

# Executive summary

## COVID-19 has abruptly interrupted Thailand's socioeconomic progress

Thailand made impressive economic and social progress over the past decades, thanks to its strong policy framework, friendly business climate, and attention to citizens' well-being. However, the COVID-19 crisis has interrupted this progress, and a severe recession will occur in 2020, like in most other countries. The economic recovery will be slow, and achieving high-income country status will require more policy reforms focused on productivity growth and human capital accumulation. Together with environmental protection and inclusive growth, these goals are at the centre of the government's "National Strategy 2018-2037".

Growth will contract sharply in 2020, before bouncing back in 2021 (Table 1). The government has managed the COVID-19 outbreak well and rapidly flattened the curve of new cases and deaths. Nevertheless, the lockdown measures to contain the outbreak have severely affected domestic demand. Tourism has been hit particularly severely. Macroeconomic policies have been supportive, but risks are nonetheless tilted to the downside due to high uncertainties about the future course of the outbreak. Investments to strengthen the healthcare system and to prepare for a second wave, with sufficient protective and testing capacity, would help to bolster confidence.

**Table 1. Activity is projected to contract, before bouncing back in 2021**

	2018	2019	2020	2021
<b>Real GDP</b>	4.2	2.4	-6.9	3.5
Private consumption	4.6	4.5	-3.2	3.3
Exports	3.3	-2.6	-19.2	6.0
Imports	8.3	-4.4	-16.4	5.2
<b>Inflation (CPI)</b>	1.1	0.7	-1.1	1.8
<b>Federal government fiscal balance<sup>1</sup></b>	-2.2	-2.6	-7.8	-6.8
<b>Public debt, gross<sup>1</sup></b>	41.8	41.2	49.8	55.8
<b>Current account balance<sup>1</sup></b>	5.6	7.0	4.5	4.9

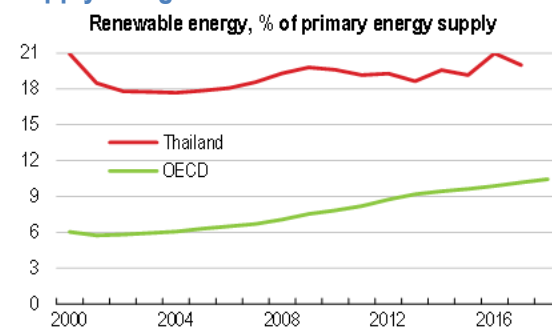
Note: 1) % of GDP.

Source: OECD calculations.

**Vulnerable workers are being hit hard.** Even before the outbreak, labour informality was widespread despite the rapid eradication of extreme poverty. Informal workers lack access to sufficient social protection, including training opportunities, weighing on overall productivity. Together with targeted formalisation measures, particularly for women, the emergency supports need to be gradually transformed into structural measures to up- and re-skill vulnerable workers, thus making the post-outbreak economy more inclusive and productive.

**Low oil prices risk undermining efforts to mitigate climate change during the post-COVID recovery.** Instead, further investments in renewables energy capacity could be key levers for a sustainable economic recovery (Figure 1). The tourism industry also needs to become greener and more productive in the recovery phase by adopting digital technology, especially in rural areas. In addition to preserving the country's rich natural and cultural assets, a better management of local environments, including water and waste, would shore up the whole attractiveness of the region.

**Figure 1. The share of renewable energy supply is high**



Source: IEA, IEA World Energy Statistics and Balances Database.  
StatLink  <https://stat.link/ukwclv>

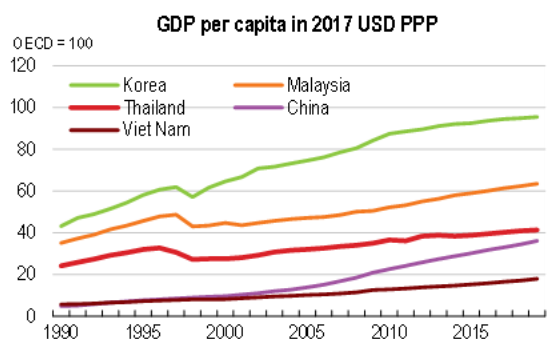
## Macroeconomic support is needed

**Thanks to its sound macroeconomic policy framework, Thailand was well placed to respond rapidly to the sharp economic downturn.** Monetary policy has been quick to inject liquidity and support credit, while fiscal policy has cushioned the loss of income and helped struggling companies.

**Inflation has dropped sharply, not only due to low energy prices, but also to weak demand, raising concerns about deflation and fast-deteriorating economic prospects.** The Bank of Thailand has reacted quickly, cutting its policy rate to a record low level. If downside risks materialise, the Bank could ease its monetary stance further. The use of additional policy tools should also be considered if space to lower its policy rate becomes insufficient.

**Fiscal policy has focused on providing financial relief to affected households and enterprises.** The size of the fiscal measures included in the various packages (14.8% of GDP) has been sizable. This has been made possible by ample fiscal space, thanks to its past prudence, and measures to contain the deficit and public debt prior to the crisis. After the exit from lockdown measures, fiscal resources should be reallocated to boost public investment and foster the long-term growth potential (Figure 2).

**Figure 2. The catch-up with advanced countries has slowed down**



Source: World Bank, World Development Indicators Database.  
StatLink  <https://stat.link/fh982t>

**The tax and transfer system has little impact on the distribution of income.** Revenue collection remains low, and relies strongly on VAT, which is not progressive. In the long term, rapid population ageing will put pressure on fiscal sustainability. Higher tax revenue will be needed to strengthen social and healthcare expenditure.

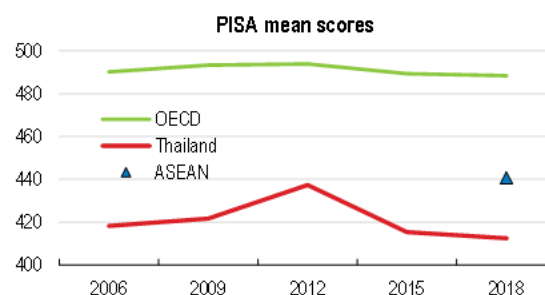
## Getting the right skills for prosperity

**Thailand has made remarkable progress in expanding access to education.** Participation in general education in Thailand is high, particularly at the primary level, with access to primary education nearly universal.

**The number of out-of-school children has fallen since the turn of the century,** though many students from the poorest families still do not attend school, and the rates of exclusion are higher in rural areas and among various ethnic and linguistic communities. Consequently, students of the age 15 achieve lower scores in reading, science and mathematics, on average, than OECD countries and Asian peers (Figure 3).

**The share of highly educated workers has nonetheless increased significantly and many young graduates hold degrees in engineering and manufacturing, social sciences and ICT.** Although the wage premium for university degrees remains strong, it has declined relative to, for example, lower secondary qualifications. The rapid expansion of tertiary education has not always been matched with job opportunities for graduates. High-quality career guidance services, together with policies stimulating the demand for higher-level skills in the labour market, will be essential.

**Figure 3. PISA scores are low**



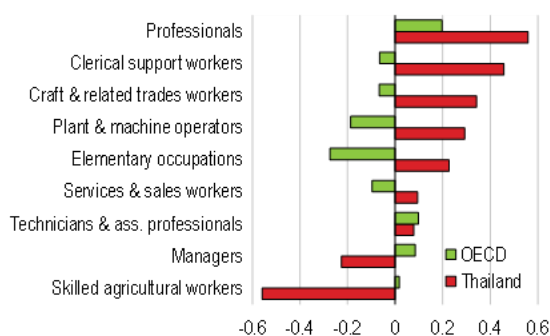
Source: OECD (2019), PISA 2018 Results (Volume I).  
StatLink  <https://stat.link/qc5u9s>

**Because of skills mismatches, substantial labour shortages prevail in a range of occupations and industries.** The largest shortages are found in professional and office support occupations, but also in more technical occupations, like crafts and related trades, machine operators and assemblers (Figure 4).

### This situation makes it important to improve the matching of demand and supply of skills.

Thai employers could greatly benefit from a more thorough analysis of the type of skills that they need to hire, and should be involved more actively in the formulation of vocational education and training programmes. Efforts are being made to provide high-quality career guidance, and this could be further expanded.

**Figure 4. Skills shortages are substantial**  
Shortage (+) and surplus (-) intensity, 2018 or latest



Source: OECD, Skills for Jobs Database.

StatLink <https://stat.link/09bq7u>

### Expanding foreign trade in services

#### The services sectors have become important (Figure 5) and essential to international trade.

Compared to its very large tourism sector, the sector of high-end services remains small. As the COVID-19 pandemic has severely affected international tourism, nurturing other services exports would make the Thai economy more resilient. As IT and information, and professional services are traded indirectly through value chains and are now crucial elements of manufacturing, strengthening these services would benefit Thailand in reconfiguring its participation in global value chains and enhance the competitiveness of its manufacturers.

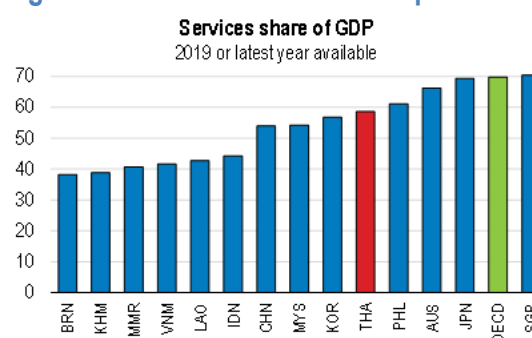
#### The expansion of services sector is hindered by tight regulations.

Liberalising these sectors would restore their competitiveness and boost productivity not only in the services sectors themselves, but also in manufacturing sectors that rely on these services as input. The government recognises its importance, but there are still a number of barriers, notably in international mobility of skilled workers and FDI.

### As goods and services trades are intertwined, barriers to both must be addressed in a coherent manner.

Thailand has committed to trade integration, but can benefit more from service-oriented Preferential Trade Agreements (PTAs). PTAs that contain ambitious regulatory reforms “behind the borders”, such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), could provide the Thai manufacturers with better access to more efficient services providers.

**Figure 5. Services sectors are important**



Source: World Bank, World Development Indicators Database.

StatLink <https://stat.link/p17ag3>

#### Foreign direct investment is essential to expand exports of services.

Restrictions on inward FDI have been eased in manufacturing, but not sufficiently in services. Eliminating FDI restrictions would not only spur employment and exports, but also benefit consumers.

#### As trade integration would entail job displacement and wage adjustment, policies will need to be put in place to mitigate the impact on affected workers.

In addition, since opening markets would stimulate demand of the manufacturing sector for more sophisticated business services, it would increase the demand for highly skilled workers, exacerbating the existing skills imbalances. To maximise the benefits of services trade integration, Thailand needs to step up policies to re- and up-skill workers and make the labour market more flexible. Particularly, given the significant regional disparities and a large share of agriculture employment in Thailand, facilitating labour force adjustment among different sectors and occupations is crucial.

## MAIN FINDINGS

## KEY RECOMMENDATIONS

**Macroeconomic policy, fiscal sustainability**

The COVID-19 outbreak has severely hit economic activities, and growth is expected to be negative in 2020 and remain weak, while there is the high risk of a second wave of the pandemic.

As high uncertainty about the future course of the outbreak and weak employment prospects weigh on confidence of businesses and households, the recovery will be slow, which would have a scarring effect on long-term productivity.

Although the government's fiscal position has been healthy, spending needs will increase further if the COVID-19 outbreak worsens.

Inflation has dropped sharply and is expected to be negative in 2020 before bouncing back to the lower bound of the target in 2021, with risks tilted to the downside.

Extend the emergency support measures to vulnerable households and SMEs, if the situation worsens.

Strengthen the capacity of public health system including testing.

In the short run, maintain employment and stimulate demand.

As the recovery becomes steady, boost the productive capacity of the economy by gradually shifting from income and employment supports to structural measures including the up- and re-skilling of workers.

In case further spending is required, use the available fiscal space within the fiscal constraints, and ensure cost-effectiveness and transparency.

Keep monetary policy very accommodative, and if downside risks materialise, reduce the policy rate further.

Consider additional monetary policy tools, if interest rate cuts further narrow policy space.

**Boosting productivity, tackling inequality and informality and narrowing gender gaps**

Whistle-blower protection is partially covered by separate laws.

Labour informality is high and female workers are concentrated in the informal sector, including as domestic workers.

Consider developing a single dedicated law to protect whistle-blowers.

Lower the costs of formalisation by reviewing the stringent employment protection policies and preparing customised policy measures to the targeted people with enhanced awareness among vulnerable people. Reach out to female informal workers and make formalisation measures more in line with their needs.

**Greening growth**

The share of renewable energy production is growing, but still lower than in other regional peers.

Mass tourism and narrow stakeholder involvement have caused degradation of tourism resources, while the overall productivity level of the tourism industry has been low.

To attain a sustainable high growth path, invest in green infrastructure, particularly strengthen the capacity of renewable energy production.

Encourage further digitalisation of the tourism industry, especially in rural areas and the reduction of its environmental footprint.

Involve wider local communities to retain broader environmental resources, including the management of water and waste.

**Getting the right skills for future prosperity**

Skill needs in the Thai labour market are not assessed in a regular and systematic way.

Student achievement is low by international standards and regional inequalities are large.

Despite a slight decline in recent years, the wage benefit to university degrees is strong.

Data collection and analysis of participation of adults in training and employers' provision of training are lacking.

Workers going through structural changes do not have sufficient labour market information and access to necessary trainings.

Develop robust tools to regularly assess skill needs at the national, regional and sectoral level.

Consolidate the implementation of school curricula and improve education infrastructure in rural areas.

Pair skills policies with policies that stimulate the demand for high-level skills in the labour market by lowering barriers to entry for firms, intensifying efforts to boost technology adoption levels and actively promoting entrepreneurship through professional and educational channels.

Sufficiently use labour market information to develop relevant policies and promote adult learning programmes.

Promote targeted support (e.g. career guidance and trainings on skills in high demand) for workers in jobs with high risk of significant changes.

**Making the best of international trade in services**

Services sector markets in Thailand are more strictly regulated than in other Asian countries.

Restrictions of FDI tend to be stricter in the services sectors.

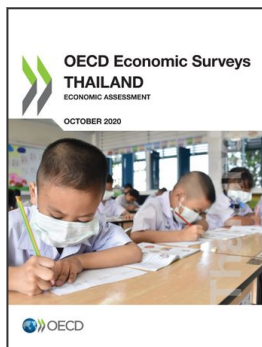
Thailand has concluded preferential trade agreements (PTAs), some of which contain services elements.

Remove barriers in restricted sectors, particularly regarding the international mobility of skilled workers by expanding the coverage of Smart Visa.

Remove obstacles to FDI by relaxing the rules on capital thresholds and listed sectors.

Pursue PTAs that contain ambitious regulatory reforms beyond the current commitments under the General Agreement on Trade in Services (GATS).





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