

# Development in Partnership

The World Bank in Thailand

July 2007

## TEN YEARS ON AND BEYOND: REMEMBERING THE 1997 ASIAN CRISIS



*Ten years after the Asian Crisis, Thailand has fewer poor people and become more integrated with the global economy*

In the decade since the 1997 financial crisis, Thailand has become wealthier and has fewer poor people. The nation has become more integrated into the global economy while being less vulnerable to external economic shocks.

However, Thailand now faces new challenges which stem in part from its recent success.

The policies which sustained strong growth for more than four decades – raising Thailand from lower to middle income - and ensured recovery from the crisis will not be sufficient to continue that strong growth in future.

Thailand could find itself in a “middle income trap with low rates of private investment and productivity-growth,” said **Dr. Kazi M. Matin**, the World Bank Lead Economist for Thailand.

In fact, private investment has been the weak spot through out the recovery and if this persists will result in a slowdown in Thailand’s hoped-for transition to a higher income status.

South Korea, Taiwan (China), and Singapore each found strategies to continue growth after first achieving middle income levels. Thailand can too.

But pundits and policy makers should reflect on the fact that many nations, notably in the Middle East and in Latin, have failed to make this vital transition. Hence the challenge and the urgency facing Thailand today, Dr. Matin said.

### Remarkable Recovery After Slow Start

Though initially slow, Thailand has made a remarkable recovery from the 1997 financial crisis, led by strong exports and growth in private consumption. Overall growth peaked at an annual average of 6% in 2002-2004 but has fallen to 4.5% since.

Export growth has been significantly faster than that for GDP, export’s share rising from 47 to 67 percent of GDP in a decade since the crisis. This was made possible by the increased openness of the Thai economy, which helped it to benefit from China’s explosive growth and WTO accession.

Thailand’s recovery has definitely led to lower poverty rates and reduced inequality, which will remain important reasons for continuing robust growth.

However, Dr. Matin noted that Thailand’s recovery has a critical weak point - slow growth of private investment. Investment has been constrained by a spotty domestic investment climate and by vigorous foreign competition.

The regulatory burden, the inadequacy of infrastructure and insufficient skill availability are among the reasons that Thailand’s private companies have been constrained from investing more and raising productivity growth.

This weakness in Thai private investment is a main reason why the nation’s growth since 1997, though notable, has been less than Thailand’s own performance in the two decades prior to the crisis.

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## Toward Future Growth

The strategy that Thailand will need to continue strong growth beyond middle income levels is quite different than that which has helped it succeed thus far. This has been shown time and again in similar economies. Dr. Matin noted.



*Waiting for higher income...*

“There are three main elements of the new strategy,” Dr. Matin noted. “The first is moving from diversified to more specialized structures. The second is moving from a strategy of accumulation to a strategy of innovation which means working smarter. Third, is the need to move from an emphasis on basic skills to advanced skills, thereby producing workers that can produce innovative products and processes.”

The new strategies are more difficult and complex to implement. Notably, over the past two decades, middle income countries - like Thailand today - have grown at rates significantly lower than those of both low income and high income countries, thus the dangers of being caught in the “middle income trap.”

Thailand, however, has begun this process of specialization, with potential for economies of scale and technological leadership, through its strong performance in automotive parts and electronics.

The challenge is to sustain this great start with innovation. Other areas in which Thailand could potentially achieve specialization include tourism, medical services, IT and possibly farm-to-table agriculture.

Robust growth through specialization in these sectors will require investment and innovation rather than simple movement of labor from less productive sectors to more productive ones, which has been characteristic of Thailand’s growth thus far.

“It also requires the development of deep financial systems that provide a diverse range of services to support the changing economic structure,” Dr. Matin added. “Movement of the population into livable and effective cities with efficient and highly competitive population clusters also requires support, so that the country becomes better integrated within and growth benefits are better shared.”

Another key theme for continued growth will be increasing rule of law with transparent government decision making. Regional inequities and social conflict can also quickly stall needed growth.

Continued growth, as demonstrated by other middle income countries over the past two decades, will require vigorous private investment in sectors ripe for innovation and specialization.

The government should focus on reducing policy uncertainty, lowering costs of private investment, and enhancing work force skills. It will also need to reduce social inequities and continue to improve governance.

“The emergences of deep regional inequities of the kind that fuel social conflict and political instability, with potential to stall growth, have to be avoided,” Dr. Matin said.

“Similarly, a clean government and the rule of law must increasingly become the norm - recent experience also suggests that without such improvements, growth can also stall,” he added. “Fortunately, this is a central aspect of the Government’s agenda.”

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## **EROSION IS PRIMARY ENVIRONMENTAL CHALLENGE IN THAILAND, SAYS NEW WORLD BANK REPORT**

Urban and industrial as well as tourism development has put Thailand’s marine and coastal resources at risk.

To protect these resources, coastal economic development must be combined with a sustainable management of the natural resources, and constructive cooperation among key stakeholders must be developed, the World Bank says in its latest report on Thailand’s environmental challenges.

Exploitation of such resources, which have been key for economic growth during the past four decades, and coastal erosion have harmed the environment and affected livelihoods along the coastlines, reports the

## **Thailand Environment Monitor.**

Among other things, large areas of mangrove wetlands have been lost, coral reefs are at risk of continued degradation, and the total fish catch is in decline, explains the **Monitor**, which tracks Thailand's key environmental issues.

"The loss and degradation of the country's marine and coastal resources is not only an environmental issue, but also an issue with significant economic implications," said **Ian C. Porter**, World Bank Country Director for Thailand.

Erosion has become one of the primary environmental concerns in Thailand, the **Monitor reports**.

In many areas, the coastline is eroding at a rate of one to five meters per year, resulting in an annual loss of an area equivalent to two square kilometers. This represents a loss of more than six billion baht (\$150 million) in economic terms.

Take Baan Khun Samut Chin, in Thailand's Samut Prakarn province, for example. Over the last 30 years, erosion and subsidence has caused the village's shoreline to diminish by more than one kilometer.

Local schools, government offices, and households have been forced to continuously move inland, away from the crumbling shoreline. Many frustrated villagers have simply decided to leave the village.

The loss of mangrove coverage along the shoreline has been an important factor leading to increased erosion at Ban Khun Samut Chin and other areas along the Gulf of Thailand coastline.

A mangrove forest stabilizes the shoreline, trapping sedimentation and bolstering the shore. Without mangroves, the shoreline is no match for the constant forces of wind, waves and currents.

While natural causes are the main force behind the erosion on the Andaman coastline, human activities, such as sand mining, construction of jetties and breakwaters, and land subsidence from ground water usage, are behind the erosion along the Gulf of Thailand coast. Conversion of mangroves to shrimp and fish farms, the **Environment Monitor** finds, has reduced the coastal area's capacity to contain erosion.

The Royal Thai Government, local community groups, and non-governmental organizations

have already taken a number of measures to protect and rehabilitate natural habitats, the World Bank reports.

However, more effective administration and greater cooperation among key stakeholders is needed to ensure a sustainable management of these resources.

*"Effective implementation has been undercut by the complexity of the challenge as well as by overlapping laws, insufficient coordination among concerned agencies, and limited resources,"* Porter noted.

Natural hazards, which occur frequently in Thailand, can also cause severe damage to coastal resources, said **Jitendra J. Shah**, World Bank Country Coordinator for the Environment Sector.

In addition, the possible impact of global climate change also needs to be addressed, he added.

*"Climate change and an associated rise in global sea levels are expected to inundate coastal areas, which will have a negative impact on local livelihoods and annual output. In particular impacts in the flat and low-lying Gulf area, including Bangkok, are expected to be high,"* Shah said.



*The Latest edition of Thailand Environment Monitor*

The **Environment Monitor** lays out five key challenges to sustain present coastal resources and preserve their contribution to future development:

- reduce coastal erosion
- establish sustainable fisheries
- step up oversight of coastal development
- increase local participation
- establish integrated management

Strong leadership from the government must be reinforced through effective cooperation of key stakeholders in order to support current initiatives.

The **Environment Monitor** makes clear that continued progress will require, from all sides, specific actions, commitment,

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and an increased awareness of the substantial impact of environmental degradation on Thailand's people and its economy.

"We thank the World Bank for their support in raising awareness of the challenges facing our marine and coastal resources in this **Monitor**," said **Nisakorn Kositratna**, the Director-General of the Department of Marine and Coastal Resources.

"I hope the report will help put this issue in the national agenda, and lead to a more integrated national policy to help us protect

and preserve these resources for future uses and generations."

This is the sixth **Thailand Environment Monitors** by the World Bank since 2000. The last **Monitor**, published in 2004, was on the challenges facing the country's biodiversity.

Previous **Thailand Environment Monitors** reviewed the state of air and water quality and the overall environmental situation in Thailand, including the effectiveness of the country's regulatory and environmental management systems.

## June Events

On June 29, the World Bank in East Asia and Pacific Region organized "**Supporting Youth Voices**," an inter-regional knowledge-sharing seminar aimed at increasing youth participation in development and promoting dialogue between young people and policy-makers in the region.



During this seminar, young people from Thailand, Lao PDR, Indonesia and Vietnam shared their views on youth employment, and policy-makers from these countries were invited to address concerns or questions raised by youth.

Participants included youth from civil society, government officials, representatives of the private sector and local as well as international NGOs. The seminar was conducted by videoconference and moderated by World Bank staff in Washington, DC, and in the EAP region.

This is the second seminar held since the official publication of the "**World Development Report 2007: Development and the Next Generation**" last year.

**Busawan "Bo" Kachonnarongvanish**, 27, represented Thailand's youth during this event. **Dr. Pichet Durongkaverroj**, Executive Director of the Knowledge Institute of Thailand and adviser to the Commission on Higher Education, was also there to present the summary of government initiatives aimed at responding to demands for skilled workers by the job market.



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