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The Outlook for the Thai Economy

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THE OUTLOOK FOR THE THAI ECONOMY

1. INTRODUCTION AND SUMMARY

Thailand is moving forward with a continuing impressive growth rate of around 10.46 percent this year. This is the third consecutive year of strong economic expansion. Moreover, it is the second consecutive year of an exceptional double-digit growth rate. Such a performance was considered unrealistically high a year ago because the agricultural sector was expected to significantly slow down and external transactions were believed to be less favorable than those in 1988. However, in 1989 agricultural production continued to prosper for another year, and the sudden influx of external capital continue as well. Export growth, though decreasing, still remains higher than expected.

While the dynamics of the Thai economy are impressive in terms of economic growth, its economic success is accompanied by high inflation--potentially damaging Thailand's long term accomplishment in growth and income equality. According to average consumer price indices, the official inflation rate increased from 3.8 percent in 1987 to around 5.4 percent this year. This dramatic increase in consumer prices primarily reflects the overheating economy, due to remarkably large amounts of capital inflows and trade volume in a period of higher international prices. Without proper policy management, high inflation will be a serious problem next year.

Thailand is now in a period of transforming into a country with fast industrialization and an increasingly unstable external environment. Although this year can be regarded as another important milestone in Thailand's economic

development toward becoming a more industrialized country, the following recent trends might characterize its medium growth pattern and certain problems lying ahead.

First, Thailand's impressive growth is likely to continue through the early 1990s, and the continuation of its forward momentum during 1987-1989 will essentially be led by huge capital inflows. Provided that foreign capital inflows largely finance developments in non-agricultural activities, the manufacturing and services sectors will be increasingly encouraged; therefore, economic growth will particularly benefit households with non-agricultural occupations.

Second, although industrialized countries as a whole will tend to experience more economic slowdown during the next few years, and world trade will consequently be disrupted by increasing trade protectionism and retaliation, Thailand's export growth will not be greatly affected since the ratio of Thai manufactured exports in World markets is currently small and thus, there will be big rooms for future exports.

Third, the sharp increase in agricultural prices and production since 1988 have helped balance economic growth by encouraging more agricultural value added and, as a result, have greatly benefited agricultural households. However, such a trend is rather brief or temporary. Uneven developments could become apparent during the next few years, since world agricultural production is expected to be as high as normal. Lower international prices and demand will limit Thailand's exporting of agricultural products.

Fourth, the tourism industry is of increasing importance. Income from tourism has played an important role in providing the foreign exchanges and resources necessary for stable growth paths. Although it has been suggested that tourism will suffer due to concern about AIDS and other deteriorating environments, the flow of tourist arrivals is still steady and does not indicate that the effect of such worries will have an impact soon.

It is realistic to anticipate that Thailand's economic success will occur this year and will continue over the next few years. The outlook for the Thai economy is generally optimistic. Nevertheless, certain areas must be handled properly. Future world markets are not only less favorable than they are now, but they could also cause some destabilization in the Thai economy. Next year, Thailand's rapid economic growth with dissatisfactory price instability might intensify, but the problem will be within manageable limits. Moreover, a future agricultural slowdown implies that Thailand is continually restructuring its production base to be more industrialized and that the country's income distribution position could be deteriorating. Consequently, the redistributive effects of future economic growth should be closely examined.

This paper provides our forecast concerning the prospects for the Thai macroeconomy. The forecast covers the period from 1989 to 1992. The assumptions used for our forecasting setup are generally optimistic--though plausible. Although the world economy is not anticipated to be optimistic, its resulting adverse effects on Thailand's economic performance are assumed to be only moderate. Our forecast results generally indicate that Thailand should continue to expand remarkably, but at slightly lower rates than in 1988. Deficits in

trade and current accounts will be large but slowing down in the near future. During early 1990s, huge foreign capital inflow will continue, resulting in a large surplus in the balance of payments and international reserves. In addition, high inflation in 1989 will continue in 1990 and, to a lesser extent, in 1991 and 1992.

2. ECONOMIC TRENDS IN 1989

2.1 Production and Employment

In 1988 the Thai economy performed at a 10.98 percentage growth rate. This rate was among the highest growth rates in Asia. In 1989 certain key factors contributing to economic growth experienced during the last two years have been profound. Foreign capital inflows continued to rise sharply, whereas export growth continued at its high level. These two factors, fueled by rising consumption spending, have allowed the economic acceleration to gain more momentum. It is forecast that the gross domestic product in 1989 will rise by around 10.46 percent, compared to 1988's rate of 11.0 percent. Of course, two years of double-digit growth signify impressive growth performance by any international standards. Nineteen eighty-nine will also record Thailand as the Asian country with the highest growth rate--surpassing Korea and Singapore, who were the two strongest growth performers the previous year (see also Appendix; Table A-1).

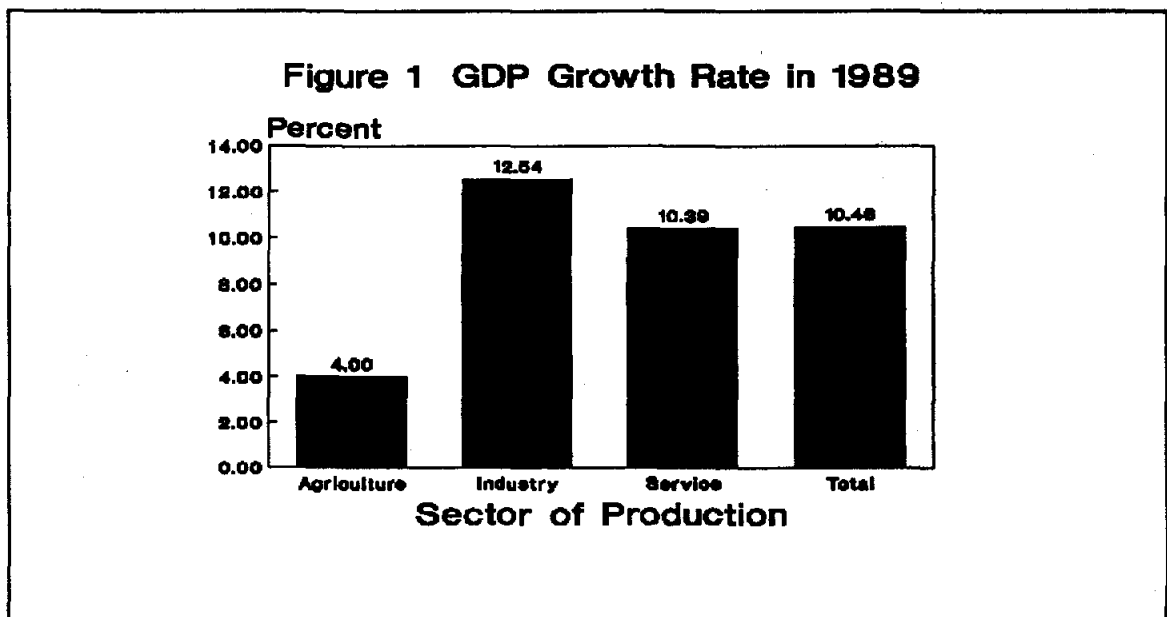
Thailand has continued its rapid structural transformation toward more non-agricultural production (see Tables 2.1 and 2.2). From 1984 to 1988, non-

TABLE 2.1 GDP GROWTH RATE (1984-88)				(%)
	1984	1986	1987	1988
Agriculture	5.59	0.24	-1.98	8.56
Manufacturing	6.76	9.63	13.56	12.45
Other Industries	12.73	1.52	8.15	13.56
Services	6.88	4.61	10.15	10.69
GDP	7.13	4.49	8.39	10.98

Source : National Income of Thailand, 1988 edition

TABLE 2.2 GDP SHARE BY SECTOR (1984-88)				(%)
	1984	1986	1987	1988
Agriculture	19.43	19.12	17.29	16.91
Manufacturing	21.53	21.69	22.72	23.02
Other Industries	9.48	8.99	8.97	9.18
Services	49.56	50.21	51.02	50.89
GDP	100.00	100.00	100.00	100.00

Source : National Income of Thailand, 1988 edition



agricultural activities increased their proportion from 80.6 to 83.1 percent. Employment in non-agricultural sectors also rose substantially. The role of non-agricultural employment increased from a 33.8 percent share of in 1984 to 36.6 percent in 1988 (See Table 2.3). Provided the growth path in favor of manufactured products is undertaken, such a transformation will become clearer. In 1989, it is estimated that non-agricultural employment will increase its share to 38.1 percent (an increase of 7.4 percent), while agricultural employment will rise only 0.6 percent. Nevertheless, due to an increase in the world price of agricultural products--particularly rice exports--the agricultural sector has expanded its production by about 4.0 percent this year. The industrial and services sectors have maintained their forward momentum with growth rates of 12.5 and 10.4 percent, respectively (see Figure 1). As a result, the non-agricultural sector's share is expected to be 84.0 percent of total real GDP in 1989.

Table 2.3 Employment (1984-1989)		(percentage)				
	1984	1985	1986	1987	1988	1989e
Employment Growth						
Agriculture	-0.3	1.5	1.7	1.7	2.6	0.6
Nonagriculture	4.3	2.5	4	5.9	7.9	7.4
Total employment	1.2	1.9	2.5	3.2	4.4	3.2
Share of Employment						
Agriculture	66.2	66.0	65.5	64.6	63.4	61.9
Nonagriculture	33.8	34.0	34.5	35.4	36.6	38.1
Total employment	100.0	100.0	100.0	100.0	100.0	100.0
Source: Bank of Thailand						

Following the droughts of 1986 and 1987, the agricultural sector has generally performed well (see Table 2.4). Although agricultural production in 1989 was not supported as much as in 1988 by a good climate and higher

international prices, its production remains reasonably high. Paddy production was affected by a somewhat abnormal climate but was essentially offset by increasing cultivated areas as a result of last year's attractive farm prices. Paddy production is estimated to be around 21.2 million tons, 1.5 percent higher than 1988 output. With the unexpectedly higher prices for rice exports, the paddy gate prices rose in step with the world rice prices. During the first ten months, its prices increased by 4.5 percent--from 4,195 baht per ton in 1988 to 4454 baht per ton this year. Maize output declined slightly by around 1.3 percent, mainly due to the poorer weather condition. However, during the first nine months, its gate prices were, up from 2,699 baht per ton last year to 2,938 baht per ton this year, or a 9.0 percent growth. Rubber continued its production performance at a 5.6 percent growth, compared to the 5.9 percent last year. However, its prices dropped by 19.9 percent.

For cassava, both prices and output fell by 9.3 and 6.8 percent respectively, and this can be considered to be the third bad year in the row in terms of prices. Sugarcane production increased by over 30 percent (see Table 2.4). Although most major crops were injured by weather conditions this year, other agricultural activities were not generally jeopardized. Therefore, it is approximated that total agricultural value added in real terms was likely to rise much more than previously expected--at 4 percent, compared to 8.56 percent last year.

Like last year, the non-agriculture sector has expanded remarkably, with strong export earnings and the continuations of investment momentum.

TABLE 2.4 PRODUCTION AND PRICES OF MAJOR CROPS					
	1985	1986	1987	1988	1989
PRODUCTION (1,000 ton)					
Paddy	20,599	19,026	17,072	20,882	21,200
Major crops	17,930	16,826	15,272	17,882	18,000
Second crops	2,669	2,200	1,800	3,000	3,200
Rubber	722	782	921	975	1,030
Maize	5,350	4,300	2,310	4,500	4,440
Cassava	15,255	19,554	22,300	23,450	21,860
Sugarcane	24,000	24,441	27,200	36,670	35,000
GROWTH RATE (%)					
Paddy	3.1	-7.6	-10.3	22.3	1.5
Major crops	3.8	-6.2	-9.2	17.1	0.7
Second crops	-1.6	-17.6	-18.2	66.7	6.7
Rubber	14.8	8.3	17.8	5.9	5.6
Maize	18.9	-19.6	-46.3	94.8	-1.3
Cassava	-20.8	28.2	14.0	5.2	-6.8
Sugarcane	-4.2	1.8	11.3	34.8	-4.6
FARM GATE PRICE (Baht/Ton)					
Paddy			3,006	4,195	4,454
Rubber			17,920	21,977	18,480
Maize			1,997	2,699	2,938
Cassava			758	573	520
Sugarcane			292	332	333
GROWTH RATE (%)					
Paddy			25.8	39.6	4.5
Rubber			14.8	22.6	-19.9
Maize			14.1	35.2	9.0
Cassava			-12.9	-24.9	-9.3
Sugarcane				13.7	0.3
Source : Bank of Thailand					

Exchange rates and the interest lending rates have been very stable and preferable for exporters and investors. The industrial sectors that performed well this year included sugar, foods and beverages, iron rods, cements and construction materials, vehicles and transportation equipments, household appliances, and textile products.

In fact, almost all items of industrial products grew substantially; some industries--particularly construction materials and vehicles--produced nearly at their full capacity. Construction, though disturbed by rising material costs, continued to expand due to a sharp rise in demand. During the first nine months, construction areas permitted in municipal zones for the whole country increased by 46.6 percent over the same period of last year. Commercial areas rose by 67.9 percent, and those of residential, industrial and others grew by 35.8 and 43.2 percent, respectively. The areas permitted in the Bangkok Metropolis increased with a growth rate of 48.4 percent--slightly faster than in other parts of the country. Total domestic sales of cement, iron rods and galvanized iron sheet increased by 31.7, 28.4 and 14.9 percent, respectively. This implies that the strong increase in both real wealth and investment demand still continued.

Since the growing number of tourists continued to be substantial, production for services grew, with some good prospects. Tourist arrivals during the first nine months total 3.54 million people--a 16.3 percent growth from last year's respective period. Although the entertainment industry has declined since last year, other service sectors--such as hotels and restaurants--have maintained their forward momentum. According to the latest statistics, hotels and restaurants received better earnings than last year for the first four months. Their earnings increased by 42.8 and 29.4 percent from the same period of last year, while the entertainment business declined by 15.5 percent.

If electricity use is considered to be an accurate indicator of growth in the non-agricultural sector, the sector should expand considerably. Electricity use in fiscal year 1989 grew 14.35 percent, slightly higher than last year's figure (see

Table 2.5). Specifically, electricity use for industrial production rose considerably--by 18.43 percent--compared to 10.86 percent in the last fiscal year.

Table 2.5 Electricity Use (Fiscal year)					(Gikawatt-Hour)
Fiscal Year	Residential	Business	Industrial	Other	Total
PEA					
1984	2060.80	1286.30	3272.10	853.10	7472.30
1985	2329.50	1450.20	3882.10	941.00	8602.80
1986	2578.10	1600.80	4187.60	990.80	9357.30
1987	3197.90	1832.60	4869.40	1108.60	11008.50
1988	3455.20	2194.80	5776.70	1267.30	12694.00
1989	3921.10	2479.60	7084.30	1400.20	14885.20
MEA					
1984					9420.00
1985					10093.80
1986					10661.00
1987	2546.50	3555.80	5063.70	937.80	12103.80
1988	2693.35	4202.04	5235.17	1548.15	13678.71
1989	2867.75	4797.78	5957.01	1650.43	15272.97
TOTAL					
1984					16892.30
1985					18696.60
1986					20018.30
1987	5744.40	5388.40	9933.10	2046.40	23112.30
1988	6148.55	6396.84	11011.87	2815.45	26372.71
1989	6788.85	7277.38	13041.31	3050.63	30158.17
GROWTH RATES (%)					
1985					10.68
1986					7.07
1987	125.58	51.54	96.16	118.21	90.95
1988	7.04	18.72	10.86	37.58	14.11
1989	10.41	13.77	18.43	8.35	14.35
<p>Note : 1. Breakdown data of MEA electricity supply before 1987 are classified differently and therefore not reported here.</p> <p>2. 1987 growth rate from table 3.2 of " Prospects for Thai Economic Development," paper presented at the TDRI 1987 Year-end Conference.</p> <p>Source : MEA, PEA (Preliminary)</p>					

2.2 Investment

Changes in several factors, such as capital goods imports, construction, investment of promoted firms, and domestic credits for industrial production and construction, have indicated this year's strong private investment.

From January to September, the value of imported capital goods rose by 28 percent (see Table 2.6). This could be an indication of a general downward trend in investment growth. However, domestic credits provided for industrial production during the first nine months still grew remarkably--they increased by 32.8 percent, from 237.3 billion baht in September 1988, to 315.3 billion baht in September 1989. Such a growth rate is slightly higher than the 31.4 percent growth at the end of last September. The growth of domestic credits for construction during the first nine months remained high, at 36.0 percent, which is somewhat lower than the 50.85 percent growth last year. From January through September, there were 20.3 million square meters permitted for construction in municipal zones, an increase of 49.6 percent from the same period last year. Its growth rate was 60.6 percent, moderately higher than this year's figure (see Table 2.6). Construction for the commercial sector rose substantially--by 82.3 percent, which is much higher than its corresponding growth rate last year. However, housing and other construction declined in terms of growth rates--to 36.7 and 31.4 percent during the first nine months compared to 67.6 and 80.2 percent for the same period last year. Construction demands in the Bangkok Metropolis remained strong but indicated some slowing down, partly due to rising construction costs. However, construction outside the central Region, though small, significantly increased by 35 percent during the first nine months, while its corresponding growth rate was 20.5 percent last year.

TABLE 2.6 SOME INDICES OF DOMESTIC INVESTMENT			
	(Millions of Baht)		
	1987	1988	1989
Imported Capital Goods	119,563 (40.1)	216,062 (80.7)	197,348 (27.9)
Construction area permitted in municipal zone(thousand sq. metres)			
Whole kingdom	12,597 (30.7)	20,060 (59.2)	20,347 (49.6)
<u>By Purpose</u>			
Residential	7,583 (34.5)	12,130 (60.1)	11,357 (36.7)
Commercial	3,914 (22.9)	5,732 (46.4)	7,275 (82.3)
Industrial & Others	1,100 (35.1)	2,198 (99.8)	1,706 (31.4)
<u>By Area</u>			
Bangkok Metropolis	84.76 (24.0)	13,589 (60.3)	13,972 (50.0)
Central Region	1,611 (57.0)	3,267 (102.8)	3,271 (64.5)
Other regions	2,510 (41.5)	3,204 (27.6)	3,100 (35.0)
Domestic credit (outstanding)			
Industry	190,496 (25.1)	262,775 (37.9)	315,291 (32.8)
Construction	84,712 (23.2)	120,048 (41.7)	148,976 (36.0)
Investment through BOI			
BOI Projects Application	209,029 (250.2)	530,352 (153.7)	284,613 (5.6)
BOI Projects Issued	50,677 (44.7)	87,018 (71.9)	154,849 (155.8)
BOI Projects Operation	18,716 (-10.1)	18,598 (-0.6)	17,150 (52.1)
<p>Note : Figures of 1989 are for January-September. Figures in parentheses refer to growth rates from the same periods of previous years. Source: Bank of Thailand.</p>			

According to investment promotion statistics, the total investment made by investors who received promotion certificates issued by the Board of Investment increased exceptionally--by 155.8 percent, compared to 127.6 percent for the same period last year. This is primarily due to a sharp rise in the number of projects applied for promotional privileges and promoted during the last one or two years. For promoted firms that started operations during the first nine months, investment rose remarkably, both in terms of the number of projects and the amount of total investment. Compared to the period of January through the end of September last year, the number of firms starting operations increased from 147 to 214 firms, or a high growth of 45.6 percent. The corresponding amount of investment rose by 52.1 percent--from 10.5 to 17.2 million baht--compared to 18.3 percent during the same period last year (see Table 2.6).

According to the balance of payments statistics, direct foreign investment, rose very rapidly--although not as rapidly as last year, in which it had grown almost five times higher than in 1987. During the first half of the year, net direct investment amounted to 17,135 million baht, or 62.0 percent of net direct investment inflows that occurred during last year. Considering that direct investment had an exceptionally high record last year, the amount invested this year signified the strong forward momentum of foreign ownership and control in this region. The countries that invested heavily in the first half of 1989 included Japan (50.2%), the United States figures (14.2%) Taiwan (10.5%) Hong Kong (10.1%), etc. It is estimated that net direct investment will rise by around 45 percent this year.

While private investment continued to rapidly rise, the role of public investment appeared to be decreasing over time. Nonetheless, the amounts invested by both government and state enterprises started to rise this year and next year.

2.3 Exports, Imports, and the Current Account Deficits

Since Thailand's economic boom has been increasingly characterized by considerable rises in exports and investment demand, external transactions have been increasing in step with high economic growth. Exports served as the external demand for domestic commodities, whereas imports were demands largely derived from high investment and production growth. Trade and current account deficits, as results of the relative amount of net import, would improve in the long run if economic growth was led by export expansion. In the short run, however, they might deteriorate, due to imported capital goods and materials required as production inputs.

In 1989 merchandise trade was in larger deficit than last year although, with a strong flow of tourist arrivals, the current account deficit rose significantly. During the first ten months, trade account was in deficit by 102.8 billion baht, a 20 percent growth from the same period last year. Merchandise exports and imports from January to October were 427.7 and 527.5 billion baht respectively, increases of about 28 and 30 percent from those of the same period last year. Although net transfers and services increased by 54.3 percent, large current account deficits still resulted. During the first ten months, current account deficits rose by 20 percent--from 38.1 billion baht in January/October 1989 to 47.6 billion baht in the

same period this year. Compared to last year, current account deficits thus tended to rise at much more decreasing rate. Moreover, it was expected early this year that current account deficits in 1989 would rise substantially by around 60 to 80 percent. This was not the case, largely because both agricultural and manufactured exports maintained their high growths, while net transfers and tourism income were impressively strong.

If export patterns are considered, the situation is similar to last year's in which principal exports--such as rice, rubber, maize, cassava, fresh prawn, tin, sugar and textile products--continued to perform unexpectedly well. They generally grew faster than what they did last year. Principal exports increased by 32.3 percent--from 120.4 billion baht during the first nine months of 1988, to 161.3 billion baht during the same period this year. Other merchandise exports that had been increasing remarkably relative to principal exports, increased at decreasing rates. From January to September this year, such exports amounted 218.6 billion baht, a 30.3 percent growth from the same period last year, while they grew remarkably by 45.2 percent for the same period last year. The increase in the principal exports helped make total exports this year higher than previously anticipated, due to some downward trends of world trade volume and world economic growth (see Appendix, Tables A2-A4).

Unlike last year, the high growth rate of imports this year was largely affected by higher import prices, especially for oil imports. In 1988, The world price of oil was low and had been falling since the end of 1987 (see Tables A5-A7). In January 1988, the Oman price was around \$15.95 per barrel. It had fallen to \$10.63, a barrel in October 1988 and remained low for at least another month.

In contrast, the price of oil substantially increased in 1989. The Oman and West Texas prices increased from \$14.82 and \$18.02 a barrel respectively, in January, and to \$16.55 and \$20.09 per barrel in October 1989. It is expected that the upward movement of world oil prices will continue after the end of this year (see Table 2.7 for the similar movement of the import price of crude oil). The higher oil price not only enlarged our high trade deficit, and thus, the foreign savings gap,

Year	Month	World Price			Import Price	
		Oman	Brent	West Texas	Month Average	Avg. from January
1988	JANUARY	15.95	16.95		17.65	17.65
	FEBRUARY	15.47	15.83		17.38	17.52
	MARCH	13.82	14.90		16.90	17.36
	APRIL	15.21	16.61		15.31	16.74
	MAY	15.26	16.44		16.32	16.62
	JUNE	14.02	15.63		15.89	16.51
	JULY	13.34	14.93		16.70	16.54
	AUGUST	13.48	14.87		14.73	16.27
	SEPTEMBER	11.87	13.35		13.81	15.89
	OCTOBER	10.63	12.46		14.15	15.70
	NOVEMBER	10.80	12.99		12.02	15.38
	DECEMBER	12.99	15.06		12.01	15.00
1989	JANUARY	14.82	16.72	18.02	14.95	15.00
	FEBRUARY	15.01	16.43	17.94	16.22	15.10
	MARCH	16.44	18.32	19.45	17.63	15.24
	APRIL	17.39	19.50	21.29	18.60	15.43
	MAY	16.03	18.15	20.37	18.64	15.58
	JUNE	15.81	17.37	20.06	17.96	15.75
	JULY	15.78	17.62	19.75	18.14	15.90
	AUGUST	15.41	16.90	18.61	16.89	15.96
	SEPTEMBER	16.03	17.77	19.59	17.32	16.03
	OCTOBER	16.55	18.94	20.09	n.a.	n.a.

Source : World prices from Energy Policy Journal, NEPO, 1989.
 Import prices are calculated from Monthly Report on Production, Imports, and Import price, Ministry of Commerce

but it also destabilized the economy in terms of price inflation and production growth. In terms of foreign exchange earnings, oil imports during the first nine months were 42.9 billion baht, or a 37.4 percentage growth from the same period last year, compared to the 29.2 percentage growth of non-oil imports.

2.4 Capital Inflows

Capital inflows truly gained their forward momentum this year. All types of private capital inflows sharply increased from last year, in which net capital inflows were already substantial (68.6 billion baht). As shown in Table 2.8, net private capital inflows during the first ten months totaled 122.8 billion baht, or a 150.5 percent increase from the same period last year. Moreover, they maintained their strong growth from month to month (see Table 2.8).

Table 2.8 Net Capital Movements (1987 - 1989) (Billion Baht)			
	Private	Government	Total
1987	16.5	4.6	21.1
1988	68.6	2.3	70.9
1989 ^P			
(Jan-Oct)	122.8	-4.2	118.6
(Jan)	7.0	1.7	8.7
(Feb)	8.1	0.7	7.4
(Mar)	10.0	-0.8	9.2
(April)	8.5	0.5	9.0
(May)	12.0	-0.1	11.9
(June)	13.9	-0.9	13.0
(July)	12.2	-0.9	11.3
(Aug.)	21.0	-0.8	20.2
(Sept)	11.0	-0.5	10.5
(Oct.)	10.0	-3.0	7.0

P denotes preliminary.
Source: Bank of Thailand

This more or less indicated strong investment demand, accompanied with a sharp rise in foreign savings used to finance economic growth. While the role of private capital flows in domestic capital formation was remarkable, net government capital inflow was in deficit. It dropped by 50 percent, to 2.3 billion baht last year, and then dropped further to the deficit of 4.2 billion baht during the first ten months of this year--mainly as a result of increased interest repayments due to the better position in the government budget.

Table 2.9 shows the pattern of net foreign capital inflows classified by types of asset transactions. During the first half of 1989, direct investment valued 17.1 billion baht, or 62 percent of the direct investment occurring in all of 1988. Portfolio investment dramatically increased from last year. During the first half of the year, the amount of portfolio investment was 13.6 billion baht, or 21.5 percent higher than its 1988 total amount. Foreign loans also rose substantially with the amount of 36.1 billion baht during the first half of the year, or 14.7 percent higher than the annual amount last year. It is very important to note that in 1988 the amount of long-term private loans was only around 2.0 billion baht, but, just in the first half of 1989, it has accumulated to the extraordinarily high amount of 10.1 billion baht.

The massive inflow of foreign capital not only reflect the higher demand for investment, but also bright prospects in the eyes of foreign investors. If direct investment were classified by country of origin, the US and the EC have played an increasing role, while Japan and the Asian NIEs maintained their leadership by accounting for around 50.2 and 20.2 percent of the total net direct foreign

Table 2.9 Net Foreign Capital Inflows classified by Purpose					
	1975	1980	1985	1988	1989 ^P
Billion Baht					
Direct Investment	1.74	3.82	4.38	27.63	17.14
Portfolio Investment	0.03	1.03	3.86	11.19	13.60
Foreign Loans	5.98	45.89	43.20	31.47	36.11
Private	3.92	20.67	11.39	31.87	35.10
Long-term	1.32	13.83	0.61	1.98	10.07
Short-term	2.60	6.85	10.77	29.89	25.03
Public	2.06	25.21	31.81	-0.40	1.01
Long-term	2.06	24.39	35.48	-0.42	-2.95
Short-term	0.00	0.82	-3.67	0.03	3.96
Total Capital Inflow	7.75	50.74	51.43	70.29	66.84
SHARE (%)					
	1971-75	1976-80	1981-85	1986-88	1989
Direct Investment	37.50	7.87	13.82	38.17	25.63
Portfolio Investment	3.23	2.67	1.99	25.86	20.34
Foreign Loans	59.27	89.46	84.18	35.97	54.02
Private	39.98	34.83	33.93	33.05	52.50
Long-term	18.14	18.42	14.85	-10.74	15.06
Short-term	21.84	16.41	19.07	43.79	37.44
Public	19.29	54.63	50.25	2.93	1.52
Long-term	19.29	53.97	51.08	3.35	-4.41
Short-term	0.00	0.67	-0.83	-0.42	5.93
Total Capital Inflow	100.00	100.00	100.00	100.00	100.00
Note : Data for 1989 refer to January-June P denotes preliminary					
Source : Bank of Thailand.					

investment in Thailand. Portfolio investment again provided a major contribution (the last time was 1986). Hong Kong invested very heavily this year relative to last year, increasing its share from -0.4 percent in 1988 to 20.8 percent in the first half of 1989 (See Table 2.10). Singapore continued its leading percentage share from 35.5 percent last year to 48.2 percent during the first the quarters of 1989. The United Kingdom which lost its high record of the mid 1980s reduced its percentage share again from 34.0 percent last year to 26.2 percent during the first half of this year. Japan and the United States switched the types of investment--

from portfolio to other kinds of international assets. During the first half of 1989, as their portfolio investment accounted for only 0.3 and 1.7 percentage shares, respectively.

Table 2.10 Pattern of Net Portfolio Investment (million baht)				
Country of Origin	1986	1987	1988	1989
Million baht				
Hong Kong	868	7,712	-40	2,823
Japan	-8	105	1,187	37
Singapore	310	1,191	3,971	6,280
UK	779	2,772	3,805	3,561
USA	510	981	2,337	231
Other	58	101	-69	666
Total	2,517	12,862	11,191	13,597
Share (%)				
Hong Kong	34.48	59.96	-0.36	20.76
Japan	-0.31	0.81	10.61	0.27
Singapore	12.31	9.26	35.49	46.19
UK	30.95	21.55	34.00	26.19
USA	20.26	7.63	20.88	1.70
Other	2.30	0.79	-0.61	4.90
Total	100.00	100.00	100.00	100.00
Note : Figures in 1989 refer to January-June.				
Source : Bank of Thailand.				

The massive foreign capital inflow, though in the presence of a higher current account deficit, led to a surplus in the balance of widening and accumulated international reserves. During the first ten months, the balance of payments account had a surpluses of around 94.6 billion baht, compared to the 44.5 billion baht deficit of 1988. At the end of October, the international reserves amounted to 9,846 million dollars, equivalent to 4.8 months of merchandize imports. Last year, the foreign exchange reserve was 7111.8 million dollars, equivalent to 4.3 import months.

2.5 Public Finance

The government's budget position has tendency to improve during times of economic expansion. Thus, government revenue rose substantially by 18.9 and 27.8 percent in 1987 and 1988, respectively, reflecting the built-in responsiveness of the budget to income growth. In fiscal year 1989, collected government revenue equaled 309.2 billion baht, having increased by 25.8 percent from the last fiscal year and this rate of change was only slightly lower than the 27.6 percent growth of the last fiscal year.

Table 2.11 Public Finance (Calendar Year)					
(Billion Baht)					
Year	Revenue	Expenditure*	Budgetary Balance	Non-Budgetary	Cash Balance
1985	160.6 (8.4)	200.0 (9.8)	-39.4	-3.1	-42.5
1986	169.9 (5.8)	204.3 (2.1)	-34.4	-0.7	-35.1
1987	202.0 (18.9)	212.0 (3.8)	-10.0	2.6	-7.4
1988	258.2 (27.8)	223.1 (5.2)	35.1	1.6	36.7
1989 (Jan-Oct.)	248.1 (25.9)	192.9 (15.0)	55.2	0.6	55.8
1989 (FY)	309.2 (25.8)	248.2 (12.5)	61.0	-1.4	59.6

Note * Total expenditures exclude those financed by external loans and grants.
 Figures in parentheses indicate corresponding rates of growth from the same period in previous years.
 Source: Bank of Thailand.

From January to October 1989, the government collected 248.0 billion baht, 25.9 percent growth from the same period last year (See also Table 2.11). Among the various sources of tax revenue, corporate income taxes and business

taxes rose most rapidly, while import duties and income taxes increased moderately.

Government spending tended to grow in response to the economic boom, however. During the first nine months, the government spent 248.3 billion baht, and increase from the same period last year of 12.5 percent. Further, the total expenditures would have increased more rapidly if certain spending approvals had not been delayed and construction material costs had not been raised so substantially. Nevertheless, current expenditures, especially for wages and salaries, increased dramatically by 22.9 percent, compared to 4.8 percent for the same period last year. This was, of course, a result of government wage reforms effected in January, 1989. And, with less budgetary pressure, the government attempted to raise interest payments paid to the general public and international lenders.

Consequently, from January to September, the government budgetary balance had a large surplus of 55.35 billion baht. Together with a non-budgetary surplus of 153.4 million baht, the government's cash balance equaled 55.5 billion baht, compared to 32.7 billion baht during the same period in 1988. In October, according to preliminary data, the government had a budgetary surplus of 1,039 million baht, while its non-budgetary position was had a deficit of 430 million baht. Therefore, during the first ten months, the government had a total cash surplus of around 56.1 billion baht, over a 70 percent increase from the first ten months last year (see Table 2.11).

2.6 Money and Consumer Prices

Between 1985 and 1987, Thailand, in relative terms, experienced an economic recession and, thus, interest rates and product prices tended to step down. Since 1988, with economic boom the situation has turned around. Interest rates have had a tendency to move upward and high inflation has come in to play.

Rising exports and investment demand tended to would likely force interest rates to adjust upward and, if exchange rates manage to stay stable they would likely bring some liquidity into the monetary system as a result of the surplus in the balance of payments. The threat of inflation would intensify further if the huge inflow of foreign capital acted as an additional macroeconomic shock, since the inflow of capital would create more liquidity, although the flow might help lessen the pressure of high interest rates.

In 1986 and 1987, monetary policy was accommodated to reduce the post 1985 economic recession. The money supply (M_1) rose remarkably by 20.5 percent in 1986 and by 28.0 percent in 1987, (see Table 2.12). The growth rate of M_1 decreased from month to month during 1988, more or less reflecting the restrictive monetary-base policy. However, since the end of 1988, the money supply, using either a broad or narrow definition, accelerated dramatically. As is shown in Table 2.12, M_1 at the end of December 1988 and September 1989 increased by 12.2 and 26.4 percent from their respective previous periods. Using a broad definition, the growth rate of M_2 also increased continuously from 18.2 percent at the end of 1988 to 25.5 percent at the end of September 1989. One may add that the growth rate of M_1 increased faster than that of M_2 . Indeed, one

Table 2.12 The Money Supply (1986-1989)			(billion baht)	
	Value	M ₁ % Growth	Value	M ₂ %Growth
1986 (Dec)	103.4	20.5	672.8	13.4
1987 (Dec)	132.4	28.0	808.6	20.2
1988 (Sep)	130.3	18.1	887.6	18.5
(Oct)	130.3	14.2	896.7	17.6
(Nov)	133.4	11.4	913.3	17.4
(Dec)	148.5	12.2	956.1	18.2
1989 (Jan)	152.3	14.8	963.7	18.7
(Feb)	160.7	14.1	986.9	19.8
(Mar)	165.6	17.4	1,004.3	20.4
(Apr)	166.7	19.6	1,021.3	21.5
(May)	165.3	18.6	1,038.3	22.4
(Jun)	160.7	18.6	1,038.3	22.2
(Jul)	159.6	20.3	1,070.3	23.0
(Aug)	162.5	23.5	1,094.5	24.9
(Sep)	164.7	26.4	1,114.1	25.5

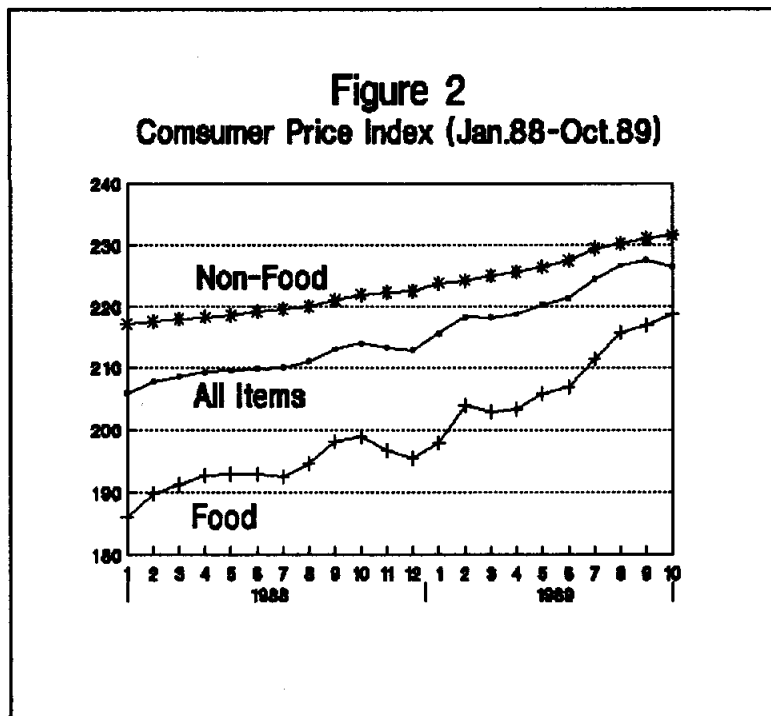
Note: All % growth represent percentage changes from the same period of previous years.

Source: Bank of Thailand

of the most important factors underlying such monetary expansion was the sharp increase in the net inflow of foreign capital. Otherwise, one may argue that the monetary authorities did not pursue a sufficiently restrictive monetary policy to meet the monetary targets that would lower inflation.

The consumer price path was similar to the monetary growth path. Those consumer prices which had remained quite stable between 1985 to 1987 started to rise in 1988. During 1989, inflation accelerated considerably, due partly to soaring food prices and partly to strong private spending.

During the first ten months, the consumer price index rose by 6.86 percent--from 212.9 at the end of 1988 to 227.5 in October of this year. That food



item, prices soaring is clear. The consumer price index for food items increased by 12.0 percent from December of last year to October of this year (Figure 2) which led the public to believe that rising prices were a very short-run, seasonal phenomenon.

Nonetheless, the prices of non-food products also continued to rise steadily, although at a relatively low speed of acceleration. The consumer price index for non-food products rose over 4 percent during the first ten months, compared to 2.3 percent during the respective period in 1988 and in the Bangkok Metropolis, the overall inflation rate was about 1 percentage point above that of the whole country.

It is anticipated that during the last two months of the year, food prices will slightly decline according to seasonality, but non-food prices will more or less continue to increase. Thus, with the resulting consumer price index estimates for November and December, it is projected that the averaged consumer price index in 1989 will rise by 5.4 percent, compared to 3.8 percent in 1988 (see Table 2.13). The averaged price indices for food and non-food products could increase respectively by 8.5 and 3.9 percent, compared to the 5.1 and 3.2 percent in 1988. The problem of soaring prices is shown more clearly, if one examines price

movements from month to month. At the end of the year, food and non-food price indices could edge up by 11.5 and 4.5 percent, respectively, and such rates are much higher than the comparable 4.2 and 2.7 percentage growth rates of 1988. And based on the December to December indices, the overall inflation rate was around 6.9 percent this year, significantly higher than in 1988 (Table 2.13).

Table 2.13 Consumer Price Index and Inflation Rate (1989)			
Month	All items	Food	Non-Food
1	214.2	197.9	223.9
2	216.9	203.9	224.3
3	216.9	202.8	225.0
4	217.4	203.2	225.6
5	219.0	205.8	226.4
6	220.1	206.8	227.5
7	223.1	211.3	229.5
8	225.3	215.7	230.3
9	226.3	216.9	231.0
10	227.5	218.9	231.6
11 ^{e/}	227.6	218.4	232.2
12 ^{e/}	227.7	217.8	232.7
Average	221.8	210.0	228.3
INFLATION RATES			
Year to Year			
1988	3.8	5.1	3.2
1989	5.4	8.5	3.9
Dec. to Dec.			
1988	3.1	4.2	2.6
1989	6.9	11.5	4.5
Note: e/ : Estimates			
Source: Bank of Thailand.			

The Thai economy may, indeed, be disrupted by even stronger inflationary pressure. Policy trends have not been sufficient to reduce inflation

and probably even accelerated inflation in some areas. Indeed, public awareness and active macroeconomic policy responses are essential to cope with recent inflation.

3. INITIAL CONDITIONS AND FORECAST ASSUMPTIONS

In order to achieve projections of the Thai economy for the period 1990-1992, it is required that we identify initial conditions and assume values for certain (exogenous) variables. The latest actual data available are 1988 data. However, the actual economic trends for 1989 are partially available, therefore, the data set of 1988 was updated to yield estimates for the situation in 1989. The resulting estimates of all variables together formed database for our forecasts.

Recent data suggest the initial economic conditions as described in Section 2. Our estimates and forecasts involve two sets of variable--global and domestic variables--both consisting of key economic variables, such as economic growth, investment, and inflation. All of these variables are not totally independent but are correlated to certain degrees. Table 3.1 summarizes the assumption used concerning the growth rates of some key variables.

The world economic situation can influence the development of the Thai economy. To be more specific, economic growth and inflation in industrial countries (including underlying policies undertaken) will more or less affect the volume of world trade and Thailand's external transactions.

Table 3.1 Assumptions		(Percentage)			
		1989	1990	1991	1992
<u>Global Variables</u>					
World Economic Growth					
- OECD Countries ^{1/}		3.5	3.0	2.7	2.6
World Inflation					
- OECD Countries ^{2/}		4.6	4.6	3.8	3.4
<u>Domestic Variables</u>					
Direct Foreign Investment		45.0	18.0	8.0	4.0
Capital Formation					
- Government		24.0	51.5	21.6	12.6
- State Enterprises		21.0	25.4	15.8	10.3
Government Consumption		16.1	8.5	9.5	9.5
Tourism Income		22.9	18.6	15.2	12.5
<u>Notes</u>	^{1/} For 1989, figure is obtained from IMF Survey (Sept. 1989): Others are estimated using Onishi (1989) as guideline.				
	^{2/} For 1989-1990, figures are based on Goldman Sach (1989) and Nomura Research Institute (1989).				

Views about the future values of global variables are, therefore, very important. In general, the assumptions used concerning the future world economic situation were optimistic since war and political conflict, if any, were viewed as being limited to national boundaries, or unlikely to disrupt international markets in any significant way. Although world economic growth and world trade may slow down because of intensified protectionist pressure, and economic difficulties in the United States, Thailand's exports will be only slightly disturbed. There will still be sizeable rooms for Thailand, as a very small player in world markets, to improve its manufactured exports.^{1/}

¹ See Dapice and Flatters (1989). For the crucial role of non-price competitiveness in determining Thai exports, see Wattananukit and Bhongmakapat (1989).

The significance of the European Single Market Act of 1992 has already started, but its present impact is far from its full force. It will take at least several few years for this continental economic bloc to promote growth in international communities. Due to the block competition, Thailand's exports will be adversely affected by trade diversion effects and the Kingdom will not be in a good position to respond by investing in the protected economic bloc. The negative impact of the bloc competition on trade and investment is believed to reach its full force after 1995, however.

The structure of Thailand's exports and production are well diversified and markets in Asia and the Pacific Rim are continuing to expand during the next few years. Therefore, total exports were assumed to perform relatively well and will not slow down to any dramatic extent.

Economic growth rates for the OECD countries were assumed to decline from 3.5 percent this year to the more sustainable rates of 3.0, 2.7, and 2.6 percent in 1990, 1991, and 1992, respectively (see Table 3.1). In 1990, a continuation from the year 1989 was assumed in which certain industrial countries will manage their economies through monetary expansion. The United States is now allowing its monetary policy to be less restrictive so that interest rates can be reduced sufficiently to attract more investment sources. This expansionary policy will be made explicit before the end of 1989.

Japan and West Germany will maintain their high growth rates, while the United Kingdom will recover. It was thus assumed that next year, the economic growth in OECD countries will be 3.0 percent, slightly higher than what was expected previously.

Inflation in OECD countries was also assumed to accelerate next year due to expansionary macroeconomic policies and to the inflation following other OECD countries that has started to develop in Japan and West Germany. Inflationary pressures will reduce after 1990 (see Table 3.1).

International terms of trade are also important in determining prospects for agricultural versus manufactured products. According to historical series of commodity prices, agricultural products have strong a tendency to face low price problems, while manufactured products have better price prospects. Table 3.2 shows price forecasts in constant US dollars, reported in terms of average percentage changes during 1990-1995.

Table 3.2 Changes in Price Projections in Constant US Dollars (1990-1995)	
	Average Rate of Changes
Rice	1.0
Maize	0.9
Rubber	9.8
Jute	3.0
Grain Sorghum	0.7
Palm Oil	2.2
Soybeans	1.3
Cotton	2.2
Tin	1.7
Manufactured Exports	3.6
Source: World Bank (1989).	

The set of domestic variables involves foreign investment and public investment, public consumption, and income from tourism (see Table 3.1).

In the late 1980s, Thailand and other ASEAN countries, except for Singapore, became attractive places in the eyes of foreign investors. The free-enterprise regime, combined with a rich natural and human resources and favorable investment policy, helped make the region one of the best in which foreigners could locate, either totally-owned or joint-venture investment projects.

Table 3.3, to some extent, provides good information on the foreign investment allocation patterns in ASEAN countries. All ASEAN-Four countries attracted massive amounts of foreign capital. At first glance, Thailand led in terms of foreign investment flow, and, probably, promotional privileges.

Country of Origin	Thailand ^{1/}		Philippines ^{2/}		Malaysia ^{3/}		Indonesia ^{4/}	
	Value	% inc.	Value	% inc.	Value	% inc.	Value	% inc.
Japan	3063	217	95	229	214	134	226	-56
Hong Kong	446	266	27	-3	50	350	232	90
South Korea	109	742	2	100	9	1013	209	1249
Singapore	275	330	2	166	66	22	255	1876
Taiwan	850	184	109	1109	147	212	923	11584
Asia total	5019	221	253	222	508	134	1844	175
World total	6225	220	452	171	768	158	4426	267

Note: 1/ Total foreign investment in projects receiving Board of Investment promotional privileges
2/ Equity investments approved by the Board of Investment
3/ Foreign equity in manufacturing projects approved by the Malaysian Industrial Development Authority
4/ Total foreign capital in projects approved by BKPM; excludes investment in oil, financial sectors

Source : Merrill Lynch, cited in Far Eastern Economic Review, November 16, 1989.

Japanese investment was strongest in Thailand and moderate in Malaysia. Like Japan, Hong Kong also invested heavily in Thailand and

moderately in Malaysia. Other NIEs tended to emphasize Indonesia and then Thailand. In any case, investment flows into this region seem extraordinary strong. This piece of information also suggests that direct foreign investment, with or without promotional privileges, will maintain its high levels for awhile. Therefore, direct foreign investment in Thailand was assumed to rise by 18.0, 8.0, and 4.0 percent in 1990, 1991, and 1992, respectively.

The public sector will have to invest remarkably in various kinds of infrastructure around 1990 (see Table 3.1). Government investment will be moderately high in 1991 and slow down in 1992.

Government consumption was assumed to rise as planned during 1990 to 1991 and then maintain its consumption growth at a sustained rate of 9.5 percent per year.

Income from tourism is viewed optimistically, increasing at slightly decreasing rates over the entire forecast period. It was assumed that tourism would remain high at 18-19 percent in 1990 and then decline slightly to around 12-13 percent in 1992 (see Table 3.1).

It was assumed that exchange rates would approach long-run equilibrium levels with limited volatility, partly because of the way the Thai baht has been managed to adjust closely toward the value of the US dollar, and partly due to the artificial appreciation of the US dollar, which will sooner come down to its long-term equilibrium. Therefore, there will be no major change in exchange rates in our projection for 1990-1992.

Finally, domestic crop prices will be significantly lower in 1990 and 1991, after their exceptional highs of 1988 and 1989. In 1990, however, world agricultural production is expected to be better than normal, indicating low agricultural export prices and stagnation in Thai agriculture. In 1991, the situation was assumed to be similar to that of 1990. In 1992, with no information on future seasonal changes, the agricultural price was assumed to be as in normal years.

4. ECONOMIC FORECASTS FOR 1989-1994

4.1 The External Balance

Table 4.1 and 4.2 and Figure 3 show Thailand's external trade position in 1989-1992. In 1989, it is estimated that merchandise exports will value 512.6 billion baht, or 28.5 percent above the 1988's export value and manufactured exports still place as number one, both in terms of total value and percentage growth. Due to unexpectedly favorable conditions, rice exports increase by 29.2 percent, and merchandise imports increase their total value by 27.7 percent from last year. The resulting trade deficit is 124 billion baht, or around 7.3 percent of the total gross domestic product.

Thanks to the 62.7 billion baht surplus in the services account, the large trade account deficit is cut by half, resulting in a current account deficit of 55.3 billion baht, or 3.2 percent of the total gross domestic product.

From 1990 to 1992, total merchandise exports will continue to rise and the export growth will slightly decline from 20.1 percent in 1990 to 17.2, and 15.1 percent in 1991, and 1992. This declining export growth involves largely a

decreasing amount of agricultural product exports, including rice (see Table 4.2). Manufactured exports will remain remarkable and their export growth will decline only moderately.

Total merchandise imports will increase at decreasing rates until 1992, mainly because of the decreasing role of imports in domestic production that will be increasingly export-oriented. Percentage changes in imports will be relatively moderate--19.3 percent in 1990--and then will decrease to 16.0, and 12.6 percent, respectively, in 1991 and 1992 (see Table 4.2).

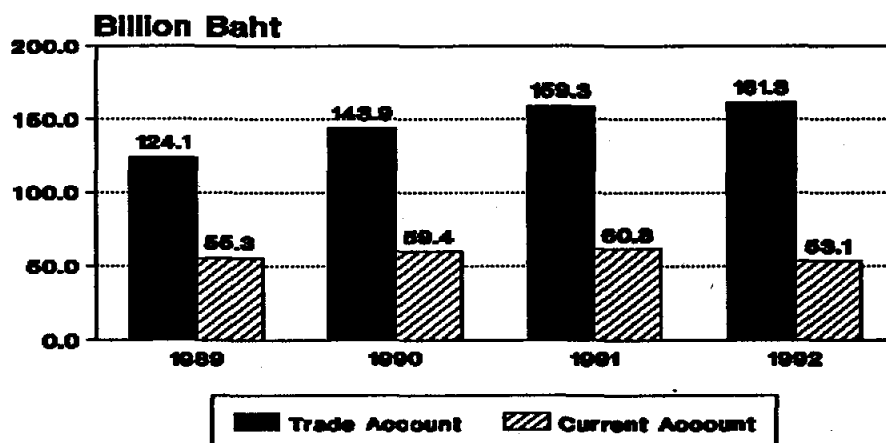
Consequently, trade imbalances will improve, especially after 1990. The trade deficit as a percent of the total GDP will start to level off from 1990; the trade deficit during 1990-1992 will range between 6-7 percent of the total GDP. Like the trade deficit, the current account deficit will be considerable during the period but will decline in 1992. As a percent of GDP, the current account deficit will step down steadily from 2.9 percent in 1990 to only 2.0 percent in 1992 (see Table 4.1).

During 1990-1992, there seem to be less difficulties in reducing the widening current account deficit; this does not suggest, however, that policy may pay less attention to the problem. Improving performance concerning trade in both goods and services will still be very essential in moving the economy forward.

TABLE 4.1 TRADE AND CURRENT ACCOUNT		(million baht)			
	1989	1990	1991	1992	
MERCHANDISE TRADE					
EXPORT	512,559	615,734	721,799	831,126	
Rice	44,679	35,955	30,611	28,875	
Other foods	98,875	110,413	116,450	121,402	
Manufact.	341,354	436,534	537,311	639,520	
Other exports	27,651	32,832	37,426	41,330	
IMPORT	636,628	759,613	881,050	992,430	
TRADE BALANCE	-124,070	-143,879	-159,251	-161,304	
As % of GDP	7.3	7.1	6.8	6.0	
SERVICES ACCOUNT					
RECEIPTS	177,281	209,398	240,298	268,787	
Tourism Income	96,317	114,214	131,529	148,008	
Remittances	20,723	21,655	22,413	23,085	
Interests Receipt	12,666	17,226	22,394	27,320	
Other Receipts	47,576	56,304	63,961	70,373	
PAYMENTS	114,554	130,981	147,956	166,733	
Interests Paymment	60,866	68,237	76,321	85,669	
Other Payment	53,688	62,745	71,635	81,064	
SERVICES BALANCE	62,728	78,417	92,342	102,054	
As % of GDP	3.7	3.8	4.0	3.8	
NET TRANSFER	6,005	6,039	6,080	6,149	
CURRENT ACCOUNT BALANCE	-55,337	-59,423	-60,829	-53,101	
As % of GDP	3.2	2.9	2.6	2.0	
CURRENT ACCOUNT FINANCING					
Direct Investment	39,938	47,127	50,897	52,933	
Other Financing	15,399	12,296	9,932	168	

TABLE 4.2 TRADE AND CURRENT ACCOUNT (GROWTH RATE)		(percent)			
	1989	1990	1991	1992	
MERCHANDISE TRADE					
EXPORT	28.5	20.1	17.2	15.1	
Rice	29.2	-19.5	-14.9	-5.7	
Other foods	20.1	11.7	5.5	4.3	
Manufact.	32.4	27.9	23.1	19.0	
Other exports	15.3	18.7	14.0	10.4	
IMPORT	27.7	19.3	16.0	12.6	
TRADE BALANCE	24.1	16.0	10.7	1.3	
SERVICES ACCOUNT					
RECEIPTS	19.2	18.1	14.8	11.9	
Tourism Income	23.0	18.6	15.2	12.5	
Remittances	4.5	4.5	3.5	3.0	
Interests Receipt	36.0	36.0	30.0	22.0	
Other Receipts	15.3	18.3	13.6	10.0	
PAYMENTS	17.4	14.3	13.0	12.7	
Interests Paymment	14.8	12.1	11.8	12.2	
Other Payment	20.5	16.9	14.2	13.2	
SERVICES BALANCE	22.7	25.0	17.8	10.5	
NET TRANSFER	0.9	0.6	0.7	1.1	
CURRENT ACCOUNT BALANCE	28.9	7.4	2.4	-12.7	
CURRENT ACCOUNT FINANCING					
Direct Investment	45.0	18.0	8.0	4.0	
Other Financing	0.1	-20.1	-19.2	-98.3	

Figure 3 Trade and Current Account Deficit (1989-92)



4.2 Economic Growth and Price Level

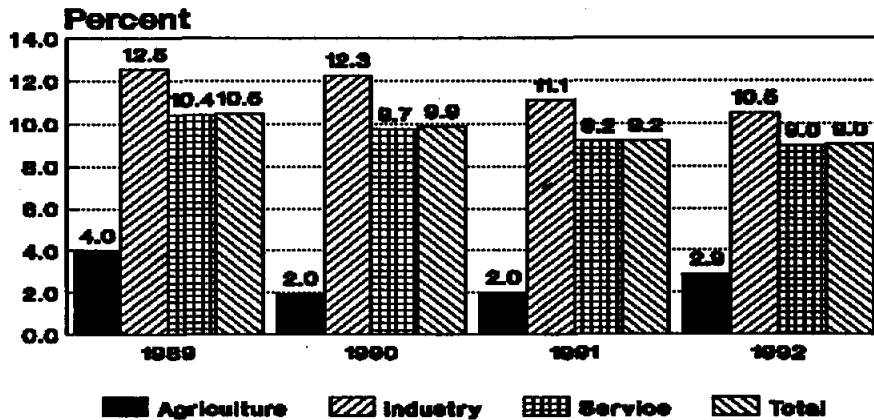
In addition to the trade and current account deficit projections that are more or less optimistic, Thailand's growth performance will be very impressive. The combination of strong investment and trade performance will be key to continued economic take-off. Sharp rises in aggregate demand for goods and services could be inflationary, while at the same time stimulating real economic growth. Therefore, the conventional relationship between macroeconomic expansion and price inflation does exist. It also implies that the Thai economy should perform well in terms of economic growth, but the situation would be risky in terms of price inflation.

Tables 4.3 to 4.5 and Figures 4 and 5 show our forecasted results on changes in real gross domestic product and inflation rate. In 1989, it is estimated

Sector of Production	1989	1990	1991	1992
AGRICULTURE	4.01	1.98	2.03	2.90
Major crops	4.58	0.01	0.21	2.87
Other agriculture	3.63	3.26	3.18	2.91
INDUSTRIES	12.54	12.26	11.06	10.49
Manufacturing	12.02	11.44	10.77	10.45
Other Industries	14.13	14.73	11.92	10.63
SERVICES	10.39	9.72	9.17	8.97
Whole Kingdom	10.46	9.86	9.19	9.00
<p>Major crops include paddy, cassava, sugarcane, maize and rubber. Other Industries include: mining and quarrying, utilities, and construction.</p>				

Sector of Production	1989	1990	1991	1992
AGRICULTURE	15.99	14.91	13.99	13.25
Major crops	6.10	5.58	5.14	4.87
Other agriculture	9.89	9.34	8.86	8.39
INDUSTRIES	32.94	33.83	34.55	35.13
Manufacturing	25.87	26.37	26.86	27.31
Other Industries	7.05	7.40	7.61	7.75
SERVICES	51.07	51.26	51.46	51.61
Whole Kingdom	100.00	100.00	100.00	100.00

Figure 4 Predicted Economic Growth (1989-1992)

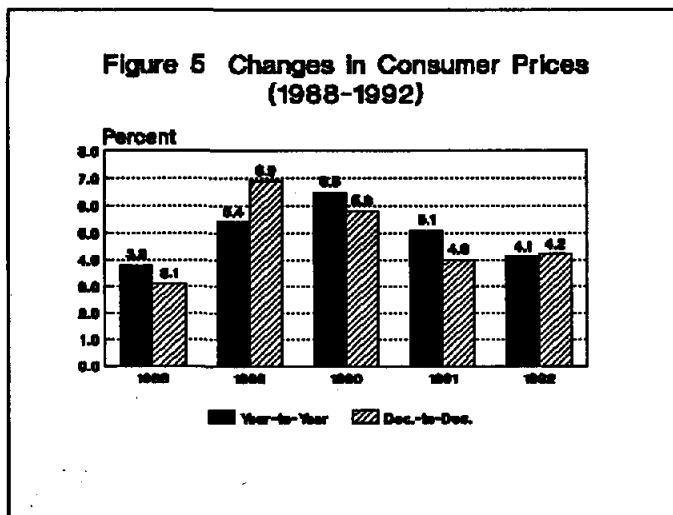


that economic growth will continue to be strong at around 10-11 percent, with a point estimate of a real growth at 10.46 percent. Consumer prices have also risen dramatically since the third quarter of 1989.

In 1990, similar movements will continue; the economy will continue to overheat due to strong investment demand and high export growth. Rising public spending, including a high investment demand for infrastructure, will put more pressure on product demand and, thus, prices. It is forecast that the economic boom will continue into 1990 at a 9.86 percent rate of growth. The acceleration of soaring prices will go on into 1990 and, inflation will also maintain at high levels (see Table 4.5). Certain additional factors, other than high planned investment and export demand, will cause inflation to remain high. First, although food prices may come down to their near-normal rates of growth, non-food prices will continue to rise mainly because of high housing costs and imported inflation (see

also Section 3). Second, the massive capital inflow that is expected to continue next year will bring some additional liquidity into the system. Third, several industries, such as cement, iron rods, tin plates, and vehicles, that have operated to full capacity this year will find it somewhat sluggish to expand production capacity. Finally, the economic boom of the last two years has allowed people to accumulate more wealth--wealth that will lead not only to higher asset prices, but also to consumption demand.

	1988	1989	1990	1991	1992
Consumer Prices					
Year to Year	3.8	5.4	6.5	5.1	4.1
Dec. to Dec.	3.1	6.9	5.8	4.0	4.2
GDP Deflator	8.8	11.2	9.6	5.8	6.6



Between 1991 to 1992, economic growth will be above 9 percent. Table 4.5 indicates the movements of price changes which have similar pattern to those of real GDP growth. Soaring prices, particularly according to GDP

deflators, will seriously affect price competitiveness of Thai exports in world markets, and thereby alarm early policy actions to enhance the future export performance.

4.3 External Debt

The predicted sustainably high economic growths and persistently expanding deficits in the current account of the medium-term forecast inevitably lead to the question of the external debts. Historically, Thailand's external debt was in a precarious position when both trade balance and current account balance fell into large deficits in the early 1980s. Indeed, the total debt outstanding was as high as around 38 percent of the GDP in 1985-86 (see Table 4.6).

The current situation differs, however, from the past experience. The most important difference is the huge amount of expected foreign investments relative to the current account deficit (see last section). This expected capital movement, both for direct investment and for portfolio investment, will serve as the main sources of financing the country's current account deficit--making creation of new external debts less necessary. The expectation of high capital inflows clearly depends on the assumption that the investment atmosphere in Thailand must continue to be attractive.

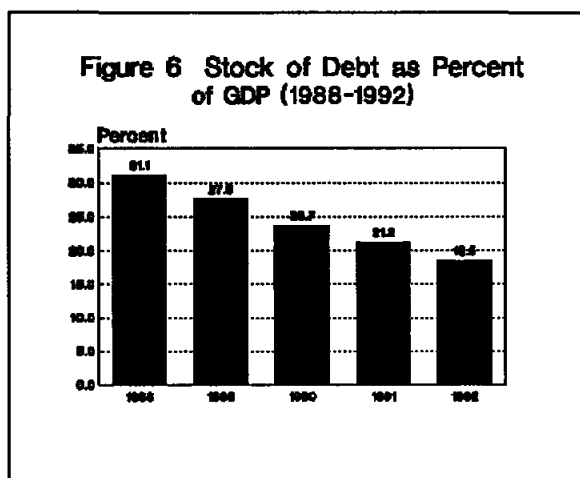
Table 4.6 External Debt Outstanding 1983-1988 (Million US. Dollar)						
	1983	1984	1985	1986	1987	1988
Stock of Debt	11,165	12,836	14,696	16,028	17,499	17,891
Long-term	9,525	10,794	12,773	14,070	15,726	15,362
Short-term	1,640	2,042	1,923	1,958	1,773	2,530
As % of GDP	27.8	30.7	38.3	38.3	36.7	31.1
Debt Creation	1,040	1,671	1,860	1,331	1,471	393
As % of GDP	2.6	4.0	4.8	3.2	3.1	0.7

Moreover, rapidly rising national income will add to the large influx of capital inflows to make the external debt situation less threatening. This is well

illustrated by the debt-to-GDP ratio. Table 4.7 and Figure 6 show that this ratio falls substantially in 1989 from the 1988's level, i.e., from 31.1 to 27.6 percent, and gradually decreases until 1992, where the total external debt outstanding is predicted to be around 18.5% of the GDP^{2/}.

	1989	1990	1991	1992
End-year Debt	18,494	18,976	19,366	19,372
As % of GDP	27.6	23.7	21.2	18.5
Net Debt Creation**	604	482	389	7
As % of GDP	0.9	0.6	0.4	0.0

** Net debt creation = Debt creation - change in external assets
 Note: Assumed Exchange Rate = 25.5 Baht/Dollar



This external debt outlook is rather optimistic and suggests no serious trouble in the near future. But, as already mentioned, the optimistic view depends largely on better current account position (calculated as a percent of GDP) and

² It should be noted here that the debt creation figures in table 4.6 are calculated by ignoring the contribution of any surplus or deficit in balance of payment on external debt. For example, a surplus in balance of payment in this year (1989), which by itself means net increase in foreign assets, will be deducted from the recorded debt creation for the reason that this portion of debt could be easily and immediately repaid from the equivalent increase of foreign assets if the country would have desired to do so, and thus not considered as the net debt the country has obligated. The quantity of new debt is thus dependent only on the current account deficit

the significance of foreign investment, which is still subject to some degree of fluctuation and uncertainty. Close and careful attention will have to be given to maintaining and stimulating high tide of investment inflows to prevent the debt position from undermining the growth path of the economy. On the other hand, realizing the side effects of high capital inflows is also important. First, large influx of foreign exchange can cause or add pressure to inflation; second, direct investment can be considered to be similar to foreign debts in the sense that the country may eventually experience capital outflows (as remittances--equivalent to interest payments) and the possible relocation out of Thailand (equivalent to debt repayments) if the situation in Thailand becomes less attractive relative to other locations.

5. Policy Issues

The last two sections present views and macroeconomic forecasts, our baseline projection, which we consider to be most likely. However, it is important to keep in mind that not only may the assumed external conditions deviate greatly from the projection but that, policy variables are also often just as unpredictable. The future economic trends can be influenced considerably by the government authorities conducting of public policy. The implications of any economic forecast should support serious discussion of appropriate policy actions and, in this section, certain policy issues believed to be crucial to the near future are outlined. Further debate on policy options would be appreciated.

and the level of direct investment. The more deficit or the less direct investment, the more debt accumulation.

5.1 Inflation

This view of the performance of the Thai macroeconomy over the next few years is optimistic. The opportunity cost of such high economic growth does exist, however. For one thing, high economic growth will most likely be accompanied by unstable prices which could disturb long-term economic performance. The annual inflation rates are anticipated, on the average, to be around 5.2 percent per year between 1990 to 1992 which implies that the Thai economy may easily experience high inflation problems. Moreover, this rate is considered to be quite high relative to that experienced in the United States to whose currency the Thai baht is closely connected. It is thus important to preserve competitiveness in terms of real exchange rates.

Macroeconomic policies will have to closely and actively watch and respond to changes in general prices. In the presence of the strong need to: (1) raise government wages and salaries; (2) invest public resources in infrastructure; and (3) spend public funds on social development purposes, the monetary policy must be reliable so that the money supply will grow at non-inflationary rates.

5.2. The Quality of Life

Certain development dimensions are seriously affected by rapid industrialization, and should receive special attention. Areas of pressing concern are environmental decay (both in terms of air and water pollution); urban slums; weak family relationships; child labor; inadequate nutrition and sanitation; health-care problems.

5.3 Income Distribution

Although sustained rapid economic growth has reduced absolute poverty, the so-called trickle-down effect has not worked sufficiently to alleviate the worsening income inequality. Certain effective redistributive measures will have to be made policy. Further, it is also important to pursue such policies to obtain better income distribution and the level of economic growth desired.

APPENDIX

Table A-1 The Northeast Asian and ASEAN Countries' Short-Term Economic Outlook (Percent)				
	Real economic growth rate		Real consumer price increase	
	1988	1989	1988	1989
Northeast Asia	9.6	6.4	5.5	6.5
South Korea	12.2	7.0	7.1	5.5
Taiwan	7.3	6.5	1.3	4.0
Hong Kong	7.3	4.5	7.4	9.7
ASEAN	7.6	7.2	6.1	6.3
Brunei	2.2	2.5	2.0	2.0
Indonesia	5.8	6.2	8.0	6.7
Malaysia	8.1	8.3	2.5	3.0
The Philippines	6.8	5.8	8.8	10.2
Singapore	11.0	9.1	1.5	2.5
Thailand	11.0	9.5	3.8	5.5
Total	8.5	6.8	5.8	6.2
Asian NIEs	9.7	6.6	5.2	5.7
ASEAN 4	7.4	7.2	6.5	6.7
China	11.4	4.8	18.5	17.7
Australia	3.7	3.9	7.2	7.2

Sources : Nomura Research Institute, Quarterly Economic Review, November, 1989

Note: 1 Figures for 1989 are projections.
 2 The totals of real economic growth rates and consumer price increase rates are weighted averages based on 1985. The economic growth rates of South Korea, Taiwan and the Philippines are based on GNP, and those of the others on GDP. In the case of Hong Kong, its balance of goods and non-factor services is substituted for its current-account balance.
 3 Asian NIEs includes Korea, Taiwan, Hong Kong and Singapore. ASEAN 4 includes Indonesia, Malaysia, the Philippines and Thailand.

TABLE A-2 TOTAL VALUE OF PRINCIPAL EXPORTS					
(Millions of baht)					
	1985	1986	1987	1988	1989
PRINCIPAL EXPORTS					
Rice	22,524	20,315	22,703	34,676	36,885
Rubber	13,567	15,116	20,539	27,189	19,203
Maize	7,700	9,261	3,928	3,828	2,266
Tapioca products	14,969	19,086	20,661	21,844	18,312
Prawn	3,439	4,391	5,749	9,698	12,339
Tin	5,647	3,096	2,344	2,229	1,982
Sugar	6,247	7,271	8,573	9,664	15,166
Textile products	23,578	31,268	48,555	58,627	52,796
Total	97,671	109,804	133,052	167,755	158,949
OTHER PRINCIPAL EXPORTS^{a/}					
Integrated circuits	8,248	12,818	15,179	18,854	6,819
Precious stones	6,350	8,150	11,550	13,958	6,484
TOTAL PRINCIPAL EXPORTS	112,269	130,772	159,781	200,567	n.a.
OTHER EXPORTS ^{a/}	81,097	102,611	140,072	203,003	102,360
TOTAL EXPORTS	193,366	233,383	299,853	403,570	379,690
Note : Figures for 1989 refer to January-September.					
^{a/} - Data refer to January to May.					
Source: Bank of Thailand.					

TABLE A-3 GROWTH RATES OF PRINCIPAL EXPORTS					
	1985	1986	1987	1988	1989
PRINCIPAL EXPORTS					
Rice		-9.81	11.75	52.74	54.50
Rubber		11.42	35.88	32.38	-5.20
Maize		20.27	-57.59	-2.55	44.20
Tapioca products		27.50	8.25	5.73	66.90
Prawn		27.68	30.93	68.69	87.60
Tin		-45.17	-24.29	-4.91	11.90
Sugar		16.39	17.91	12.73	79.10
Textile products		32.62	55.29	20.74	22.30
Total		12.42	21.17	26.08	30.40
OTHER PRINCIPAL EXPORTS					
Integrated circuits		55.41	18.42	24.21	n.a.
Precious stones		28.35	41.72	20.85	n.a.
TOTAL PRINCIPAL EXPORTS		16.48	22.18	25.53	n.a.
OTHER EXPORTS		26.53	36.51	44.93	n.a.
TOTAL EXPORTS		20.69	28.48	34.59	29.70
Source: Calculated from Table A-2.					

TABLE A-4 SHARE OF EXPORTS (%)					
	1985	1986	1987	1988	1989
PRINCIPAL EXPORTS					
Rice	11.65	8.70	7.57	8.59	9.71
Rubber	7.02	6.48	6.85	6.74	5.06
Maize	3.98	3.97	1.31	0.95	0.60
Tapioca products	7.74	8.18	6.89	5.41	4.82
Prawn	1.78	1.88	1.92	2.40	3.25
Tin	2.92	1.33	0.78	0.55	0.52
Sugar	3.23	3.12	2.86	2.39	3.99
Textile products	12.19	13.40	16.19	14.53	13.91
Total	50.51	47.05	44.37	41.57	41.86
OTHER PRINCIPAL EXPORTS					
Integrated circuits	4.27	5.49	5.06	4.67	n.a
Precious stones	3.28	3.49	3.85	3.46	n.a
TOTAL PRINCIPAL EXPORTS	58.06	56.03	53.29	49.70	n.a
OTHER EXPORTS	41.94	43.97	46.71	50.30	n.a
TOTAL EXPORTS	100.00	100.00	100.00	100.00	100.00
Source: Calculated from Table A-2.					

Table A-5 IMPORTS BY ECONOMIC CLASSIFICATION		(Millions of Baht)				
	1985	1986	1987	1988	1989	
1. CONSUMER GOODS	23,966	24,466	33,844	38,874	40,919	
2. INTERMEDIATE PRODUCTS AND RAW MATERIALS	75,772	84,333	119,792	179,847	173,107	
3. CAPITAL GOODS	75,404	78,316	105,916	203,874	172,489	
4. OTHER IMPORTS	76,027	54,243	74,657	90,519	49,187	
TOTAL IMPORTS	251,169	241,358	334,209	513,114	435,702	
Source: Bank of Thailand.						

Table A-6 GROWTH RATE OF IMPORTS (%)		1985	1986	1987	1988	1989
1. CONSUMER GOODS			2.09	38.33	14.86	49.40
2. INTERMEDIATE PRODUCTS AND RAW MATERIALS			11.30	42.05	50.13	30.80
3. CAPITAL GOODS			3.86	35.24	92.49	25.00
4. OTHER IMPORTS			-28.65	37.63	21.25	19.00
TOTAL IMPORTS			-3.91	38.47	53.53	28.50
Source: Calculated from Table A-5.						

Table A-7 SHARE OF IMPORTS (%)		1985	1986	1987	1988	1989
1. CONSUMER GOODS		9.54	10.14	10.13	7.58	9.39
2. INTERMEDIATE PRODUCTS AND RAW MATERIALS		30.17	34.94	35.84	35.05	39.73
3. CAPITAL GOODS		30.02	32.45	31.69	39.73	39.59
4. OTHER IMPORTS		30.27	22.47	22.34	17.64	11.29
TOTAL IMPORTS		100.00	100.00	100.00	100.00	100.00
Source: Calculated from Table A-5.						

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