

THAILAND: TOURISM, TRADE AND ECONOMY: A CRITICAL REVIEW

*Altaf Hussain Ansari**

Abstract

This paper entitled "Thailand: Tourism, Trade and Economy: A critical Review" is written with the purpose to see overall performance of all the sectors in the development of Thailand. This paper contains four sections in the section 1 it shows introduction, the section 2 mentions tourism which is the very important for the GDP of Thailand, the section 3 investigates the overall performance of the economy of Thai peoples and finally the section 4 describes conclusions and recommendations.

Introduction

Thailand is located in the heart of Southeast Asia, it occupies the western half of the Indochinese peninsula and the northern two-thirds of the Malay Peninsula in Southeast Asia. Thailand is about the size of France. Thailand covering an area of 513,115 sq.km and extends about 1,620 kilometers from north to south and 775 kilometers from east to west.¹ Thailand borders are combined with the Lao People's Democratic Republic and the Union of Myanmar to the North, the Kingdom of Cambodia and the Gulf of Thailand to the East, the Union of Myanmar and the Indian Ocean to the West, and Malaysia to the south. Thailand's capital is the Bangkok and its major cities are from north Chiangmai, from south Songkla, Central region, Ayutthaya and Chonburi, north Eastern, Nakhon Ratchasima and Khon Kaen.²

* Assistant Professor, Area Study Centre, University of Sindh, Jamshoro

Climatically it is a warm and rather humid tropical country with monsoonal climate. Temperatures are highest in March and April with average temperature of 28⁰ Celsius to 38⁰ Celsius and humidity averaging in between 82.8% to 73%.³ Seasons wise it is dry from March to May, rainy in June to October and cool in November to February. Thailand population is approximately 62 million, of which around 6 million live in the capital city, Bangkok and remaining in other parts of the country. They are using electricity 220 volts 50 cycles throughout the country. The national and official language is Thai while English is widely spoken and understood in major cities of Thailand, particularly in Bangkok and in business circles. Government and business offices are open from 8:30 A.M to 4:30 P.M, from Monday to Friday and Saturdays and Sundays are weekly holidays.⁴

The country's central bank is the Bank of Thailand. Major Thai commercial banks include the Bangkok Bank, Siam Commercial Bank, Krung Thai Bank, Thai Farmers Bank and Thai Military Bank. Business hours are from 08:30 A.M to 3:30 P.M. The Thailand currency name is the Baht: The Baht is the standard currency unit. 1 Baht = 100 Satangs. Bank Notes: 20, 50, 100, 500, and 1,000. Baht Coins: 1, 5, and 10 baht.⁵

There are 6 general television stations, Channels 3, 5, 7, 9, 11 and TITV telecast local variety shows, newscasts and live coverage of special events. Cable TV is also available by subscription, and over 100 radio stations in Bangkok. All are state-owned but private companies are given air time concessions for their programs. Broadcasting is done in both Thai and English, with news broadcasting every hour. In the same way there are over 20 Thai morning dailies in Bangkok. Some of the leading Thai papers include Thai Rath, Daily News, Siam Rath, Matichon, Naew Na, Siam Post, Ban Muang, Krung Thep Turakij, Wattachak and the Manager. Two major English-language dailies are the Bangkok Post and The

Nation. There are numerous English-language magazines and local publications in Japanese, Chinese and other European languages. Many major international newspapers, magazines and books are also widely available. Thailand's freedom of the press is considered the strongest in Southeast Asia as evidenced by hundreds of Thai-language publications on virtually every subject.⁶

Foreign nationals must possess valid passports and appropriate visas before entering the country. Foreign visitors from several countries are permitted to stay up to 30 days without visas, while visitors from some other countries are entitled to apply for visas on arrival with stay of up to 15 days, provided they possess tickets confirming departure within 15 days at all ports of entry. Transit visas permit stay for up to 30 days and tourist visas for 30 or 60 days. Non-immigrant, diplomatic and official visas permit stay for 90 days.⁷ From the health point of view especially, Bangkok has numerous clinics and hospitals catering to a variety of needs. Major private and public hospitals are equipped with the latest medical technology and internationally qualified specialists. Almost all pharmaceuticals are widely available. Drinking of tap water should be avoided in Thailand.

The Tourism Sector

The tourism sector continues to play a key role in the economic and social development of Thailand economy. Known round the world for enduring hospitality and welcome of its people, its ancient culture and Thai cuisine, record numbers of tourists continue to take advantage of the myriad tourist destinations and products the kingdom has to offer. The number of foreign visitors to Thailand has steadily increased and the period of 90's resulting in the "Golden Decade" of tourism.⁸ The country is gifted with a wealth of natural resources which serve as a backdrop for both business and leisure travelers. The scenery is rich and varied, ranging from misty mountains and lush rain forests in the north, through the flat

emerald rice fields of the central plains, to white sandy beaches and magnificent tropical islands along the eastern seaboard and throughout the south of the country.⁹

The Tourism sector has worked closely with other government agencies and the private sector to develop a sophisticated array of tourism products for visitor. From sports to eco and agro tourism, shopping to health spas, culture, heritage and architecture: Thailand offers something for everyone.¹⁰ [Thailand into the 2000's, Bangkok: The National Identity Board, 2000]

The Economy of Thailand

In Thai economy rice growing is the bedrock. It is the enterprise that enables the Thai people and culture to flourish. There is much more now to the Thai economy besides rice but rice was the basis for the economy and, until recent decades, the dominant industry. Now rice growing and all other agricultural industries, including forestry and fisheries, constitutes less than one sixth of total economic production. Manufacturing and domestic trade (wholesale and retail) both amount to more than that, roughly one fifth of GDP each.¹¹

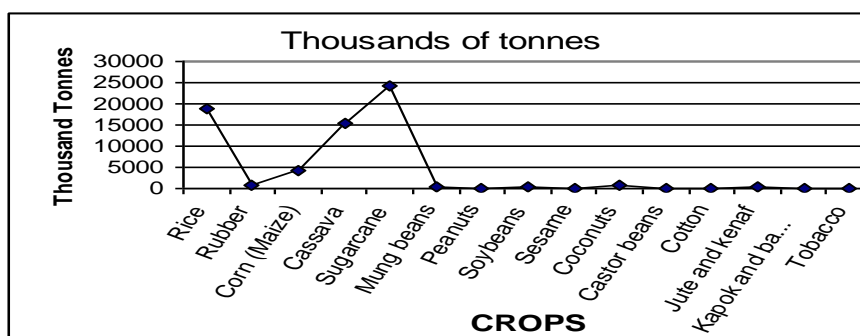
Although the following table gives the tonnage of the various Thai crops rather than the monetary value it does serve to show the variety and nature of Thai agriculture.

Tonnage of Thai Crops in 2005

S.No.	Crop	Thousands of tons
1.	Rice	19026
2	Rubber	790
3	Corn (Maize)	4092
4	Cassava	15225
5	Sugarcane	24410
6	Mung beans	325

7	Peanuts	171
8	Soybeans	350
9	Sesame	33
10	Coconuts	890
11	Castor beans	28
12	Cotton	57
13	Jute and kenaf	240
14	Kapok and bambax	42
15	Tobacco	31

Source: Thailand and the Financial Crisis of (2006) Ministry of Agriculture, Bangkok, Thailand.



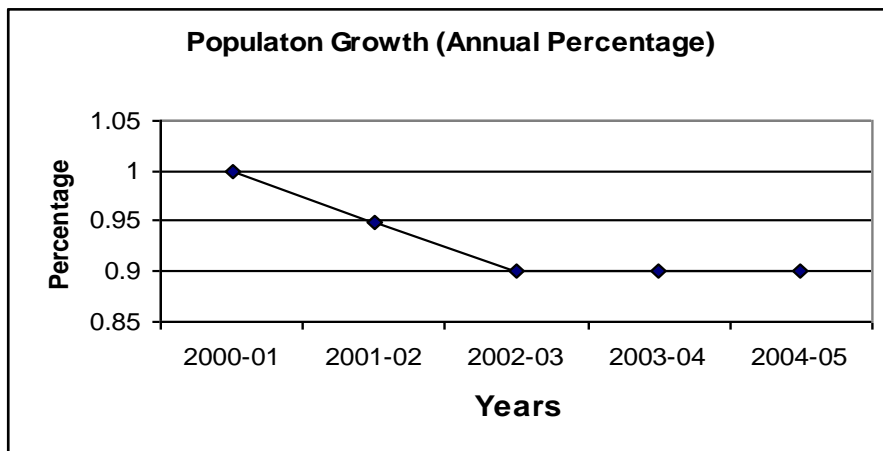
Source: Thailand and the Financial Crisis of (2006) Ministry of Agriculture, Bangkok, Thailand.

Significance of Thailand

Thailand is a lower middle-income country comes under the East Asia and Pacific region, according to the classification made by the World Bank on the basis of Region and Income for the year 2005. The country has a total surface area of 513.1 thousand square kilometer as of the year 2004 with a forest area of 148.1 thousand square kilometer as in 2000. The total population of the country as of the year 2004 has reached at 63.7 millions with an annual percentage growth rate of 0.9.¹²

The following graph gives a clear picture upon the annual percentage growth rate of the population of the Thailand.

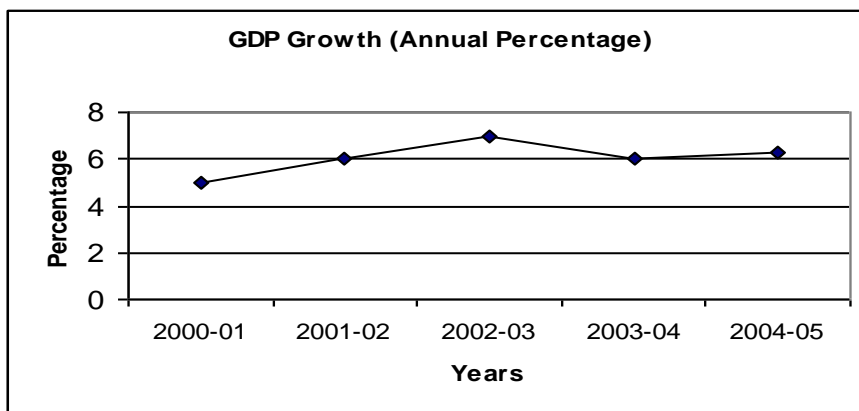
Figurer-1: Population Growth



Source: Central Bank of Thailand, 2006.

In Thailand life expectancy at birth years as of 2004 is calculated at 70.5. Infant mortality rate per one thousand life birth is 18.2 in the same year. Under the age of 5, the mortality rate per one thousand is 21.2. The literacy rate (adult total that is the percentage of peoples ages 15 and above) has reached at 92.6 as in 2004.¹³

The Gross National Income, Atlas method of the country as in 2004 has reached at 158.4 billions in current US \$ with a per capita GNI of 2,490.0 in current US \$. The Gross Domestic product of the country as in 2004 is 161.7 billions in current US \$ with an annual percentage growth rate of 6.2. The following graph gives a clear picture upon the growth rate of GDP in the country.¹⁴

Figure-2: GDP Growth

Source: Central Bank of Thailand, 2006.

Economic Performance 2005

In the year 2005, Thai economy was affected by surged oil prices and negative domestic factors including drought, tsunami, avian influenza and unrest in the southern provinces. As a result, the economy expanded only 3.25% during the first quarter and 4.6 per cent during the second quarter. However in the second half of the year, the economy has rebounded as a result of the surge in exports while imports slowed down and with the recovery of tourism sector. The economy expanded by 5.3 per cent in the third quarter and the economy expansion is expected to continue impressively into the fourth quarter.¹⁴

All in all, in 2005, the economy is forecasted to expand by 4.7%, though higher than many expected it is noticeably lower than the growth rate of 6.2 per cent in 2004. The current account deficit is expected to be near 3.2 billion US\$, equivalent to 1.8 percent of GDP, while annual unemployment rate is expected to average at 1.9 percent and the inflation rate is at 4.5 per cent.¹⁵

Economic Outlook 2006

In the year 2006, the economic momentum is expected to gain strength on the back of increasing investment, continued recovery in tourism, and further expansion in private consumption underpinned by rising real income both in private and public sectors as the inflationary pressures are expected to cool down in the latter half. The 2006 economic growth is projected at 4.7-5.7 per cent with 3.5-4.5 per cent inflation rate, and current account deficit of approximately 2.2-2.7 per cent of GDP.¹⁶

Thailand's Balance of Trade

In the year 1996, a deteriorating economy and a decline in export growth created a current account deficit that amounted to 8% of GDP. At the same time, high interest rates and a currency joined to the dollar attracted money to an economy without sufficient productive assets to support the inflow. The government was forced to follow a high interest-rate policy to defend the currency. When the cost of doing so got too high, the government let the currency float against the dollar, which resulted in 20% devaluation. In the mid-1997, Thailand's short-term debt obligations had reached \$ 23.4 billion, consuming three-quarters of its foreign reserve holdings.¹⁷ In August of 1997, Thailand agreed to an economic restructuring package with the IMF that included \$10-20 billion in standby credits. The GDP contracted by 10.8% in 1998, compared with an average growth rate of 8.5% from 1990 to 1996. The economy since the 1997-98 crises subsequently rebounded, and strong export performance drove economic growth in 1999-2000. Nevertheless, structural reform was still needed, especially in agriculture, education, and SMEs. Growth declined in 2001, due in part to the global economic recession, a downturn in export demand, a sluggish pace of corporate debt restructuring, and a struggling financial sector. Severe Acute Respiratory Syndrome (SARS) negatively impacted trade and travel in 2003. Export and investment growth was

expected to increase in 2004, which was anticipated to lead to increase in the demand, and thus a slight slow in growth. According to the government of US that in 2001 the purchasing power parity of Thailand's exports was \$ 65.3 billion while imports totaled \$ 62.3 billion resulting in a trade surplus of \$3 billion. According to the IMF reports that in 2001 Thailand had exports of goods totaling \$ 63.2 billion and imports totaling \$ 54.6 billion. The services credit totaled \$13 billion and debit \$14.6 billion.¹⁸

International Trade

Thailand has a long history of international trade. Beginning in the 15th to 18th centuries, during the reign of the Ayutthaya monarchy, foreign merchants who lived near the kingdom's capital conducted trade with foreigners. The country's first significant trade treaty was the Bowring Treaty in 1855 with Britain. Shortly after that, it also signed treaties with 14 other countries including the United States, France, Russia, Sweden, Spain, and Japan.¹⁹

Today, the United States, Japan, and the European Union continue to be its top trading partners, absorbing 52.6 percent of all exports in 1999 and supplying 48.8 percent of total imports in the same period. Its other partners are Hong Kong, China, and the Association of South-East Asian Nations (ASEAN) countries, the most significant of which are Singapore and Malaysia. Other countries apart from those mentioned accounted for 18.4 percent of exports and 21.6 percent of imports in the same period.²⁰

Thailand's major exports are rice, tapioca products, cane sugar and molasses, and rubber for agriculture; chemicals, polymers, and plastics for the manufacturing industry; and gypsum, natural gas, and feldspar for the mining industry. Bank of Thailand statistics as reflected in the Asian Economic Survey of 2000 identified the country's major export products as machine parts, circuits, frozen shrimp, prawns, sundry items, computer parts, garments, vehicle

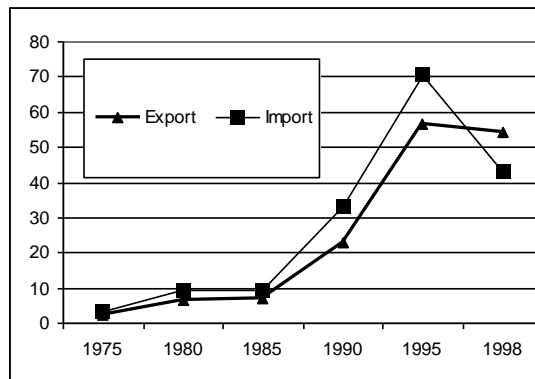
parts, and plastic products. On the other hand, its major imports are petroleum, integrated circuit parts, and chemicals.²¹

Table-1

Thailand Trade Balance

Year	Export	Import
1975	2.208	3.280
1980	6.505	9.214
1985	7.121	9.242
1990	23.070	33.379
1995	56.439	70.776
1998	54.456	42.971

(Expressed in Billions of US\$)



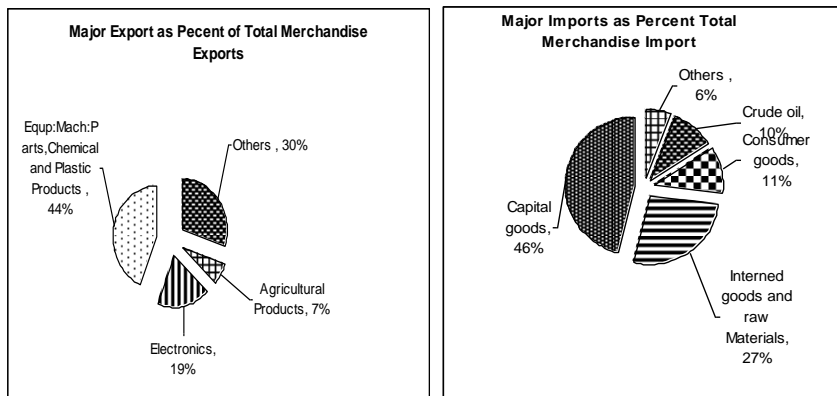
Source: IMF International Financial Statistics Year Book 1999.

The balance of trade was consistently negative until 1998, which means that the value of the country's imports was bigger than the value of its exports. The discrepancy was minimal in 1970, with import value exceeding export value by only US\$541 million. In 1975, imports exceeded exports by US\$1.072 billion, which doubled in 1980 to US\$2.709 billion. In 1985, imports still exceeded exports by US\$2.21 billion, which had quadrupled by 1990 to US\$10.309 billion. In 1995, the balance still stood in favor of imports by US\$14.337 billion. In a considerable reversal, imports in 1997 exceeded exports by US\$5.319 billion but the following year, exports exceeded imports by US\$11.485 billion.²²

Despite the uneven balance of trade, the Thai economy continued to grow by an average of 6.8% in the 1970s, 7.5% in the 1980s, and 8% in the early 1990s before the Asian financial crisis. This growth can be attributed to 2 factors, namely the boom of the tourism industry and

the inflow of foreign direct investment. According to International Historical Statistics, in 1970, the services sector contributed 44.1% of GDP, which increased in 1980 to 49.7%. Though this contribution fell to 46.9% in 1999, it is safe to say that the dollar earnings from the tourism industry generated a substantial amount, enough to offset the trade imbalance.

Robust export growth helped Thailand to start its recovery in 1999. In 2000, export demand continued to be a major factor contributing to economic growth. The value of exports, in dollar terms, rose by 19.6% over 1999. However, export growth began to taper off toward the end of 2000, following a slowdown of the US economy in the second half of the year and a downturn in the global electronics cycle. About 22% of Thailand's total exports go to the US and about 19% of total exports are electronics.²³ In 2000, the value of imports grew rapidly at 31.3% from a low base in 1999, with a sharp increase not only in net oil imports (from 2.7% of GDP in 1999 to 3.7% in 2000), but also in raw materials and capital goods. The increase of capital goods was in line with the increase in gross capital formation (or investments), which grew by 18.9 percent in 2000. Despite quick import growth, the trade account posted a surplus of \$5.5 billion at the end of 2000. Nevertheless, the rapid growth of imports in 2000 led to a narrowing of the current account surplus, which declined from \$12.5 billion (10% of GDP) in 1999 to \$9.21 billion in 2000 (7.5% of GDP). Services income performed strongly in 2000, as net income from tourism surged, helping to offset import growth.²⁴

Figure 4: Composition of Exports and Imports, 2000

Note: Electronics include computers and parts as well as integrated circuits and parts. According to Bank of Thailand estimates. Thailand's share of electronics (which includes computers and parts, integrated circuits and parts, electrical applications, and telecommunication equipment) to total exports was 27.5 percent in 2000.

Source: Bank of Thailand, April 2001 Inflation Report Bangkok.

Impact of Foreign Direct Investment

Foreign Direct Investment (FDI) is another major factor in the growth of the economy since mid-1980s. In 1988, FDI infused US\$1.25 billion into the economy, partly explaining the 7.5 percent growth despite a US\$4.332 billion discrepancy in balance of trade in favor of imports. Foreign direct investment doubled to US\$2.5 billion in 1990.²⁵

Thailand is a member of several international trade organizations including the ASEAN Free Trade Area (AFTA), the Asia Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO).

Conclusions / Recommendations

It is concluded that Thailand is located in the South East Asia and its borders are combined with the Laos, Myanmar, the Kingdom of Cambodia Thailand is warm and rather humid tropical, and season's wise it is the dry in March to May, rainy in June to October, cool in November to February. Near around 6 million people live in the capital city, Bangkok and remaining in other parts of the country, its official language is Thai while English is widely spoken and understood in major cities, particularly in Bangkok and in business circles, Saturday and Sunday is the holiday. Tourists are permitted to stay up to 30 days without visas, while visitors from some other countries are entitled to apply for visas on arrival with stay of up to 15 days, provided they possess tickets confirming departure within 15 days at all ports of entrance. Journey visas permit stay for up to 30 days and tourist visas for up to 30 or 60 days. Non-immigrant, diplomatic and official visas permit stay for up to 90 days. In Thailand rice is dominant industry and forestry and fisheries, constitutes less than one sixth of total economic production. The other sectors like, manufacturing and domestic trade both amount to more than one fifth of GDP. It is clear that Thailand is the lower middle-income country.

Thai economy in the year 2005 was affected by surged oil prices and negative domestic factors including drought, tsunami, and avian influenza. However in the second half of the year, the economy has rebounded as a result of the rush in exports while imports sluggish down and with the recovery of tourism sector, the economy expanded by 5.3%. In the year 2006, increasing investment, continued recovery in tourism, and further expansion in private consumption underpinned by rising real income both in private and public sectors as the inflationary pressures are go down in the latter half. The 2006 economic growth is projected at 4.7-5.7% with 3.5-4.5% inflation rate, and current account deficit of approximately 2.2-2.7% of GDP.

It was observed from the above study that the structural reforms are needed in tourism, agriculture, industry, education and in financial institutions.

Thus, finally it is recommended that the Thai government must provide more incentives to the farmers with latest technology, and it should focus more on the tourism industry because the advance countries of the world are too much costly for the tourism sector, instead of developing country like Thailand.

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