Direction of merchandise trade, 2007 and 2010

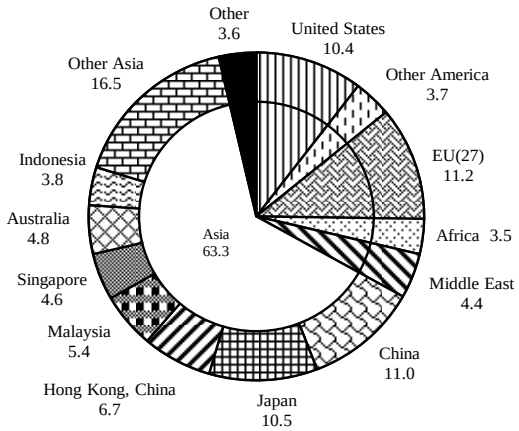
Per cent

2007 **2010**

(a) Exports (f.o.b.)

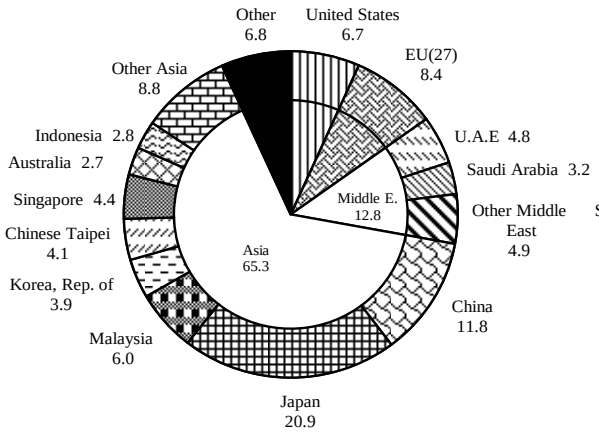


Total: US$153.6 billion

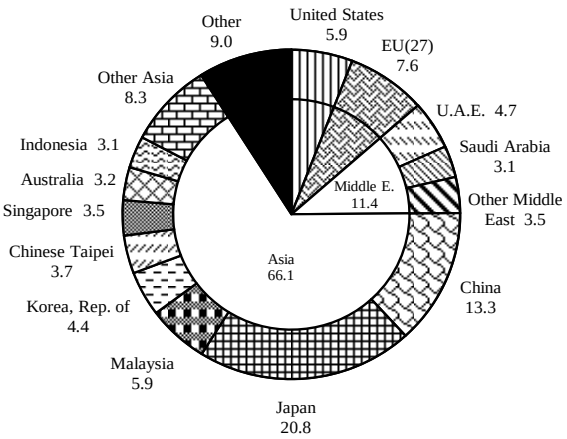


Total: US$195.3 billion

(b) Imports (c.i.f.)



Total: US$143.8 billion



Total: US$182.4 billion

***Source*: UNSD, Comtrade database.**

(iii) Composition of trade in services

32. The trade in services balance recorded a surplus in each of the reviewed years (Table I.4). Despite the setbacks suffered by the tourism industry during the period, receipts from this subsector more than offset payments for transportation, travel, and other services. In 2010, travel and passenger transportation accounted for 68.7% of total services receipts. With regard to services outflows, freight payments have been on the rise, reflecting stronger demand from Thai exporters, as well as royalties and licence fees and payments for "other" services (including operational leasing services, fees and commissions, and business, professional, and technical services). Services represented 14.9% of Thailand's total exports and 13.3% of total imports in 2010.

Table I.4
Trade in services, 2007-10
(US$ million and %)

	2007	2008	2009	2010
Services balance (US$ million)	**5,921.2**	**4,826.8**	**5,504.3**	**6,533.5**
Receipts (US$ million)	**30,361.9**	**33,399.6**	**29,941.0**	**34,038.0**
		(% of total receipts)		
Transportation	21.0	21.8	18.9	17.4
Freight	5.3	6.5	4.8	5.3
Passenger	13.0	13.0	12.5	10.8
Travel	54.9	54.4	52.3	57.9
Government	0.8	1.0	0.9	0.7
Communication	0.8	1.3	1.2	1.0
Construction	1.7	1.8	1.6	1.4
Royalties and licence fees	0.2	0.3	0.5	0.4
Insurance	1.0	1.3	1.0	0.9
Other	19.7	18.1	23.6	20.3
Payments (US$ million)	**24,440.7**	**28,572.8**	**24,436.6**	**27,504.6**
		(% of total payments)		
Transportation	22.9	24.7	20.9	22.1
Freight	9.0	11.8	10.2	11.7
Passenger	7.1	5.9	5.4	5.6
Travel	21.0	17.5	17.8	18.4
Government	1.0	0.8	0.9	0.9
Communication	0.7	0.8	0.9	0.8
Construction	2.6	2.8	3.2	2.6
Royalties and licence fees	9.4	9.0	9.2	11.2
Insurance	2.1	2.1	2.3	2.1
Other[a]	40.3	42.4	44.9	41.9

a Including compensation of employees.

Source: Bank of Thailand online information. Viewed at: http://www.bot.or.th/English/Statistics/EconomicAndFinancial/ExternalSector/Pages/StatBalanceofPayments.aspx# [15 July 2011].

(iv) Foreign direct investment (FDI)

33. FDI flows into Thailand dropped sharply, by 43.8%, between 2007 and 2010, owing in part to the impact of the global economic downturn and domestic political uncertainty, although they started to pick up in the second half of 2010. The manufacturing sector remained the largest recipient, accounting for 47.5% of total FDI inflows in 2010 (Table I.5). FDI was particularly targeted to export-oriented industries such as electrical appliances and machinery and transport equipment. Other important recipients of FDI were financial institutions, real estate, and mining and quarrying activities. Japan continues to be the main source of FDI (26.1% of total inflows), although its share declined during the review period, especially in 2010 (Table I.5), followed by the EU and Singapore. The share of FDI inflows from the United States dropped substantially, while that of Switzerland showed a strong increase. FDI inflows from ASEAN, especially from Singapore, dropped significantly from 2007, mainly due to the global financial crisis and Thailand's political uncertainties.

Table I.5
Inflows of foreign direct investment, 2007-10
(US$ million and %)

	2007	2008	2009[a]	2010[a]
Total inflows (US$ million)	25,009.6	22,073.1	12,926.4	14,060.1
		(% of total)		
(a) Inflows by origin				
Japan	31.4	31.1	40.5	26.1
United States	14.6	6.6	6.4	9.1
EU(27)	17.1	12.9	16.8	20.2
Netherlands	4.8	2.7	5.0	8.0
United Kingdom	3.4	4.0	4.0	4.3
France	1.5	1.1	1.8	2.2
Belgium	0.4	0.2	0.9	1.2
Denmark	0.3	0.6	0.9	1.1
Germany	4.7	2.8	1.2	0.9
ASEAN	19.0	15.0	12.6	13.6
Malaysia	1.8	0.6	0.7	1.3
Singapore	16.3	13.4	11.6	11.9
Hong Kong	3.5	5.3	2.8	4.6
Chinese Taipei	0.6	0.3	0.9	1.0
Korea, South	0.7	0.6	1.1	1.2
China	0.4	0.2	0.4	0.8
Canada	0.2	0.1	0.4	0.4
Australia	1.1	0.8	0.8	1.2
Switzerland	1.5	3.7	5.6	8.6
Others	9.9	23.3	11.8	13.2
(b) Inflows by sector				
Agriculture	0.0	0.1	0.1	0.1
Mining and quarrying	7.0	2.3	6.5	8.0
Manufacturing	38.7	53.1	56.5	47.5
Food and sugar	2.0	2.1	3.0	4.3
Textiles	0.7	0.6	0.8	0.8
Metal and non-metallic	3.8	3.4	3.7	3.9
Electrical appliances	5.9	12.5	11.0	12.8
Machinery and transport equipment	13.3	12.7	23.9	9.7
Chemicals	2.4	3.3	4.4	4.7
Petroleum products	3.2	0.1	1.5	1.5
Construction materials	0.1	0.1	0.1	0.1
Others	7.2	18.3	8.1	9.6
Construction	1.0	0.7	0.5	0.7
Trade	9.6	3.9	6.7	7.8
Financial institutions	18.5	18.6	11.5	16.4
Investment	1.3	0.0	0.0	1.9
Real estate	8.8	7.0	7.5	8.5
Services	11.3	14.1	8.6	5.8
Others	3.9	0.1	2.1	3.3

a Provisional.

Note Figures cover investment in all sectors.

Source: Data provided by the BOT.

34. Although Thailand's FDI framework is generally open in manufacturing, there remain significant restrictions on foreign-ownership in other sectors, particularly in services (Chapter IV).

Such restrictions, as well as regulatory hurdles, infrastructure bottlenecks, and skill shortages could have contributed to lower FDI inflows over the past years, and suggest that there is room to improve the investment environment so as to enhance Thailand's international competitiveness. According to the World Bank's survey on the ease of doing business, Thailand ranked 19th (out of 183 countries and territories) in 2010, seven places lower than in 2009, but ahead of all other ASEAN countries, with the exception of Singapore. Thailand scored well for protecting investors, trading across borders, and dealing with licences, but poorly for starting and closing a business, paying taxes, and getting credit.[29]

35. Outflows of Thai direct investment abroad more than doubled during the period under review (Table I.6). ASEAN as a group is the main destination, and its share increased from 33.5% to 51.3% between 2007 and 2010. Within ASEAN, Singapore is by far the largest recipient, accounting for 33% of total outflows of Thai direct investment abroad, followed by Myanmar. The shares of the EU(27), the United States, and Japan have all decreased during the period under review, albeit with some wide fluctuations in the case of Japan. By contrast, outflows of Thai direct investment to Australia and Canada have shown strong increases. China's share in total outflows of Thai direct investment abroad was 3.9% in 2010 (down from 9.7% in 2009). Overall, outflows of Thai direct investment abroad were directed to mainly mining and quarrying, manufacturing, trade, and financial institutions.

Table I.6
Outflows of foreign direct investment, 2007-10
(US$ million and %)

	2007	2008	2009[a]	2010[a]
Total outflows (US$ million)	4,776.1	7,671.7	8,095.1	9,796.6
		(% of total)		
(a) Outflows by destination				
Japan	1.9	3.5	6.8	1.0
United States	6.3	6.0	3.4	5.4
EU(27)	8.8	5.3	3.3	5.7
United Kingdom	7.0	1.6	1.5	3.1
Ireland	0.0	0.0	0.0	0.7
Lithuania	0.2	1.2	0.5	0.5
ASEAN	33.5	46.4	43.7	51.3
Singapore	7.8	13.4	20.6	33.0
Myanmar	16.6	20.5	15.6	12.8
Laos	1.9	2.7	1.7	2.1
Viet Nam	2.0	2.5	1.4	2.0
Indonesia	0.3	1.8	0.7	0.8
Malaysia	3.6	4.8	3.2	0.3
Hong Kong, China	11.6	3.6	3.3	3.1
Chinese Taipei	0.7	0.3	0.0	0.0
Korea, South	0.0	0.3	0.0	0.0
China	6.2	3.6	9.7	3.9
Canada	0.1	0.0	0.1	3.6
Australia	0.3	0.5	0.4	5.3
Switzerland	1.1	0.3	0.1	0.1
Others	29.4	30.0	29.2	20.5

Table I.6 (cont'd)

[29] World Bank online information, "Doing Business". Viewed at: http://www.doingbusiness.org/rankings [20 April 2011].

	2007	2008	2009[a]	2010[a]
(b) Outflows by sector				
Agriculture	0.1	0.1	0.0	0.2
Mining and quarrying	27.3	20.9	25.7	28.4
Manufacturing	19.2	29.9	21.8	18.9
Food and sugar	7.9	7.1	3.8	4.3
Textiles	0.8	2.4	1.3	0.5
Metal and non-metallic products	0.7	2.4	0.9	1.0
Electrical appliances	3.5	4.2	2.5	1.3
Machinery and transport equipment	1.0	3.7	6.2	1.1
Chemicals	1.4	4.1	1.6	3.0
Petroleum products	0.0	0.2	0.4	1.1
Construction materials	0.1	0.0	0.0	0.1
Others	3.7	5.6	5.3	6.5
Construction	1.8	0.9	0.8	0.6
Trade	5.8	14.1	12.6	15.2
Financial institutions	6.5	2.9	11.5	11.2
Investment	20.7	25.5	15.1	18.4
Real estate	5.7	2.4	1.8	3.3
Other services	5.8	3.3	10.7	2.7
Others	7.1	0.0	0.0	1.1

Note Figures cover investment in all sectors.

a Provisional.

Source: Data provided by the BOT.