



The World Bank

Thailand's Investment Climate: Looking Forward

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Global economy is expected to return to positive growth next year

International economic environment (%change from previous year)

| | 2007 | 2008 | 2009f | 2010f | 2011f |
|--------------------|------|------|-------|-------|-------|
| GDP Growth a/ | | | | | |
| World | 3.8 | 1.9 | -2.9 | 2.0 | 3.2 |
| High Income OECD | 2.6 | 0.7 | -4.2 | 1.3 | 2.4 |
| USA | 2.0 | 1.1 | -3.0 | 1.8 | 2.5 |
| Euro-zone | 2.7 | 0.6 | -4.5 | 0.5 | 1.9 |
| Japan | 2.3 | -0.7 | -6.8 | 1.0 | 2.0 |
| Emerging East Asia | 11.4 | 8.0 | 5.0 | 6.6 | 7.8 |
| China | 13.0 | 9.0 | 7.2 | 7.7 | 8.5 |
| World trade volume | 7.5 | 3.7 | -9.7 | 3.8 | 6.9 |
| Oil prices | 10.6 | 36.4 | -42.7 | 13.4 | 4.6 |
| Non-oil commodity | 17.1 | 21.0 | -30.2 | -2.1 | 1.4 |

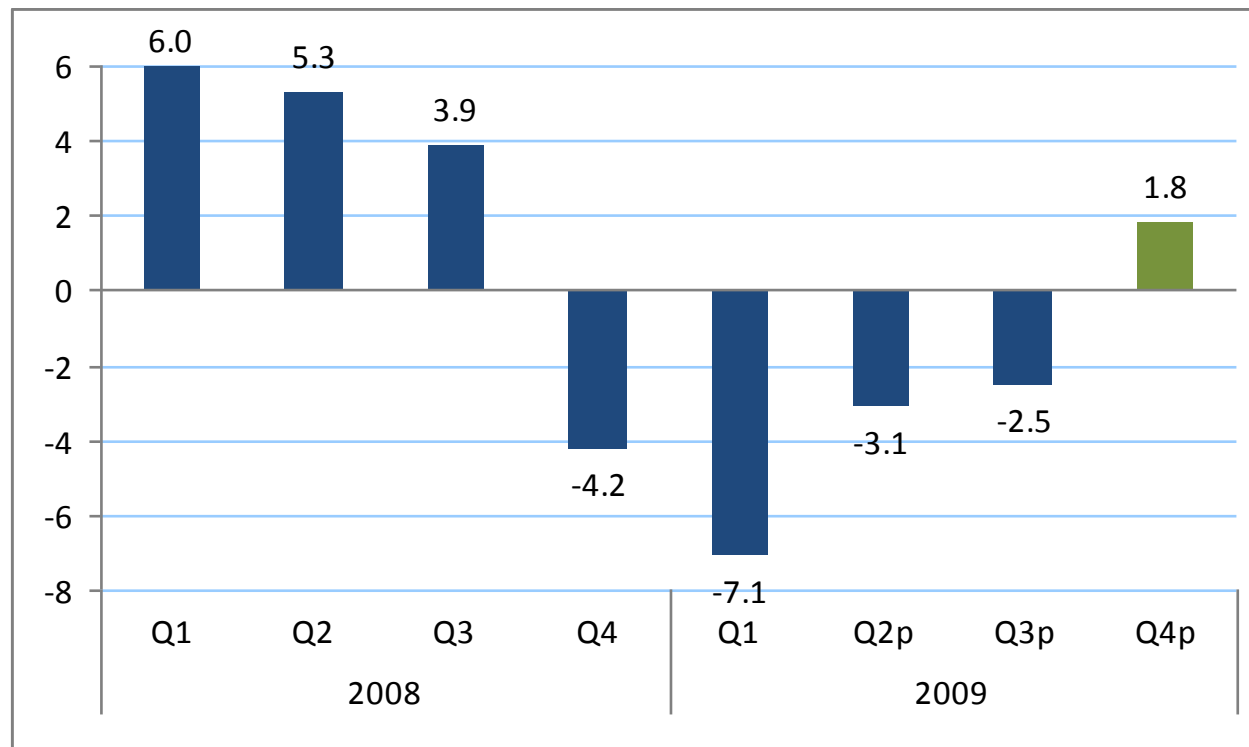
Source: World Bank, Global Economic Prospects, May 2009



Thai economy is expected to return to positive growth in 2009Q4

... from a low very base in 2008Q4 as the global economy recovers

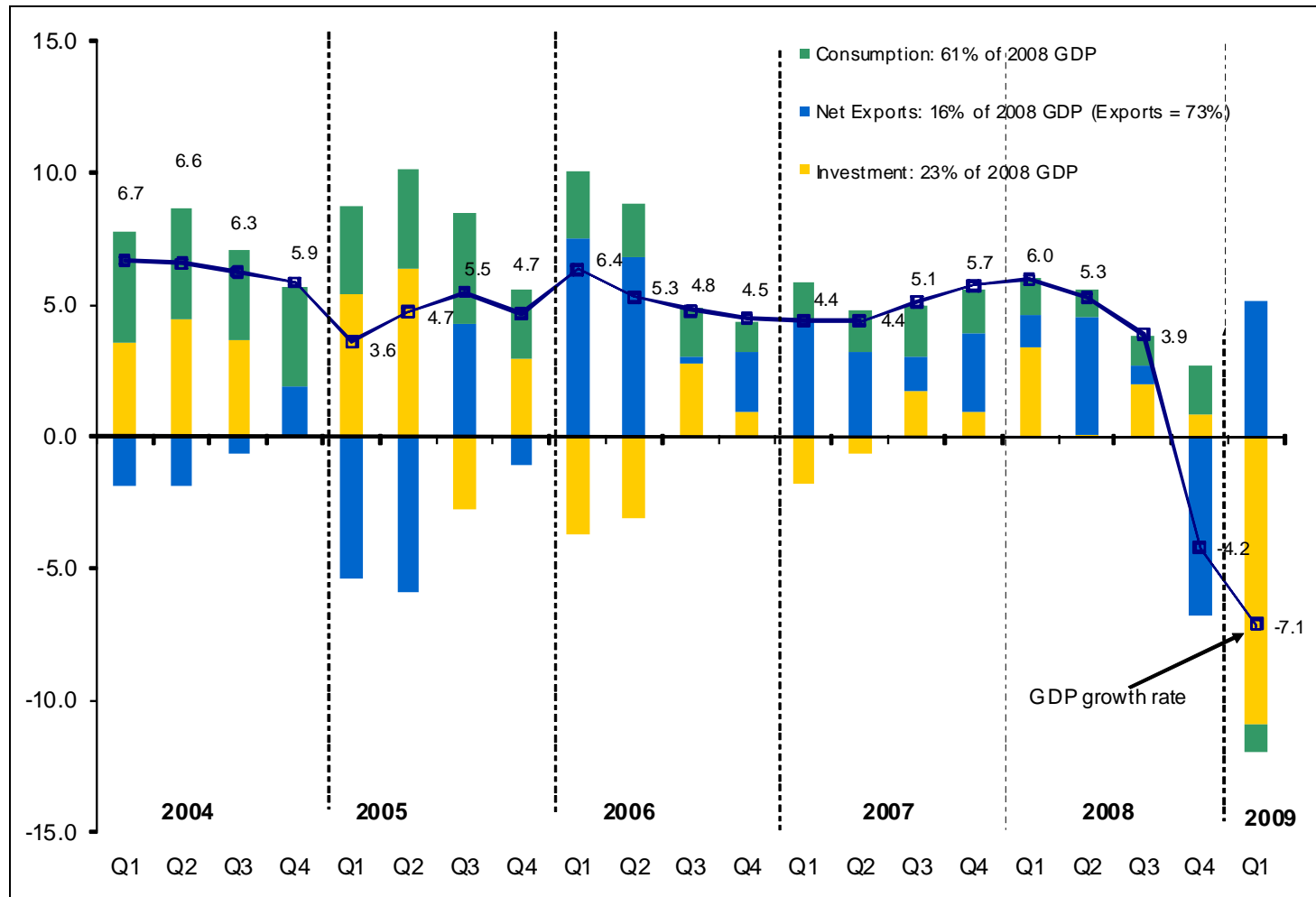
Thailand's Real GDP Growth, 2008-2009
(%change from previous year)





Thailand's growth has been severely affected by global financial crisis

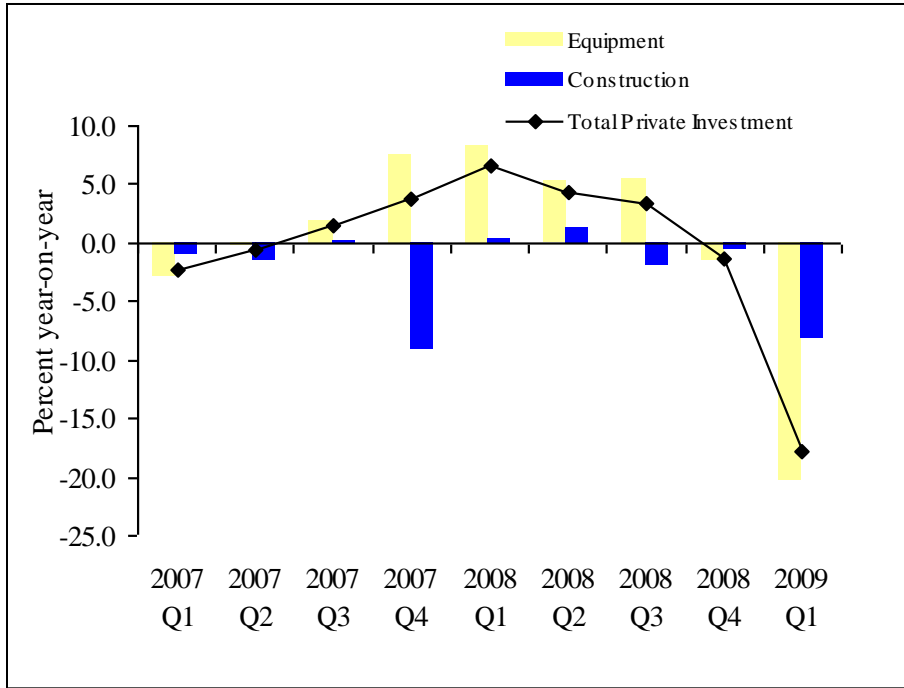
Contribution to the GDP Growth Rate





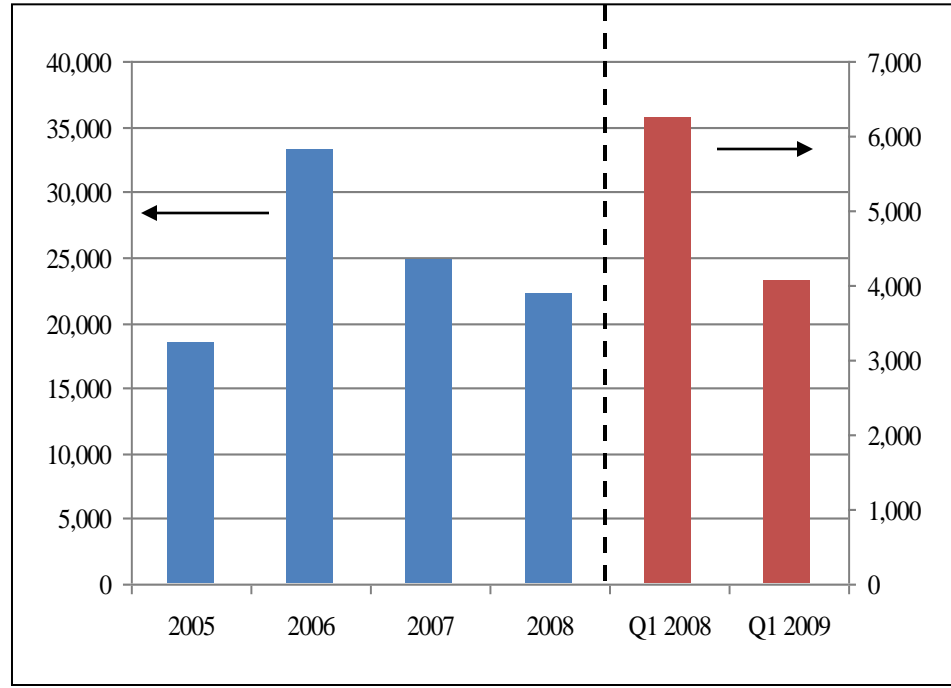
Private investment growth has been declining with contraction in demand

Private Investment Growth



Source: NESDB

Gross Foreign Direct Investment Inflow (million US\$)



Source: BOT



However, the global economy will look quite different post crisis

- ▼ Consumption level in the world, formerly led by US, will decline
- ▼ Demand for Thai exports from developed countries will be lower
- ▼ Export competition will intensify
- ▼ Oil prices and inflation rise
- ▼ Interest rate rise
- ▲▼ Liquidity to sharply rise with capital inflows – Baht appreciate
- ▲ Pressure for large developing countries e.g. China and India to increase domestic consumption
- ▲ Pressure for intra-regional trade to strengthen

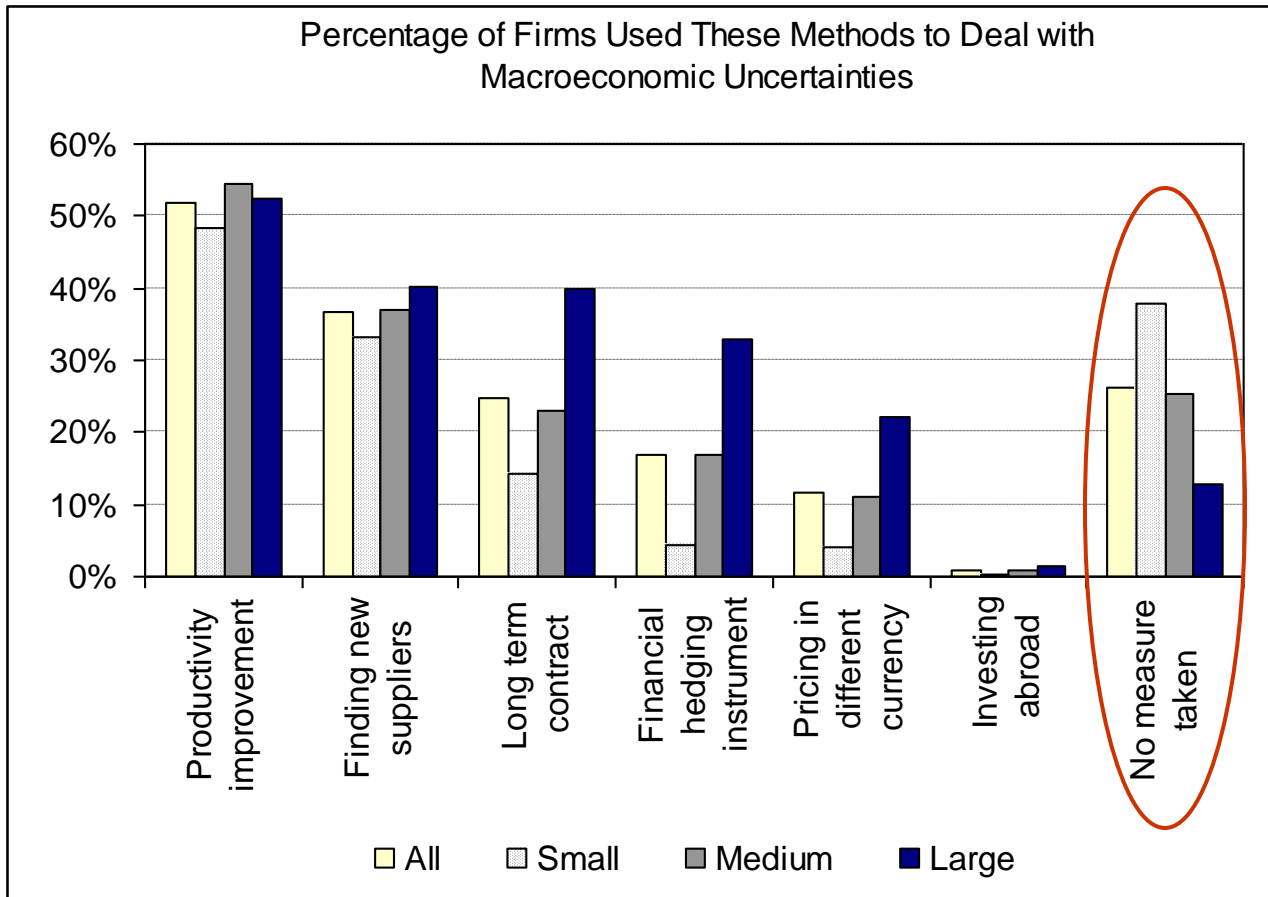


Are Thai firms and government prepared for it?

- Cope with macroeconomic volatilities
- Penetrate new markets (including intra-regional trade) -> need new products & services
- Increase competitiveness by upgrading to higher value-added products and services
- Improve investment climate
 - Skills and innovation
 - Infrastructure
 - Regulations
- Raise domestic demand
- Develop social protection system to mitigate impact of economic slowdown & promote consumption in long-run



Are firms prepared to cope with macroeconomic volatility?



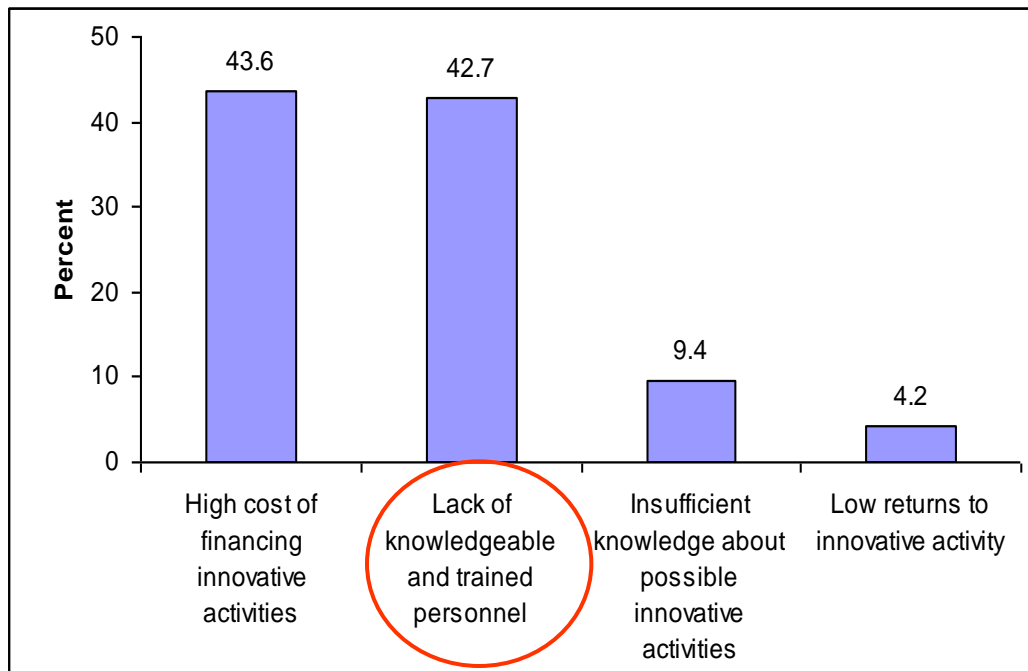
Source: Thailand Productivity and Investment Climate Study 2007 (PICS 2007)

by NESDB, Productivity Institute, and the World Bank based on a survey of 1,043 firms in 9 manufacturing industries



Are Thai firms ready to step up the value-chain?

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



Innovative Activities include

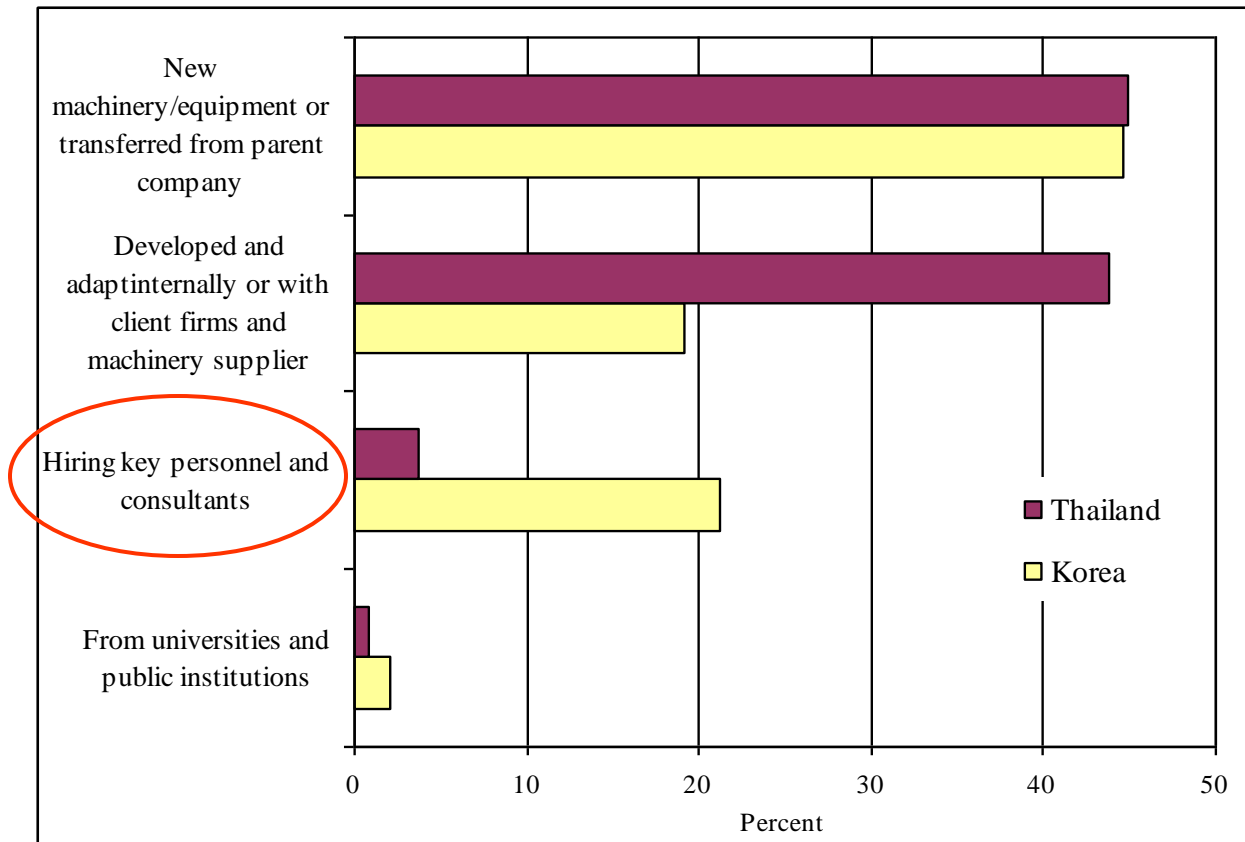
1. **Technological innovation** e.g. upgrading of machinery
2. **Process innovation** e.g. new process of producing the same product
3. **Product innovation** e.g. developing new products
4. **Commercial innovation** e.g. joint ventures
5. **Marketing innovation** e.g. branding

Source: PICS 2007



Human resources play a limited role in technological innovations in Thailand

Main channels firms use to acquire technology
(% firms)



Source: PICS 2007



If Thailand were to position itself well in the post-crisis world, all stakeholders must work together starting today!

- **3C's of policies (Clarity, consistency, and continuity)**
- **Political stability**
- **Public investments (SP2) implemented in timely & transparently**
- **Facilitate the use of hedging instruments and access to finance for SMEs**
- **Streamlining bureaucratic procedures and processes**
- **Foster University - Public research institute – Industry/community linkages for innovation**
- **Improve quality of education**
- **Develop social protection system**



If Thailand were to position itself well in the post-crisis world, all stakeholders must work together starting today!

- **Promote productivity in the services sector**
 - **accounts for more than 45% of GDP, has almost double the employment of industry, and most are SMEs**
 - **Supports manufacturing**
 - **Current regulations limits growth and productivity of the services sector**
 - **Protected for a long time**
 - **Access to finance limited because of collateral rules**



Thank You

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