



Development in Partnership

the World Bank's activities in Thailand and other news related to development

April 2009

THAI ECONOMY FALLS MORE THAN EXPECTED

BANGKOK, April 2009 –Thailand's economic growth is falling by more than earlier expected amid a sharp and continuing decline in global trade. As a result, the World Bank has revised its forecast for the country's gross domestic product in 2009 to a 2.7 percent contraction, down from the 2 percent growth projected in the previous forecast.

The contraction would be Thailand's first since 1998, said **Mathew A. Verghis**, the World Bank's Lead Economist in Bangkok. It would follow a decade of growth averaging nearly 5 percent each year.

"Countries like Thailand that have been dependent on manufacturing exports are most affected," said Verghis, who covers Thailand and four other Southeast Asian countries. The World Bank released its latest forecasts for Thailand and other economies in East Asia and Pacific on Tuesday.

The global economic slump shut down what has been, for the past three decades, the main engine for Thailand's economic growth: exports. As a result, the manufacturing sector has been badly hit.

The Thai government estimated that one million or more workers would lose their jobs this year due to the slowdown. In January, the unemployment rate stood at 2.4 percent of the total workforce – a full percentage point higher than the 1.4 percent recorded in December 2008.

"With unemployment on the rise, the number of people living under the poverty line will likely increase," said **Frederico Gil Sander**, the lead author of the April 2009 edition of **Thailand Economic Monitor**, the World Bank's bi-annual review of the Thai economy.

"Employment opportunities for workers in the urban informal sector, such as contract workers in manufacturing, in construction, and in tourism are shrinking, and it is unclear if they can go back to agriculture. As the government plans another economic stimulus program, considerations should be given to measures that will boost employment and specifically target these workers," he said.

In January, the Thai government announced an economic stimulus program totaling 117 billion baht (\$3.34 billion). The program included a host of short-term measures to boost household consumption and assist lower-income families. The government is now preparing a second stimulus package worth 1.6 trillion baht (\$45 billion). Among other initiatives,

this package focuses on public investment in infrastructure projects, which the government hopes will help create 1.6 million jobs.

"The infrastructure investments, if implemented, will help generate growth and improve Thailand's competitiveness," said Verghis. *"However, it is worth noting that financing for infrastructure has been available for the past few years. What has suppressed investment was not funding, but rather political and institutional constraints."*

While the impact on the real sector has been larger than expected, the global crisis has not shaken the Thai financial sector. The World Bank attributed this to Thailand's strong macroeconomic fundamentals; low external debt coupled with high international reserves; and a sound financial sector, which has undergone a series of reforms following the 1997 crisis.

So far, the Thai government has enough capacity to finance the first economic stimulus package and the three-year public investment plan. In the face of shrinking revenues, the government estimates its budget deficit to be about 525 billion baht, or



Frederico Gil Sander, the lead author of the April 2009 edition of **Thailand Economic Monitor**

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6 percent of Thailand's gross domestic product, in the fiscal year ending September 2009. It is also seeking loans from domestic and external sources to shore up the budget and support planned investment.

However, the World Bank cautioned that, for public debt to remain manageable, budget deficits will need to be reduced over the next

few years and growth needs to return its long-term average, highlighting the importance of using the crisis as an opportunity to enhance growth prospects.

Thailand also must be prepared for changes in the global economic landscape that will come after the crisis subsides,

said Senior Economist, **Kirida Bhaopichitr**. The World Bank has recommended that the government and the private sector work closely together to explore new markets for Thai exports and increase the value-added content of Thai products. Investment to improve public infrastructure and the skills of Thai workers will also be instrumental to Thailand's success, she added.

"It is also important that the government develop a comprehensive social protection framework to ensure that, in the future, it will be easier to increase assistance where needed and avoid duplicative programs," Kirida said.

*The April 2009 **Thailand Economic Monitor** is available for download at www.worldbank.or.th*

CHANCE OF A BOTTOMING OUT IN CHINA PROVIDES RAY OF HOPE ON AN OTHERWISE GLOOMY HORIZON, SAYS WORLD BANK'S REVIEW OF EAST ASIAN AND PACIFIC ECONOMIES

TOKYO, April 2009 – As countries in the East Asia and Pacific region prepare themselves for an expected surge in joblessness resulting from the global slowdown, a ray of hope may be emerging with signs of China's economy bottoming out by mid-2009, says the World Bank's latest half-yearly assessment of the region's economic health.

The latest *East Asia and Pacific Update*, titled **Battling the Forces of Global Recession**, says a recovery in China – fueled largely by the country's huge economic stimulus package – is likely to begin this year and take full hold in 2010, potentially contributing to the region's stabilization, and perhaps recovery.

But with China still heavily reliant on exports to world markets that continue to contract, the *Update* warns that a truly sustainable recovery in the East Asia and Pacific region ultimately depends on developments in the advanced economies.

In the face of much weaker exports and a slowing down in domestic demand, the World Bank is forecasting that real GDP growth in developing East Asia¹ will reach only 5.3 percent in 2009, down from 8 percent in 2008 and 11.4

percent in 2007. (Last month, in its *China Quarterly Update*, the Bank downgraded its forecast for China's growth to 6.5 percent this year from 13 percent in 2007.)

The region's low income countries are expected to be among the worst affected by the slowdown and the limited room for government intervention to help those in need. Cambodia is likely to experience the strongest decline in growth because of declines in the garment and tourism sectors, while Lao, Mongolia, Papua New Guinea and Timor-Leste will be especially hard hit due to lower commodity prices.

On departing for the 13th ASEAN Finance Ministers' Meeting in, Pattaya, Thailand later this week, the World Bank's Vice President for the East Asia and Pacific region, **Jim Adams**, applauded the region's governments for responding quickly to the financial crisis with multi-pronged policy efforts – from fiscal stimulus packages to monetary policy interventions to social safety net programs.

¹Developing East Asia includes China, Indonesia, the Philippines, Thailand, Vietnam, Cambodia, Lao PDR, Mongolia, Papua New Guinea and the island economies of the Pacific.

"The measures the authorities have taken to counteract the crisis across the region are helping to cushion the impacts on the most vulnerable people," Adams said. "With unemployment likely to increase – especially as jobs in manufacturing and construction disappear - social protection efforts will have to expand to meet very real human needs."

Weaker growth is expected to slow the pace of poverty reduction in the region, with over 10 million more people likely to stay below the poverty line this year compared to estimates of a year ago, the Update says. Cambodia, Malaysia, Thailand and Timor-Leste are projected to see absolute increases in poverty this year.

The report says the region is stepping-up efforts to support the region's poor and vulnerable people, especially in the middle-income countries. In late 2008, China provided a one-time cash transfer to 74 million people, including to millions of rural householders, and introduced tax cuts as well as a major health reform package to increase access to healthcare for the poor. Indonesia has reached out to 19 million poor households by reviving a targeted cash assistance program and the Philippines is boosting the number of poor people covered by its recently introduced conditional cash transfer program.

"There is no doubt that the East Asia and Pacific region is confronting very difficult times," said Vikram Nehru, the World Bank's Chief Economist for the region. "The countries that are able to tackle short-term challenges while staying focused on



Jobs in manufacturing are likely to disappear quickly as the sharp decline in global trade continues

longer-term priorities will likely emerge better placed after the crisis to resume growth."

As the world economy slowly recovers, East Asia and Pacific countries can achieve high rates of growth if they boost their competitiveness, penetrate new markets and support their companies to innovate rather than imitate, Nehru said.

The World Bank is supporting East Asia and Pacific countries as they face the impacts of the financial crisis through increased financing and stepped-up policy advice on ways to protect the poor and vulnerable.

For the full report, please visit www.worldbank.org/eapupdate

For more information about the World Bank's work in East Asia & Pacific, please visit www.worldbank.org/eap

WHAT'S ON



Consultations on Thailand Interim Country Partnership Strategy

Since 2002, the Bank's relationship with Thailand has been focusing on knowledge sharing and policy advice on issues central to the national development agenda. Although there was a small lending component, World Bank support to Thailand has been given primarily through the knowledge-sharing program called Country Development Partnership (CDP). Recently, however, changes in Thailand's social and economic context argued for updating the focus and nature of Thailand-World Bank partnership.

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In February, the Bank held a series of consultations on its **Interim Country Partnership Strategy (2009-2011)**. The Bank sought assessments on the theme of the new partnership and on whether the issues the Bank identified appropriately reflected Thailand's short- and medium-term concerns. The consultations garnered opinions from government officials at the national and the provincial levels; representatives of the private sector and the academia; and community leaders as well as non-governmental organization workers. The meetings were held in Bangkok, Chiang Mai, and Nakhon Ratchasima.



Small-Scale Livestock Waste Management Project

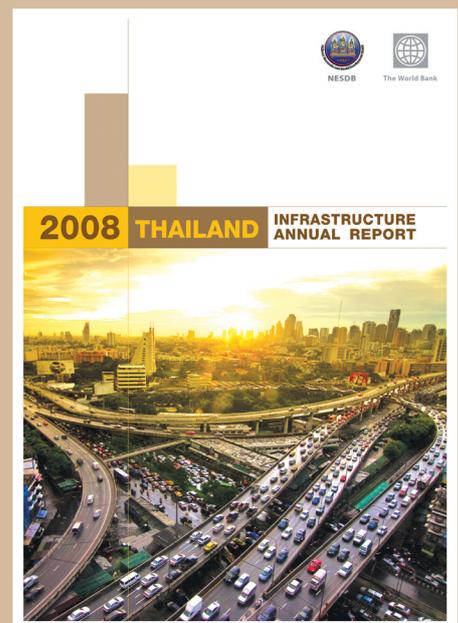
In March, the World Bank and the Energy Research and Development Institute (ERDI) organized public consultations on the **Thailand Small-Scale Livestock Waste Management Program**. Once implemented, the program will help Thailand reduce methane emissions from pig farms; generate renewable energy for the participating farms; and earn revenues from the certified emission reductions (CERs) – better known as “carbon credit.” ERDI, based at Chiang Mai University, has been selected to implement this program under the Bank's supervision.



Thailand Infrastructure Annual Report (2008)

Thailand is facing a number of infrastructure challenges. There is a need for infrastructure services to catch up with economic development and international competition, manage the growth in urban areas, respond to global energy prices, and ensure basic services for the poor. Availability and accessibility appear to no longer be a challenge. The next step for Thailand is to put more emphasis on quality of service delivery, management, and sound regulation.

The Thailand Infrastructure Annual Report (2008) is a product of collaboration between the Office of the National Economic and Social Development Board (NESDB) and the World Bank. It is an output under the Country Development Partnership for Infrastructure (CDP-Infra), a three-year cooperation program launched in 2007. The full report is available for download on our country website.



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