The World Bank

Positioning Thailand in the New Global Order

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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?

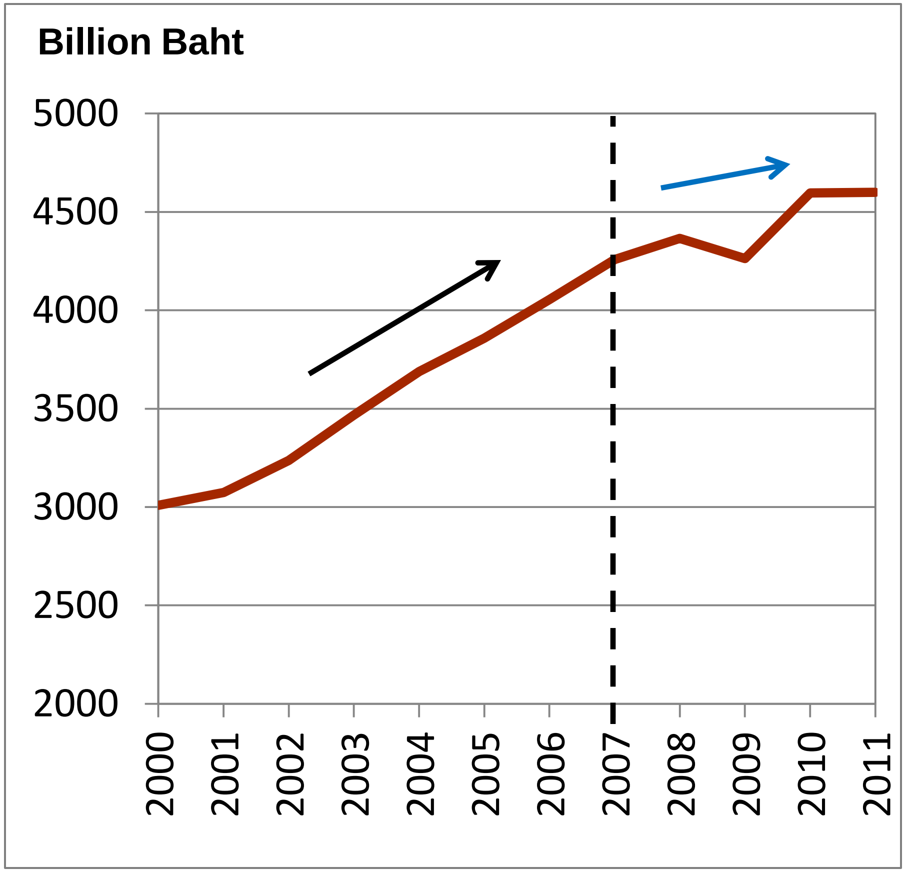
- ✓ **Maintained an open economy and competitive policy esp. for manufacturing sector – FDI, Trade**

- ✓ **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 FOR THAILAND IN THE NEXT 20 YEARS

The World has changed with the Subprime and Eurozone Crisis

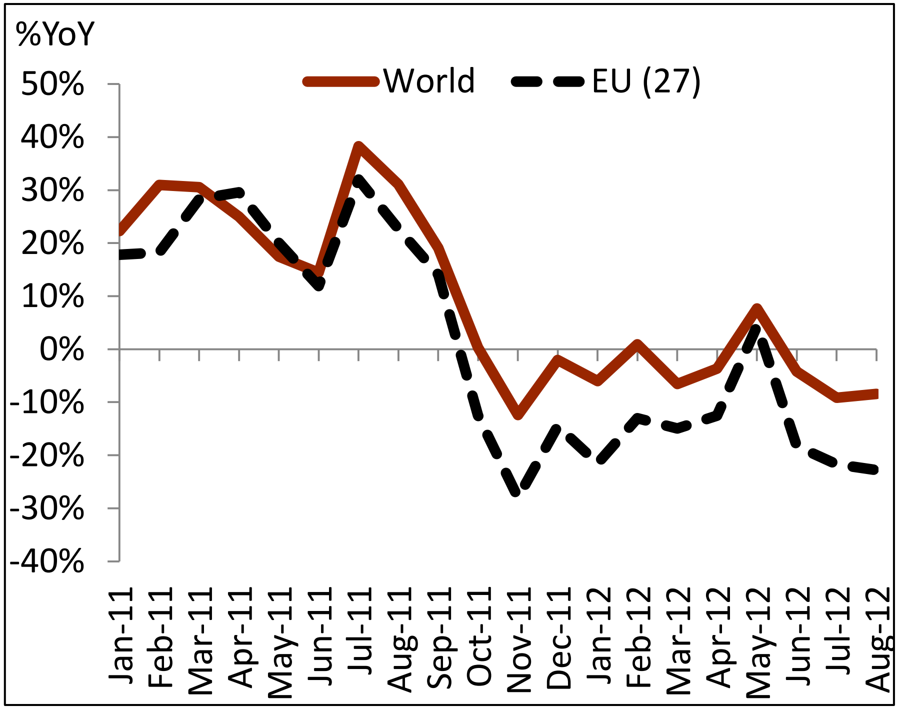
(Percentage change from previous years, except interest rates and oil price)

	2009	2010	2011	2012	2013e
World trade Volume (GNFS)	-10.6	13.0	6.2	3.5	6.0
Commodity Prices (USD terms)					
Non-oil commodities	-22.0	22.5	20.7	-9.5	-2.0
Oil Price (USD per barrel)	61.8	79.0	104.0	105.0	102.0
Real GDP growth					
World	-2.3	4.1	2.7	2.3	2.4
High income	-3.7	3.0	1.6	1.3	1.3
OECD Countries	-3.7	2.9	1.5	1.2	1.1
Euro Area	-4.2	1.8	1.5	-0.4	-0.1
Japan	-5.5	4.5	-0.7	1.9	0.8
United States	-3.5	3.0	1.8	2.2	1.9
Non-OECD countries	-1.5	7.4	5.0	2.9	3.5
Developing Countries	2.0	7.4	5.9	5.1	5.5
East Asia and Pacific	7.5	9.7	8.3	7.5	7.9
China	9.2	10.4	9.3	7.9	8.4
India	9.1	9.6	6.9	5.1	6.1
Dev. Countries excl. China and India	-1.7	5.6	4.5	3.3	4.0

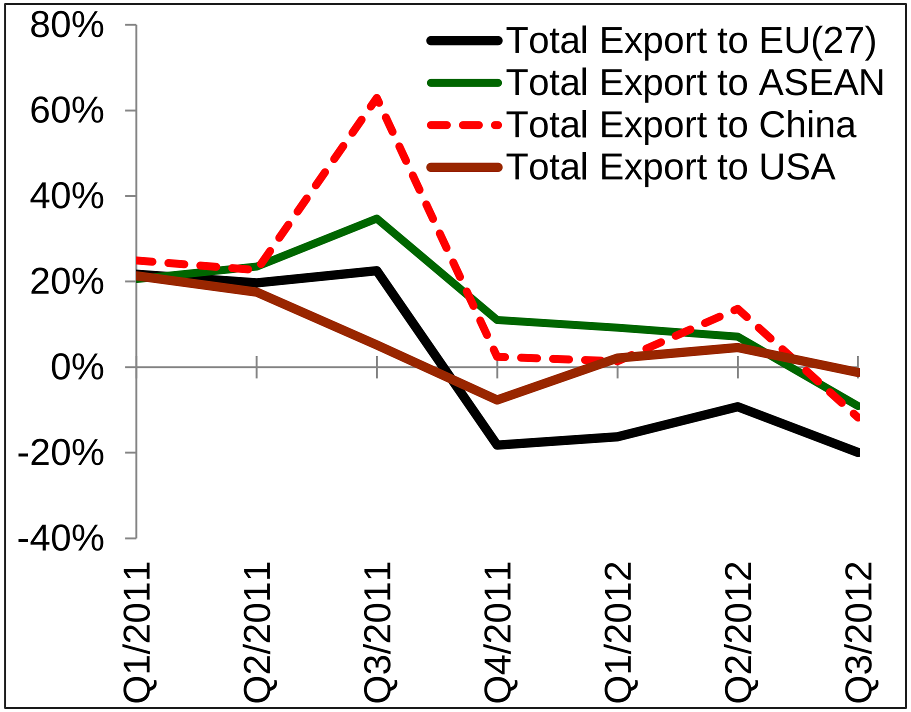
Source: World Bank Global Economic Prospects (GEP) **January 2013** and World Development Indicators

Slow down in Eurozone & US 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 Calculation

Commodity prices will rise slower than earlier expected

Commodity Prices and Price Forecast in Nominal US$

(as of January 2013)

					Forecast							
Commodity	Unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Energy												
Coal, Australian	$/mt	99.0	121.4	96.4	93.0	91.0	90.0	91.0	91.9	92.9	93.9	94.9
Crude oil, avg, spot	$/bbl	79.0	104.0	105.0	102.0	102.2	102.1	101.9	101.7	101.5	101.4	101.2
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	4.0	2.8	3.5	4.0	4.5	5.0	5.3	5.5	5.8	6.0
LNG, Japanese	$/mmbtu	10.8	14.7	16.7	16.0	15.5	15.0	14.8	14.5	14.3	14.0	13.8
Sugar, world	¢/kg	46.9	57.3	47.5	45.0	40.0	38.0	37.7	37.4	37.1	36.8	36.5
Rice, Thai, 5%	$/mt	489	543	563	540	520	500	498	496	494	492	490
Rubber, Malaysian	¢/kg	365	482	338	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

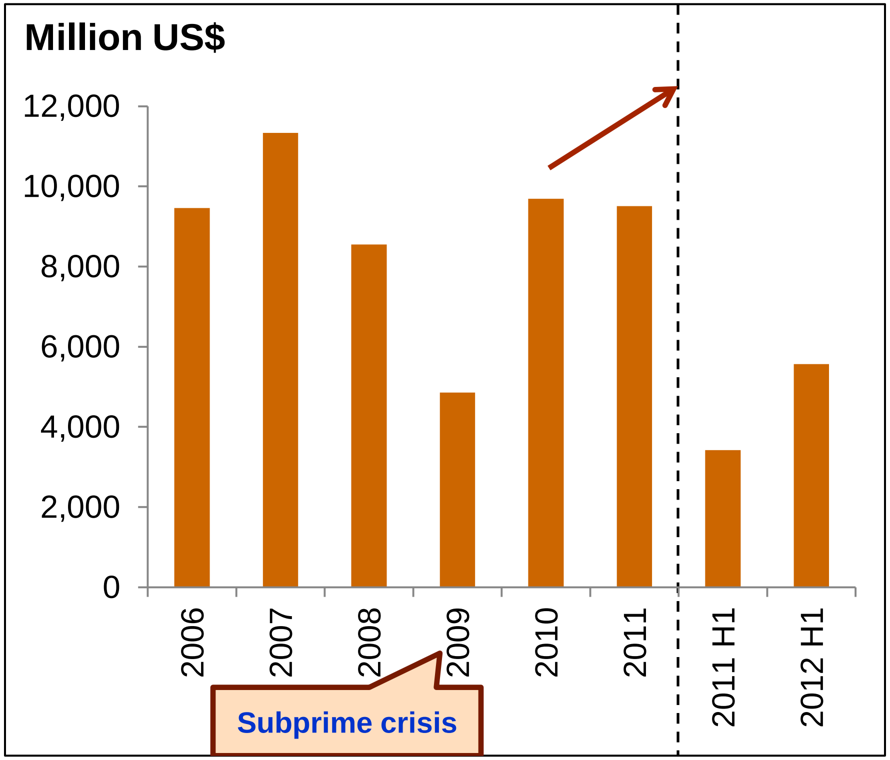
- Competition from of other countries in East Asia, that are "catching up" with Thailand, especially from China

- Higher risks of natural disasters

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

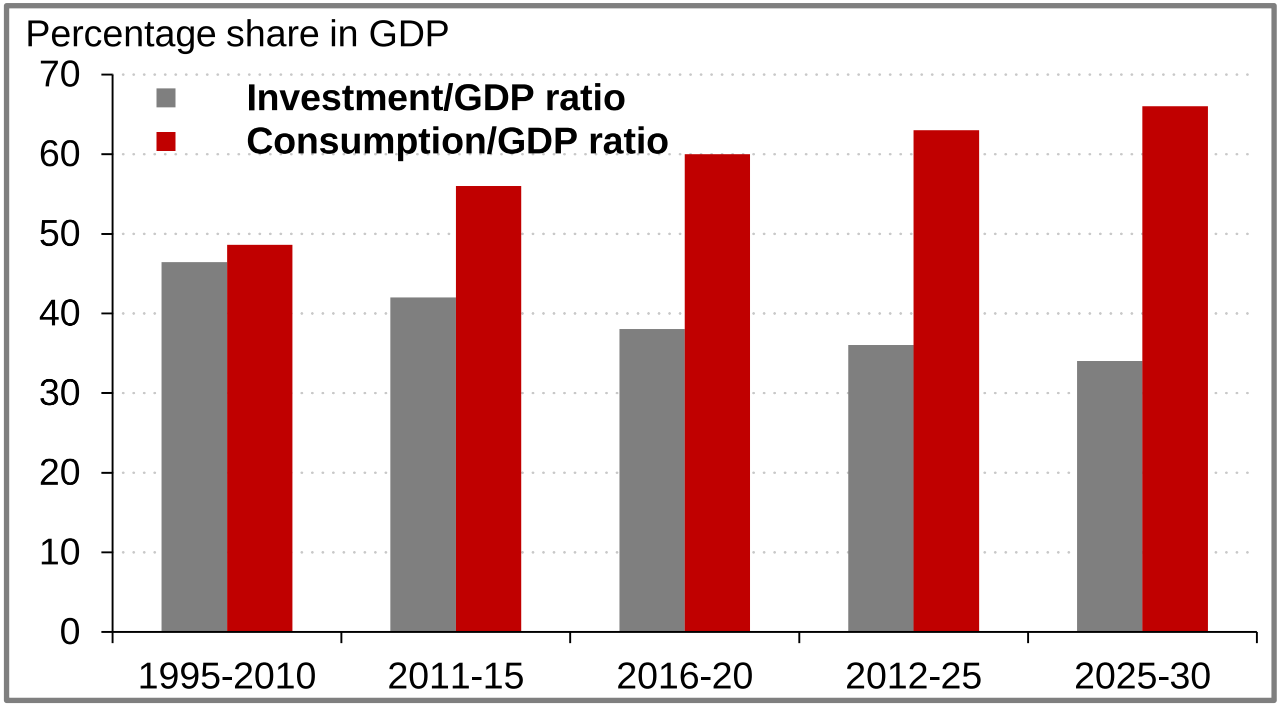
Opportunities for trade should multiply, despite expected slower growth in China

- **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 Koreas 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

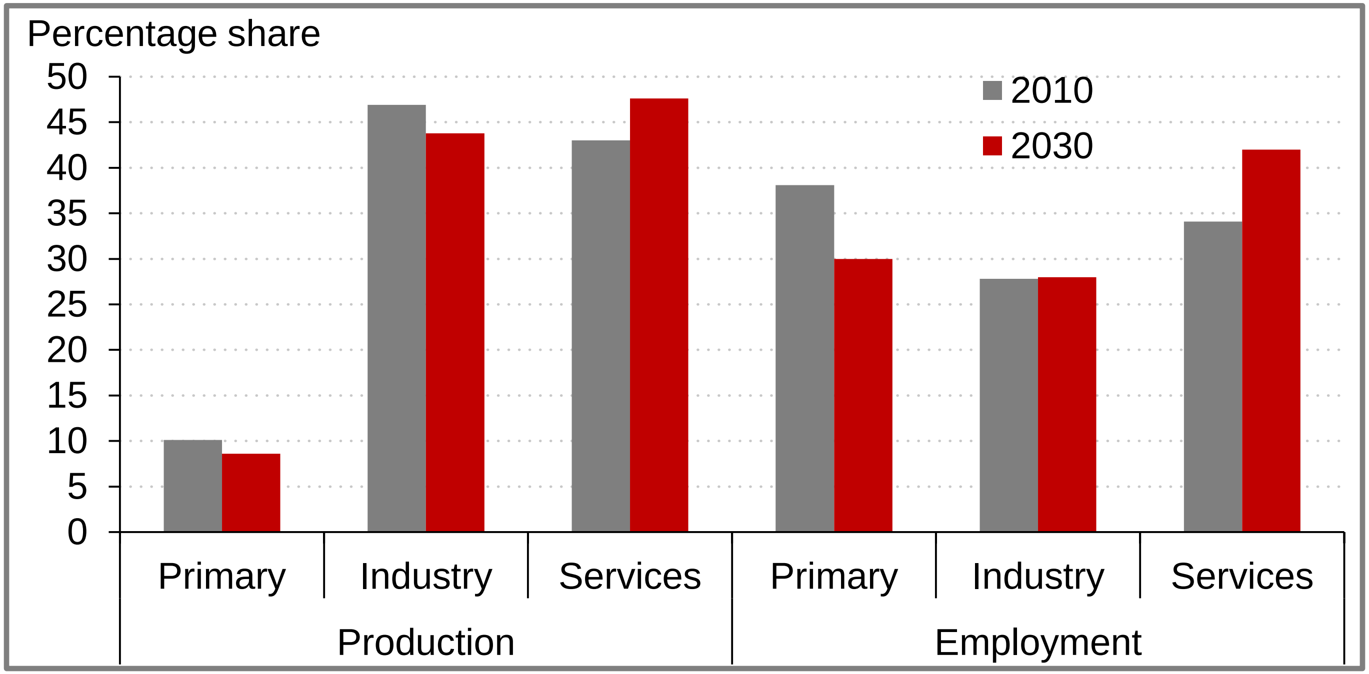


Source: DRC and World Bank, China 2030 (2012)

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?

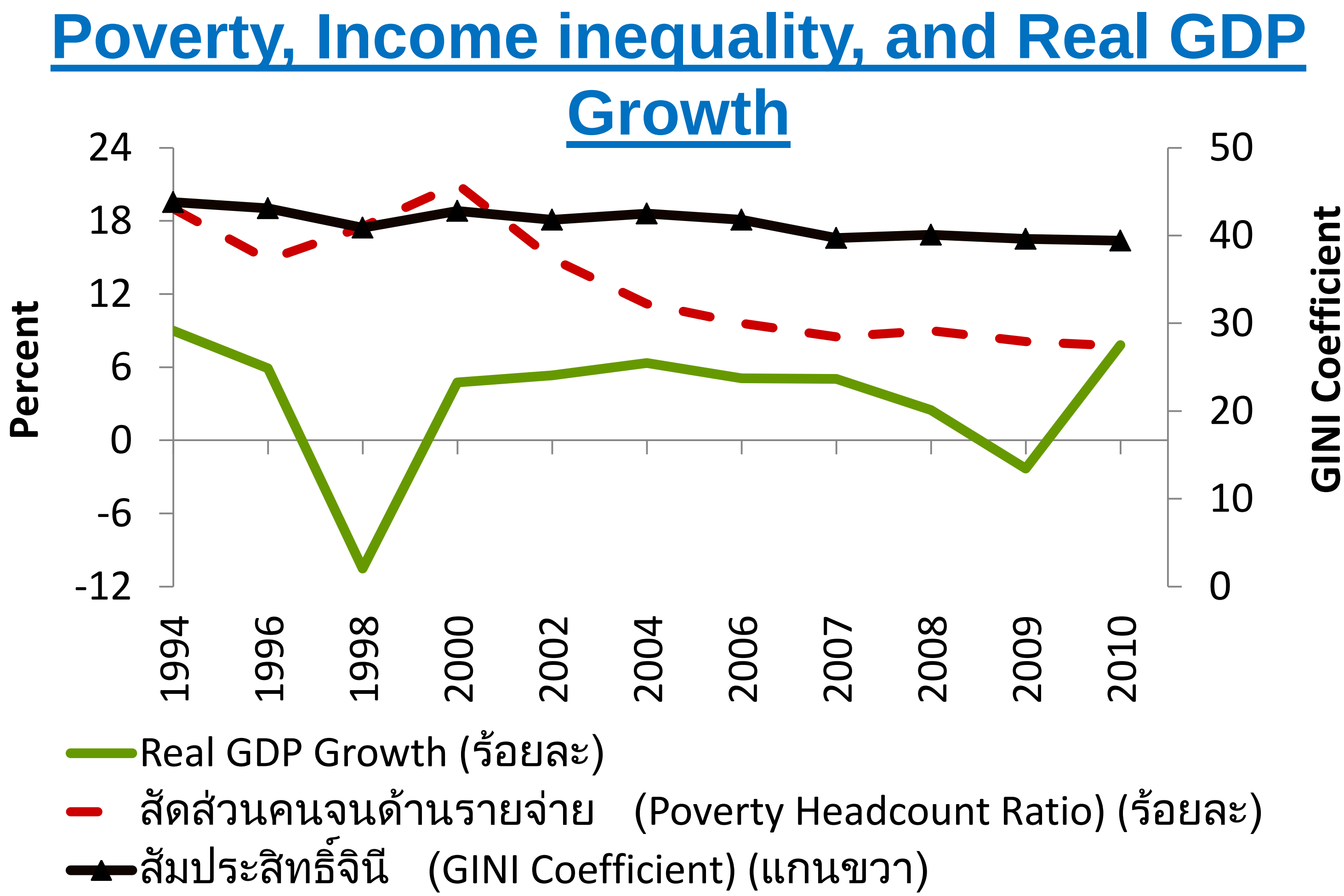
- **Ensure there is enough fiscal space should a severe global slowdown occurs – Govt needs to spend wisely**
- **Speed up regional integration esp. AEC 2015, China and India**
- **Find new markets – Raise productivity and competitiveness as global trade competition intensifies**

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

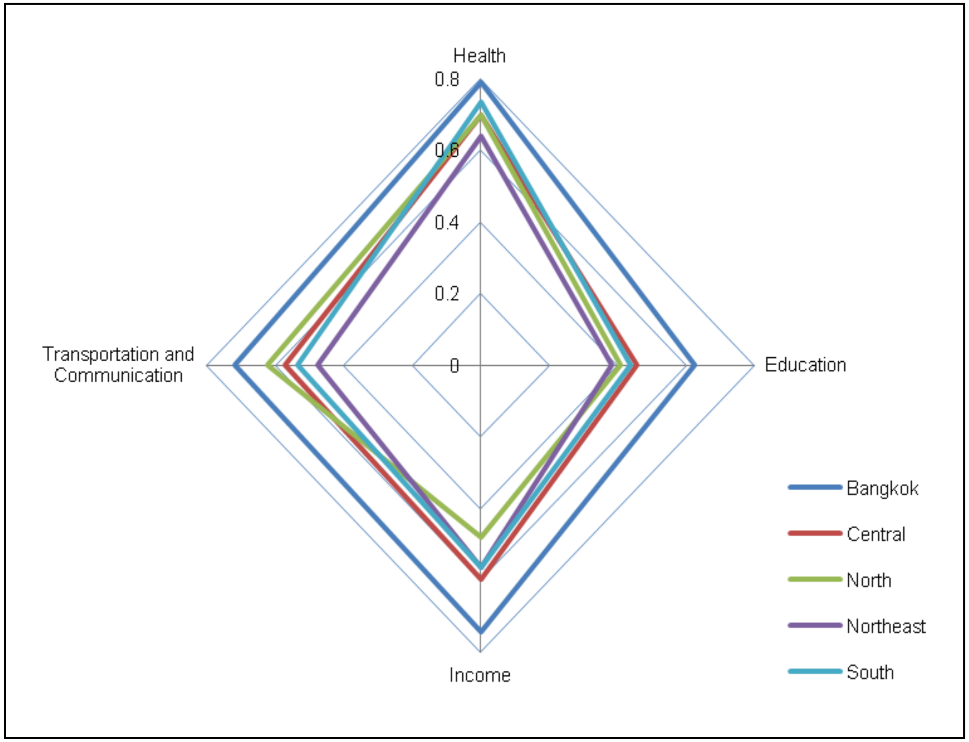
Thailand was able to grow & reduce poverty, but income inequality remains high



Source: NESDB

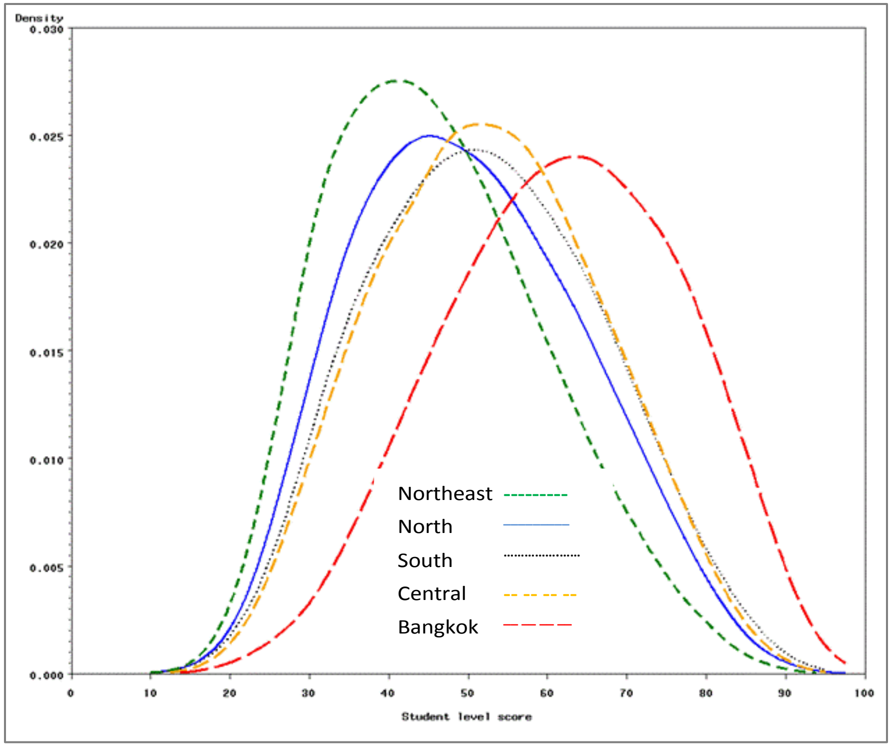
North and Northeast lag behind

Human Opportunities and Development Index by UNDP 2009



Source: UNDP Thailand Human Development Report (2009)

O-NET scores are lowest in N. & NE.

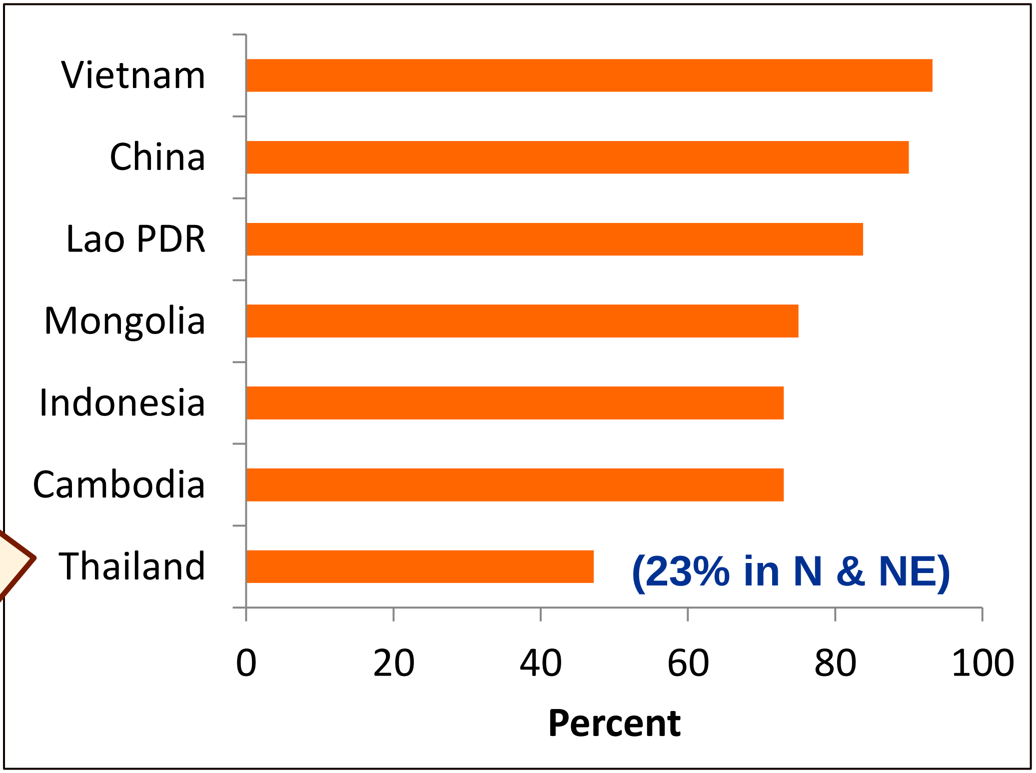


Source: Department of Basic Education in Parandekar (2011)

Iodine deficiency results in low IQ of children in North and Northeast

- 20% of newborns in Thailand are iodine deficient and at risk of brain damage and IQ loss.
- Internationally, the average IQ of an iodine deficient population is estimated to be 10 to 15 points lower than that of a population with adequate iodine
- IQ of Thai children is 91
- IQ of Thai children in NE is 85
- IQ of children in developing countries is 90-110

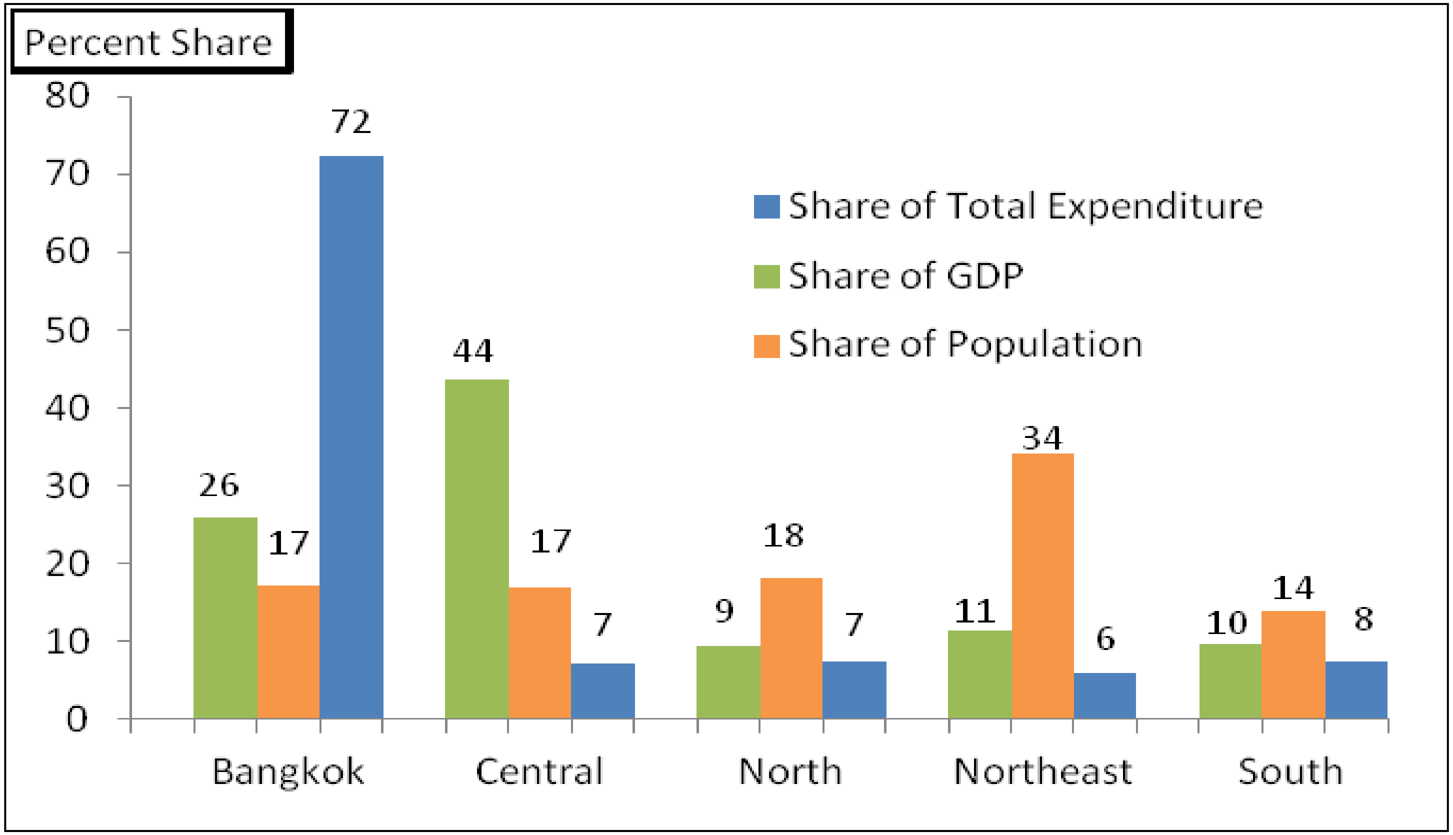
Percentage of Households Using Iodized Salt



Source: UNICEF 2010 and MICS 2006

Government spending per capita is lowest in North & Northeast

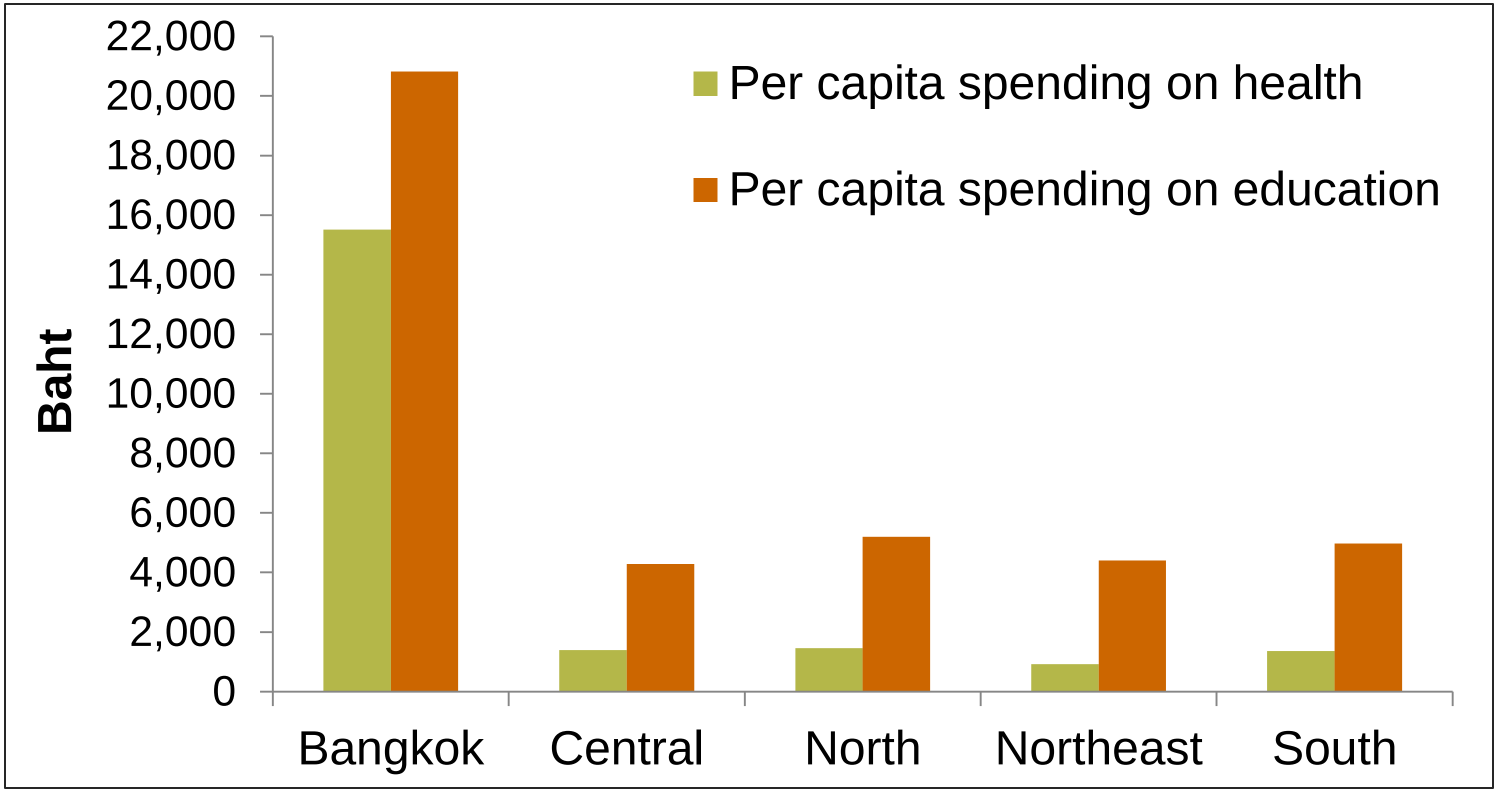
Total Government Spending by Region, 2010



Source: Public Financial Management Report 2012, World Bank

Government spending per capita for health & education is lowest in Northeast

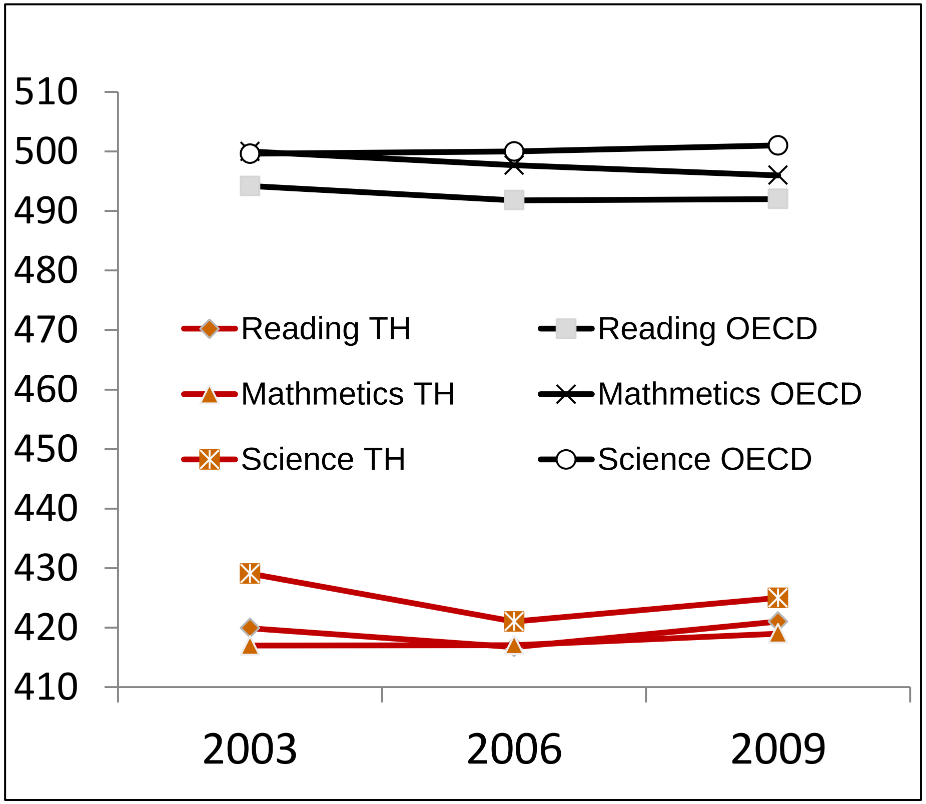
Government Spending In Health & Education by Region, 2010



Source: Public Financial Management Report 2012, World Bank

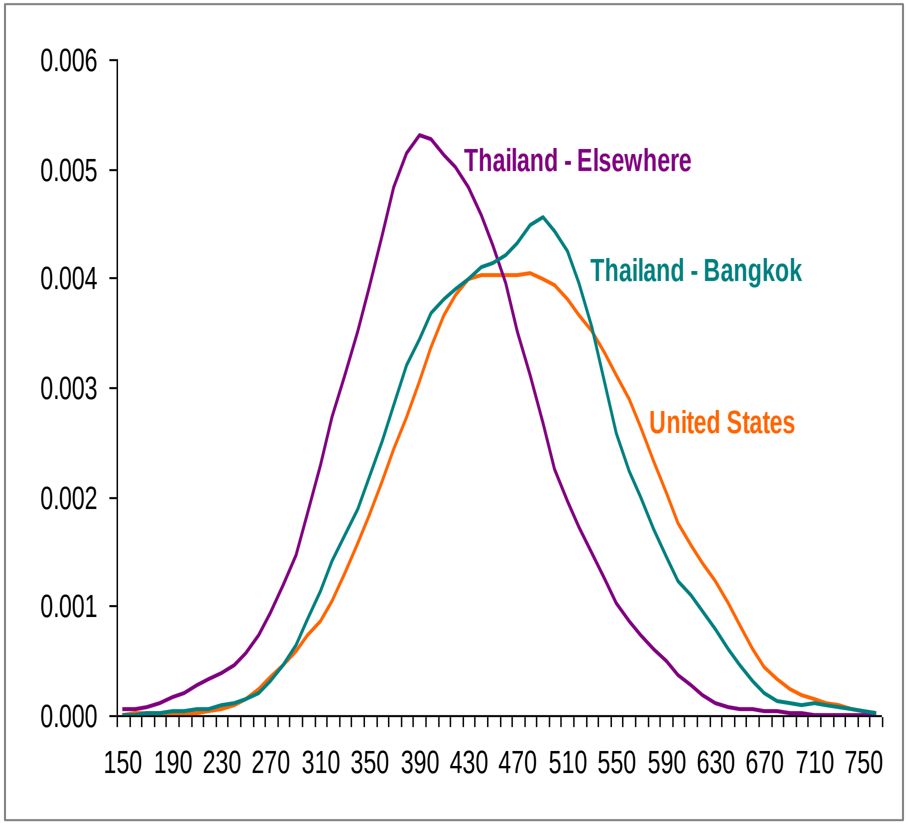
Education outcomes needs to be improved especially outside Bangkok

Average OECD and Thailand's PISA scores



Source: PISA 2000-2009 Results (OECD database)

PISA Scores in Bangkok comparable to US



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

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

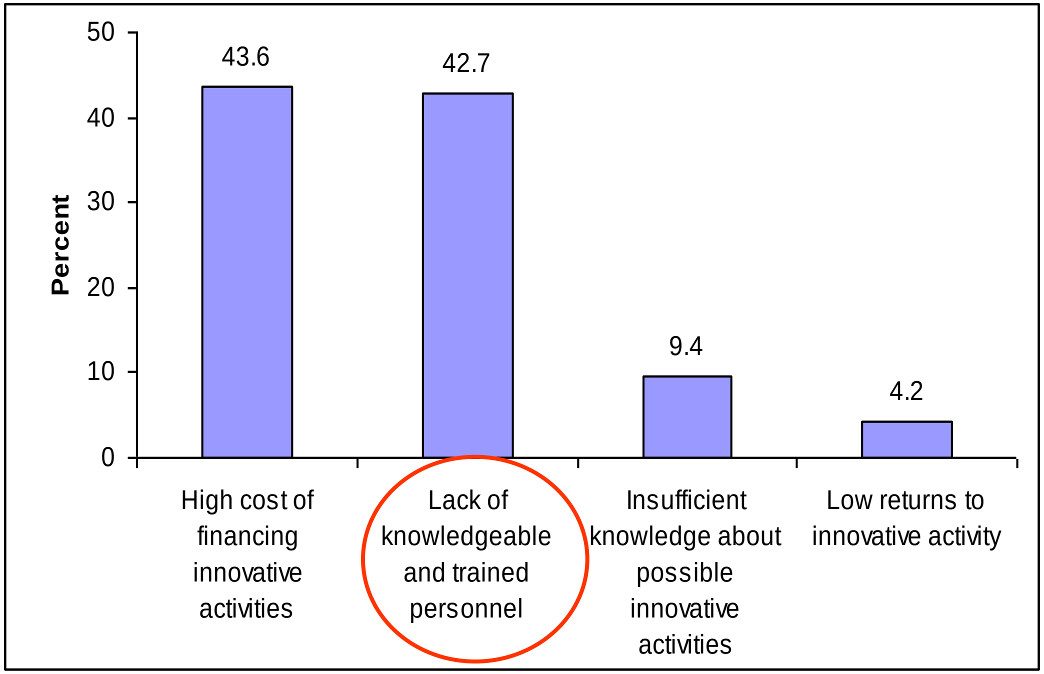
TABLE 2.4 Comparative skill gaps among professionals

	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

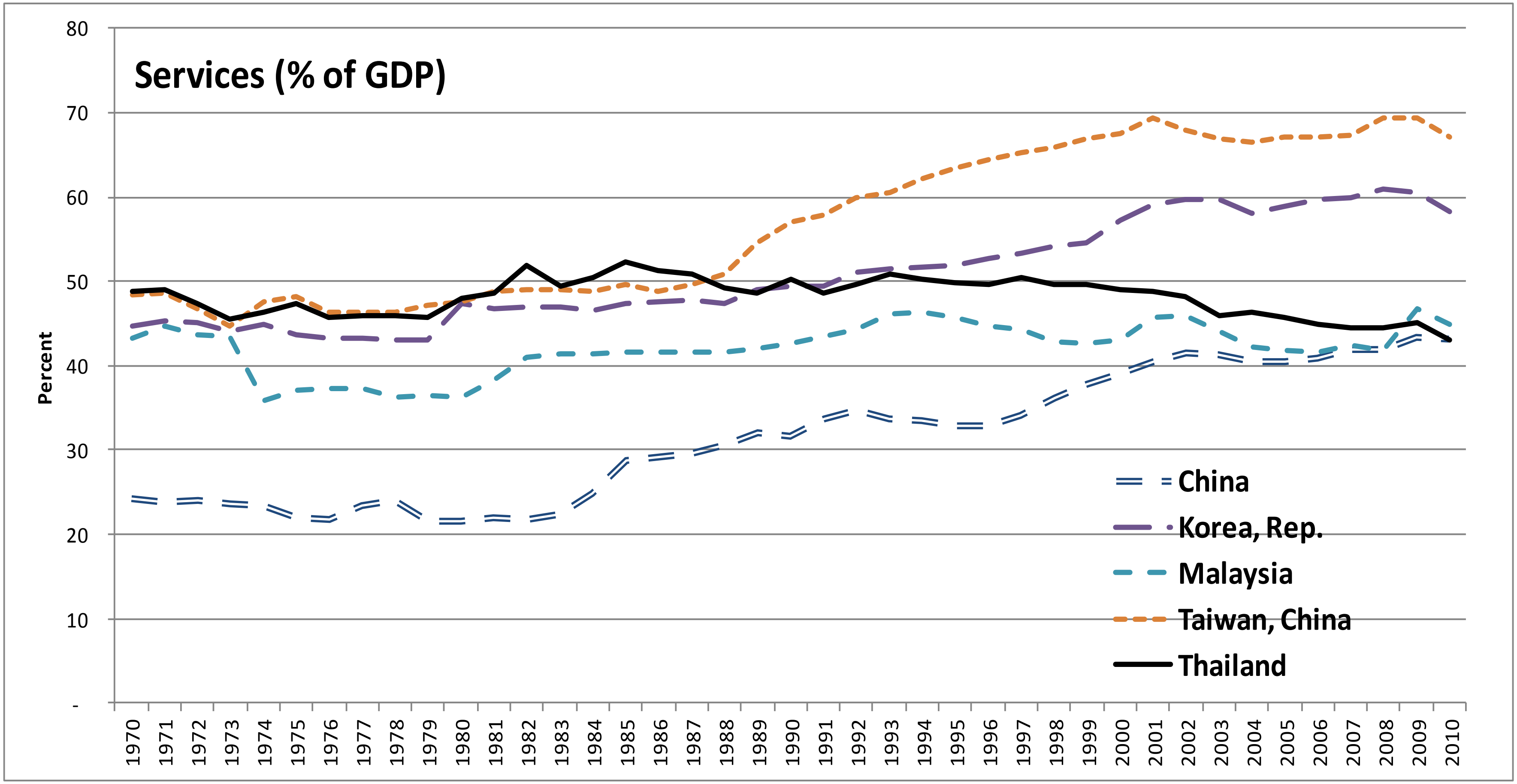
World Bank's Knowledge Economy Index 2012*

Ranking 2012	Change 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.

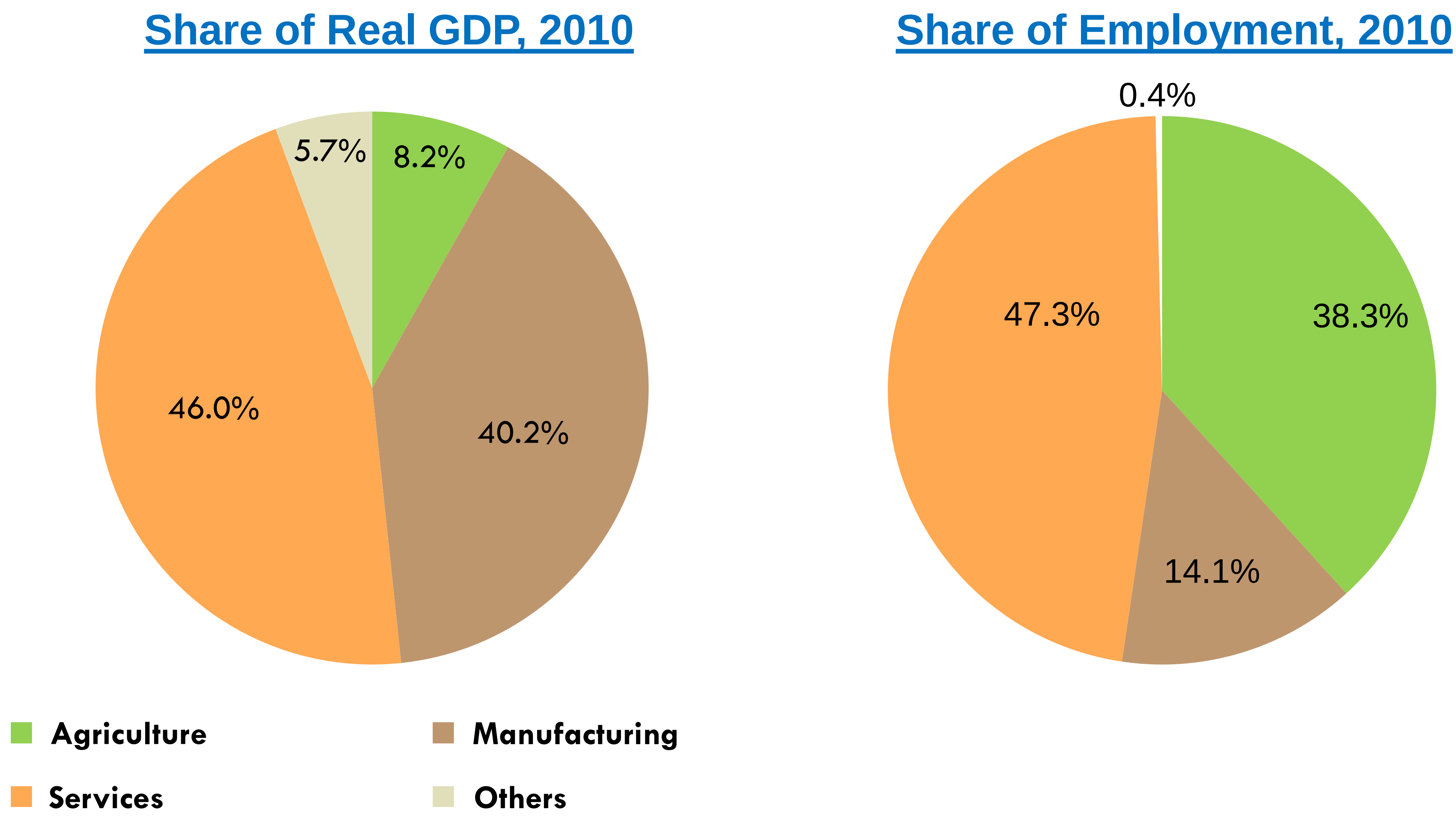
2. Share of services in Thailand has been falling

Share of Services in GDP

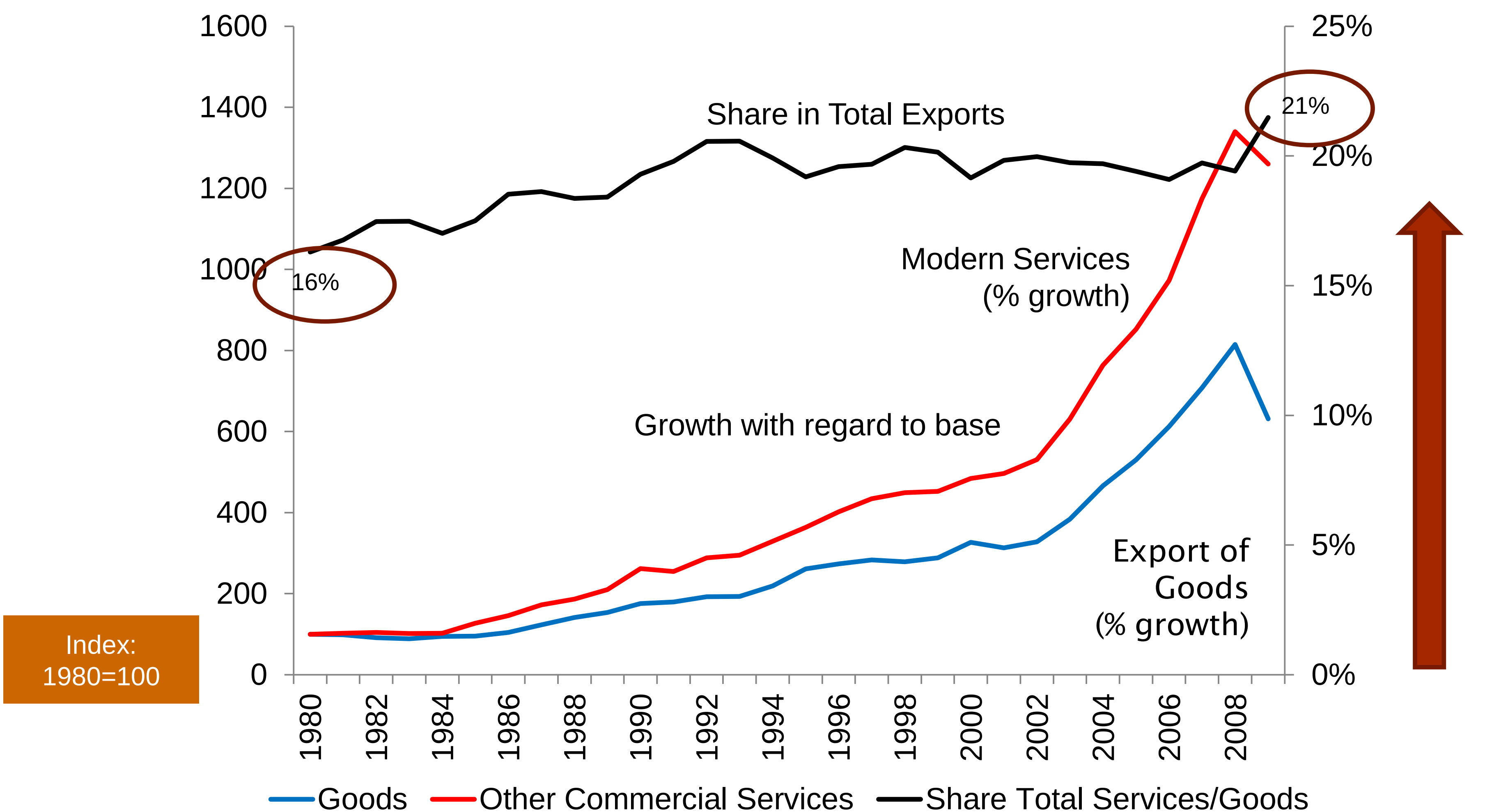


Source: World Development Indicators (World Bank)

Labor productivity of services sector is much lower than of manufacturing



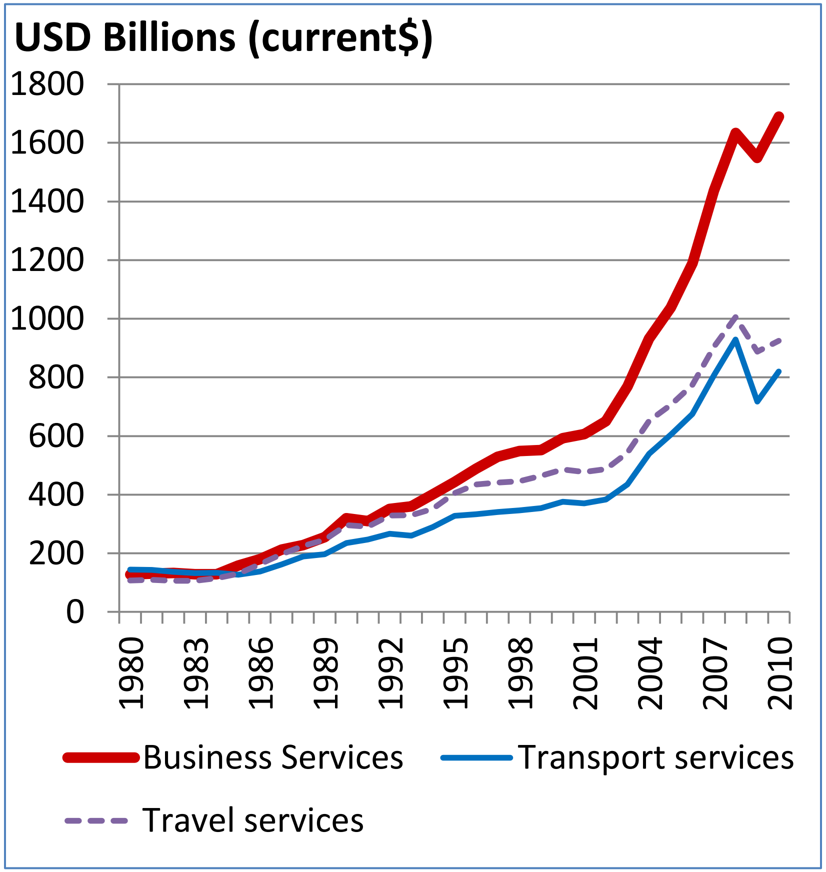
2. Global Trend: Services trade has grown sharply in global trade



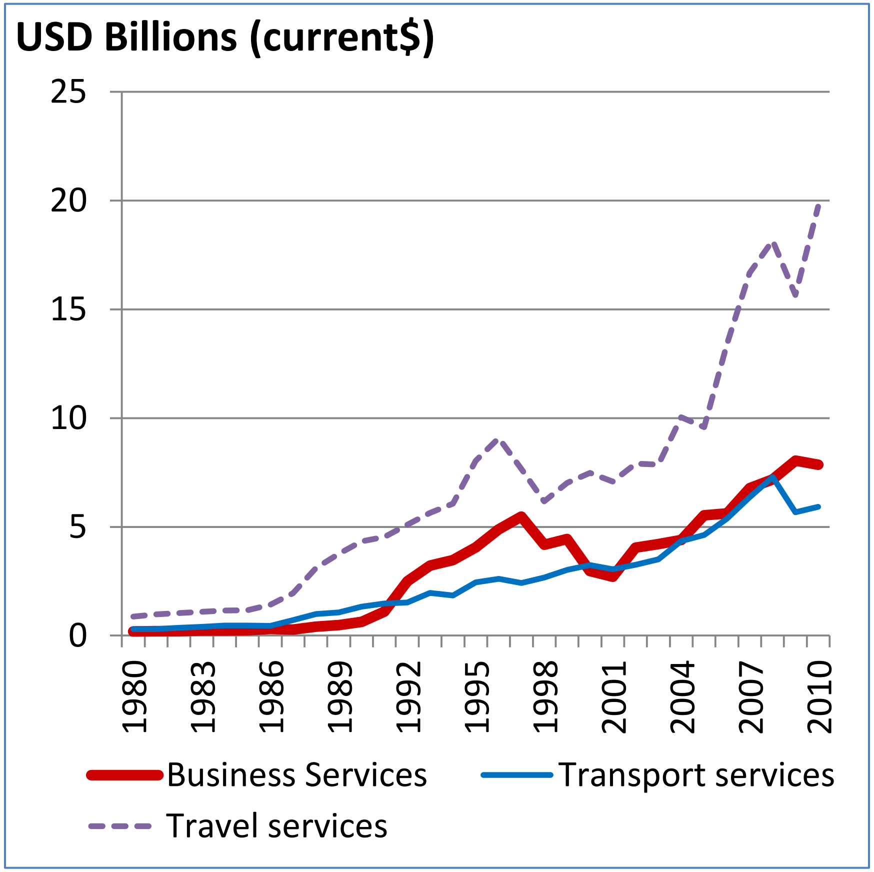
Source: World Bank, World Development Indicators

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

World

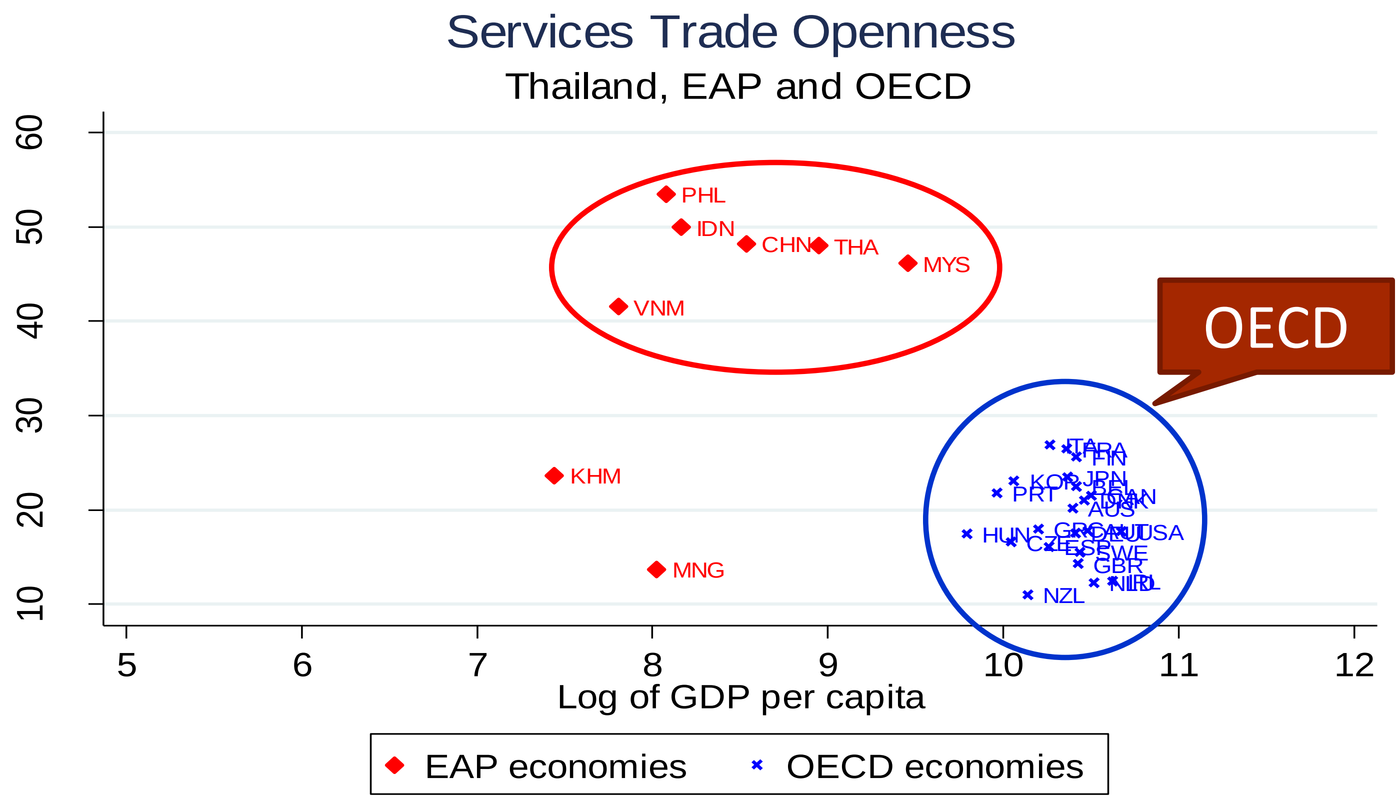


Thailand



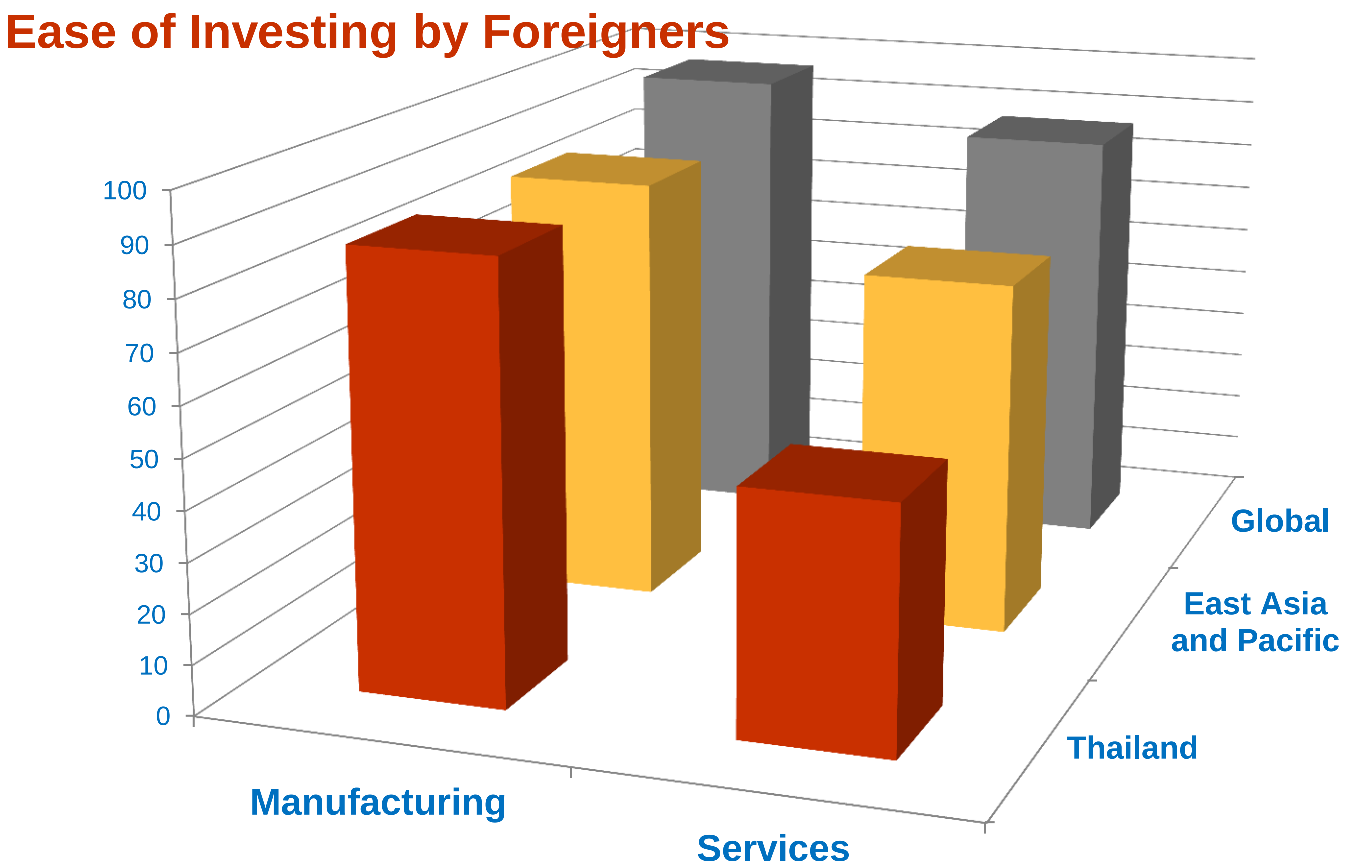
Source: World Bank, World Development Indicators

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

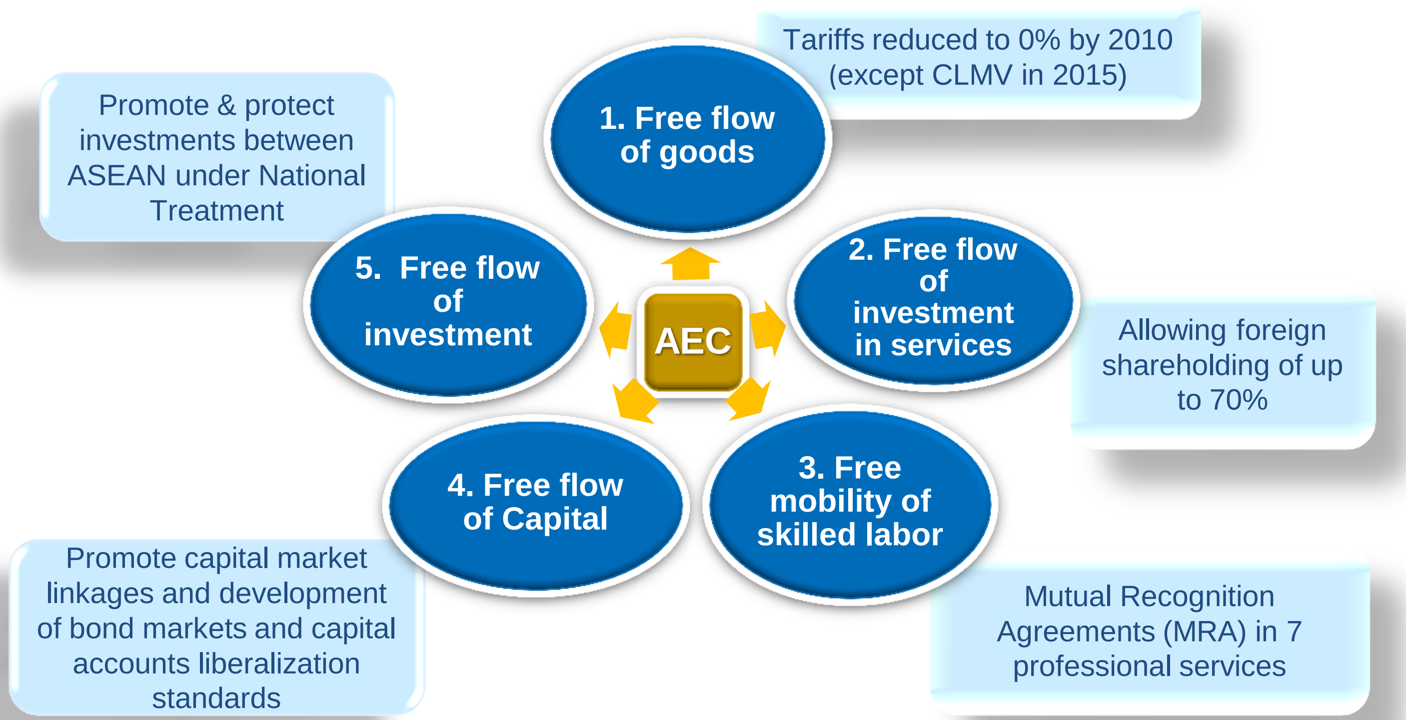


Source: IFC Investing Across Borders 2010

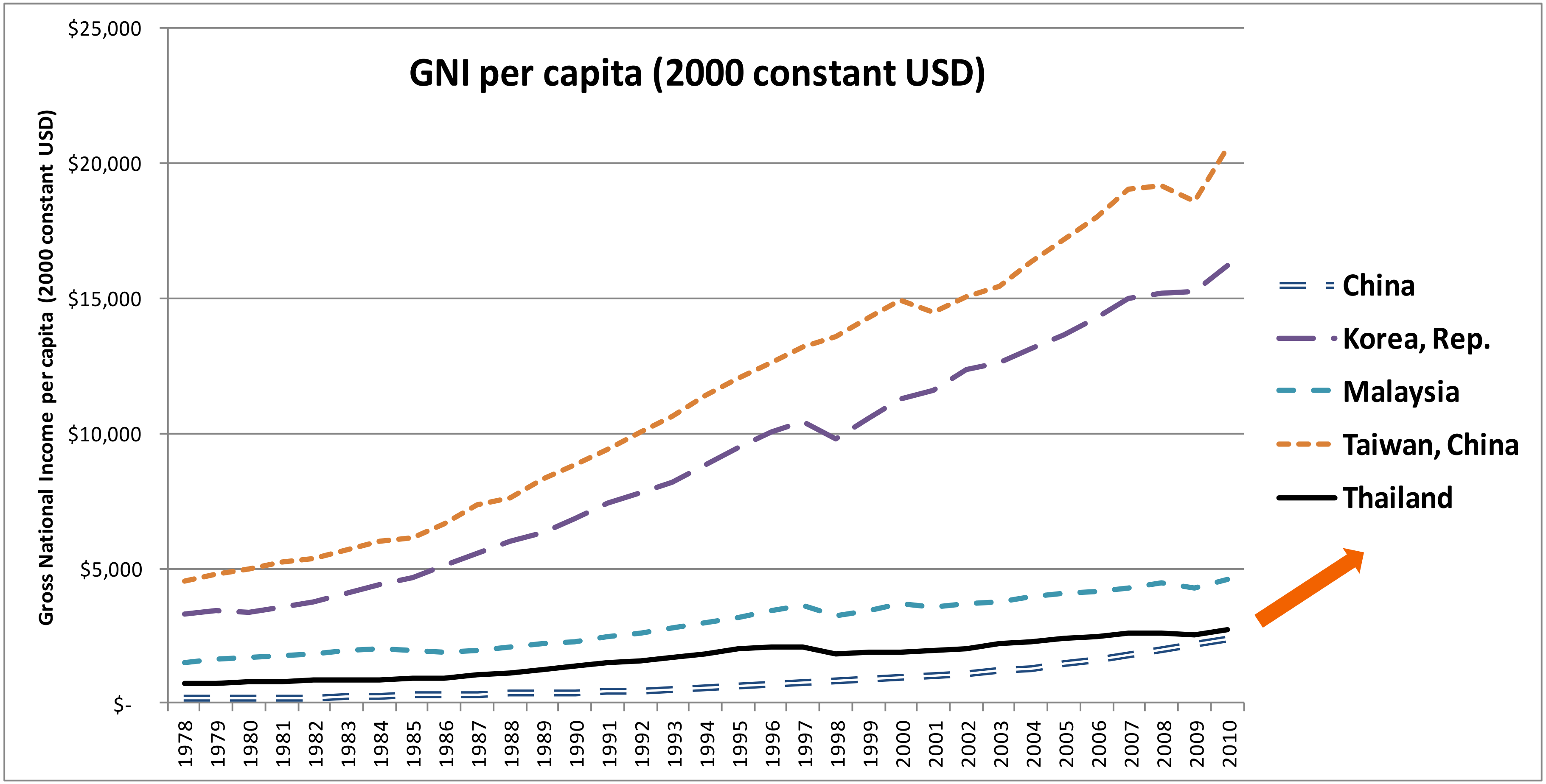
Thailand should use the AEC as an opportunity

- ✓ Deepen trade integration
- ✓ Invest abroad
- ✓ Open to services trade
- ✓ Improve skill levels

AEC Framework for an Integrated Market and Production Base

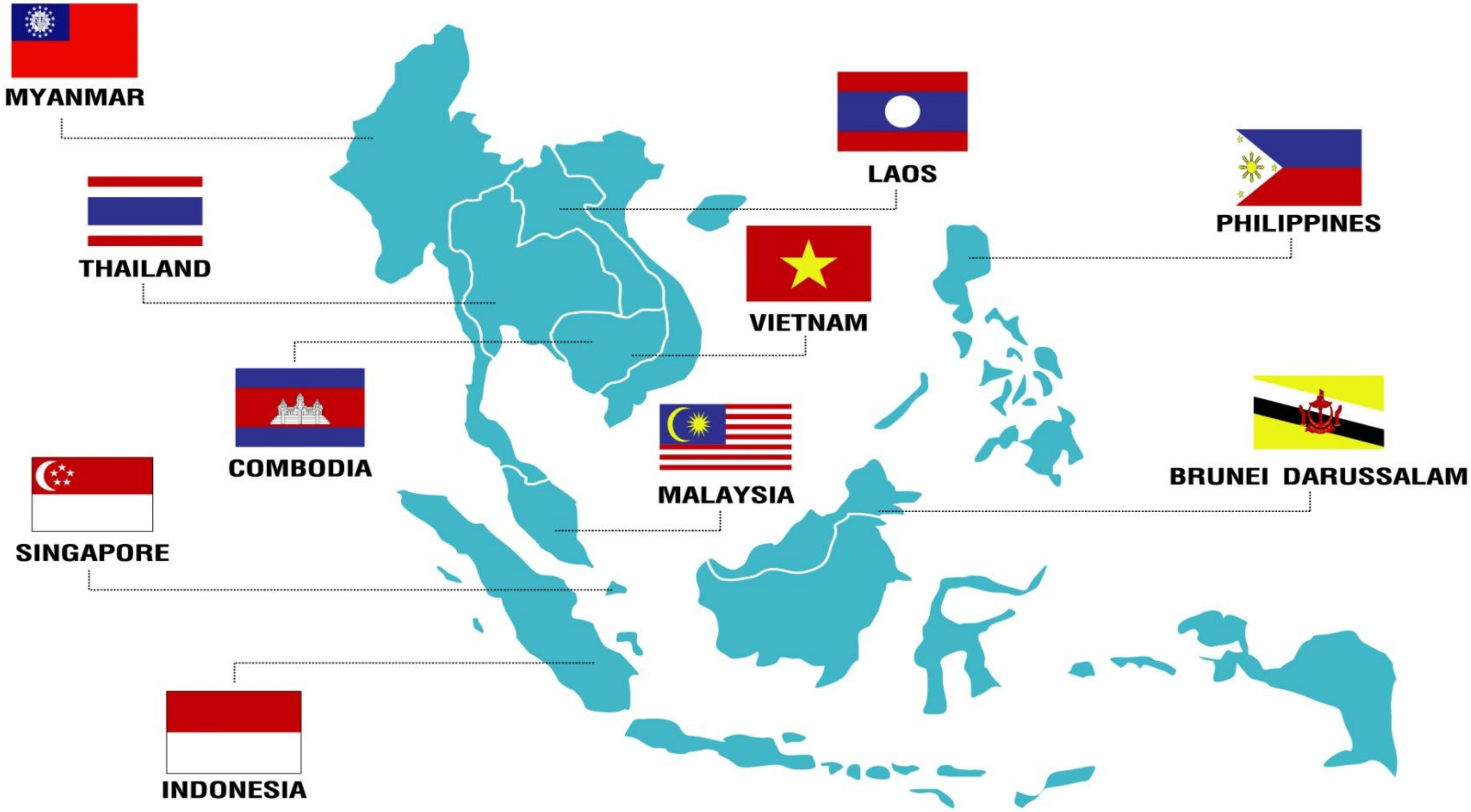


Competition is intensifying and Thailand should not be “left behind”



Source: World Development Indicators (World Bank)

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

Exceptions

Sensitive List

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

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

	2006	2008	2010	2013	2015
4 Priority Sectors (ICT, Health, Tourism, Air transportation)	49%	51%	70%		
Logistics		49%	51%	70%	
Others (professional services, construction, distribution, education, environment, transport, and all others)	30%	49%	51%		70%

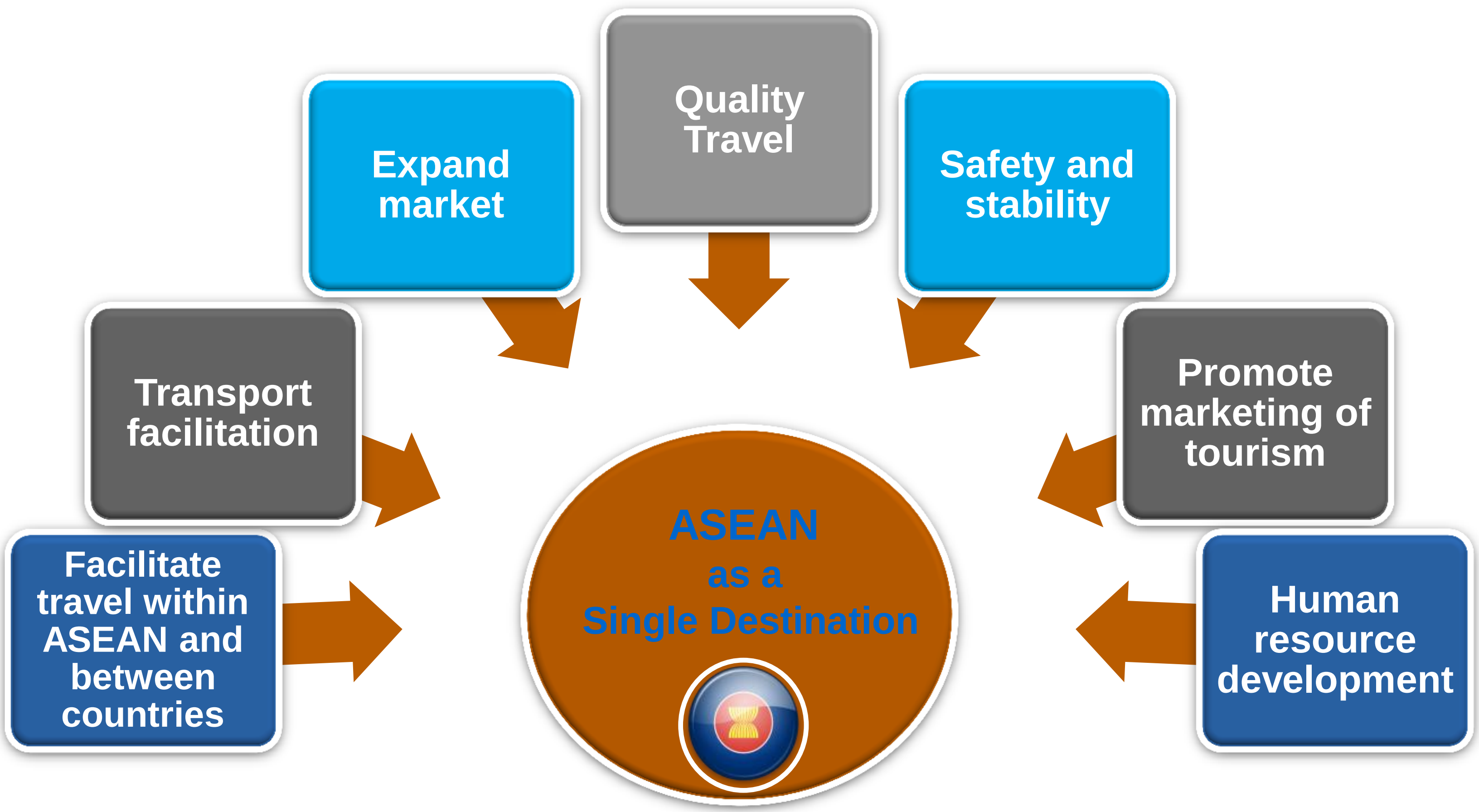
Foreign Shares →

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

- Liberalized target date delayed to 2020
- No specified scope of liberalization
- Positive list of liberalization commitment
- Most commitments are consistent with the status quo regime – i.e. no major concessions.
- Banking sector remains highly protected in original ASEAN member countries.

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

ASEAN Tourism Master Plan 2011-2015 aims to re-structure the tourism markets, promote and develop quality of tourism to create ASEAN Tourism Connectivity Corridors, and support tourism travel of youths



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

3. Free mobility of skilled labor:

Mutual Recognition Agreements of 7 professional services

2009

2010

2015

Skilled Labors & Short Term Visits

Draft MRAs

Sign MRAs for 7 professions : Engineering, Nursing, Architecture, Surveying, Medical Practitioners, Dental Practitioners, and Accountancy Services

AEC

- Exempt visas for Short Term Visits issue ASEAN Business Card
- Facilitation of movement of skilled labor
- Develop curriculum and standards for skilled labor

3. Free mobility of skilled labor:
Engineering & Architecture have made most progress in MRAs implementation

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

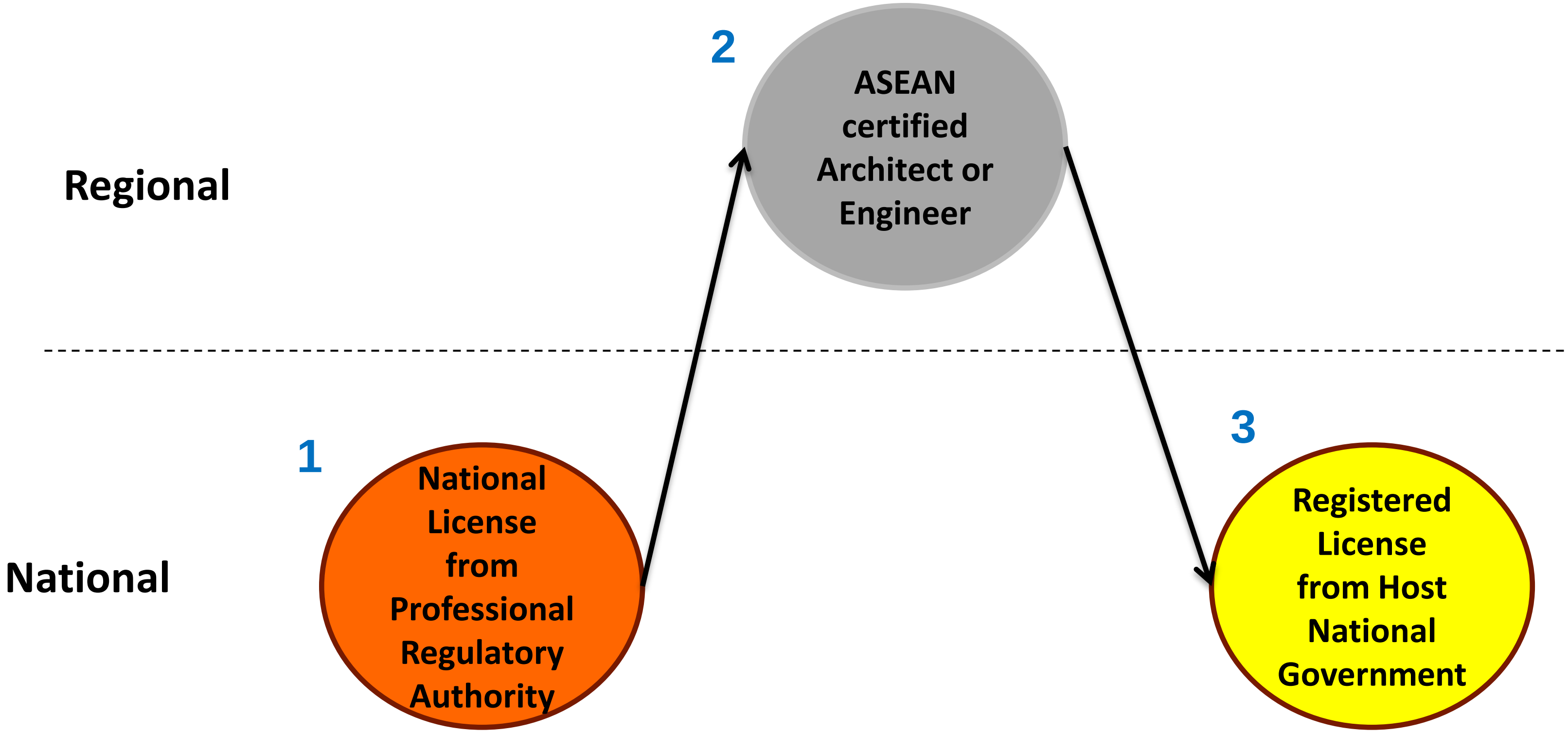
ASEAN chartered professional engineers (ACPEs)

Country	Numbers of ACPEs
Malaysia	163
Singapore	196
Indonesia	99
Vietnam	84
Thailand	0
Total	

Source: ACPECC website, http://www.acpecc.net
As of October 2012

3. Free mobility of skilled labor:
Many behind-the-border barriers still exists

Mobility of Architect and Engineering professionals under AEC



Source: ASEAN Mutual Recognition Arrangement on Architectural and Engineering services (2007)

4. Free Flow of Capital: ASEAN Linkages

Only Thailand, Malaysia, and Singapore stock exchanges have joined the trading link so far (enabling investors to trade stocks of these 3 countries using brokerage firms in any of the 3 countries)

Phase I	Phase II	Phase III
Trading Link	ASEAN Depository Link	ASEAN Clearing Link
Mid-Oct 2012	Q4 2013	2014

www.set.or.th/en/asean_exchanges/asean_exchanges.html

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World Bank data and reports can be downloaded at

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