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Dedicated to Quality Research, Education and Development

CELEBRATING 20TH YEARS OF SERVICE TO THE NATION

20 Years of Excellence CELEBRATING

20TH Annual Day Celebration

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Learning from Thailand's Development Experience: Do's and Don'ts for Developing Countries

KEYNOTE ADDRESS

by

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Ladies and gentlemen, distinguished guests, esteemed colleagues, and friends from Nepal Development Research Institute (NDRI) and international development communities.

It is with great pleasure and honor that I stand before you today to congratulate the Nepal Development Research Institute on its 20th anniversary. Over the past two decades, NDRI has played a crucial role in providing research, insights, and policy recommendations to guide the sustainable development of Nepal. Your dedication to promoting social, economic, and environmental growth is truly commendable.

As we celebrate NDRI's important milestone, we are also excited by the approach of our own organization's 40th anniversary next year. TDRI was fortunate to have received support from the international development community, particularly some endowment fund from the Canadian International Development Agency (CIDA), during its inception years. This backing played a crucial role in shaping our organization's growth and success. We have also learned a great deal from the development experiences of other countries and thus are eager to give back to the international development community by sharing Thailand's development experiences and our roles in helping the Thai government formulate and implement better policies.

1. Thailand's Development Experience

Thailand is often hailed as a model of developmental success, marked by steady robust growth and impressive poverty reduction. The country has shifted from a low-income status to an upper middle-income nation within a single generation. Between 1960 and 1996, the Thai economy grew at an average annual rate of 7.5%, and then at 5% from 1999 to 2005, after the Asian Financial Crisis (Figure 1). This economic expansion created millions of jobs and lifted a vast number of people out of poverty. Improvements have been observed in various aspects of well-being, such as increased years of education, near-universal health insurance coverage, and expanded social security measures.

Figure 1 Annual Real GDP Growth Rate (%)

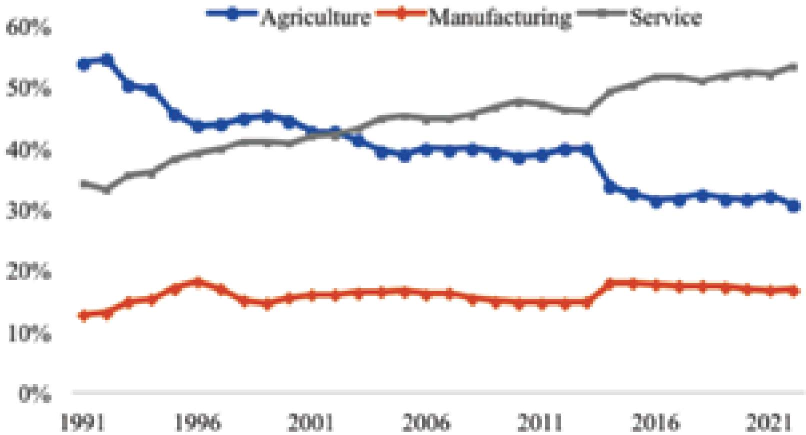
Source: World Bank

However, the export-driven model that previously powered much of Thailand's economic growth appears to have lost momentum due to stagnating productivity. Private investment dropped from over 40% in 1997 to 16.9% of GDP in 2019, while foreign direct investment and participation in global value chains have shown signs of stagnation.

The economic growth of Thailand is mainly a result of the country's structural transformation, primarily driven by labor shifting from low-productivity agriculture to higher-productivity services and manufacturing sectors. Although sector-specific productivity growth also contributes to overall economic growth, its impact is comparatively minor.

As depicted in Figure 2, the proportion of labor in the agricultural sector has steadily declined. However, with diminishing surplus labor in agriculture and an aging workforce, it is unlikely that structural transformation will continue to reallocate resources from agriculture to more productive sectors, as it did in the past. Manufacturing displays modest indigenous backward linkages and remains dependent on foreign inputs and faces increasing competition from neighboring countries. Travel and tourism, a pillar of the national service sector, has expanded in volume but not in the value-added generated per tourist.

Figure 2 Labor Share by Sector (%)



Source: National Statistical Office, Thailand

Since 2015, the rate of poverty reduction in Thailand has slowed down, reflecting a weak economy and stagnant agricultural, business, and wage incomes. Poverty reduction even reversed during the COVID-19 outbreak in 2020 due to the partial lockdown and the gradual phasing out of government relief measures. A 2021 World Bank survey estimated that over 70% of households experienced a decline in income since the COVID-19 outbreak in March 2020, with the most vulnerable groups being hit hardest. GDP growth has slowly rebounded but remains below pre-pandemic levels.

In conclusion, although Thailand has made progress in its economic transformation, the country faces challenges in transitioning to a knowledge-based, dynamic economy and addressing income inequality. This situation raises concerns about the possibility of Thailand becoming stuck in a middle-income trap, where progress stalls and the nation fails to achieve high-income status.

As of 2020, Thailand ranked 68th in the World Economic Forum's competitiveness index, making it the 40th most competitive country globally. However, this overall score masks disparities in the nation's performance across different dimensions (See Figure 3). In particular, Thailand excels, with scores of at least 85, in macro-economic stability (90), health (89), and the financial system (85). These strengths allowed the country to navigate the COVID-19 crisis, which mainly affected healthcare and the economy, relatively well.

On the other hand, Thailand lags in innovation capacity (44), product market (53), institutions (55), ICT adoption (60), and skills (62). Its performance in infrastructure (68), business dynamism (72), and market size (76) falls between these two extremes.

Figure 3 Thailand's Competitiveness Score and Ranking

Source: World Economic Forum (2020)

2. Lessons from Thailand: Do's

Thailand's economic transformation, as mentioned earlier, can be attributed to these key initiatives:

1. Strengthen macroeconomic foundation: Thailand has built a robust macroeconomic foundation through prudent fiscal policies, efficient tax collection, and effective monetary management by its central bank. This has maintained economic stability, controlled inflation, and fostered investment and growth. Following the 1997 Asian Financial Crisis, Thailand's macroeconomic institutions were strengthened by making the central bank more independent and bolstering fiscal discipline.

2. Expand access to basic education: Acknowledging education's role in fostering human capital and driving economic development, Thailand has invested substantially in expanding access to basic education nationwide, including building schools in remote areas. Consequently, the country has achieved near-universal primary education, increased literacy rates, and higher enrollment in secondary and tertiary education. The education budget remains a significant part of government spending.

3. Pursue foreign income sources: Thailand has sought foreign income sources by promoting its tourism industry, boosting exports, and encouraging foreign direct investment (FDI). The inbound tourism industry, promoted since 1984, contributes around 12% of GDP (2019) before the Covid-19 outbreak. Industrialization, facilitated by Thailand's openness policy and active promotion of FDI, has evolved from labor-intensive industries to capital-intensive and high-tech sectors. As a result, Thailand has become a major exporting country of automotive and electronics products in the region.

4. Develop essential infrastructure: The Thai government has invested in improving basic infrastructure, including transportation networks, power systems, and telecommunications. These enhancements have fostered connectivity within the country, promoted regional integration, and enabled the country to capitalize on emerging economic opportunities and compete globally. Bangkok has over 10 metro lines in operation, and four-lane is the norm for intra-provincial highways. Thailand has almost completed in upgrading its rail network to be "dual track" network. It is also constructing two high-speed rails, one linking the country's three main airports, the other linking with China-Lao high-speed rail network.

5. Establish basic social welfare: Thailand has made strides in creating a basic social welfare system, particularly through the implementation of universal healthcare since 2002. This initiative ensures access to affordable, quality healthcare services for the majority of the population, contributing to improved health outcomes and greater social equity. The World Health Organization (WHO) often cites Thai universal health coverage as an exemplary case for middle-income countries.

Through these initiatives, Thailand has successfully transformed its economy and laid the foundation for sustainable growth and development. However, challenges persist in transitioning to a knowledge-based, dynamic economy, avoiding the middle-income trap, and reducing income inequality.

3. Lessons from Thailand: Don'ts

While Thailand has successfully transformed its economy, it has made several mistakes along the way that serve as cautionary tales for other developing countries:

1. Utilize micro-economic measures to address macro-economic issues: Thailand has repeatedly used micro-economic measures, such as subsidy or price control, to address macro-economic issues like rural poverty and inflation. Mistakenly believing that farmers are poor and must be financially supported, successive governments have heavily subsidized farmers under the "rice-pledging" or "rice price-guarantee" schemes, costing billions of dollars in public funds. Similarly, the government has repeatedly maintained artificially low fuel prices to curb inflation and help the poor by using the "Oil Price Stabilization Fund".

These practices have not only proven ineffective but also damaged public finances and produced unintended consequences. For example, interfering with agricultural market mechanisms has hindered economic transformation, as evidenced by the fact that around 30 percent of the workforce remains in the low-productivity agricultural sector—an excessively high level among middle-income countries. Similarly, fixing fuel prices below the market rate has encouraged inefficient energy consumption and excessive greenhouse gas emissions.

2. Tolerate corruption: During Thailand's economic transformation, corruption was initially considered a minor "cost of doing business" and was therefore tolerated. However, over time, corruption grew and began to distort policy decision-making. This led to negative consequences such as unnecessary construction projects and the enactment of harmful regulations designed to maintain the flow of bribe money. Due to the long-term toleration of corruption, Thailand's Corruption Perception Index ranking has significantly declined, dropping from 76th in 2015 to 101st in 2022.

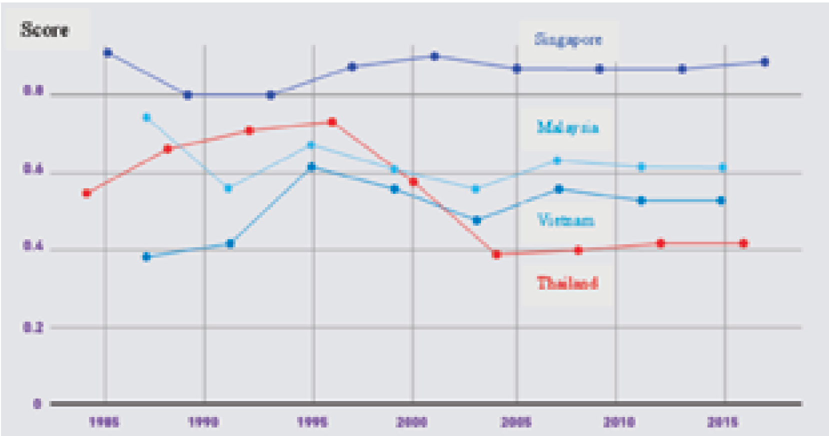
3. Allow big businesses to monopolize the economy: The monopolization of economic sectors by big businesses can lead to increased prices for consumers and downstream industries, hinder the growth of smaller enterprises, discourage investment in innovation, and create politically influential players with strong connections to political power. Despite enacting the Business Competition Act in 1999, Thailand has yet to prosecute any cases of market monopolization or abuse of market power, nor has it blocked any business mergers. Consequently, a few dominant firms control various markets, including modern retail, alcoholic beverages, telecommunications, movie theaters, and hospitals. Worse still, many monopolists result from the government's policies.

4. Let excessive income inequality persist: High income inequality can result in low economic growth rates, political instability, and social unrest. It can also lead to costly economic "populist" policies that aim to redistribute income to the poor, such as providing farm subsidy or controlling fuel prices. As mentioned in the first section, the level of income inequality in Thailand remains high compared to most East Asian countries. Wealth inequality is even more striking. For example, a 2018 Credit Suisse report revealed that Thailand ranked first on the world in terms of wealth inequality, with the richest 1% of the population controlling 67% of the wealth share.

5. Allow state capacity to deteriorate: The development of a country cannot rely solely on market forces; it also depends on the capacity of the state, which encompasses all branches of government. At a minimum, the government must maintain order, enforce property rights laws, adjudicate contracts, and provide various basic public services such as education, healthcare, and infrastructure. Without the state capacity to collect tax and revenue, the provision of such public goods and public services becomes impossible.

In many countries, the state's capacity tends to increase with economic development. However, in Thailand, the state's capacity has declined over time. According to the International Country Risk Guide (ICRG) Indicator of Quality of Government, the Thai state's capacity score has significantly decreased in the past two decades (Figure 4). This decline is partly attributed to the growing compensation gap between the private and public sectors, the erosion of meritocracy due to political interference, and the tightening of procedural administrative rules aimed at preventing corruption.

Figure 4 Thailand's Quality of Government



Source: ICRG

4. Roles of Think Tanks in Promoting Development

Think tanks can play a crucial role in policy development by proposing well-researched policies and warning against harmful ones, based on research and experience. They can also help make the policymaking process more transparent and democratic by informing and engaging the public. Lastly, they can help strengthen the state's capacity to solve problems.

Developing Evidence-based Policies:

One of the primary roles of think tanks is to support policy development by providing research, analysis, and recommendations to government officials and policymakers on what actions to take or avoid.

At TDRI, we categorize policy recommendations into three groups: correcting misunderstandings, warning against ill-conceived policies, and proposing new policies for government adoption and implementation. Examples of our work include demonstrating that most farmers are not poor, and that subsidizing farm households through price intervention is not the best policy measure to reduce rural poverty. As a result, we warn against using government agencies to replace the market mechanism in buying and selling rice, which would ruin the market. We also propose a more effective policy in helping poor farmers by improving their productivity using modern farming technology.

Enhancing Public Discourse

Think tanks can contribute significantly to public discourse by engaging with various stakeholders, including media, academia, civil society, and the public at large. They can facilitate informed discussions and debates on critical issues, fostering a culture of transparency and accountability. The primary channels for think tanks to engage the public are through conducting seminars, giving interviews to the media, and publishing op-ed articles.

TDRI actively works with the media to inform and engage the public through our weekly television program on Thailand's public broadcaster, a weekly radio program, bi-weekly op-ed columns, and social media platforms like Facebook, Youtube, Twitter, and Tiktok.

Strengthening State Capacity

If the state has the capacity to implement proposed policies, the roles of think tanks can be limited to policy research and policy formulation. However, as economic and social problems become more complex, it becomes increasingly challenging for governments to address them independently.

As the capacity of the Thai state has declined, TDRI helps the government cooperate with business sectors and civil societies in designing, advocating, and implementing policies. Examples of these collaborative efforts include our anti-corruption research team working with the government, civil society organizations and business organizations to promote and implement the "regulatory guillotine" project to get rid of outdated regulations. Likewise, our education reform team helps the Ministry of Education work closely with corporations, the academia, social enterprises, and civil society organizations to design and implement an "education sandbox", covering over one thousand schools.

In closing, I would like to extend my heartfelt congratulations to NDRI on your 20th anniversary. As you embark on the next phase of your journey, I would like to extend my warmest wishes for continued success and growth in your future endeavors. I look forward to witnessing your future achievements and are eager to strengthen our collaboration, exchanging knowledge and experiences for the betterment of both our countries and the international development community. Thank you.

NDRI

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