



The World Bank

Positioning Thailand in a New Global Order amidst the Eurozone Crisis and upcoming AEC 2015

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Positioning Thailand

- 1. Thailand's progress over the last 25 years**
- 2. Challenges & Opportunities facing Thailand in the next 20 years**
- 3. What must Thailand do to thrive in the “new world order”? How can the AEC “help”?**



1. THAILAND'S PROGRESS OVER THE LAST 25 YEARS



Thailand has made a remarkable progress over the last 25 years

- Moved up from low income to “upper middle income” country**
- Transitioned to industrial-led country**
(40% of GDP in 1993 → 49% in 2010)
 - Integrated into the E. Asia regional supply chain
 - Became a leading hub for auto, hard disk drive, and electrical appliance production
- Reduced poverty rates from over 40% to less than 10%**
- Primary school enrolment rate of 100%**
- Reduced birthrate to below 1 % per year**



How did Thailand do so?

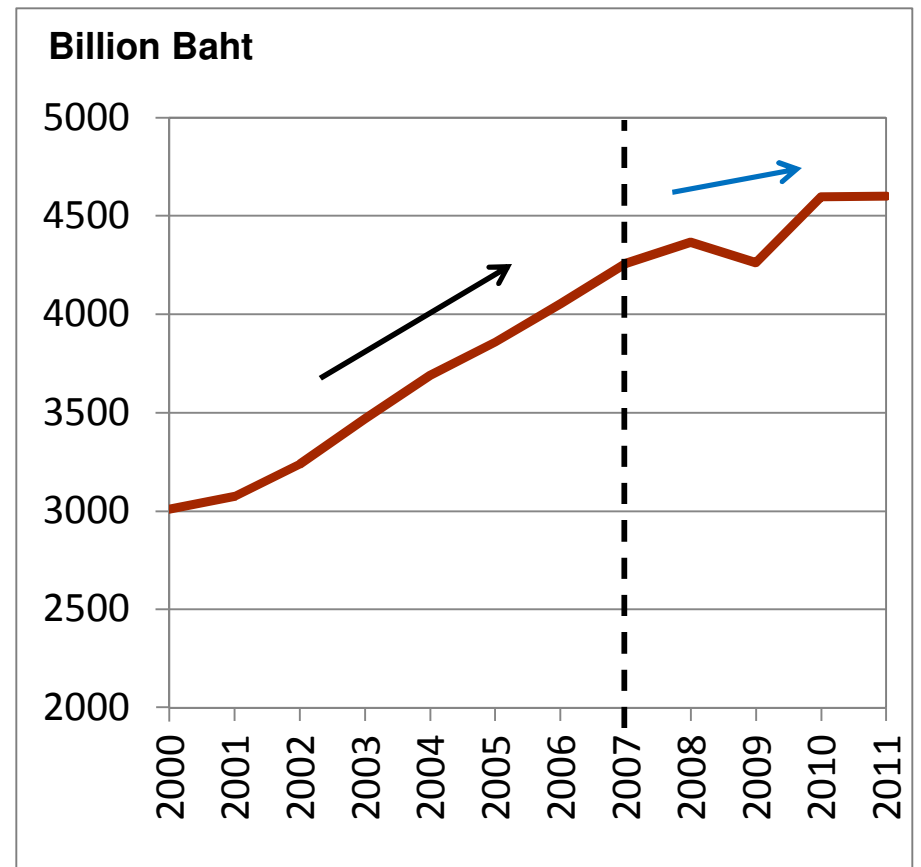
- ✓ **Maintained an open economy and competitive policy esp. for manufacturing sector – FDI, Trade**
- ✓ **Stable macroeconomic environment and friendly investment climate**



But progress has slowed over the last 5 years

- GDP growth has slowed
- Competitiveness rankings fallen
- Few major reforms to improve the business environment

Thailand's Real GDP





2. CHALLENGE AND OPPORTUNITIES IN THE NEXT 20 YEARS



The World has changed with the Subprime and Eurozone Crisis

(Percentage change from previous years, except interest rates and oil price)

	2009	2010	2011	2012e	2013f
World trade Volume (GNFS)	-10.6	13.0	6.1	5.3	7.0
Commodity Prices (USD terms)					
Non-oil commodities	-22.0	22.5	20.7	-8.5	-2.2
Oil Price (USD per barrel)	61.8	79.0	104.0	106.6	103.0
Real GDP growth					
World	-2.3	4.1	2.8	2.2	2.7
High income	-3.7	3.0	1.6	1.4	1.8
OECD Countries	-3.7	2.9	1.4	1.3	1.8
Euro Area	-4.2	1.8	1.5	-0.4	0.3
Japan	-5.5	4.5	-0.7	2.6	1.2
United States	-3.5	3.0	1.8	2.2	2.1
Non-OECD countries	-1.5	7.4	4.8	3.6	4.3
Developing Countries	2.0	7.4	6.1	5.3	5.9
East Asia and Pacific	7.5	9.7	8.3	7.6	8.1
China	9.2	10.4	9.3	7.7	8.1
India	9.1	9.6	6.9	6.6	6.9
Dev. Countries excl. China and India	-1.7	5.6	4.4	3.6	4.3

Source: World Bank Global Economic Prospects (GEP) **September 2012** and World Development Indicators



Commodity prices will rise slower than earlier expected

Commodity Prices and Price Forecast in Nominal US\$ (as of September 2012)

Commodity	Unit	Forecast										
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Energy												
Coal, Australian	\$/mt	99.0	120.9	95.0	100.0	95.0	90.0	91.0	92.0	93.0	94.0	95.0
Crude oil, avg, spot	\$/bbl	79.0	104.0	105.7	105.8	106.5	106.9	107.2	107.4	107.7	107.9	108.2
Natural gas, European	\$/mmbtu	8.3	10.5	11.5	11.2	11.1	11.0	10.9	10.8	10.7	10.6	10.5
Natural gas, US	\$/mmbtu	4.4	5.1	2.6	3.5	4.0	4.5	5.0	5.3	5.5	5.8	6.0
LNG, Japanese	\$/mmbtu	10.8	14.7	16.8	16.0	15.5	15.0	14.8	14.5	14.3	14.0	13.8
Sugar, world	¢/kg	46.9	57.3	48.0	45.0	40.0	38.0	37.7	37.4	37.1	36.8	36.5
Rice, Thai, 5%	\$/mt	489	543	550	520	510	500	498	496	494	492	490
Rubber, Malaysian	¢/kg	365	482	335	330	325	320	318	316	314	312	310

Source: World Bank, Development Prospects Group.
<http://www.worldbank.org/prospects/commodities>



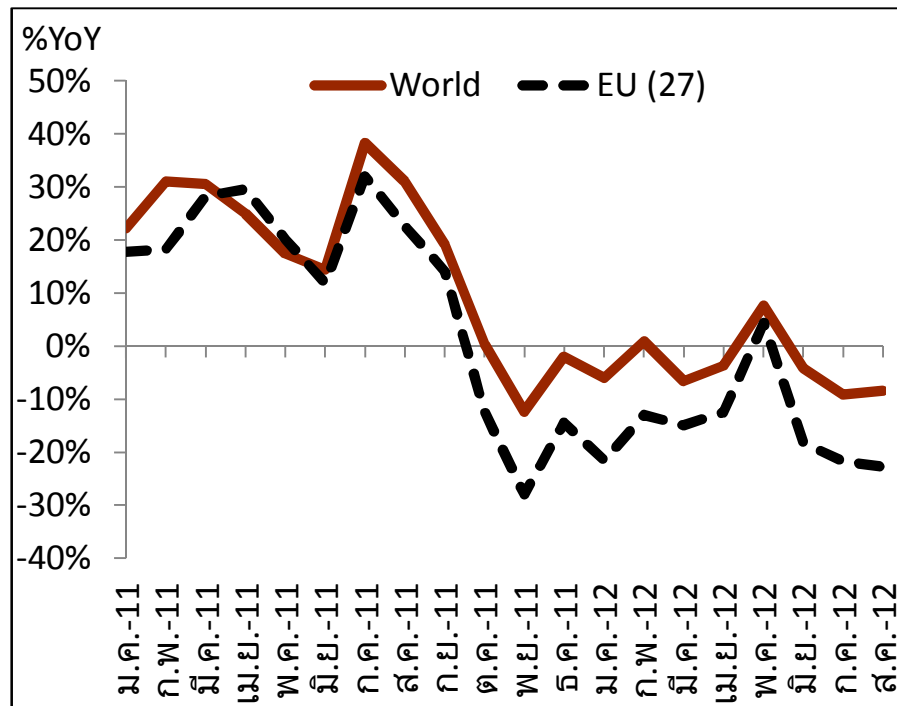
Challenges for Thailand

- **Significant slowdown in developed economies/markets and in China**
- **Softening of key agriculture prices
e.g. rice and rubber**
- **Competition from of other countries in East Asia,
that are “catching up” with Thailand, especially
from China**
- **Higher risks of natural disasters**

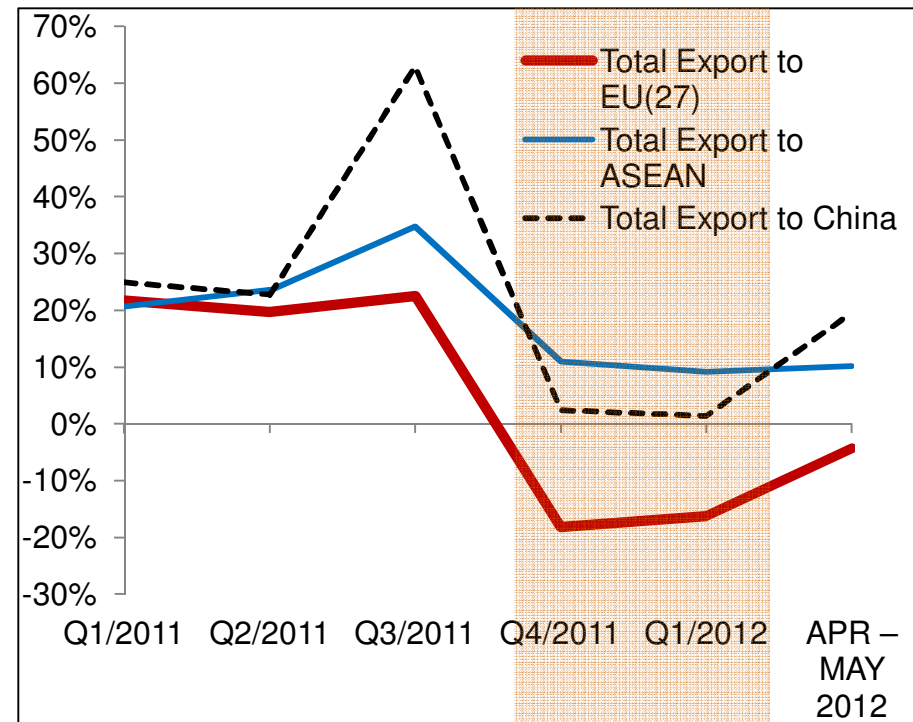


Slow down in Eurozone has affected Thai exports directly and indirectly

Thailand's Total Export Growth vs Export Growth to EU



Thailand's Export Growth to EU, China, and ASEAN



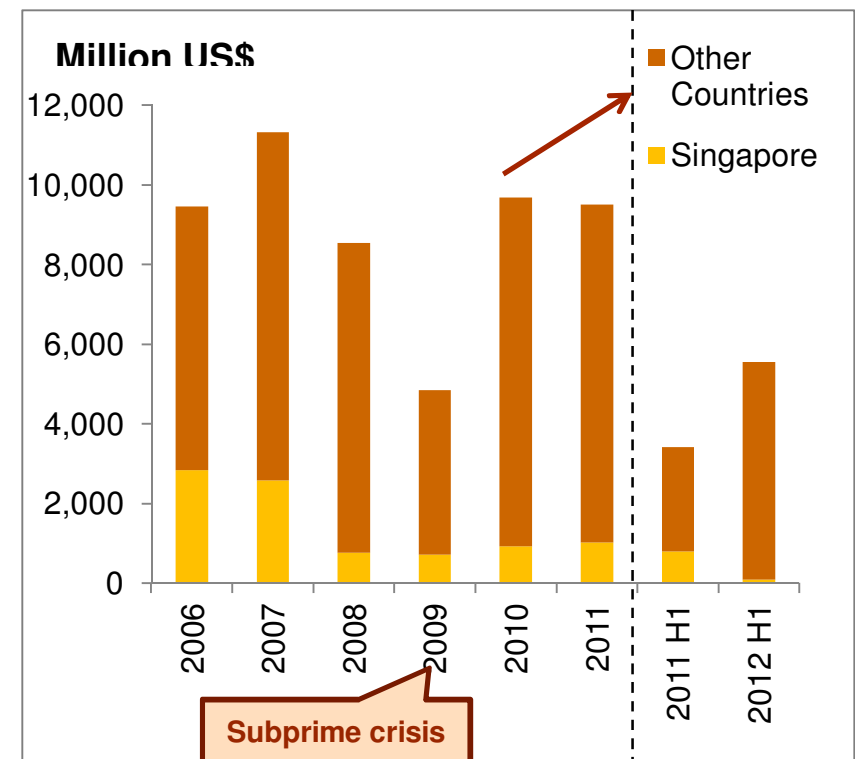
Source: Ministry of Commerce and World Bank Staff Calculation₁



Opportunities for Thailand

- **A bigger middle-income class, especially in China – higher purchasing power**
- **Greater investments/capital flows into East Asia**
- **Greater Regional integration and openness (AEC & FTAs)**
- **Slower increase in energy prices**

FDI Inflows into Thailand



Source: Bank of Thailand and World Bank Staff Calculation



Opportunities for trade should multiply, despite expected slower growth in China

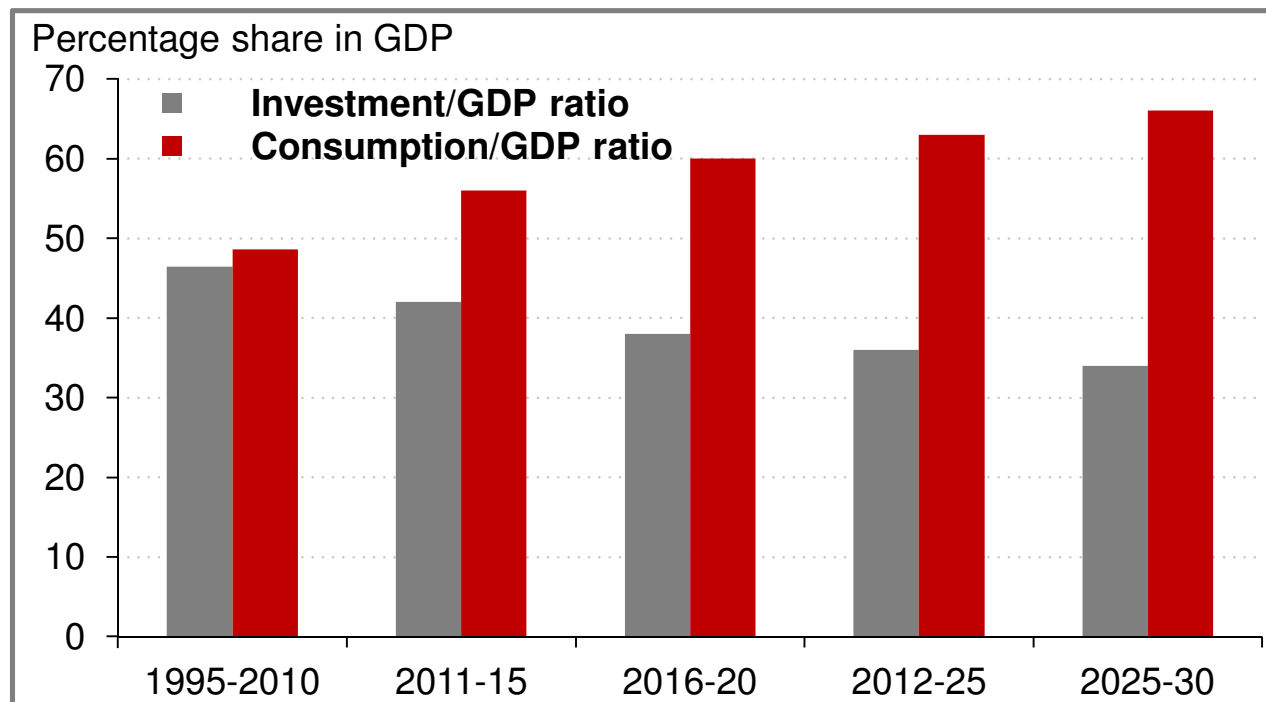
- **China's slowdown is anticipated from 10 to 5% by 2030, producing average growth of 6.6% per year**
 - This growth would add an equivalent of 15 of today's South Korea's to the global economy by 2030
 - By 2030, China will be a high-income economy that outstrips the size of the US economy
- **Opportunities for trade should be multiplied**
 - Trade should rise as incomes rise
 - Propensity to imports should rise at higher income levels



China's rebalancing will likely affect the patterns of trade

- Rebalancing may lead to increased demand for **consumer goods imports** into China

China, 1995-2030



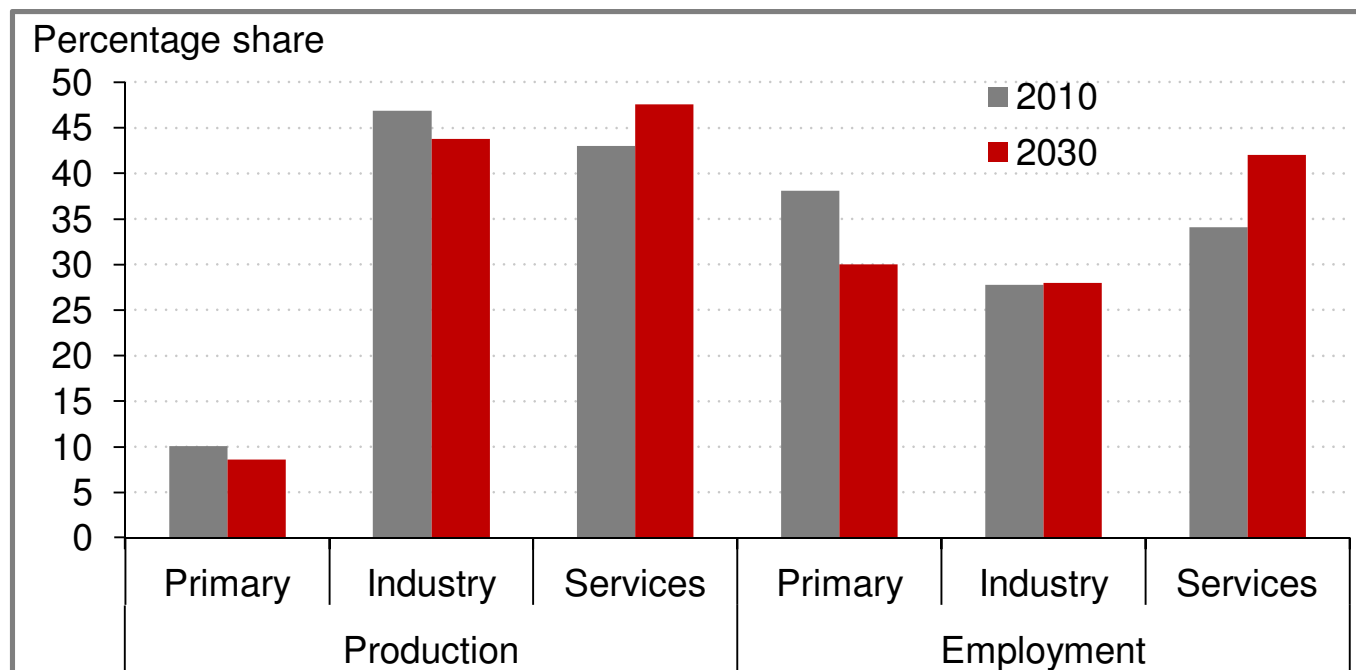
Source: DRC and World Bank, China 2030 (2012)



China's rebalancing will likely affect the patterns of trade

- Rebalancing may lead to increased demand for **services** in China

China's Production and Employment, 2010 & 2030



Source: DRC and World Bank, China 2030 (2012)



China's moving up the value chain will add pressure on countries wanting to do the same

- **China's shifting comparative advantage may pose a threat**
 - **Head-to-head competition in third markets**
 - **High-end FDI shifting to China**

- **Impact**
 - **More difficult to expand market share**
 - **Poses constraint to move up value chain**



3. WHAT MUST THAILAND DO TO THRIVE IN THE “NEW GLOBAL ORDER”?



What can Thailand do to prepare for a prolonged global slowdown?

- **Ensure there is enough fiscal space should a severe global slowdown occurs – Govt needs to spend wisely**
- **Speed up regional integration esp. AEC 2015, China and India**
- **Find new markets – Raise productivity and competitiveness as global trade competition intensifies**



Thailand needs to escape the “Middle Income Trap” and make sure Growth is “Inclusive”

■ Escaping the “Middle Income Trap”

1. Training and education system needs to prepare labor force for a higher value-added economy
2. Unprotect the services sector to unleash its productivity and growth

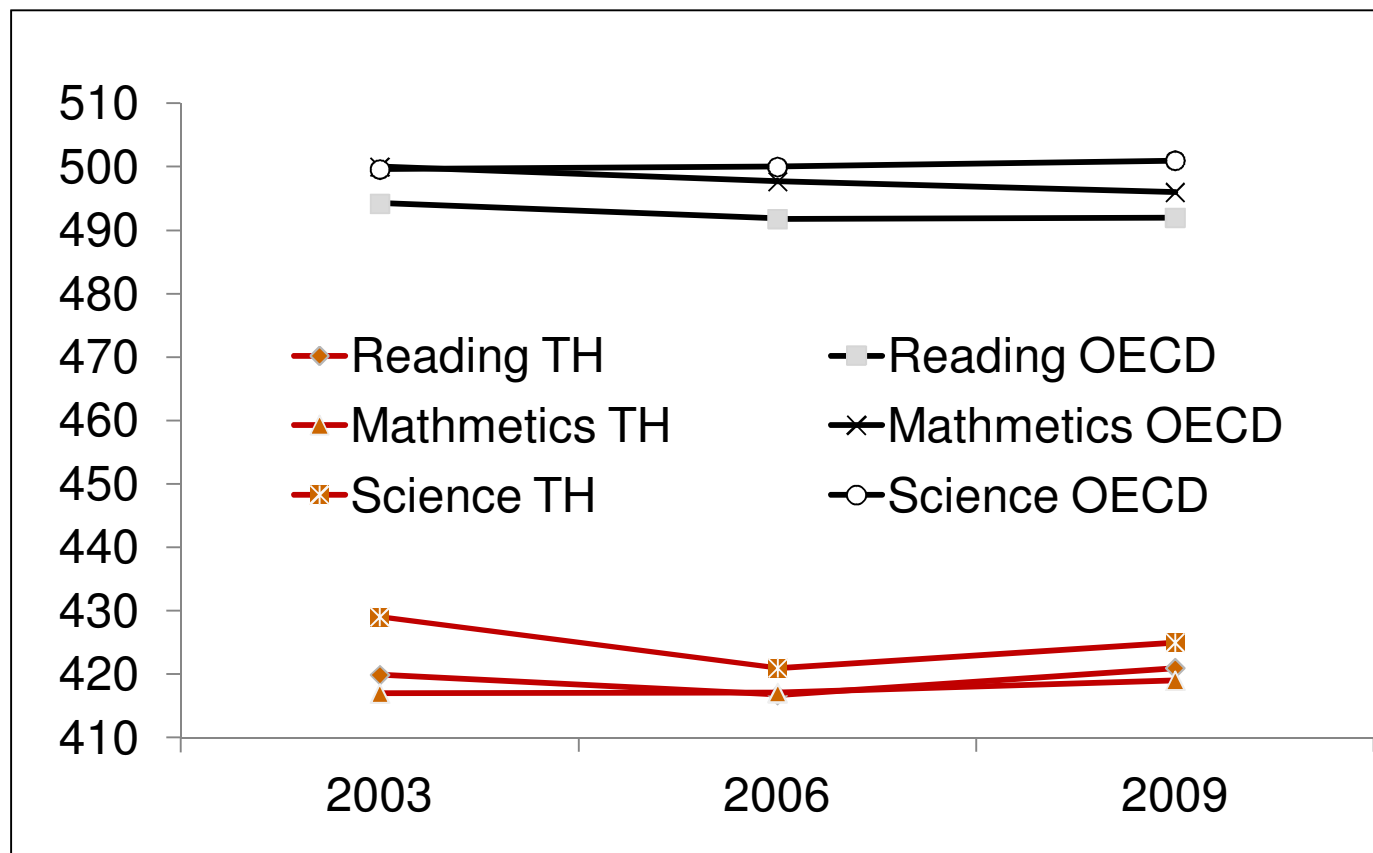
■ Ensuring Inclusive growth

- Further poverty reduction
- Reduce inequality of incomes and opportunities



1. Performance of Secondary School students in Thailand needs to be improved!

Average OECD and Thailand's PISA scores

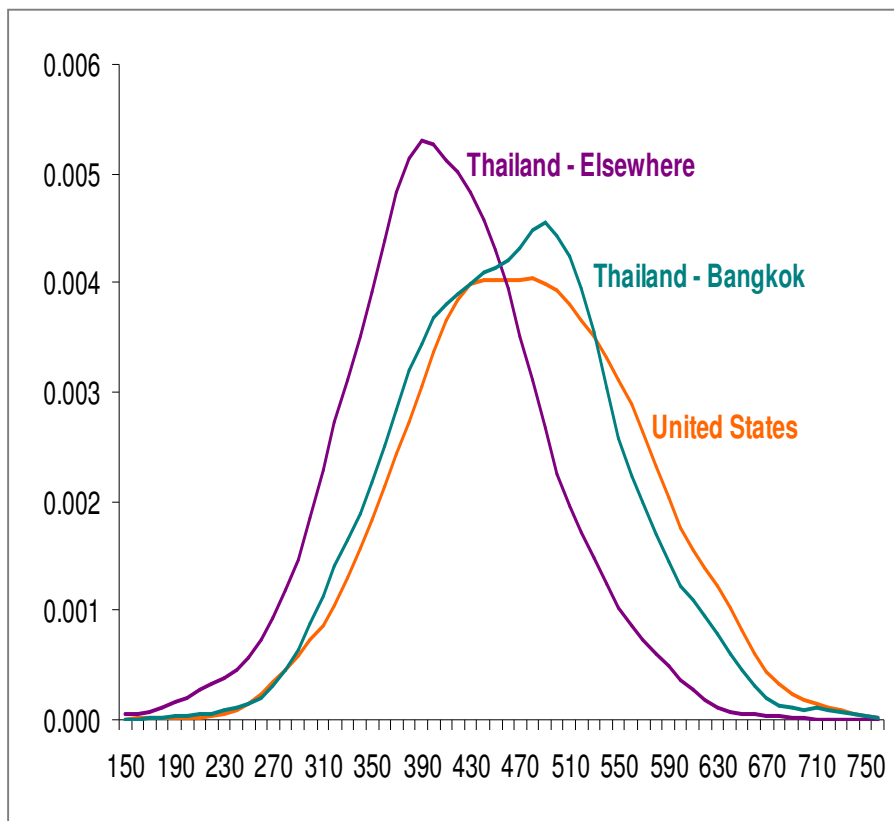


Source: PISA 2000-2009 Results (OECD database)



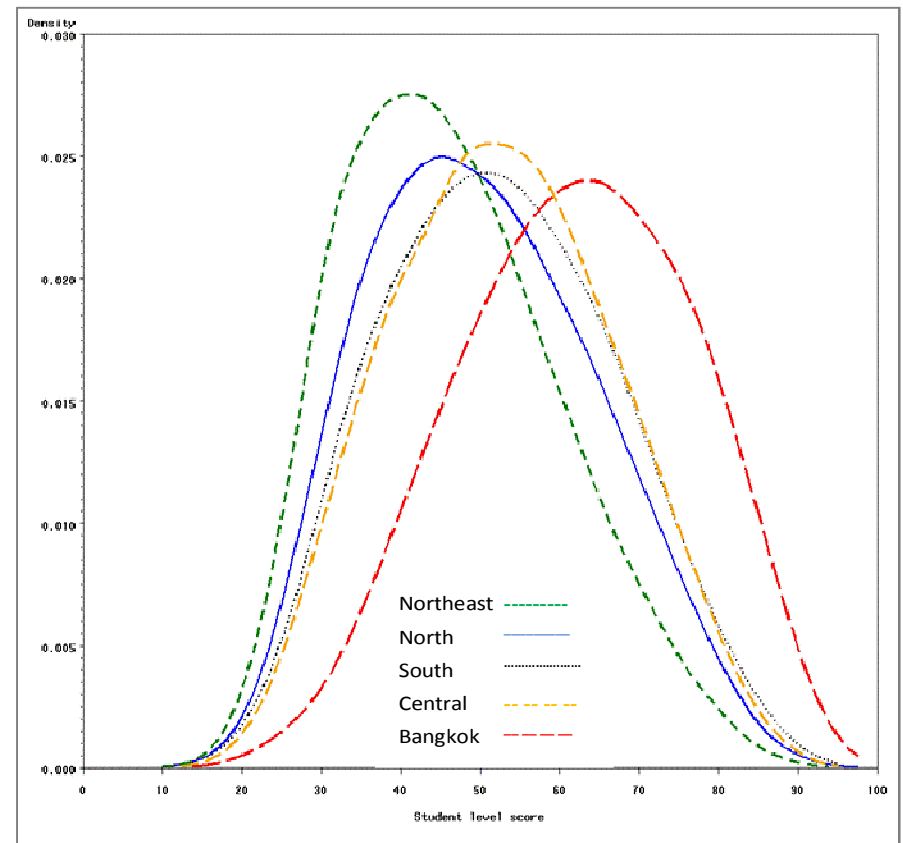
1. Regional difference in education outcomes needs to be narrowed

PISA Scores in Bangkok comparable to US



Source: Office of Basic Education Commission database, in Parandekar 2011

School level O-NET scores lowest in NE





1. Creativity, Leadership, Information Technology and English are needs to be improved

TABLE 2.4 Comparative skill gaps among professionals

	Creativity	Information technology	English	Leadership	Communication	Problem solving	Work attitude	Technical skills	Numeracy/literacy
Cambodia	—			Decision making		Lack of analytical skills			
Vietnam	—	—		—		—			
Mongolia									
Philippines									
Indonesia									
Thailand									
Malaysia									

Source: Appendix J (employer and employee surveys).

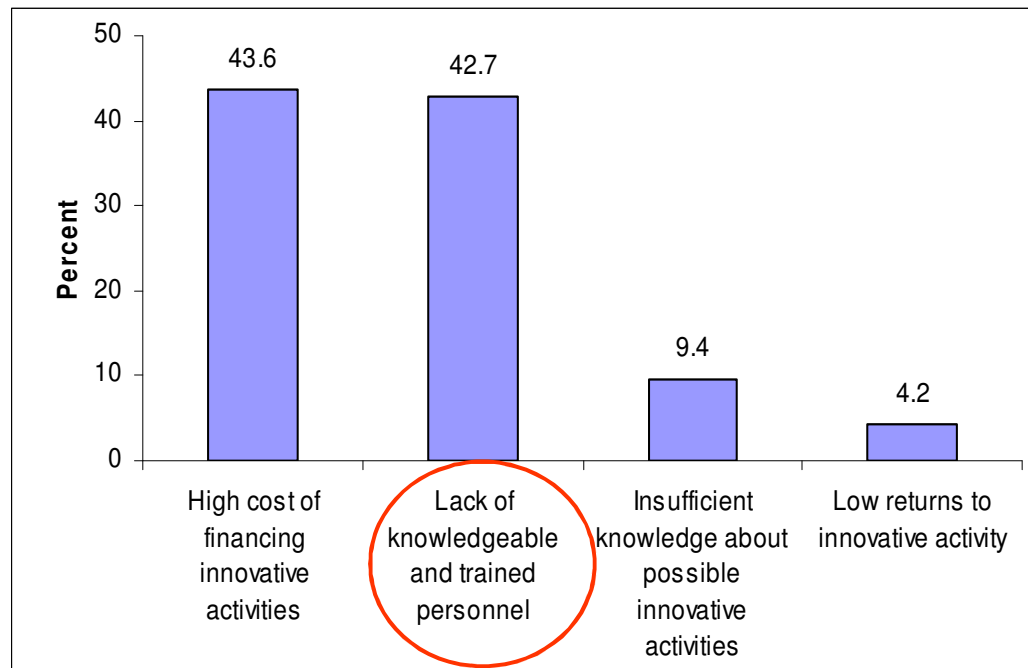
Note: The darker the shade, the stronger the gap (within each country only). Dotted cells indicate gaps that became less serious, and hashed cells indicate gaps that became more serious, in relation to the current demand for that skill.

— = not available



1. Lack of qualified personnel limits firms innovation efforts

Percent of firms reporting these as a reason for not engaging more in innovative activities



Innovative Activities includes

1. Technological innovation e.g. upgrading of machinery
2. Process innovation e.g. new process of producing the same product
3. Product innovation e.g. developing new products
4. Commercial innovation e.g. joint ventures
5. Marketing innovation e.g. branding

Source: Thailand Investment Climate Assessment (2008)



1. Thailand has fallen behind in moving towards a knowledge economy

World Bank's Knowledge Economy Index 2012*

Ranking Change
2012 from 2000

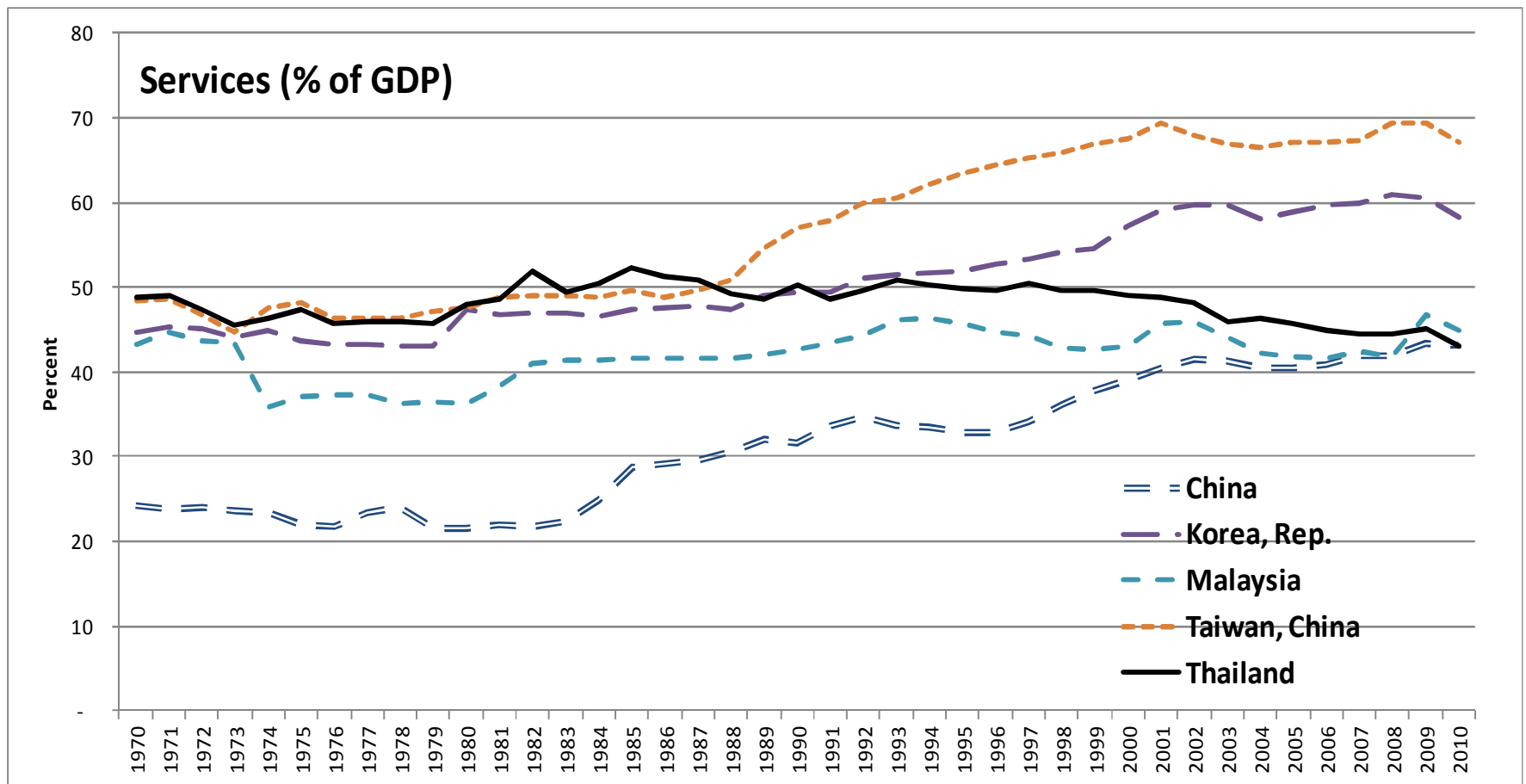
1	0	Sweden
13	3	Taiwan, China
22	- 5	Japan
23	- 3	Singapore
29	- 5	Korea, Rep.
48	- 3	Malaysia
60	- 1	Brazil
66	- 6	Thailand
84	7	China
104	9	Vietnam

* KEI is a simple average of 4 sub-indexes which represents the 4 pillars of the knowledge economy: (1) economic incentive and institutional regime, (2) education and training, (3) innovation and technological adoption, and (4) information and communications technologies (ICT) infrastructure.



2. Share of services in Thailand has been falling

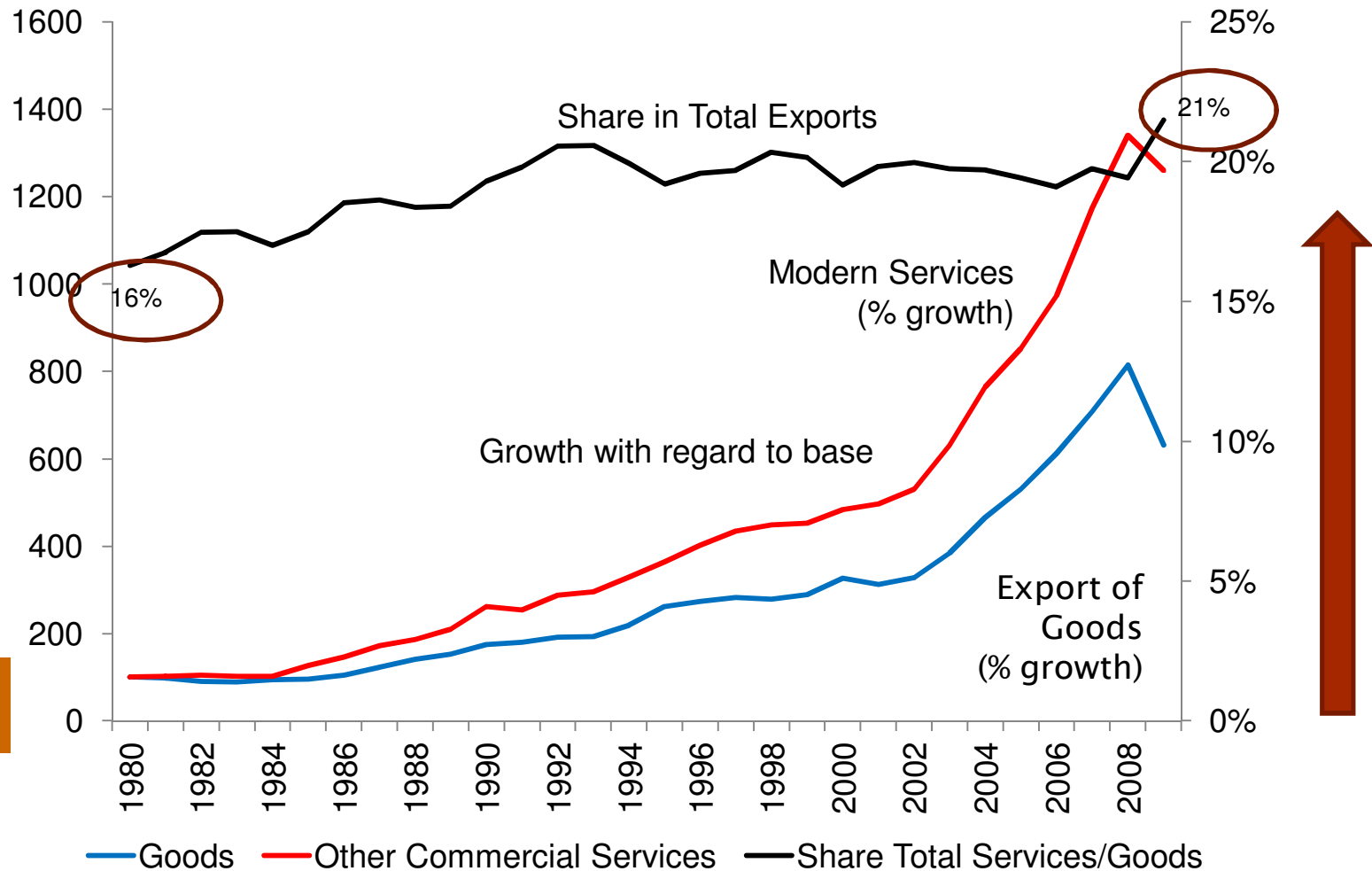
Share of Services in GDP



Source: World Development Indicators (World Bank)



2. Global Trend: Services trade has grown sharply in global trade

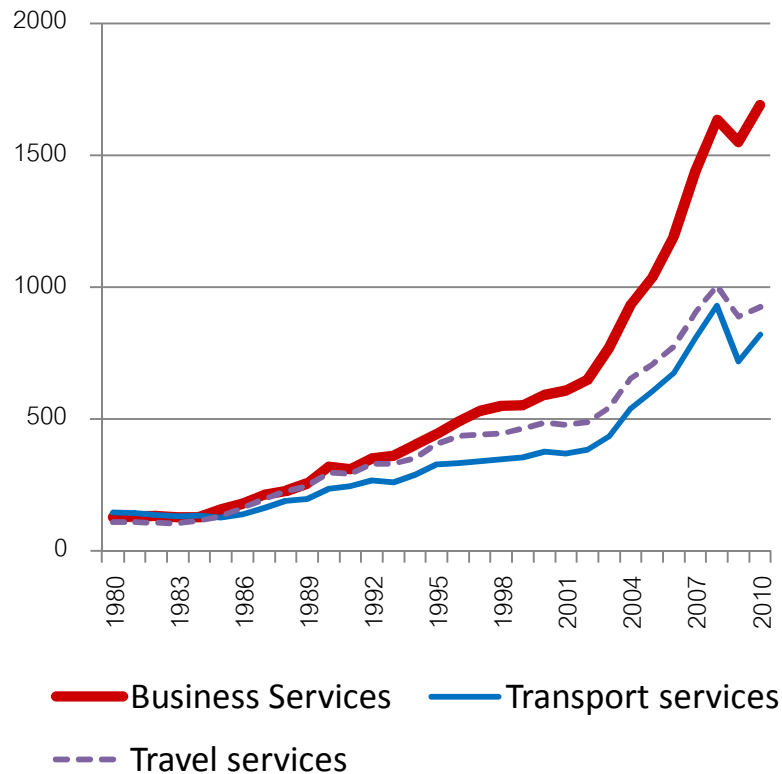




2. Thailand's business services trade has been growing relatively slowly

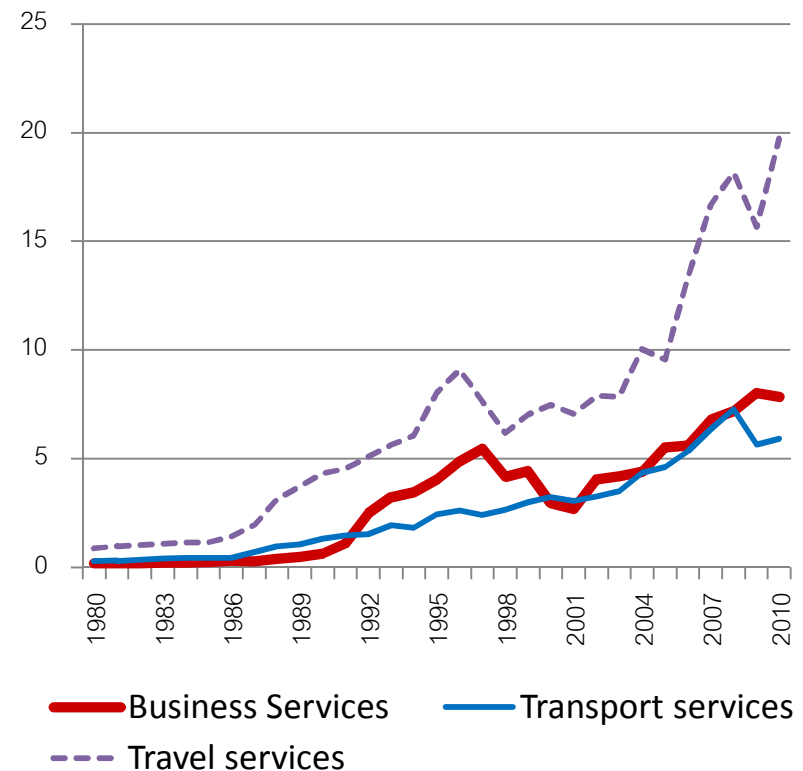
World

USD Billions (current\$)



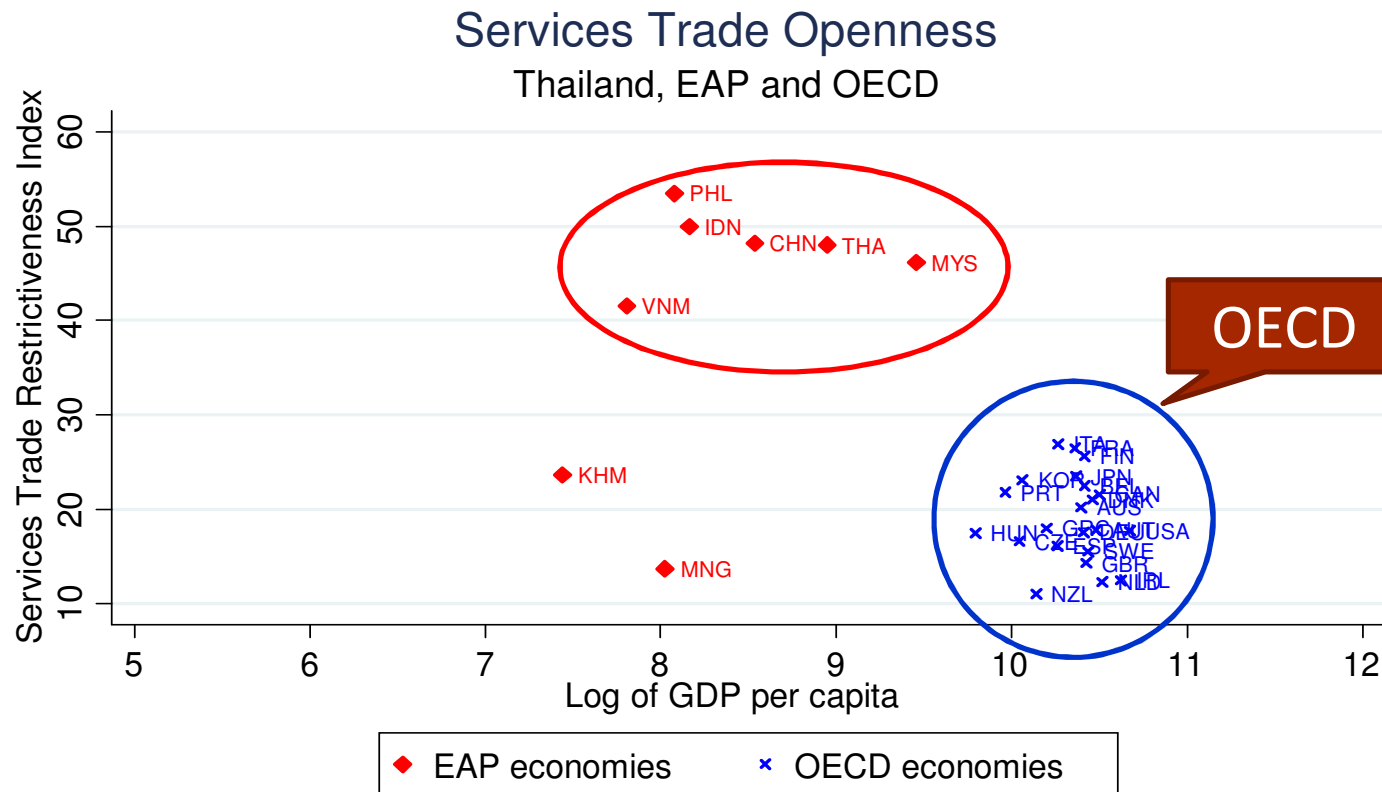
Thailand

USD Billions (current\$)





2. Thailand, along with ASEAN, have a high level of restrictiveness in business services trade



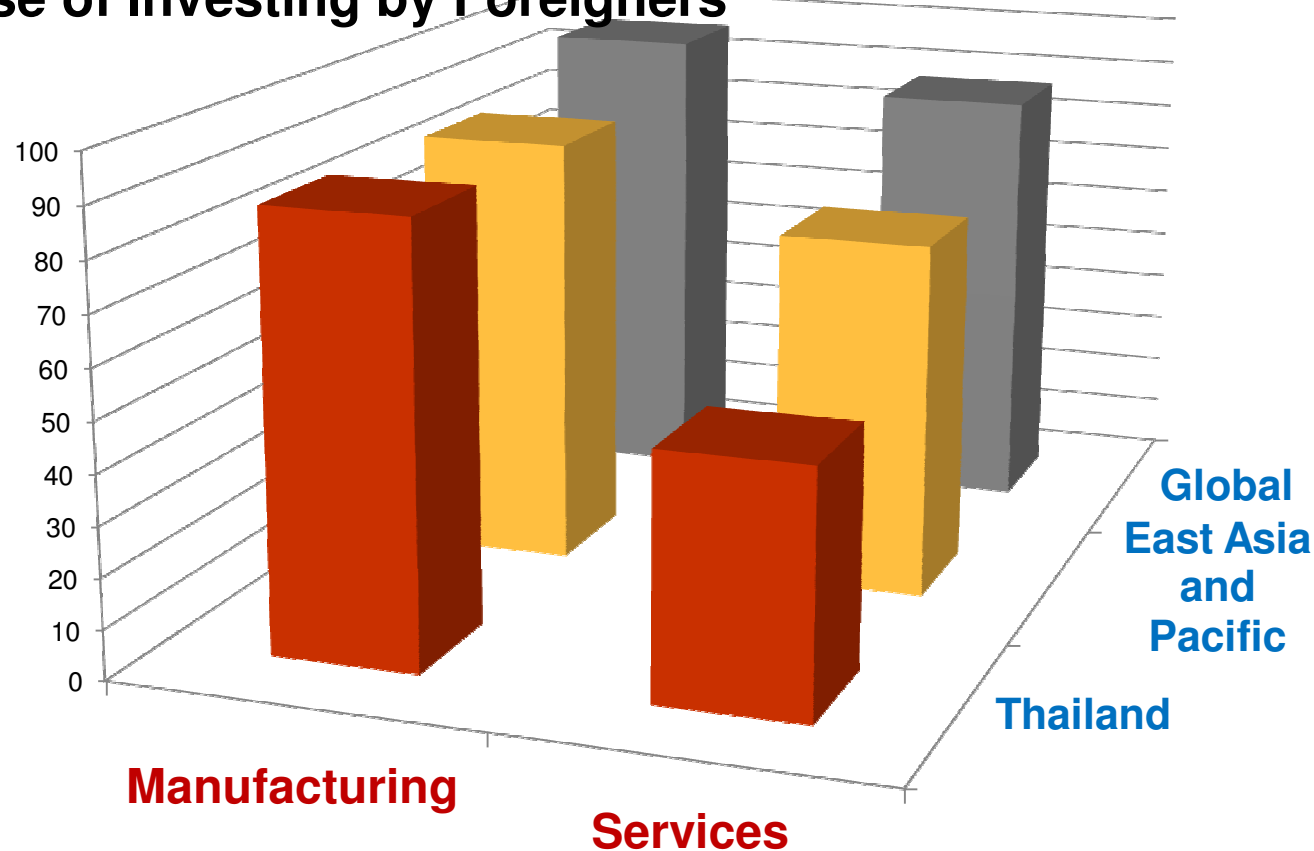
Source: Borchert, Gootiiz and Mattoo, "Policy Barriers To International Trade in Services: New Empirical Evidence", World Bank: forthcoming.

Note: GDP per capita taken from WDI, 2007 PPP data in constant 2005 international US\$



2. FDI in services is highly restricted East Asia especially in Thailand

Ease of Investing by Foreigners



Source: IFC Investing Across Borders 2010

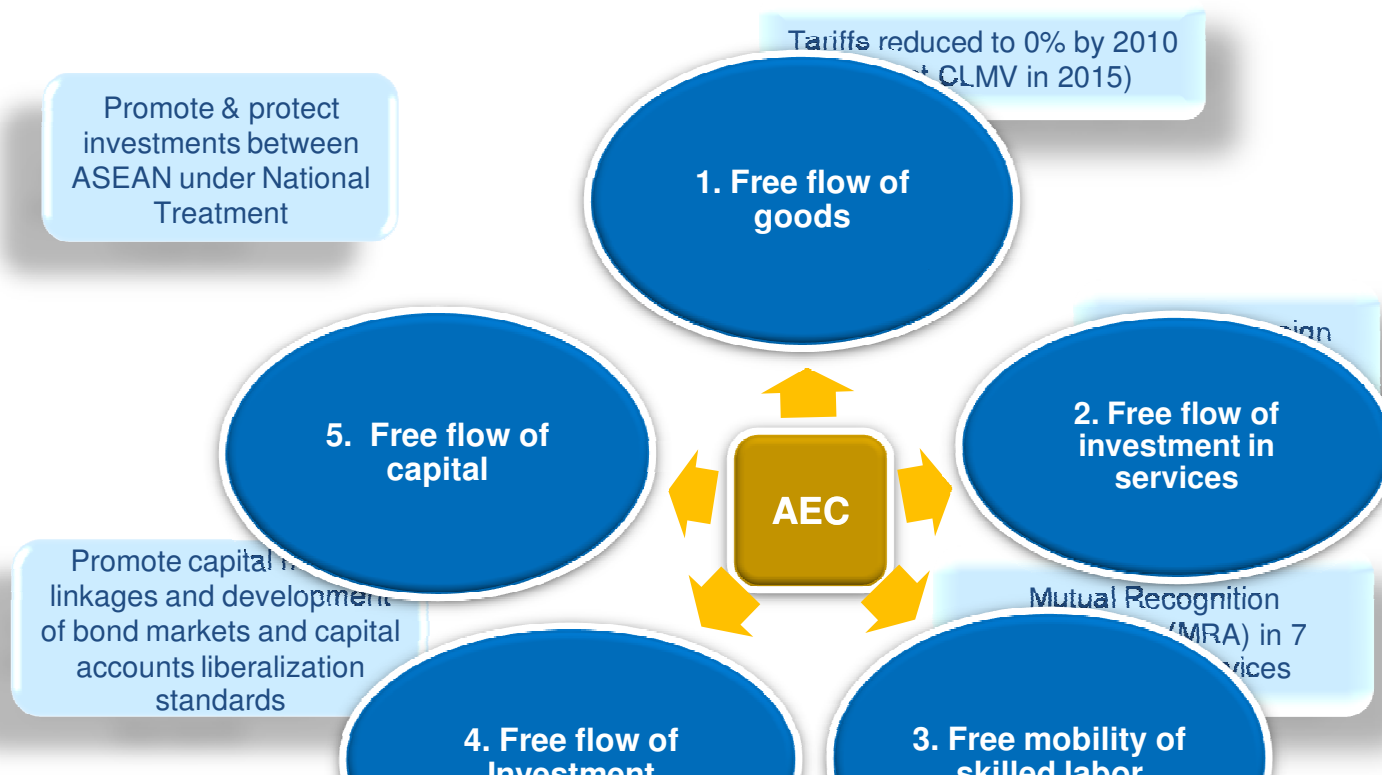


Thailand should use the AEC as an opportunity

- ✓ Deepen trade integration
- ✓ Invest abroad

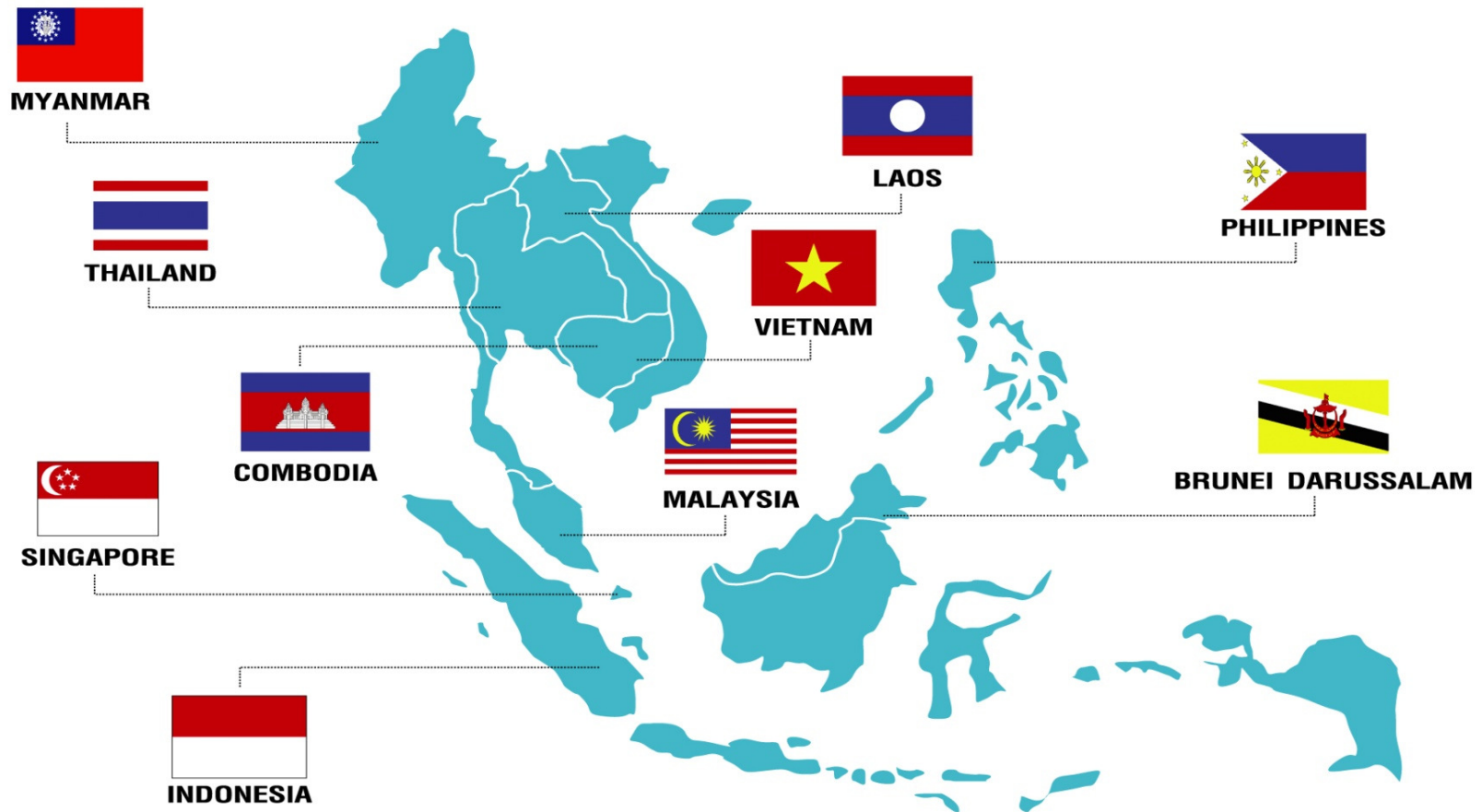
- ✓ Open to services trade
- ✓ Improve skill levels

AEC Framework for an Integrated Market and Production Base





ASEAN Economic Community





1. Free flow of goods

Tariffs of ASEAN-6 has been 0% under AFTA since 2010

AFTA	1993	2004	2005	2006	2007	2008	2009	2010	2012	2013	2015
Trade in Goods								ASEAN-6 Tariff 0%			ASEAN-10 Tariff 0%

Normal Track

CLMV

Sensitive List

- Tariffs must be <5%
- Thai has 4 product lines: cut flowers, copra, potato, coffee beans

Exceptions

Highly Sensitive List

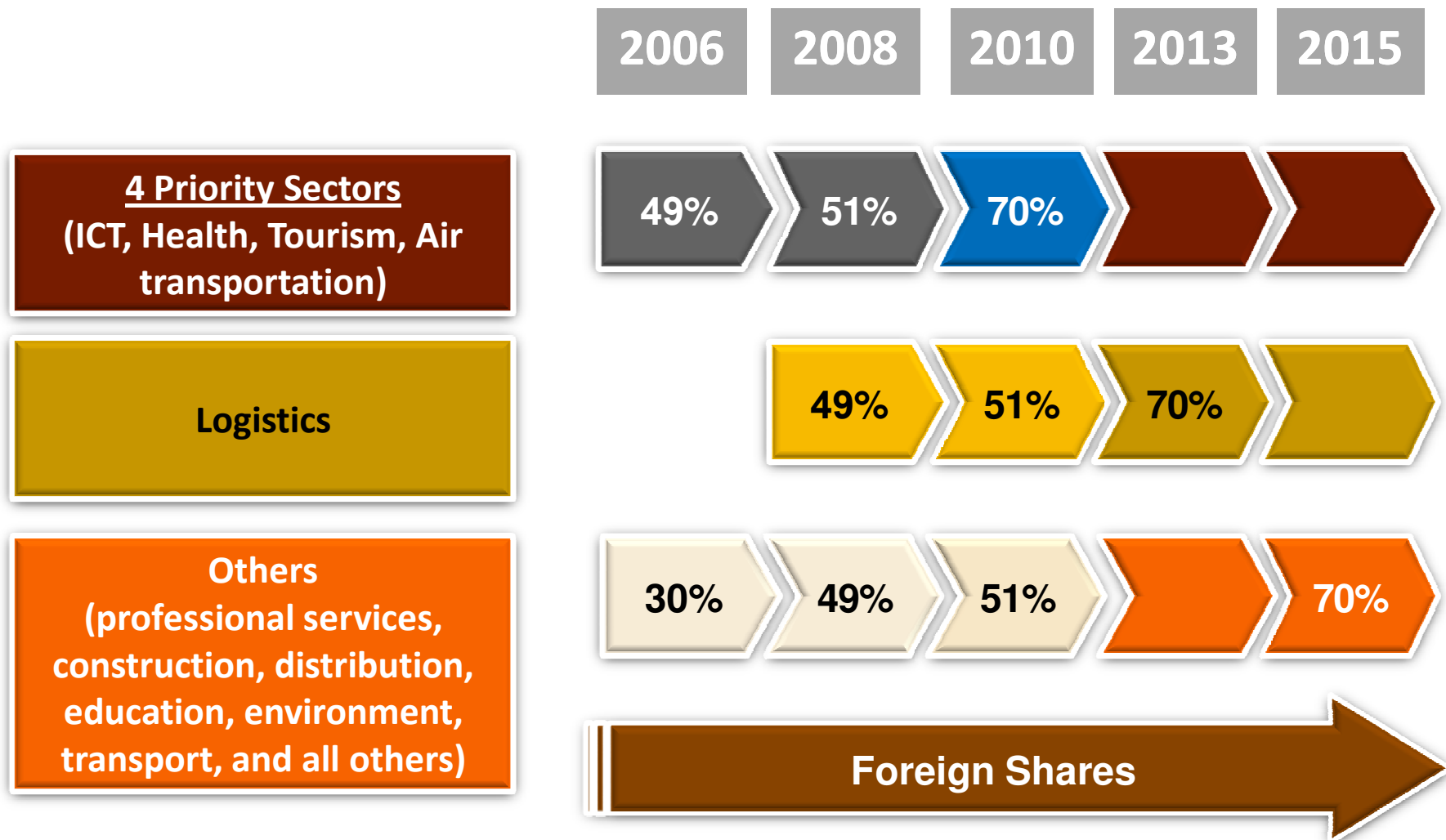
- No tariff reduction required
- Malaysia and Philippines – Rice
- Indonesia – Rice and sugar

ASEAN Trade Facilitation Framework

To reduce Non-tariff barriers such as customs, trade procedures, phytosanitary standards, etc.



2. Free flows of services: Increase foreign shares in service businesses





2. Free flows of investment in services

Implementation of AEC milestones are delayed

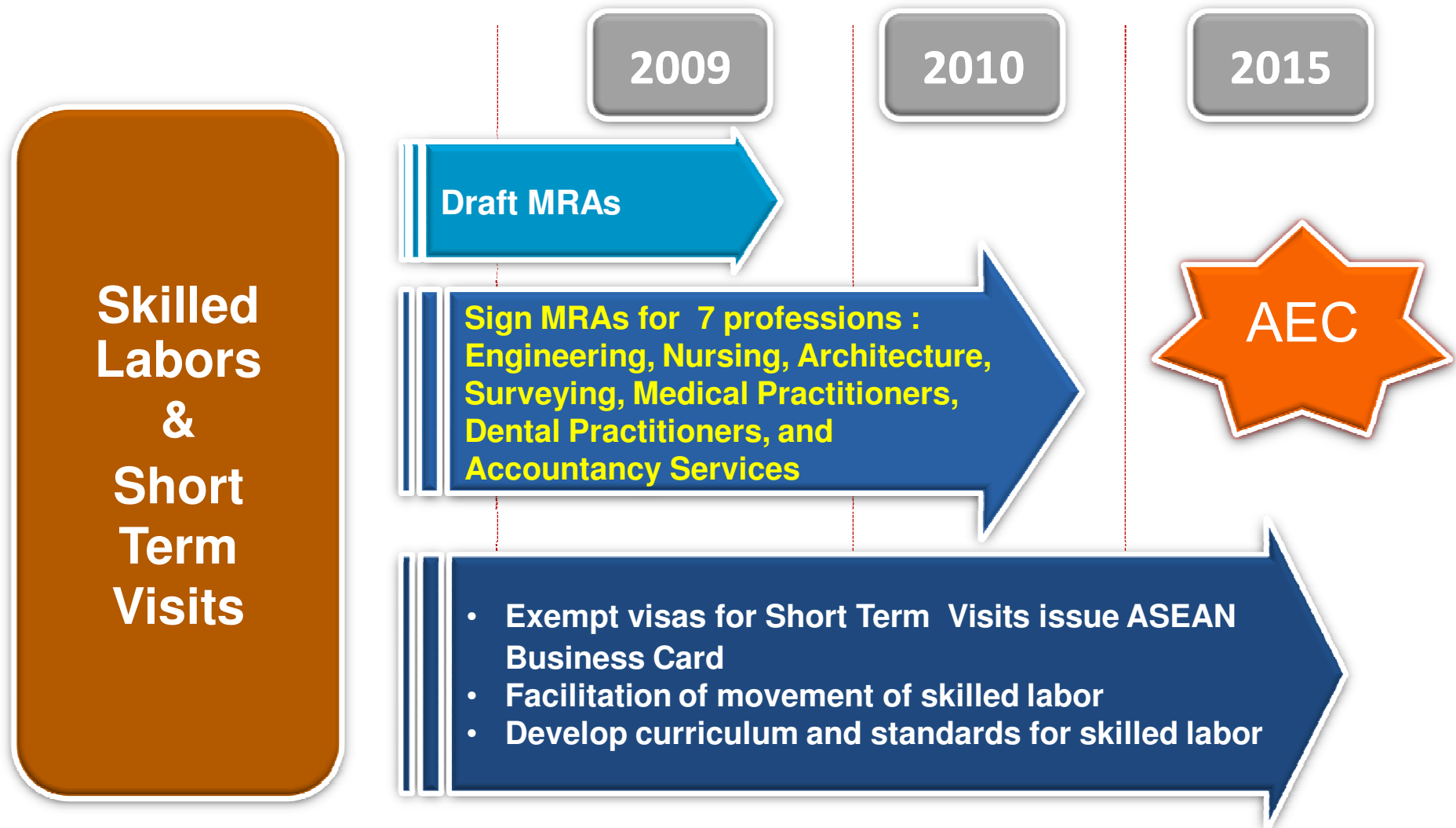
- **AEC Blueprint established service liberalization goals that need to be implemented through 4 Rounds of negotiations in ASEAN Framework Agreement on Services (AFAS) producing 7th – 10th packages**

Delayed

Package of Services Commitments	Signed	Modality
1 st Package (Round 1)	Dec 1997	Request and offer approach
2 nd Package (Round 1)	Dec 1998	Request and offer approach
3 rd Package (Round 2)	Dec 2001	Common sub-sectors (if minimum 4 countries => multi-lateralize)
4 th Package (Round 3)	Sep 2004	Modified common sub-sectors/ (If minimum 3 countries => multilateralize but ASEAN minus X)*
5 th Package (Round 4)	Dec 2006	"
6 th Package (Round 4)	Nov 2007	"
7 th Package (Round 5)	Feb 2009	Negotiation according to AEC Blueprint
8 th Package (Round 5)	Due to be completed in August 2011	"



3. Free mobility of skilled labor: Mutual Recognition Agreements of 7 professional services





3. Free mobility of skilled labor: Only Engineering & Architecture have MRAs today

MRA on sector	Detail
Engineering and architecture	Provide recognition for registered ASEAN architects and engineers by providing harmonized standards and qualifications. Member states that would like to participate must notify ASEAN Secretary General (opt in)
Nursing services	Promote exchange of expertise, experience and best practices.
Architectural services, surveying qualification	Lay down broad principles and framework for negotiating bilateral and multilateral MRAs
Medical Practitioners, Dental Practitioners, and Accountancy Services	Provide bilateral registration processes. Members that wish to defer implementation must notify ASEAN Secretary General. (opt out)



3. Free mobility of skilled labor: Other ASEAN countries have made headway

Number of Engineers Registered under ACPEs

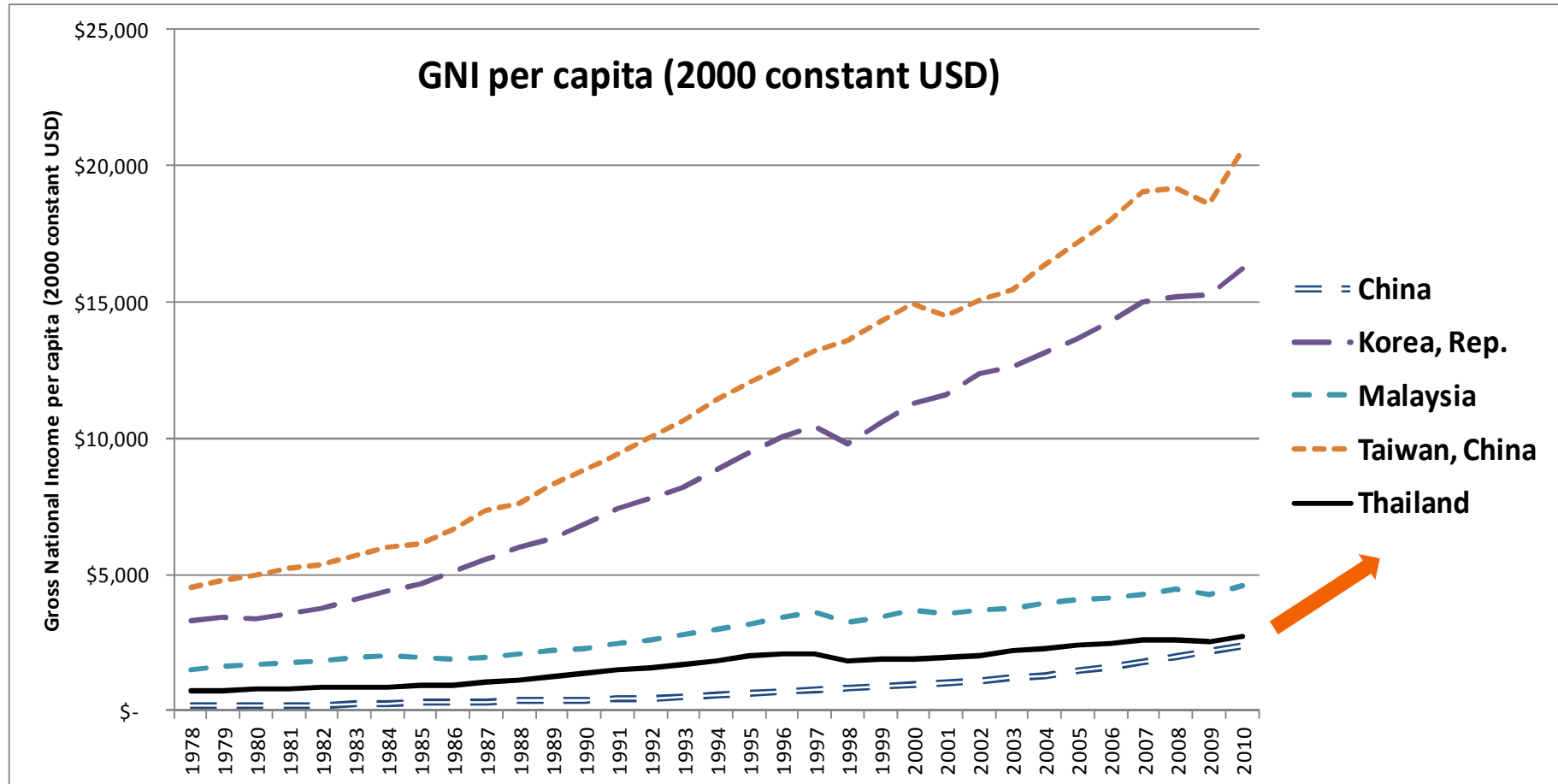
Country	Numbers of ACPEs
Malaysia	149
Singapore	183
Indonesia	99
Vietnam	9
Total	440

- **Thailand has not registered in the ASEAN chartered professional engineers (ACPEs)**

Data from ACPECC website,
<http://www.acpecc.org/modules/acpes.php>



Competition is intensifying and Thailand should not be “left behind”



Source: World Development Indicators (World Bank)



THANK YOU

**World Bank data and reports
can be downloaded at**

www.worldbank.org