Thailand Economic Monitor

Productivity for Prosperity

February 2020

TOGETHER WE CAN
TRANSFORM
THAILAND

WORLD BANK GROUP

Download: wbg.org/tem

Outline

- Part 1: Recent economic developments, outlook, and emerging risks
  risks
- Part 2: Boosting productivity
- Part 3: Q&A

PART 1.

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK, AND EMERGING RISKS

RECENT ECONOMIC DEVELOPMENTS

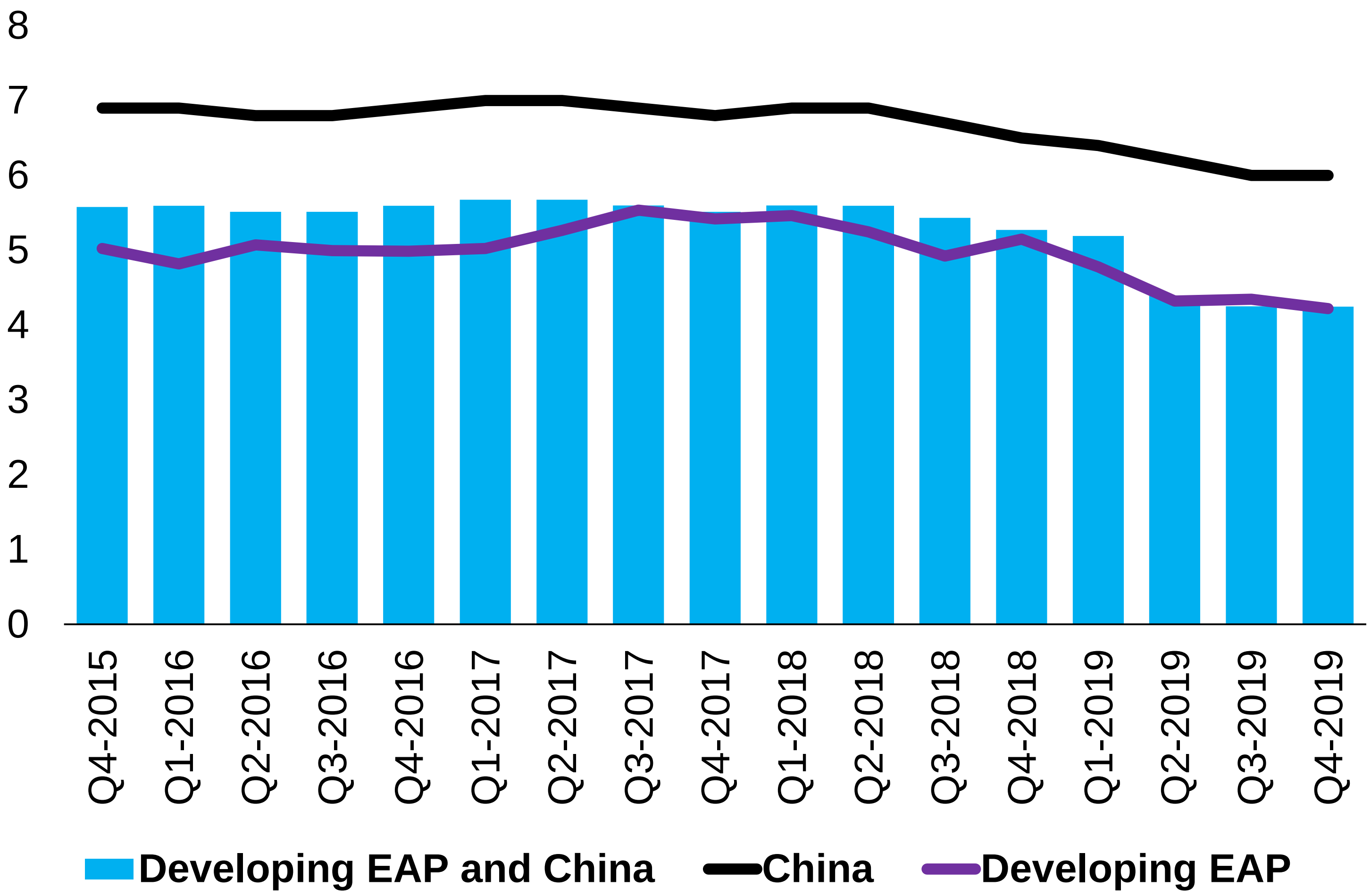
WORLD BANK GROUP

KEY MESSAGES

- GROWTH SLOWED TO 1.6 PERCENT IN Q4 2019, DRIVEN BY CYCLICAL FACTORS, NOTABLY WEAK EXTERNAL DEMAND AND HEIGHTENED GLOBAL UNCERTAINTY
- DOWNTURN HAS EXPOSED STRUCTURAL CONSTRAINTS, WHICH IS REFLECTED IN THE SLUGGISH GROWTH OF PUBLIC AND PRIVATE INVESTMENTS
- GOVERNMENT HAS RESPONDED SWIFTLY THROUGH ACCOMMODATIVE MONETARY POLICIES AND COUNTERCYCLICAL FISCAL STIMULUS

East Asia regional growth is expected to weaken in line with global conditions

***GDP growth rate** (% change, year-on-year)*

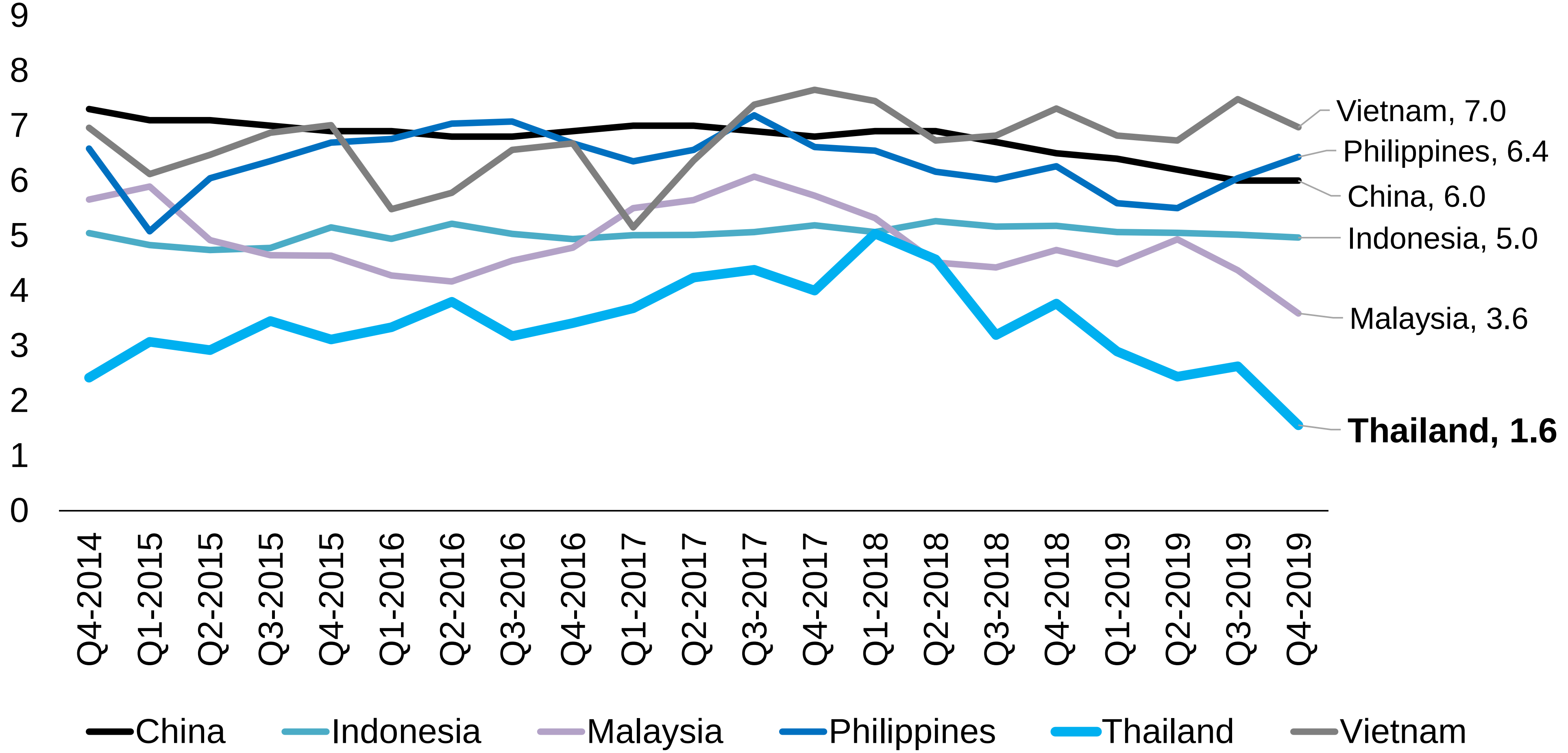


- Growth in the East Asia and Pacific (EAP) region is projected to slow from an estimated 5.8 percent in 2019 to 5.7 percent in 2020
- In China, growth is expected to slow gradually, from an estimated 6.1 percent in 2019, to 5.9 percent in 2020

Source: Haver Analytics

Thailand's economic growth continues to lag those of its regional peers

***GDP growth rate** (% change, year-on-year)*

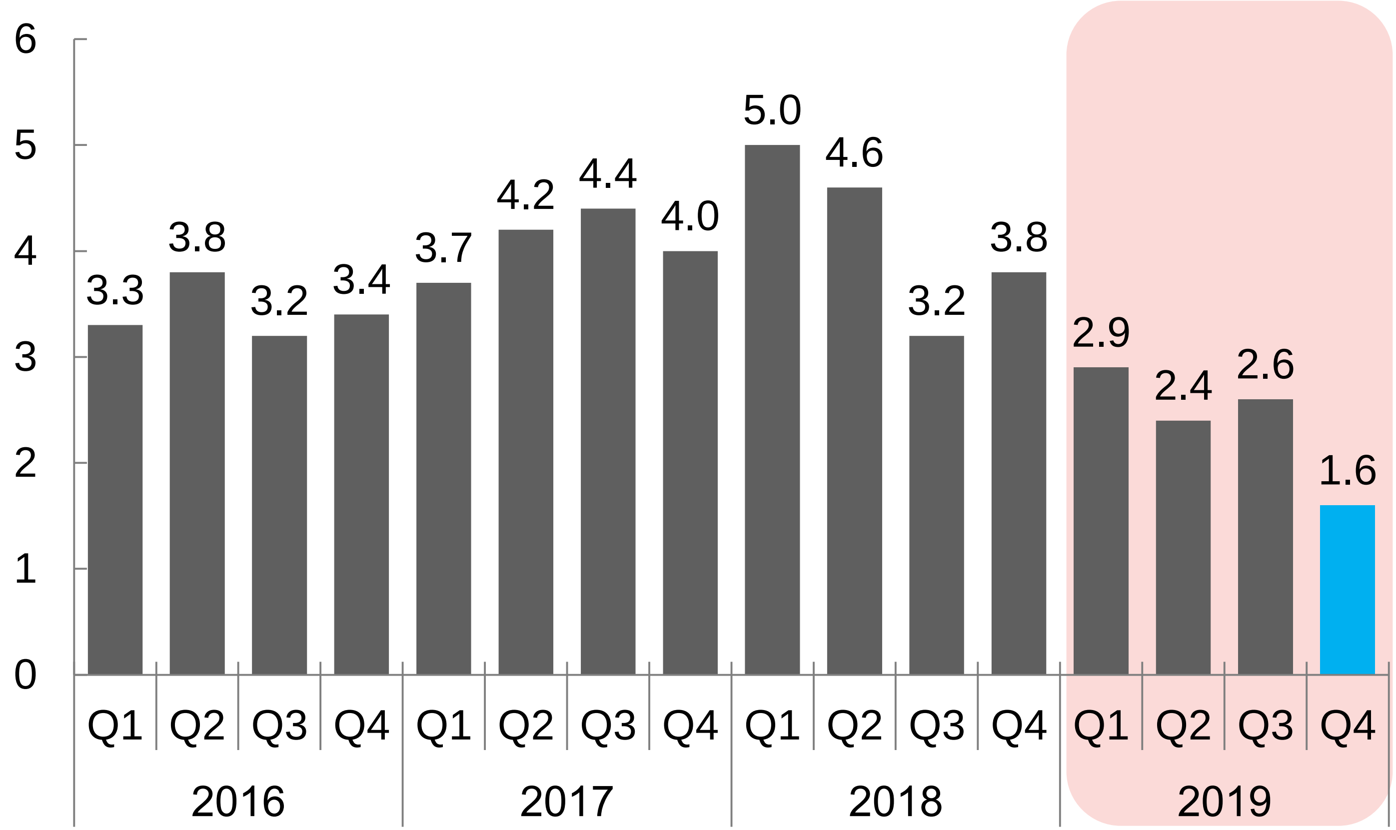


Source: Haver Analytics

WORLD BANK GROUP

Thailand's year-on-year growth has remained below 3 percent throughout last year

GDP Growth *(% change, year-on-year)*

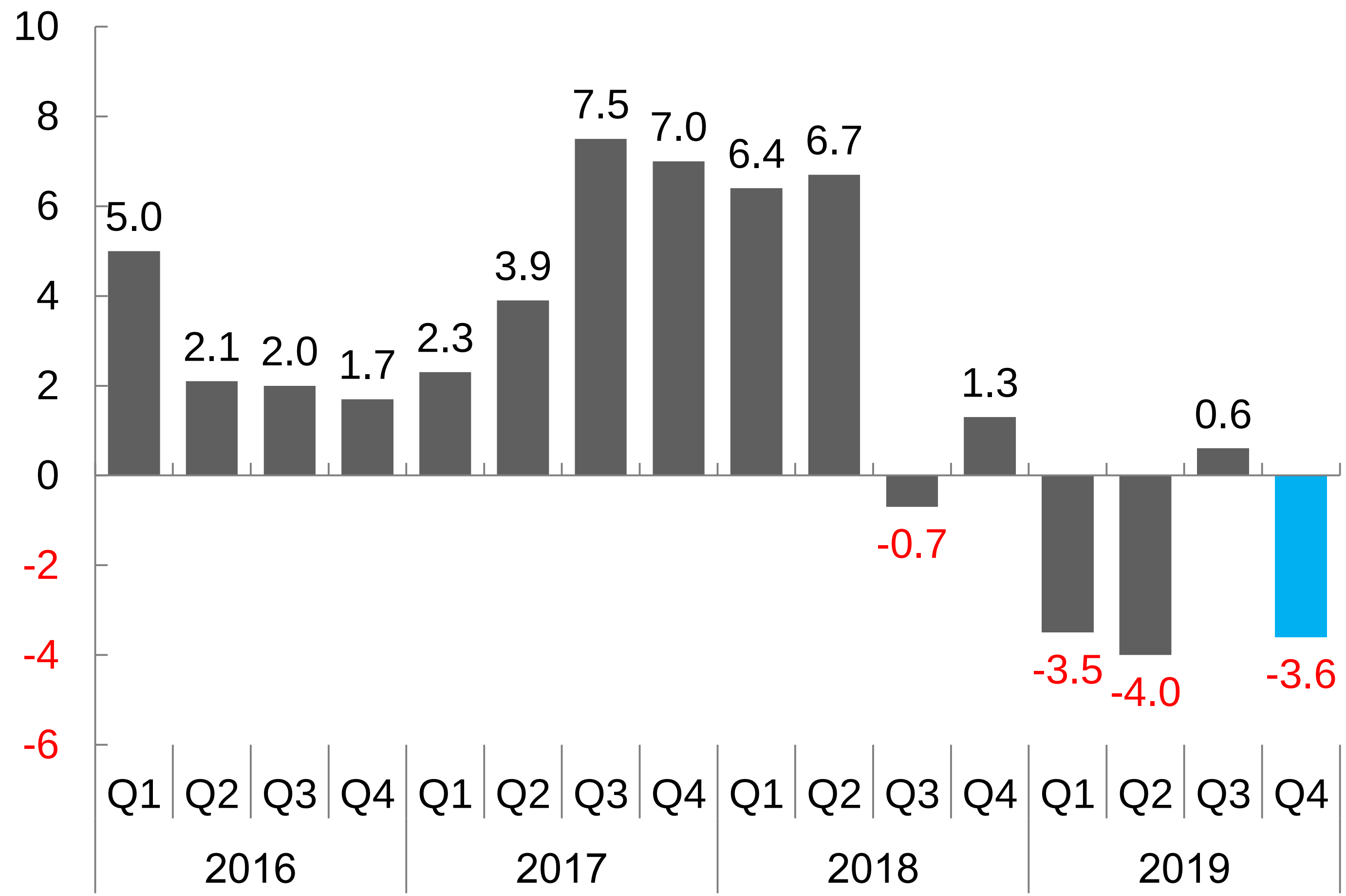


- The contribution of net exports turned negative as early as Q3 2018 amid global trade tensions.
- Starting in Q1 2019, the overall growth momentum slowed as quarterly GDP growth dipped below 3.0 percent amid weakened domestic demand

Source: Office of the National Economic and Social Development Council (NESDC)

Declining exports were the key driver of the deceleration in growth

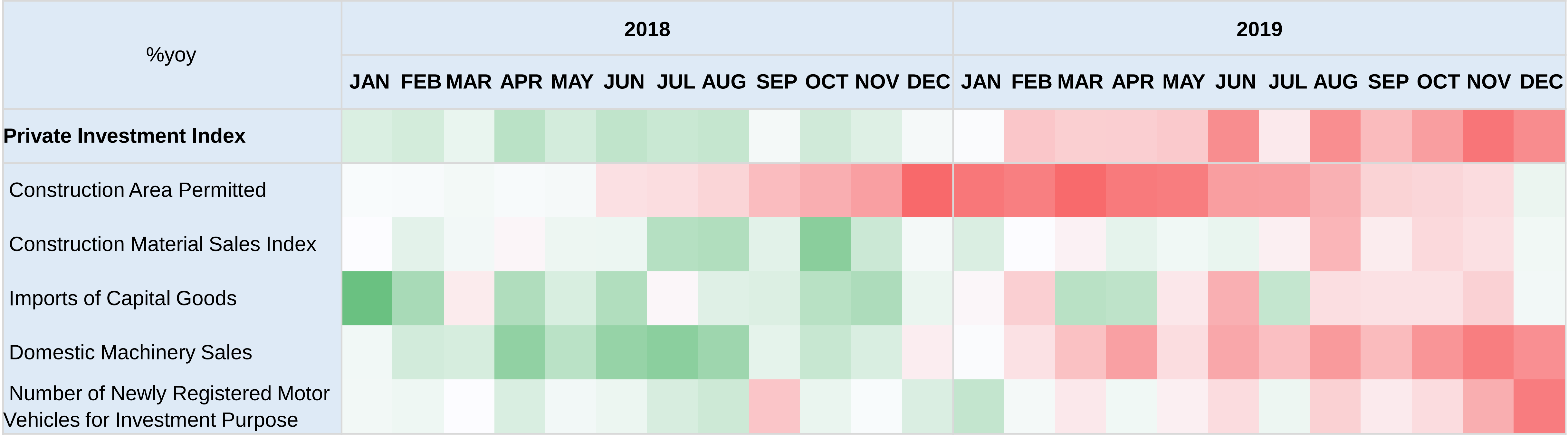
Export of goods and services *(% change, year-on-year)*



Source: NESDC

Domestic drivers of growth are also weakening, including private investment

Private Investment Index growth turns negative across all sub-categories in Q4 2019



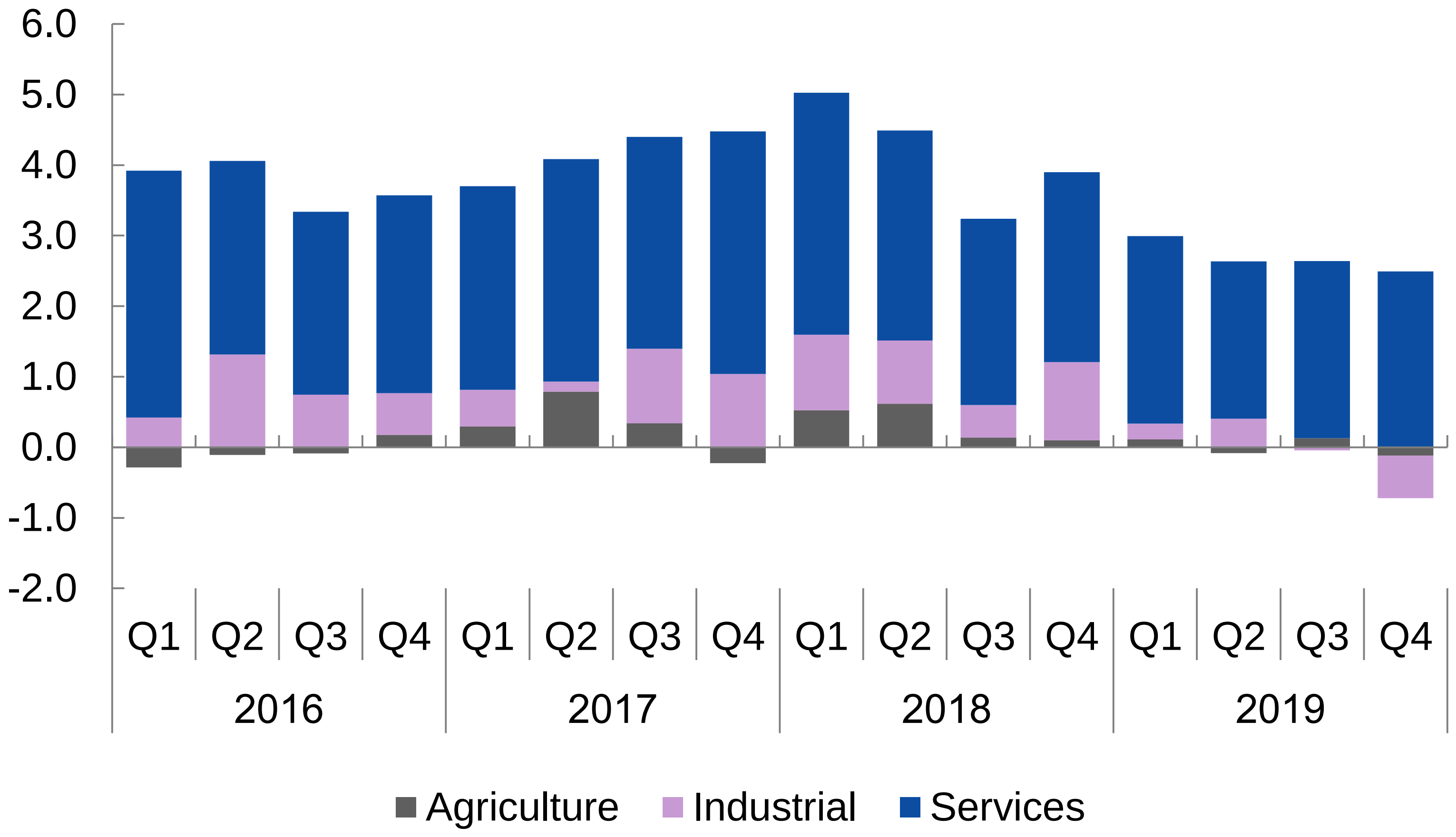
Remarks: Green indicates positive growth. Darker green indicates very positive growth.
Red indicates negative growth. Darker red indicates very negative growth.

Source: Bank of Thailand

WORLD BANK GROUP

On the supply side, services sector has been supporting growth amid industry and agriculture weakness

(Percentage-point contribution to real GDP growth, year-on-year)

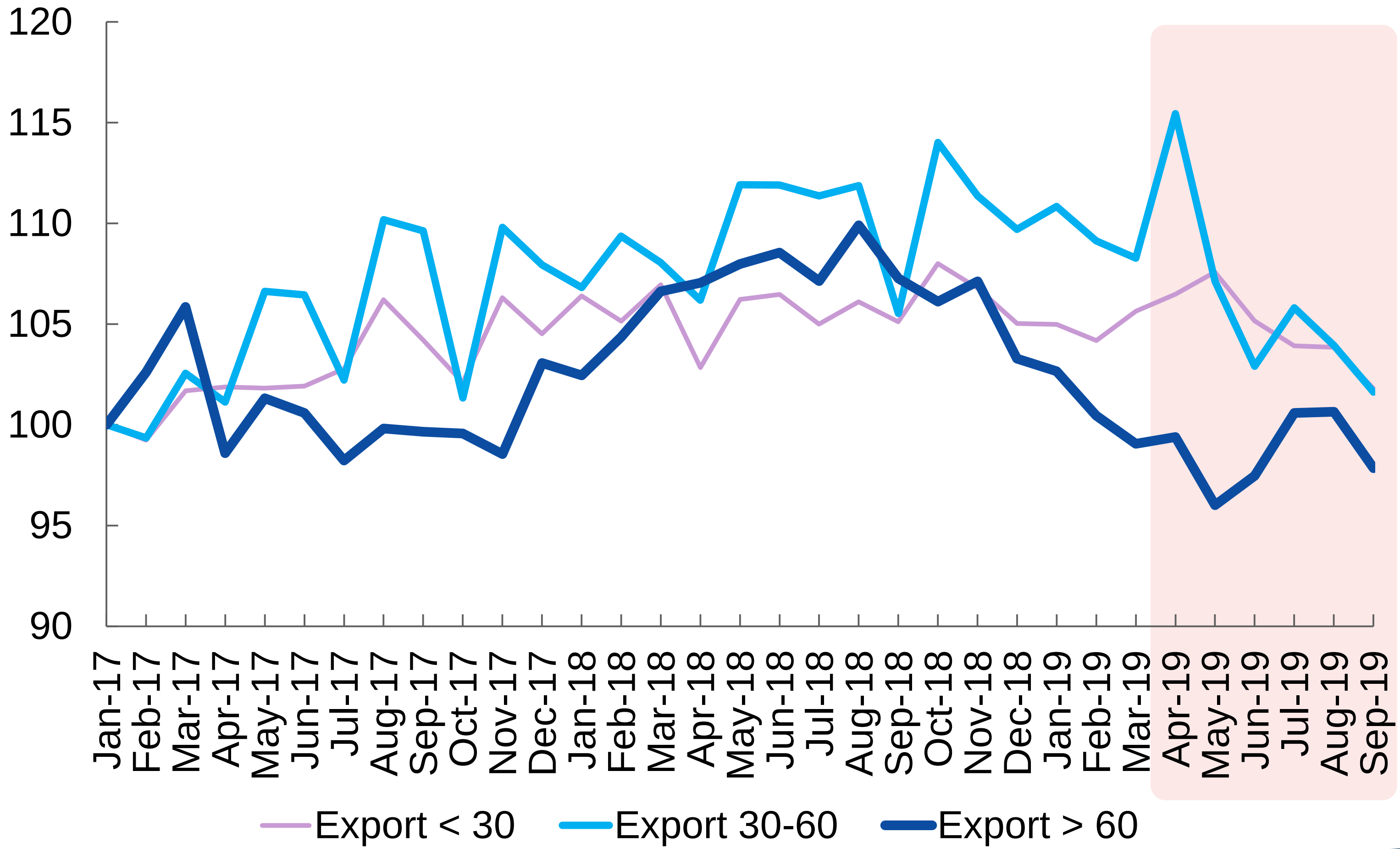


Source: World Bank staff calculations

- Accommodation and food service activities and to a lesser extent, retail and wholesale trade and transportation, drove services sector growth
- Continued challenges in the agricultural sector will likely negatively impact the poor, discussed further in the report (Box 2)

Faced with an unfavorable external environment, the manufacturing sector contracted in the last two quarters

Manufacturing Production Index classified by export share
(Base Year 2017 = 100, Seasonally Adjusted)

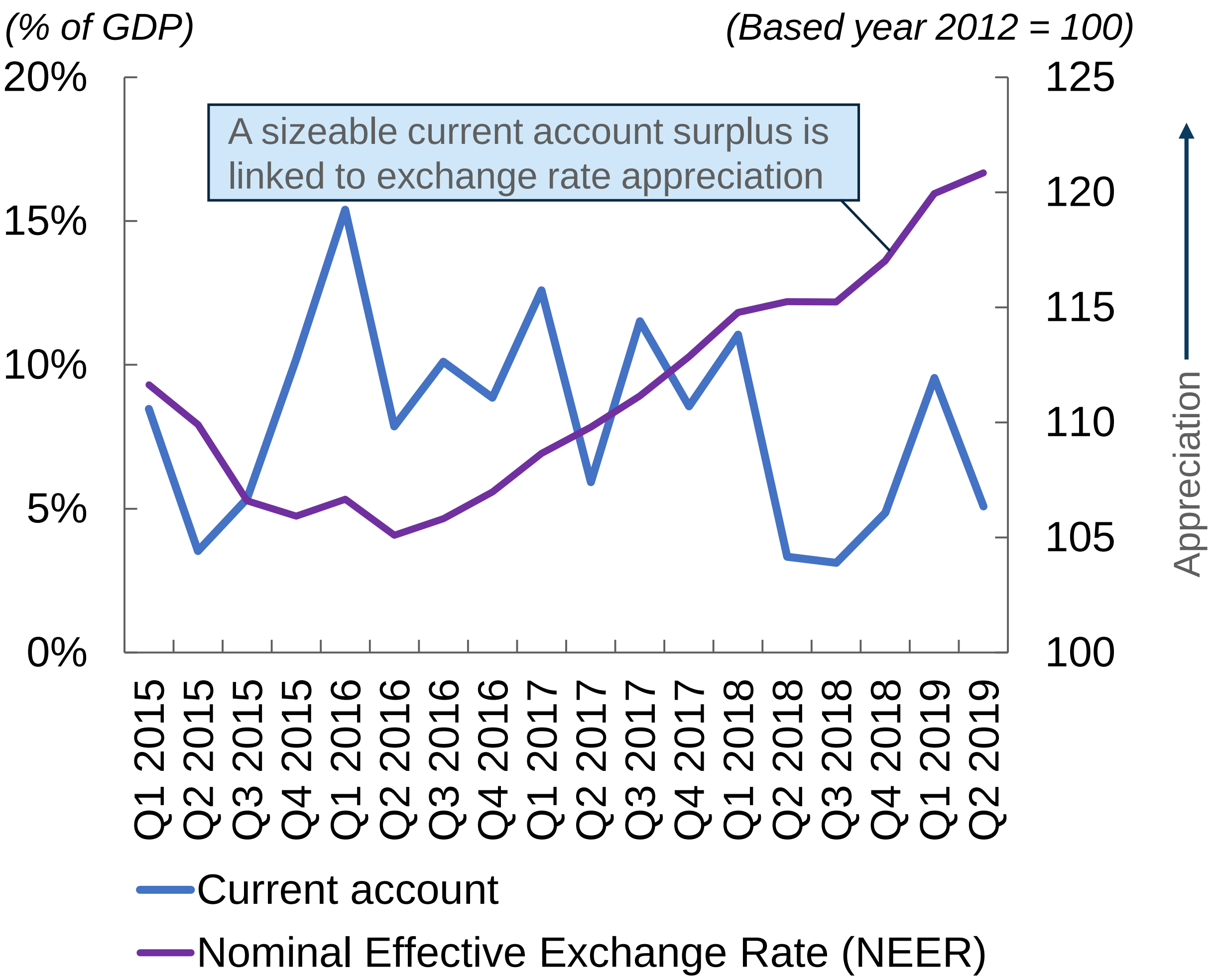


The manufacturing production index for export-oriented industries contracted by 7 percent year to date, while the index for domestically oriented industries fell by 1 percent in the same period.

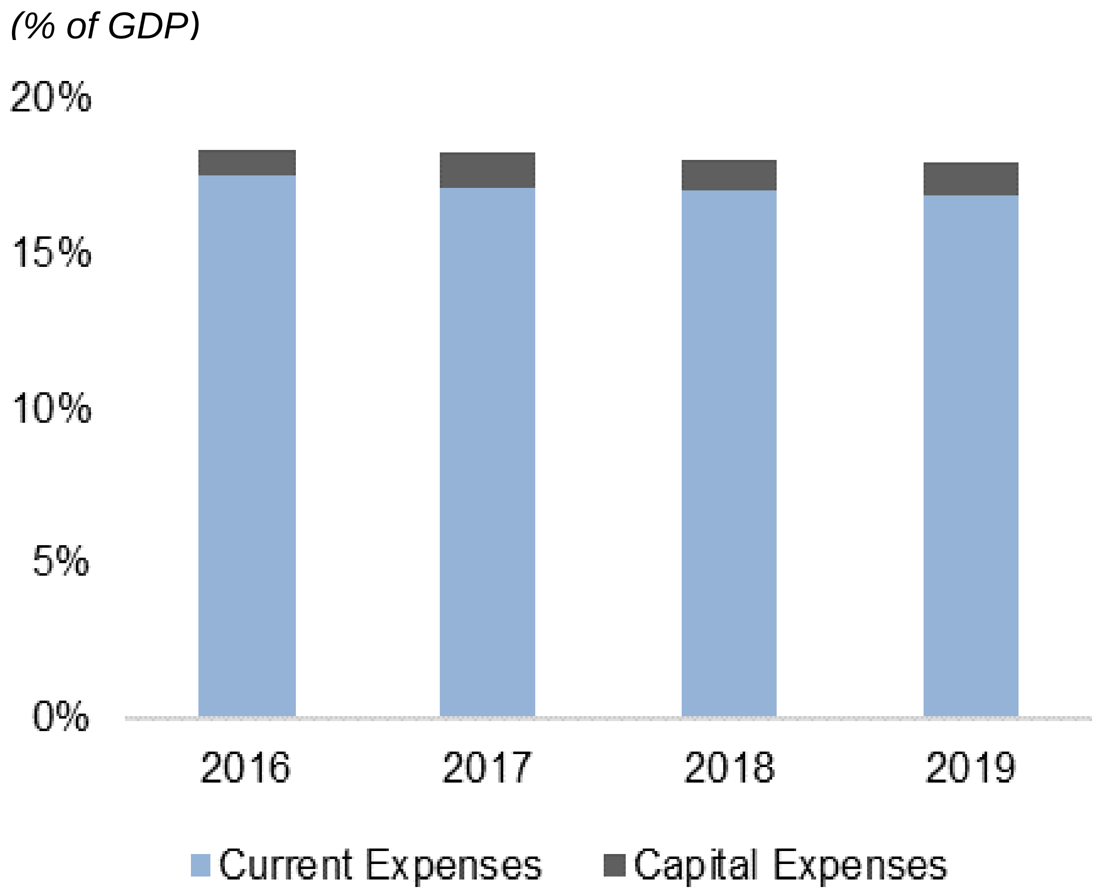
Source: Bank of Thailand

WORLD BANK GROUP

The current account surplus remained in surplus, contributing to a balance of payment surplus



While the fiscal stimulus was timely, the impact has been limited as central government expenditures remained flat



Source: Ministry of Finance

OUTLOOK AND EMERGING RISKS

KEY MESSAGES

- THAI ECONOMY IS PROJECTED TO GROW MODERATELY FROM AN ESTIMATED 2.5 PERCENT IN 2019 TO 2.7 PERCENT IN 2020 AMID EXTERNAL AND INTERNAL HEADWINDS

- RISKS REMAINED TILTED TO THE DOWNSIDE DUE TO UNFAVORABLE EXTERNAL ENVIRONMENT AND POLITICAL RISK

- NEW COALITION GOVERNMENT’S POLICY FRAMEWORK HAS THE POTENTIAL TO LIFT THE GROWTH TRAJECTORY, BUT IMPLEMENTATION MAY POSE A CHALLENGE

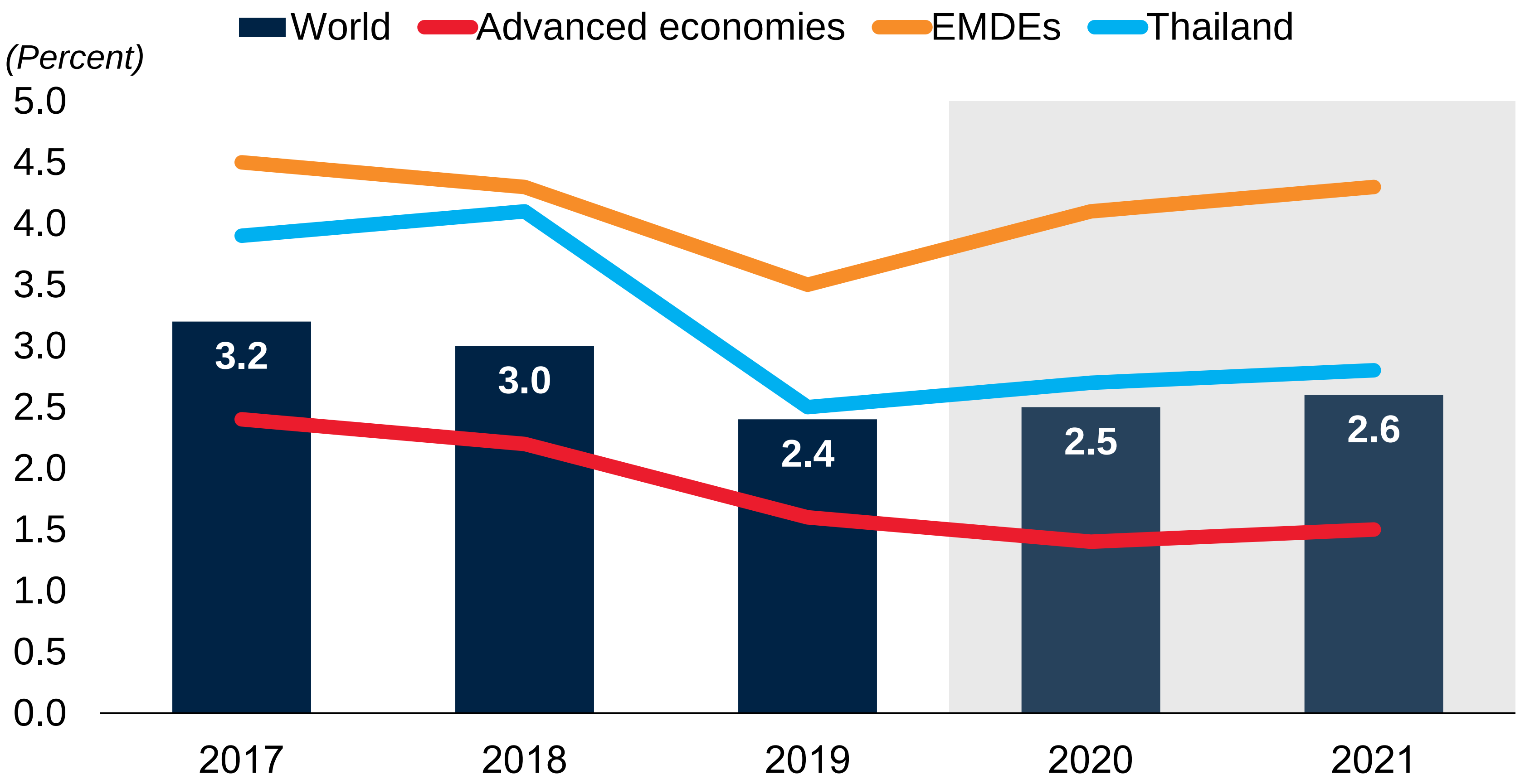
ประเด็นหลัก

- อัตราการขยายตัวทางเศรษฐกิจของไทยคาดการณ์ว่าจะเติบโตอย่างค่อยเป็นค่อยไป ประมาณร้อยละ 2.5 ในปี 2562 ไปถึงร้อยละ 2.7 ในปี 2563 ท่ามกลางลมต้านจากภายในและภายนอก

- ความเสี่ยงต่อเศรษฐกิจยังเอนเอียงไปในทิศทางลบเนื่องจากสภาพแวดล้อมภายนอกที่ไม่ค่อยเอื้ออำนวยและความเสี่ยงทางการเมือง

- กรอบแนวทางนโยบายของรัฐบาลมีศักยภาพที่จะเพิ่มการขยายตัวทางเศรษฐกิจ แต่การดำเนินนโยบายอาจเผชิญกับความท้าทาย

Global Growth Outlook

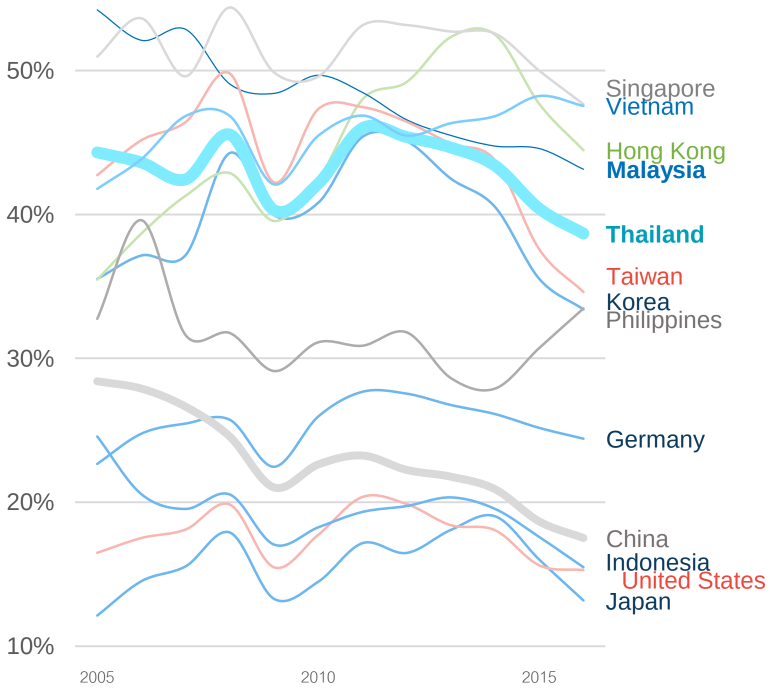


Source: NESDC, World Bank staff calculations, Global Economic Prospects.

Note: EMDEs = emerging market and developing economies.
Shaded area indicates forecasts. Data for 2019 are estimates.
Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.
Thailand's real GDP growth rate (at constant market prices, reference year = 2002)

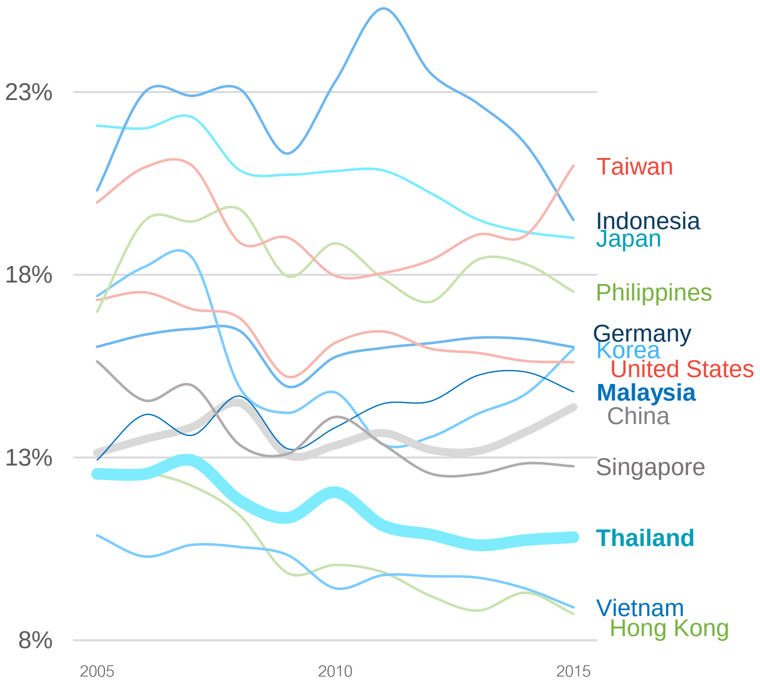
GVCS AND THAILAND: STRONG BUT DECLINING BACKWARD LINKAGES IN MANUFACTURING; AND RELATIVELY WEAK BUT RISING FORWARD LINKAGES IN SERVICES AND COMMODITIES

Backward linkages in GVCs



Source: OECD, TiVA database 2018

Forward linkages in GVCs

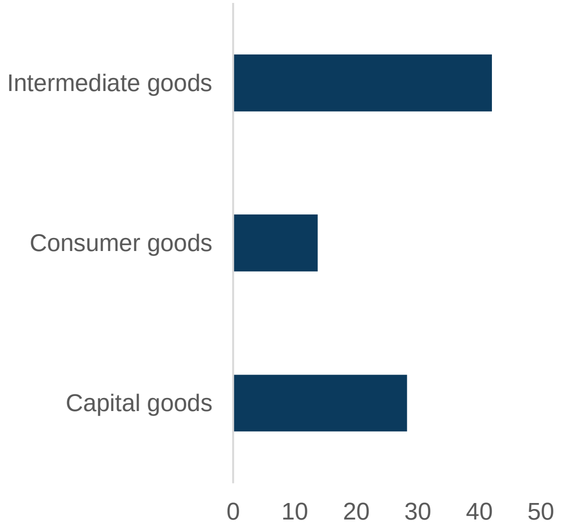


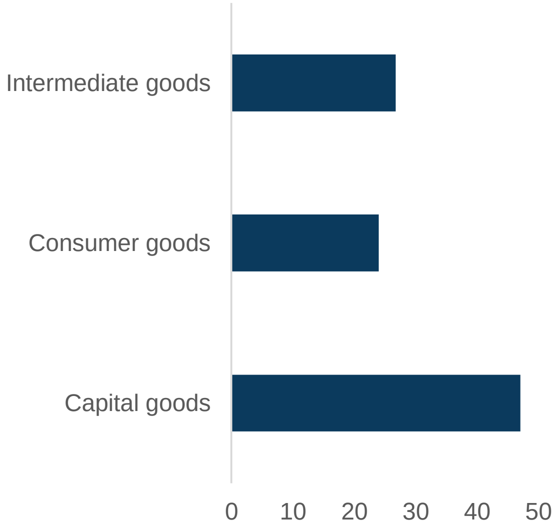
Source: OECD, TiVA database 2018

WORLD BANK GROUP

THAILAND

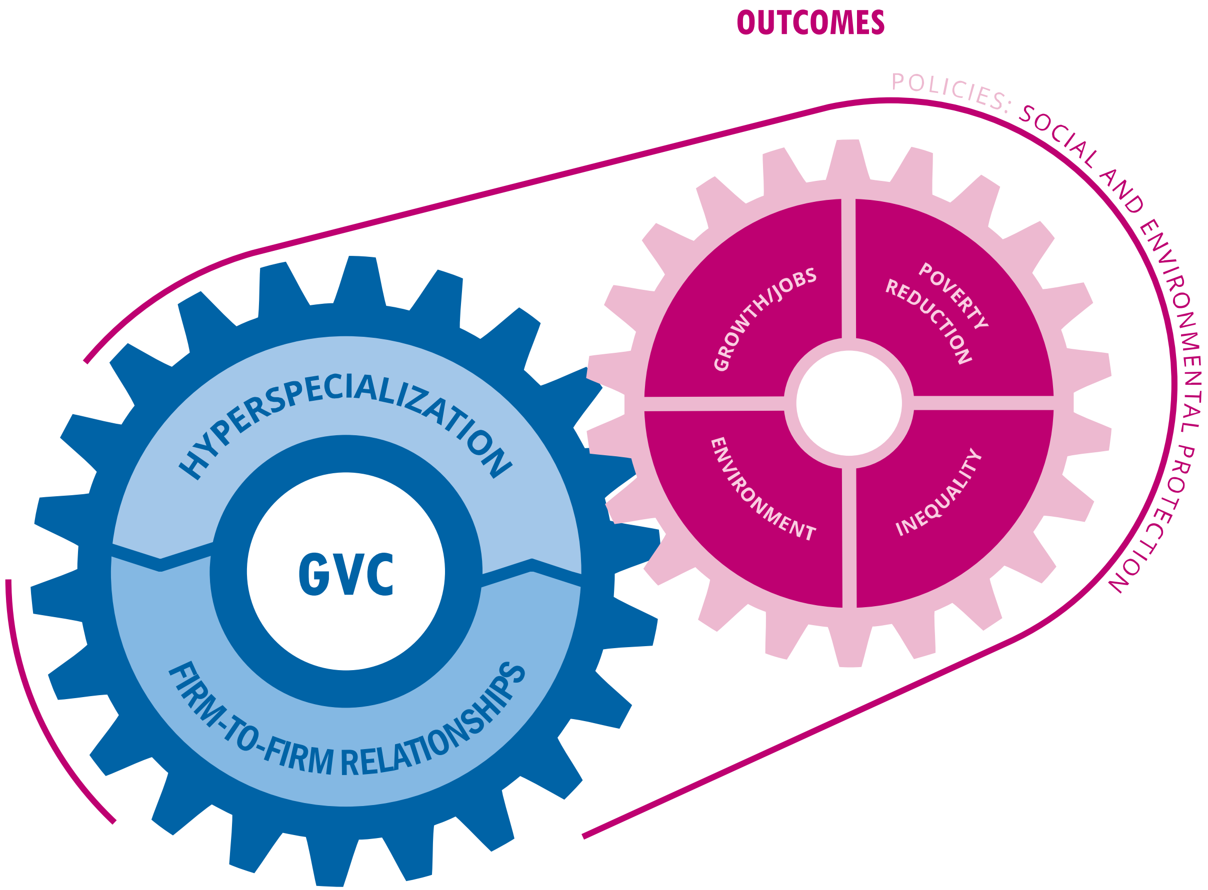
Thailand's exports to and imports from China, percentage of total exports to China (2018).





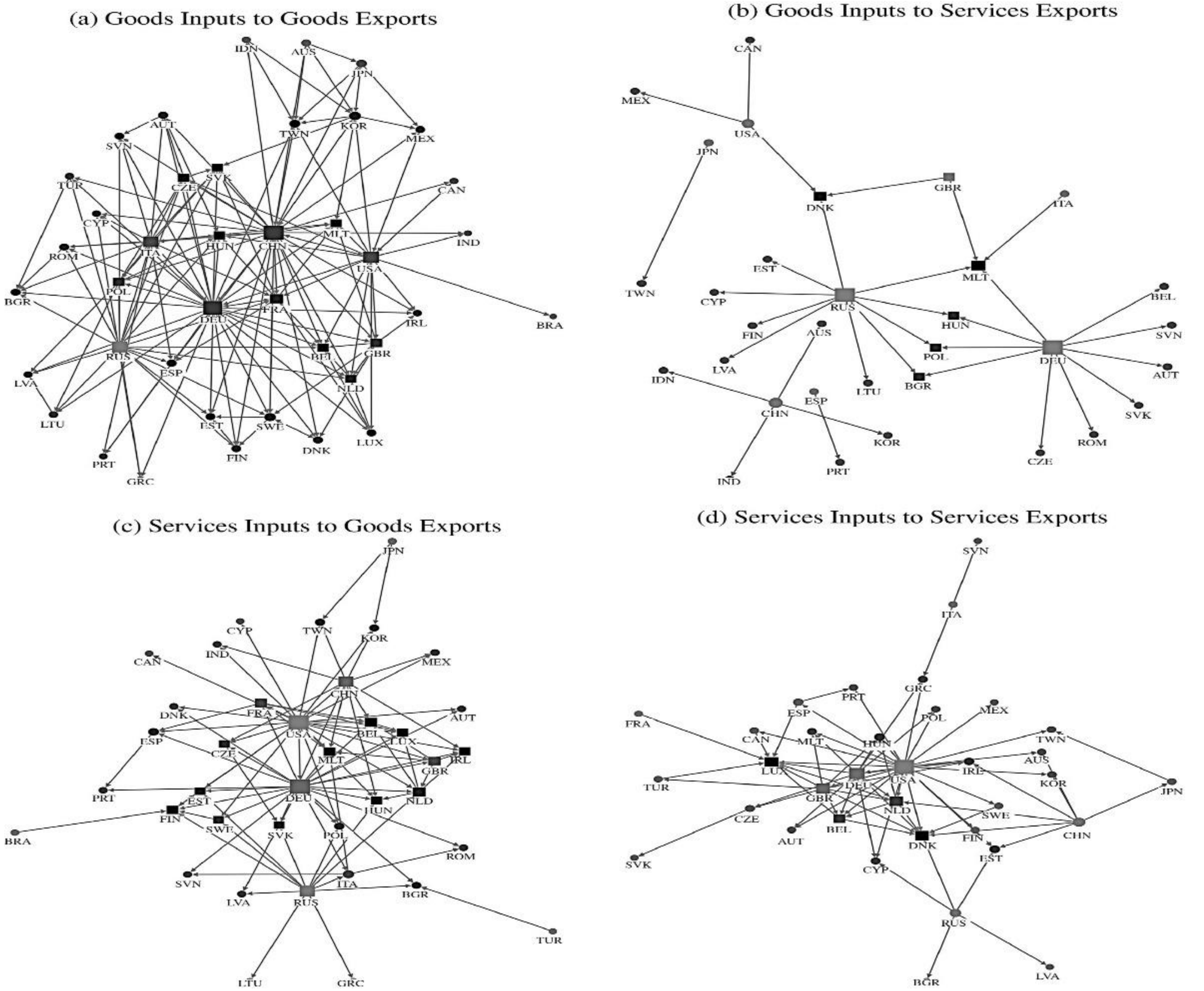
Source: World Integrated trade Solution

GVC–LED DEVELOPMENT: ADDRESSING THE DOWNSIDES OF GVCS



WORLD BANK GROUP

Since GVCs create networks of value-added trade…

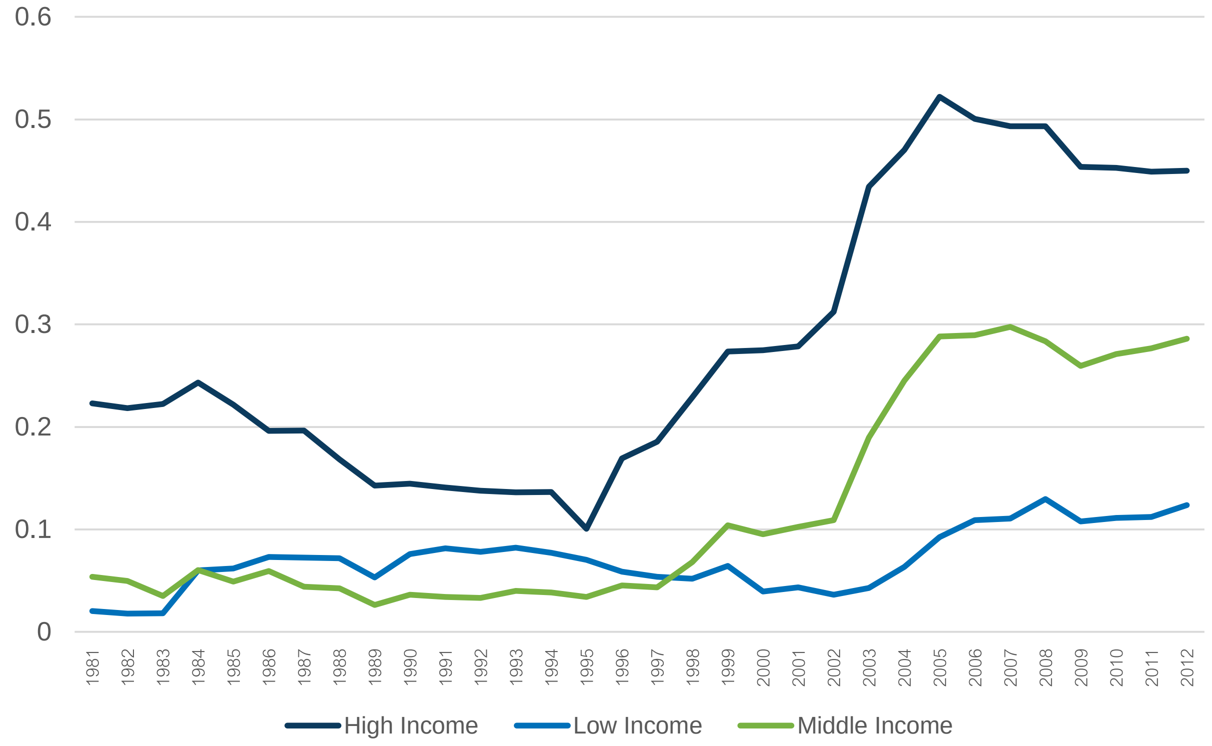


The World Economy, Volume: 40, Issue: 7, Pages: 1291-1313, First published: 31 October 2016, DOI: (10.1111/twec.12469)

WORLD BANK GROUP

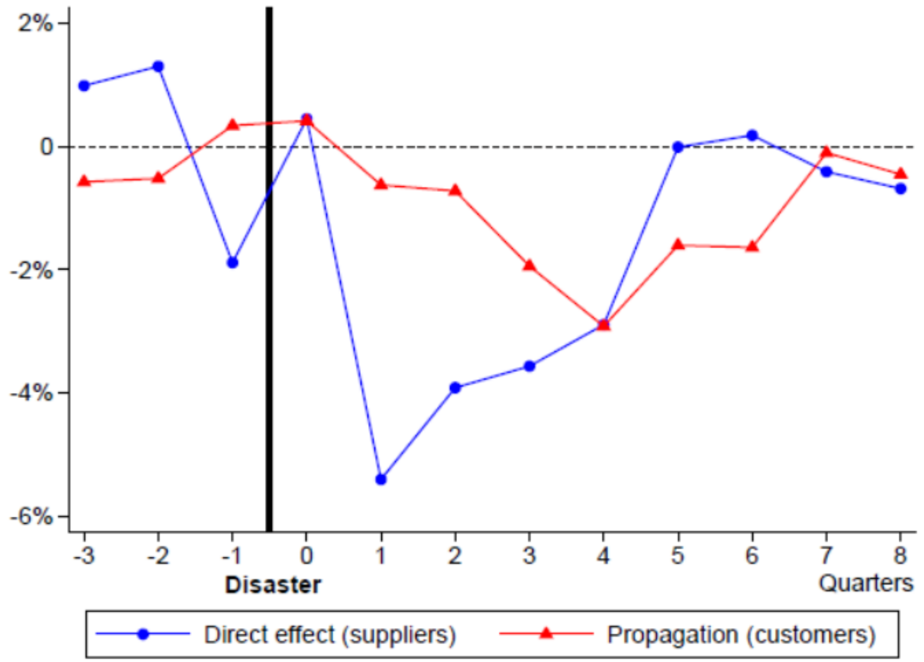
…GVCS MAGNIFY THE TRANSMISSION OF SHOCKS ACROSS COUNTRIES

Business cycle synchronization: associated with increase in GVC trade



Disasters disrupt value chains

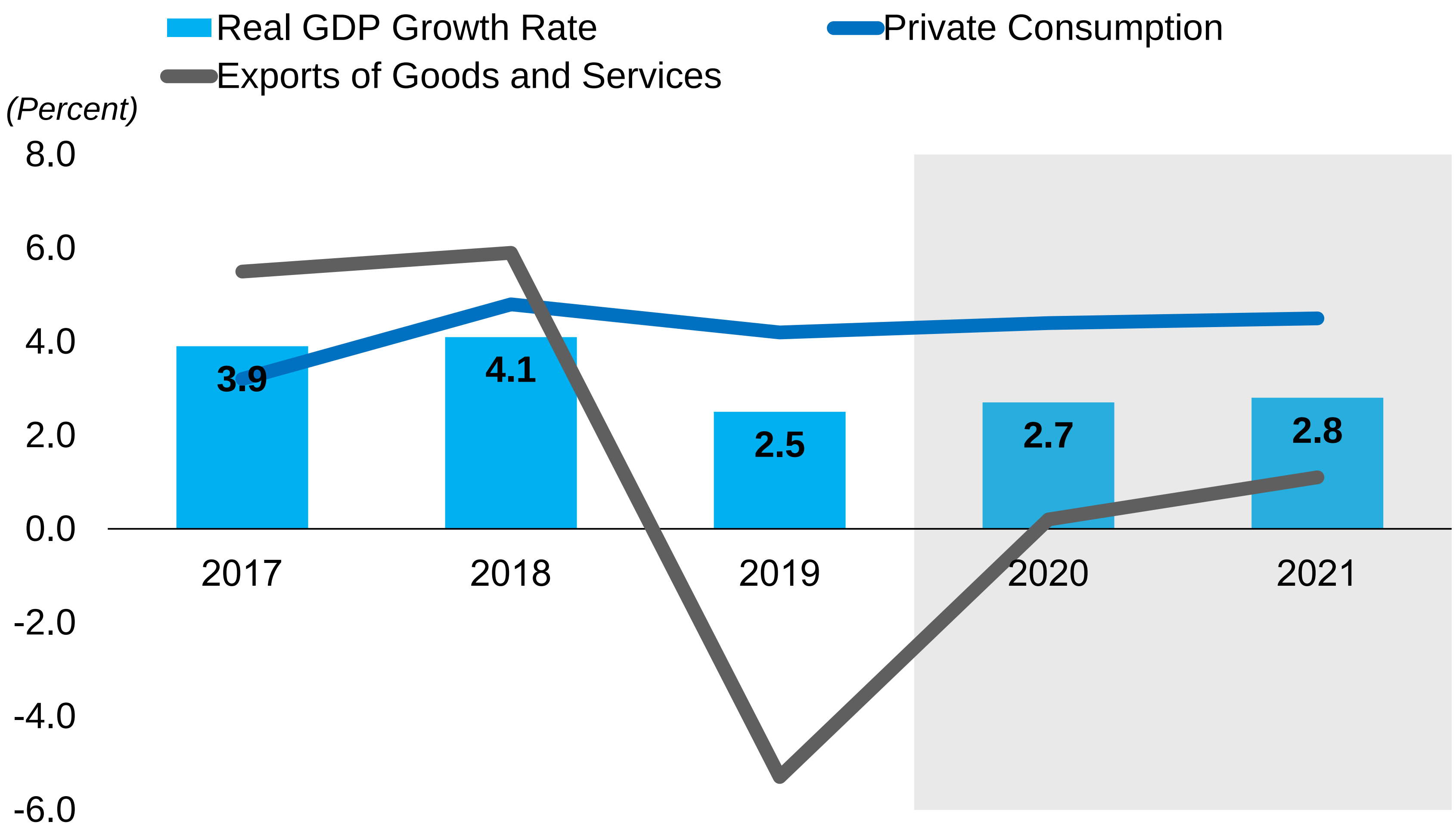
Figure 1. Natural disaster strikes and sales growth



Hence, stronger case for policy coordination

WORLD BANK GROUP

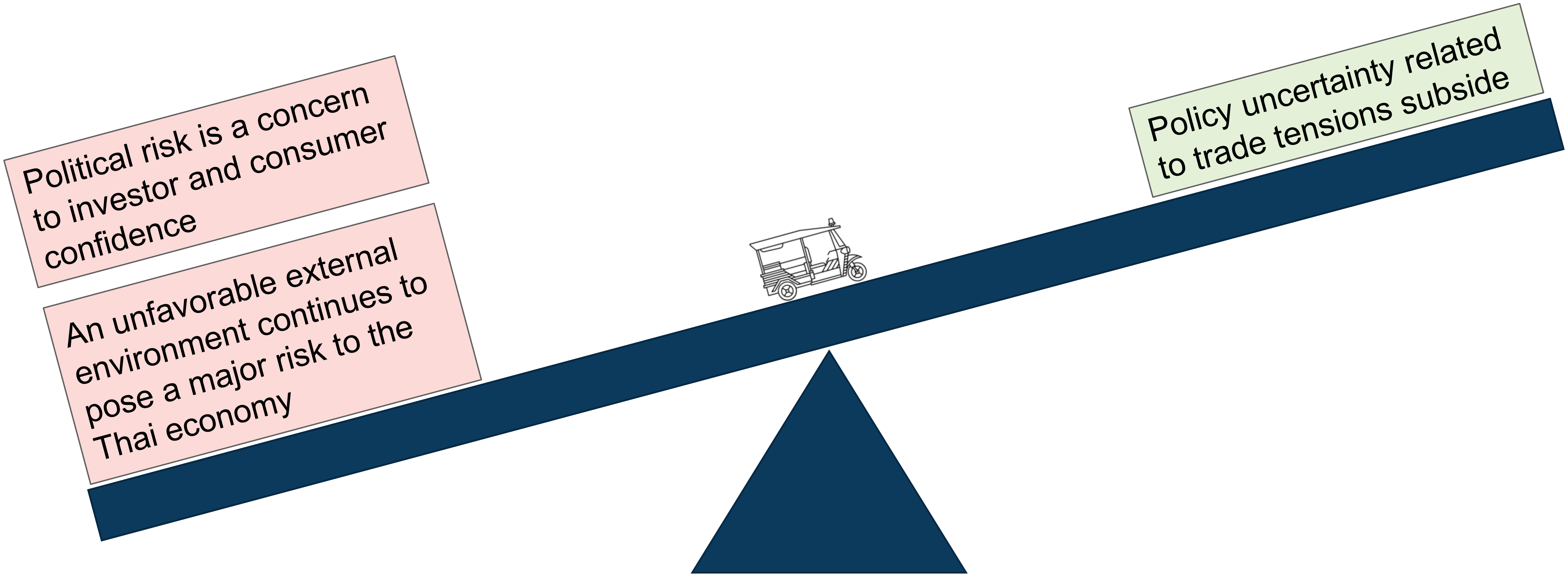
Thailand Growth Outlook



Source: NESDC; World Bank staff calculations.

Note: Real GDP growth rate (at constant market prices, reference year = 2002)

Risks remained tilted to the downside



Policy Recommendations

- In the short term, Thailand can use fiscal space to implement an investment and transfers focused stimulus.

- The implementation of public investments envisioned under the national strategy could boost private-sector sentiment and encourage complementary private investment including through PPPs, bolstering growth over the short-to-medium term.

- Another medium-term priority is improving the social protection system.

- In the medium to long term, Thailand can consider reforms to boost productivity.

ข้อเสนอแนะเชิงนโยบาย

- ในระยะสั้น ประเทศไทยสามารถใช้พื้นที่การคลัง (Fiscal Space) เพื่อดำเนินการลงทุนและมาตรการกระตุ้นเศรษฐกิจ

- การดำเนินการลงทุนภาครัฐภายใต้ยุทธศาสตร์ชาติสามารถเพิ่มความเชื่อมั่นของภาคเอกชนและกระตุ้นให้เกิดการลงทุนภาคเอกชนเสริมขึ้นได้ อาทิ การร่วมทุนระหว่างภาครัฐและภาคเอกชน ซึ่งจะช่วยขยายการเติบโตทางเศรษฐกิจในระยะสั้นและระยะกลาง

- ความสำคัญในระยะกลางอีกประเด็นคือการพัฒนาการคุ้มครองทางสังคม (Social Protection System)

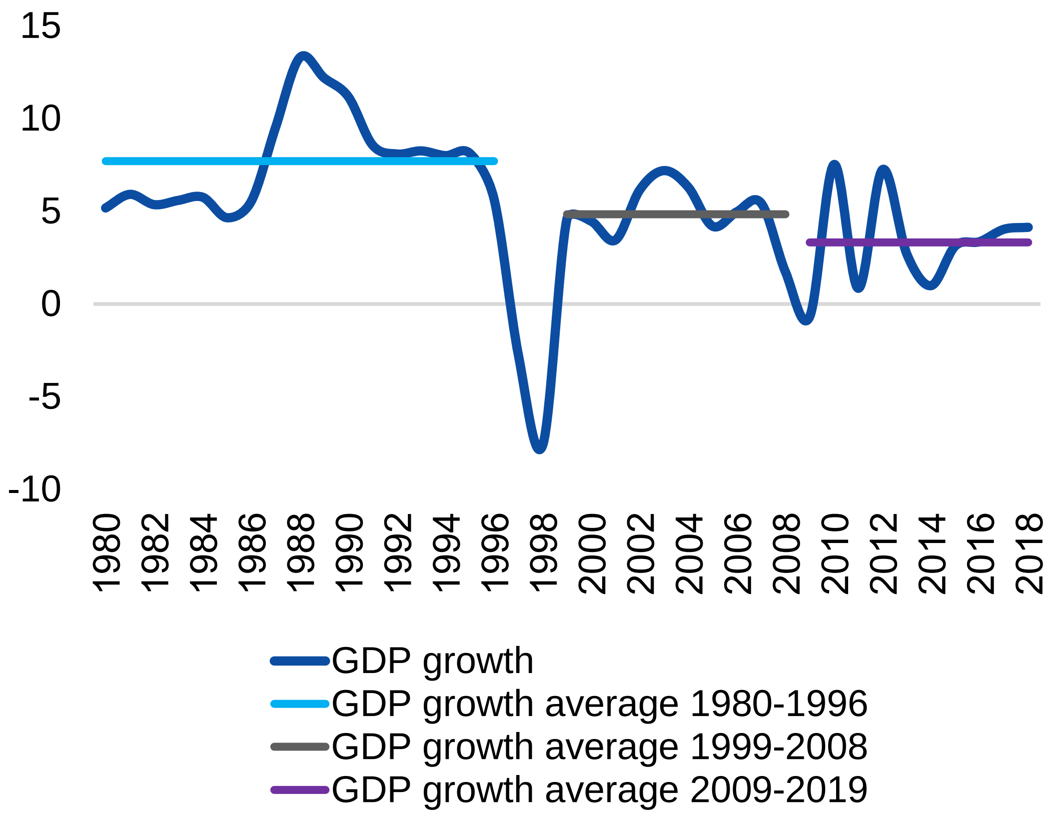
- ในระยะกลางถึงระยะยาว ประเทศไทยอาจจะพิจารณาการเพิ่มผลิตภาพ (Productivity) ของเศรษฐกิจโดยรวม

PART 2.

BOOSTING PRODUCTIVITY

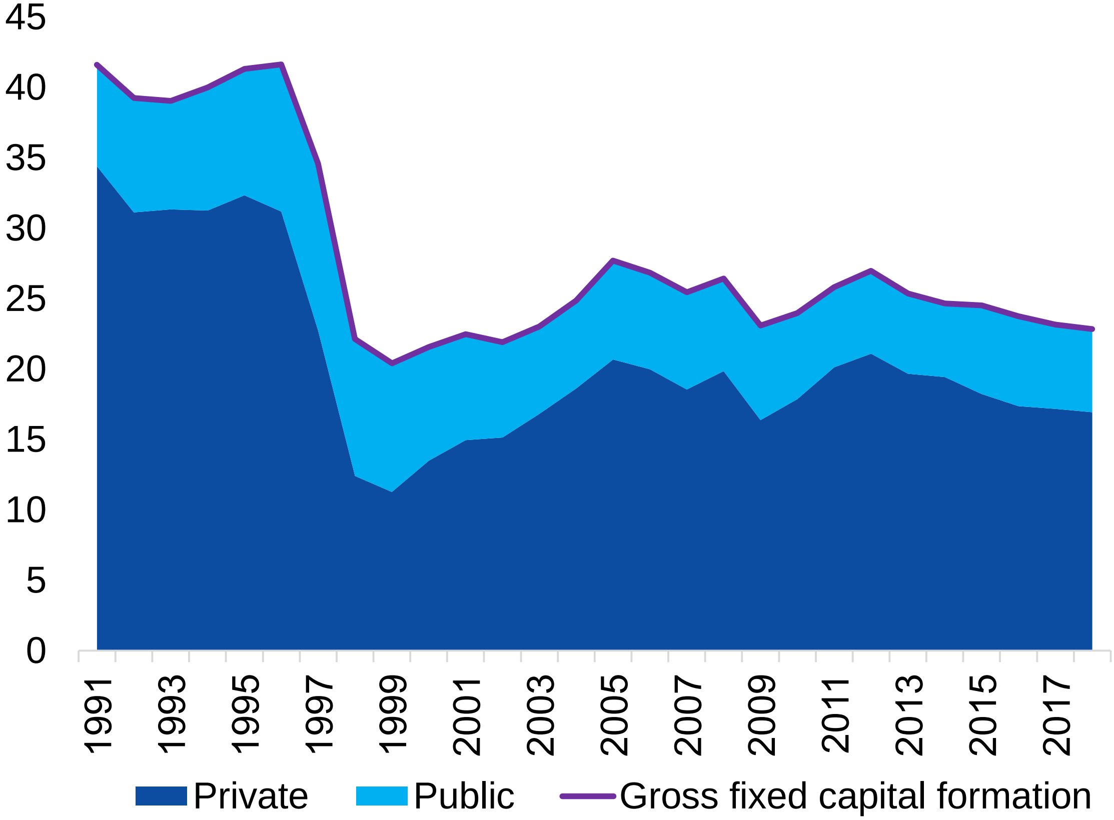
In the macroeconomic context, trend growth slowed down, with slowing capital accumulation

(% change, year-on-year)



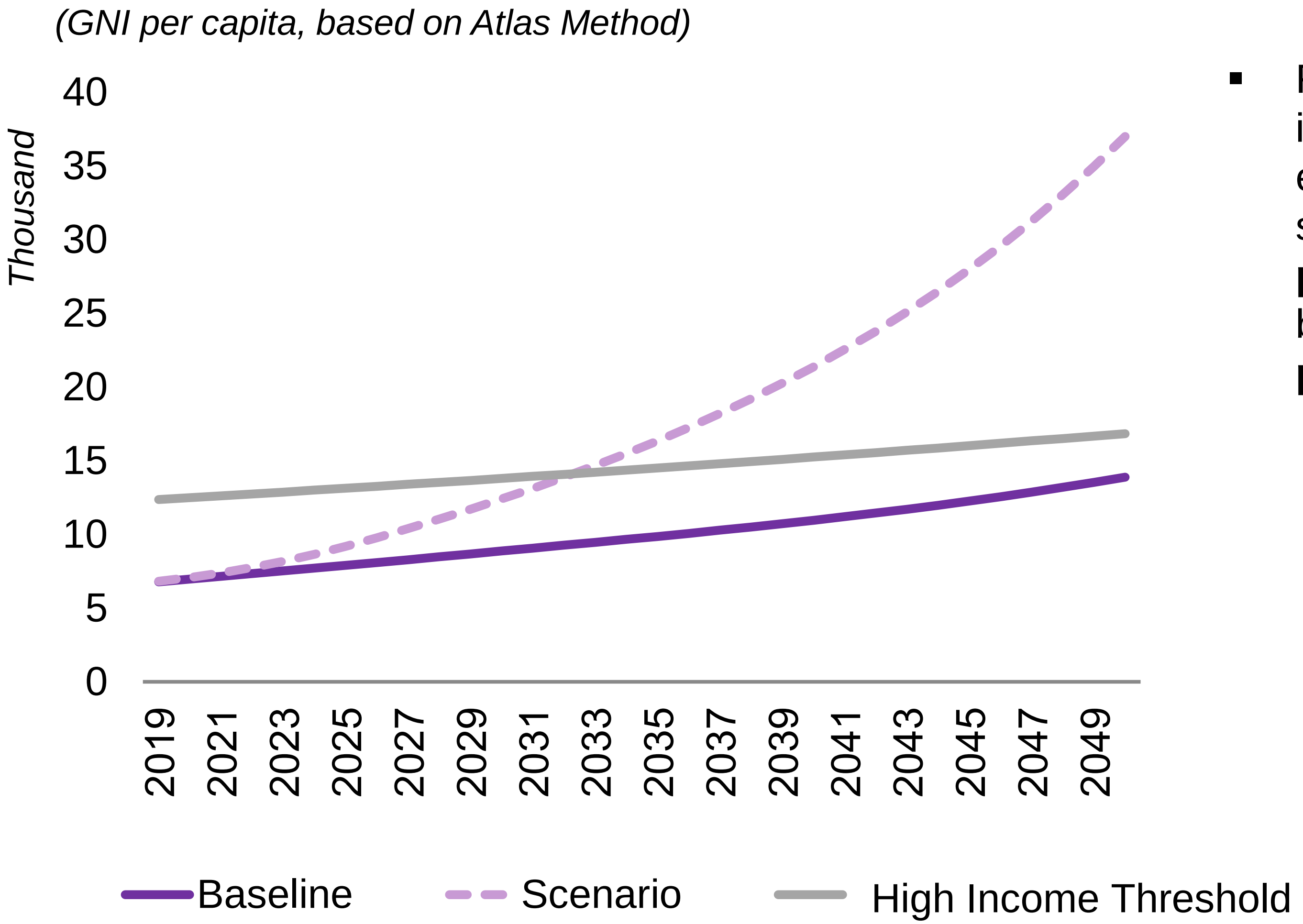
Source: World Development Indicators (WDI)

(Percent of GDP)



Source: World Development Indicators (WDI)

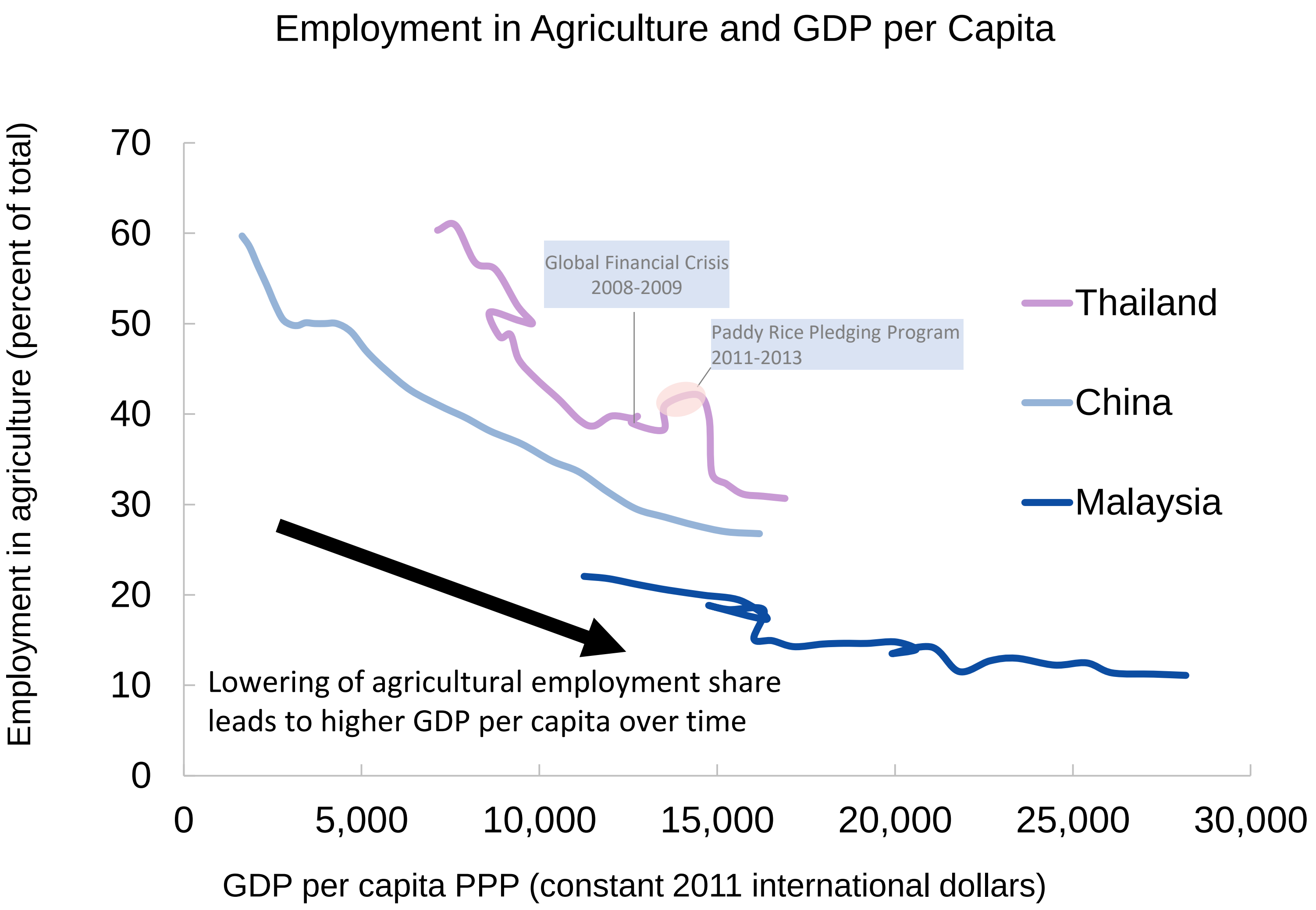
Long-Term Growth Model (LTGM): to reach high income, Thailand need productivity and investment boost



- For Thailand to cross the high-income threshold by 2037 as envisioned in the 20-year national strategy, **TFP growth of 3 percent** needs to be accompanied by an **investment increase to 40 percent of GDP**

Source: World Bank staff calculations

Structural transformation is slowing down in Thailand

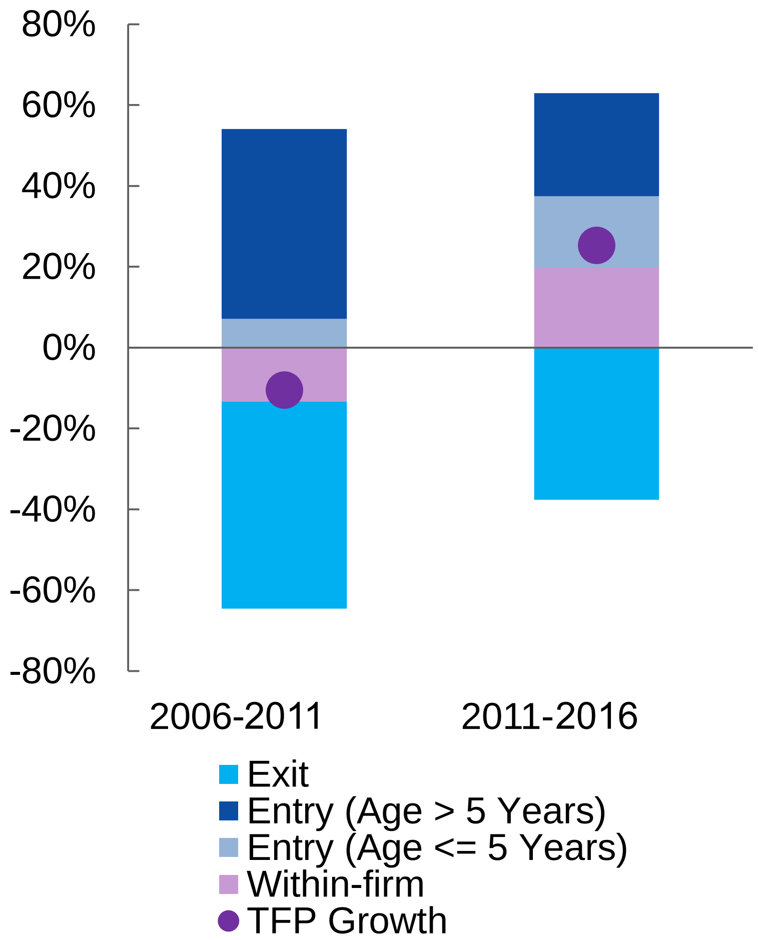


Source: WDI World Bank staff estimates

What happened to manufacturing firms in the last decade?

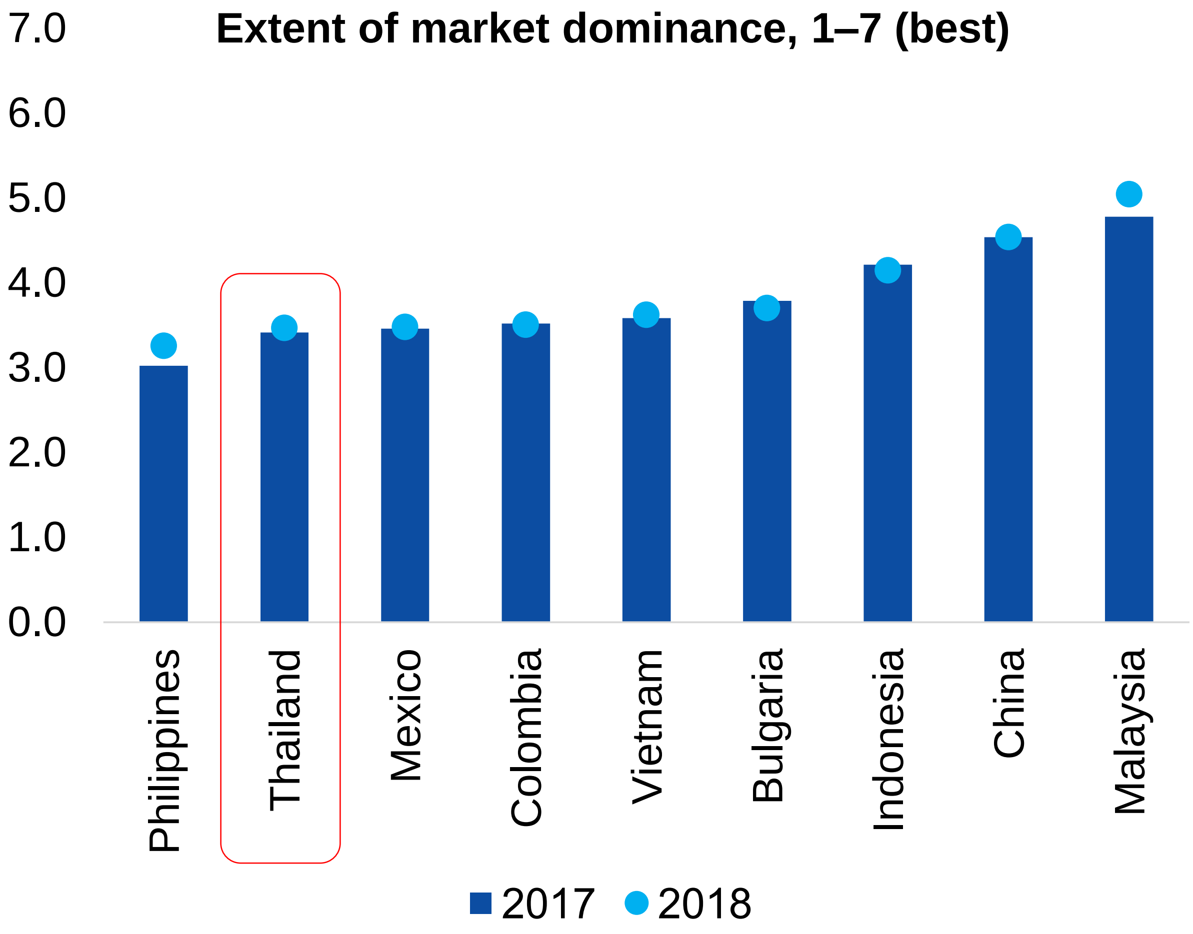
Creative Destruction

Productivity growth = Within + Between + Entry + Exit



Source: World Bank, Bank of Thailand estimates from manufacturing firm census

Market dominance by relatively few players is perceived to be more prevalent in Thai markets



Source: Authors' elaboration based on data from the Global Competitiveness Report (GCR), World Economic Forum, 2017-2018

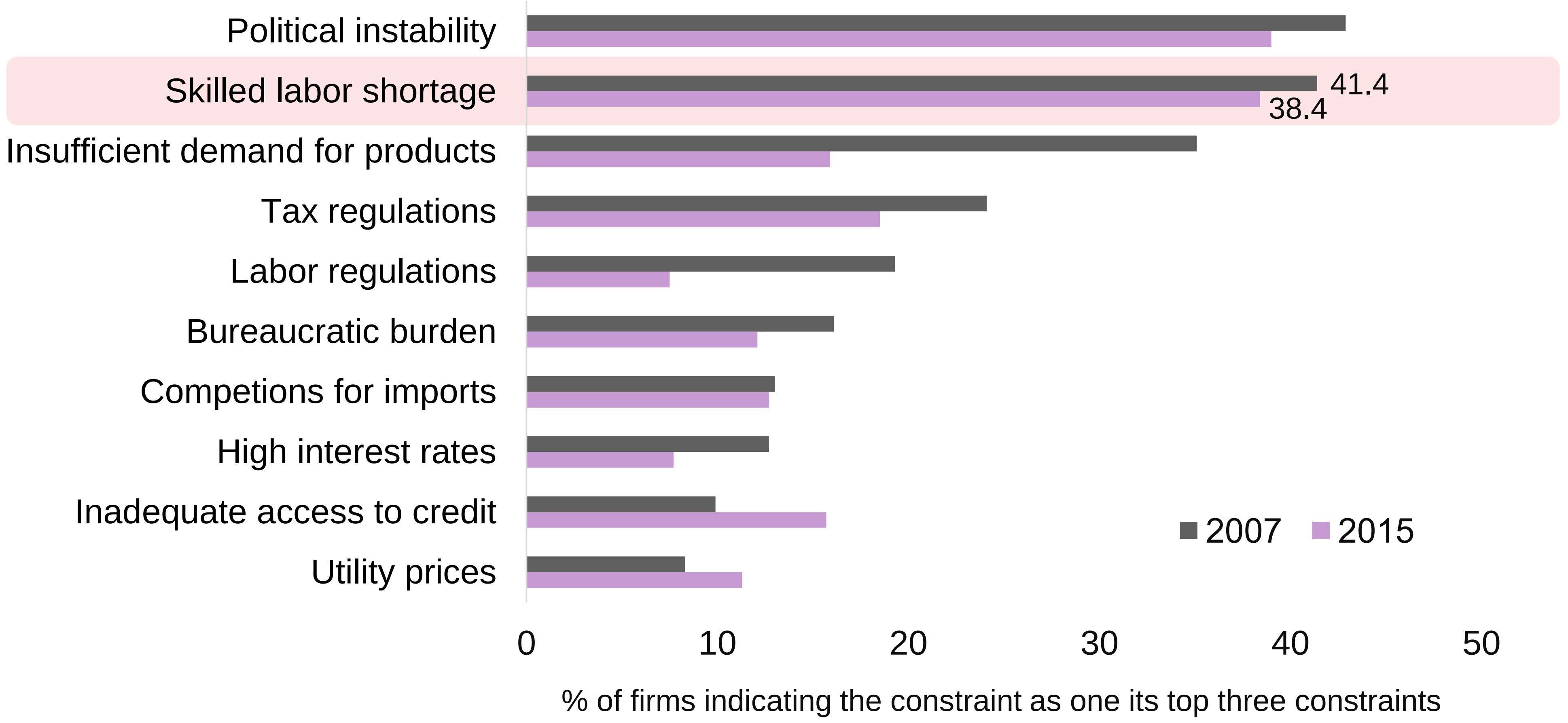
What drove the dynamics?

The most significant factor driving firm productivity improvements are **factors associated with economic openness:**

- Whether firms are recipients of FDI
- Extent to which the firm is exporting and importing
- Foreign ownership share interacted with FDI
- R&D together with skilled labor

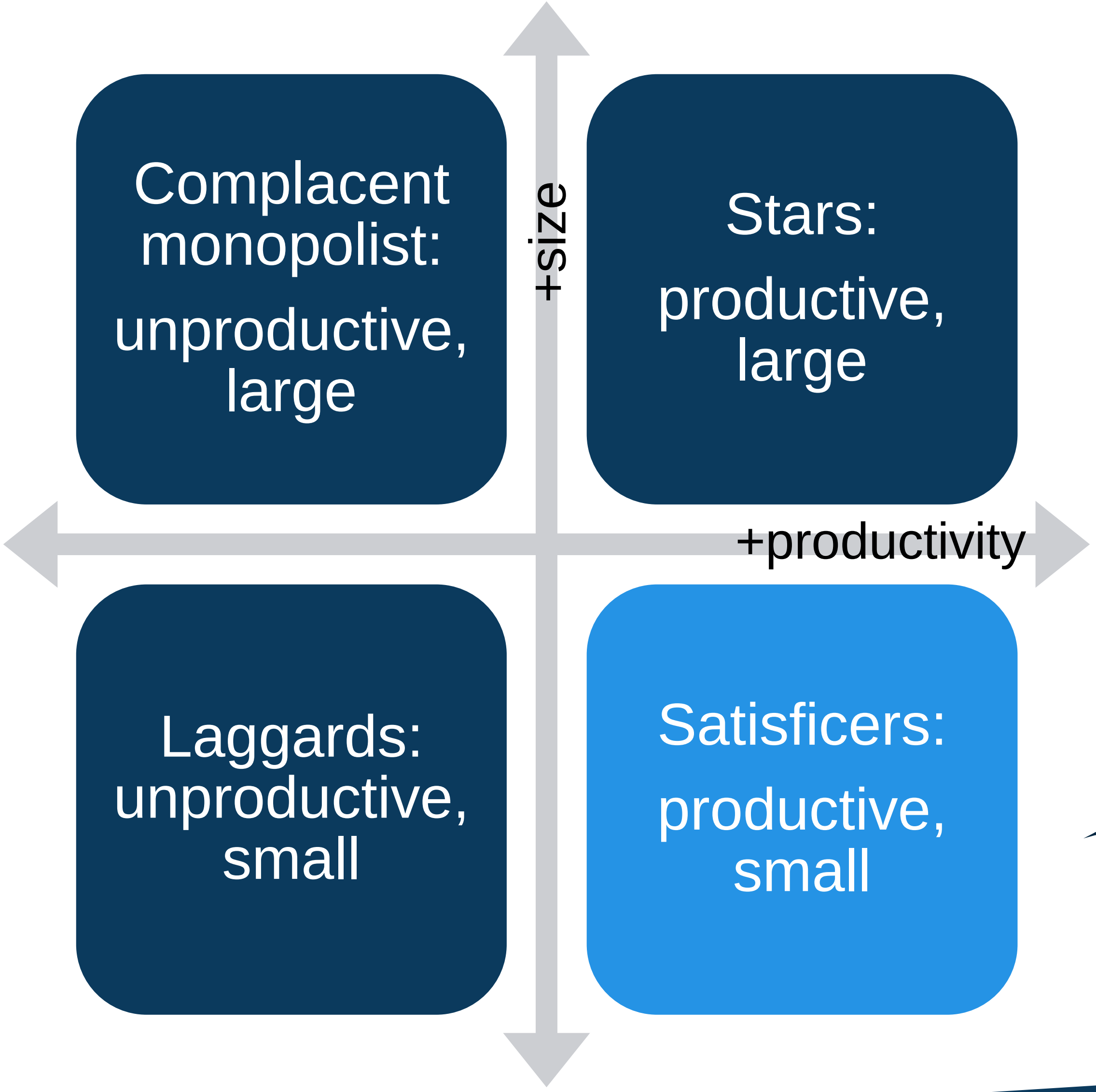
These factors point to the benefits for firms of **exposure to global competition and knowledge spillovers**

Access to skilled labor is one of the main constraints to operations



Source: Thailand Productivity and Investment Climate Study (PICS) 2015, Ministry of Industry and Thailand Productivity Institute

Firm size as a driver of productivity: complex dynamics



Why do satisficers face high returns from investment yet choose not to expand?

WORLD BANK GROUP

Translating analysis to a productivity policy agenda – some ideas

Findings	Policy recommendations
Competition and market churning is weak in domestically oriented industries	Implement the new Competition Act with clear critical guidelines related to state-owned enterprises, price control and cartel behavior.
Firms that are integrated with the global economy are more productive	Promote openness by relaxing FDI limits and services restrictions as envisioned in the ASEAN framework agreement on services.
Skilled labor complements R&D investments	Introduce a human capital policy to support the innovation ecosystem. Consider creating a skilled occupation shortages list in the short term.

Thailand Economic Monitor

Productivity or Prosperity

January 2020

Ask your questions at slido.com #wbtem

Download: wbg.org/tem

TOGETHER WE CAN TRANSFORM THAILAND

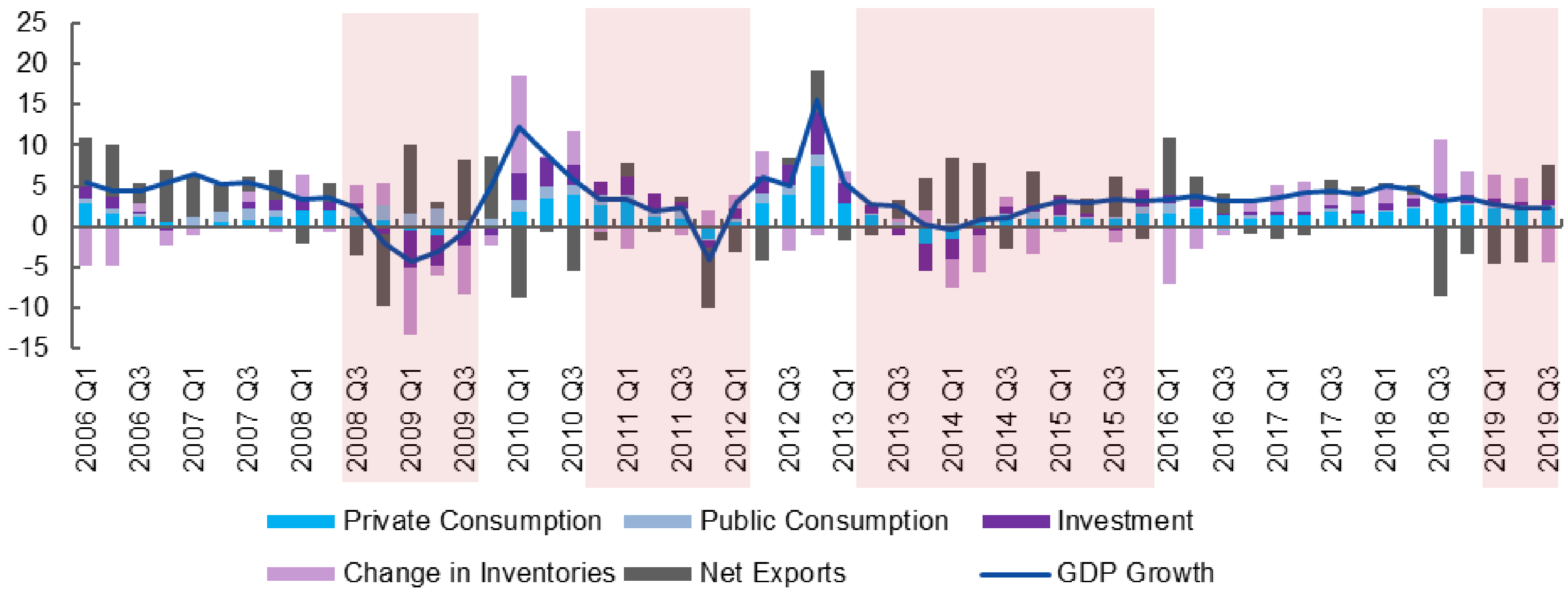
WORLD BANK GROUP

Q&A

BACKGROUND

Box 1: Recent growth numbers show that the Thai economy clearly entered a downturn in Q1 2019

Contributions of components to real GDP growth *(Percentage-point contribution, year-on-year)*

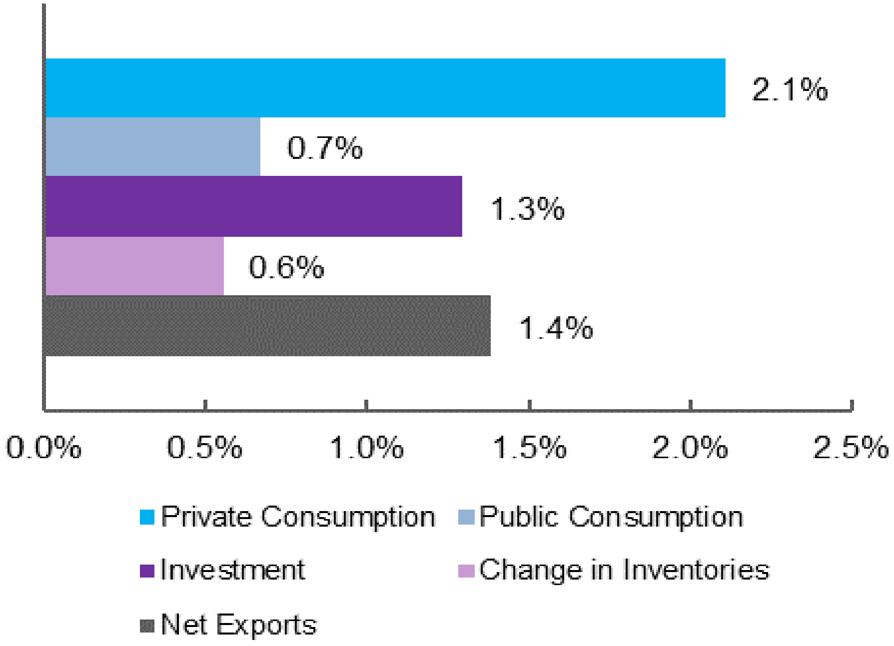


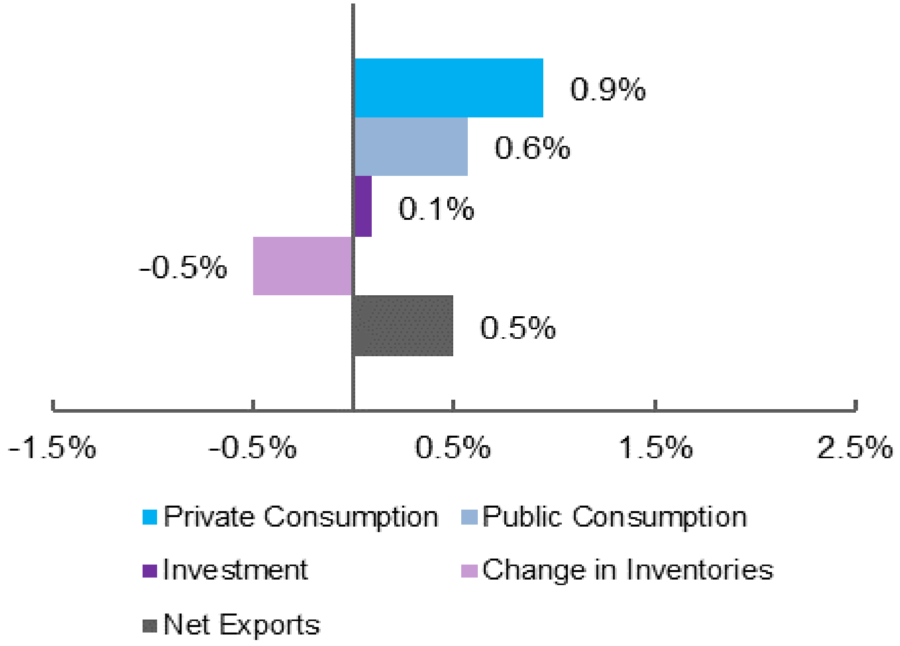
Source: NESDC; World Bank staff calculation.

Note: Shaded background indicate down-cycles defined as periods of GDP growth below average growth of 3.5 percent over 2006-2019 and coincides with the Global Financial Crisis of 2008, the Great Flood of 2011 and political unrest of 2013.

- The contribution of net exports turned negative as early as Q3 2018 amid global trade tensions.
- Starting in Q1 2019, the overall growth momentum slowed as quarterly GDP growth dipped below 3.0 percent amid weakened domestic demand

BOX 1: UPTURNS AND DOWNTURNS



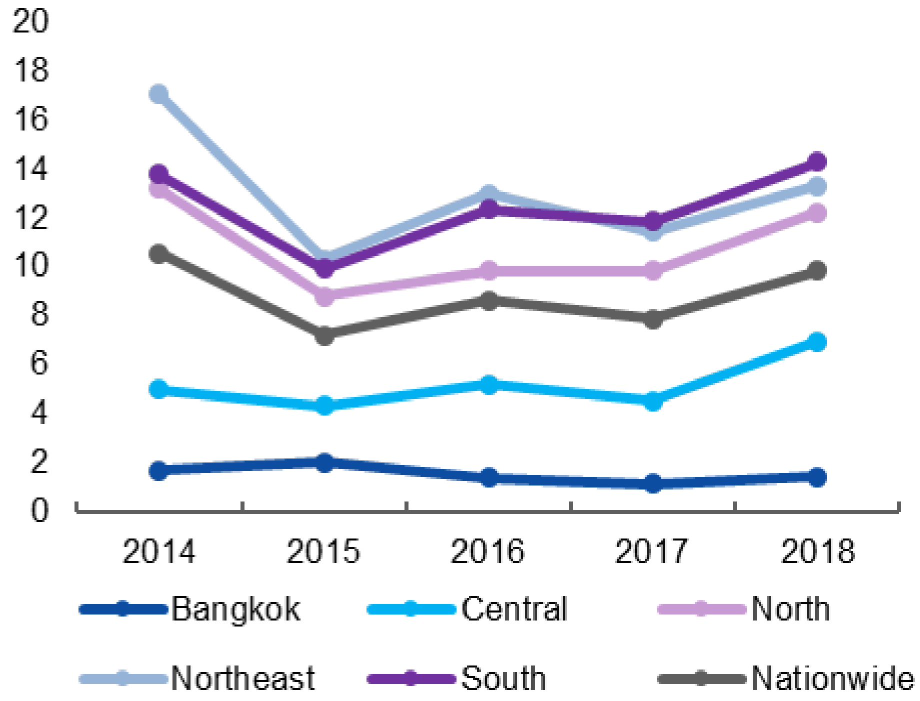


WORLD BANK GROUP

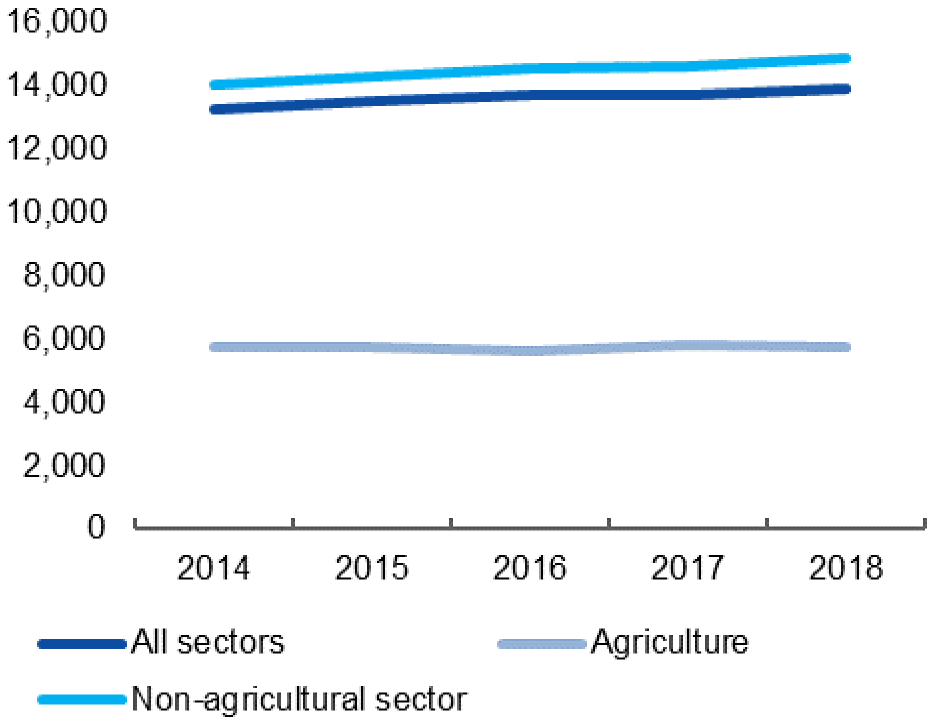
Box 2: From 2015 onwards, poverty reduction slowed down as household income and consumption growth stagnated

- From 2015-2017, poverty rates have increased across Thailand, as measured by both national and international poverty lines. Labor market indicators during this period also showed weaknesses in agriculture employment as well as low wage growth

***Poverty rate** (percent)*



***Average labor wage by industry** (baht, monthly)*



Source: NESDC.

WORLD BANK GROUP

Box 2: A decline in net farm incomes had the largest contribution to an increase in poverty from 2015-2017

- Declines in business and wages also contributed to a poverty increase. Overall, this is concerning since all sources of market incomes contributed to increases in poverty.
- In contrast, globally, labor income is typically the main channel of poverty reduction (Inchauste et al, 2014). Public assistance income played a role in buffering households from worse outcomes.

Comparison of Sources of Poverty Reduction, 2007-13 and 2015-17

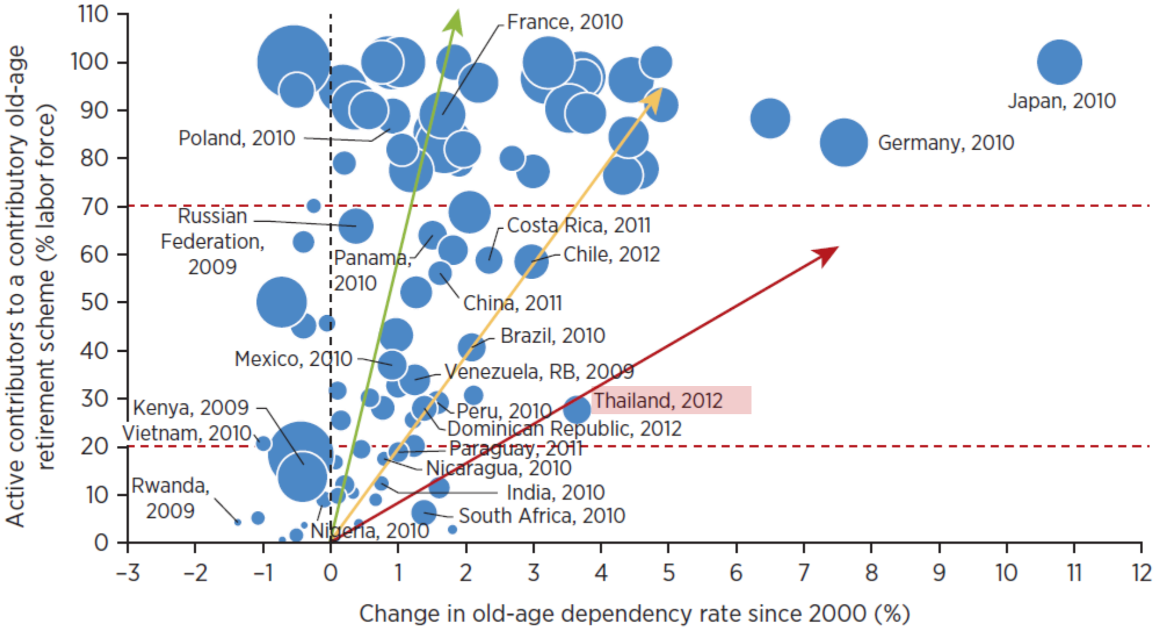
The contribution to the change in poverty, by source	2007-2013	2015-2017
Share of Adults	-2.91	-0.25
Share of Employed	-0.06	0.08
Wages per employed adult	-2.41	-0.12
Business per employed adult	0.11	0.53
Farm per employed adult	-2.81	0.82
Pension per employed adult	-0.26	-0.05
Remittance per employed adult	-1.53	0.10
Public Assistance per employed adult	-2.02	-0.51
Financial, and In-Kind per employed adult	-1.62	-0.07
Total change in poverty (p.p.)	**-13.50**	**0.51**

Source: Badiani-Magnusson et al, 2015 and Yang 2019.
Notes: A survey break between 2013-2014 prevents comparisons spanning the break. Poverty rates based on the Upper-Middle income class poverty line ($5.5/day 2011PPP). Welfare aggregate is household income per capita. Negative contributions indicate that an income or labor market indicator contributed to a decline in poverty, and vice versa.

Box 3: Social protection policy for Thailand can be improved to address informality and rapid aging

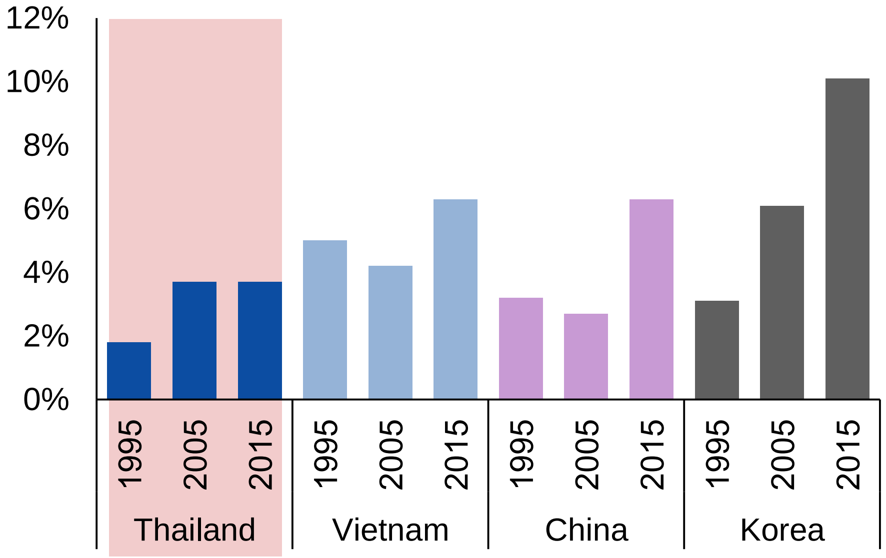
- Thailand is aging more quickly than the pace of labor market formalization. The economy is growing older but has not yet formalized.
- Thailand's spending on social protection lags regional comparators: in 2015, Thailand spent an estimated 3.7 percent of GDP on social protection compared to 6.3 percent in Vietnam and China and 10.1 percent in Korea.

The path of aging and formalization around the world



Source: World Bank (2019)

Social protection spending as a percentage of GDP

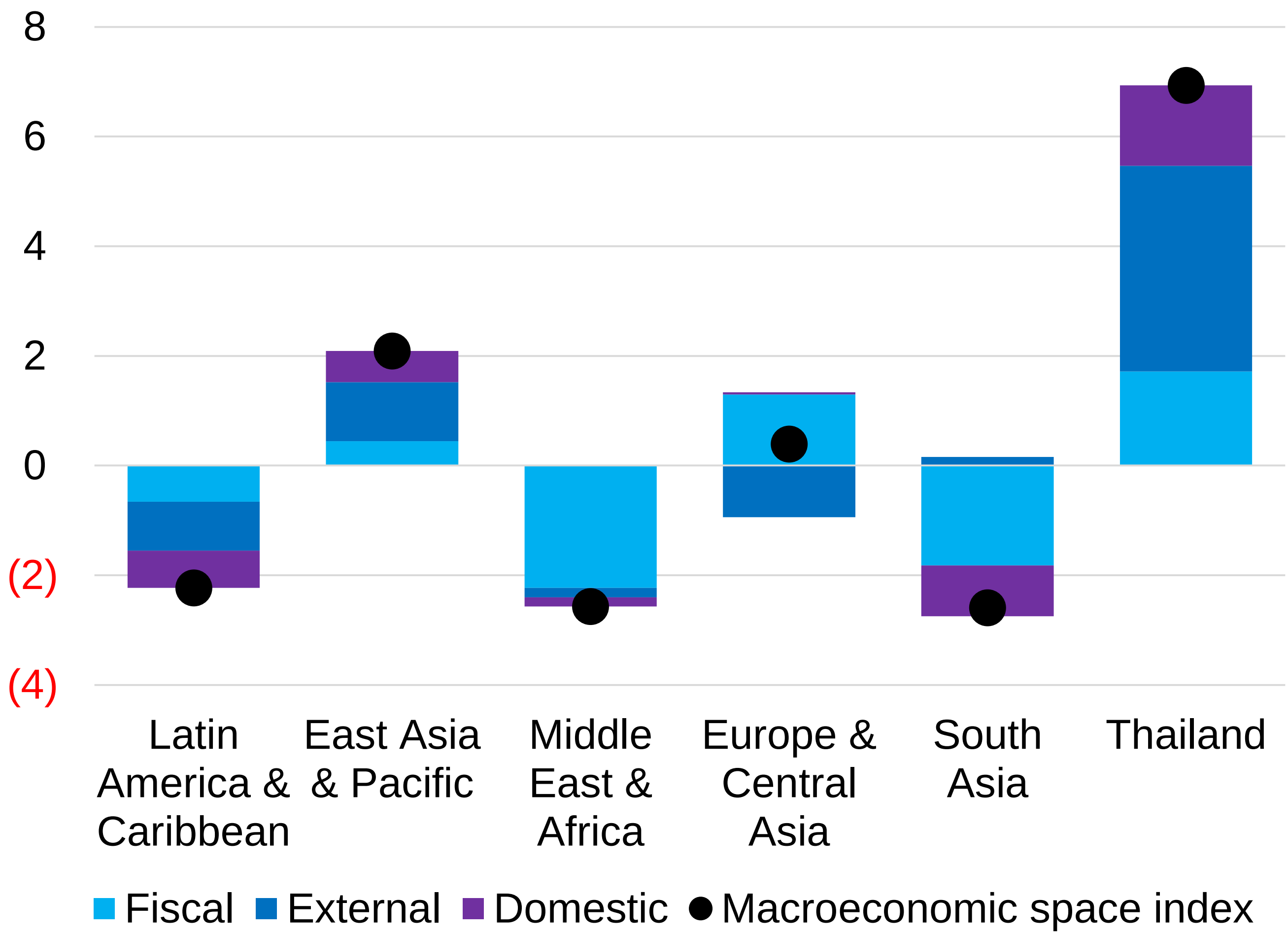


Source: ILO (2017)

WORLD BANK GROUP

Box 4: Thailand has the relatively high macroeconomic space for a stimulus which would not jeopardize the stability.

***Index** (unweighted average of countries for each region)*



Source: World Bank Staff

- Macroeconomic policy space is favorable due to low inflation, low credit growth, low fiscal deficit and relatively low public debt, a current account surplus, high FX reserves relative to short-term external debt and low external debt
- A fiscal stimulus needs to be timely, temporary, transparent and targeted
- Global models and empirical evidence suggest that government investment and corporate taxes may be the most effective near-term stimulus