

The resiliency of Thailand's export sector: An analysis

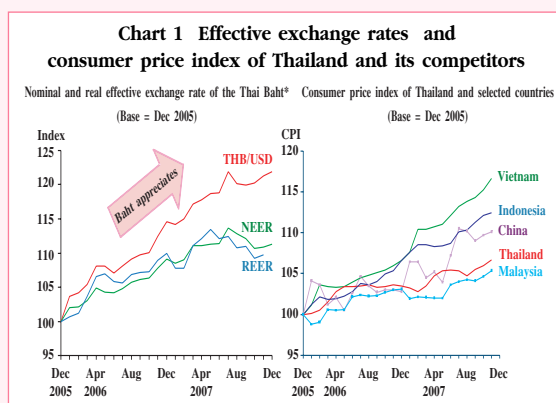
Thailand's export sector faced a number of challenges in 2007; for instance, intensified competition in product quality and the appreciation of the baht against the US dollar. In spite of these challenges, during the first 11 months of 2007 export continued to expand well with total value in US dollar terms growing at 18 per cent compared to the same period last year. Volume growth alone was 12 per cent in 2007, reflecting the ability to compete and adjust to new environment.

This article provides an analysis of the resiliency of the Thai export sector in terms of price competitiveness and the ability to adjust to new challenges.

1. Price competitiveness The rapid appreciation of the Thai baht vis-à-vis the US dollar set off a widespread concern about the price competitiveness of Thai export products. But equating degree of price competitiveness with the exchange value of the baht against one currency could be misleading. As the baht appreciated against the US dollar, the currencies of Thailand's export competitors also moved in the same direction. Considered in terms of the nominal effective exchange rate (NEER), Thailand's export price competitiveness was not diminished by much. Furthermore, inflation in some competitor countries such as China and Vietnam had recently been higher than Thailand's inflation, indicating that their cost of production could be pushed up at a faster rate than it had been in Thailand. Indeed, taking into account relative inflation rates, the movement of the baht's real effective exchange rate (REER) indicated that the Thai baht had not effectively appreciated against the currencies of other export competitors in real terms.^{1/} In other words, Thailand's real export price did not rise; and hence its ability to compete based on price had not been eroded.

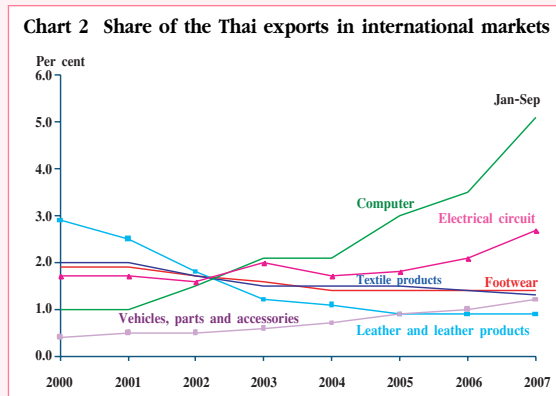
2. Ability to adjust through product, market and currency diversification. The structure of Thai exports were quite well-diversified in the following ways:

- **Product diversification:** Overall, Thai exports spanned across a wide spectrum of products, from agriculture and fishery to industrial goods, which had over the years seen a structural shift from labor-intensive products (e.g., shoes, leather, and textiles) towards high technology products (e.g., computers, integrated circuits and automobiles). The prevailing structure of Thailand's export exhibited a high degree of diversification, as measured by the Export-Commodity Concentration Index, which



Note: *The indexes reflect the movement of the Thai baht in relative to the currency basket, which includes currencies of nine major trading partners or export competitors: China, Hong Kong SAR, Taiwan, South Korea, Indonesia, Philippines, Malaysia, Singapore, and Vietnam. Weight used for each currency is export weight, calculated based on trade statistics data from *Direction of Trade Year 2006*. (Details of index calculation is appeared in *Inflation Report*, January 2005)

Source: Bank of Thailand, Bureau of Trade and Economic Indices, and Bloomberg



Note: Data from January to September 2007 are preliminary
Source: Global Trade Atlas

^{1/} To measure the degree of price competitiveness as embodied in the exchange value of the currency, the baht should be compared against various currencies of Thailand's trading partners and competitors, i.e. the nominal effective exchange rate (NEER) should be used for such comparison. For a better assessment of price competitiveness, the relative cost of production should also be considered. The real effective exchange rate of the baht (REER), calculated by deflating NEER by consumer price index of each country, reflects the effective price of the baht in real terms against its trading partners and competitors.

registered at 0.193.^{2/} Export product diversification helped enhance the flexibility of the export sector in the competition for the world markets, particular against low-wage countries.

- **Market diversification:** Thai exporters had been active in finding new markets for their products and selling to a wider range of markets, particularly the Middle East, India, and new EU member countries.^{3/} These markets had been growing rapidly during the first 11 months of 2007 (Table 1). Indeed, over the years the Export-Market Concentration Index^{4/} for Thailand reflected this change; it declined from 0.299 in 2000 to 0.246 in 2007.

- **Export invoice currency diversification:** The US dollar had dominated as an invoice currency for Thailand's exports, accounting for 91.7 per cent of export receipts in 1996. Over time, that dominance started to decline. During the first 9 months of 2007, the US dollar accounted for 80.7 per cent of all export receipts. Meanwhile, the baht, yen and euro made gains over this period (Table 2). Such currency diversification away from the US dollar helped alleviate the impact of the recent fall in the US dollar on export receipts in baht terms and smoothen the variations in overall export revenue.

Better diversification along these dimensions helped reduce the volatility of export receipts from global economic and financial disturbances, product cycle of exports, and loss of competitiveness or market share. Between the periods of 1998-2001 and 2002-2007, the Index of Export Receipt Instability^{5/} both in US dollar and in baht terms declined progressively from 0.069 and 0.094 to 0.039 and 0.045, respectively, indicating that yearly Thai export receipts tended to deviate less from its own long-term trend over the past decade and portraying greater stability for Thai export receipts.

In conclusion, Thailand's export sector had been adapting well to the changing environment. Nevertheless, increased competition and global economic and financial fluctuation continued to pose significant risks to Thai exporters. Past success indicated that Thai exporters should keep building capacity to be resilient and competitive through quality improvement of products and services, possibly by adopting higher technology or moving up the value chain, improving production efficiency, marketing and management as well as building product and market networks. The government could also play an important role in helping cultivate new markets for Thai products, developing skills of Thai labor, and investing in basic infrastructure in order to ensure sustainable growth and competitiveness of the export sector.

Table 1 Export growth and share of exports classified by market

Countries	Growth (Per cent)		Share (Per cent)		
	2006	Jan-Nov 2007	2005	2006	Jan-Nov 2007
Japan	8.6	10.6	13.6	12.6	11.9
US	14.4	-2.0	15.3	15.0	12.6
EU	19.2	19.1	13.6	13.9	14.0
: New EU	40.4	60.9	0.7	0.9	1.2
ASEAN	10.8	19.2	22.0	20.8	21.3
Middle East	28.0	30.2	4.0	4.4	4.9
China	27.9	26.4	8.3	9.0	9.6
Hong kong	16.2	21.4	5.6	5.5	5.7
India	18.3	50.0	1.4	1.4	1.8
Australia	37.0	33.3	2.9	3.4	3.8
New Zealand	0.8	22.7	0.5	0.4	0.4
Total	16.9	17.4			

Source: Thai Customs Department

Table 2 Share of export receipts settled in major currencies

Per cent	1996	2001	Jan-Nov 2007
USD	91.7	85.7	80.7
Thai Baht	1.3	4.0	6.7
Japanese Yen	4.5	5.6	6.2
EURO*	n.a.	2.0	3.5
Pound Stirrings	0.4	0.3	0.5
Singapore Dollar	0.4	0.3	0.5
Others	1.7	2.1	1.9
Total	100.0	100.0	100.0

Note: * EURO has been in circulation since 1999.

Source: Thai Customs Department

^{2/} Calculate $C = \sqrt{\frac{\sum X_i^2}{X^2}}$ where X_i is the export value of good i and X is the total export value for the country; C is a real number between 0 and 1. The export sector is considered to be well diversified in terms of product variety if C is close to 0.

^{3/} The new EU countries included Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia.

^{4/} The formula of the Export-Market Concentration Index is similar to that of the Export-Commodity Concentration Index, except that in this case, X_i is the value of exports from Thailand to market destination i .

^{5/} The index of export receipt instability (I) is calculated as follows: $I = \frac{\sqrt{\sum (U_t)^2}}{Z}$, $Z = \frac{\sum Z_t}{N}$ where U_t is the difference between the actual export receipts (Z) and its trend-value. In this case, the trend of export receipts is estimated by regressing export receipts on a time trend and number of observations (N). The index ranges from 0 and 1. The lower the index value, the more stable is the export receipt.