



# Development in Partnership

December 2007



## New World Bank Report Says Thai Economy to Slow in 2007, Grow Moderately in 2008

**BANGKOK** – The Thai economy is expected to grow 4.3 percent this year – down from 5 percent in 2006 and behind other economies in the East Asia and Pacific Region, according to the new World Bank report released last month. The Bank also forecasts that growth in 2008 will remain moderate at 4.6 percent.

In its latest *Thailand Economic Monitor*, the World Bank attributed the slower growth to dwindling consumer and investor confidence, resulting from higher oil prices and political as well as policy uncertainty.

To bolster growth in the coming year, the new government should move quickly to revive private investment, the Monitor recommended. And that can be done through establishing a clear investment policy, investing in the “mega” infrastructure projects, and building on reform measures already adopted by the interim government.

*“In the short term, improving private investment will help bolster consumer confidence and spur economic growth,”* said **Kirida Bhaopichitr**, the World Bank Country Economist for Thailand.

*“But because investments also enhance the private sector’s productivity, increasing private investment is also critical for Thailand to maintain its long-term competitiveness.”*

### Among other key findings of the Report:

Though growth in 2008 will likely post a small increase to 4.6 percent, **many uncertainties remain** which could impact that level. These include oil prices, exchange rate appreciation, and deceleration in world economic growth. The necessary increases in investment to maintain moderate growth will hinge on the ability of the new government to make clear policy decisions.

The **baht appreciation** has so far **affected a limited number of exporting industries**, in particular low-import content industries such as garments and canned fruit as opposed to high-tech exports. However, **export growth will slow to 10 percent next year** as key trading

partners’ (particularly the US) growth continue to slow. Thus Thailand’s **current account surplus will decline**, to a projected 2.2 percent of GDP, from 4.9 percent in 2007.

The **need to increase private investment, especially the quality of private investment, is urgent**. In 2007, private investment contracted for the first time since the 1997 crisis. Productive investment is critical to increase



World Bank Economist Kirida Bhaopichitr during the press conference

Thailand’s competitiveness in international trade, especially as the baht appreciates. **Investor sentiment is beginning to recover**, but a real increase in investment next year will hinge upon decisive action by the new government to ease policy uncertainty.

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Accordingly, the report **recommends a number of actions for the next government** including clarification of the Foreign Business Act amendment and the relaxation of the 30 percent reserve requirement on short-term capital inflows.

Reducing the regulatory burden would help improve investment climate. Developing people's skills, meanwhile, would help Thailand continue strong growth as it would help the country to move faster toward a knowledge economy. These **actions cannot wait as other countries are moving quickly.**

The latest Thailand Economic Monitor is available for download at [www.worldbank.or.th](http://www.worldbank.or.th)

## Thailand Moves to 15th in World Bank's Doing Business Ranking

**BANGKOK** – On January 1st, 2007, the new electronic cargo clearing system was introduced by the Thai Government. Known as "e-customs" among the Thais, this paperless, one-stop system was designed to make the export-import business easier by reducing the time and cost for exporting and importing goods in the country.

The measure also helped Thailand move up two places in the World Bank's ranking on the ease of doing business, said **Sylvia Solf**, a Private Sector Development Specialist for the International Finance Corp., the World Bank's private investment arm. According to *Doing Business 2008*, the latest annual World Bank report measuring business climates, Thailand is ranked 15 out of 178 countries, compared with 17 a year earlier.

"This goes to show that a simple, unified regulatory reform can improve the competitiveness of the country," said Ms. Solf during the Doing Business in Thailand Conference held last month at the Ministry of Finance.

Co-hosted by the Ministry of Finance, the Office of Public Sector Development Commission (OPDC), and the World Bank, the Doing Business in Thailand Conference brought together more than 100 representatives from government agencies, the private sector, and the news media. During

the Conference, a panel of experts discussed Thailand's performance and rankings in Doing Business 2008, with many business figures and government officials chipping in on their perspective on the rankings.

Launched in 2003, **Doing Business** examines 10 indicators of a country's business climate, the ease or difficulty faced by that country's private sector. These indicators are (1) starting a business, (2) dealing with licenses, (3) employing workers, (4) registering property, (5) getting credit, (6) protecting investors, (7) paying taxes, (8) trading across borders, (9) enforcing contracts, and (10) closing a business.



A panel of experts from government and the private sector discussed the Doing Business rankings of Thailand

The Report clearly demonstrates that, if countries reduce red tape, simplify business regulations and procedures, simplify tax collection, and protect private property rights, businesses can be started more quickly and at lower cost, said **Ian Porter**, the World Bank Country Director in Thailand.

In contrast, heavy business restrictions, lengthy procedures, and complex tax administration increase business costs, delay business start-ups and reduce competition and firms' productivity, Mr. Porter said.

"In general, easing the cost of doing business fosters a more conducive business climate, which helps promote business growth and productivity, employment, and overall economic growth."

Thailand is competitive with other East Asian countries in many areas studied by **Doing Business**. However, in the "paying taxes" and "getting credit" areas, Thailand is in the bottom half of the East Asia economies. The country's rankings in these areas have also fallen from last year's, **Doing Business** shows.

In other areas, such as starting a business, registering property or closing a business, Thailand's rankings fell even though the country's score was almost unchanged from last year's. "This is not because Thailand is getting worse, but other countries are reforming more in these areas," explained Ms. Solf.

Countries should, however, focus less on rankings and more on reforms that will further improve business climate, the World Bank team noted. "The main objective of Doing Business is not to rank countries, but to identify



Thai Finance Minister Chalongsob Sussangkan (in foreground) chairing the internal government meeting on the results of Doing Business 2008

the good practices that make doing business easier in some countries than others," said **Justin Yap**, a Regulatory Economist of the World Bank

The Doing Business methodology also has its own limitations, Mr. Porter pointed out. To make the data comparable across countries, for example, the Doing Business indicators refer to a specific type of business (a standardized case of company with five owners, 10-50 employees, whose start-up capital is 10 times its income per capita, etc).

In addition, the Doing Business survey does not cover infrastructure, workers' skills, and political as well as policy uncertainty, all of which are critical to business growth, said **Albert Zeufack**, the World Bank's Senior Economist in Thailand and an expert on investment climate and competitiveness.

*"If you focus too much on the rankings and only on the indicators studied by Doing Business, you will not get the*



*Justin Yap (left) provided the background on Doing Business during the Conference, while Sylvia Solf (right) presented the in-depth findings on Thailand*

*whole picture," he explained. "It is important to look beyond the rankings and into reforms that are necessary to continue improving the overall business climate."*

*For more information, please visit [www.doingbusiness.org](http://www.doingbusiness.org)*

## Other Events

### Japan Supports Thai Youth Helmet Use Program with \$859,200 Grant

An innovative campaign to reduce traffic fatalities among young Thais received significant support from the Japanese Government through a US\$859,200 grant signed in Bangkok last month.

This grant will enable the International Federation of Red Cross and Red Crescent Societies (IFRC) to implement the Youth Helmet Use Program in 120 communities in the Northeast. Road accidents are now a leading cause of death in Thailand, killing about 1,000 people a month. A lot of these accidents happened in rural areas and involved youth on motorcycles. This could have been prevented if young people understood the importance of helmets and could afford one.

The grant is provided by the Japan Social Development Fund (JSDF) – a joint Japan-World Bank mechanism providing direct support to the poorest and most vulnerable countries within the World Bank Group.

The grant will support an awareness-raising campaign, helmet subsidies, and enforcement of helmet use in poor communities near national highways. Under the agreement, the selected communities will identify their own priorities for road safety, and then develop and implement their own education and enforcement campaigns using funds provided through the grant. A portion of the grant will also support training programs to enable community members to provide first aid to accident victims.

Excessive speed and driving under the influence of alcohol are the primary causes of road accidents in Thailand, which kill more than 10,000 people every year. In 2006, for example, 434 deaths and 4,772 injuries caused by road accidents were reported during the New Year's holiday alone.

Of the 300,000 people involved in road accidents in 2006, more than a third were using motorcycles. However, less than 15 percent of the motorcyclists involved in these accidents were using helmets, despite the law requiring them to. Given that half of the people who use motorcycles are under 25, an awareness-raising program targeting young people should be an effective measure to reduce deaths and serious injuries.



*Representatives of the World Bank, Ministry of Finance, and the IFRC during the grant-signing ceremony*



*Helmet use is rare among youth in Thailand (photo courtesy of the Global Road Safety Partnership)*

## Clean Development Mechanism: Opportunities for Thailand

What is the Clean Development Mechanism? And what's in it for Thailand? These questions were answered during the November 19 seminar on the Clean Development Mechanism (CDM). The seminar was co-hosted by Chiang Mai University's Energy Research and Development Institute (ERDI) and the World Bank Office Bangkok.

This seminar aimed to increase public awareness of CDM, one of the three mechanisms established under the Kyoto Protocol designed to reduce greenhouse gas emissions and address global warming. More than 60 government officials, local business operators, and university lecturers as well as students signed up to hear from two World Bank's experts on CDM: **Nat Pinnoi** (background) and **Pongtip Puvacharoen** (foreground). Other speakers included the ERDI Director, **Asso. Prof. Prasert Rerkkriangkrai**, and a World Bank expert on renewable energy financing, **Chanin Manopiniwes**.

If you would like to request any of our seminar materials, please contact our Public Information Assistant, Buntarika Sangarun, at (0) 2686-8326, or email [bsangarun@worldbank.org](mailto:bsangarun@worldbank.org).



## New World Bank Regional Library Now Open in Chiang Mai

Good news for those who live in Chiang Mai and are interested in the World Bank's analytic work. You can now access our research and publications at the new World Bank Regional Library at Chiang Mai University!

World Bank Regional Libraries in East Asia and Pacific offer a wide range of publications on development in the region. In addition, visitors will also have access to all of our major annual publications, including the *World Development Report* (WDR), an invaluable guide to the World's social, economic, and environmental progress today, and *Doing Business*, the report measuring business climate in more than 170 countries.

Our Depository and Regional Libraries are hosted by leading universities and research institutes around the world. With their support, we have been able to share knowledge and information more effectively. In Thailand, we team up with **Chulalongkorn University**, the **Thailand Development Research Institute**, the **National Institute of Development Administration**, **Khon Kaen University**, and now **Chiang Mai University**.

The launch of the World Bank Regional Library at Chiang Mai University took place on November 19 and created a lot of interest among CMU students and lecturers. We are thankful for CMU's support and we look forward to more collaboration with the University in the future.



**For comments or questions about this newsletter,**

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