

Economic Crisis and Consequences in Thailand

Outline:

- Economic crisis
- Impact on Thai Economy
- Coping with the crisis
- Soul-searching in Thailand
- Emerging New Paradigm?

Economic Crisis

Economic Crisis

- In 1997 an economic crisis, dubbed 'Tom Yam Kung' crisis, started in Thailand and spread to East Asia. It was triggered mainly by non-performing loans (NPL) of financial companies.
- In 2008 another economic crisis, dubbed 'Hamburger' crisis, started in the US and spread all over the world. It was triggered mainly by the inability of consumers to repay their (subprime) debts

Economic Crisis

- Over the years, over-consumption, over-investment, and over-leverage due to the overflow of foreign money led to the subprime crisis
- Due to the inter-connectedness and the complexities of economic systems, one crisis led to another and the crisis spread from one country to the world

Economic Crisis

- **Real estate crisis:** bubble economy in real estate sector created NPLs that were too much for Hedge Funds and financial institutions to cope, leading to their collapse
- Too many financial ‘innovations’ such as Collateralized Debt Obligations and Credit Default Swaps combined with too weak regulation further contributed to the **Financial Institution Crisis**

Economic Crisis

- **Credit Crunch** followed suit, requiring the pouring of money from central banks all over the world into economic systems
- Debt-ridden consumers and the collapse of few big financial companies impacted on big industries. Purchasing power, export and production declined, leading to an increase in unemployment and **Economic Recession**

Impact on Thai Economy

Impact of the 1997 Crisis

- The GDP took around 5 trimesters to decrease by 14% and another 5 years to reach the pre-crisis level
- It took us 8 years to reduce the level of NPL to less than 10%
- We took the IMF's bitter pill of balancing our budget at the expense social safety net. As a consequence the life expectancy was estimated to go down by about 2 years

Impact of the 2008 Crisis

- Having gone through the 1997 crisis, our financial institutions became somewhat immune and stood up to the new crisis. The balance of payment and monetary reserve remain healthy
- The first casualty seems to be the sensitive stocks market whose index fall by half by the end of 2008, but since then has slowly recover

Impact of the 2008 Crisis

Impact on	2007	2008	2009
GDP (% of change)	4.9	4.0	0-1
Export (% of change)	6.17	5.2	-12.1
Number of tourists (millions)	14.5	11.3	-16% in the 1 st half
Unemployment (million)	n.a.	0.64	0.88 in the 1 st half
Productivity rate (%)	72.5	67.6	64.7 in the 1 st half

Coping with the crisis

NESAC

- The National Economic and Social Advisory Council (NESAC) is a constitutional body whose role is to advise the Council of Ministers on policy as well as related laws
- NESAC has 99 members mainly from civil society: 50 are drawn from economic sector, 19 and 16 from social, and resource and environment sectors respectively, while the rest are qualified persons

NESAC's recommendations

- On 13 January 2009, NESAC sent a 20 pages document to the Council of Ministers on how to cope with the crisis
- The short-term recommendations included both financial measures to stimulate the economy and monetary measures such as interest rate reduction and micro-credit as well as credit provisions to micro, small and medium enterprises

NESAC's recommendations

- The medium-term recommendations included the enhancement of competitive capacity, mega-projects infrastructure investment, adequate budget allocation to cope with unemployment and to provide social safety net, tax restructuring to reduce income disparity and the promotion of old-age saving fund
- The government was also urged to address the issues of real sector and the quality of life

Government's Coping Measures

- Somchai's government adopted 6 strategies: bond issuance, credit provision, export and tourism stimulation, speedy government expenditure, investment in infrastructure, cooperation with Asian financial sector
- 6 welfare measures to assist the poorer sector were implemented for 6 months

Government's Coping Measures

- Abhisit's government extended 5 of the 6 welfare measures for another 6 months
- The government also implemented the First Stimulus Package (SP1) that included: financial measures, interest rate reduction, paid vocational training for unemployed, and direct injection of money to poorer consumers such as elderly, health volunteers, low income employees etc. for a total amount of 62 billions Baht

Government's Coping Measures

- The Second Stimulus Package (SP2) is on its way. The three year plan (Oct. 09-Sept. 12) dubbed Action Plan for Strong Thailand envisages to spend an extra amount of borrowed money of 1431 billions Baht (5% of GDP) in 7 Programs:
 - Water management and agricultural technology improvement
 - Development of basic public services

Government's Coping Measures

- Revenue creation from tourism
- Developing the potential for creative economy
- Raising the level of educational quality
- Reforming the quality of health care system
- Investment for income generation and quality of life at community level and in the Southernmost provinces

Longer-Term Coping Measures

- Government's third Stimulus Package (SP3) would address structural issues and is under study by Economic and Social Dev. Board
- In April, NESAC made another set of recommendations on strategic preparation for the next 10 years including:
 - food and energy security
 - regional tourism hub
 - human resource development
 - S&T and innovation development

NESAC'S Recommendations

- trade and investment
- sustainable natural resource and environment
- good governance
- budgetary management
- In June, NESAC made a set of recommendations on the increase of competitiveness of Thailand in world economy
- In September, NESAC organized a conference on Strong Thai Society, reflecting on the future of Thailand in face of uncertainties

Soul-searching in Thailand

Imbalances

- 70% of GDP come from export
- Import of energy amounts to 13% of GDP
- Transportation is heavily tilt in favour of road (86%) at the expense of more energy-efficient modes (by water 12% and rail 2%), thus contributing to high percentage (18%) of logistics cost
- The income of the top 20% has remained 13 times that of the bottom 20% for the past few decades

Imbalances

- There are 10 millions formal workers as compared to 23 millions workers in informal sector, posing the problems such as social security coverage, saving for old age
- Renewable energy supplies are still insignificant (1-2%), while power generation heavily relies on gas and there is huge opposition to government initiative to introduce nuclear power plant

Which Core Business?

- How to move away from heavy industries such as steel and petrochemical that are too polluting?
- Agreement on traditional strong areas such as agriculture, tourism, medical services, creative economy... but how to overcome inherent weakness such as farmers remaining poorest, tourism affecting local way of life, and not enough medical doctors, weak S&T education and research etc.

Emerging new Paradigm?

- Existing paradigm is that only capitalism is capable of delevering. Without profit, no money to improve the quality of life. To make the economy rolling there is a need to produce more, to consume more. The only way out of recession is to stimulate consumption, growth and more growth is our salvation
- Is there a limit to growth?
- Is man the master of nature to alter it at will or vitally depending on nature and be humble

Emerging new Paradigm?

- Happiness is to increase the capacity to satisfy all sort of needs or to reduce the needs to the basic and simple ones?
- Politics, economy and social wellbeing are very much inter-related. In the past, we very much believed in political hegemony leading to so many miserable killings. At present we believe in the creation of wealth and hope for a new global and just economic order

Emerging new Paradigm?

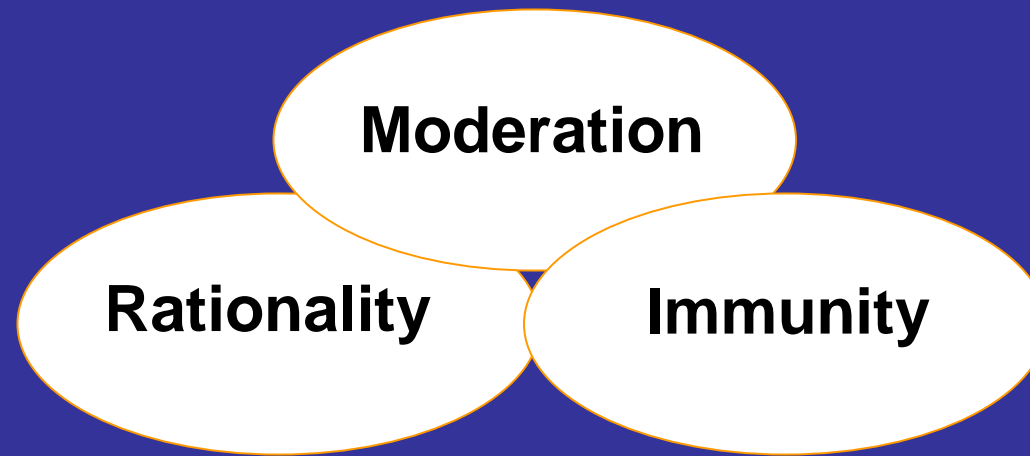
- In the future, would social harmony and caring of others and of nature be more of our concerns?
- Is it desirable and doable to create welfare society?
- Welfare society includes right livelihood and good health for everyone; sharing and caring; peaceful, just, and respectful of differences, sound environment etc.

Emerging new Paradigm?

- How to go from here to there?
- Education is a good answer but we need to do more
- Food and eradication of hunger, responsible money, decent work etc. should be what we are aiming for
- It took us centuries to move from authoritarianism to democracy and from agriculture to industry, the new paradigm will take time to emerge
- The King of Thailand proposes the new thinking: sufficiency economy as follows:

Sufficiency Economy

Middle Path



**Cognitive conditions:
thorough, circumspect,
prudent**

**Moral conditions:
honest, mindful,
diligent, sharing**

**Leading
to**

**Balanced/Secure/Sustained
Life/Economy/Society/Environment**