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Thailand Economic Monitor

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ABBREVIATIONS

AFMIS	Agency Financial Management Information System
AFTA	ASEAN Free Trade Area
AMC	Asset Management Companies
BAAC	Bank for Agriculture and Agricultural Cooperatives
BBL	Bangkok Bank
BOA	Bank of Asia
BOI	Board of Investment
BOT	Bank of Thailand
CB	Commercial Bank
CBC	Central Bankruptcy Court
CDP	Country Development Partnership
CDRAC	Corporate Debt Restructuring Advisory Committee
CEO	Chief Executive Officer
CGD	Comptroller General's Department
CPI	Consumer price index
D/E ratios	Debt to equity ratios
DBD	Department of Business Development
DOT	Direction of Trade
DTDB	DBS Thai Dhanu Bank
EBITDA	Earnings before interest, taxes, depreciation and amortization
ERP	Effective rates of protection
EU	European Union
EXIM Bank	Export-Import Bank
FDI	Foreign direct investments
FINCO	Financial companies
FFAA	Financial Fiscal and Accounting Act
FPO	Fiscal Policy Office
FRA	Financial Sector Restructuring Authority
FTAs	Free trade agreements
GFMIS	Government Financial Management Information system
GHB	Government Housing Bank
GSB	Government Savings Bank

ICAAT	Institute of Certified Accountants and Auditors of Thailand
IMF	International Monetary Fund
IOD	Thailand Institute of Directors
KBANK	Kasikorn Bank
KTB	Krung Thai Bank
LED	Legal Executive Department
LDD	Labour Development Department
LRC	Legal Reform Committee for Development of Thailand
MCFD	Mediation Center for Financial Disputes
MFN tariff	Most-Favored-Nation tariff
MOAC	Ministry of Agriculture and Cooperatives
MOC	Ministry of Commerce
MOE	Ministry of Education
MOF	Ministry of Finance
MLR	Minimum loan rates
MTEF	Medium Term Expenditure Framework
NCC	National Competitiveness Committee
NESDB	National Economic and Social Development Board
NPLs	Non-performing loans
NSO	National Statistics Office
NTC	National Telecommunications Commission
OECD	Organization for Economic Co-Operation and Development
OSMEP	Office of SME Promotion
PDC	Public Sector Development Committee
PII	Private Investment Index
R&D	Research and Development
RCA	Revealed comparative advantage
RCAI	Revealed comparative advantage index
RD	Revenue Department
RDD	Rural Development Department
REER	Real effective exchange rate
ROSCs	Reports on Observance of Standards and Codes
SARS	Severe Acute Respiratory Syndrome
SEC	Securities Exchange Commission

SES	Socio-Economic Survey
SET	Stock Exchange of Thailand
SFIs	Specialized financial institutions
SMEs	Small and medium scale enterprise
SOCBs	State-owned commercial bank
SOEs	State-owned enterprises
TAMC	Thai Asset Management Corporation
TMB	Thai Military Bank
WB	World Bank
WDI	World Development Indicator
WEF	World Economic Forum
WTO	World Trade Organization
yoy	Year-on-year

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SECTION 1

OVERVIEW

Thailand's recovery has gone from strength to strength and has become increasingly more broad-based. Private consumption remains the dominant driver of this growth, but its contribution has been falling as private investment and net exports have increased their contribution. This year, the economy is projected to grow even faster with public investment as a new driver of growth, as such investment grows after six years of continuing decline. The challenge of converting this strong recovery into sustained high growth, however, remains the challenge of expanding capacity and raising productivity. With capacity-utilization approaching pre-crisis levels, emerging pressures on interest rates to rise and for real exchange rate depreciation to moderate, the economy's dependence on sustained structural reforms for ensuring high growth will increase.

Growth in 2003 reached 6.7 percent, significantly higher than the 5.2 percent achieved in 2002. The SARS did shave overall growth by about 0.3 percent in 2003, but this was more than offset by continued growth in private consumption. Private investment also grew by 18 percent and export earnings increased by 17 percent[1].

This year, growth is projected to exceed 7 percent, in part because of a substantial increase in public investment. After retrenching for six years since the crisis, public investment is expected to grow by 10 percent, and there are reports that a significantly expanded five-year public investment program is being drawn up. Most of this is planned for infrastructure and thus this will not only stimulate growth directly, but to the extent such investments improve the quality and reduce the cost of infrastructure services will they also increase productivity of private investment; for the latter, adoption of policies that encourage more effective service delivery will also be important.

Poverty, which fell to around 10 percent in 2002, has clearly fallen further in 2004. Until the next survey is concluded this year, actual numbers on poverty incidence are not available. In any case, the national poverty incidence hides differences across regions in Thailand, and across provinces within those regions. The Northeast region continues to be the poorest, with the incidence of poverty at around 18 percent and five of the eight poorest provinces (based on provincial poverty incidence) are located in that region. Three of the poorest provinces are outside the Northeast with one in the South and another two in the Northwest. The poverty map shows that richer and poorer provinces are adjacent to each other. The Government is clustering those provinces to develop growth and poverty-reduction strategies for such clusters and to harness within-cluster provincial heterogeneity and the consequent synergy for their development.

[1] Based on Customs basis

Macroeconomic adjustment has continued to reduce external vulnerability. The current account surplus in 2003 raised foreign exchange reserves to $42 billion, five times the values of imports plus short-term debt. The Government has adopted a policy of using these surpluses to repay external debt, including prepayments. As a result external debt has fallen to US$37 billion at the end of 2003. In 2004 the current account surplus is projected to fall, largely due to the expected decline in Thailand's trade surplus.

Export performance continues to be robust. In 2003 total export earnings grew by 17 percent and export volume by 10 percent, significantly higher than in 2002. China and ASEAN markets contributed nearly half of this growth in export earnings, while Europe and Japan contributed around a quarter. Agriculture and resource-based manufactures still comprise close to a fifth of total exports – confirming the importance of agriculture in exports with all other manufactures comprising around 77 percent. Three of the manufactures – electrical machinery & parts, non-electrical machinery and parts, as well as vehicle & parts have been the rapidly growing exports over the last few years. But in the last two years, rubber exports grew very rapidly too, largely due to high Chinese demand.

Thai exports to China grew by 62 percent, faster than all other ASEAN countries' exports to China. This growth has raised China's share in Thailand's exports to 8 percent. Rubber, plastic, electrical machinery & parts, and non-electrical machinery & parts were the four fastest growing export categories in this market. The implementation of the 'early harvest' program in vegetables and fruits has also led to a sharp rise in the exports of vegetables and fruits, though in respect of fruits, imports exceed exports.

Private investment showed greater robustness than before. Its composition has shifted more in favor of machinery & equipment, and this is reflected in a significant increase in the imports of capital goods last year. The private investment index reached its second peak this February, reinforcing the rising trend for this year. Nevertheless, private investment as a share of GDP is only around 15 percent; this is only two-thirds of the Thai average in the 1980s and less than half of that in the pre-crisis period of the mid-1990s.

Foreign direct investment gross inflows have fallen in 2003 relatively to the previous year, but the Board of Investment's (BOI) foreign investment approvals of US$5 billion in 2003 are more than twice those in 2002. This level of approvals argues well for potential gross flows this year and the next. Also the fact that these approvals are in the export sectors means that exports will be less constrained by inadequate capacity.

With greater capacity utilization and modestly growing bank credit, it is expected that private investment will continue its momentum. Seventeen of the 32 manufacturing sub-sectors surveyed had capacity utilization rates exceeding pre-crisis levels[2], including five of the mainly exporting sectors[3]. Similarly, total loan growth has picked up. Consumer and mortgage lending is still growing rapidly. While loans to the corporate sector are growing slowly, its growth rate is higher than before, even if it is still not keeping pace with GDP growth.

The economy will be more dependent on structural reforms for sustaining high growth over the medium-term. Many of the favorable factors that supported growth up to 2004 will weaken. Excess capacity is reducing as capacity utilization reaches pre-crisis levels. With falling trade and current account surpluses, pressures will be in train for interest rates to rise. In addition, real exchange rate depreciation, which has been an important booster for exports, is likely to slow down in subsequent years; also the baht-dollar exchange rate is likely to appreciate and affect exports to the US. Thus growth will have to come more from increased private investment and capacity expansion as well as from productivity growth; for that to materialize, Thailand will have to sustain its structural reforms to ensure that firms are encouraged to improve efficiency.

[2] The 17 industries surveyed by the BOT accounts for about 12 percent of the manufacturing value-added in 1995

[3] Sector than export more than 60 percent of total production

In addition, fiscal risks could rise if the fiscal and quasi-fiscal stimulus is increased substantially. To date the stimulus measures have not been large relative to the available fiscal space (see Economic Monitor, October 2003) and thus risks have been manageable. The proposed increase in public investment in 2004 is significant given continuous decline for the last six year, but total size remains within bounds. But recent media reports about proposed huge increases in infrastructure investments over a five-year period, if they materialize, could pose much greater fiscal risks to the economy than has been the case up to now.

Implementation of Structural Reforms continues to make progress, even as a fuller reform strategy is being prepared. Over the last six months, the period covered by this Monitor, most of this progress has been in reductions in import protection, consolidation of the financial sector and in the reform of the public sector. There have also been several initiatives conducted under the National Competitiveness Committee (NCC) taken. Progress in respect of reforms in corporate sector, in the legal framework for the financial sector and in the climate for investment have been more limited.

Thailand has been continuing import tariff reductions, and as of December 2003, over half the tariff lines have been moved to the lower three-rate system[4]. Thailand reduced tariffs in October and December 2003. Thus 55 percent of tariff lines are now under this system. The Government has also decided to adjust another 43 percent of tariff lines into that system by 2005; reduction of the remaining 2 percent of tariff lines, which include plastic and its products, are expected to be submitted for Cabinet approval this year. As a result, simple average tariffs for agriculture and industrial products have come down as well as the effective protection for the manufacturing sectors.

Financial sector restructuring and reform also made good progress. Non performing loans of commercial banks have fallen, the provisioning guidelines for banks have been tightened and the banks capital situation has strengthened. A plan to promote consolidation of the financial sector has also been announced and several banks have already announced mergers for that purpose. There has however, been very little movement in respect of the legal framework reform for financial contracts and for corproate restructuring.

Reforms in public sector has also been sustained. The Strategic Plan for Thai Public Sector Development, approved in May 2003, has been implemented for over a year. In the area of financial accounting, the Agency Financial Management Information System (AFMIS) has been fully implemented within the Comptroller General's Department (CGD) and its regional offices and the CGD is abolishing the manual accounting system. There has been not much progress in respect of decentralization.

[4] Thailand targets to reduced its tariff rates into three rates according to value added escalation method. The three rates captures each stage of production as follows: 1 percent for raw materials, 5 percent for semi-finished goods, and 10 percent for finished goods.

SECTION 2

RECOVERY AND OUTLOOK

2.1 Real GDP Growth 2003 and 2004

Recovery has increased momentum. Real GDP in 2003 grew at 6.7 percent, the highest rate since the crisis driven by private consumption, private investment, and net exports. SARS impact on growth was minimal, shaving GDP growth by approximately 0.3 percent. Private consumption continued to grow from 2002 by 6.3 percent supported by the exceptional rise in farm incomes, continued expansion in consumer credit, low interest rates, and supportive Government measures. As in 2002, sales of automobiles, mobile phones, and telecommunication services remained strong. Private investment's contribution to GDP growth in 2003 increased from 2002, with its share in GDP rising to 15 percent, though still well below the 1980s level. Net exports of goods and services in real terms grew by only 3.5 percent. This is the result of a decline in net exports of *services* stemming from the fall in tourism receipts during the SARS outbreak in the first half of 2003.

Growth in 2004 is expected to be higher than that of last year, supported by public spending. Public investment, which has been retrenching for the past 5 years, is expected to grow at around 10 percent this year. Government consumption growth is also expected to accelerate from last year. This could help raise real GDP growth in 2004 by around 0.5 percent. Public spending could also help boost the growth of private consumption. This could help offset the slightly slower growth in private consumption this year due to slower growth in farm incomes. Private investment is expected to grow at a similar double-digit rate as last year, particularly in industries in which capacity utilization rates have exceeded 80 percent and the pre-crisis levels. Import growth would accelerate with increased investment and export growths. The Avian Influenza is expected to have a minimal negative impact on growth through the exports channel (see Box 1).

External vulnerability continues to be reduced. The current account surplus of US$8 billion in 2003 contributed to rising foreign reserves, which reached US$42 billion or five times imports plus short-term debt. External debt declined by US$10 billion from 2002 to US$37 billion at the end of 2003. In 2004 the current account surplus is expected to decline to about 4 percent of GDP as the trade surplus decrease this year.

Exports are expected to continue growing at double-digit rates this year. Last year, export values and volumes grew by 17[5] and 10 percent, respectively. Exports are expected to continue to be robust this year, with value growth targeted at 15 percent and volume growth of about 12 percent, as the world economy and world trade recover, though export prices are projected to grow at a slower rate than last year, in line with the slower world inflation and growth of non-oil commodity prices. Traditional markets (Japan, USA, and EU) as well as China and

[5] Based on the Customs basis

Box 1. Impact of the Avian Flu

The economic impact of the Avian Influenza is expected to be minimal, shaving real GDP growth this year by 0.4 percent at most. The Avian Influenza outbreak was publicly known in February of this year. It was initially anticipated that the impact would be severe on private consumption, inbound tourism receipts, and exports of poultry. Its adverse impact is now expected to be much less than earlier anticipated as it seemed to be contained within the exports of poultry, which accounts for less than 1 percent of real GDP[7]. Its impact on the tourism receipts has been minimal as tourists arrival statistics show a slight drop, while there were large increases in tourist spending per person.

Overall private consumption was not affected by the Avian Influenza. Consumption indicators show that private consumption growth remained high in February 2004. Private consumption index grew by 4.4 percent in February, up from 2.7 percent in January and 4.1 percent in December 2003. The decline in the consumption of poultry meat and eggs[8] was more or less compensated by increased demand for other meats. This is reflected in the consumer prices of meats and fish rising by almost 10 percent in February compared to 0.5 percent rise in January and to an average of 0.6 percent last year.

Tourism receipts in January and February increased despite the slight decline in tourist arrivals. Tourism receipts in the first 2 months of the year increased by 12.5 percent year-on-year, largely due to the increase in tourist expenditure by almost US$ 100 per person or a 13 percent increase compared to spending during the first 2 months of last year. Tourist arrivals in January and February fell slightly by 10,789 persons or 0.5 percent year-on-year. Tourist arrivals are expected to rebound after the first quarter as the Avian influenza are being increasing contained[9]. Tour reservations are reported to be postponed but not cancelled as during the SARS breakout. Thus, the impact on the Avian Flu is expected to be contained in the first quarter and would not likely reduce tourism receipts.

Poultry exports were the hardest hit by the Avian Influenza. In February, total poultry export values fell by almost 60 percent year-on-year, on top of the 23 percent decline in January. Exports of frozen poultry fell by 80 percent, while those of cooked poultry fell by 26 percent. Thailand's major poultry export markets – Japan, EU, South Korea, and ASEAN – have restricted imports of poultry from Thailand since February with some relaxation of the restrictions in March whereby broiled poultry imports from Thailand are allowed under certain technical guidelines. Nevertheless, it would not likely be until the end of June that the new supply of "clean" poultry is available for exports. Under the worst-case scenario where poultry exports continue to be restricted after June, frozen poultry exports values could decline by 80 percent, while prepared poultry decline by 25 percent for the whole year. Given that the share of poultry exports in GDP is quite low, real GDP growth would be shaven off by 0.4 percent under this worst-case scenario. Should poultry exports return to 2003 levels from July onwards, the impact would be a 0.21 percent reduction of real GDP growth.

In sum, the adverse impact of the Avian Influenza are mostly on poultry exports, while that on tourist arrivals are expected to be minimal. The impact of the Avian influenza on poultry exports is expected to last until June. There seemed to be no impact on consumption and a minimal impact on tourism. The smaller adverse impact of the Avian Influenza was in part the result of the Government efforts to mitigate the impacts through providing financial assistance to affected poultry farmers; spending for the prevention and control of the outbreak; working closely with key markets of Thai poultry products to meet their technical health standards guidelines; and actively conducting campaigns to promote consumer confidence and tourism.

[7] Poultry exports share of GDP in 2003 was 0.7 percent.

[8] Real private consumption on poultry and eggs accounts for less than 5 percent of total real private consumption.

[9] As of April, there are only 2 provinces out that have not been declared a "green" zone, (contamination-free zone).

ASEAN, which had contributed equally to export growth last year, will continue to drive export growth this year. Machinery, integrated circuits, electronics, equipment, rubber, and vehicles will continue to be key export products to these markets.

Private investment growth has accelerated. Investment in equipment picked up in 2003, contributing to an acceleration in private investment growth to 18 percent. Private investment was supported by continuing gross FDI inflows of around US$7.0 billion in 2002-2003 (relative to pre-crisis levels of US$3.5 billion). On a balance of payments basis, net FDI inflows ran at $1-2 billion, since gross inflows were partly offset by various asset sales by foreign investors. Private investment growth has been led by larger firms in the manufacturing sector with export links as they were able to mobilize bank loans as well as increasingly finance their capacity expansions through the capital and bond markets. This year, private investment will most likely take place in sectors in which capacity utilization has exceeded those in the pre-crisis period. There are currently 23 such sectors (which accounts for about 10 percent of total manufacturing value added) with eleven of them having capacity utilization rates of over 80 percent. These include the tires, petrochemicals, battery, integrated circuits and motorcycle industries. Investment will also likely increase in sectors with interests by foreign investors, particularly, the automotive and parts and the electronic parts sectors. Private investment therefore will likely grow at a similar double-digit rate as last year's.

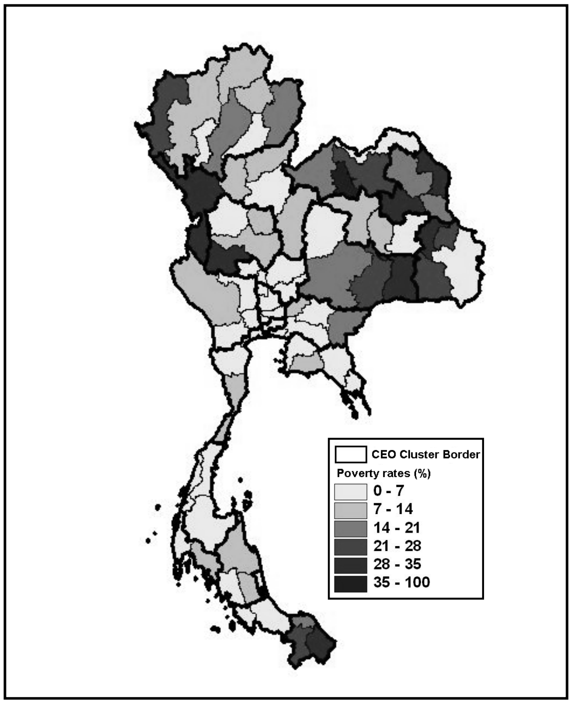
Direct government spending will help support growth this year and next. Unlike in 2003 where most Government stimulus measures were credit-based and financed mainly by the Government's specialized financial institutions (SFIs), direct government spending will help support growth in 2004 and 2005. In FY2003 (Oct 2002–Sept 2003), the government's fiscal balance was in surplus by Bt 24 billion or 0.4 percent of GDP as a result of the sharp rise in revenues. Public debt has been on a decline from 53 percent of GDP in 2002 to 49 percent at the end of 2003. A Bt135 billion supplementary budget was approved in February for FY2004 and will be fully financed from estimated additional revenues collection. Roughly half of the supplementary budget has been allocated for current expenditures and the remaining for capital expenditures. However, only 30 percent of the capital expenditures are expected to be disbursed this fiscal year as the allocation of the funds has not been approved, leaving less than 6 months for the projects be executed. Thus the fiscal deficit this year will be roughly 1 percent of GDP, less than planned by 0.5 percentage points. The undisbursed amounts will be carried over to FY2005. As a result, the fiscal balance in FY2005 will be similar to that of FY2004.

2.2 Poverty

Poverty in Thailand has trended down though large differences between provinces remain. Thailand's national poverty incidence, as discussed in the previous issue of the Economic Monitor, has trended down to 9.8 percent in 2002, lower than that of the pre-crisis period[6]. The national average, however, masks the higher poverty incidences in specific parts of the country. At the regional level, poverty is concentrated in the Northeast with a poverty incidence of 18 percent. Further examining poverty at the provincial level reveals that regional poverty incidence figures hide large differences across provinces. While the Northeast as a whole is the poorest region in Thailand comprising of many of the poorest provinces in Thailand, a few provinces in the Northeast has poverty incidence below that of the national average. The large differences in poverty incidence across provinces are also true in the Northwest and South where the remaining poorest provinces are located (see Figure 1).

[6] Based on the Thailand Socio-economic Survey (SES) 2002 and national poverty line of US$1.50. Headcount poverty incidence in 1996 is 11.4 percent.

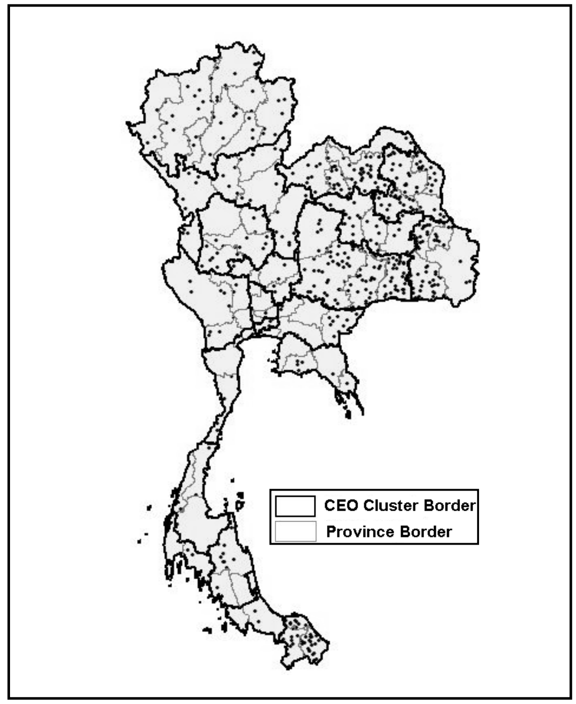
Figure 1. Poverty Incidence by Provinces and Clusters



Source: SES 2002

Note: Light borders are province borders.
Darker borders are cluster borders.

Figure 2. Number of Poor by Provinces and Clusters



Source: SES 2002

Note: Each dot represents 10,000 poor persons.
Light borders are province borders.
Darker borders are cluster borders.

Provinces with the highest poverty incidence are also the ones with the highest concentration of the number of poor. A large number of poor are found in the provinces with the highest poverty incidence in the Northeast, Northwest, and the very South (see Figure 2). For example, the five poorest provinces[10] are located in the Northeast and account for one-seventh of all the poor in Thailand. The eight poorest provinces, located in the Northeast, the very South and the Northwest, are home to one-fifth of the poor in Thailand.

Provincial clusters could play an important role in formulating economic growth strategies which in turn will impact on poverty. As part of the “deconcentration” of the public sector, Thailand has recently appointed CEO governors for each province and grouped provinces into clusters. These clusters are management units which normally include four to five neighboring provinces. Based on the regional development strategies formulated by the National Economic and Social Development Board (NESDB) in line with the Ninth National Economic Development Plan, each cluster has laid out its own priorities, often focusing on developing specific product lines where a cluster holds a comparative advantage. While these clusters have not been formed from a poverty eradication perspective, they are likely to play an important role in formulating economic growth strategies which in turn will affect poverty.

A number of policy implications emerge from the spatial view on poverty. First, the targeting of public resources to a small number of provinces and clusters will allow Thailand to go a long way in meeting the goal of eradicating poverty. Second, there is large

[10] These provinces have a poverty incidence greater than 35 percent. There are 76 provinces in Thailand.

Box 2. The Poverty Registration Program

Following national meetings on poverty on October 1st, 2003 and November 15th, 2003, and a pilot project in 8 provinces, the RTG launched a nationwide poverty registration program lasting from January 5th until March 31st, 2004. Each poor person is invited to register him/herself at the District (Amphoe) branch of the Ministry of Interior. The person fills out a form stating the major reasons for his/her poverty. The District office passes on the roster of the poor to the villages where they are from and the village committee reviews the roster of the poor and assesses whether the registrations are genuine. The revised rosters will then be sent to the RTG for assistance in alleviating the identified problems.

Table 1 presents an overview of the registration as of end February 2004. It covers 787 districts out of the overall 811 districts, representing 52 million persons out of a population of around 63 million. As each person could register more than one problem, the number of problems exceeds the number of registered individuals. On average, each person registers 1.5 problems.

The number of self-assessed poor exceeds the number of income-poor according to the national poverty line. After only about two thirds of the registration period, already about 7.9 million persons have registered. This represents 15 percent of the population in the covered Amphoes, and about 12 percent of the total population. This compares to a national poverty incidence of 9.8 percent in 2002.

In the assessment of the registered poor, poverty is associated primarily with three factors: personal debt, agricultural land and housing. These three issues reflect 87 percent of the registered problems. The most pressing problem is personal debt, which accounts for 61 percent of the registered problems, followed by landlessness (50 percent) and lack of housing (24 percent). The poor are estimated to owe some Bt600 billion bath, of which around Bt500 billion are obligations owed to banks and Bt100 billion owed to underground lenders. On March 22nd, 2004, the Ministry of Finance announced plans to restructure debt owed by the poor by the end of the year. State banks and Specialized Financial Institutions such as the Government Savings Bank, the Bank for Agriculture and Agricultural Co-operatives, and Krung Thai Bank are instructed to take the lead by helping the poor restructure their existing obligations.

Table 1. Summary Statistics of the Poverty Registration Program as of February 28, 2004

Number of Amphoes (or Districts)*	787
Population	52,096,065
Registration (person)	7,897,852
1. Agricultural land	3,922,371
2. Homelessness	5,375
3. Illegal occupations	5,199
4. Students not having income from proper occupations (or unemployment)	179,309
5. Frauds	81,029
6. Personal debt	4,814,424
7. Housing for the poor	1,852,011
8. Other problems	1,237,406

Source: www.khonthai.com

Note: * The number of Amphoes is less than the total number of Amphoes in Thailand within-cluster heterogeneity which needs to be recognized in formulating anti-poverty strategies at the cluster level. The challenge is to generate cluster development such that poorer provinces benefit from growth spillovers arising from better-off provinces. Third, the spatial concentration of poverty across clusters suggests an important role for cross-cluster collaboration and regional integration and trade in reducing poverty.

2.3 Improving External Environment

World GDP and trade volume are expected to grow faster this year. The world economy has been growing continuously with growth in 2003 at 2.6 percent compared to 1.4 percent in 2001. This year, world GDP volume is expected to grow by 3.7 percent, driven by growth of developed countries: Growths in the US and EU are expected to accelerate by more than 1 percentage point from last year's. In line with high world GDP growth, world trade volume this year is expected to grow by almost 10 percent, up from 4.7 percent last year, with developed countries' import volume growth increasing by almost 7 percent compared to 2.7 percent growth last year.

Global inflation is expected to remain subdued. With OPEC's decision to cut back output earlier this month, oil prices are expected to rise in the few following months. However, for the whole year, oil prices are expected to hover around US$ 26 per barrel, compared to US$ 29 in 2003. Non-oil commodity prices in 2004 are expected to increase at the same rate as last year, while price increase of manufacturing products are expected to slow down[11]. Global inflation is, therefore, expected to remain subdued across the globe, and expectations of interest rate hikes have been postponed.

Agricultural produce and manufacturing product prices continue to grow this year. The rise in agricultural prices will be led by those of fats and oils and grains. This is favorable for Thailand's key agricultural exports, particularly, rice, maize, and oils. Manufacturing prices are also expected to grow by 4 percent this year on top of the 6.5 percent rise last year.

The dollar depreciation is expected to continue this year. The US dollar strengthened against the Euro and the Yen in March as markets became increasingly bearish on the prospects of growth in Europe, while the Bank of Japan continued its forex intervention. However, this dollar strengthening is expected to be a short-term phenomenon as the US trade deficit this year is expected to widen from the current level of 5 percent of GDP. For the whole year, the US dollar is therefore bound to fall further. The dollar depreciation will help maintain export competitiveness of a number of East Asian countries that either explicitly or implicitly keeps their currencies closely linked to the dollar.

2.4 Export Performance and Outlook

Export performance in 2003 was better than expected. Actual export grew by 16.6 percent y-o-y in US dollar terms[12] compared with 12 percent estimated in October last year. The resilient export growth in 2003 compared to 5.6 percent in 2002 was partly due to an increase in export prices of 7.9 percent and increase in volume of 10 percent. In comparison to exports of other countries in the first eleven months of 2003, Thailand performed better than its regional competitors like the Philippines and Singapore (see Figure 3) but not as well as China, Indonesia and Malaysia. Export performance of Vietnam and Eastern European countries like Romania and Hungary was also better partly due to low base effect[13]

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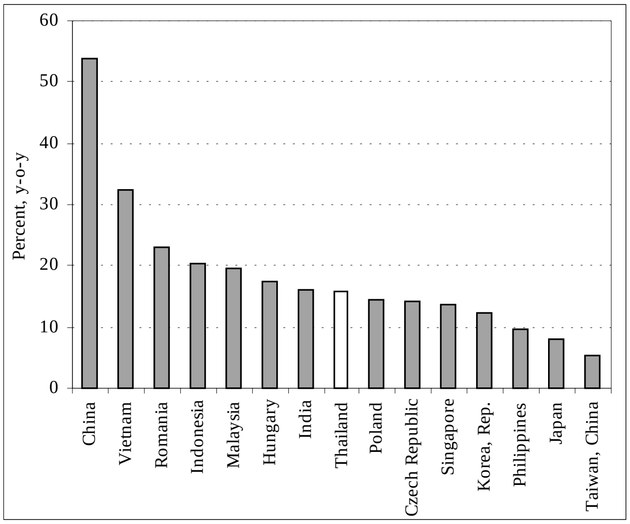
11 Source: World Bank, Development Economics Prospects Group, March 2004

12 The export growth in 2003 is based on the customs basis while export growth rate based on the BOP basis is 18.6 percent.

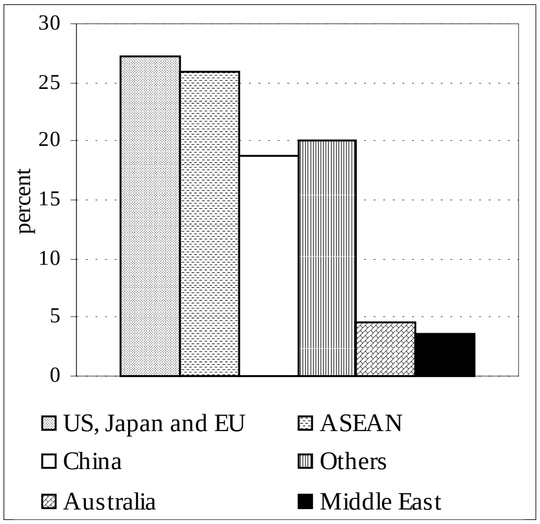
13 Export values of Romania and Vietnam were approximately one fifth of Thailand's while Hungary's export value was half of Thai export value in 2002.

Figure 3. Growth Rates of Country's Exports to World Market, January to November 2003



Source: DOT

Figure 4. Contribution to Export Growth by Various Markets, 2003

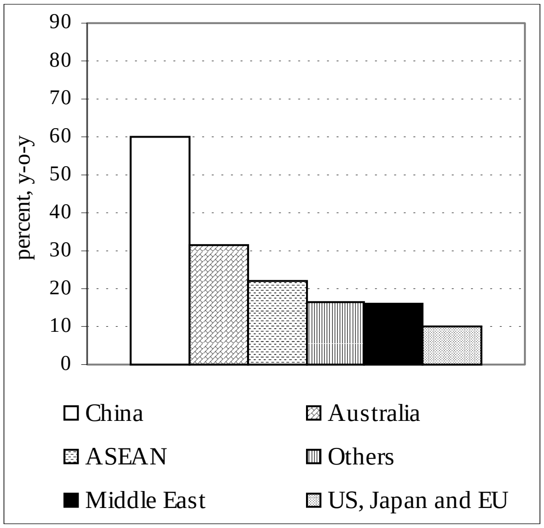


Source: BOT

Regional markets are still the main drivers to export growth in 2003, even as exports to Japan and Europe pick up[14]. China and the ASEAN markets contributed 45 percent to Thai export growth in 2003 and the US, Japan and the EU, 27 percent, the latter due to their 46 percent share of Thai exports (see Figure 4). Exports to China grew at 60 percent this year, 2.5 times of last year's growth rate (see Figure 5). Exports to ASEAN also grew by 22 percent, growing three times as fast as 2002. Exports to the EU and Japan grew by 15 percent each, while export growth to US was less than 1 percent.

Manufactured exports remained the major source of Thailand's export growth in 2003, while agricultural export values also increased significantly due to the increase in agricultural export prices. Manufactured exports excluding resource-based products contributed around 80 percent to export growth driving partly by a recovery in non-electrical machinery exports. The remaining 20 percent of contribution was accounted for by agriculture exports including resource-based products. The significant increase in exports of agriculture was partly due to the rise in agricultural export prices by 23 percent compared to 6 percent in 2002, while the export volume in 2003 increased by only 5 percent.

Figure 5. Export Growth Rates in Various Markets, 2003



Source: BOT

[14] China and ASEAN countries comprise more than a quarter of Thailand's export market.

Table 2. Contribution to Export Growth Classified by Sector in 2002 and 2003

Unit : percent

	2002			2003		
	Export share	Export growth	Contribution to export growth	Export share	Export growth	Contribution to export growth
Agriculture 1/	**10.2**	**0.3**	**0.8**	**10.8**	**24.1**	**13.9**
Manufacture	**85.7**	**5.3**	**99.9**	**85.8**	**17.9**	**86.7**
Resource based products	8.6	5.1	9.7	8.2	12.9	6.3
Others manufacture products 2/	77.1	5.3	90.2	77.6	18.5	80.4
Others 3/	**4.1**	**-0.7**	**-0.7**	**3.4**	**-2.3**	**-0.5**
Agriculture and resource based products	**18.8**	**2.4**	**10.4**	**19.0**	**19.0**	**20.1**

Source: MOC

1/ including crops, fisheries and forestry

2/ including labor intensive and high-tech products

3/ including mining, sample & other unclassified goods, and re-exports

At the two-digit HS code, export structure was concentrated. Top ten export products in terms of the highest share of Thailand's exports accounted for almost 66 percent of total export in 2003 (see Table 3), of which half of it were the top two - electrical machinery and equipment (HS85) and non-electrical machinery and parts (HS84).

Exports of non-electrical machinery and parts (HS84) and of traditional products recovered in 2003. Non-electrical machinery exports grew by 17.2 percent compared to –1.8 percent in 2002 (see Table 3). Non-knitted apparel (HS62) and footwear (HS64) exports grew at around 4 percent each in 2003 compared to negative growth rates of -6 percent for the former and -8 percent for the latter, in the previous year. Export growth of knitted apparel (HS61) has also recovered from a decrease of 5 percent in 2002 to positive growth of 0.7 percent in 2003.

Natural rubber was the major agriculture export, contributing significantly to Thailand's export growth relative to other agriculture products. Exports of rubber and its products (HS40) contributed around 12 percent to total export growth and grew by 45.5 percent in 2003. The reason for a sharp increase in rubber exports was an expansion of the tire industry in Thailand's major export markets including China, Japan and the US. Cereal (HS10) and fishery (HS03) were the other two agriculture products in the top ten export list growing at 14 percent and 8 percent, respectively, in 2003 (see Table 3).

Exports to China

Thailand's exports to China in the first eleven months of 2003 grew rapidly compared to its competitors in the region and new emerging markets in Eastern Europe. Thailand's exports to China increased by 62 percent surpassing others in the region such as Singapore, Malaysia, Philippines, India, Indonesia, Korea, Japan, and Vietnam (see Figure 6). New emerging markets in Eastern Europe like Romania, Poland, Czech Republic and Hungary also did not performed as well as Thailand. However, Taiwan (China) outperformed the others with growth rate of over 90 percent.

Table 3. Top Ten Export Products in 2002 and 2003

Unit: percent

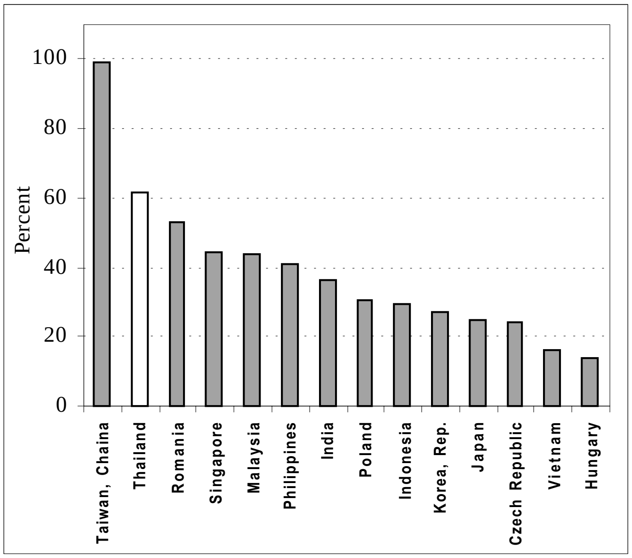
No.	HS Code	Description	2002			2003		
			Share	Growth rate	Contribution to export growth	Share	Growth rate	Contribution to export growth
1.	85	Electrical machinery and equipment	22.2	14.9	52.2	21.3	12.4	16.2
2.	84	Non-electrical machinery and parts	16.0	-1.8	-5.3	16.0	17.2	16.2
3.	40	Rubber and articles thereof	4.5	24.2	15.7	5.5	45.5	12.0
4.	87	Vehicle and parts	4.4	8.5	6.2	5.2	38.0	9.8
5.	39	Plastics and articles thereof	4.1	13.0	8.5	4.3	21.7	5.2
6.	16	Preparation of meat fish	3.6	2.1	1.4	3.3	8.4	1.8
7.	71	Pearls, precious stones and metals	3.2	18.4	8.9	3.1	16.3	3.0
8.	27	Mineral fuels, oil and wax	2.6	0.5	0.2	2.6	16.7	2.6
9.	10	Cereal	2.4	1.5	0.6	2.4	13.9	2.0
10.	03	Fish and crustaceans	2.4	-19.5	-10.4	2.2	8.0	1.1

Source: MOC

Manufactured products were the main contributors of Thailand's export growth to China. At the two-digit HS code, five export products with the highest shares accounted for three-fourths of total export growth and grew at a high rate of over 40 percent each (see Table 4). These include non-electrical machinery and parts (HS84), electrical machinery and equipment (HS85), mineral fuel, oil and wax (HS27), rubber and its products (HS40) and plastic and its products (HS39).

However, at the four-digit level HS code, exports of natural rubber (HS4001) replaced exports of machinery parts and accessories (HS8473) as the top export product to China, due to an expansion of the tire industry in China. In 2003, China was Thailand's biggest rubber export market accounting for 26 percent of Thailand's rubber exports. Natural rubber exports to China accounted for 12.6 percent of total Thai exports to China and grew rapidly at a rate of 93.6 percent.

Figure 6. Growth Rates of Country's Exports to Chinese Market, January to November 2003



Source: DOT

Table 4. Top Ten Export Products to China in 2002 and 2003

Unit: percent

No.	HS Code	Description	2002			2003		
			Share	Growth rate	Contribution to export growth	Share	Growth rate	Contribution to export growth
1.	84	Non-electrical machinery and parts	19.0	14.8	12.7	22.9	92.8	29.3
2.	85	Electrical machinery and equipment	14.0	21.3	12.6	13.8	58.4	13.6
3.	40	Rubber and articles thereof	11.0	30.4	13.2	13.7	99.2	18.1
4.	27	Mineral fuels, oil and wax	11.7	34.2	15.4	10.9	49.4	9.6
5.	39	Plastic and articles thereof	8.7	32.6	11	7.5	38.4	5.5
6.	29	Organic chemical	5.0	119.7	14	5.0	61.8	5.1
7.	72	Iron and steel	2.4	73.6	5.2	3.2	115.1	4.5
8.	44	Wood and articles	2.6	106.3	6.9	2.4	50.0	2.2
9.	07	Edible vegetables	2.9	6.9	1.0	2.3	26.8	1.3
10.	10	Cereal	2.9	24.7	3.0	1.7	-7.2	-0.3

Source: MOC

The implementation of zero tariff on vegetable (HS07) and fruit (HS08) trade between Thailand and China, effective in October 2003, helped reduce import costs for the two[15]. Vegetables and fruits which were the two pilots products from the 'early harvest program' under the Thailand and China FTA, were exempted from import tariffs while other countries were still subject to high MFN tariff[16]. However, non-tariff barriers such as sanitary and health measures are still obstacles for Thailand exporters

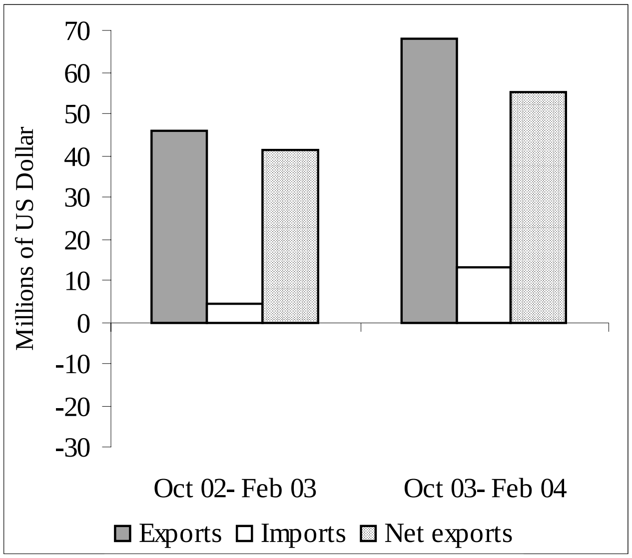
After five months of the implementation of zero-tariff on vegetables and fruits (October 2003 – February 2004), Thailand has generated a surplus in trade of vegetables and fruits with China. Thailand was a net exporter of vegetables and fruits by US$38.8 million during October 2003 to February 2004 compared to a slightly greater surplus of US$ 48.8 million in the previous period (October 2002-February 2003)[17]. This is the result of the increase in exports but an even higher increase in imports, particularly those of fruits (See Figures 7 and 8).

[15] China was Thailand's biggest export market of vegetables and fruits. In 2003, exports of vegetables and fruits grew by 26.8 percent and 96.8 percent, respectively, compared to 6.9 percent and 11.08 percent in 2002.

[16] Thailand simple average applied tariff for vegetables (HS07) and fruits(HS08) were 35.7 percent and 32.7 percent as of January 2004. Chinese MFN tariff for vegetable (HS07) imports including tapioca and other vegetables which are Thai major exports to China ranged from 7 -13 percent while MFN tariff for fruit imports including fresh and dried longan, durian, dried pineapple, mangosteen and other fruits which are Thai major exports to China ranged from 15 percent to 32 percent in 2003.

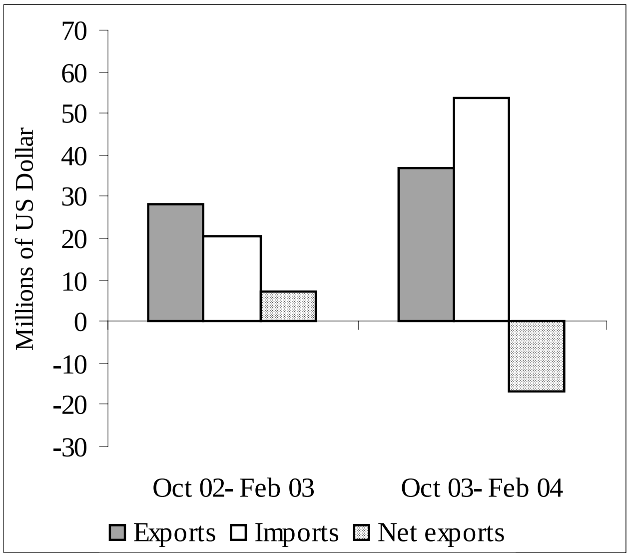
[17] Exports of vegetables fom October 2003 to February 2004 grew by 48.6 percent while import of vegetables also surged to more than 190 percent during the same period. Export growth of fruit exports also increased by 32 percent while imports of fruits grew by 158 percent in the first five months after implemention of zero tariff rate.

Figure 7. Exports, Imports and Net Exports of Vegetables (HS07)



Source: MOC

Figure 8. Exports, Imports and Net Exports of Fruits (HS08)



Source: MOC

The increased in imports of vegetables and fruits from China were the result of the substitution of Chinese vegetables and fruits for imports from other countries. In 2003, China is the largest exporter of vegetables and fruits to Thailand accounting for half of Thailand's vegetable and fruit imports. Shares of vegetable and fruit imports from China increased by 14 percent each in 2003. On the other hand, shares of vegetable imports from other markets like Indonesia reduced by 13 percent and share of fruit imports from the US also dropped by 8 percent in the year.

Robust overall export performance last year will continue in 2004 with the global economy and trade recovery. Exports in the first two months of 2004 grew by 18.5 percent with volume and prices growing by 2.0 percent and 17.0 percent, respectively. World GDP growth in 2004 is expected to grow by 3.7 percent while world trade volumes are expected to increase by 8.6 percent compared to 2.6 percent and 4.6 percent growth, respectively, last year. Supply constraints are not evident as capacity utilization rates of the exporting sectors[18] are below 70 percent and well below pre-crisis levels. Real exchange rates are likely to be similar to those of last year, while FTAs with China and a few other countries[19] to be effective this year could also help facilitate higher exports.

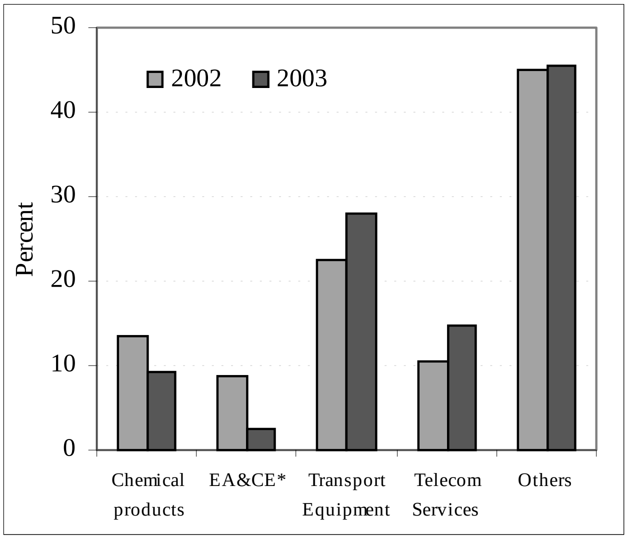
2.5 Household Consumption

Real household consumption grew by 6.3 percent in 2003, the highest since the crisis, and will continue to grow robustly this year. This robust growth was mainly driven by a continued expansion in consumer credits, low real interest rates, high growth of farm incomes, strong performance of the stock market, and supportive Government programs. Transport equipment and telecommunication services are the main drivers of the consumption growth in 2003 (see Figure 9). Transport equipment consumption grew by 36 percent, while that of telecommunication services grew by 26 percent. Together, they contributed to two-fifths of the total consumption growth. Household

[18] Exporting sectors refer to those that export greater than 60 percent of total production. Source: Bank of Thailand

[19] FTAs to be effective this year include those with Bahrain and India.

Figure 9. Contribution to Real Private Consumption Growth



Source: NESDB

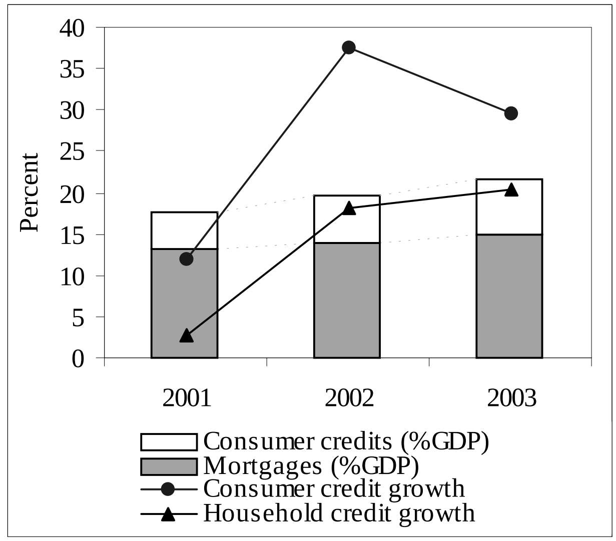
Note: * Electrical appliance and communications equipment

(1) "Others" includes food and beverages, apparels and textiles, hotels and restaurants, community, personal and business services, furniture, and non-metallic products.

(2) 2002 real private consumption growth = 4.9%

(3) 2003 real private consumption growth = 6.3%

Figure 10. Household Credits from Financial Institutions*



Source: BOT, GSB, and GHB

Note: * Financial institution includes commercial banks, finance and finance & securities companies, credit foncier companies, and SFIs.

(1) With the exception of GSB, 2003 consumer credits of other types of financial institutions are annualized.

(2) With the exception of GSB, GHB, and credit foncier companies, 2003 mortgages of other types of financial institutions are annualized.

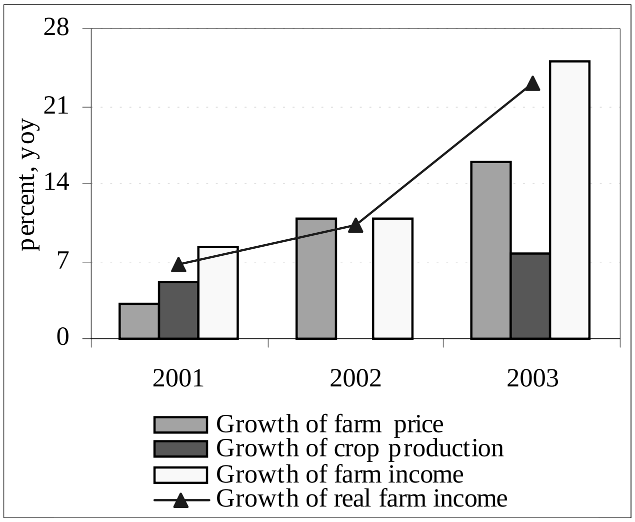
consumption will continue to expand this year with support from the additional government spending, continued high consumer confidence, and expansion of consumer credits.

The Avian Flu seemed to have a minimal impact on consumption. The Private Consumption Index continued to show a high growth of 4.4 percent in February when the news of the Flu broke out compared to 2.7 percent in January (See Box 1). On the other hand, farm incomes will likely grow at a significantly lower rate compared to that of last year, thus, contributing less to private consumption growth this year.

Consumer credit expansion played a key role in supporting consumption growth. With low real lending rates averaging around 5 percent, consumer credit expanded at a high rate of 28 percent in 2003, a slow down from a record high of 38 percent in 2002 (see Figure 10). This growth is estimated to contribute around two-fifths of real private consumption growth last year. With mortgages also growing at double-digit rates, household total financial sector debt to GDP reached 21.5 percent in 2003 with a third being consumer loans. With households becoming increasingly leveraged, consumer loan growth is expected to slow down this year.

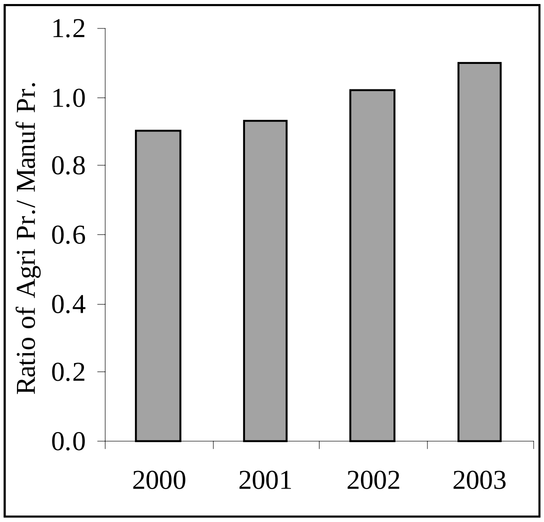
In addition, consumption growth was boosted by the high rise in farm incomes, which will continue to rise but at a slower rate this year. Farm incomes last year rose by a record-high of 26 percent with both production and prices rising by much higher than the year before (see Figure 11). With prices of agriculture continuing to rise much faster than those of manufactures since 2001, *real* farm incomes have increased significantly over the past few years (see Figure 12). The increase in real farm incomes has been estimated

Figure 11. Changes in Farm Production, Price and Income



Source: BOT and World Bank calculations

Figure 12. Relative Price of Agriculture Products to Manufactured Products



Source: BOT

to help pushed real consumption growth last year by roughly 1 percentage point. In 2004, farm incomes are expected to rise, but at a much slower pace than those of last year mainly due to the decline in the growth of international crop prices, while rice production, Thailand's key crop, is expected to record zero growth as a result of the drought late last year (see Table 5). Therefore, farm incomes are expected to contribute less to consumption growth this year compared to last year.

Table 5. Growth of Thailand's Key Crop Prices

	Weights*	Growth rates of crop prices		Growth rates of production	
		2003	2004p	2003	2004p
Rice Indic 5%	36.6	3.0	3.7	8.6	0.0
SGP Rubber	17.0	41.5	1.8	2.0	2.7
Maize	4.4	6.1	4.4	-0.1	2.6
Palm Oil	2.9	13.6	12.8	14.7	4.3
Coconut Oil	1.8	11.0	17.7	1.0	4.7
Coffee Robusta	1.1	23.1	2.9	63.9	9.9
Weighted Average		9.6	5.4	4.6	0.9

Source: World Bank and MOAC

Note: *weights based on 1988 values of agricultural production of the MOAC

p = projections

2004 projections are as of February 2004

The increase in salary and provision of pension and early retirement benefits this year could help raise real household consumption growth by approximately 1-percentage point. Last year, tax-break for low-income earners, the People's Bank, the Village Fund and the Farmer's Debt Suspension were some of the programs that helped boost consumer's confidence and private consumption. Early this year, the pension and gratuities program[20] and the early retirement program for civil servants were launched. Civil servants salary will also be increased beginning in April. The total cost of these programs of Bt 64 billion is funded through this year's supplementary budget.

2.6 Investment

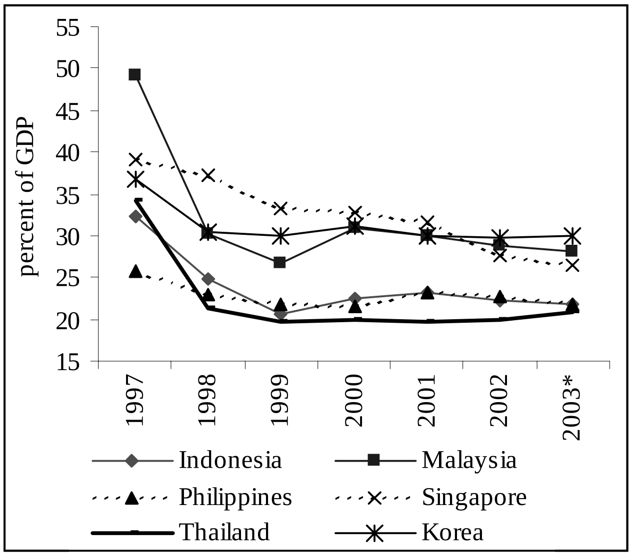
Total investment, in real terms, grew by 12 percent in 2003 driven mainly by private investment which expanded by 18 percent. Public investment in 2003, on the other hand, contracted for fifth year in a row since the crisis. As a share of GDP, total investment at the end of 2003 stood at 21 percent compared to an average of 30 percent in the 1980s. In 2004, private investment is expected to pick up slightly with capacity utilization in many sectors reaching pre-crisis levels this year. Public investment, supported by the supplementary budget, will grow for the first time since the crisis.

2.6.1 Private Investment

Private investment recovered more strongly in 2003, but its share in GDP is still low. Private investment grew by 18 percent in 2003, slightly higher than 16 percent in 2002. This increased its share in GDP to15 percent. Nevertheless, Thailand's recovery in private investment remains slower than others in the region, and lower than Thailand's average of 22 percent in the 1980s (see Figure 13).

[20] Granting in advance a lump-sum to retired government officials otherwise granted upon death

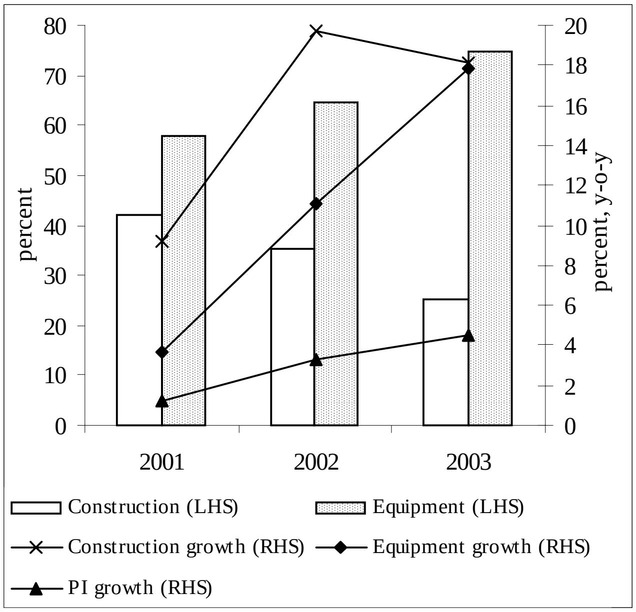
Figure 13. Cross Country Comparison of Total Investment to Real GDP



Source: Haver

Remark: *Data for Singapore in 2003 covers only the first three quarters due to data availability of total investment.

Figure 14. Growths of Equipment Investment and Construction and Their Contributions to Real Private Investment Growth



Source: NESDB

Table 6. Capacity Utilization*

Unit: Percent

	Weights**	Average 1995/96	2002	2003	Average Jan-Feb 1995/96	Average Jan-Feb 2003	Average Jan-Feb 2004
Total Capacity Utilization	**44.5**	**73.9**	**59.3**	**66.3**	**71.2**	**63.3**	**74.8**
CU in 2003 >90%	**1.3**						
Tyre	0.7	90.1	95.7	106.3	84.6	99.7	117.2
Upstream petrochemical	0.4	76.2	87.1	104.4	75.4	101.3	83.5
Zinc metal	0.03	90.3	91.8	100.0	92.5	102.8	104.9
Pulp	0.2	77.6	88.9	95.5	72.1	89.8	99.4
80%<CU in 2003<90%	**3.5**						
Integrated circuit	1.9	77.1	67.3	87.7	69.4	75.3	104.6
Galvanized iron sheet	0.3	68.2	86.7	87.6	62.9	82.3	91.6
Motorcycle	1.3	78.0	66.2	83.0	81.3	86.9	94.5
70%<CU in 2003<80%	**3.6**						
Hot & cold rolled sheet	0.2	64.0	77.8	79.7	44.5	73.8	90.7
Battery	0.4	80.5	74.0	78.9	88.4	77.1	88.8
Synthetic fiber	0.7	87.4	83.9	78.0	85.9	76.1	75.4
Wire rod	0.2	68.4	68.8	73.1	57.6	76.9	79.6
Canned seafood	1.2	45.2	61.8	71.9	40.7	69.2	74.5
Block rubber	0.3	73.1	61.7	71.4	88.4	67.1	69.8
Glass sheet	0.6	93.7	64.6	70.4	89.7	69.6	66.8

Source: BOT

Note: * Capacity utilization figures presented here are from the BOT's monthly survey of 32 industries which accounts for 44.5 percent of the 1995 manufacturing sector value added

** Weights are based on the 1995 manufacturing sector value added

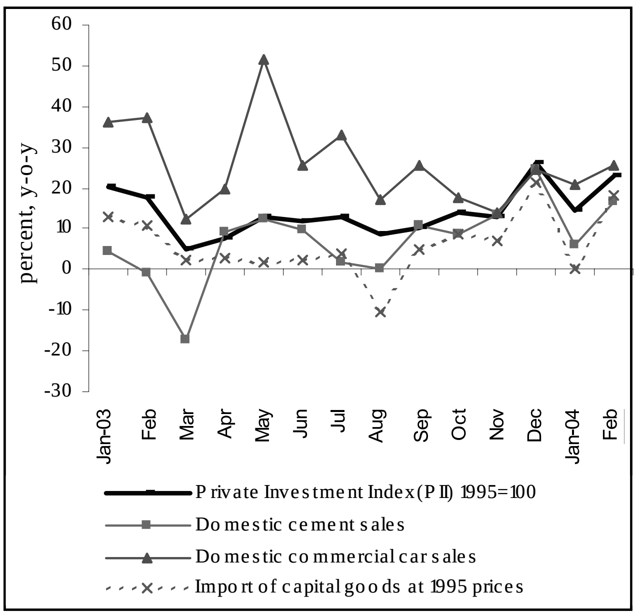
However, the fact that expansion in private investment was driven by machinery and equipment is a good sign. Investment in equipment grew by 18 percent, significantly higher than those in earlier years (see Figure 14). Investment in transport equipment grew at a robust 31 percent (compared to 24 percent in 2002), while metals, machinery, and office equipment together grew at 8 percent from a mere 1 percent in 2002.

The prospect for continued strength in the recovery of private investment in 2004 looks good for several reasons. First, capacity utilization rates have risen to pre-crisis levels in many sectors. Second, growth in the imports of capital goods has largely overtaken consumer goods since the last quarter of 2003. Third, bank lending has begun to pick-up, albeit modestly. Over all capacity utilization at the end of 2003 stood at 66 percent, up from 59 percent in 2002 and 53 percent in 1998. Seventeen of the 32 manufacturing industries surveyed had capacity utilization rates exceeding pre-crisis levels[21] and includes 5 out of the 7

[21] The 17 industries surveyed by the BOT accounts for about 12 percent of the manufacturing value-added in 1995

mainly exporting industries[22]. Seven industries had capacity utilization exceeding 80 percent (See Table 6). In January and February 2004, over all capacity utilization rate increased to 75 percent. The Private Investment Index[23] for January and February show signs of rising private investment in both equipment and construction (see Figure 15). Construction growth in the residential sector is, however, expected to slow down as most incentives on property tax and fees which were effective since 2001, has ended in December 2003, while new measures that could curb large transactions in the property sector were introduced this year[24]. Given the above, overall private investment growth is expected to grow at a slightly higher rate than that of last year.

Figure 15. Growth of Private Investment Indicators



Source: BOT

Financial institutions have been slowly expanding loans. Adjusted total financial sector outstanding loans as of end-2003 grew by 4.3 percent compared to merely 3.6 percent in 2002[25]. This is mainly the result of the higher growth of commercial bank outstanding loans which accounts for almost 80 percent of total loans (see Table 7). Total commercial bank loans to the business sector has increased by 3 percent in September 2003 compared to a contraction in September 2002[26], mainly driven by Thai banks whose credits to the business sector grew by 6.3 percent[27]. Within the business sector, loans of Thai banks, those to the manufacturing sector, import and export trade, and other services, commerce, and public utilities sector grew the fastest, while those to the manufacturing sector picked up in 2003 (see Table 8).

Table 7. Financial Institution Loan Growth

(Percent yoy)

	2000	2001	2002	2003
Commercial banks (adjusted*)	-0.2	0.5	2.7	3.5
Finance Companies (unadjusted)	-9.7	-20.1	-50.5	33.0
Specialized Financial Institutions	8.2	11.7	8.2	9.0
Credit foncier	-8.9	17.7	20.6	-73.4
Life insurance companies	-4.3	-5.6	3.4	6.8
Total loans	**-8.0**	**-4.6**	**3.6**	**4.3**

Source: BOT

Note: * Adjusted refers to loans adjusted for write-offs, write-backs, and transfers to AMCs

22 Sector that export more than 60 percent of total production

23 The Private Investment Index is compiled by the Bank of Thailand.

24 An example is the Bank Thailand measure in which banks are allowed to lend only 70 percent of the value of property costing Bt10 million or more.

25 Adjusted for commercial banks' write-offs, write-backs, and transfers to AMCs

26 Sectoral loans by commercial banks are unadjusted for write-offs, write-backs, and transfers to AMCs due to the unavailability of information. The latest available sectoral loans data are as of September 2003.

27 Thai commercial banks refers to those set up domestically regardless of foreign ownership. They account for approximately 90 percent of total commercial bank loans.

Box 3. Working with Publicly Disseminated Financial Institution Loan Statistics

Understanding the coverage, scope, and availability of the disseminated loans statistics will enable users to accurately and optimally utilize the existing publicly available data. This box tries to summarize these issues.

Financial institutions in Thailand include commercial banks (private and state-owned), government-owned specialized financial institutions (SFIs), finance companies (Fincos), credit foncier companies, life and non-life insurance companies, leasing companies, factoring companies, and other non-bank lending institutions. Other than the annual reports of individual financial institutions, the Bank of Thailand (BOT) is the most comprehensive source of publicly disseminated financial loan data in Thailand. The BOT reports loans information of financial institutions that are under its direct supervision – commercial banks, Fincos, and credit foncier companies – as well as others that are not within its direct supervision – SFIs and life insurance companies[31]. Therefore, disseminated information by the BOT on the former is generally more comprehensive than the latter.
Below are a summary of the coverage, scope, and availability of the currently disseminated loans statistics in Thailand:

- The BOT reports the aggregate *total* loans data by types of financial institutions as mentioned above in a timely manner. However, aggregate *sectoral* loan data by types of financial institutions are either reported with significant lags or not available.
- Commercial bank sectoral loan data at the aggregate level are available in 3 different tables on the BOT's website[32]. Two of the tables present semi-annual data with a significant time lag (the latest reported figures to date are as of June 2003). The table, "Credits Granted to Economic Sectors" is reported monthly with the latest available data to date as of September 2003. The three tables present different loan figures for similar items due to the inclusions of different types of loans[33]. The footnotes to the tables try to explain some of the differences. Users may call the BOT staff responsible for the tables for further clarification.
- Aggregate sectoral breakdowns of commercial bank loans above are available by types of licenses (domestic banks, branches of foreign banks, or finance companies), but not by types of ownership (private or state banks). Moreover existing information is not sufficient to differentiate loans to traded and non-traded sectors.
- Sectoral breakdowns of all Fincos loans are available on the BOT's website in 2 different tables with different time lags[34]. The latest available data is as of December 2003. Aggregate sectoral breakdowns of SFI loans are currently unavailable, except for their housing loans, which are available in the BOT's table, "Housing Loans Extended by Financial Institutions"[35]. Life insurance companies do not report their sectoral loan breakdown.
- Aggregate state and private banks' loans are reported in the BOT's table, NPLs Outstanding and Movement by the Financial Institution Group, but they are now reported quarterly with approximately three months lag.
- Monitoring commercial banks and Fincos' loans during the restructuring period can be challenging due to the technical changes (write-off, write-back, and transfers to AMCs) in these loans. Currently, aggregate adjustments information is only available for commercial banks. The BOT's table in its monthly press release[36] is the only source for the aggregate write-off, write back, and adjustment for commercial banks' loans. The "NPLs Outstanding and Movement by Financial Institution Group" tables provide aggregate loan write-offs and transfers to AMCs but not write-backs and other adjustments. Moreover technical adjustments by sectors are currently unavailable.
- Gross new lending and loan repayments by types of financial institutions are not available as financial institutions find it difficult to separate newly approved lending and rolled over existing debts. Therefore, it is not possible to explain the extent to which changes in new lending by the institutions and changes in loan repayment by debtors are responsible for the loan growths.

[31] SFIs are under the direct supervision of the Ministry of Finance, while life insurance companies are under the supervision of the Department of Insurance, Ministry of Commerce.

[32] Table on "Commercial Banks' Outstanding Credits Classified by Types of Businesses" and table on "Commercial Banks' Credits Granted to Economic Sectors" is available at www.bot.or.th/bothomepage/databank/Financial_Institutions/New_Fin_Data/CB_Menu_E.htm. Table 14: "Bills, Loans and Overdraft of Commercial Banks Classified by Purpose" is available at www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/index01e.htm.

[33] Table "Commercial Banks' Outstanding Credits Classified by Types of Businesses" includes IBF operation OUT-IN, but exclude Stand-Alone IBFs. Table "Commercial Banks' Credits Granted to Economic Sectors" includes BIBF OUT/IN and unadjusted foreign exchange rates. Table 14 includes inter-bank and Out-In BIBF transaction.

[34] Table on "Loan of Finance and Finance & Securities Companies Classified by Purpose (Outstanding)" has data as of 3Q2003 and is available at www.bot.or.th/BOThomepage/DataBank/EconData/Econ&Finance/tab18-2e.asp,
Table on "Loans and Receivable Classified by Business Sectors of Finance Companies" has data as of 4Q2003 and is available at http://www.bot.or.th/BOThomepage/DataBank/Financial_Institutions/New_Fin_Data/fs/fs_t7E.asp

[35] This table is available at www.bot.or.th/BOThomepage/DataBank/EconData/Econ&Finance/tab29e.asp

[36] Table attached to monthly Economic and Monetary Conditions press release. The table is only provided in PDF format and historical data is available on the BOT's website from December 2001.

Table 8. Growth in Commercial Bank Outstanding Loans*

Unit: Percent yoy

	Thai Banks**			All Banks		
	Sep-02	Sep-03	Share of Loans (%)	Sep-02	Sep-03	Share of Loans (%)
Total Loans	3.0	3.5	100.0	0.5	1.8	100.0
Household loans	12.2	16.2	14.2	12.0	15.5	13.5
Loans to Financial institutions	3.0	-14.3	16.2	0.5	-12.1	16.5
Business sector loans***	1.5	6.3	69.6	-1.3	3.3	70.0
Of which						
Manufacturing	2.0	5.0	24.1	-2.5	0.4	26.1
Public Utilities	37.0	7.4	5.5	28.5	2.3	5.9
Commerce	1.2	8.5	16.8	-0.6	7.2	16.1
Services	-1.9	8.5	4.2	-1.9	8.4	3.9
Export&Import trade	2.1	16.1	3.5	1.1	12.0	3.6
Construction	-6.1	1.2	3.3	-7.3	0.0	3.1
Property	-14.6	1.9	6.0	-14.2	0.1	5.5
Others****	2.4	5.4	6.3	-2.9	4.4	6.0

Source: BOT

Note: * All loans are unadjusted for write-offs, write-backs, and transfers to AMCs due to lack of sectoral adjustment data.

** Thai commercial refers to those set up domestically regardless of foreign ownership. They exclude branches of foreign banks and the International Banking Facilities.

*** Business sector loans = total loans excluding household and financial institutions loans

******** Agriculture, mining, mercantile marine and other business sectors

Table 9. BOI Promotion Approvals

	Promotion Approvals			
	% of Total Approvals		Average export content* (%)	Share of foreign registered capital (%)
	2002	2003	2003	2003
Total (Billions of Baht)	162.5	285.6	49.0	65.1
Agriculture	24.9	10.5	48.0	30.2
Mining, ceramics and base metal	1.3	6.0	44.1	94.8
Light industry	11.4	4.5	78.9	83.9
Metal products, machinery and transport equipment	17.5	24.3	44.3	90.2
Electronics and electrical appliance	18.1	15.5	75.1	90.7
Chemical, paper and plastic	10.5	17.9	53.2	65.1
Services and infrastructure	16.4	21.3	0.0	31.2

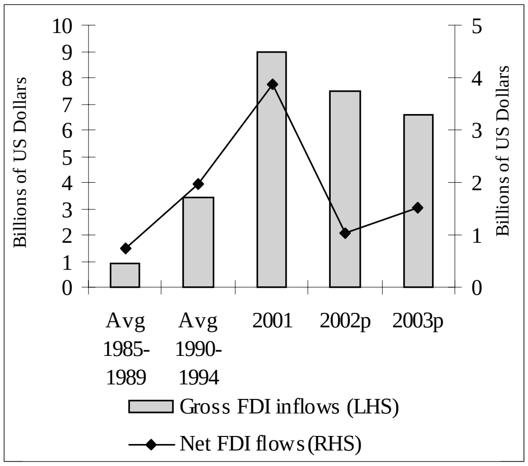
Source: BOI

Note: * Planned exports as percent of total production as reported by promoted firms

Drivers of private investment growth in 2004 will continue to be larger firms, especially those in the manufacturing sector with export links. Larger firms have generally been restructured and have a clean balance sheet. Hence, they have been able to finance their investments through bank loans and increasingly through the capital and bond markets. This is consistent with the recent BOI promotion applications and approvals figures. Promotion applications from the Board of Investment (BOI) last year totaled Bt319 billion, a Bt 54 billion increase in 2002. Promotion approvals, a good indicator of future investments, jumped from Bt163 billion in 2002 to Bt286 billion in 2003. More than half of the applications and approvals last year are by large firms with registered capital of more than Bt1 billion. SME investments[28] make up less than 15 percent of total promotion approvals. The manufacturing of automobile and parts, parts of electronic products, petrochemical, plastics, and public utilities made up more than half of the total application and approval values. Investments that receive promotion approvals in the light industries, such as textile products and furniture, and in the electronics and electric appliance industries, which together make up about a quarter of the total approvals, plans to export over 70 percent of their total output. The remaining three-quarters plan to export on average 50 percent of their total output[29] (See Table 9).

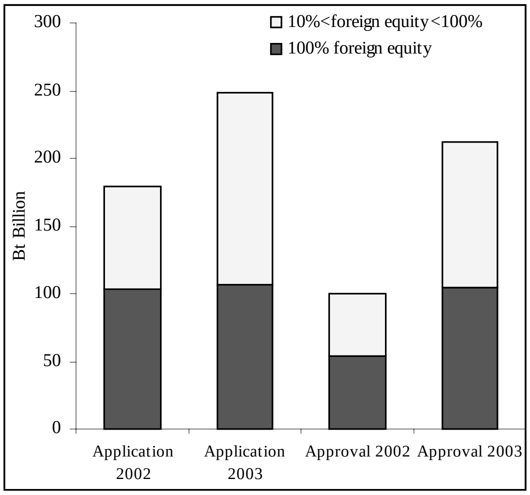
FDI has continued to play an important role in private investment recovery. Though *gross and net* foreign direct investment (FDI) inflows have fallen from the peak in 2001, they continue to be more robust than in the pre-crisis period (see Figure 16). Approved FDI in 2003 exceeded US$5 billion, nearly twice the level of 2002, suggesting higher FDI inflows this year (see Figure 17). Table 9 also shows that foreign investor interests were particularly strong in transport equipment, parts of electronics products, light industries, and metals; share of foreign investments were greater than 80 percent of total registered capital. The fact that gross FDI inflows are considerably higher than the pre-crisis period while total private investment as a share of GDP is considerably lower than that of pre-crisis, suggests that the recovery of the domestic component of Thailand's private investment remains considerably slow[30]. Assessing the determinants of domestic private investment and their recovery path is clearly an important issue.

Figure 16. Gross FDI Inflows and Net Inflows



Source: BOT

Figure 17. BOI FDI Applications and Approvals



Source: BOI

[28] Investments with less than Bt200 million registered capital

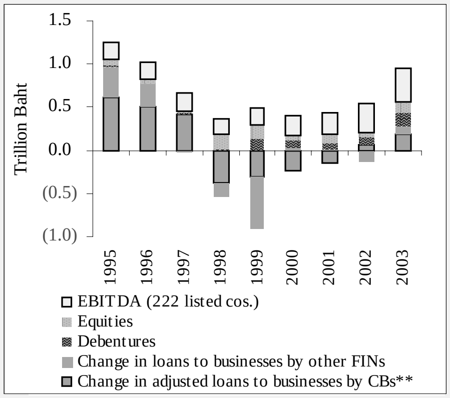
[29] Although the BOI has no policy on export requirements and does not take export content into consideration in project approvals, in 2003 two-fifths of total promotion applications (Bt135.3 million) plan to export at least 80 percent of their total output. Another one-third plans to export between 30 and 80 percent of their output.

[30] Since NESDB data on total private investment is not decomposed into foreign and domestic components means that this inference cannot be confirmed definitively, given the FDI that is only reported in the Balance of Payments statistics.

Box 4. Key Features of Bank Loan Growth after the Crisis

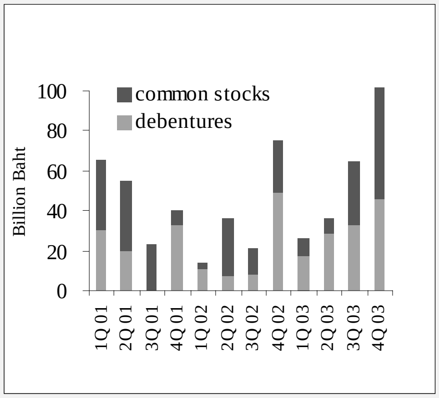
After the crisis, financial intermediation stalled as banks attempted to restructure and recapitalize their balance sheets. Banks also viewed corporate lending as risky, given the high level of corporate debt and the weak legal regime for enforcement. On the other hand, borrowers have been more careful in making investments. Excess capacity in the productive sector after the crisis also explained the low demand for credits to expand production. Listed firms have been de-leveraging and funding themselves internally using the recovery in operating profits. The capital market has also become an increasingly important source of funds, especially for the larger corporates. Loans of Thai commercial banks have only started growing in 2002 at relatively low rates of 3-4 percent (see Table 8).

Figure 18. Domestic Funding Sources for Firms



Source: BOT, SET, SEC, Phatra Securities, and the World Bank's estimate
Note: loans by commercial banks are adjusted for loans write off, write back, and transfer to AMCs

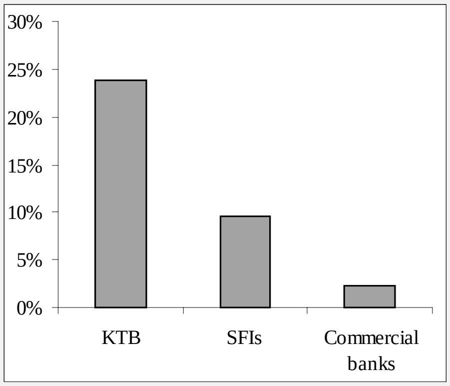
Figure 19. Quarterly Issuance of Debentures and Common Stocks by Corporates



Source: BOT

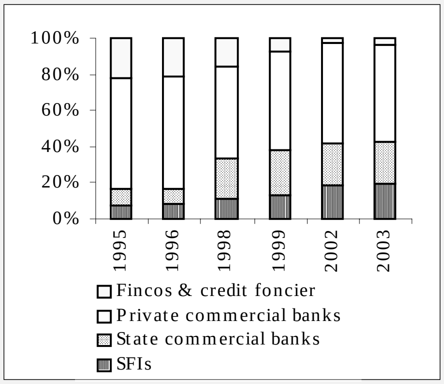
State financial institutions have played significant roles in financing economic recovery. Having grown loans at around 10 percent per annum since 2000, state specialized financial institutions (SFIS) increased their loan share substantially at the expense of the consolidated finance companies. The share of state-owned commercial bank loans to total outstanding bank loans increased considerably at the peak of the economic crisis, following the nationalization of insolvent banks, but has since remained stable. Aggressive lending by the largest state-owned commercial bank (SOCB) was offset by the large reduction of SOCBs' loans from transfers of distressed loans to public AMCs and the decline in loan portfolio by other SOCBs.

Figure 20. Compound Annual Growth Rate of Loans, 2000 - 2003



Source: BOT and KTB's report to the SET
Note: Unadjusted for loan write off, write back and transfer to AMCs

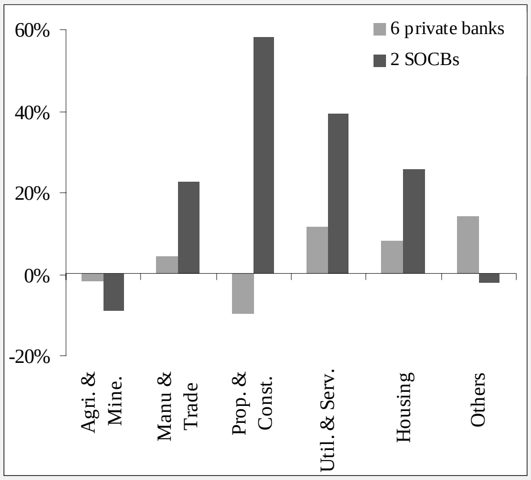
Figure 21. Loan Breakdown by Types of Financial Institutions



Source: BOT and the World Bank's estimate

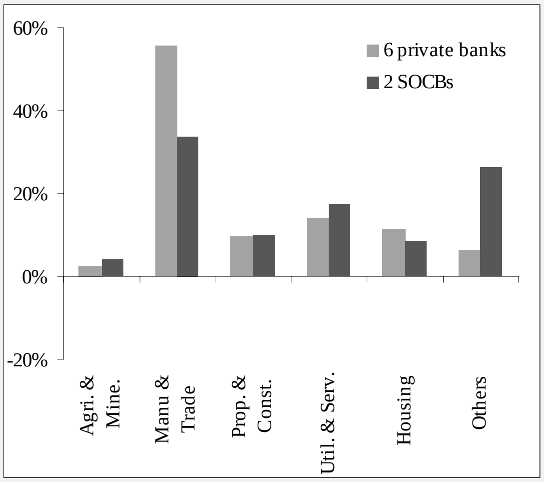
SOCBs' aggressive loan growth brings several concerns. Loan outstanding of two SOCBs increased by 19 percent in 2003 and 13 percent in 2002. Loans of the largest state bank alone grew by 31 percent in 2003 after a 27 percent increase in 2002. By 2003, the two SOCBs held a 30 percent share of loan outstanding and a 54 percent share of new lending by eight largest commercial banks[38]. SOCBs' aggressive loan growth brings several concerns. Unlike private banks, SOCBs have been particularly aggressive in lending to the property and construction sectors with loans to these sectors growing at almost 60 percent in 2003. Subsidized costs of capital could encourage SOCBs to take more risks and allocate resources to less productive uses. Competition from SOCBs can also undermine the incentive for private banks to change their lending practices from collateral/relationship based to cash flow/transaction based assessment. All these concerns can be minimized if proper incentives and commercial based governance are put in place and their risk management capacities are strengthened.

Figure 22. Private and State Bank Loan Growth to Business Sectors, 2003



Source: Banks' reports to the SET
Note: Six private banks include Bangkok Bank, Siam commercial Bank, Kasikorn Bank, Bank of Ayudhya, Bank of Asia and DBS Thai Dhanu Bank. TMB is excluded. Two State-owned Banks include Krung Thai Bank and Siam City Bank.

Figure 23. Private and State Bank Loan Shares to Business Sectors, 2003



Source: Banks' reports to the SET
Note: Six private banks include Bangkok Bank, Siam commercial Bank, Kasikorn Bank, Bank of Ayudhya, Bank of Asia and DBS Thai Dhanu Bank. TMB is excluded. Two State-owned Banks include Krung Thai Bank and Siam City Bank.

The role of commercial banks in financing future growth will likely increase with the recovery in private investment. Since 2002, banks have become more optimistic on the pace of economic recovery. Loan growth of six largest private banks turned positive to 2.7 percent in 2002 and increased to 6.0 percent in 2003. Risks of corporate lending have reduced as banks have recapitalized their balance sheets and Thai corporate have restructured and improved their debt servicing capacity. Debt to equity ratios of large firms[39] declined from over 4.0 times in 1997 to 1.6 times in 2003 and interest coverage ratios increased from below 2.0 in 1998 to about 6.0 in 2003. As firms cannot finance their investment solely from internal source and only large firms can access the capital market, the role of banks' loans in financing future investments will increase. Banks' loans will also become more attractive as interest rate differentials between the bond and credit markets start to narrow as they did since last year. While the credit constraint to finance future growth in private investment would be relaxed going forward, the weaknesses in the existing legal framework remains a key supply side obstacle to loan growth.

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[38] Eight largest commercial banks include 6 largest private banks (Bangkok Bank, Siam Commercial Bank, Kasikorn Bank, Bank of Ayudya, Bank of Asia, and DBS Thai Dhanu Bank) and 2 state banks (Krung Thai Bank and Siam City Bank).

[39] Ratios of 222 non-financial listed firms were used to represent large firms.

Table 10. FY2004 Supplementary Budget and Estimated Disbursement

	Supplementary Budget (Billion Bt)	Estimated Disbursement, FY2004 (Billion Bt)
Current Expenditures	**64.2**	**64.2**
Civil servant salary increase	16.6	16.6
Pension and gratuities	33.1	33.1
Civil servant early retirement program	14.6	14.6
Capital Expenditures	**71.3**	**20.3**
Transfer to local government for investments	12.3	6.2
Competitiveness enhancement program	59.0	14.8
Total	**135.5**	**84.5**

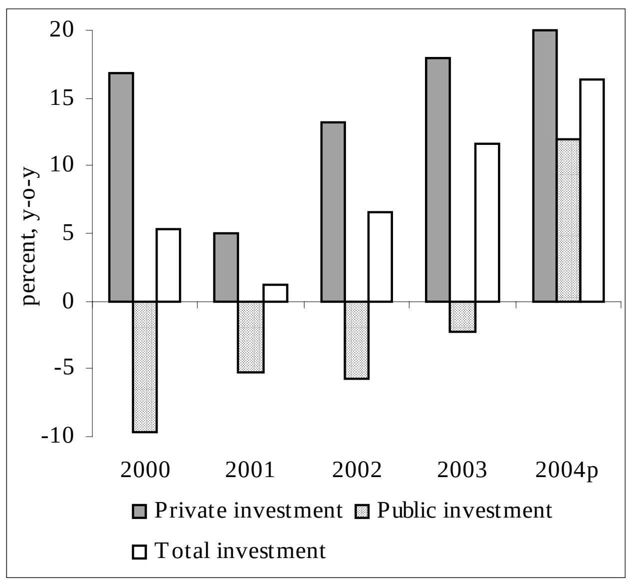
Source: MOF

2.6.2 Public Investment

Public investment will contribute to growth for the first time since the crisis. Public investment[40], having retrenched for 5 consecutive years since the crisis, is estimated to grow at around 10-12 percent in real terms this year, depending on the rate of disbursement from the supplementary budget (see Figure 24). The supplementary budget includes Bt71.3 billion capital expenditures of which Bt12.3 billion are transfers to the local governments, while the remaining Bt 59 billion are for competitiveness enhancement programs (see Table 10). However, only about 30 percent of the Bt71.3 billion, capital expenditure budget is expected to be disbursed this fiscal year[41]. Nevertheless, this would raise the Government's capital expenditure budget by 10 percent from that of FY2003. State-owned enterprise investments are also planned for a significant increase this year after having retrenched for the past few years.

The "quality" of the future Government investments will be crucial for private investment and growth going forward. Large infrastructure investment spending could help boost growth in the short-term. However, to have a longer term effect, public invest-

Figure 24. Growth Rate of Private Investment, Public Investment and Total Investment



Source: NESDB and World Bank

Note: p = projection

[40] Public investment includes investments by the central government, local governments, and state-owned enterprises.

[41] October 2003 to September 2004

ments would need to enhance the quality and reduce the costs of infrastructure services for business units and promote efficient private investment in the productive sectors, rather than "crowding" them out.

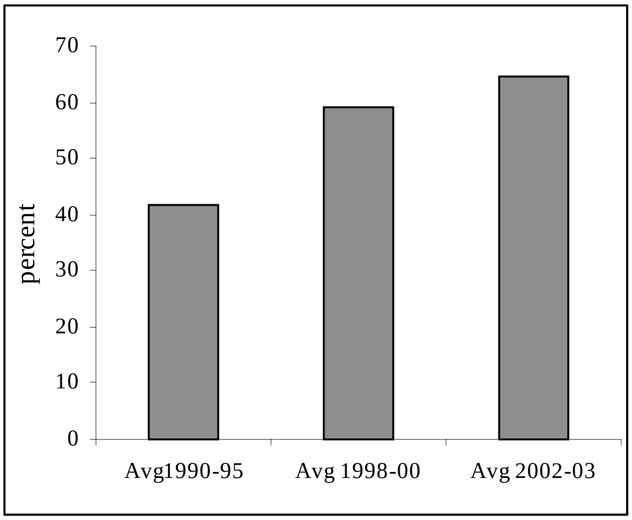
Policy changes to improve the efficiency of public investments are equally important in enhancing the quality of investments. Changes in policies could also help improve the efficiency of public investment as well as promote private investment and its efficiency. Such policies include the liberalization of certain sectors in which market entry is currently restricted and the adoption of output-based government subsidy in place of the current across-the-board subsidy for public investments. Under the output-based subsidy scheme project preparation, currently done by various Government agencies and state-owned enterprises, would need to be rigorous and transparent; service providers would be allowed to set prices for their services; outsourcing and participation of other players could be promoted; and the subsidy burden on the Government would be reduced as the Government will be subsidizing only the non-commercially viable but socially beneficial segments of the projects.

2.7 Improving Competitiveness

Thailand's competitiveness has improved relative to other countries. Thailand's ranking in the 2003 World Economic Forum's *Global Competitiveness* rankings has risen. Its *Growth Competitiveness Index* ranking has risen by 7 ranks from that of 2002[42]. This is mainly the result of the improvement of its macroeconomic environment by 9 ranks due to its strong macroeconomic stability. On the *Business Competitiveness Index* ranking, Thailand increased by 4 ranks from that of 2002 as a result of improvements in both its company operations and strategy ranking and its business environment ranking[43].

Thailand's competitiveness improvements since the crisis are most evident in its impressive export performance. Exports has been growing robustly since the crisis with the exception of 2001, raising their shares in GDP much above those of pre-crisis (see Figure 25). The Reveal Comparative Advantage Index (RCAI), a widely used indicator of a country's relative export performance in individual product category, shows that Thailand's comparative advantage in world trade from 1990-2001 was broad-based, unlike many developing countries whose strength in international trade lies in a handful of product lines[44]. In the primary sector, products with comparative advantage (RCAI>1) are concentrated in food, agricultural products, and raw materials. In the manufacturing sector, they belong to resource-based manufactures, machinery and transport equipment, and miscellaneous manufactures. The RCAI of 22 products recorded an increase from the periods of 1990-1994 to 1997-2001, of which 7 products, which were not in the revealed competitive product list in 1990-1994, entered the list in 1997-2001 (see Table 11).

Figure 25. Exports as a Share of GDP



Source: NESDB

[42] In 2003, Thailand ranks 30 out of 80 countries surveyed on the Growth Competitiveness Index.

[43] In 2003, Thailand ranks 31 out of 80 countries surveyed on the Business Competitiveness Index.

[44] Athukorala and Suphachalasai, 2003

Table 11. Comparison of Commodity Profile of Revealed Comparative Advantage (RCA) between 1990-1994 and 1997-2001

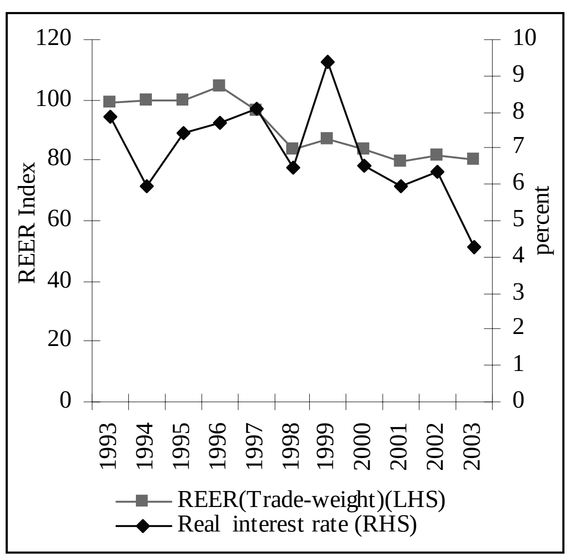
Commodities with Increase in RCA*		New products with RCAI > 1 in 1997-2001	
SITC		SITC	
081	Animal feeding stuff	052	Dried fruit
099	Food preparations	111	Non-alcoholic beverages
264	Jute	275	Natural abrasives
266	Other fiber	581	Plastic material
611	Leather	621	Materials of rubber
629	Rubber articles	693	Wire products non-electrical
651	Textile yarn and thread	663	Non-metallic mineral manufactures
652	Cotton fabrics		
666	Pottery		
697	Base metal household equipment		
714	Office machines		
723	Electrical distribution machines		
724	Telecommunication equipment		
725	Domestic electric equip		
729	Electrical machinery		

Source: Athukorala and Suphachalasai, 2003

Note: * Refers to commodities with RCAI > 1 in 1990-1994 and which RCAI has increased in 1997-2001

However, the factors supporting recent competitiveness do not look quite favorable going forward. The real exchange rate depreciation since the crisis (see Figure 26) has supported recent export growths. However, a reverse in this trend could adversely affect Thailand's ability to exports, particularly of manufacturing products, as Thailand's exports could be sensitive to real exchange rate changes (see Table 12). Moreover, interest rates will likely rise as Thailand's current account surplus diminishes with rapid import growth to meet the rising investment demands (see Figure 27). This could slow down private investments in the productive sectors which are critical for growth going forward, especially given the rapidly rising capacity utilization rates.

Figure 26. Real Exchange Rate and Real Interest Rate



Source: BOT

Note: Real interest rate is the average annual MLR minus change in CPI

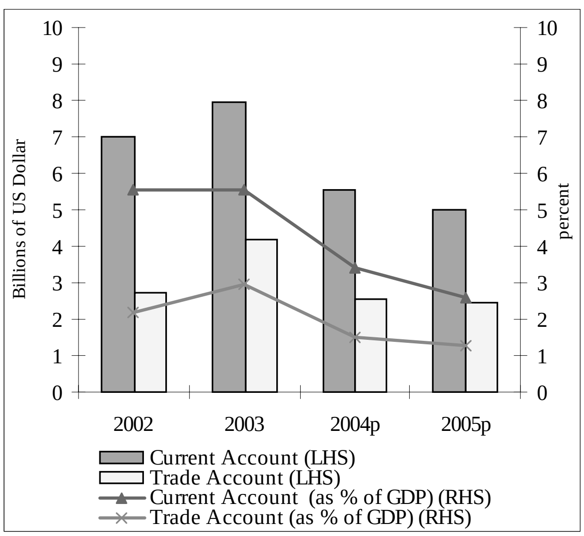
Shortage of skilled labor, out-dated technology, and non-conducive regulatory environment have been reported as current key constraints to improving Thailand's competitiveness. Almost all

Table 12. Elasticities of Export Volume with Respect to Change in Real Exchange Rate

	RER Increase by 10 percent (Depreciated by 10 percent)	
	SR Effects	LR Effects
Total manufactured exports	**7.3**	**11.0**
Chemicals (SITC6)	3.0	15.3
Machinery and Transport Equipment (SITC7)	4.5	6.5

Source: Athukorala and Suphachalasai (2003)

Figure 27. Current Account Surplus, 2002-2005

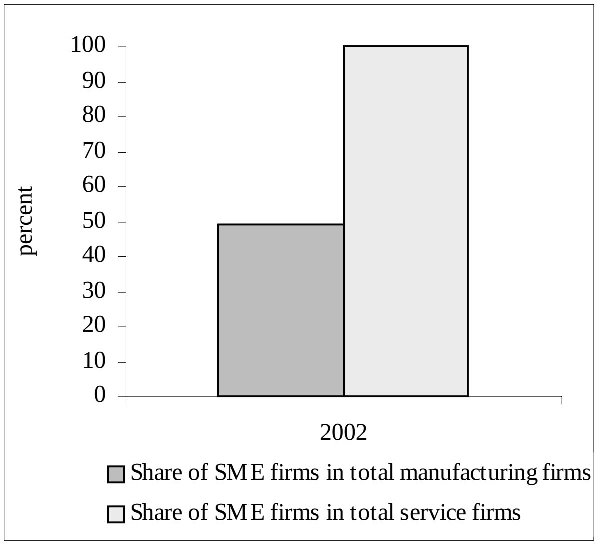


Source: BOT and World Bank

P = projection

recent sectoral studies reviewed[45] and interviews of the private sector cite the above three, in that particular order, as the most important constraints to business competitiveness. Shortage of skilled labor is the result of the shortage of labor with higher-level education, such as engineers, as well as the mismatch between the skills demanded by the industries and those produced by vocational and university training. This makes technology transfers, particularly by foreign partners, difficult. R&D investments have been known to be extremely low in Thailand and more importantly, much of the R&D conducted by universities and research centers do not meet the needs of businesses. In addition, industries which are predominantly SMEs generally do not have the financial capacity to invest in training and R&D or even to acquire new technologies. This has resulted in their inability to move up the value chain or just to meet the required product standards. This issue is more worrisome when compared to the progress made by other countries in the region. The *Global Competitiveness* technology rankings for 2003 shows that Thailand ranks 38 (out of 80 countries), a 3-rank improvement from that of 2002. However, in the same year, Korea has moved up by 12 ranks, Malaysia by 7 ranks, and Singapore by 5 ranks, placing them in the top 20 ranks. In addition to technological

Figure 28. Share of Number of SME Firms to Number of Total Manufacturing and Service Firms



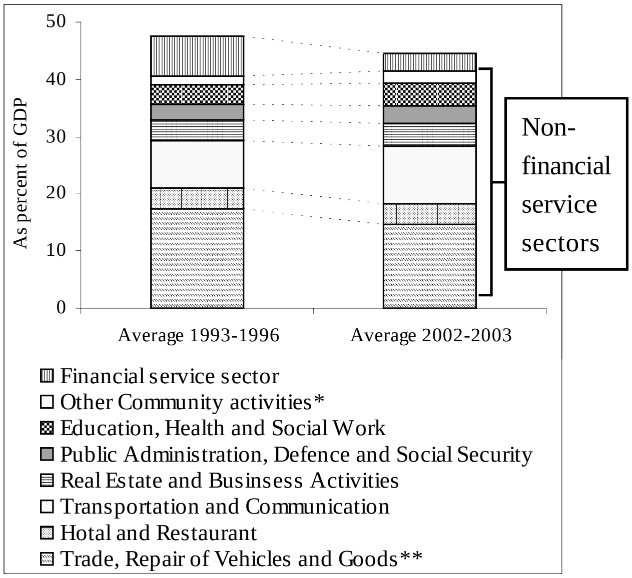
Source: Office of SME Promotion

45 Studies reviewed were as follows: Board of Investment (1999) (Auto Tires and Manual Transmissions); WS/Atkins Consultants (2001) (Mid-Stream Textiles and Steel); McKinsey & Company (2002) (Retail Trade, Retail Banking, Cement, Chicken Processing, Beer, Telecom, and Computers and Electronics); Kasikorn Research Center (2002) (Automobile Parts, Furniture); NESDB (2002) (Shrimp and Phuket Tourism Industries); Office of National Competitiveness Committee (2003) (Automobile and Parts, Fashion and Food); and Ministry of Industry (2003) (Rubber, Electronics, Textile and Food).

development, the regulatory environment, which includes import restrictions and other barriers to entry and bureaucratic requirements such as long processes in establishing a facility, could be improved to enhance competitiveness.

In addition to addressing the constraints above to improve productivity, Thailand also needs to invest in new productive sectors, particularly the service sector, which could provide new sources of growth. The service sector in Thailand is almost entirely made up of small and medium size enterprises (SMEs) (see Figure 28). The service sector as a whole as measured by its share of GDP has shrunk from that of the pre-crisis period mainly due to the contraction of the financial sector. The non-financial services, on the other hand, slightly expanded (see Figure 29). Within the non-financial sector, the transport and communications sector has expanded at the expense of the retail and wholesale industry. Improving the competitiveness of the service sector would involve to a large extent promoting and improving the competitiveness of SMEs. Having a comprehensive information/data set regarding enterprise, including SMEs, is a crucial initial step to effectively do so (see Box 5 for the discussion of the current gaps in enterprise statistics in Thailand).

Figure 29. Share of Service Sectors in Real GDP



Source: NESDB

Remark: *including Other community, Social and Personal Service Activities, Private Household with Employed Persons
**including Wholesasle and Retail Trade and Personal and Household Goods

Box 5. Gaps in Enterprise Statistics in Thailand

There are many sources of business information[46] on enterprises in Thailand. It appears that data from these sources do not cover the enterprise sector comprehensively. This box tries to clarify and highlight these issues.

Presently, a comprehensive firm-level information and aggregate statistics are not readily available. This is largely because data collections are not standardized, record keeping systems are not coordinated between government agencies, and the statistical database is not centralized and managed by a central authority. In collecting enterprise data, there are vast differences in the definition of data, data coverage, and data collection methodology being applied by agencies. This is because many government agencies collect general business information on enterprises based on individual agency's objectives, functions, and data usage requirements. As a result, enterprise statistics can be incomplete, with duplications, and more importantly the aggregate total of enterprise statistics are not accurately known to the authorities at any given period.

Key sources of firm-level data includes the National Statistics Office (NSO), Department of Business Development (DBD), Rural Development Department (RDD), Labor Development Department (LDD), Revenue Department (RD), Bank of Thailand (BOT), and Office of SME Promotion (OSMEP). The type of data, coverage, collection method, and publications of these agencies are summarized in the table below.

Table 13. A Summary of Enterprise Statistics in Thailand

Agency	Definition of Data	Data Coverage	Data Collection Method	Publication
NSO	General business information of juristic enterprises	Bangkok Metropolitan & Provincial Municipalities	Census Survey	Report on the Manufacturing Census (1997) and Report of Trade and Service Business Census (2002)
DBD	General business information of juristic enterprises	Bangkok Metropolitan & Provincial Municipalities	Business Registration Applications	Statistics from 1999-2002 are published on the DBD website
RDD	General business information of non-juristic enterprises	Outside the Provincial Municipalities	Census Survey	None
LDD	Number of employees	Businesses registered with the Ministry of Labor and Welfare	Employee Registration Applications	None
RD	Tax liabilities and payments General business information	Individual and business taxpayers	Information retrieved from from Annual income tax returns	None
BOT	Loans portfolio of financial institutions	Existing and new loans extended to borrowers	Monthly confidential reports submitted by financial institutions	Statistics on the aggregate total of outstanding loans in the financial system published quarterly
OSMEP	General business information and raw data retrieved from NSO, DBD, and to a certain extent BOT	Same as NSO and DBD	Apply the legal definition of SMEs to the raw data and generate SMEs statistics	The Annual White Paper on SMEs in Thailand

Based on the fact that there are many sources of information on enterprises, four observations are worth noting: (1) The DBD shares common areas of data coverage with the NSO. This suggests that the enterprise data collected by both agencies, if properly merged and reconciled to remove redundancies, could closely approximate an account of the number of juristic enterprises, at least for the Bangkok Metropolitan and provincial municipalities; (2) There is currently a statistical gap on the non-juristic enterprises (i.e. proprietors and cottage businesses) that are located within the Bangkok and provincial municipalities; (3) There is also a data gap on the non-juristic enterprises located outside the municipalities. With the exception of the OTOP statistics, which are tabulated and reported to the Minister of Interior every three months to monitor the OTOP program, the remaining data are not known to be systematically classified, reported, and used by the RDD or other agencies; and (4) A comprehensive and reliable statistical database on SMEs is not available. Existing data on SMEs are provided by the OSMEP and are drawn from the enterprise data collected by the NSO, DBD, and BOT. Efforts to develop a national SMEs statistics and database is underway, but the project is not expected to be completed before year 2006.

[46] General business information referred to here includes the name, type of core business activity, amount of capital registration, date of business registration, type of juristic enterprise (defined as limited company, public limited company, partnership, or limited partnership), number of employees, and business location.

SECTION 3

IMPLEMENTATION OF STRUCTURAL REFORMS

Structural reforms have made progress and competitiveness strategies are beginning to be implemented. Since its establishment in January 2003, the National Competitiveness Committee (NCC) along with the implementing agencies have together formulated strategies to improve competitiveness in the sectors identified as *niche* sectors[47]. Implementation has begun in a few of the sectors, particularly, the fashion, food, and automotive and parts industries under the Bangkok Fashion City, Kitchen of the World, and Detroit of Asia programs, respectively. Additional measures that have been recently approved by the NCC over the past 6 months include the cluster development, logistics systems development, and the development of Thailand's rubber industry to become the "World Center of Rubber Products" (see Box 6).

Trade reforms have made considerable progress, while those in the public sector governance and the financial and corporate sectors have made uneven progress. Further tariff reductions have taken place in October and December last year. Reforms to the public administration have further progressed over the last 6 months, reflecting the implementation of the Strategic Plan for Public Sector Development approved by the Cabinet a year ago. The Budget Procedure Act, the Financial Fiscal and Accounting Act and the Public Debt Management Act are still awaiting the rationalization of certain principles and overlapping issues. The awaited Financial Sector Master Plan was endorsed by the Cabinet in January and lays out the development of a stronger financial sector in the medium term. Banks' balance sheets have further strengthened in 2003, while NPLs have been slowly declining over the past year due to limited progress in corporate debt restructuring.

This issue of the Monitor examines in detail the progress in the implementation of the financial and corporate sector reforms and restructuring, public sector governance reform, and trade reform[48]. In the first two areas, there is on-going work carried out with Government agencies under the relevant Country Development Partnership (CDP) programs. In the area of trade reform – which is critical for competitiveness improvement – but where there is no CDP, work with relevant agencies was carried out to ascertain the state of the progress. Below we look at the three areas.

[47] The niche sectors are processed food, furniture, rubber products, vehicles and parts, fashion, health and education, tourism, and software design.

[48] We do not discuss the reform to improve the business climate as was done in the previous issue of the Monitor for the reason that there has not been significant progress in the area. Progress in this area is reflected in the "Monitoring Matrices for Structural Reform Implementation" in Appendix 2.

Box 6. Actions by the National Competitiveness Committee

Since last October, the National Competitiveness Committee (NCC) has taken further actions to improve Thailand's competitiveness through the development of industry clusters, logistics systems and the Thai rubber industry with the aim to become the "World Center of Rubber Products".

Cluster Development:
The automotive and parts, fashion and textiles, and electrical appliance and electronics sectors have been selected as pilot clusters. A Cluster Development Manual, which lays out the development of the cluster concept and the cluster development assessment, has been prepared. In the next phase, the Office of the NCC has been designated to provide the overall framework for cluster development at the national level, while the Ministry of Industry has been designated as the implementing agency. The Federation of Thai Industries will help develop a work plan for cluster development of 9 industry clusters.

Logistics Systems Development:
Logistics costs in Thailand are estimated to be many times that of developed countries, underscoring the need to develop the logistics systems as Thailand strives to be the logistics hub of Indochina. Task forces have been established to oversee each of the 4 areas of logistics systems development: (1) infrastructure, (2) database, (3) information linkage system, and (4) personnel. The NCC has approved the improvement of key roads to inland clearance depots (ICD) such as the one in front of the Ladkrabang ICD, which will be implemented by the Ministry of Transport. A Bt 1.25 billion 3-year project has also been approved to build an information systems network between the relevant government agencies, including the Customs Department, with the Ministry of ICT as the project manager.

Development of the Rubber Industry:
Thailand aims to be the leader in the production of downstream rubber products which is of high value-added through the development of targeted industry clusters – automobile tires and products from natural rubber – and the development of personnel and the increase in R&D in the industry. The NCC has endorsed the framework to achieve the above and has recently initiated the establishment of 2 test centers – one for automobile tires and the other for natural rubber – to improve product standards as well as upgrade the current Latex Biotechnology project to a national project.

Source: NESDB

3.1 Financial and Corporate Reform and Restructuring

Financial Sector Developments

Non-performing loans (NPLs) of Thai commercial banks declined during 4Q 2003 after having remained at 15-16 percent range for over a year. Large amount of NPLs were reclassified to performing status as debtors' repayment capacity improved along with economic recovery. Banks have also accelerated the resolution of their NPLs before the enforcement of a new provisioning guideline. While NPLs of Thai banks started to decline, they still possess a large amount of low quality assets. In addition to NPLs of 12-13 percent of total loans, restructured loans, which are classified as performing but mostly rescheduled, were estimated to be 35 percent of total loans[49] plus foreclosed assets of 2-3 percent of total assets.

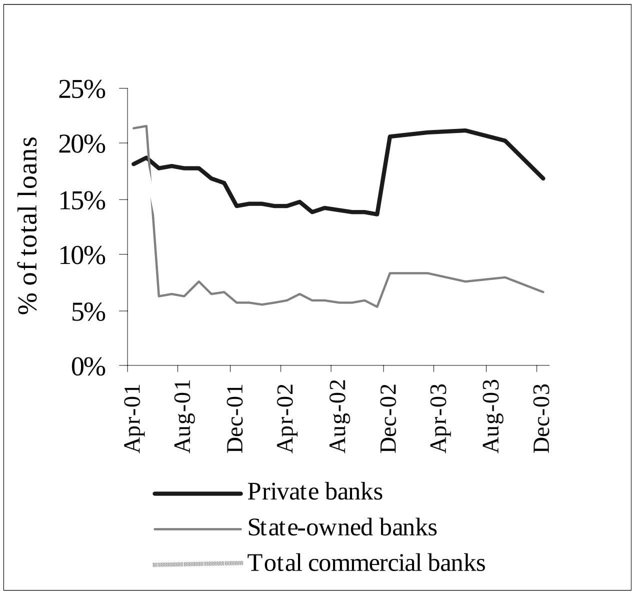
[49] Estimated by CLSA in "Thai Banks (Sector Outlook)", February 2004.

The Bank of Thailand (BOT) will explicitly tighten the provisioning rule, to be effective by year-end. The revised guideline is intended to expedite the resolution of the remaining NPLs, which while have declined substantially from 47 percent in 1999, still remained above 10 percent. The new guideline will gradually increase total required reserve on "doubtful of loss" NPLs, loans which are more than 12 month past due, to 100 percent of total book value of NPLs disregarding the collateral value. Currently total required loan loss reserve on NPLs is calculated net of collateral value (up to 90 percent). To minimize impacts on banks, the new requirement will apply only to "doubtful of loss" NPLs, which have not been restructured or taken legal actions by banks and deductible collateral value will be phased down in four years. Costs of keeping NPLs and doing nothing will consequently increase overtime. This should pressure banks to take actions on their NPLs.

Balance sheets of Thai commercial banks have strengthened further in 2003. Shareholders' equities to total assets of Thai banks have risen from 4.3 percent in 2000 to 7.1 percent in 2003 as banks' retained earnings improved and many banks raised capital from the capital market. Of total assets, inter-bank lending and securities purchased under resale agreements (R/P), an indication of excess liquidity, declined slightly to 9.7 percent in 2003 compared to 20.6 percent in 2001. However the composition of liquid assets changed as banks shifted out of inter-bank lending to pick up yield in R/P securities. Net loans have risen to 64 percent of total assets in 2003 from 57 percent of total assets in 2001. Investment in securities to total assets increased from 4 percent in 1997 to 17 percent in 2003.

Resolution of distressed assets by the Thai Asset Management Corporation (TAMC) is progressing. As of December 2003, TAMC approved resolution plans for 94 percent of total transferred assets or Bt732 billion. Debt restructuring is planned for 59 percent of the amount and TAMC's special power to foreclose is planned for the remaining amount except in a few cases. TAMC outsourced the management of smaller

Figure 30. Non-Performing Loans



Note: An increase of reported NPLs as of December 2002 was a one-off increase, caused by a change in definition by the BOT.

11,631 accounts, approximately 3 percent of transferred assets, to KTB and Bangkok Commerce AMC, one of the many public AMCs.

The Financial Sector Master Plan is a positive development. The Plan lays out the BOT's vision on Thailand financial sector in the medium term. Stated objectives of the Plan are (1) improve access to financial services, (2) develop an efficient, stable, and competitive financial sector with greater balance between the banking sector and the capital market, and (3) ensure consumer protection. The Plan is divided into two phases with an initial phase being planned for the first three years and the second phase in the following three years but is contingent on suitable economic conditions. The Plan emphasizes heavily on strengthening the banking sector, leaving the capital market development under the leadership of SEC/SET. Several dissemination workshops were organized in January 2004 to clarify the Plan to industry players. Notifications on the application for ~~a~~ commercial bank's licenses were issued.

Box 7. Key Aspects of the Financial Sector Master Plan

- **Licensing will be rationalized with an objective to weed out small and weakstrengthen existing players.** The types of licensing for domestic deposit-taking financial institutions are cut down from four types - a commercial bank, a restricted bank, a finance company, and a credit foncier company – to two types, namely, a commercial bank and a retail bank. A new commercial bank must be well capitalized with a minimum required capital of Bt 5 billion. A finance or credit foncier company wishing to upgrade into a bank must satisfy both qualitative and quantitative pre-requisites (e.g. management competency, asset quality, capital to risk asset ratio, and impaired assets). To gain a commercial bank license, they must submit an application with a plan to merge with another finance or credit foncier company. The application must be submitted by July 2004. Those unable to upgrade may choose to maintain their status as finance or credit foncier companies but their comparative advantage, especially in hire purchase businesses, will no longer exist because banks will be permitted to engage in such businesses. They may also choose to exit from being deposit-taking institutions, which will release them from being subjected to the BOT's prudential regulations. A clear exit procedure will be established to ensure prompt and timely intervention of problematic financial institutions. The BOT hopes to see the remaining players becoming stronger after the Plan is implemented.

- **More competition will be encouraged.** In the first phase, the level of playing field between foreign and domestic banks will be improved. A foreign bank will be allowed to establish a subsidiary, which can engage in the same scope of businesses as a Thai commercial bank and can open up to 4 branches in addition to its head office. Alternatively, a foreign bank can maintain a single branch status with similar business scope as a Thai bank but is not permitted to open an additional branch. A capital requirements for a subsidiary and a branch are Bt 4 million and Bt 3 million, respectively. Existing international banking facilities (IBFs) will beare encouraged to upgrade to a full branch or a subsidiary status as and sspecial tax treatment for "a stand alone IBFsOut-In" transactions will be discontinued and tax benefit for "Out-Out" transactions will be maintained only for transactions carried out within financial institutions but not by stand-alone IBFs. Foreign ownership on a domestic bank will be raised from 25 percent to 49 percent. In the next phase, a new banking license may be granted to new entrants but is contingent on economic conditions.

- **A commercial bank will be able to expand its business scope** to include what is not currently permitted i.e. hire purchase, leasing, etc., and to offer a full range of financial services with the exception of insurance underwriting, equity underwriting, and equity broking. The universal banking is allowed under a holding or a parent company structure. The BOT will enforce a "one presence" policy, which will allow only one type of deposit-taking institution in the same financial conglomerate group. This one presence policy also applies to foreign banks, which must decide to maintain only a full branch, or a subsidiary, or a domestic bank (majority owned by a foreign bank) license.

- **Rules and regulations will be streamlined and regulatory impediments to operational efficiency will be eased.** Guidelines to good governance for financial institutions have been issued. The BOT will relax branch regulations, lending regulations for a provincial branch (currently, 60 percent of deposits must be lent to the region in which the branch operates), regulation on the number of expatriate staff, and lending by a foreign bank branch. Approval of a new product/transaction will be expedited and granted by a product group instead of an individual product/transaction. Tax impediments for merger and acquisition will be relaxed. Basic infrastructure for the financial sector will be strengthened. Data problem of the Credit Bureau will be improved. Weaknesses in foreclosure and bankruptcy regime will be identified and tackled. A framework for a consolidated supervision will be developed and coordination between various supervisory authorities will be strengthened to support the supervision of a financial conglomerate.

- **Access to finance services by the poor will be enhanced.** The MOF set up the Committee for Grass-Root Financial Services to promote efficient and sustainable microfinance activities at the community level. The Committee is developing a framework to ensure the sustainability of the microfinance industry and to build capacity of microfinance operators. The Bank for Agriculture and Agricultural Cooperatives (BAAC) will be transformed into a rural development bank and able to expand its businesses beyond agricultural finance. The BOT will grant a new license, a retail bank, which can offer financial services to SMEs and low-income clients, subjected to lending limit per client. The minimum capital requirement is set at Bt 250 million. A retail bank can do everything that a full licensed bank can do with the exception of foreign exchange and derivatives transactions. Loans to these retail clients and SMEs that meet conditions set by the BOT will be subjected to a lower risk weighting, thus requiring lower capital. In addition to this new license, the BOT willplans to conduct a pilot project with interested commercial banks to improve, based on available infrastructure, and capacity to provide financial services to low-income household.

- **Consumer protection mechanism will be developed.** Public disclosure and complaint handling will be strengthened. A partial deposit insurance to replace the current blanket guarantee will be introduced. ·

Consolidation is a likely consequence of the Master Plan. Merger among private financial institutions are likely be initially limited to small players such as finance companies, credit fonciers, and branches of foreign banks. There is an on-going state-initiated merger between Thai Military Bank, which the Ministry of Finance is its major shareholders, and a foreign majority owned bank (DBS Thai Dhanu Bank) and the Industrial Finance Corporation of Thailand, a state-owned specialized financial institution. The three banks have already signed a memorandum of understanding for their merger, which is expected to be completed in third quarter 2004. State specialized financial institutions will be rationalized or merged since their businesses seem to have increasingly converged with one another.

Corporate Sector Developments

Progress in corporate debt restructuring is limited in 2003, and there remains significant backlog of unresolved NPLs. As of September 2003[50], a cumulative total of US$ 73 billion (Bt 3.0 trillion) of NPLs were restructured by financial institutions, compared to a cumulative total of US$ 68 billion (Bt 2.8 trillion) at the end of December 2002, and US$ 59 billion (Bt 2.4 trillion) at the end of December 2001. One reason for the slowdown in the pace of restructuring is perhaps it is the more complex cases that remain. Included in the US$ 73 billion of restructured debt is US$ 34 billion (Bt 1.4 trillion) of loans that were restructured through the voluntary out-of-court workout framework led by the Corporate Debt Restructuring Advisory Committee (CDRAC). The CDRAC process completed 49 percent of its US$ 67 billion (Bt 2.9 trillion) target cases by credit value in five years of operation which ended in mid-2003. The remaining cases, a total value of over US$ 37 billion (Bt 1.5 trillion), failed the CDRAC process and were transferred to TAMC (US$ 4 billion or Bt 150 billion), and to the Civil Court for resolution (US$ 31 billion or Bt 1.3 trillion). The on-going concern is the backlog of cases in the Civil Courts where mortgages are enforced. As of December 2003, the Office of the Judiciary reported that there remain over 73,000 civil cases pending court decisions, the same level of unresolved cases as reported back in year 2002.

In order to accelerate the resolution of NPLs and remove the backlog of cases in the Civil Courts, the Bank of Thailand introduced an out-of-court mediation framework, but positive results have not been registered. In the first quarter of 2003, the BOT introduced a voluntary mediation framework led by the CDRAC for private banks and AMCs to accelerate debt restructuring for debtors in different stages of resolution. There are two groups of target debtors who are going through the legal process: (1) cases that are in the court process; and (2) cases that are in the legal execution process after court judgments are rendered[51]. In this process, the creditors select from the BOT-provided list and submit to CDRAC on a monthly basis the cases they would like to further negotiate for debt settlement. The CDRAC, in turn, contacts the debtors, and if agreed, both parties enter the CDRAC-led mediation process to accelerate resolution under a required guideline and timeframe[52]. Failure to reach an agreement within the timeframe would result in continued legal process.

The legal execution process has been streamlined to speed up the sale of old foreclosed properties, but results are considered moderate. In November 2003, the Legal Execution Department (LED) amended

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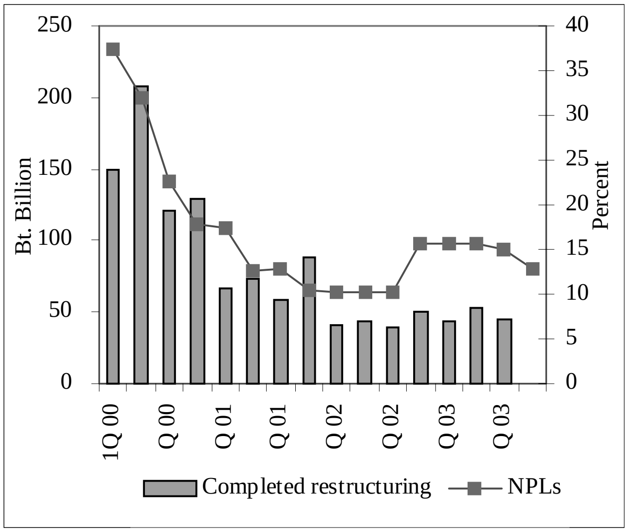
50 Source: Bank of Thailand. December 2003 statistics are not yet available.

51 Thailand's Code of Civil Procedures on Default (Foreclosure Law) allows for continued negotiations for debt settlements between creditors and debtors even after court judgments are rendered, as long as the legal execution process has not been completed. The effectiveness of the judicial system could be compromised unless legal execution proceeds without delay in parallel with and as a complement to any on-going negotiations.

52 For cases that are in the court process, a settlement or loan repayment agreement must be reached within 2 mediation sessions and 60 days. For cases that are in the legal execution process, settlement agreement must be reached within 2 mediation sessions and 45 days. It is also required that authorized decision-makers attend the negotiation sessions for both parties.

Figure 31. NPLs and Completed Restructuring



Source: BOT and WB analysis

Note: Increase in headline NPLs as of December 2002 was due to a change in definition.

the "reserve price" guidelines for auction of foreclosed properties[53]. The changes include after a property fails to be sold in first round of auction at the reserve price, the starting bid price in subsequent rounds is lower to 80 percent of the reserve price in the second round, 65 percent in the third round, and 50 percent in the remaining rounds. Initially, the LED applied the new guidelines only to foreclosed properties that have been on the auction block for over 10 years. The volume of this group of foreclosed properties is considered small compared to newly foreclosed properties since the 1997 financial crisis. The LED is considering expanding the guidelines to include all foreclosed properties in its portfolio.

Progress in bankruptcy liquidation reform to strengthen the legal framework for corporate restructuring has been slow. In September 2003, after more than two and a half years of review, the Legal Reform Committee for Development of Thailand (LRC) submitted a three-point revision of the Bankruptcy Act to the Cabinet. The revisions aimed to meliorate the individual bankruptcy liquidation framework by amending the Bankruptcy Act to (1) allow retroactive discharge from bankruptcy after three-year period for individuals whose court judgments were rendered after year 1994, or within five years prior to the 1998 bankruptcy amendment. Prior to 1998, bankrupted individuals are subjected to a ten-year bankruptcy period before they can petition for a discharge; (2) extend the bankruptcy period from five to ten years for individuals who are ruled dishonest or fraudulent by the CBC; but the revised law would allow those individuals to petition the court for discharge from bankruptcy after five years; (3) disallow the collection of repayments or assets from family members of bankrupted individuals who are under 18 years old, while the spouse's assets must be divided 50:50 before collection under the Thai marital law. The draft amendments were endorsed by the Cabinet, and are under review by the Council of State before being forwarded to the Parliament. However, specific timeframe for submission to the Parliament for approval has not been designated.

A caveat to the proposed amendments is that it only covers individual bankruptcy cases, and the corporate bankruptcy framework remains largely incomplete. There remain legal loopholes such as the legal definition of insolvency based on a balance sheet test instead of ability of debtors to honor debt obligations when they fall due, lack of explicit procedures to commence bankruptcy proceeding if business rehabilitation fails, and redundant court procedures. These issues remain major impediments to a well-functioning bankruptcy regime.

The LRC has completed a review of the business rehabilitation chapter of the Bankruptcy Act, but the proposed revisions have not been submitted to the Government. Proposed revisions include (1) allowing honest debtors to petition for rehabilitation; (2) regrouping creditors to recognize the revenue and tax authorities as a creditor group on the same level as financial creditors; (3) requiring 75 percent of

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[53] The reserve price is the appraised value of the property at time of foreclosure. A foreclosed property is auctioned at the starting price equals to the reserve price. In general, the reserve price is considered to be higher than the true market value of the property.

creditors' vote by credit value to accept a restructuring plan instead of the current 50 percent; (4) allowing for debtor in possession; and (5) imposing a limit on the fee of the Restructuring Plan Administrator. Other enhancements are needed which would commence bankruptcy proceedings based on the debtor's ability pay obligations, and look back prior to the bankruptcy and disallow transactions among connected parties which damaged the asset and the ability for a firm to reorganize and repay creditors and other stakeholders according to debt priority.

Modernizing regulatory regime, corporatization and privatization of state-owned enterprises have made moderate progress. In December 2003, the Government Selection Committees short-listed the applications for the National Telecommunications and Communication Commissions (NTC and NCC) to 14 qualified candidates for each of the commission. The shortlists were submitted to the Parliament for final selection of 7 members for each commission, but there is no specific timeline on the appointment of the commissions. The long-delayed NTC and NCC are consistent with the modernization of the regulatory regime and market liberalization under the APEC agreement. The scheduled corporatization and privatization of the utilities and transport sector SOEs are met with different results. The Airport Authority of Thailand successfully corporatized and completed the initial public offering of 58.7 percent of total shares in March 2004. While on the contrary, the Electricity Generating Authority of Thailand delayed its planned corporatization and public offering due to accelerated union outcry and protest against privatization.

Corporate Governance

The Securities Exchange Commission (SEC) continues to promote good corporate governance. Since the beginning of this yearLast 6 months, the SEC policy to promote good corporate governance of listed companies has focused on 2 main areas: (1) closely monitoring and ensuring that accounting practices of listed companies are in compliance with the Thai accounting standards and (2) preventing companies from misappropriating companies' assets through connected transactions. In this connection, two steering groups have been appointed and represented by both relevant public sector and reputable market practitioners. The first steering group's focus is on means to enhance accounting practices and corporate governance of listed companies by proposing accounting guidelines in consultation with the ICAAT and proposing sanctions on non-complying companies. The second steering group's focus is on means to enhance director's responsibilities. If the SEC finds inappropriate conduct of any listed companies' director (e.g. engage the company in inappropriate connected transactions), the SEC will first discuss with the company's management. If the management refuses to rectify, the case will be brought to the steering committee for further consideration and sanctions. As a result of the above endeavor, as of April 15th, 2004, 4 deals have been canceled, saving listed companies approximately some Bt 2.7 billion, 3 deals have been modified in favor of listed companies and 4 deals are requested for better disclosure.

Additionally, a corporate governance assessment under the Reports on Observance of Standards and Codes (ROSCs) has commenced. The ROSC benchmarks a country's corporate governance practices against OECD principles and international standards. The assessment is expected to be finalized later on in 2004.

3.2 Recent Trade Reforms

Tariff Reform

Thailand has been continuing import tariff reductions, and as of January 2004, over half the tariff lines has been moved to the lower three-rate system[54]. Thailand reduced tariffs in October and December 2003. Thus 55 percent of the tariff lines

[54] Thailand targets to reduced its tariff rates into three rates according to value added escalation method. The three rates captures each stage of production as follows: 1 percent for raw materials, 5 percent for semi-finished goods, and 10 percent for finished goods.

now are under this system. The Government has also decided to adjust another 43 percent of tariff lines into that system by 2005; reduction of the remaining 2 percent of tariff lines, which include plastic and its products, are expected to be submitted for Cabinet approval this year. As a result, the simple average tariffs for agriculture and industrial products have come down not only in 1995 and 1999, but also in each of the recent three years as shown in Table 14.

Effective rates of protection (ERP) for import-competing production[55] declined significantly too. Between 2002 and 2004, ERP declined from 25.2 percent to 22.7 percent in the manufacturing products but very little in the agricultural products (see Table 15). Further sub-sector analysis shows that ERP of 15 manufacturing sectors decreased by more than 10 percentage points during the same period (i.e. 2002 to 2004), with the following five sectors having the largest reductions in ERP – flour and other grain milling (IO52), monosodium glutamate (IO58), paper and paper board products (IO82), rubber sheet and block rubber (IO95), as well as concrete and cement products (IO103).

Table 14. Current Tariff Rates in Thailand

Unit: percent

Tariff	1995	1999	2002	2003	2004
Simple average applied MFN tariff[56]	**23.1**	**17.1**	**14.3**	**13.3**	**12.0**
Agricultural products (HS01-24)	43.1	32.1	23.6	22.2	22.17
Industrial products (HS25-97)	20.7	14.6	14.1	12.8	11.7

Source: Trade Policy Review 1995, 1999, Athukorala, Jongwanich and Kohpaiboon (2004) and FPO

In addition to reductions in MFN tariffs, there were also some reductions under the Thailand-China early harvest program. The early harvest program with China on vegetables (HS07) and fruits (HS08) was implemented in October 2003. The framework agreement on the comprehensive Economic Cooperation between ASEAN and China became effective only in January 2004, which will result in the reduction of tariffs (between the two countries) on agricultural products (HS01 to HS08) and two other minerals in subsequent years up to 2006 when tariffs on these products will be zero percent (see Table 16). Under this FTA, Thailand's average tariff rates will fall from 23.5 percent in 2003 to 3.4 percent in 2005, while China's will come down from 13.0 percent in 2003 to 2.0 percent in 2005 (see Table 16).

Table 15. Effective Rates of Protection in Thailand

Unit: percent

	1985	**2002**	**2003**	**2004**
Effective rate of protection for import-competing production	**30.0**	**22.1**	**20.9**	**20.2**
Agriculture (IO1-29)	28.0	16.1	16.0	15.9
Manufacturing (IO42-134)	66.0	25.2	23.6	22.7

Source: Athukorala, Jongwanich and Kohpaiboon (2004)

[55] The ERP measures the proportionate increase in per unit value added of a sector due to the complete system of tariffs, generally it implies a level of tariff protection taking into account both tariffs on outputs and inputs. An empirical study by Athukorala, Jongwanich and Kohpaiboon (2004) shows that high level of protection (high ERP) is determined by high level of labor- intensive industry, of domestic market orientation and of industry concentration.

[56] Simple average applied Most Favored Nations (MFN) tariff is calculated from tariffs which are applied to general countries.

Table 16. Thailand and China's Unweighted Tariff Rates under the Thailand-China FTA

HS	Thailand				China			
	Applied rates 2003	2004	2005	2006	MFN 2003	2004	2005	2006
01 Live Animals	10.5	4.7	2.2	0.0	6.2	3.1	0.0	0.0
02 Meat and edible meat offal	35.4	10.0	5.0	0.0	20.0	9.5	4.5	0.1
03 Fish and crustaceans	5.0	5.6	0.6	0.0	12.9	6.3	1.7	0.0
04 Dairy products	23.3	8.6	3.7	0.0	18.7	8.9	4.2	0.0
05 Products of animal origins	12.5	4.5	1.8	0.0	11.3	5.1	0.9	0.0
06 Live trees and other plants	33.2	10.0	5.0	0.0	7.8	3.3	0.3	0.0
07 Edible vegetables, roots, and tubers	35.4	10.0	5.0	0.0	11.8	4.7	0.0	0.0
08 Edible fruits and nuts	32.4	9.1	4.1	0.0	20.1	8.8	3.9	0.2
Average	**23.5**	**7.8**	**3.4**	**0.0**	**13.6**	**6.2**	**2.0**	**0.0**

Source: Athukorala, Jongwanich and Kohpaiboon (2004)

Thailand's high agricultural tariffs suggest that agriculture needs protection, but this may not be the case. Given the country's agricultural potential, many of these tariffs could be redundant (i.e. there is water in tariff, and thus they are not protective). Box 8 shows that high tariffs for at least four agricultural products are clearly redundant given that they are highly competitive; but a more comprehensive picture for other agricultural products must await price comparisons.

Box 8. Redundancy of High Tariffs on Some Agricultural Products

To shed light on the existence of redundancy in tariffs on agricultural products, the Reveal Comparative Advantage (RCA) indices can be useful. The products where Thailand has RCA indices greater than one, which implies that Thailand is competitive, high tariffs are likely to be redundant. According to the RCA indices during the pre and post crisis periods, there are four Thai agricultural products whose RCA indices exceed one – rice, cassava, fresh pineapple, and rubber.[57] Even though Thailand is the world largest exporter of rice, rice imports are subjected to the import restrictions. In contrast, in natural rubbers, tariff rates are already low and this is not an issue.

Tariff rates for cassava and fresh pineapple reduced from 42 percent in 2002 to 40 percent in 2003, where it remains, suggesting that there maybe some redundancy. In case of cassava where Thailand is the world's major exporter, this must indeed be the case. Fresh pineapple seems to be less clear. Even though there is no direct export of fresh pineapple, Thailand is the largest world exporter in canned pineapple. Interestingly, producing canned pineapple relies totally on locally harvested pineapple. This reflects the presence of price competitiveness of fresh pineapple. Tariff on fresh pineapple, thus, seems to be redundant.

Source: Athukorala, Jongwanich and Kohpaiboon (2004)

[57] These four products accounted for more than 50 per cent of the total primary export of Thailand in 2002.

Box 9. Progress on Thailand's Free Trade Agreements (FTAs)

In 2004, Thailand has been negotiating FTAs with several trading partners as well as its potential markets to expand and diversify export markets. The current stage of these negotiations are described below.

- **ASEAN and China:** According to the framework agreement on the comprehensive Economic Cooperation between ASEAN and China, ASEAN members and China mutually agreed to reduce import tariffs on agricultural products items HS01 (live animals) to HS08 (Edible Fruits and Nuts)[61] and two other mineral items including anthracite and coke and semi-coke, as part of an early harvest program. The tariff reduction started on January 1st, 2004 and tariff rates will be zero by 2006.
- **Thailand and Bahrain:** On Thailand's side, The tariff reductions on 626 items is legally effective in March 2004 after the ministerial order was approved by the State Council and signed by the Minister of Finance. However, the tariff reduction has not been effective in practice because the tariff reductions on Bahrain's side is under revision by its Parliament and is expected to be effective this year.
- **Thailand and India:** The two Governments are under negotiation on an application of the rule of origins for 84 items under the early harvest program, of which 52 items such as fresh fruits, wheat and petrochemical products are being finalized while the remaining is still under negotiation. The effective date was, therefore, postponed from March 1st to July1st, 2004 as suggested by India.
- **Thailand and Peru:** Thailand and Peru signed a framework agreement on Closer Economic Partnership on October 17th, 2003. The two countries plan to start a negotiation on tariff reduction in early 2004 and complete it by 2005. The negotiation will cover every item and expect to reduce tariff rates to zero by 2015.
- **BIMST-EC 6[62]:** All members of BIMST-EC except Bangladesh signed a framework agreement on the BIMST-EC Free Trade Area on Febuary 8th, 2004. The agreement aims to enhance economic cooperation, to liberalize trade in goods and services as well as to facilitate investment among the members. However, the negotiation on the details of tariff reduction will start in June 2004 and is expected to be completed in 2005.

Several other bilateral agreements are under negotiation and study. These include Thailand and Australia, Thailand and the U.S., Thailand and Japan, and Thailand and New Zealand.

- **Thailand and Australia:** The negotiation on the FTA between Thailand and Australia has concluded. The framework agreement is anticipated to be signed in May 2004 and will be effective in January 2005.
- **Thailand and the US:** US trade representative submitted a letter to Congress to notify the objectives and goals for the FTA negotiations with Thailand in February 2004. The two plan to start negotiations in June 2004.
- **Thailand and Japan:** The two parties are working on the agreement on the Japan-Thailand Economic Partnership. The details of the tariff reduction and products under the sensitive list were prepared for the discussion in April 2004.
- **Thailand and New Zealand:** In December 2003, the two countries set up a joint study group to work on a possibility of Closer Economic Partnership and plan to establish an agreement within 2004.

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[61] In addition to the FTA between ASEAN and China, Thailand also signed a separate agreement with China to accelerate tariff elimination under the Early Harvest Program of the framework agreement on comprehensive Economic Cooperation between ASEAN and China, resulting in early tariff reduction on HS07 (vegetables) and HS08 (fruits) between the two since October 2003.

[62] BIMST-EC includes seven countries, namely, Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand.

Export Promotion and Assistance

FTA negotiations have become Thailand's major strategy to expand international trade. Thailand has been recently active in negotiating FTAs with eight countries including China, Bahrain, India, Peru, Australia, the US, Japan and New Zealand as well as with one economic cooperation among Bhutan, Bangladesh, India, Myanmar, Sri Lanka and Thailand (BIMST-EC). Thailand also plans to negotiate FTAs with South Africa and Mexico, as they could be a gateway to expand trade flows to Africa and South America. This new strategy aims to diversify export markets and to enhance trade and investment to Thailand's major trading partners (see Box 9)

The Ministry of Commerce targets to increase export values in 2004 by 15 percent through several initiatives. According to the roadmap for Thailand international trade, the Department of Export Promotion is responsible for promoting the increase of the export share of new export markets to 39 percent and reducing the export dependency on traditional markets[58]. To do so, the *Intertrader Project* was launched in August 2003 to encourage new entrepreneurs to become international traders through training, seminar and data support. A Special Task Force was also established to survey new markets and analyze their market potential for Thai export products.

The Bilateral Payment Arrangement between Thailand's EXIM Bank and those of its regional trading partners could help reduce transaction costs and improve the payment system between the countries. In 2003, the EXIM Bank signed the Bilateral Payment Arrangement with banks in Malaysia, Myanmar and Bangladesh. The EXIM Bank and its partners will record trade values between their respective international traders. After a certain period, the debtors' banks will pay the difference in the final amount at agreed interest rates[59]. In addition, the EXIM Bank in collaboration with the Export Promotion Department and three other state banks – Krung Thai Bank, Nakornluang Thai Bank, and SME Bank – signed an MOU to provide financial support to exporters under the Intertrader Project.

3.3 Public Sector Reform

Much of the on-going reform in public sector has been accomplished through the implementation of the *Strategic Plan for Thai Public Sector Development*. The Strategic Plan, which was approved by the Cabinet in May 2003, has been implemented for over a year. It focuses on seven strategic areas of reforms in the public sector. Major achievements over a year include the approval and implementation of the Royal Decree on Good Governance, reduction of working process by 30-50 percent, the implementation of cluster management[60], the development of the people's audit of public service delivery, and the improvement of structure of the Autonomous Public Organizations. However, most of the reforms are still in its early stage while some have been implemented through pilot projects. The result of such reforms will be expanded over the second year.

The Budget Procedure Act (BPA), the Financial Fiscal and Accounting Act (FFAA), and the Public Debt Management Act (PDMA) have yet to be passed but much progress is achieved in the public accounting system. At this stage, all the Acts have already been reviewed internally by the State Council but are awaiting the rationalization of certain principles and overlapping issues. In the area of financial accounting, the Agency Financial Management Infor-

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[58] The ratio of exports to new markets and to traditional markets was 37:63 in 2003. As of February 2004, the ratio was 36:64. New markets include, for instance, China, countries in the Middle East, Indo-China, Latin America and Eastern Europe, while the existing markets are the US, EU, Japan, and ASEAN-5 (Singapore, Malaysia, Indonesia, Philippines, Brunei).

[59] Exporters who would like to participate in the program would have to apply at the EXIM Bank.

[60] Based on the Public Administration Act, ministries are allowed to form clusters to facilitate coordination among departments to move away from their traditional operation formation. A cluster may also designate one department to operate their personnel, financial, procurement, and/or general administration functions for the cluster. Clusters may also choose to pool their budgets together in order to carry out cluster's deliverables.

mation System (AFMIS) has been fully implemented within the Comptroller General's Department (CGD) and its regional offices. Ninety-four provincial and districts treasury offices have been trained and the system has been implemented accordingly. By April 2004, the CGD is planning to abolish the manual accounting system, which is currently run in parallel with the AFMIS. Efforts will also be made to synchronize the AFMIS and the Government Financial Management Information System (GFMIS) to allow the CGD to keep track of accounts from both the government agencies and the over all public sector.

The share of local government revenues in national government revenues is still quite low, raising concerns for the possibility of achieving the fiscal decentralization target by 2006. In FY2004, the share of local government revenue as a share of national government revenue stands at 22.5 percent, up from 22 percent in FY 2003. Given this rate, it will be difficult to achieve a target set in the Decentralization Action Plan of 35 percent by 2006. A target may have to be reset to reflect the ongoing transfer.

The passage of related laws and involvement of stakeholders could accelerate the implementation of the reform. The passage of both the BPA and FFAA will accelerate the implementation of the Medium Term Expenditure Framework (MTEF), which would enable the Government to set a framework for prioritizing the government's policies under limited budget, over the period between 2004-2006. Coordination across reforms areas and across different stakeholders remains a key challenge to push all the reforms forward. Consistency in details of design, implementation, and operation is necessary and should be evidenced in laws, structures and processes.

Appendix 1: Key Economic Indicators

	2002	2003 e/	2003				2003	2004	
	Year	Year	Q1	Q2	Q3	Q4	Dec	Jan	Feb
Output, Employment and Prices									
GDP (% change, previous year)	5.4	6.7	6.7	5.8	6.6	7.8	..	..	..
Manufacturing production index (1995=100)	123.2	138.4	140.5	135.0	132.6	145.6	152.4	152.1	154.4
(% change, previous year)	8.5	12.3	14.2	14.0	9.5	11.7	17.6	12.7	21.7
Unemployment rate (%)	2.4	2.2	2.8	2.5	1.5	1.8	1.5	3.7	2.4
Real wage growth (%) 1/	-1.5	0.4	0.8	-0.5	1.2	0.3	..	..	..
Consumer price index (% change, previous year)	0.7	1.8	1.9	1.7	1.9	1.6	1.8	1.2	2.2
Public Sector									
Government cash balance (Billion Baht)	-76.8	24.0	11.6	35.5	14.4	-37.5	-18.9	11.7	-4.8
Government cash balance (% GDP)	-1.4	0.4	0.8	2.5	1.0	-2.4	..	..	..
Public sector debt (% GDP, end of period)2/	53.8	48.7	49.3	48.8	49.1	48.7	44.7	..	..
Foreign Trade, BOP and External Debt									
Trade balance (US$ million)	2,739	4,202	1,096	1,442	838	826	133	34	510
Exports of goods (fob, US$ million)	66,092	78,416	18,165	18,869	19,739	21,643	7,202	6,897	7,218
(% change, previous year)	4.8	18.6	21.3	17.6	12.9	23.0	33.6	16.9	22.3
Imports of goods (cif, US$ million)	63,353	74,214	17,069	17,427	18,901	20,817	7,069	6,863	6,708
(% change, previous year)	4.6	17.1	19.2	12.1	11.8	25.4	39.9	17.0	28.2
Current account balance (US$ million)	7,008	7,975	2,527	1,202	1,849	2,397	732	842	..
(% GDP)	5.5	5.6	7.4	3.5	5.2	6.1	..	..	..

	2002	2003 e/	2003				2003	2004	
	Year	Year	Q1	Q2	Q3	Q4	Dec	Jan	Feb
Foreign direct investment, net (US$ million)	1,023	1,815	206	584	541	484	172	111	..
Total external debt (US$ million)	59,459	51,682	56,528	55,796	52,676	51,682	..	..	..
(% GDP)	46.9	36.1	39.5	39.0	36.8	36.1	..	..	..
Short-term debt (US$ million)	11,919	10,852	12,084	12,495	11,390	10,852	..	..	..
Debt service ratio (% exports of goods and services)	19.6	15.8	23.1	12.3	18.8	9.9	..	..	..
Reserves, including gold (US$ million)	38,924	42,148	37,632	39,327	39,587	42,148	42,148	42,194	42,923
(months of imports of goods)	7.4	6.8	6.6	6.8	6.3	6.1	6.0	6.1	6.4
Financial Markets									
Domestic credit (% change, previous year) 3/	3.6	4.3	6.5	4.1	3.7	4.3	..	..	..
Short-term interest rate (average period) 4/	2.0	1.3	1.7	1.4	1.0	1.0	1.0	1.0	1.0
Exchange rate (average period)	43.0	41.5	42.8	42.2	41.3	39.7	39.7	39.0	39.1
Real effective exchange rate (1994=100)	81.7	80.4	79.2	79.6	81.2	81.7	81.2	81.4	..
(% change, previous year)	2.8	-1.6	-4.4	-3.9	-0.3	2.5	2.1	2.5	..
Stock market index (Dec 1996=100)	356.5	772.2	364.6	461.8	580.9	772.2	772.2	698.9	716.3
Memo: GDP (US$ billion)	126.9	143.2	34.3	34.1	35.6	39.4	..	..	..

e = estimate

1/ Computed from average wage of employed person from Labor Force Survey

2/ Include direct government debt, non-financial-state-enterprise debt and Financial Institutions Development Fund (FIDF) debt

3/ Yearly and quarterly data include credits extended by all financial institutions

4/ Average interest rates on time deposits of less than 6 months (percent per annum)

Appendix 2: Monitoring Matrices for Structural Reform Implementation[63]

1. Poverty Reduction Diagnostics
2. Financial and Corporate Sector Reform
3. Reforms to Improve Business and Investment Environment
4. Trade Reforms
5. Public Sector and Governance Reform
6. Social Protection

[63] This appendix specifies in some detail, the reform measures taken during the last 6-12 months and their significance as well as measures to be taken in the next 6-12 months, the latter identifying key process steps that may have been taken as a prelude to those measures to be taken.

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1. Poverty Reduction Diagnostics

Objective		Reform Measures Taken
A.	Improve quality of life for the poor both in the urban and rural areas by enhancing self-reliance and creating opportunities to improve the local economy	***Measures taken over last 6 months and their significance*** ▪ **The Community Development Plan has been implemented** with a target of 3,049 tambons in 75 provinces by the end of 2004. The Government has allocated 52 million baht through the Office of Decentralization Policy Committee for the implementation of the Plan between mid 2003 to May 2004. ▪ **The Poverty Registration Program was completed** on February 29, 2004. The program allowed people who need assistance from the Government to identify their problems in one of the seven categories pre-identified by the Government[64]. It was first piloted in eight provinces and then expanded nation wide. Among the first three self-reported key problems are high personal debt, lack of agricultural land, and lack of housing. ▪ **The National Poverty Eradication Center was established** as a national institution to oversee poverty related issues including the Poverty Registration Program. The Center is headed by the Deputy Prime Minister and consists of representatives from relevant ministries and civil society. Its main responsibilities are to lay down policies, strategies and measures as well as to monitor and evaluate government policies for poverty eradication. Five subcommittee have been established under the center to look at the various issues related to poverty[65]. ▪ **The Asset Capitalization Program was launched** and would allow the poor to gain access to the capital market.[66] The Asset Capitalization Bureau has been established to take the responsibility in capitalizing assets for the poor. As of March 2004, about 40 percent of targeted land has been issued ownership rights and 15,000 intellectual property have been certified and registered. ***Measure to be taken in the next 6 months*** ▪ **The National Poverty Eradication Center, in collaboration with other related agencies, is currently analyzing the poverty situation and will lay down strategies to provide assistance to the registered citizens under the Poverty Registration Program,** particularly in the areas of debt; natural resources allocation; access to land, water, and accommodation; and employment promotion.

[64] Seven Categories for registration consists of lack of agricultural lands, homelessness, illegal occupation, student unemployment, frauds, personal debts, and shelter.

[65] Five sub committees have been established to be responsible for (1) promoting occupational development and employmen; (2) allocating natural resources for occupation and housing; (3) restructuring debt for the poor; (4) reviewing the structure of the economy, education, law and regulations related to poverty eradication; and (5) formulating community development plan for sustainable poverty eradication.

[66] Types of assets that can be capitalized include land, renting rights, rights to use public land, intellectual property, and machinery.

2. Financial and Corporate Sector Reform

Objective		Reform Measures Taken
A.	Enable sharing of credit information among financial institutions	***Measure taken over last 6 months and their significance*** ■ **The draft amendment of the Credit Information Business Act was submitted to the Parliament.** While the Act has many positive attributes, it mandates large fines and criminal penalties against the Credit Bureaus or their members for all violations, including negligence. International standards impose criminal violations only for willful and fraudulent acts, such as the disclosure of credit information for unpermitted purposes, in violation of the law. The amendment proposes changes in four areas, including the process to notify debtors, process to disclose information, and pertinent penalties. The enactment of the draft amendment will reduce legal risk for the Credit Bureaus and their members.
B.	Formulate a medium-term strategy for Thai financial sector	***Measures taken over last 6 months and their significance*** ■ **The Financial Sector Master Plan was effective after being acknowledged by the Cabinet in January 2004.** The BOT together with the MOF will carry on the implementation of the Plan. The implementation process for the restructuring of existing financial institutions is planned to be completed within 2 years. The purpose of Plan is to further modernize, balance and enhance the productivity of the Thai financial sector and to increase access to financial services by users in all market segments both in urban and rural areas. The BOT organized series of workshops to disseminate the Master Plan to financial institutions in January 2004. ■ **The MOF issued notifications** in late January 2004 **detailing terms, conditions, and procedures for the application of commercial bank licenses in consistent with the Master Plan**. This is intended to rationalize licenses for deposit-taking financial institutions. Types of licensing for domestic deposit taking financial institutions are cut down from four types including a commercial bank, a restricted bank, a finance company, and a credit foncier company to two types including a commercial bank and a retail bank. There are two types of foreign bank licenses - a full branch or a subsidiary. As a result, the BOT hopes to see remaining players stronger. ***Measures to be taken in the next 6-12 months*** ■ **Qualified finance and credit foncier companies will be allowed to upgrade to commercial or retail banks.** Those wishing to gain a commercial bank license must demonstrate a plan to merge with another finance or credit foncier company. The application must be submitted by July 2004. Those unable to upgrade can choose to maintain their status as finance or credit foncier companies and face declining comparative advantage or exit from deposit taking institutions, which will release them from being subjected to the BOT's prudential regulations. The number of small players is expected to be reduced as a result.

	Objective	Reform Measures Taken
		▪ **Foreign banks will be allowed to open additional branches.** The Master Plan will allow a foreign bank to establish a subsidiary in Thailand. A subsidiary of a foreign bank can open up to 4 branches, one in Bangkok and the rest in provincial areas. However a foreign bank can maintain only "one presence" operation in Thailand either as a full branch or a subsidiary. Stand-alone International Banking Facilities (IBFs) will no longer be encouraged. Foreign banks must submit their application by July 2004. ▪ **The BOT will implement a pilot project** with interested commercial banks **to provide financial services to low-income household**. ▪ **BAAC will be transformed into a rural development bank.** Draft amendment to the BAAC Act, already approved by the Cabinet, is currently under legal review by Office of the Council of State. Once the amendment to the Act is effective, BAAC will be able to expand its businesses beyond agricultural finance.
C.	Transit from the current blanket government guarantee on deposits to limited deposit insurance	***Measure taken over last 6 months and their significance*** ▪ **State guarantee for banks' creditors was lifted in November last year.** After the Cabinet's approval, the Financial Institution Development Fund (FIDF) issued the notification late last year excluding creditors of financial institutions from the state guarantee while maintaining a blanket guarantee for depositors. This is a step in a transition to limited deposit insurance. Limited deposit insurance will add market discipline to the system because large and uninsured depositors (mostly institutions) will move their money away from weaker banks.
D.	Remove legal impediments and provide an enabling environment for derivative products	***Measure taken over last 6 months and their significance*** ▪ **An amendment to the SEC Act was enacted in October 2003,** which allows mutual funds to encumber their assets such that they can actively manage their portfolio through repurchase agreements, short-selling and borrowings. ***Measures to be taken in the next 6-12 months*** ▪ **The new derivatives market will be established with Bt 300 million seed capital from the Stock Exchange of Thailand (SET).** The exchange is expected to begin its operations this year and would initially limit its activities to simple derivatives products such as futures on the stock index, interest rates and foreign currencies. The Thai Securities Institute (TSI), a subsidiary of the Stock Exchange of Thailand, has offered training courses related to practices and products on the upcoming financial futures market. ▪ **Derivatives Committee is designing a roadmap for the development of an organized derivatives exchange**, including infrastructure, operations, intermediaries, products, and investor education. The Derivatives Act has become effective since 2003. The development of derivative products and markets will allow market participants to hedge some of their risks. ▪ **Office of the SEC is drafting a notification with regard to the licensing of an exchange and a clearing house for derivative products.** The draft notification will likely be completed and approved by the SEC before the end of the year.

Objective		Reform Measures Taken
E.	Develop local market	***Measure to be taken in the next 6-12 months*** ▪ **Thai Bond Dealing Center (TBDC) will be recognized as the Self Regulatory Organization (SRO) for the bond market**, and will be subsidized by the MOF. TBDC will continue to perform its role as an information center for corporate bond trading activities, which are mostly traded over the counter and not centralized.
F.	Rationalize state holding of specialized financial enterprises, and state commercial banks	***Measures taken over last 6 months and their significance*** ▪ **The Vayupak Fund was launched in November 2003.** This vehicle is a holding company for the State, with an intention to corporatize SOEs and state owned banks, and promote a market-based governance while maintaining full state control. The MOF mobilized a total of Bt100 billion fund, of which Bt30 billion was contributed by the MOF. An Investment Committee was established, comprising three representatives from the MOF and two from fund management companies, to set its investment policy and supervise its operations. KTB Asset Management and Mutual Fund Company were appointed as fund managers. The Fund's investment is limited to companies and enterprises, which are currently owned by the MOF.
G.	Enable corporate sector restructuring through out-of-court mediation, streamline the legal execution process for old foreclosed properties, and reduce the fees on the sale of foreclosed assets	***Measure taken over last 6 months and their significance*** ▪ **The legal execution process was streamlined to speed up the sale of foreclosed properties over 10 years old.** In November 2003, the Legal Execution Department (LED) amended the "reserve price" requirement for the auction of foreclosed properties. If a property fails to be sold in the first round of auction at the reserve price, the starting bid price in subsequent rounds is lower to 80% of the reserve price in the second round, 65% in the third round, and 50% in the remaining rounds until the property is sold. The LED is considering expanding these guidelines to include new foreclosed properties to accelerate market clearance of distressed assets. ***Measures to be taken in the next 6-12 months*** ▪ **The Parliament is expected to pass the amendments to the Civil Commercial Act on Legal Execution by mid-2004 to reduce the fees on the sale of foreclosed properties.** The proposed amendments would lower the fee for properties auctioned, the property discharging fee, and the fee for sales not through the auction by 1.5%-2% in each category. Although these are not procedural changes to streamline the auction process, it is expected that the lower fees would attract more buyers to the foreclosed properties market. ▪ **The Courts of Justice is proposing to remedy the backlog by possibly establishing special hours for trial, and increasing budgetary resources.** Concerns remain about the backlog in continuous hearings. The limited number of days available for continuous scheduling per week (only Tuesdays through Fridays while Mondays are reserved for court administrative businesses) is the main contributor to the backlog.

3. Reforms to improve Business and Investment Environment

Objective		Reform Measures Taken
A.	Reform institutions to enhance competitiveness	***Measure to be taken in the next 6 months*** ▪ **Technical institutes will be reformed and restructured.** A recent study commissioned by the NCC to revise the roles and structure of the technical institutes to enable them to provide more in-depth services, which would enhance respective sectors' competitiveness, was completed in July 2003. Technical institutes, which will be the first to undergo restructuring both in terms of roles and funding, are the Textile Institute, Thai Automotive Institute, Food Institute, and Thailand Productivity Institute.
B.	Temporary tax incentives and reform of legal and judicial regime	***Measure taken in the last 6 months and their significance*** ▪ **In December 2003, the Cabinet extended the temporary reduction of property transfer fee and special business tax on the sale of real estate properties in debt restructuring and bankruptcy proceedings for another year to expire on December 31, 2004.** The reduced tax and fee lower the transaction cost on the sale of properties from 2% to 0.01% with the intention of accelerating the resolution of distressed assets and continuing the revival of the real estate market. ***Measure to be taken in the next 6-12 months*** ▪ **Partial amendments to the Bankruptcy Act are being reviewed by the Council of State and it is expected to be submitted to the Parliament during the second Parliamentary Session (3Q-2004).** The amendments propose to ameliorate the legal framework of bankruptcy liquidation for individual debtors by amending the Bankruptcy Act.
C.	Improve labor skills	***Measure to be taken in the next 6 months*** ▪ **The implementation plan for the Thai Vocational Qualification (TVQs)** program to standardize and build vocational skills in a manner consistent with international standards will be developed. The next steps will be to enact a new vocational law and the TVQ Act and set up a core implementing agency.

4. Trade Reforms

Objective		Reform Measures Taken
A.	Reduce tariff to improve Thailand's competitiveness	***Measures taken over last 6 months and their significance*** ▪ **Implementation of MFN tariff reduction.** Another 10 percent of the total tariff line was reduced into the three-band system in December 2003. This means that 55 percent of total tariff lines are now under the three-band system. ▪ **Implementation of tariff reduction under AFTA agreement.** According to the Common Effective Preferential Tariff, 60 percent of total tariff lines or 5,527 out of 9,211 tariff lines in the inclusion list must be reduced to zero rates by January 1^{st}, 2003. The ministerial order was signed by the Minister of Finance in December 2003. Therefore, the new tariff under the AFTA agreement is now effective and retroactive. The items under the inclusion list include industrial goods such as chemical products, ceramic products and machinery, and some agricultural goods such as animal products and fruits. ***Measures to be taken in the next 6-12 months*** ▪ **Continued implementation of MFN tariff reduction.** 43 percent of total tariff items approved by the Cabinet will be gradually reduced to the three-tariff band by 2005. These include rubber and its products, base metal, textiles, iron and steel, vehicle and parts, machinery and electronic appliance. ▪ **Submission of a MFN tariff restructure of the remaining tariff lines to the Cabinet.** The remaining 2 percent of tariff lines or 108 out of 5,505 tariff lines will be submitted to the Cabinet in 2004.
B.	Promote Thai exports to new markets	***Measure taken over last 6 months and their significance*** ▪ **Implementation of early harvest scheme between ASEAN and China.** According to a framework agreement on Comprehen sive Economic Cooperation signed in November 2002, the two parties started to implement tariff reduction on items under HS 01(live animals) to HS 08 (edible fruits and nuts) and two specific products i.e. anthracite and coke and semi-coke on January 1, 2004. Tariff rates will become zero by 2006. ***Measures to be taken in the next 6 -12 months*** ▪ **Implementation of early harvest scheme between Thailand and India.** According to framework agreement on Free Trade Area signed in October 2003, Thailand and India agreed to reduce tariff rates on 84 items. These include fresh fruits, canned seafood, iron and steel, and household electrical appliance. Currently, the two countries are negotiating on the rules of origin. The effective date will be finalized once the rules of origin are mutually agreed. ▪ **Implementation of early harvest scheme between Thailand and Bahrain.** According to framework agreement on Closer Economic Partnership signed in December 2002, Thailand and Bahrain are agreed to reduce tariff rates on 626 items to 0 percent and 3percent by 2005. On Thailand's side, the ministerial order of the tariff reduction was signed by the Minister of Finance on March 2^{nd}, 2004. However, Bahrain is still working on their process of tariff reduction. The tariff reduction will be effective once Bahrain completes their process.

5. Public Sector and Governance Reform[67]

Objective		Reform Measures Taken
A.	Improving public service quality by streamlining and redesigning work processes and procedures	***Measure to be taken in the next 6-12 months*** ▪ **A proposal on an incentive scheme to encourage good governance was prepared.** The incentives will be linked with performance to ensure efficiency in governance. In addition, award for better quality of services will be provided to ensure good service delivery.
B.	Changing roles, responsibilities, and rightsizing the government bureaucracy by restructuring public administration and improving intergovernmental relations at all levels	***Measures taken over last 6 months and their significance*** ▪ **Cluster Management was implemented in 11 pilot ministries as of October 2003**[68]. Based on the Public Administration Act, ministries are allowed to form clusters to facilitate coordination among departments to move away from their traditional operation formation. A cluster may also assign one of the departments to operate their personnel, financial, procurement, and general administration functions for the cluster. Alternatively, clusters may choose to pool their budgets together in order to carry out cluster's deliverables. ▪ **Implementation of Early Retirement Program began in April 2004.** Civil servants who participate are eligible to receive benefits of up to 30 times of the last received salary. ***Measure to be taken in the next 6-12 months*** ▪ **CEO Ambassadors will be expanded to Thai embassies in every country** after being piloted in and six embassies[69] over the past one year.

[67] The objectives of this matrix have been adjusted to reflect those of the Government's Public Sector Development Strategy (2003-2007)

[68] Nine pilot ministries are Ministry of Finance, Ministry of Agriculture and Cooperatives, Ministry of Transportation, Ministry of Natural Resources, Ministry of Commerce, Ministry of Interior, Ministry of Public Health, Ministry of Justice, and Ministry of Industry.

[69] Japan, USA, China, India, Belgium and Laos

	Objective	Reform Measures Taken
C.	Enhancing capacity and performance of public sector to efficiently and effectively perform their functions by reforming financial and budgetary system, reviewing system of human resource management and compensation, developing a new mindset, work culture and value, and modernizing government operation	***Measure taken over last 6 months and their significance*** ▪ **The Agency Financial Management Information System (AFMIS) has been fully implemented at the Comptroller General's Department (CGD).** The AFMIS has now been implemented in all CGD's regional offices and provincial and district treasury offices. ***Measures to be taken in the next 6 months*** ▪ **The Budget Procedure Act and the Financial Fiscal and Accounting Act will be submitted to the Cabinet and the Public Debt Management Act will be considered by the Parliament in May 2004.** ▪ **The Strategic Plan for New Public Sector Paradigm (B.E. 2546 – 2550) will be implemented.** The strategy lays down a framework for changes in paradigm, cultural norms, and values of the public sector.
D.	Improving governance in public sector through participation, accountability, and transparency	***Measure to be taken in the next 6 months*** ▪ **The people's audit system will be developed in pilot provinces.** This system will allow local communities to participate in decision-making processes and monitor and evaluate issues that relate to public services, environmental management, and decentralization in their communities. The OPDC has developed the relevant training manual and curriculum.

6. Social Protection

	Objective	Reform Measures Taken
A.	Develop social insurance mechanisms for the elderly and those affected by unemployment, work-related injuries or other shocks to income	***Measures taken in last 6 months and their significance*** ▪ **The nationwide Unemployment Insurance was launched on January 1st, 2004**, and there are currently more than 7.5 million formal sector workers contributing to the scheme. The benefit payments will begin in July 2004, after the six months contribution requirement. ▪ **The Senior Citizen Act was effective on January 1st, 2004.** The Cabinet approved the Senior Citizen Act on October 29, 2003. This Act provides the elderly access to the senior citizen privileges, senior citizen fund, and tax deductible schemes. ***Measures to be taken in the next 6 months*** ▪ **Proposal for a multi-pillar pension system will be submitted for Cabinet approval**. The reformed pension system would supplement the standard defined benefit pensions (first pillar) with private investment of the retirement funds (second pillar) to provide adequate coverage for an aging population. Workers in the formal sector would be covered, however consideration to the savings and risk mitigation mechanisms for workers in the informal sector are under consideration.
B.	Establish a safe work environment through standards and enforcement and increase labor market efficiency by facilitating job matches and placement	***Measures taken in last 6 months and their significance*** ▪ **The Cabinet approved the adoption of the ILO's Child Labor Treaty (No. 138),** which specifies the minimum working age. The treaty prevents the use of child labor, which is consistent with the Government's agenda, and will increase the effectiveness of child protection. ▪ The Government has offered **tax incentives for private enterprises to hire students** as part of their workforce. Companies can apply 150 percent of their hiring expenses for tax deductible. ***Measures to be taken in the next 6 months*** ▪ **Labor Protection Act will be extended to agricultural workers.** A draft will be submitted to the Cabinet. The Act will include up to 2.3 million agriculture workers who work in farming, fishing, forestry, animal husbandry, and salt cultivation.
C.	Provide effective poverty alleviation and social assistance programs for those with limited or no other means of support	***Measures taken in last 6 months and their significance*** ▪ The Cabinet has approved a budget allocation for the **health benefits for private school teachers and their families.** This was proposed by the Ministry of Education to be part of the 30 Baht Health Benefit Scheme and will increase the number of population covered under the scheme by 120,000 families.