

# THAILAND'S ECONOMIC GROWTH: FACTORS, DYNAMICS AND PROSPECTS

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## Abstract

Economic growth is a key indicator of a country's welfare and level of socio-economic development. This article examines Thailand's economic growth over the past few decades. It analyses the factors contributing to growth and possible constraints, and suggests ways to develop the economy in the face of global challenges. The study uses empirical analysis based on official data and academic literature. It focuses on the role of investment, tourism, foreign trade and government policies in the sustainable growth of the Thai economy.

## Introduction

Economic growth is an important measure of a country's economic health. In recent decades, Thailand has achieved an impressive economic growth rate due to a number of factors such as economic diversification, a vibrant tourism industry, export orientation and the attraction of foreign direct investment (FDI). Despite this, the country faces challenges related to global economic instability, climate change and domestic social inequalities.

The purpose of this article is to analyze the main factors affecting Thailand's economic growth and to identify the country's economic prospects in the face of current global changes.

## Analyses and Findings

A historical overview of Thailand's economic growth shows that it has been growing steadily since the early 1960s, especially during the period from the 1980s to the late 1990s, when the economy grew at an average annual rate of 7-8 %. The main drivers of this growth were foreign trade, industrial production and foreign investment. It is important to note that this growth was partly driven by the transition from an agrarian to an industrial economy, accompanied by the strong development of the export sector, including the textile, automotive and electronics industries.

The 1997 crisis, also known as the Asian financial crisis, had a severe impact on Thailand's economy, leading to a sharp decline in GDP of 10% in 1998. However, through reforms, including the recapitalization of the banking system and currency control reforms, Thailand was able to stabilize its economy and return to growth.

According to the International Monetary Fund (IMF), Thailand is ranked 27th in terms of nominal GDP at \$536 billion at the end of 2022. Manufacturing is the most important sector, accounting for 34 % of GDP. Services account for about 44 percent of GDP. The most

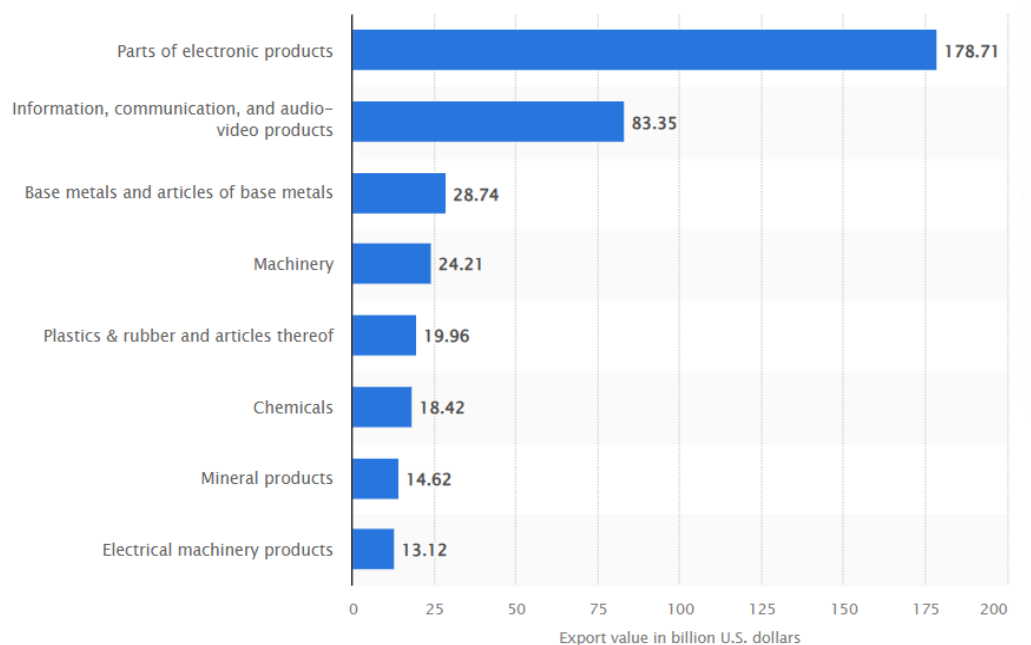
important services are wholesale and retail trade (13 % of GDP), transport, storage and communication (7 % of GDP), hotels and restaurants (5 % of GDP) and public administration, defense and social security (4.5 % of GDP). Agriculture is also a significant contributor, accounting for about 13 % of GDP. A number of factors have influenced the country's economic growth:

1. Tourism - as the leading sector of the economy. Thailand is a country where more and more tourists choose to spend their holidays, because it is a country with luxurious beaches of endless ocean, mild climate. Tourism is one of the largest sectors of the Thai economy, accounting for approximately 12-15% of the country's GDP. Over the past few decades, the country has become one of the most popular tourist destinations in the world. The presence of many cultural, natural and historical attractions, together with a well-developed tourism infrastructure, attracts millions of tourists every year.

The growth of the tourism sector is also supported by the development of air connectivity and improved tourism infrastructure, which has significantly increased the number of international visitors. However, the COVID-19 pandemic revealed the vulnerability of the sector, highlighting the need to diversify the economy.

2. Foreign trade and export orientation. The export orientation of the economy has been one of the key drivers of growth.

Thailand is an export-oriented economy. In 2022, foreign trade turnover reached an all-time high of USD 590 billion. Thailand is a major exporter of rice, electronics, automobiles, textiles and rubber. This chart shows the main composition of the country's exports last year:



Leading merchandise exports from Taiwan in 2023, by product (in billions of US dollars)

The country's economic success is largely based on its integration into the global economy and international supply chains. Industrial zones and tax incentives for exporters have become important economic policy tools.

However, export growth often faces challenges in the form of global economic fluctuations and trade wars. Dependence on external demand for products such as automobiles and electronics can weaken the economy in the event of lower global prices or changes in supply chains.

3. Foreign investment and industrial production. Foreign investment plays an important role in the development of Thailand's industrial sector.

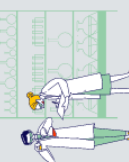
The government actively attracts foreign capital by creating favorable conditions for investors: providing tax incentives, improving infrastructure and simplifying administrative procedures. The automotive, electronics and construction industries receive the most investment. However, political instability and regional competition, particularly from countries such as Vietnam and Indonesia, are potential threats to continued sustained investment inflows.

4. The role of government policies in promoting growth. Thai government policies have aimed to stimulate economic growth by developing infrastructure, improving the investment climate, and supporting key sectors. The government's Thailand 4.0 program aims to transform the economy into a high-tech and inclusive one, with a focus on innovation and digitalization.

Public investment in infrastructure projects, including roads, railway lines and ports, has been identified as a key factor in enhancing the country's competitiveness. Furthermore, the implementation of megaprojects, such as the Eastern Economic Corridor, which are designed to promote industrial and technological advancement, are contributing to the country's economic development. Despite these advancements, Thailand is confronted with a number of challenges that have the potential to hinder further growth. Among these challenges are: 1. Demographic shifts. The decline in birth rates and the ageing population may potentially reduce the economic growth rate. The labor force is shrinking, which could adversely affect productivity. Secondly, environmental challenges, such as water and air pollution, and the destruction of natural resources, resulting from increased industrial production and tourism, require more active environmental policies. Thirdly, political instability, characterized by internal political uncertainty and conflicts, poses risks to sustainable development. Frequent changes of governments can reduce the confidence of foreign investors and undermine macroeconomic policy stability. Fourthly, income inequality. The distribution of a nation's economic growth does not always occur uniformly across its population, resulting in substantial social disparities and income discrepancies between urban and rural regions. These imbalances give rise to tensions and necessitate policy reforms.

## Conclusion

Thailand's economic growth has shown significant progress over the past decades, due to economic diversification, tourism, exports and foreign investment. Nevertheless, in order to ensure sustainable growth in the long term, the country must be able to cope with internal and



external challenges, including but not limited to demographic changes, environmental issues, political instability and inequality.

The country's future economic prospects are contingent on its capacity to adapt to global challenges, develop new high-tech sectors, and strengthen socio-economic reforms to make the economy more inclusive and sustainable.

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