



## Thailand Country Analysis 2012





# DISCLAIMER

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# Hot news

## Recent news are being rather bullish for the Thai economy...

- **Bangkok Post (Jan 12)**  
...The government is confident Thailand's economic growth for the year 2012 will **reach 7 per cent**, Deputy Prime Minister Kittiratt Na Ranong said...
- **OAC Trading News (Jan 12)**  
... Although controversial, **Thailand is doing the right thing**. The key point to watch is how much **corruption** will be blatant in this infrastructure program. On the other hand not to do anything for the sake of avoiding corruption is not a solution either...
- **The Nation (Jan 12)**  
...Government given roadmap to ensure Thai prosperity! **Thailand must invest 2.27 trillion baht in new infrastructure over the next 10 years**, including new inter-city road links, high-speed train networks and urban mass transit systems, a government committee in charge of future development strategy says...
- **Bangkok Post (Dec 11)**  
...Gross domestic product **growth for 2012 is projected at between 4.5 and 5.5 per cent**, Arkom Termpitayapaisit, secretary general of the Office of National Economic and Social Development Board (NESDB), said on Wednesday...

# OUTLINE



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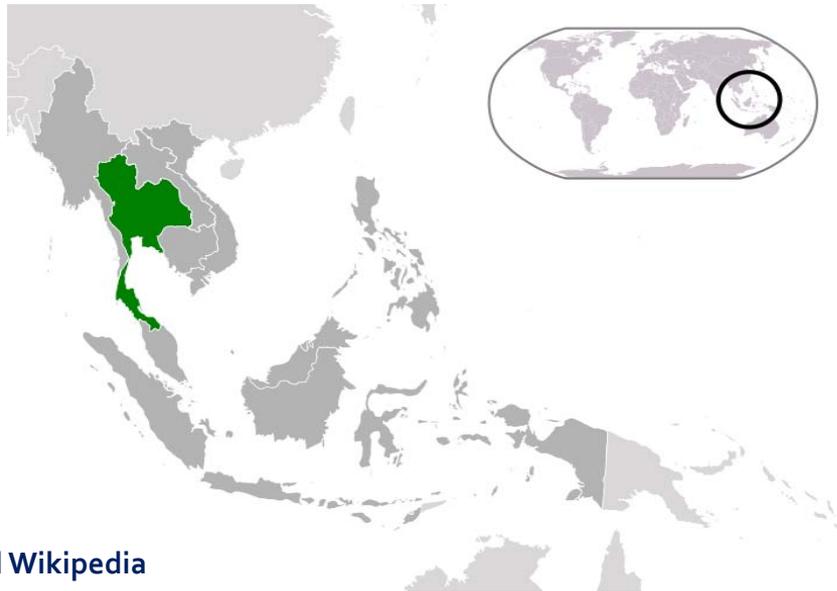
## Country Analysis

- Facts & Figures
- Highlights (by EIU)
- Politics
- Economics
- Macroeconomics
- Forex
- Ratings
- Rankings (all types)
- Ease of doing business
- Minimum daily wage
- Risk Assessment



# Facts & Figures

- **Capital:** Bangkok
- **Population:** 65,493,298 est. (larger than France).
- **Language:** Thai (Siamese), Chinese, English
- **Religion:** national religion is Buddhism (about 95% 2000 est.) followed by Muslims (about 4.5% 2000 est.)
- **Economy world rank:** 30<sup>th</sup> (nominal) 22<sup>nd</sup> (PPP)
- **Currency:** Baht
- Thailand's **total area** is about 513,120 km<sup>2</sup> (slightly bigger than Spain)
- Thailand is a **founding member** of the **World Trade Organization (WTO)** and of the Association of Asian Nations (**ASEAN**). ASEAN members have agreed to establish an ASEAN Free Trade Area (AFTA) by 2003. Thailand also participates in the Asia-Pacific Economic Co-operation (APEC) forum.
- **Literacy** (age over 15 years old): Male 94.9%, Female 90.5%





# Highlights

## Outlook for 2012 - 2016

- The victory of the Puea Thai party, led by Yingluck Shinawatra, over the Democrat Party (DP) in the July 3rd 2011 general election will not end the power struggle that has destabilized Thailand for the past five years.
- It is only a matter of time before enmity develops between the new government and the royalist establishment, particularly if Yingluck seeks to pardon her brother, Thaksin Shinawatra, who was ousted as prime minister in 2006.
- The Bank of Thailand (BOT, the central bank) **will lower interest rates again in early 2012**, but the fall in the cost of borrowing will not be on the scale seen after the 2008-09 global financial crisis.
- Owing to severe floods, the Economist Intelligence Unit estimates that real **GDP grew by just 1.2% in 2011**. Growth will **average 5.1% a year in the forecast period**, driven largely by private consumption and investment.
- Higher global commodity prices contributed to an acceleration of inflation in 2011, with consumer prices rising by 3.8%, but **inflation will average only 3.1% a year in the forecast period**.
- Thailand's **current account** will remain in **surplus** throughout the forecast period, **averaging 1.9% of GDP a year in 2012-16**, buoyed by a healthy surplus on the merchandise trade account.

## Thaksin remains a major source of division

- The politics of Thailand is currently conducted within the framework of a **constitutional monarchy**, whereby the Prime Minister is the head of government and a hereditary monarch is head of state. The judiciary is independent of the executive and the legislative branches.
- **Yingluck Shinawatra**, the youngest sister of Thaksin Shinawatra (a former prime minister who was deposed in a military coup five years ago), was formally installed as Thailand's prime minister on August 8th 2011.
- Yingluck's party, **Puea Thai**, achieved a **decisive victory in the last general election**, winning 265 of the 500 seats in the House of Representatives (the lower house of parliament). The Democrat Party (DP), led by the previous prime minister, Abhisit Vejjajiva, won only 159 seats.
- Puea Thai's victory will not end the power struggle that has destabilized Thailand for the past five years. The country's **political establishment, comprising the palace, the military and high-ranking bureaucrats, toppled Thaksin in late 2006** to suppress a popular movement that posed a grave threat to its traditional hold on privilege and power at a time of impending royal succession.
- **Thaksin** is still in self-imposed exile in Dubai, but there is little doubt that he will **exert a strong influence on the new government behind the scenes**. Many of his opponents regard him as a republican figure who, if left unchecked, could threaten the existence of the monarchy.

## Relations between Thailand and Cambodia have been improving

- The backdrop to the power struggle besetting Thailand is the **impending royal succession**. King Bhumibol is now in his eighties and has been in hospital since September 2009. **The king**, who is regarded by most Thais as inviolable, **has helped the country through national crises during his six decades on the throne**.
- Yingluck's cabinet has made clear its **intention to reform the 2007 constitution**, which was drafted by a military-appointed council and then accepted in a national referendum. Although the timing and the actual process of reforming the charter remain unclear, it threatens to fuel political conflict, with the opposition believing that the ulterior motive is to facilitate Thaksin's return.
- **The four-year term of the new lower house will end in July 2015**. An election for 76 of the 150 members of the Senate (the upper house) shall take place in March 2014.
- Puea Thai's election victory has brought about an **improvement in Thailand's relations with Cambodia**, following a series of border clashes between the two countries over the land surrounding the ancient Preah Vihear temple.
- Cambodia and Thailand also agreed to resume negotiations on the joint development of resource-rich maritime areas in the Gulf of Thailand that are claimed by both countries.

## The economy of Thailand is strongly export-dependent

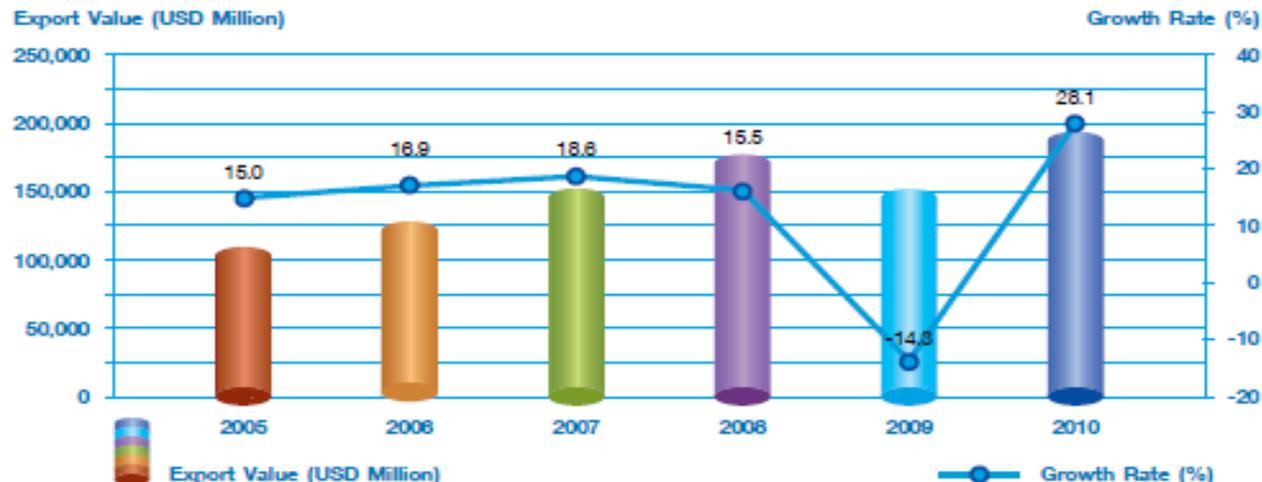
- The economy of Thailand is a newly industrialized economy. It is a **heavily export-dependent economy**, with exports representing about **60%** of the gross domestic product (GDP).
- Thailand experienced a **GDP growth of about 7.8% in 2010** making it one of the fastest growing economies in Asia.
- The country had a **GDP of about US\$318 billion** (nominal) making it the **30th largest economy in the world (nominal)**.
- Thailand is the **4th richest nation by GDP per capita in South East Asia**, after Singapore, Brunei and Malaysia.
- Thailand's economy functions as an **anchor economy** for the neighboring developing economies of Laos, Burma, and Cambodia.
- **Tourism revenues** were on the rise in 2010 and contributed to about **6% of the total GDP**.
- **Unemployment rate was at 1.2%** as year 2010 giving Thailand one of the lowest unemployment rates in the world.



# Economics cont'd

- In 2010, Thai exports were challenged by several negative factors, including internal political unrest, drought and floods, and a continuous appreciation of the baht.
- Despite these, the overall **Thai export performance** could yet grow by as high as 28.1%, and hit a record high value of **195.312 billion US dollars**.
- Such impressive export growth was underpinned by a recovery of global economy, particularly Thailand's Asian trade partners.
- More importantly, a dramatic rise in farm product prices was another factor stimulating a turnaround in the overall Thai exports from a severe contraction in 2009 to a double-digit growth rate in 2010.
- As a consequence, the **exports in value term mounted to 61.1% of Thailand's Gross Domestic Product (GDP) in 2010**, compared with 57.5% in 2009.

Thai Export Value



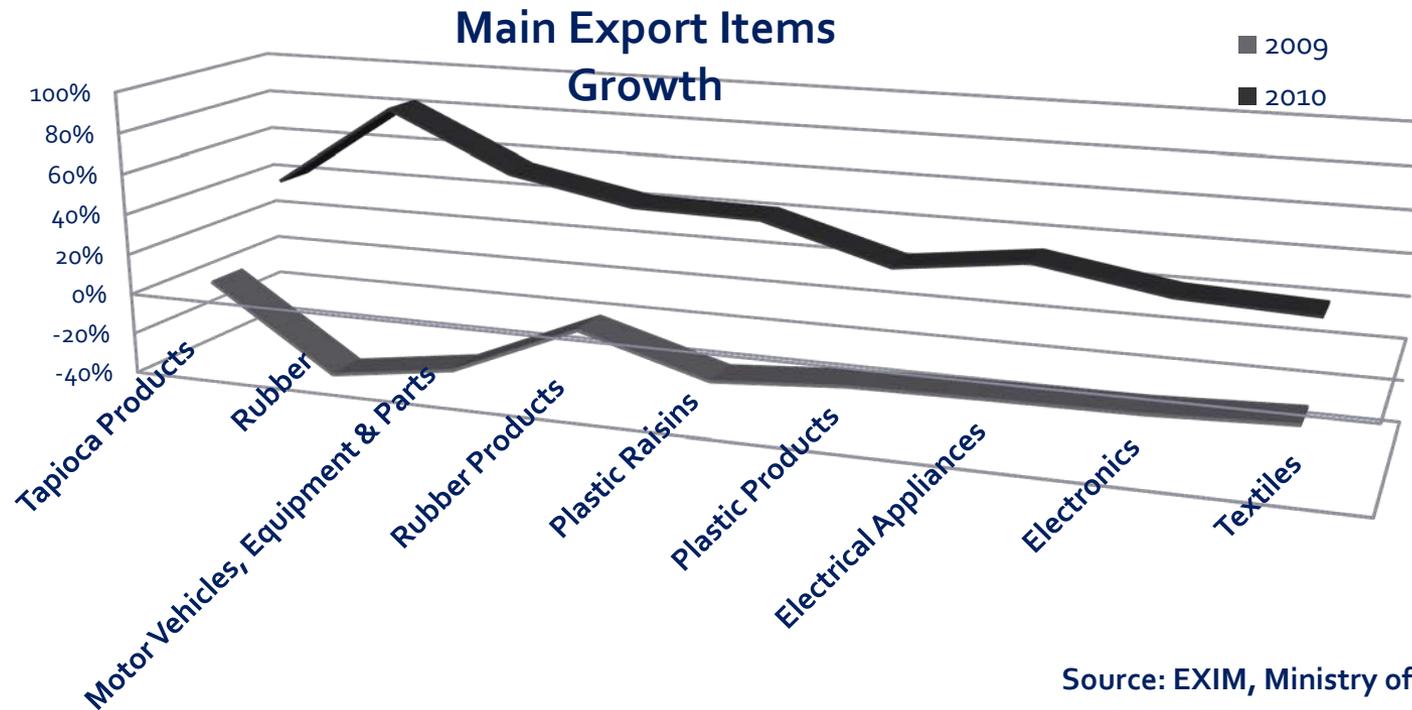
Source: Ministry of Commerce



# Economics cont'd

In 2010, all key export product categories performed favorably in value term.

- Economic stimulus, farm products price hikes and world economic resurgence were all positive factors for the Thai export industry.
- This led to a remarkable rebound in several Thai industrial products such as motor vehicles, equipment and parts (55.2%), rubber products (43.4%), plastic resins (42.3%), plastic products (24.4%), electrical appliances (32.4%), electronics (21.9%), etc.

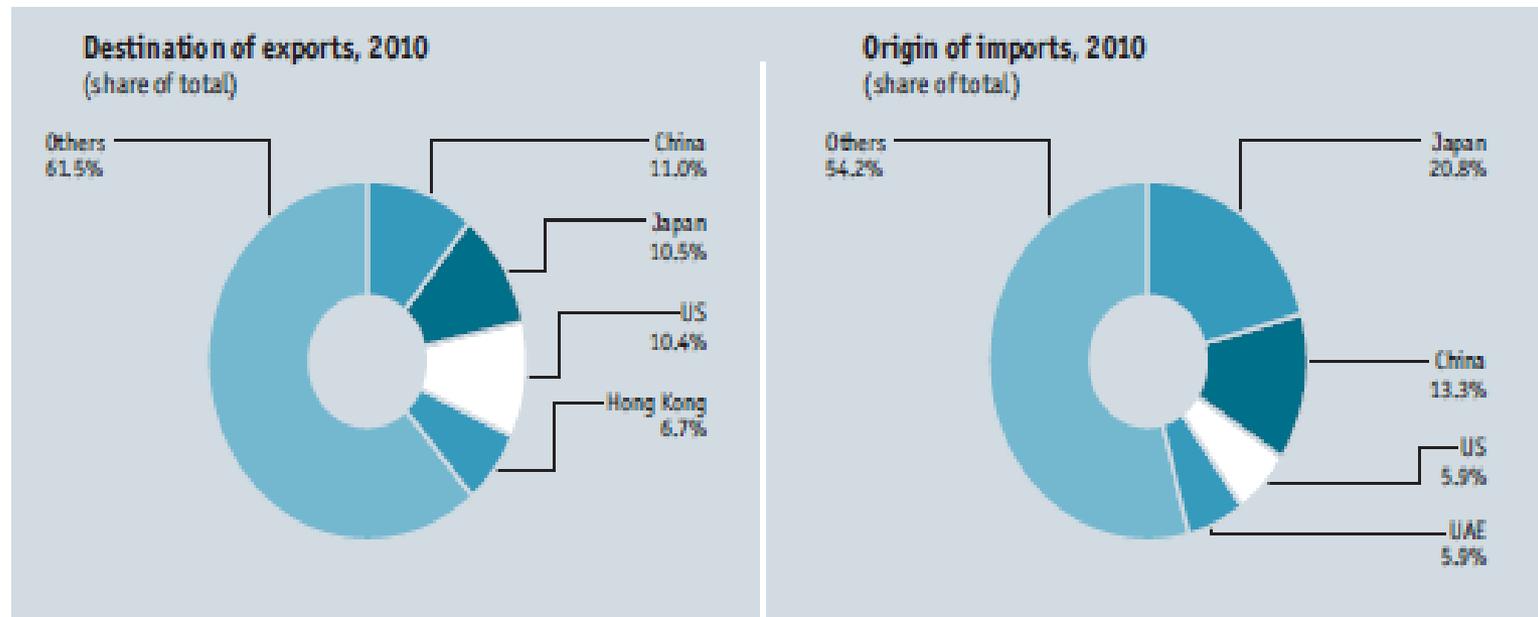




# Economics cont'd

## In 2010, Japan was the largest trade partner followed by China and the United States.

- While Thailand's traditional major markets have been North America, Japan, and Europe, economic recovery among Thailand's regional trading partners has helped Thai export growth.
- It is noticeable that the FTA agreements between Thailand and its counterparties have started to bear fruit. This is evident from the case of the ASEAN market, whose member countries have gradually eliminated mutual trade barriers.





# Economics cont'd

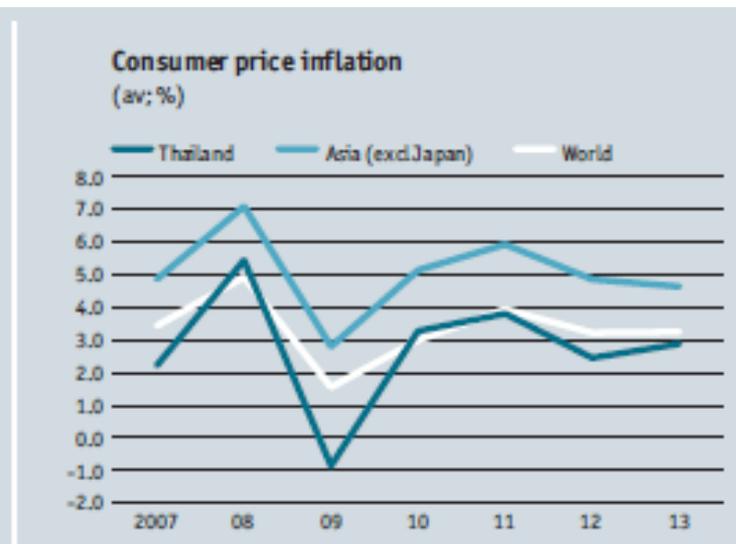
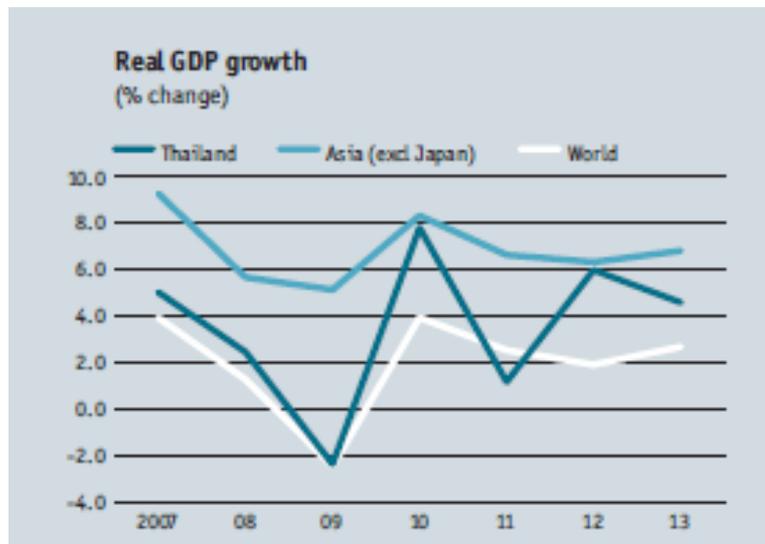
## Fiscal and Economic policies are expected to remain populist and be inspired by “Thaksinomics”.

- The administration is expected to pursue **populist economic policies** inspired by those implemented by Thaksin during his time as prime minister. In line with Puea Thai’s pre-election pledge to introduce **a daily minimum wage of Bt300** (about USD 10), the government raised the wages of more than 20,000 public-sector workers to that level last October 1st.
- Meanwhile, the **Central Wage Committee has approved a plan to raise the minimum wage in the private sector by around 40% from April 2012**. Outside Bangkok and six other provinces where the minimum wage is already relatively high, there will be further increases in wages in 2013.
- In an attempt to appease businesses, which are concerned about the prospect of a sharp rise in wages without any increase in productivity, Puea Thai has said that it will **lower the rate of corporate income tax** from 30% at present to 23% in fiscal year 2012/13 (October-September) and 20% in 2013/14.
- In line with Yingluck’s populist policies, the EIU expects the government to pursue an **expansionary fiscal policy in 2012-16**. According to the 2011/12 budget, which has yet to be approved by the legislature, **expenditure is set to rise to Bt2.4trn** (US\$76.7bn). Meanwhile, revenue is expected to rise to Bt1.9trn, resulting in a deficit of Bt400bn (US\$12.8bn), close to the maximum permitted by the constitution, which restricts the deficit to the equivalent of 20% of spending.



# Economics cont'd

- In 2010 Thailand's economy bounced back from the previous year's recession, **growing by 7.8%, its fastest pace of expansion in 15 years**. However, growth has since slowed, with real GDP rising by an average of only 3.1% year on year in the first three quarters of 2011, mainly as a result of disruptions to manufacturing supply chains caused by the earthquake and tsunami that struck Japan in March that year and the destruction caused by the recent floods. Analysts estimate that real **GDP in 2011 as a whole expanded by about 1.5%**.
- **Real GDP is forecast to expand by 6% in 2012**. In 2013-16 economic expansion will average 4.9% a year.





# Macroeconomics

Macroeconomic factors have been strengthening since the “Tom Yam Khung” crisis of 1997-1998 and the outlook sounds rather positive.

## Forecast summary

(% unless otherwise indicated)

	2011 <sup>a</sup>	2012 <sup>b</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>	2016 <sup>b</sup>
Real GDP growth	1.2	6.0	4.6	4.8	5.0	5.1
Gross agricultural production growth	2.0	3.0	2.8	3.0	3.2	3.2
Unemployment rate (av)	1.0	1.6	1.5	1.5	1.5	0.5
Consumer price inflation (av)	3.8 <sup>c</sup>	2.5	2.9	3.1	3.5	3.6
Short-term interbank rate	6.9	7.0	7.5	7.6	7.6	7.6
Government balance (% of GDP)	-2.9	-3.4	-2.9	-1.7	-1.1	-1.0
Exports of goods fob (US\$ bn)	231.4	241.7	263.1	283.6	308.5	336.2
Imports of goods fob (US\$ bn)	-200.5	-222.5	-237.8	-255.4	-277.0	-301.5
Current-account balance (US\$ bn)	10.8	1.4	8.4	9.3	10.6	12.8
Current-account balance (% of GDP)	3.1	0.4	2.1	2.1	2.3	2.6
External debt (end-period; US\$ bn)	83.9	88.6	90.4	92.4	94.7	96.7
Exchange rate Bt:US\$ (av)	30.5	31.3	30.9	30.7	30.6	30.4
Exchange rate Bt:US\$ (end-period)	30.9	31.1	30.8	30.7	30.5	30.3
Exchange rate Bt:¥100 (av)	38.5	41.7	39.2	37.5	36.4	37.1
Exchange rate Bt:€ (end-period)	41.3	39.2	37.9	38.0	38.3	38.1

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Actual.



# Forex

The Thai Bath has been strongly appreciating against both the USD and the EUR over the last 5 years.





# Ratings

Most rating agencies expect a stable to positive outlook for Thailand since they see the level of sovereign debt relatively low despite the recent severe water floods.

- Country rating by **Coface**
  - Country rating: A3
  - Business Climate Assessment: A3
- Country rating by **Fitch**
  - LT foreign debt currency: BBB+
  - LT local senior debt currency: A-
- Country rating by **S&P**
  - LT foreign currency debt: BBB+
  - LT local currency debt: A-2 (stable outlook)
- Country rating by **Moody's**
  - LT foreign currency debt: Baa1 stable

# Rankings

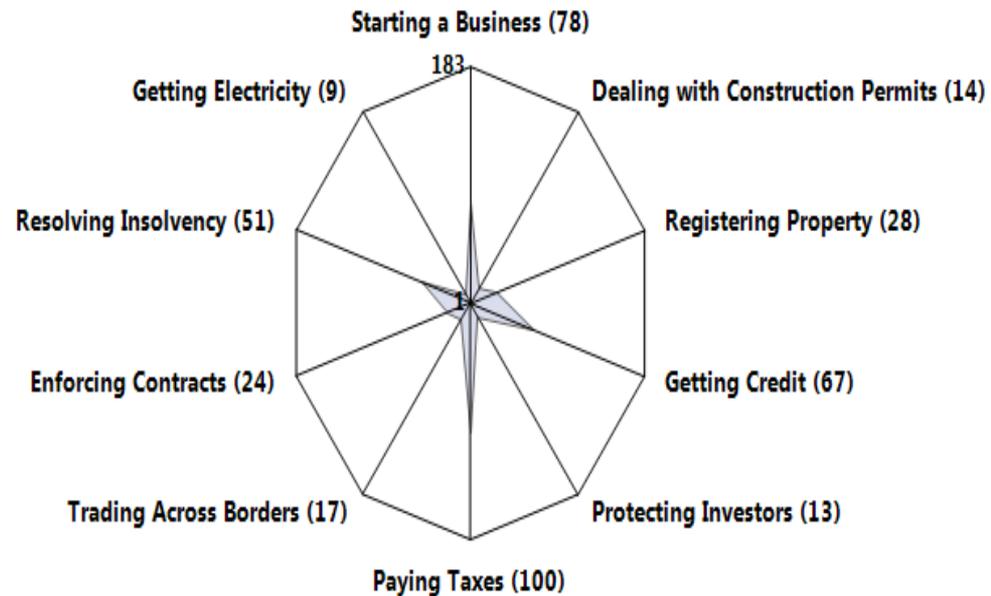
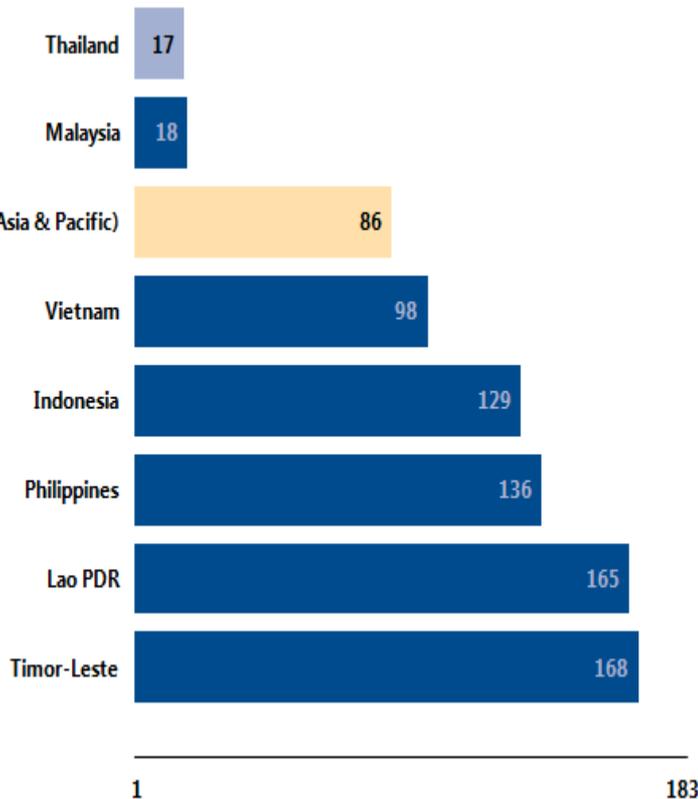


Organization	Survey	Ranking
Heritage Foundation	Indices of Economic Freedom	50 out of 157
A.T. Kearney/Foreign Policy Magazine	Global Services Location Index 2009	4 out of 50
Reporters Without Borders	Worldwide Press Freedom Index	134 out of 169
Transparency International	Corruption Perceptions Index	84 out of 179
United Nations Development Programme	Human Development Index	78 out of 177
World Economic Forum	Global Competitiveness Report(2008)	34 out of 134
World Gold Council	Gold reserve(2010)	33 out of 110



# Ease of doing business

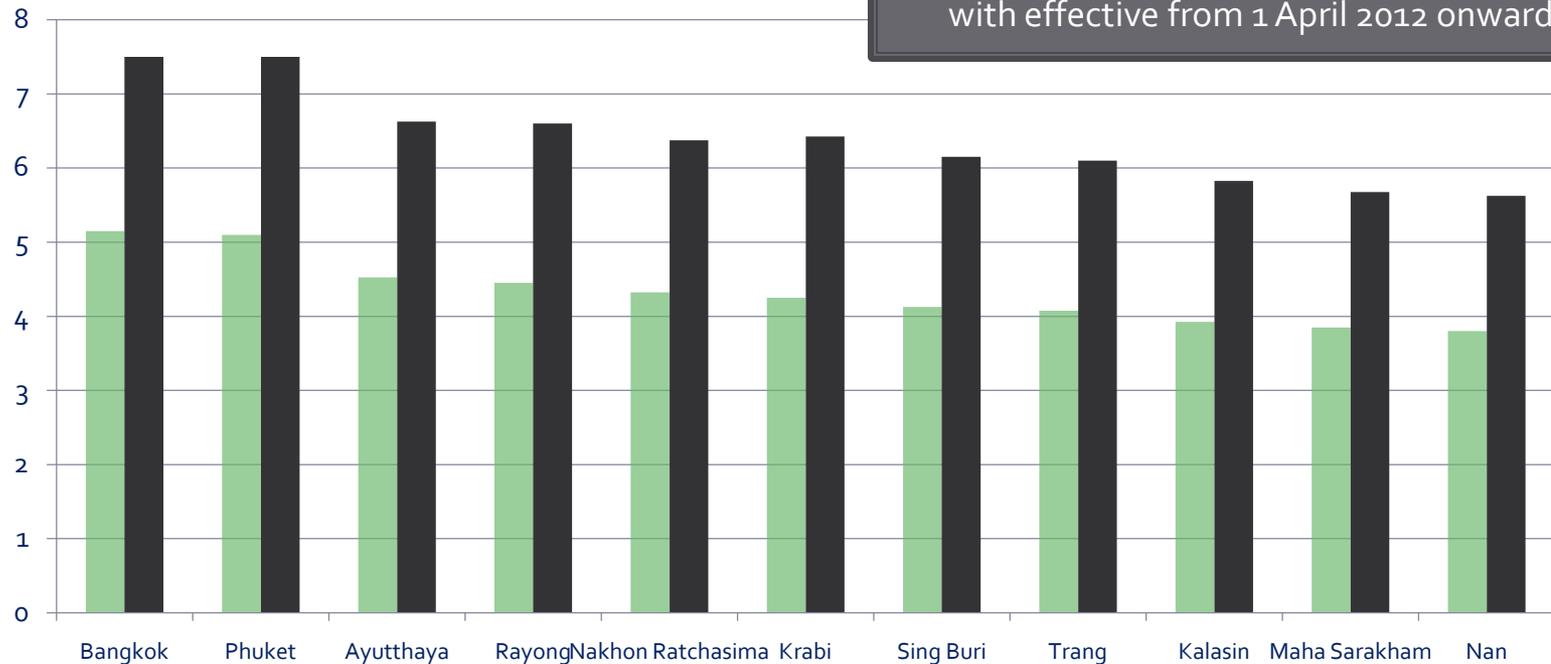
Thailand performs well in terms of “ease of doing business”. Its major advantages lie within the regulatory framework, the access to infrastructure and the protection of investors. However, there are several constraints to start a business and the level of corruption is still present everywhere.



# Thailand's workforce is among the most cost-efficient in the world



Minimum daily wage in Thailand (EUR) in 2010 and 2012



Cabinet approved the wage board announced on Minimum Wage (No. 6) on October 17, 2011 with effective from 1 April 2012 onwards

- 1 EUR = 40 THB (January 2012)
- Thailand's minimum wage ranges from 148 Thai baht to 203 baht per day (less than 5 EUR)
- The wage raise in 2012 amounts to an increase of about 4.8% on average compared to 2010.
- The highest salaries are still found in Phuket, Bangkok and the surrounding provinces.
- The general wage increase approved by the Cabinet already created a lot of opposition from SMEs and other corporations.
- We expect to the wage increase to take place gradually.

Source: Ministry of Labor [http://www.mol.go.th/en/employee/interesting\\_information/6319](http://www.mol.go.th/en/employee/interesting_information/6319)



# Risk assessment

## **Persistent internal divisions after the July 2011 elections**

The Puea Thai, led by Yingluck Shinawatra, achieved a decisive victory in the general elections held in July 2011. The pro-Thaksin party won 265 of the 500 seats in parliament. Yingluck is expected to implement a number of populist economic policies, which include a higher minimum wage and guaranteed rice prices. These proposals have been criticized as the return of fiscally unsustainable and market distorting. Thus, internal political divisions are expected to remain strong. The uncertainties surrounding the succession of the King (the most respected figure in the country) could further exacerbate the internal tensions in the country.

## **Satisfactory growth**

Thai economy achieved a significant rebound in 2010 thanks to the recovery. Economic growth has weakened in 2011 amid tightening economic policies, a decline in demand from the main trading partners (United States, Japan, European Union) and the catastrophic effect of the water floods. Economic activity should nonetheless remain at satisfactory levels in the 2012-2016. Investment will moreover be buoyed by road construction, water distribution projects and other "mega infrastructure" projects. Economic bottlenecks nonetheless persist: the investment rate is still too low and despite the projects announced, infrastructure development has been limited by postponement of reforms.

## **Solid financial position**

After the improvement in public-sector finances in 2010 due to the exit of the stimulus plan, the fiscal deficit is expected to increase in 2011. However, the public debt should remain at sustainable levels. Thailand will nonetheless continue to enjoy significant financing capacity. Underpinned by large foreign exchange reserves, the country will have the means at its disposal to defend the baht. The banking sector's weaknesses have eased as reflected by the decline in non-performing loans, the improvement in oversight, and the adoption of international risk management and transparency standards. Thai banks are currently among the most healthy banks worldwide.

### **STRENGTHS**

- Diversified, high-performance production in agriculture and industry
- Move upmarket in manufactured goods
- Regional hub open to dynamic neighbours
- Strengthened banking system

### **WEAKNESSES**

- Thai foreign trade subject to competition from China
- Lack of structural reform
- Business climate marked by persistent ties between the private sector and political circles
- Recurrent political instability since 2006

# Thank You



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