Introduction. Thailand's Economic Situation in Brief

The industrialization strategy in Thailand in the late 1950s focused on expanding investment in infrastructure and primary education, increasing agricultural output, and promoting import-substitution industries. A worsening balance of payments in the late 1960s led to a policy shift toward export promotion. Worldwide recessions following the two oil shocks, together with domestic political unrest in the 1970s, led to a slowdown in real GDP growth, causing a persistent current account deficit and a significant increase in Thailand's external public debt. The Thai Government reacted quickly and efficiently by adopting a series of adjustment policies and reforms. Exports were given further encouragement through tax rebate measures and the establishment of bonded warehouses and export processing zones. The currency devaluations of 1981 and 1984 stimulated the economy further.

The economy accelerated sharply during the second part of the 1980s. Rapid growth was characterized by surging exports and an investment boom, largely attributed to the devaluation of the baht and the rise in value of the Japanese yen and other East Asian currencies. With its relatively good infrastructure and large pool of low-cost labor, Thailand was considered an attractive investment.

At the start of the 1990s, a combination of trade expansion, private investment, and tourism provided powerful driving forces that gave Thailand three consecutive years of double-digit growth. However, the economy began to slow down once again toward the mid-1990s, this time not as a result of world recession, but because of competition. Thailand's strategy of relying on labor-intensive exports, which had served it well in the past, started to show signs of being unsustainable. For products such as textiles, garments, shoes, and electronics, several low-wage countries had entered the world market, and the efforts of Thai producers to upgrade their products remained half-hearted.

In the late 1990s, Thailand's economy suddenly faltered under its heavy financial burden—export growth almost came to a standstill, the international financial position worsened, the baht weakened, and Thailand went into its worst recession in recent history.

By early 1997, the Thai economy was in serious crisis in many areas. Several short- and long-term measures were introduced to revive certain sectors and slow the decline of others. Economic growth for 1997 was estimated to be negative, and forecasts for 1998 suggest a GDP decline of 7-8 percent. A $17.2-billion loan has been arranged through the International Monetary Fund (IMF), along with a reform package aimed at macroeconomic stabilization and tackling the serious problems of financial institutions. The emphasis of the structural adjustment loan on monetary and fiscal policies, along with financial sector reform, has been designed to assure price stability, a viable balance of payments, and sustainable growth.

The main concerns in 1998-99 will be to solve the critical problems in the financial sector and deal with rising unemployment, ensuring that the latter does not escalate and cause social discontent. The current slowdown also provides the Government with an opportunity to introduce major adjustments. The sharp fall in export competitiveness has confirmed Thailand's need to move from traditional industries relying on low-cost labor, little capital, and simple technology, toward upgraded skills and a higher technological base. Long-term plans that have already been outlined include restructuring productivity and improving production fundamentals, such as technology and management. All three major economic sectors will be restructured. In the industrial sector, a slump in exports means that industrial productivity must be improved. Thailand needs to phase out products that are less competitive in the world market and focus more on developing its service sector. The Eighth National Economic and Social Development Plan (1997-2001) (Eighth Plan) has been updated in the light of the current economic situation. In particular,

the plan to strengthen Thai competitiveness needs to be revised to make developing the service sector a priority.

Even though all of the above adjustment measures can be initiated immediately, it will take at least a couple of years for the Thai economy to resume normal growth. Although structural adjustments are regarded as necessary to lay the groundwork for steady economic growth, they may cause rising unemployment, increasing poverty, falling incomes and lower standards of living. In the short run, the process of adjustment entails costs that may fall unevenly on workers. As reported by the Ministry of Labor and Social Welfare, more than half of the workers who had been laid off by October 1997 were women. Unemployment, excluding the seasonally inactive labor force, is estimated to have risen to 1.1 million persons in August 1998, up from 293,000 persons in August 1997. Since most of the jobs lost will have come from labor-intensive industries such as textiles and garments, and shoes and leather goods, a high proportion of the unemployed will be women.