
Economic Challenges for Thailand's New Government

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Summary

1. The economic and social environment surrounding the new government in Thailand will be riddled with challenges. Major domestic economic issues that have become more serious under the Prayut administration include the household debt problem, the economic disparity problem (disparities in income and assets before taxes and transfers), and the declining birthrate and aging population. At the root of these problems is the slow improvement in the income environment for low-income earners, and increasing labor productivity will be essential if this issue is to be totally eliminated.
2. To address the various problems that have worsened under the Prayut administration, it is likely that the new government will expand fiscal spending, as doing so will have an immediate effect. However, in light of various factors, it is unclear whether it will be possible to implement election pledges as planned. These include 1) differences in policy priorities and specific measures among political parties, 2) the absence of a clear path to securing the stable financial resources needed to expand fiscal spending, and 3) the potential for political clashes over political and social reforms to impede the smooth rollout of economic policies. If policies are implemented by relying on the ease of issuing government bonds, the delay in making fundamental structural reforms, such as revamping the tax and social security systems, would be likely to undermine fiscal soundness and depress the medium- to long-term economic growth rate. Even minimum wage increases, which would not involve fiscal spending, could have an adverse impact on economic growth if wage hikes significantly outstrip the pace of productivity growth.
3. There can also be little optimism about the international environment surrounding Thailand. While there are bright spots, such as economic and social normalization in the wake of the COVID pandemic, the slowdown in the world economy and increasing protectionism will put downward pressure on Thai trade and investment. The U.S.-China confrontation and other factors have boosted Thailand's trade and investment through the transfer of production from countries that are clashing with each other to countries that are taking a "neutral" position. However, Thailand has not been able to take full advantage of this tailwind due to its high labor costs compared to other emerging Asian countries and its poor competitiveness in capital- and knowledge-intensive industries compared to developed countries.
4. With challenges on both the domestic and international fronts expected to continue, Japanese companies have been losing interest in Thailand as part of their Asia business, and this could trigger a cycle of Japanese firms exiting Thailand and the Thai economy slumping. To avert such a vicious cycle, it will be necessary to increase the complementarity of business in Thailand and in other Asian countries. In this regard, it will be especially important for Thailand to be proactive in participating in the supply chain for next-generation vehicles, and electric vehicles (EVs) in particular. As momentum builds toward switching from fossil fuel-derived materials to biomaterials, the key to sustainable growth for Thailand will be for the country to establish itself as a production and export center for components that are compatible with a decarbonized society by, for example, proactively utilizing its abundant biomass resources.

Introduction

The year 2023 is expected to mark a major turning point for Thailand in both the political and economic spheres. In politics, pro-military parties suffered a crushing defeat in the lower-house general election held in May⁽¹⁾, and the Move Forward Party, which campaigned on a platform for change, including amendment of the lese majeste law and reform of the military, emerged with the largest number of seats. Although preliminary polls had suggested that Pheu Thai, a party that had former Prime Minister Thaksin Shinawatra's second daughter as its candidate for prime minister, might become the leading party, it appears that people who were fed up with the long-standing structure of opposition between "pro-Thaksin" and "anti-Thaksin" groups voted for the Move Forward Party with the aim of bringing about drastic change.

Also In May, the World Health Organization (WHO) declared the end to COVID as a public health emergency, and as the world began to pivot from "living with the virus" to "post-COVID" lifestyles, the issue for Thailand has been whether it can keep up with the new trends shaping the international economy.

With their country's internal and external environment undergoing dramatic changes, Thai people, more than ever before, want policies that reflect the will of the people to be implemented in order to stabilize the economy and society and to restore vitality. However, a look at the environment surrounding Thailand reveals a mountain of issues, and a change of government will not necessarily lead to their resolution. With no party managing to capture a majority of the seats in the recent lower-house general election, political conflict within the ruling coalition and between the ruling and opposition parties may continue after the new government takes office, and reforms in controversial areas may stall.

Given these circumstances, when looking ahead to the future of the Thai economy, the new government will need to accurately grasp the domestic economic and social issues facing the country and Thailand's position in the world, and identify

the challenges that it must overcome, rather than feeling that it has to stick to the ambitious goals and campaign promises of each participating political party, which have question marks over their effectiveness. This paper therefore reflects on how the Thai economy/society and the international environment have changed during the nine years of the Prayut administration, and then builds on that to look ahead to the direction that the Thai economy should be steered in by the new government.

1. Domestic challenges facing the new government

The Prayut administration, which was established following a military coup in 2014, has come out with a range of policies to avoid the "middle-income country trap"⁽²⁾, "inequality trap"⁽³⁾, and "economic development and environmental protection imbalance trap"⁽⁴⁾. The flagship of the various policies has been the 20-Year National Strategy⁽⁵⁾, and to move toward its implementation, a new medium-term National Economic and Social Development Plan was formulated.

⁽⁶⁾Although extraordinary circumstances, such as the COVID pandemic, have pushed back the timetable for the achievement of various targets, the extent to which the goals of the 12th National Economic and Social Development Plan (below, "the 12th Plan") for the period 2017-2021 have been accomplished will stand as a measure of the Prayut administration's policy management performance.

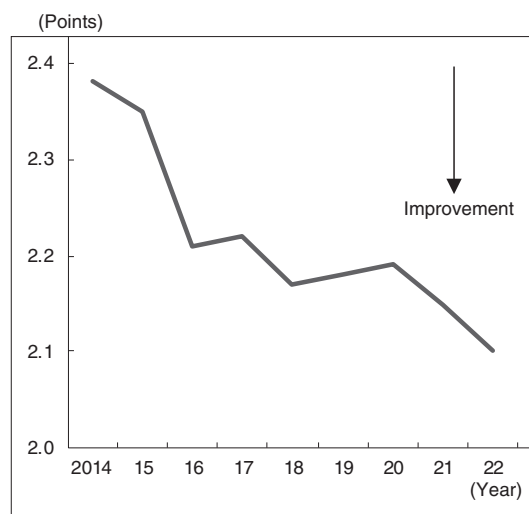
Below, I divide the goals set forth in the 20-Year National Strategy and the 12th Plan into five areas: 1) maintenance of national security, public safety, and social order; 2) correction of economic disparities; 3) curtailment of corruption; 4) economic growth; and 5) environmental protection, and assess the progress made in each area.

(1) Assessment of the Prayut administration

First, let us look at 1) maintenance of national security, public safety, and social order, which was also the declared objective of the 2014 military coup. From the time of the military coup until the return of civilian rule in 2019, there were no large-scale protests against the government, in part due to repressive measures such as bans on political activity and control of the media. However, after the return to civilian rule in 2019, large-scale anti-government protests became a frequent occurrence. They were triggered by the formation of the Future Forward Party in 2018, which campaigned on an anti-military platform. In November 2019, when the Constitutional Court stripped party leader Thanathorn of his status as an MP for holding shares in a media company at the time of his candidacy for parliament, he embarked on political activities outside of parliament, and with this, anti-government protests began to grow in scale. In February 2020, when the Constitutional Court ordered the dissolution of the Future Forward Party on the grounds that Thanathorn's low-interest loan of 190 million baht to the Future Forward Party had violated election laws, anti-government protests gained momentum. The following month, the political battles were temporarily halted with the imposition of a lockdown to prevent COVID transmission, but in around July 2020, after restrictions on activities were eased, large-scale anti-government rallies and demonstrations calling for the immediate resignation of Prayut and his cabinet, electoral reform, and permission to criticize the royal family, which had previously been taboo, began to take place up and down the country.

Anti-government protests subsequently subsided as the government began discussions on reforming the electoral system and the 2023 general election approached, and the country's score in the GPI (Global Peace Index), which assesses the stability of a country's society from a variety of perspectives and was one of the indicators targeted in 12th Plan, has improved recently (Fig. 1). On

Fig. 1 Global Peace Index Scores for Thailand



Notes: Index based on indicators related to public safety, militarization, etc. in each country.

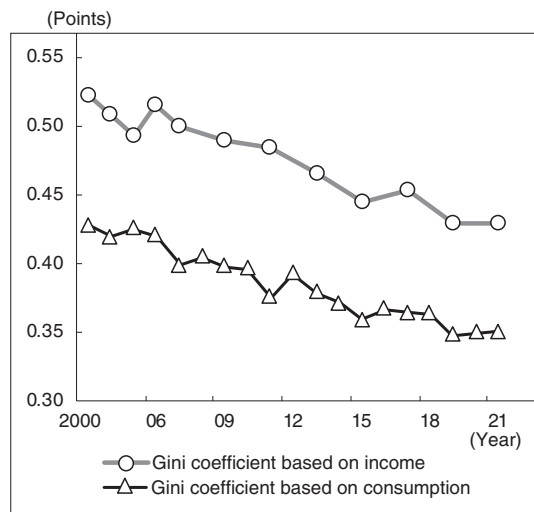
Source: Prepared by JRI based on data from the Institute for Economics & Peace

the surface, it might appear that the government's goals have been achieved to some extent over the past nine years, and some hold this view⁽⁷⁾, but embers that could lead to a reigniting of political and social instability continue to smolder, and there has been no significant change in the underlying situation.

Among the five areas mentioned above, 2) correction of economic disparities and 3) curtailment of corruption have seen insufficient progress, and this can be cited as a factor that has prevented the elimination of dissatisfaction with the government among the people. As for economic disparities, the Prayut administration has taken various steps to reduce income and asset gaps, including cash transfers to low-income earners whose annual income and assets are below a certain level and who hold a "welfare card," the imposition of an inheritance tax on inherited assets above a certain amount, and the introduction of a new land and building tax⁽⁸⁾. As a result, the Gini coefficient after taxes and transfers has fallen (Fig. 2).

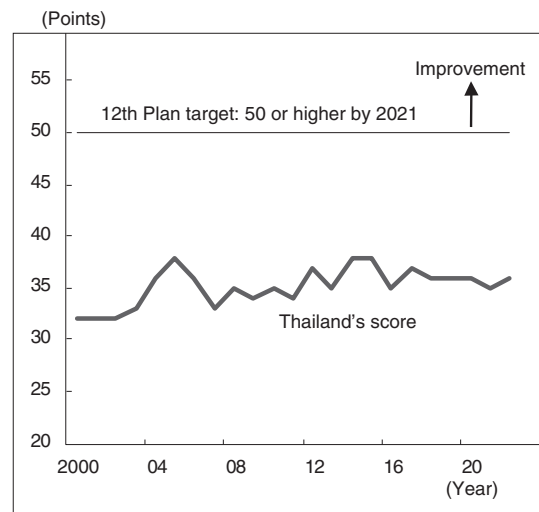
However, the goal of reducing the income-based Gini coefficient to below 0.41 by 2021, which was one of the targets of the 12th Plan, was not achieved, as the employment environment in

Fig. 2 Gini Coefficient



Source: Prepared by JRI based on National Statistical Office, “สถิติรายได้และรายจ่ายของครัวเรือน,”

Fig. 3 Corruption Perceptions Index



Notes: Index based on multiple questionnaire surveys related to corruption in each country.

Source: Prepared by JRI based on data from Transparency International and the National Economic and Social Development Council

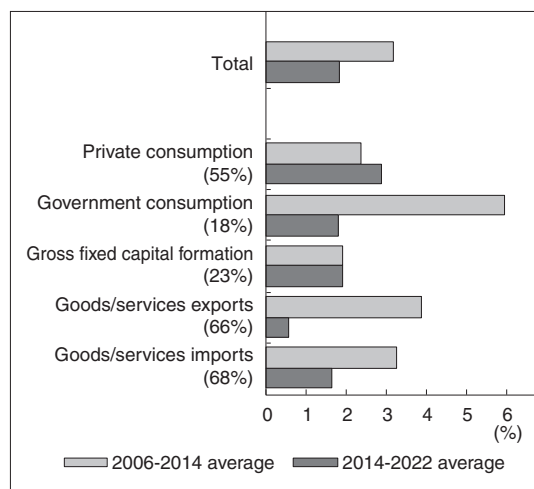
face-to-face service sectors with relatively low wage levels, such as retail, food/beverage services, and lodging, deteriorated with the arrival of the COVID pandemic. Furthermore, as a more fundamental problem, it can be pointed out that productivity gaps between regions and between industries, which need to be reduced to correct disparities in income disparities before taxes and transfers, did not narrow. The government focused on infrastructure development in the Eastern Economic Corridor (EEC), which is needed to foster next-generation industries, and on attracting foreign investment to the region, as well as on raising incomes in the northeastern and northern regions by improving agricultural productivity. However, little progress was made with the latter, and the end result was that regional disparities in terms of GDP per capita continued to widen.

Regarding the issue of corruption, some measures have been taken, including legal reforms to tighten anti-corruption laws and the mandatory introduction of internal controls for companies. However, under the Prayut administration, allegations of corruption were reported one after another, and the Corruption Perceptions Index (CPI), another of the 12th Plan target indicators, saw no improvement⁽⁹⁾ (Fig. 3). According to a report released by ACT (Anti-Corruption Organization of

Thailand) in April 2023, there have been 61 cases of corruption involving politicians in the past 10 years, with total losses from eight corruption cases related to government procurement amounting to 52 billion baht⁽¹⁰⁾.

As for 4) economic growth, the 12th Plan set the ambitious targets of real GDP growth of over 5% and GDP per capita of over \$8,200 as stepping stones toward the long-term objective of becoming a high-income country by 2036. However, real GDP growth between 2017 and 2021 averaged just +0.4%, and in 2022 nominal GDP per capita was only in the mid \$7,000 range. Even when the period prior to the COVID pandemic is included, average real GDP growth under the Prayut administration registered just +1.8%, slowing from the +3.2% recorded for the preceding nine years (2006-2014)⁽¹¹⁾ (Fig. 4). On the expenditure side, the slower growth was mainly due to a deceleration in exports of goods and services, with little change seen in rates of growth in private consumption and gross fixed capital formation. This can be attributed to the fact that while external demand declined as the COVID pandemic took hold and Thailand's international competitiveness weakened, consumption was shored up by borrowing from financial institutions and cash hand-

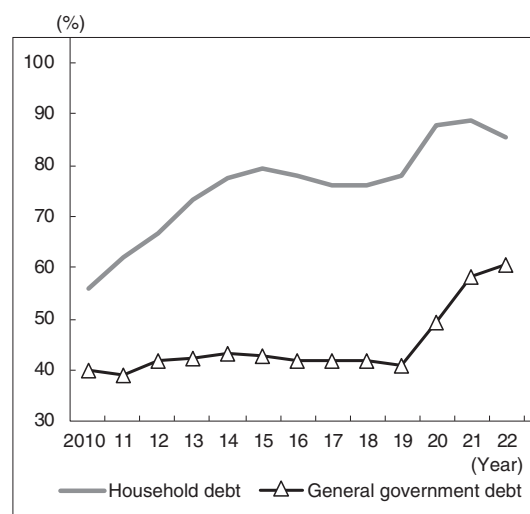
Fig. 4 Real GDP Growth Rate



Notes: Figures in parentheses on the vertical axis are the percentages of nominal GDP in 2022.

Source: Prepared by JRI based on data from the NESDC

Fig. 5 Household Debt and General Government Debt to GDP

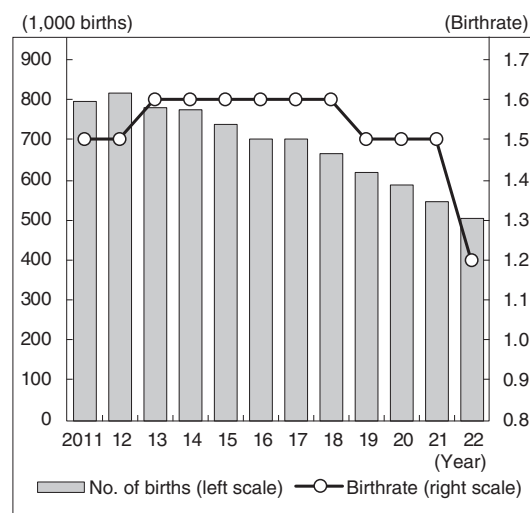


Source: Prepared by JRI based on data from the Bank of Thailand, National Economic and Social Development Council, and the IMF

outs from the government, and investment was supported through public works projects. However, during the pandemic, the ratio of Thailand's household debt to nominal GDP temporarily rose to over 90% from just under 80% in 2014⁽¹²⁾, and the ratio of the general government deficit to nominal GDP also increased from around 40% in 2014 to approximately 60% in 2022, leading to mounting concern about the future (Fig. 5).

And no progress was made in addressing the declining birthrate and aging population. The Prayut administration has taken measures to improve the environment surrounding childbirth and childcare, such as providing lump-sum childbirth/childcare benefits and making pre-natal medical examinations and childbirth expenses income tax deductible. However, the number of births continued to decline as the income improvement effect of childbirth/childcare benefits was limited and no progress was made in establishing legislation on childcare leave⁽¹³⁾. Births were also suppressed by lower incomes and fewer opportunities to meet potential spouses during the COVID pandemic. In 2022, the number of births hit a record low of 500,000, and the birthrate stood at 1.2, even lower than Japan's record low of 1.26⁽¹⁴⁾ (Fig. 6). Little progress is being made with public provision of long-term care for the elderly, and the current sys-

Fig. 6 Births and Birthrate



Source: National Statistical Office

tem of caregiving, whereby children look after their elderly parents, is becoming less sustainable. If nothing changes, social problems could emerge, with low-income households giving up on caring for their elderly relatives⁽¹⁵⁾.

Lastly, in the area of 5) environmental protection, the Prayut administration began to explicitly emphasize protection of the environment at end of the 2010s as environmental concerns proliferated

worldwide. In 2021, his government unveiled its BCG (Bio-Circular-Green) economic model⁽¹⁶⁾, and the following year, with a view to achieving carbon neutrality in the second half of the century, it raised its 2030 greenhouse gas (GHG) emission reduction target from the previous 20-25% of BAU (Business as Usual) emissions⁽¹⁷⁾ to 20-40%⁽¹⁸⁾. CO₂ emissions in 2022 were 15% lower than the BAU level⁽¹⁹⁾ (Fig. 7), so at first glance, the government's plan appears to be on track.

However, the recent decline in CO₂ emissions owes a great deal to the restrictions on activities imposed during the COVID pandemic and the resulting economic downturn. The share of solar and wind power generation in total electricity generation and the share of electric vehicles (EVs) in automobile sales are limited, and the structural shift to a production and consumption system with less environmental impact is still ongoing. In addition, air pollution problems caused by wildfires and forest fires at home and abroad have not been resolved, and in northern Thailand in the early spring of 2023, the Air Quality Index (AQI), a gauge of the degree of air pollution, registered the worst level in the world, surpassing the levels seen

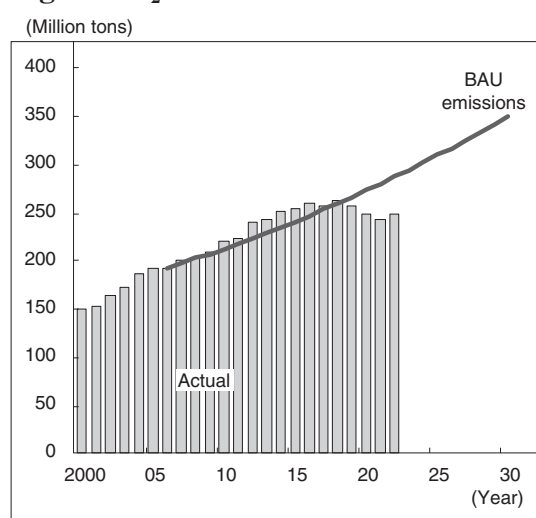
in major cities in India and China.

In light of the above, it has to be concluded that the period of the 12th Plan ended with the bulk of its goals still only part way to being achieved⁽²⁰⁾. This failure to translate “planning” into “execution” can be attributed to the government's lack of ability to take charge, as well as the weakening of the administration's power base after the restoration of civilian rule in 2019 and the slow pace of policy implementation in the wake of the COVID pandemic.

(2) What will be the major economic issues inherited from the previous administration?

There are no significant differences among the political parties in terms of recognition of the importance of improving political and social stability by reducing economic disparities and curbing corruption and the importance of balancing economic growth with environmental protection. As such, these will continue to be the central themes policy themes for the new government. However, given the worsening of the household debt problem, the economic disparity problem, and the declining birthrate and aging population problem under the Prayut administration, the expectation is that the new government will review economic policies related to these issues. Attention will be especially focused on policies for improving the income environment for low-income earners. To bring about a dramatic improvement in the income environment, the best approach is to raise worker productivity by upgrading education and vocational training, but it will take a considerable amount of time for such efforts to produce results. Therefore, in the run-up to the lower-house general election, the parties pledged to adopt policies with clearly visible effects, such as raising the minimum wage, increasing benefits for parents and the elderly, and accelerating the construction of infrastructure to serve as the foundation for next-generation industries. However, given the following three factors, it is unclear whether such measures will be imple-

Fig. 7 CO₂ Emissions



Notes: CO₂ BAU emissions are figures based on the rate of increase of BAU GHG emissions in the long-term low GHG emission development strategies submitted by the Thai government under the UN Framework Convention on Climate Change.

Source: Prepared by JRI based on data from the Ministry of Energy

mented as promised.

First, there are marked differences among political parties regarding policy priorities and specific measures. For example, the Move Forward Party has said that it will increase benefits for the elderly from the current 600-1,000 baht per month to 3,000 baht per month, while the Pheu Thai Party has proposed giving a flat 10,000 baht in digital currency to all citizens aged 16 and above, so these two parties are at odds on which generation to focus on when allocating funds.

Regarding infrastructure development, the Move Forward Party, the Palang Pracharath Party, and the Chart Pattana Kla Party have indicated that they will continue to develop the EEC, while the Pheu Thai Party has said that it will review the EEC and pursue its own “NBZ⁽²¹⁾ (New Business Zone)” concept. Meanwhile, the Bhumjaithai Party is planning to invest large sums in developing a special economic zone in the south. Even though the parties are all aligned on raising the minimum wage, they are also divided over how big it should be and when it should happen⁽²²⁾. Since no single party has managed to capture a majority of the seats in the lower house, the initial policy may be substantially modified during the process of gaining the support from other parties needed to implement it.

Second, there is no clear path to securing the

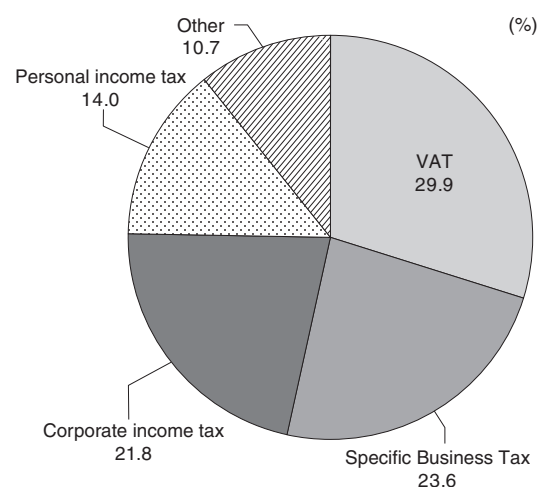
stable financial resources needed to expand fiscal spending. According to analysis by the Thailand Development Research Institute (TDRI), which estimated the cost of following through on the policy commitments made by each of the parties contesting the lower-house general election, the pledges made by the Move Forward Party and the Pheu Thai Party would cost 1.3 trillion baht and 1.8 trillion baht, respectively, to implement (Table 1). The Pheu Thai Party believes it will be able to fund its policies using the natural increase in tax revenues that will occur when economic growth exceeds +5% per year, but given the economic growth rates of the past two decades, such an assumption must be regarded as unrealistic. The Move Forward Party, meanwhile, has offered a more realistic approach than the Pheu Thai Party, promising to secure financial resources by streamlining administration and cutting the military budget. However, it remains to be seen whether the reforms can be carried out over objections from the bureaucracy and the military. To secure stable financial resources, it will be necessary to raise the rates of VAT (Value Added Tax), which provides about 30% of tax revenues⁽²³⁾ (Fig. 8), and corporate tax, which generates 20%. Fundamental tax reform, including heavier asset taxation, will also be vital, but it a consensus among the political parties will not be easy to achieve.

Table 1 Fiscal Cost of Realizing Each Party’s Pledges

Political party	Total amount	Key policies and costs
Bhumjaithai Party	1.8676 trillion baht	Infrastructure development in southern special economic zone (1,700 billion baht)
Pheu Thai Party	1.7709 trillion baht	Grant of 10,000 baht in digital currency to each citizen (560 billion baht)
		River improvement to reduce damage from floods and droughts (500.3 billion baht)
		Expansion of welfare for the elderly (300 billion baht)
Move Forward Party	1.2886 trillion baht	Benefits of 3,000 baht per month for elderly persons (500 billion baht)
		Increase in budgets for reasons (200 billion baht)
		Expansion of welfare for all generations (98.5 billion baht)
Palang Pracharath Party	0.9963 trillion baht	Benefits of 3,000-5,000 baht per month for the elderly (495.7 billion baht)
		Expansion of welfare for single mothers (174.2 billion baht)
		Expansion of assistance provided through welfare cards (128.4 billion baht)

Source: Prepared by JRI based on TDRI [2023]

Fig. 8 Breakdown of Tax Revenues (FY2022)



Source: Prepared by JRI based on Budget Bureau, "Thailand Budget in Brief 2022"

Third, conflicts between political parties over political and social reform will get in the way of smooth implementation of economic policies by impeding cooperation. In May 2023, an eight-party coalition that included the Move Forward Party and the Pheu Thai Party announced 23 policy pledges as they look to lead the next government. These include drafting a new constitution, legalizing same-sex marriage, Abolishing military conscription, and tightening marijuana regulations, which are issues that the public is divided on (Table 2). In addition, the Move Forward Party has stated its intention to proceed with the legal reforms necessary for the parliamentary amendment of Article 112 of the Criminal Code, the source of Thailand's lese majeste law. However, the coalition has not reached a consensus on these reforms, and they are not widely supported by the public⁽²⁴⁾. Therefore, there is a good chance that the pledges of the eight-party coalition will fizzle out due to resistance from forces opposed to reform on the political front.

Furthermore, it is hard to see populist policies that rely on cash handouts solving Thailand's myriad of problems. There are a number of reasons for this, such as 1) the fact that outstanding household debt per family is over 200,000 baht⁽²⁵⁾, 2)

Table 2 Campaign Pledges of Eight-Party Coalition Including the Move Forward Party and the Pheu Thai Party

Pledge no.	Summary
1	Establish a new constitution to restore democracy
2	Establish a marriage equality law (legalize same-sex marriage)
3	Reform the bureaucracy, police, military, and judicial procedures
4	Abolish military conscription
5	Promote peace in the southern border zone
6	Devolve power to regions
7	Make the state more transparent and resolve the problem of corruption
8	Reduce inequality and establish an economic system that facilitates growth while maintaining fairness
9	Support industry by simplifying or abolishing regulations
10	Prohibit monopolies in every industry
11	Make land ownership more equitable
12	Review the power generation and pricing structure to reduce living costs for citizens
13	Rethink the government budget from scratch
14	Expand public welfare for all generations while considering the fiscal burden
15	Urgently tackle the problem of drug abuse
16	Establish laws for the regulation and effective use of cannabis
17	Promote safety and protect profits in the agriculture and livestock industries
18	Amend fisheries legislation to ensure the sustainability of the fisheries industry
19	Improve workers' rights to enable them to earn a fair wage
20	Expand public healthcare
21	Improve the quality of education and reduce inequalities in opportunities
22	Establish domestic and international cooperative mechanisms for reducing GHG emissions
23	Maintain Thailand's leadership in ASEAN and the political power balance with major countries

Notes: A simple summary is provided for each point, and these are not direct translations from the original.

Source: Prepared by JRI based on announcement from the Move Forward Party [2023]

the fact that cash benefits for the elderly of 3,000 baht per month promised by the Move Forward Party amounts to just 10 days of work at the current minimum wage (328-354 baht per day), and 3) the fact that birthrates in some countries have remained stagnant despite introducing more generous measures to support childbirth and childrearing than Thailand's. In addition, if the government steers clear of discussion of tax hikes, which are

unpopular, and increases its reliance on the ease of government bond issuance, fiscal soundness will inevitably suffer, and there is a significant risk of downward pressure on medium- and long-term economic growth rates⁽²⁶⁾.

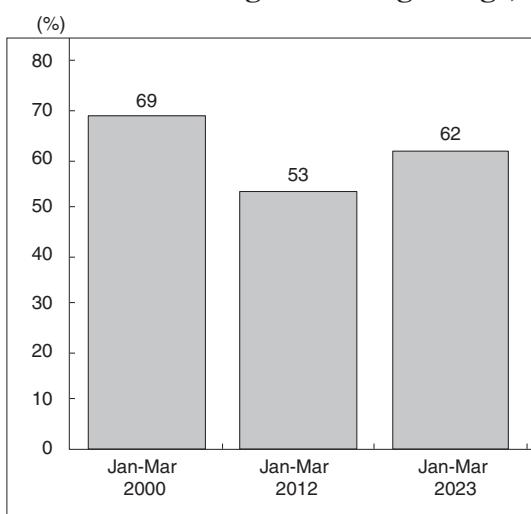
Moreover, even minimum wage increases could have an adverse impact on economic growth if wage hikes significantly outstrip the pace of productivity growth⁽²⁷⁾. The Pheu Thai Party has pledged to raise the minimum wage from the current 353 baht per day (Bangkok) to 600 baht per day within the next five years, while the Move Forward Party aims to raise it to 450 baht per day as soon as possible. Although inflation and unemployment remained stable during the phase of large increases in the minimum wage that occurred in 2012-13⁽²⁸⁾, the Kaitz index (ratio of the minimum wage to the average wage) is higher today than before the wage hikes of that phase (Fig. 9). Therefore, in the wholesale/retail and lodging and food/beverage service sectors, which have lower average wages and are more likely to be adversely affected by rising labor costs, the impact of a substantial increase in the minimum

wage may be more pronounced than it was in the 2010s.

2. The international environment provides few grounds for optimism

In view of the environment surrounding domestic demand, globalization aimed at capturing foreign demand is expected to become even more important for the sustainable growth of the Thai economy in the future. Business and society getting back to normal as the COVID pandemic subsides, which is good news for the travel sector, and tourism service exports are set to be the driving force for the Thai economy in the near term. On the other hand, the slowdown in the world economy, heightened geopolitical risks, and the relative decline in Thailand's international competitiveness as the business environment in other emerging Asian economies improves are all headwinds, so caution is required when considering whether trade and investment will expand at the pace hoped for by the government.

Fig. 9 Kaitz Index (Minimum Wage as a Percentage of Average Wage)



Notes: The monthly minimum wage is calculated as the average of the maximum and minimum daily minimum wage by province multiplied by 25 days. The average wage is that for the private sector as gleaned from labor surveys.

Source: Prepared by JRI based on data from the National Statistical Office, Ministry of Labour

(1) Global economic slowdown and heightened geopolitical risks

A look at the current state of the global economy reveals a slowdown, especially in developed countries, against a backdrop of high inflation, mainly due to soaring resource prices after Russia's military invasion of Ukraine, and monetary tightening to curtail this inflation. As symbolized by the successive failures of mid-sized U.S. banks and the concerns about the vulnerability of a major Swiss bank, the adverse effects on the financial system of rapid monetary tightening are becoming apparent, and the world economy is expected to continue to face significant downside risks in the near term⁽²⁹⁾. In its revised outlook for April 2023, the IMF stated that global economic growth over the next five years would be the lowest in nearly

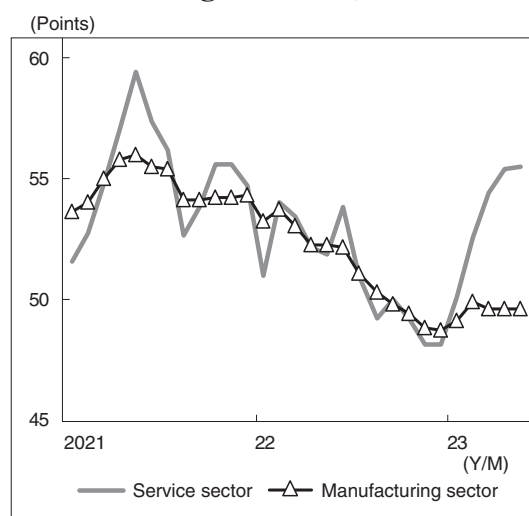
30 years and that the growth rate would be less than +2% annually if financial turmoil were to result in both a credit crunch and stock market declines (IMF [2023]).

Furthermore, escalating protectionism, rising local procurement rates driven by industrial concentration in emerging economies, and the diminishing contribution of manufacturing to growth against the backdrop of economic and social digitalization will also impede the expansion of trade in goods. In the mid-2010s, a phenomenon called “slow trade,” in which the rate of increase in world trade fell below the rate of economic growth as emerging economies became less dependent on imports, attracted attention⁽³⁰⁾. However, with a difference in the pace of expansion between the manufacturing and service sectors becoming increasingly apparent (Fig. 10), the view that “slowbalization” or “deglobalization” will continue is gaining traction⁽³¹⁾.

Thailand’s exports are also likely to remain sluggish due to the global economic slowdown and structural changes. Real GDP growth⁽³²⁾ in Thailand’s major export destination countries/territories is expected to slow from +4.0% in the

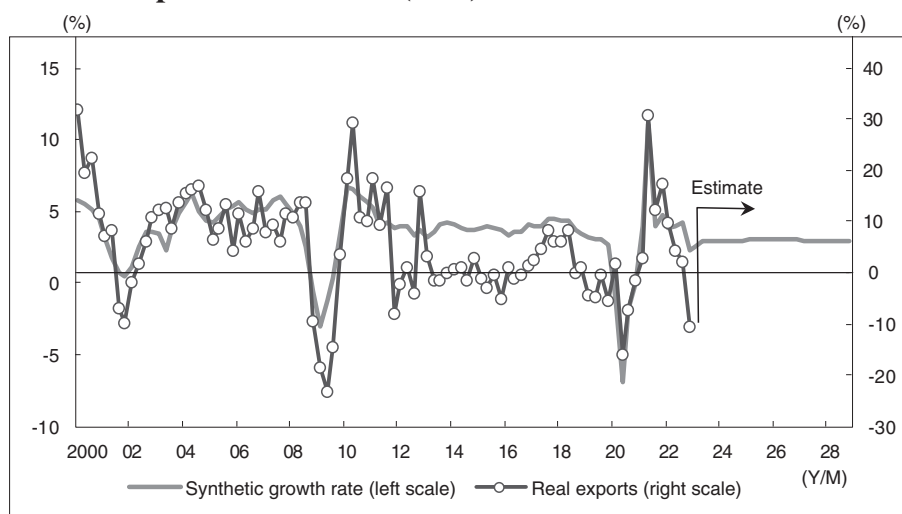
2000-2010s to +2.9% in the future (Fig. 11). The elasticity of Thailand’s real exports in response to the real GDP of its major export destinations (i.e., the rate of increase in Thailand’s real exports in response to a 1% increase in the real GDP of its export destinations) dropped from 2.0% in the

Fig. 10 Global PMI (Purchasing Managers’ Index)



Source: Prepared by JRI based on data from S&P Global

Fig. 11 Real GDP of and Real Goods Exports to Thailand’s Major Export Destinations (YoY)



Notes: The synthetic growth rate is calculated based on the real GDP growth rate and share of exports of countries/territories that purchase 80% of Thailand’s exports, namely Japan, China, South Korea, Taiwan, the EU, the U.S., ASEAN (Singapore, Malaysia, Indonesia, the Philippines, Vietnam), Australia, and India. Forecasts were made based on IMF projections and export shares in January-March 2023.

Source: Prepared by JRI based on data from the Bank of Thailand, IMF, etc.

2000s to 0.8% in the 2010s (Fig. 12). Because economic growth in countries/territories that are major export destinations makes a substantial contribution to the service sector, it would be reasonable to expect even more sluggish growth in Thailand's exports.

Furthermore, it is impossible to ignore the possibility that changes in Thailand's external relations following a change of government could negatively impact trade and investment. Because of the diversity of Thailand's trade and investment partners, the Prayut administration has pursued a balanced approach to diplomacy with both countries. The eight-party coalition centered on the Move Forward Party has also pledged to remain neutral when dealing with the major powers. However, with the growing influence of the Move Forward Party, which values the rules-based international order and human rights⁽³³⁾, relations with China, Myanmar, Russia, and other countries are likely to change if Thailand, while claiming to be "neutral," becomes more pro-Western than before.

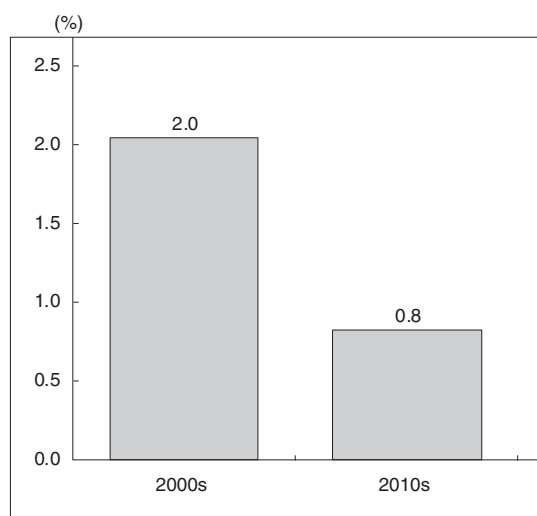
As for the relationship with China, Thailand has no territorial disputes with China, and in recent years, relations have deepened on the eco-

nomic front as Chinese companies have expanded their presence in Thailand. Nevertheless, there are still grounds for concern. Sentiment among the Thai public toward China has been worsening in recent years against the backdrop of such issues as the purchase of Chinese-made submarines⁽³⁴⁾ and the procurement of Chinese-made COVID vaccines⁽³⁵⁾⁽³⁶⁾. Bilateral relations have remained delicate, and the Chinese side leaving the post of ambassador to Thailand vacant (though an acting ambassador was installed) from the end of 2019 to mid-2021⁽³⁷⁾. In recent years, on the pretext of ensuring quality control and safety, China has banned imports from a number of countries/territories that it has clashed with politically⁽³⁸⁾. If Thailand adopts a more pro-U.S. stance strengthens, China may attempt to rein it in by imposing import curbs on durian and rubber products, Thailand's major exports to China, or by restricting group travel to Thailand.

Regarding relations with Myanmar, after the military coup in 2021, Thailand, alongside other ASEAN countries, called on Myanmar to immediately cease violence and resolve the issue peacefully through dialogue, though it maintained its position that the issue was an internal affair, refrained from imposing economic action, and took no other concrete action. In contrast to this policy under the Prayut administration, Move Forward Party leader Pita has indicated that he would actively engage in restoring normalcy to Myanmar, and emphasize the Burma Unification Act⁽³⁹⁾, a U.S. law passed in 2022 that authorizes additional sanctions against the Myanmar military regime and support for democratic forces. If this were to happen, it would certainly cool relations with Myanmar's military rulers. Although Myanmar accounts for only a small share of Thailand's trade and investment, Thailand depends on Myanmar for about 20% of its natural gas, and natural gas generates over 50% of Thailand's electricity (Fig. 13). So if imports are disrupted due to a deterioration in relations, Thailand will face serious electricity shortages.

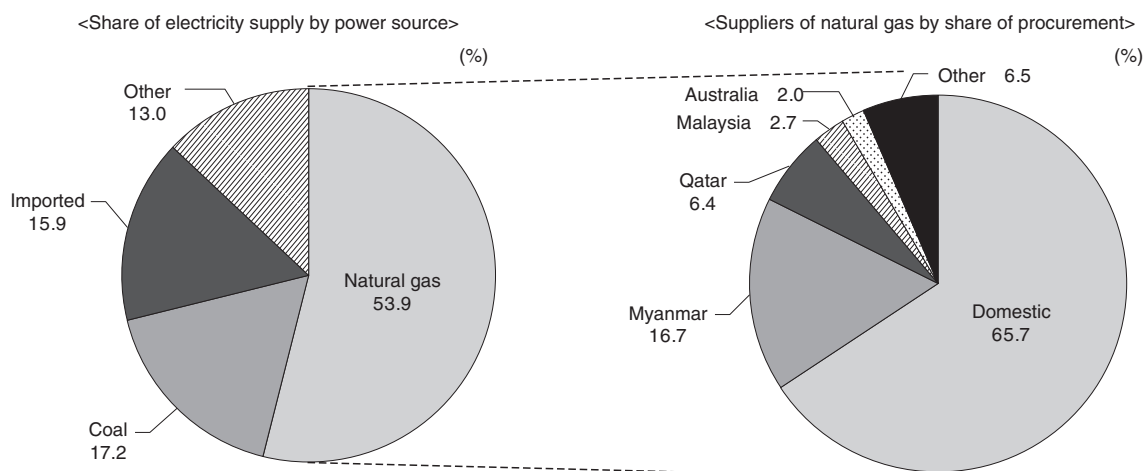
As for relations with Russia, Thailand has maintained an ambiguous stance since the start of the military invasion of Ukraine. Looking at

Fig. 12 Elasticity of Thailand's Real Goods Exports with Respect to Economic Growth of Major Export Destinations



Source: Prepared by JRI based on data from the Bank of Thailand, IMF, etc.

Fig. 13 Share of Electricity Supply by Power Source and Natural Gas Procurement Structure (2021)



Source: Prepared by JRI based on data from the Ministry of Energy and the Ministry of Commerce

Thailand's voting trends on UN resolutions on the situation in Ukraine so far, Thailand voted in favor of the resolutions calling for the immediate withdrawal of Russian troops and condemning the unilateral annexation of Ukrainian territory, though it abstained from the votes on the UN Human Rights Council resolutions on suspending Russia's membership of the Council and claiming damages from Russia. On the economic front, Thailand has aligned with the G7 in reducing oil imports⁽⁴⁰⁾, while at the same time accepting large numbers of Russian travelers who are staying abroad for long periods to escape military service. Russia, alongside China and Malaysia, has been a major source of tourists for Thailand since before the COVID pandemic⁽⁴¹⁾, and the pace of recovery in tourism-related sectors will slow if, like European countries, Thailand introduces restrictions on long stays by Russians on tourist visas.

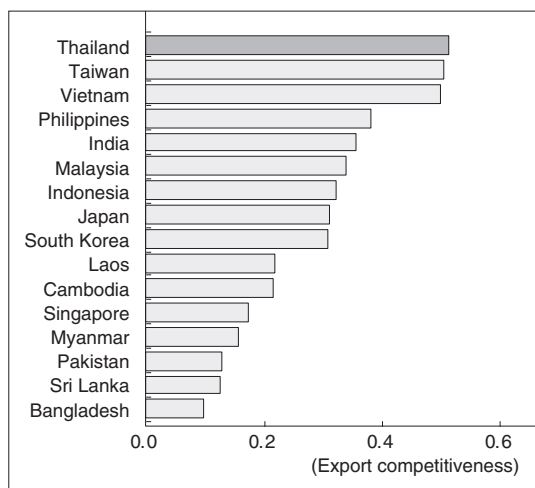
(2) Why Thailand is unable to ride the tailwind of supply chain restructuring

Although global fragmentation, as seen in

the U.S.-China rivalry, puts downward pressure on trade and investment in each country, it also can also serve to increase trade and investment through the transfer of production to countries that take a "neutral" position. Among Asian emerging economies, Thailand's export competitiveness with China is relatively high (Fig. 14). Thailand is also a participant in the Indo-Pacific Economic Framework (IPEF), a U.S.-led initiative aimed at strengthening supply chains by leveraging relations with friendly countries. Many therefore believed that it would benefit from the relocation of production. However, contrary to the expectations of the Thai government and industry, the effect of supply chain restructuring on boosting Thai trade and investment has been limited so far. One reason that can be pointed to is the "middle-income country trap," a situation in which the competitiveness of labor-intensive industries declines as labor costs rise, while the competitiveness of capital- and knowledge-intensive industries remains low.

Looking at changes in the global trade structure using the share of U.S. imports by country as a guide, we find that the share of imports from China has declined since the late 2010s, while the share of imports from ASEAN countries, espe-

Fig. 14 Competitiveness Index of Exports to the U.S. from China and Asian Countries/Regions (2022)

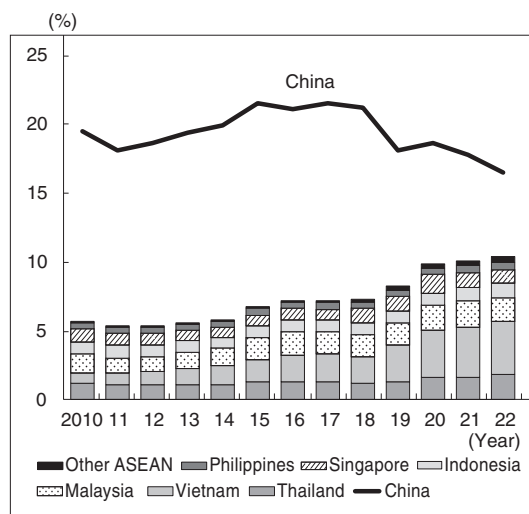


Notes: Prepared based on data on imports to the U.S. from each country (four-digit HS categories) in 2022. If the values of total exports to the U.S. from Country a and Country b are respectively denoted as X and Y , and of those totals, the values of exports of Product i are denoted as X_i and Y_i , a metric for the competitiveness of exports to the U.S. can be calculated using the following formula:

$$\text{Export competitiveness of Country A and Country B} = \sum_{i=1}^n \min\left(\frac{X_i}{X}, \frac{Y_i}{Y}\right)$$

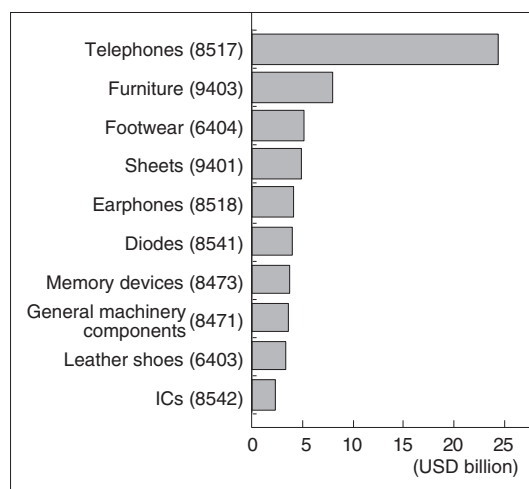
Source: Prepared by JRI based on data from United Nations Comtrade

Fig. 15 Asian Countries' Shares of U.S. Imports



Source: IMF "Direction of Trade"

Fig. 16 Increase in U.S. Imports from Vietnam (From 2010 to 2022)



Notes: Numbers in parentheses on the product axis are HS codes.

Source: Prepared by JRI based on data from UN Comtrade

cially Vietnam, has risen (Fig. 15). The increase in U.S. imports from Vietnam mainly comprised electronic equipment, particularly cellphones and earphones, furniture, and footwear products (Fig. 16), indicating that labor-intensive work processes have shifted from China to Vietnam. The development of the cellphone industry for the U.S. market in Vietnam can be attributed to the fact that Samsung Electronics and other South Korean companies were expanding their operations in Vietnam from the 2000s to make it an alternative base for their operations in China. At that time, South Korean firms chose Vietnam over Thailand as their investment destination because 1) Vietnam is geographically closer to China than Thailand, making it easier to procure components, 2) labor costs in Vietnam are lower than in Thailand, and 3) Vietnam is a one-party communist dictatorship with relatively stable political and social conditions⁽⁴²⁾.

Thailand's strengths compared to Vietnam include its industrial clusters and well-developed electricity and logistics infrastructure, but switches from China to Thailand have been limited, even in the case of relatively capital-intensive products, for which these factors are important in location selection. Looking at Thailand's main export item to the U.S., HDDs (hard disk drives), the U.S.

has lowered the share imported from China while raising the share imported from Mexico, which is geographically close and with which it has an FTA, and there has been no significant change in Thailand's share⁽⁴³⁾ (Fig. 17).

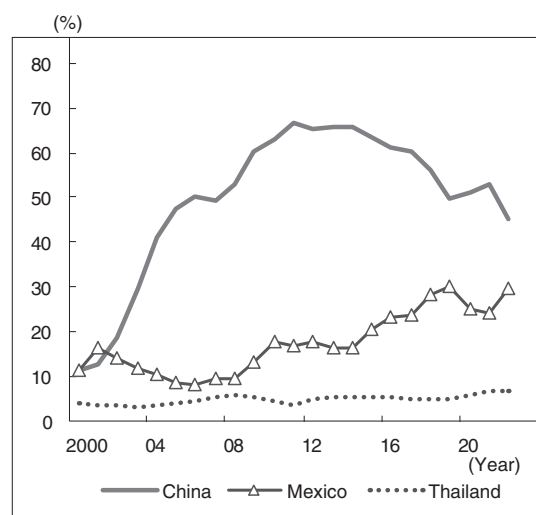
Besides promoting the aforementioned IPEF, the U.S. is also restructuring its supply chains through the Americas Partnership for Economic Prosperity, which includes 12 countries in North and South America⁽⁴⁴⁾. The geographical remoteness of Thailand compared to other countries in the framework and the absence of an FTA with the U.S. will continue to constrain production relocation to Thailand. Furthermore, as exemplified by moves toward restructuring the supply chain for advanced semiconductors by the U.S., Japan, South Korea, and Taiwan through the proposed Chip 4 alliance, the U.S. has a well-developed R&D infrastructure and is working to rework supply chains for high-value-added products with countries with high income levels that share similar values, such as an emphasis on democracy (Fig. 18). There is little incentive to relocate production to Thailand, where the environment for innovation and creativity and the level of democracy are inferior to those in developed countries.

To overcome this situation, the Prayut administration has been working to improve the logistics infrastructure of the Eastern Economic Corridor (EEC), develop the Eastern Economic Corridor of Innovation (EECi), and develop domestic R&D talent, but these efforts are still in progress⁽⁴⁵⁾, and Thailand's knowledge- and capital-intensive industries are not yet competitive enough to attract foreign direct investment.

3. Thai-Japan economic relations under the new government

With challenges on both the domestic and international fronts predicted to continue, the main focus of interest for Japanese companies in their Asian operations is shifting from Thailand to countries such as India and Indonesia, where solid growth is expected over the medium to long term. For the sustainable expansion of Japan's Asian business, it will be vital to ensure stability by reinforcing business foundations throughout Asia, taking into account the advantages and disadvan-

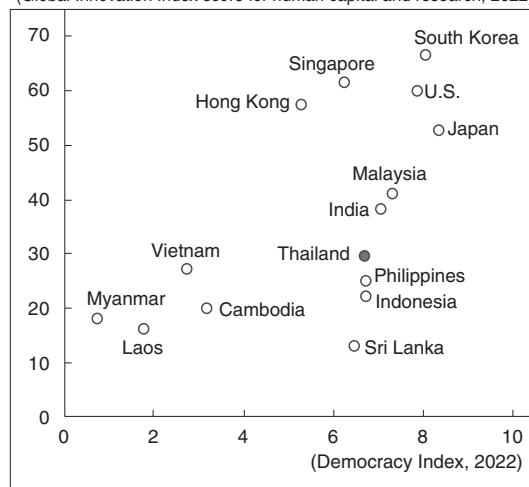
Fig. 17 Share of U.S. Imports of Storage Devices (HS847170 Category)



Source: United Nations UN Comtrade

Fig. 18 Democracy Index and Global Innovation Index

(Global Innovation Index score for human capital and research, 2022)



Source: Prepared by JRI based on World Intellectual Property Organization, "Global Innovation Index 2022" and Economic Intelligence Unit, "Democracy Index 2022"

tages of each country. For its part, Thailand will need to increase the complementarity of business in its own country and other Asian countries, so that such developments have a positive effect on Thailand.

(1) Japan's presence is fading

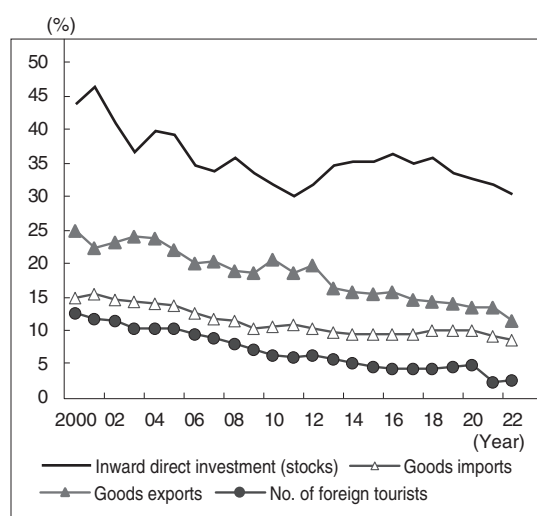
Since the 2000s, Japan's share of Thailand's trade and investment has continued to decline against the backdrop of the rise of China (Fig. 19), but in the nine years since the inauguration of the Prayut administration took office, Japan has seen its presence in Thailand fade even faster.

One factor behind this is the stagnation of automobile production in Thailand, as this is a key determinant of trends in Japan's investment in and exports to Thailand. Following the introduction of the first-time car buyer scheme (which offered tax breaks for households purchasing a car for the first time) under the Yingluck administration,

domestic car sales in Thailand surged toward the end of 2012, and Japanese exports to and investment in Thailand also expanded (Fig. 20). However, when the scheme ended, auto sales slumped. Some thought sales would pick up from around 2018 with the expiry of the five-year ban on selling vehicles purchased under the first-time car buyer scheme, but current production is still well below the peak of the early 2010s as high household debt and the COVID pandemic have weighed on domestic sales and exports⁽⁴⁶⁾. Furthermore, the rapid rise in labor costs in Thailand in the early 2010s and the Board of Investment's (BOI) pivot in 2015 to a policy of reducing tax incentives for labor-intensive industries also created headwinds for Japanese companies. The monetary value of Japanese applications and permits for investment in Thailand soared in the early 2010s as companies rushed to complete the procedures before the system underwent an overhaul, but has remained low since then⁽⁴⁷⁾ (Fig. 21). As a result, the contribution to Thailand's GDP of Japanese companies operating there is dwindling⁽⁴⁸⁾ (Fig. 22).

In light of the following two points, such trends could further accelerate under the new government.

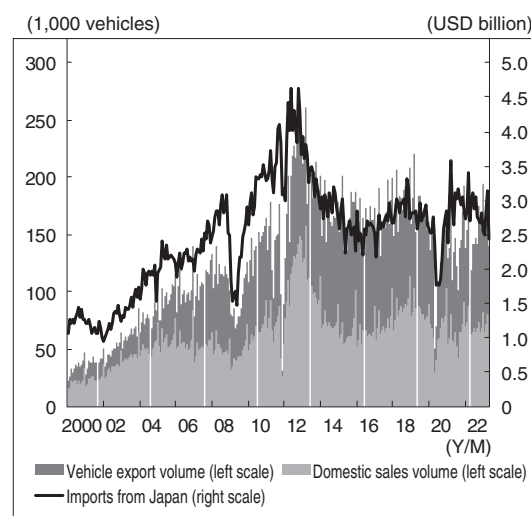
Fig. 19 Japan's Share of Thailand's Trade, Investment, and Tourism



Notes: Figures for inward direct investment up to 2005 are estimates based on data such as rates of change in Japan's outward direct investment by country.

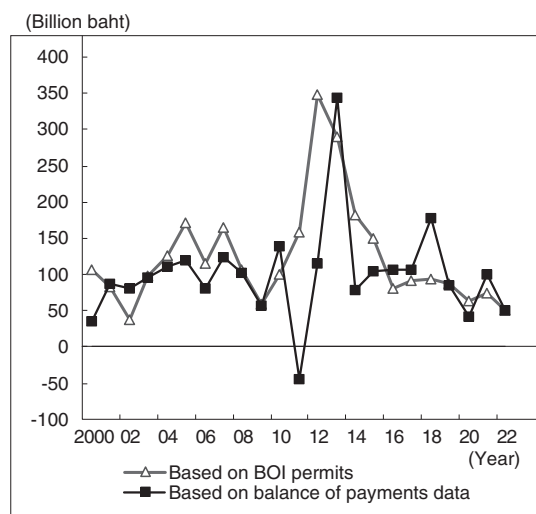
Source: Prepared by JRI based on data from the Bank of Thailand, Ministry of Tourism and Sports, Ministry of Commerce, and Bank of Japan (direct investment balance)

Fig. 20 Value of Thai Imports from Japan and Numbers of Vehicles Sold in Thailand and Exported to Thailand



Source: Ministry of Commerce, Federation of Thai Industries

Fig. 21 Direct Investment from Japan in Thailand

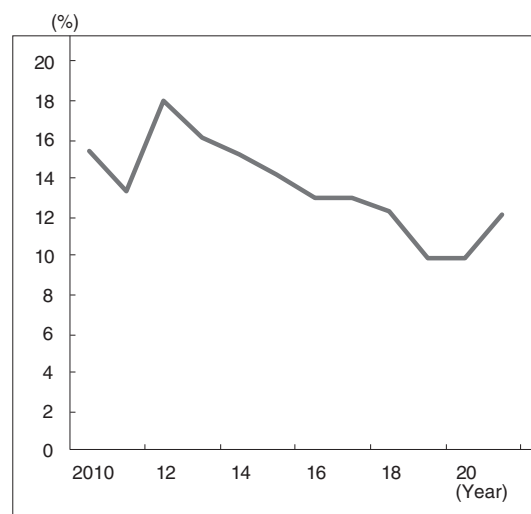


Source: Prepared by JRI based on data from the Board of Investment and the Bank of Thailand

First, the focus of interest for Japanese companies in their Asian operations is shifting from Thailand to other Asian countries where solid growth can be expected over the medium to long term. Looking at the results of a regular survey on the direction of Japanese companies in developing their business in Thailand over the next one to two years, the percentage of respondents saying that they would be expanding there has declined from 60-70% in the early 2010s to 30-40% in recent years, though the percentage of respondents saying that they would make no changes has remained high since 2019 (Fig. 23).

With interest in Thailand diminishing, Japanese companies are becoming especially enthusiastic about India. In 2022, India's GDP surpassed that of the U.K. to make it the world's fifth largest after the U.S., China, Japan, and Germany. And in the same year, India overtook Japan in automobile sales, ranking third in the world behind China and the U.S. Alongside India, Bangladesh and Vietnam are also garnering a lot of attention as destinations for the relocation of labor-intensive industries or as consumer markets, and it is expected that Japanese companies will be pouring resources into building up business infrastructure in these countries. If Japanese firms cut their investment

Fig. 22 Value Added by Japanese Companies in Thailand as Share of Thailand's GDP



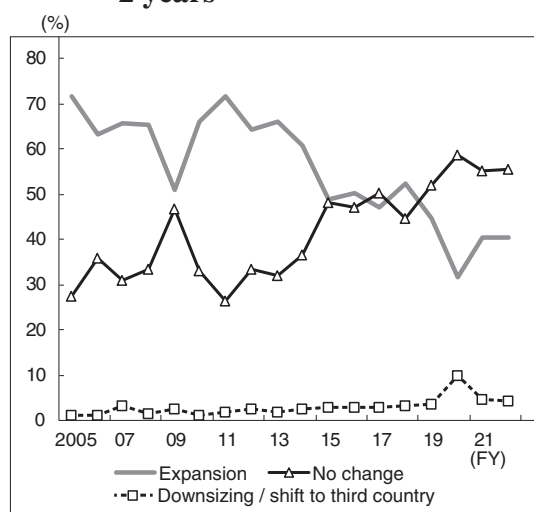
Notes: Added value in Thailand by Japanese companies is calculated as sales in Thailand (based on data from the Basic Survey of Overseas Business Activities) multiplied by the ratio of value added in the ASEAN4 (Philippines, Thailand, Malaysia, Indonesia). The reason that the ratio of value added in the ASEAN4 was used is that figures for operating expenses in Thailand are not publicly available. The ratio of value added is calculated as follows: {net sales - (cost of sales + selling, general and administrative expenses) + (total salaries and wages)} / net sales x 100. Because there is variation in the number of companies for which data was compiled in each category, each figure is adjusted using this formula: no. of companies for which net sales data was compiled / no. of companies in each category. The Basic Survey on Overseas Business Activities does not cover companies in the finance, insurance, or real-estate sectors.

Source: Prepared by JRI based on Ministry of Economy, Trade and Industry, "Basic Survey on Overseas Business Activities," and data from the Bank of Thailand and the National Economic and Social Development Council

budgets and personnel in Thailand to accelerate this shift, the advancement of Thai industry will be delayed, and this could cause a negative cycle of Thai economic stagnation, with more and more and Japanese companies pulling out of Thailand.

Second, Chinese companies are expanding their operations in Thailand. Against a backdrop of rising international competitiveness of Chinese firms and the slower growth of the Chinese domestic economy, Chinese companies have been active in Thailand since the mid-2010s⁽⁴⁹⁾, and this trend is highly likely to keep gathering steam going forward. In particular, with regard to the EV business, which has a significant impact on Japanese

Fig. 23 Results of Survey of Japanese Companies in Thailand Approach to future business plans/activities in the next 1 to 2 years



Source: Prepared by JRI based on data from JETRO, "Survey on Business Conditions for Japanese Companies Operating Overseas"

Table 3 Companies Benefitting from Thailand's BEV Promotion Program, Including Subsidies

Nationality	Brand	Company
Japan	Toyota	Toyota Motor
China	GWM	Great Wall Motor
	MG	SAIC Motor / CP
	BYD	BYD
	NETA	Hozon Auto
Germany	Mercedes Benz	Mercedes Benz

Notes: Companies that have signed an MOU with the Ministry of Finance to benefit from reduced excise taxes and import duties.

Source: Prepared by JRI based on various media reports

companies in Thailand, Great Wall Motor, SAIC Motor, BYD, and others are planning to significantly expand EV production in the country, and have signed memorandums of understanding with the Ministry of Finance related to a program to promote BEVs (battery electric vehicles), which allow them to benefit from lower excise taxes and import duties on the condition that they begin local production by 2024-2025. In addition, several Chinese battery makers, including major player CATL, are currently negotiating a deal with the BOI to produce automotive batteries in Thailand⁽⁵⁰⁾. Meanwhile, Toyota is the only Japanese manufacturer participating in the BEV promotion program (Table 3), as Japanese companies have been slower than Chinese ones in reorienting to EVs.

Many tasks remain for EVs to truly proliferate, such as 1) lowering their prices, 2) establishing recharging infrastructure, 3) increasing power sources, and (4) ensuring stable supplies of the resources needed for battery production and reducing its environmental impact⁽⁵¹⁾. And long term, there is also a risk of the market changing direction. For example, such FCVs (fuel cell vehicles) could ultimately achieve greater penetration than

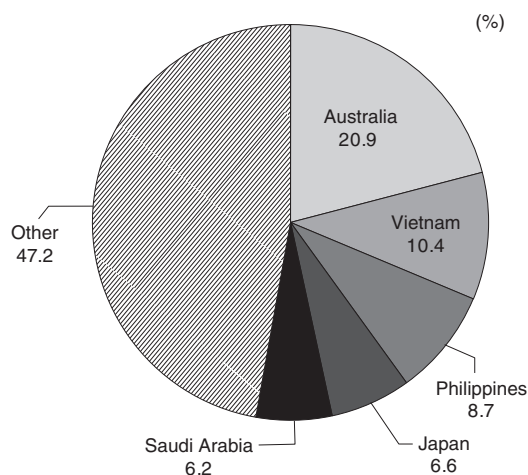
EVs⁽⁵²⁾. Therefore, the strategy of Japanese companies to focus on hybrid vehicles (HV) and plug-in hybrid vehicles (PHV) for the time being, and gradually move on to next-generation vehicles, including EVs, makes a certain amount of sense. Nevertheless, it is necessary to keep on guard for the risk of a rapid decline in the presence of Japanese companies in the automobile industry and related sectors as the shift from gasoline-powered vehicles to lower-priced Chinese-made EVs is happening faster in Thailand than Japanese companies had anticipated.

(2) Perspectives required for the future Japan-Thailand economic relationship

For Japan to continue to develop its business in Thailand by taking advantage of the industrial clusters it has built up over the past several decades, the following actions must be taken:

First, there is a need to increase the complementarity of business in Thailand and other emerging Asian countries. In this area, it will be especially important to be proactive in participating in the international supply chains for next-generation vehicles, and EVs in particular. Although Thailand is a major automobile producer in Southeast Asia, most of its exports of finished vehicles and parts go to Australia (Fig. 24), and the country plays only a minor role in Asian emerging-economy

Fig. 24 Share of Exports of Automotive Components (HS8703 Category) by Country (2022)



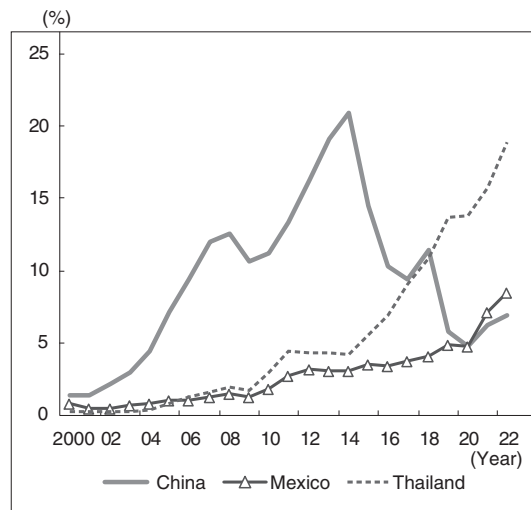
Source: Ministry of Commerce

auto production supply chains. One reason for this is that Japanese automakers in emerging Asian countries procure intermediate goods mainly from China and Japan.

However, the prolonged shortage of semiconductors for automotive applications during the COVID pandemic and the risks associated with disruption of supply from China that was highlighted by China's zero-COVID policy have provided added impetus for producing chips in Thailand. If Thailand can steal a march on other countries in putting together a supply structure for less sophisticated automotive chips, printed circuit boards used in semiconductor fabrication, and the electronic devices required for battery manufacturing, boost production efficiency through the deploying IoT in factories, and establish itself as a supply hub for components used in EV manufacturing in emerging Asian countries, Thai exports will also increase in tandem with the expansion of EV production in other countries⁽⁵³⁾.

In addition, the automotive industry is increasingly striving to reduce CO₂ emissions not only during driving, but also throughout the entire manufacturing process, and Thailand stands to benefit from the shift to bio-based raw materials⁽⁵⁴⁾. Thailand is a major producer of cassava, sugar-

Fig. 25 Share of U.S. imports of Rubber tires (HS4011 Category) by Country



Source: United Nations UN Comtrade

cane, and rice, and has the potential to become an export hub for products made from bioethanol-derived plastics and resins. In tires, a shift from synthetic to natural rubber is underway as a means of decarbonization, and the U.S. is switching from China to Thailand for its tire imports (Fig. 25). Thailand therefore has room to expand exports of biomass-derived products to countries that are endeavoring to decouple from China and decarbonize their economies⁽⁵⁵⁾. If such a trend takes shape, Thailand's problems will gradually be resolved as the incomes of those engaged in agriculture, forestry, and fisheries, which are currently low, improve.

Besides the above, it will also be necessary to strengthen strategies for differentiation from Chinese companies operating in Thailand and to build collaborative relationships. When it comes to finished vehicles, Chinese companies are highly competitive in terms of price, as demonstrated by the Hongguang MINI EV, which went on sale in 2020 for a price equivalent to about 500,000 yen. With EV sales in China topping five million vehicles in 2022, Chinese companies are expected to take on the Thai market by leveraging economies of scale to procure components at low cost. Therefore, if Japanese companies are to maintain a pres-

ence in the Thai market, they will need to win the trust of consumers by selling high-priced passenger and commercial vehicles, a segment in which they enjoy a comparative advantage. It will be essential to provide added value commensurate with the prices by equipping their vehicles with next-generation batteries with longer range and shorter recharging times⁽⁵⁶⁾, reducing their environmental impact over the entire lifecycle, incorporating IoT into them, making autonomous driving safer, and turning vehicle interiors into entertainment spaces⁽⁵⁷⁾.

In addition, component manufacturers will need to establish structures for selling their products not only to Japanese companies but also to Chinese firms⁽⁵⁸⁾. Denso, a major auto component manufacturer, has indicated that it will consider expanding its dealings with Chinese companies in the future, and similar moves are also expected to be seen among Tier 2 and Tier 3 suppliers as well.

Increasing complementarities between other Asian emerging economies and Thailand, achieving differentiation from Chinese companies, and establishing collaborative structures will also be required in industries other than the automotive sector. Again, the key will be decarbonizing operations, but Japanese companies in Thailand have fallen behind in terms of action for decarbonization⁽⁵⁹⁾. First, Japanese corporate headquarters, which oversee their company's operations in Thailand, will need to acquire a deeper understanding of the importance of acting on environmental issues.

Conclusion

Although the domestic and international environment surrounding Thailand does not provide grounds for optimism, Japanese companies should not passively choose the path of maintaining or downsizing their Thai operations. Instead, they should seek ways to reverse the headwinds facing them by translating Thailand's advantages, such as its biomass resources and industrial clusters, into an approach to manufacturing that contributes to addressing the challenge of decarbonization, which is a task for the entire world. This is impor-

tant for improving the economic and environmental sustainability of Asia as a whole, and industry, government, and academia in each country will need to work together to explore possibilities for collaboration.

The Japanese government is trying to take the lead in international cooperation for the decarbonization of society through an initiative called the Asia Zero Emissions Community (AZEC), which it announced in January 2022, and concrete steps are being taken to make this initiative meaningful. For example, AZEC's first ministerial meeting, which was held in March 2023, saw the signing of a memorandum of understanding (MOU) on the use of Thai biomass for power generation and fuel⁽⁶⁰⁾. Action toward decarbonization has only just gotten underway, and going forward it will be necessary to steadily execute the actions outlined in the MOU, and also to design collaborative projects with Thailand to expand the use of biomass in fields other than energy, a topic that was not included in the MOU.

Through such efforts, the hope is that Japan, together with Thailand, will be able to contribute to global economic growth while at the same time protecting the environment.

End Notes

1. Factional strife within the former ruling parties, with the pro-military camp split between those supporting Prime Minister Prayut and those supporting First Deputy Prime Minister Prawit, also contributed to the decline in the unity of the pro-military side.
2. The “middle-income country trap” refers to a situation in which a low-income country, after transitioning to being a middle-income country, sees its economic growth rate sag dramatically and is unable to make the step up to become a high-income country for a long time because of a decline in the export competitiveness of labor-intensive industries and poor competitiveness in capital- and knowledge-intensive industries.
3. The “inequality trap” refers to persistent and unresolved economic and social disparities continuing for many generations (see Francisco H. G. Ferreira and Michael Walton [2005] for a definition).
4. See Suehiro [2018] for a discussion of the three traps facing the Thai economy and its long-term National Strategy.
5. It was formulated to forestall problems such as major policy changes or delays that could result from changes in government.
6. The original 12th Plan covered the period 2017-2021, but in 2018 it was stipulated that it would remain in effect until September 2022.
7. Since the 12th Plan did not set a specific target GPI score the GPI, even a slight improvement could be construed as indicating that the goal had been achieved.
8. Formerly, the only property tax was a tax on income from owned real estate, but in 2020 it was changed to one equivalent to Japan’s fixed asset tax, i.e., levied on the assessed value of real estate.
9. Since it often takes a considerable amount of time for corruption cases to surface and then for investigations and trials to progress following initiation by the National Anti-Corruption Commission, it is possible that people’s perceptions of the corruption situation in Thailand under the Prayut administration have been influenced by corruption trends under the previous administration. For example, under the Prayut administration, progress was reported with investigations and trials relating to allegations of bribery involving the former head of the Tourism Authority of Thailand, suspected corruption in connection with the rice-backed loan program, and allegations of bribery by Rolls-Royce, but in all these cases, the original incidents occurred before Prayut came to power.
10. April 18, 2023, *Bangkok Post*, “Decade of graft cases in ACT report”

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11. Given that the period 2006-2014 included economic downturn phases caused by the global financial crisis toward the end of the 2000s and the floods of 2011, the slowdown in growth in 2014-2022 cannot be attributed solely to special factors such as the COVID pandemic.
 12. The Bank of Thailand has played the central role in tackling the household debt problem by curbing household borrowing through stricter regulations on housing and auto loans and higher policy interest rates, and by expanding the Debt Clinic scheme for restructuring the debts of individuals. However, household debt did not fall at the pace expected.
 13. In Thailand, there is no legal framework for childcare leave, and systems for childcare leave are only available to civil servants and employees of large companies.
 14. While the 12th Plan declared addressing the declining birthrate and aging society as one of its goals, no specific target birthrate was set.
 15. See Kumagai [2019] for a discussion of Thailand's declining birthrate and aging population under the Prayut administration.
 16. See Kumagai [2022] for an overview of the BCG economic model.
 17. Assumed emissions if no action is taken to curb CO₂ emissions.
 18. Thailand aims to achieve "carbon neutrality" by 2050 and "net zero emissions" by 2065. In Japan, the terms carbon neutrality and net zero emissions are often used synonymously, but different definitions are applied in Thailand, where net zero emissions is regarded as targeting CO₂ emissions including indirect emissions.
 19. The Thai government has set GHG reduction targets, but given that the post-COVID pandemic emission trend can only be confirmed for fossil fuel-derived CO₂, Fig. 7 analyzes the progress in achieving targets for CO₂.
 20. The 12th Plan contained more than 100 numerical targets, some of which have been achieved (NESDB [2018]).
 21. It is looking to establish NBZs in the capital city of Bangkok, Chiang Mai in the north, Khon Kaen in the northeast, and Hat Yai in the south, and tax incentives would be part of the plan.

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22. Although the Move Forward Party had been calling for an immediate increase in the minimum wage to 450 baht per day, after meeting with the Federation of Thai Industries (FTI), party leader Pita Limjaroenrat stated that while the party would maintain its goal, it would be flexible in deciding the actual amount, and would discuss the matter with various groups.
 23. Thailand's VAT rate was originally 10%, but currently stands at 7% following repeated extensions of time-limited legislation. Thailand's VAT rate is relatively low among Asian countries, so there is room to raise it to secure stable financial resources. In a report published in May 2023, the World Bank recommended increasing VAT to 10% to finance support for the elderly and low-income earners (World Bank [2023]).
 24. The contentious amendment of the lese majeste law was not included in the pledges set out in the eight-party coalition's memorandum of understanding.
 25. See Household Socio-Economic Survey 2021.
 26. To avoid such problems, the government could expand support for low-income individuals and microenterprises, but limit it to areas such as education and digitalization. However, narrowing down uses and recipients of payouts would be less effective as an election strategy.
 27. Raising the minimum wage has the effect of encouraging companies to do more to increase productivity, but at the same time, a significant rise in labor costs could lead to a reduction in budgets for the investment needed for digitalization and human resource development.
 28. Given that self-employed and unpaid family workers account for a high percentage of Thailand's workforce, and that private sector employees, who are subject to the minimum wage, account for less than 40%, the impact of minimum wage increases on the macroeconomy is limited compared to developed countries, where employees make up a large chunk of the workforce.
 29. There is also a risk of frequent extreme weather events in 2023-2024 due to the El Niño phenomenon, which would put significant downward pressure on the economies of emerging countries that are highly dependent on agriculture and hydroelectric power generation.
 30. See Nimura [2018] for a discussion of slow trade.
 31. The debate over whether or not globalization is progressing also depends on how globalization is defined. Even if the ratio of trade in goods and services to nominal GDP declines, the value of trade itself may continue to increase as countries' economies grow. And as for direct investment, even if the investment flow-to-GDP ratio falls, the investment balance-to-GDP ratio may continue to rise.

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32. Given the difference between the share of each country/territory in the world economy and the share of each country/territory in Thailand's exports, Fig. 11 shows the weighted average of each country's real GDP growth rate, with the weights based on each country's share of Thailand's exports.
 33. In February 2022, Move Forward Party leader Pita posted a comment on Twitter calling for the immediate withdrawal of Russian troops from Ukraine. See Tita Sanglee [2022] for a discussion of the impact of the rise of the Move Forward Party on Thailand's foreign policy stance.
 34. The Thai government had planned to purchase a Chinese-made submarine, but the plan suffered a setback when a German company refused to supply China with the engine for the boat. While China offered to equip the sub with a Chinese-made engine instead, Thailand was unhappy with that proposal and hinted that it might cancel the contract, and this was one of the reasons for the cooling of bilateral relations.
 35. Criticism of reliance on Chinese COVID vaccines has increased. Initially, the Thai government procured the bulk of its vaccines from China, and there was anger that supply routes were being monopolized by large corporations and firms affiliated with the royal value. There were also concerns about the effectiveness of the Chinese vaccines. In response, the Chinese ambassador to Thailand rebutted the criticism in strong language on Facebook, which aggravated the backlash against China among Thai people.
 36. In 2022, the Milk Tea Alliance, an internet-based democracy movement, was increasingly siding with Taiwan and criticizing the Chinese government.
 37. In addition to keeping Thailand in check, another factor behind the prolonged vacancy of the post of Chinese ambassador to Thailand is thought to have been a desire to express opposition to the expansion of the U.S. consulate in Chiang Mai (see Institute of Developing Economies [2022] for a discussion of recent diplomacy with China).
 38. Examples of exports to China that have been hit by bans are Philippine bananas, Taiwanese pineapples, and Australian coal.
 39. Its official name is the Burma Unified through Rigorous Military Accountability Act.
 40. Russia supplied 1% of Thailand's crude oil imports in 2022, down from 3% the previous year.
 41. In 2019, 1.48 million Russian tourists visited Thailand and they spent a total of 103.8 billion baht.

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42. See Japan External Trade Organization [2017] for more information on why South Korean firms chose Vietnam.
43. Thailand's HDD exports to the U.S. have been increasing in recent years due to a surge in demand for HDDs for data centers in conjunction with the COVID pandemic-induced digitalization of the economy and society. Yet given the global shift from HDDs to SSDs (solid state drives), it is unlikely that HDDs will continue to dominate exports to the U.S. over the medium to long term.
44. The 12 participating countries are Barbados, Canada, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Peru, Uruguay, and the U.S. The U.S. has concluded FTAs or other trade agreements with nine of them.
45. For example, the high-speed rail link connecting Bangkok to the EEC is still under construction, and the EECi does not offer convenient access for R&D personnel.
46. While production in 2012 exceeded three million vehicles, in 2022 output had dropped below two million, and low capacity utilization was the key factor behind the low levels of capital investment.
47. Figures for inward direct investment published by the BOI are based on applications and permits, while those in balance of payments statistics are based on actual investment and include M&A, reinvested earnings, investment withdrawals, etc. so the amounts and directions of the two in Fig. 21 sometimes differ significantly (for example, the 2011 figure for reinvested earnings was significantly negative due to the damage caused by the floods of that year, so there is a large gap between the BOI and balance of payments figures).
48. The Basic Survey on Overseas Business Activities, from which the data shown in Fig. 22 is derived, is an all-inclusive survey of Japanese companies with overseas subsidiaries, but has a few limitations. For example, 1) it does not cover the finance, insurance, and real-estate sectors, and 2) responses are received from only 70-80% of the firms surveyed. Therefore, the actual shares of Japanese-affiliated firms in Thailand in the country's GDP are likely to have been higher than the figures shown in Fig. 22.
49. See Suehiro [2022] and Kumagai [2020] for more information on the operations of Chinese companies in Thailand.
50. May 3, 2023, *Bangkok Post*, "BoI woos Chinese EV battery giant"
51. At present, BEVs emit more CO₂ over their life cycle, from production to disposal, than HVs and PHVs do.

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52. Toyota is moving forward with the development of next-generation vehicles, and keeping non-EVs as an option. For example, in 2022 it opened Thailand's first hydrogen station in collaboration with PTT, and has also reached an agreement with CP to produce hydrogen using biogas generated from poultry manure.
53. Thailand is aiming to expand domestic production of batteries for EVs, but Indonesia has easier access to natural resources such as nickel and manganese, and an international division of labor is a possibility, with Indonesia producing batteries and Thailand producing automotive semiconductors.
54. For more on these developments, see *Nikkei xTECH*, "Toyota to reduce CO₂ emissions during car manufacturing by going bio for materials and design," July 13, 2022.
55. In May 2023, Keidanren (Japan Business Federation) announced its "Biotechnological Transformation (BX) Strategy," which sets out a policy of actively utilizing biomass-derived materials in manufacturing (Nippon Keidanren [2023]), so interest in manufacturing products using biomass in Thailand is expected to grow in sectors beyond the automotive industry.
56. Toyota is aiming to introduce a solid state battery EV that can travel 1,200 km on a 10-minute charge in 2027-2028, and if it can reduce the manufacturing costs, the power structure of the EV market could undergo a significant change (*Nihon Keizai Shimbun*, June 13, 2023, "Toyota's solid-state battery EV").
57. To maintain and increase Japan's competitiveness in such fields, it will be necessary to standardize basic software related to connected technologies among Japanese automakers.
58. NNA, "Denso's Strategy for Asia (Part 2)", June 9, 2023
59. Only a little over 30% of companies said that they are already taking steps to decarbonize their operations, with less than 30% of firms stating that they have no plans to do so. (Japan External Trade Organization [2022]).
60. PTT Group and Sojitz have agreed to explore the possibility of establishing a bio-jet fuel production business with a view to bringing carbon neutrality in the aviation industry, and EGAT (Electricity Generating Authority of Thailand) has announced a study of biomass fuel technology and value chain management in Asian countries.

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