A performance constraints of thai economy

Business, Management

It may be useful to put the discussion of performance constraints of the Thai economy briefly in perspective. Over the past 2 decades, the Thai economy has been one of the best performing economies in the world, characterized by sustained high growth rates, averaging 10. 3% 1985-90, and 8% in the years prior to the crisis (1990-96). This growth was accompanied by a dramatic decline in the incidence of absolutepoverty, from 57% in 1962 to 14% in 1992, with per capita income increasing from $700 per annum in the late 1960s, to $2, 700 in 1996.

At the same time, rapid growth was accompanied by environmental degradation, resource depletion, and an increasingly unequal distribution of income and wealth. However, on balance a remarkable record of development. During this period of rapid growth and economic transformation, Thailand became increasingly integrated into the world economy through trade and investment flows, and production linkages.

As the economy expanded rapidly and became more complex in structure, it posed more and new types of strains and challenges to economic management or " governance" systems at both the macro (i. . public policy) and micro (enterprise) levels. As the relative role of the private sector increased in the economy, the importance of enterprise management and performance correspondingly increased. Looking more deeply at Thailand" s performance, manufactured exports grew by about 23% per year between 1980 and 1995, almost doubling during 1992-1995. However, in 1996 export growth fell practically to 0 per cent, with labor-intensive exports usually identified as the main culprit.

Certain factors are generally cited as responsible for this abrupt and dramatic decline: External factors cited included the emergence of new competitors, with the coming on stream of new production facilities in lower income/lower wage countries such as China, Indochina, Philippines, further complicated by the30% devaluation of the Chinese yen in 1994; · Domestic factors cited generally relate to rising wage rates and overvalued exchange rates. Domestic wage rates during 1991-95 rose about 11%, on average or about 5% increase in real wages per year, cited as the key factor in the slowdown in growth of labor intensive exports.

The real effective exchange rate of the baht is estimated to have appreciated by about 15% during 1995-97, primarily because of the linkage to the US$, which appreciated against the yen. While the above factors suggest that Thailand was losing its edge in low cost, labor intensive exports, these are at best partial explanations for the overall decline in export performance. The impact of rising wages should not have come this suddenly and pervasively, given that wages were rising for some time, with no significant impact on xport performance.

For example, textiles, gems and jewelry, which are not particularly labor intensive declined significantly in the 1996 crunch, as did manytechnologyintensive products. 5 Similarly, the timing and size of the real exchange rate appreciation is not sufficient to explain the sudden, dramatic drop in export performance. If the " usual suspects" are not sufficient to explain the export slowdown, then could this be primarily a " cyclical" downturn, e. g. the result of short-term, mainly external, adverse factors?

There is some support for this being a factor. There was a global slowdown in world trade in 1996, with the growth rate of world manufactured exports dropping from 8. 6% p. a. during 1990-95, to 2. 1% in 1996 6 . All countries in Asia were hit, with Korea and Thailand the worst affected. If the basic problem of export performance could be seen as cyclical, then in terms of the main focus of this paper, the management of the economic crisis perhaps can indeed focus on the financial sector.

That is, the " real sector" will realign itself, as the financial crisis begins to be resolved, and the " cycles" will at some point, begin their upswing though the global economic outlook looks less than optimistic at this time. Although cyclical demand factors seem to be relevant, they are only partly helpful in understanding the performance of the Thai (real) economy prior to the crisis. There seems to be more to the story.

For example, industry-specific factors may have also been at work: a rapid rise in US sourcing of garments from Western Hemisphere producers such as Mexico, Honduras, and El Salvador, led to a relative loss of US market share by Asian exporters, including Thailand, among others. It is not clear whether this shift in sourcing is a " cyclical" factor, or a " structural" shift in the basis of competitive advantage (e. g. relating to NAFTA; relating to the increasing role of time or order cycle as a competitive actor, an issue touched on in section III).

A fundamental question that emerges from the perspective of the present economic crisis relates to the performance of the corporate sector prior to the crisis, a performance which was then further aggravated by the financial devastation of corporates by the crisis. In particular, were there clear signs of deterioration in performance, especially at the micro (enterprise) level prior to mid-1997, masked by rapid (export) growth?

If yes, then resolving the present crisis in terms of restoring the Thai economy" s performance is likely to require a focus on the " real sector" simultaneously with addressing the problems of the financial sector. This is likely to be especially important for Thailand" s economic renewal and sustainable growth, given expectations of a global economicenvironmentover the medium term characterized by slow growth and increasing competition for both markets and capital.