

Thailand's Strategy for Coping with the Gulf Crisis and New Oil Prices*

Narongchai Akrasanee

In response to favorable world economic situations, the Thai economy started to grow rapidly in 1986, reaching the unprecedented growth rate of 13.4 percent in 1988. Although the growth rate was lower in 1989, it was still estimated to be as high as 12.2 percent. Manufactured exports, foreign investment, and to a lesser extent, domestic investment and consumption have all been responsible for this unprecedented economic boom. During the first half of 1990, results of the economic boom were still evident throughout the country. The share prices kept breaking new high records. Construction confusion and communications congestion were the order of the day. The consensus was that for 1990 and beyond, moderately high economic growth rates would prevail. Even on August 6—when the full Cabinet and the country's top planners met to map out the strategy for the Seventh Five-Year Plan covering the period of 1992-1996—it was agreed that the targeted average annual growth rate should be set at 9 percent.

The events subsequent to the August 2 invasion into Kuwait by the Iraqi army have prompted all economic forecasters to revise their growth rates downward for the short- and medium-terms. The Thailand Development Research Institute is also predicting lower growth rates for the Thai economy. But the Institute is confident of Thailand's financial strength and believes that through proper measures designed to deal with the impact of the Gulf crisis and higher oil prices, the Thai economy will be able to grow at moderate rates, which should not be lower than those of most countries in the world.

TDRI's pre-Gulf crisis mid-year forecast confirmed the high-growth scenarios of the Thai economy, albeit at lower rates than in previous years. The 1990 growth rate was expected to be 9.6 percent, with the inflation rate stabilizing at 6.2 percent. The lower growth rate was due to slower export growth in 1990, which was slightly more than half the export growth achieved in 1989. However, financially the Thai economy has become stronger. The government is expected to have a treasury surplus of more than Baht100 billion. The country's foreign exchange reserve will pass US\$13 billion, and the debt service ratio will remain at about 12 percent.

The Gulf crisis and the new higher oil prices will adversely affect the prospects of the Thai economy—as they would affect most other economies of the world that are trade-oriented and net oil importers—through their impact on economic growth and inflation. The impact will be minimal for 1990 because only the country's performance during the last quarter of the year will be affected. If the average oil cost to Thailand during the last quarter is about US\$23-US\$25 per barrel, the annual growth rate and the inflation rate will be about 9.3 percent and 6.5 percent, respectively.

The impact of the Gulf crisis on the Thai economy in 1991 is expected to be more severe. If the average growth rate of the OECD countries declines to one-half of what was originally expected—about 1.5 percent—and if the annual average cost of oil to Thailand is US\$25 per barrel, then Thailand's growth rate is expected to be 5.3 percent, with a 7.8 percent inflation rate. An average oil cost of US\$23 per barrel will improve the economic growth rate and the inflation rate to 6 percent and 7.3 percent, respectively. In summary, if the Gulf crisis cuts OECD growth by half and results in an average crude oil price of US\$25 per barrel and if the government does not take any other action apart from adjusting the retail oil prices, then the Thai economy is expected to grow at about 5 to 6 percent in 1991. TDRI does not offer forecasts for the years beyond 1991 under this Gulf crisis scenario.

The impact of the Gulf crisis on the Thai economy in 1991 is strong because the Thai economy has been growing rapidly only for a few years. This growth has been strongly export-oriented. The domestic demand growth is about to become the major driving force, as the per capita income is reaching US\$1,400. Without the Gulf crisis, Thailand's economy could be self-sustaining within the next few years. Nevertheless, the domestic demand growth is expected to help sustain the overall growth of the economy in 1991, which otherwise would be growing at even lower rates.

One factor in Thailand's favor during the expected world economic crisis of 1991 is its financial strength. As pointed out earlier, the country's fiscal, foreign exchange reserve, and foreign debt positions are strong and sound. Thus, the government could help sustain the growth rate by accelerating the implementation of infrastructure projects, all of which are long overdue. By doing so, the government could help the economy to grow at about 7 percent, a rate that few countries in the world could expect to achieve should the stalemate in the Middle East be prolonged through the first half of 1991.

? Copyright 1990 *Thailand Development Research Institute*