



WORLD BANK GROUP

# GETTING BACK ON TRACK



REVIVING GROWTH  
AND SECURING  
PROSPERITY FOR ALL

THAILAND SYSTEMATIC COUNTRY  
DIAGNOSTIC





# **GETTING BACK ON TRACK: REVIVING GROWTH AND SECURING PROSPERITY FOR ALL**

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### Exchange Rate Effective as of October 31, 2016

Currency Unit	= THB (Thai baht)
THB35.0	= USD 1.00
Fiscal Year	= October to September

# ABBREVIATIONS

ADB	Asian Development Bank	MRTA	Mass Rapid Transit Authority of Thailand
AEC	ASEAN Economic Community	MSM	Men who have sex with men
AIDS	Acquired Immune Deficiency Syndrome	MWA	Metropolitan Waterworks Authority
AOT	Airports of Thailand Public Company Limited	NESDB	National Economic and Social Development Board
APO	Asian Productivity Organization	OECD	Organisation for Economic Co-operation and Development
ASEAN	Association of Southeast Asian Nations	OEM	Original equipment manufacturer
BE	Buddhist Era	PEFA	Public Expenditure and Financial Accountability
BOI	Board of Investment	PIM	Public Investment Management
BOT	Bank of Thailand	PDP	Power Development Plan
BRN	Barisan Revolusi Nasional	PISA	Programme for International Student Assessment
CAT	CAT Telecom Public Company Limited	PPP	Purchasing Power Parity
COP-21	Twenty-First Session of the Conference of the Parties	PPPs	Public-Private Partnerships
CPF	Country Partnership Framework	PTT	Public Company Limited
DSR	Debt-servicing ratio	PWA	Provincial Waterworks Authority
EF	Education First	R&D	Research and Development
EGAT	Electricity Generating Authority of Thailand	RCA	Revealed Comparative Advantage
ETS	Educational Testing Service	ROC	Overseas Office Republic of China
FDI	Foreign Direct Investment	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SEPO	State Enterprise Policy Office
GMS	Greater Mekong Sub region	SFIs	Specialized Financial Institutions
GNI	Gross National Income	SIC	State Investment Corporation
GOT	Government of Thailand	SOE	State-Owned Enterprise
GVC	Global value Chains	SRT	State Railway of Thailand
HIV	Human Immunodeficiency Virus	STEP	Skills Toward Employment and Productivity
iBT	Internet – Based Testing	TFP	Total Factor Productivity
ICRG	International Country Risk Guide	THAI	Thai Airways International Public Company Limited
IDA	International Development Association	THB	Thai Baht
IFC	International Finance Corporation	TOEFL	Educational Testing Service
IMF	International Monetary Fund	TOT	Listed SOE; TOT Public Company Limited
IPCC	Intergovernmental Panel on Climate Change	TPP	Trans-Pacific Partnership
ISN	Interim strategy note	UNDP	United Nations Development Programme
Lao PDR	Lao People's Democratic Republic	UNESCO	United Nations Educational, Scientific and Cultural Organization
LGBTI	Lesbian, Gay, Bisexual, Transgender, Intersex	UNFCCC	United Nations Framework Convention on Climate Change
MCOT	Listed SOE; Mass Communication Organization of Thailand	USD	United States Dollars
MDG+	Millennium Development Goals Plus	WBG	World Bank Group
MIGA	Multilateral Investment Guarantee Agency	WDI	World Development Indicators
		WDR	World Development Report
		WEO	World Economic Outlook

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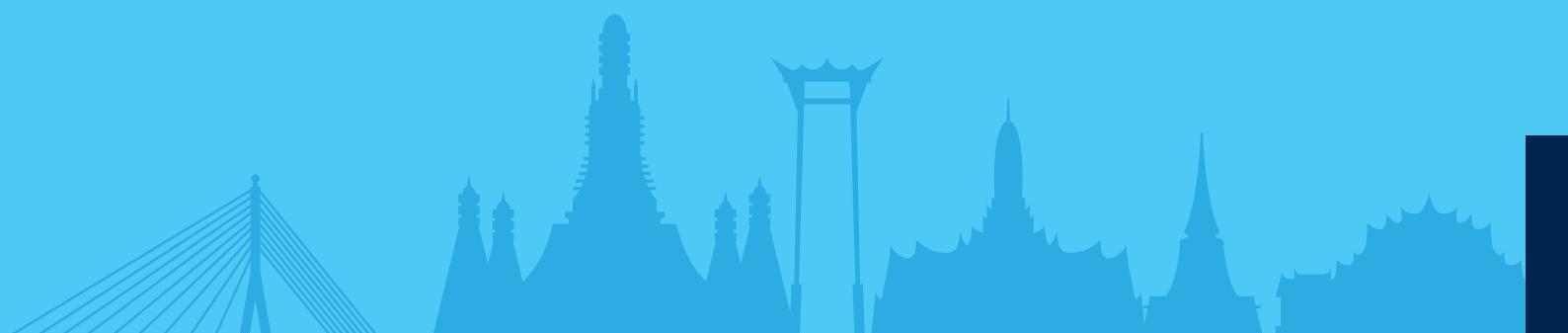
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## EXECUTIVE SUMMARY

**OVER THE PAST FEW DECADES, THAILAND HAS MADE TREMENDOUS PROGRESS TOWARD THE TWIN GOALS OF ELIMINATING EXTREME POVERTY AND BOOSTING SHARED PROSPERITY.**

For more than a quarter century prior to the 1997 Asian financial crisis, Thailand's economy grew at an average annual rate of 7.5 percent, creating millions of jobs that helped pull millions of people out of poverty. Extreme poverty as measured by the international extreme poverty line (USD 1.90 per day, 2011 PPP) is no longer a concern for Thailand as a whole, falling from a rate of 14.3 percent in 1988 to less than 0.1 percent in 2013. Gains along multiple dimensions of welfare have been impressive: per capita income has risen by 4.2 percent per year on average in 2000-2013, many more children are now getting many more years of education, and virtually everyone is now covered by health insurance while other forms of social security have expanded. Access to safe water and basic sanitation is almost universal, and mobility and connectivity have increased remarkably (UNDP, 2014b).

### THAILAND HAS ACHIEVED THESE GAINS DESPITE HIGH POLITICAL INSTABILITY.

Since becoming a constitutional monarchy in 1932, Thailand has experienced 18 coups (the most recent on May 22, 2014, as well as a few additional attempted coups), with 18 different constitutions and 35 different prime ministers (Malesky and Samphantharak, 2011). Nonetheless, Thailand maintained high growth rates and continued to attract sizeable amounts of FDI, thanks in large part to a strong bureaucracy that served as a buffer against political turmoil and to factors such as its hub location in Southeast Asia that made it relatively attractive to foreign investors compared to its neighbors in earlier years.

### GROWTH HAS BEEN SLOWING, AND CONTINUED INSTABILITY COULD AFFECT FUTURE GROWTH AND PROSPECTS FOR SHARED INCOME GAINS.

There are now indications that continued political instability may start hurting Thailand's growth prospects. First, while Thailand's governance indicators—most notably, voice and accountability and political stability—have worsened in the past decade, they have improved among many of its neighbors. Second, the quality of the bureaucracy has worsened, while it has improved in neighboring countries. The “shock absorber” against political shocks is no longer as effective as it was.

## MOREOVER, POVERTY AND INEQUALITY CONTINUE TO POSE SIGNIFICANT CHALLENGES.

As of 2014, 7.1 million Thais were still living in poverty (based on the current national poverty line, or about USD 6.20 in 2011 PPP). Moreover, in 2013, an additional 6.7 million were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty.<sup>1</sup> Both household data and provincial-level data also paint a picture of non-income gaps between the poor and non-poor, often persisting over time despite the rapid economic growth. Inequality has declined over the past three decades, but remains high compared with many countries in East Asia. Significant spatial disparities in household income and consumption can be seen across and within regions of Thailand. Pockets of poverty remain concentrated in lagging regions such as the Northeast, North, and Deep South.

## SLOWER GROWTH THAN IN THE PAST, IF IT CONTINUES, WILL CONSTRAIN FURTHER PROGRESS IN REDUCING POVERTY AND PROMOTING INCLUSION.

Historically, economic growth has been the key driver of poverty reduction in Thailand. More recently, growth has fallen from an average annual rate of more than 9 percent in the boom years of 1986-96 to less than 3 percent a year in the last two years. Looking ahead, the World Bank forecasts growth of 3.2 percent for 2016-18, and the IMF projects that growth will dip to 3.0 percent by the year 2021 (WEO, October 2016)—well below the projected growth rates of other upper middle income countries in ASEAN as well as China and India.

## THE KEY ENGINES THAT DROVE PAST GROWTH HAVE LOST STEAM OR ARE UNSUSTAINABLE.

The engine that delivered most of the productivity gains in the past—the movement of people from the low-productivity agricultural sector into higher-productivity jobs, particularly in the manufacturing sector—lost steam almost a decade ago. Furthermore, recent progress in creating shared prosperity is largely related to temporarily record-high agricultural prices, caused by both a global commodity price boom and domestic policies, which have helped raise farm wages but without the corresponding productivity growth. The contribution of rising farm incomes to boosting

shared prosperity, despite low agricultural productivity growth, is unlikely to be sustainable because agricultural prices have declined in 2015 and 2016 and are projected to remain subdued in the years ahead. At the same time, the manufacturing sector has stopped creating new jobs. Services have experienced the fastest pace of job growth, but have failed to show rapid productivity growth.

## ANALYSIS UNDERTAKEN FOR THIS SCD SUGGESTS THAT THE SIGNIFICANT SLOWDOWN IN THAILAND'S EXPORT GROWTH IN RECENT YEARS IS DUE IN PART TO A LOSS OF MARKET SHARE IN LABOR INTENSIVE MANUFACTURING.

Many labor-intensive and resource-based manufactured exports (20 percent of total exports) have become less competitive, a trend that accelerated in 2010-14. In the face of rising wage rates, export items like textiles, footwear, leather products, and wood products have been losing export markets. This is also reflected in manufacturing value added where laborintensive and resource-based subsectors have declined, contributing in part to stagnating manufacturing employment in recent years.

## THAILAND HAS LOST THE COMPETITIVE EDGE IT ONCE ENJOYED OVER ITS PEERS AND OTHER COUNTRIES IN THE REGION.

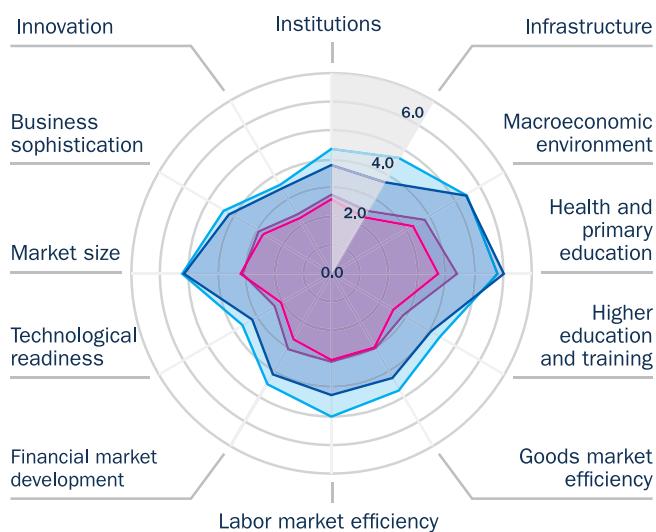
Comparing Thailand's Global Competitiveness Score (compiled by the World Economic Forum) in 2006/07 and 2016/17 is telling (Figure 1). Ten years ago, Thailand looked strong and healthy on all the dimensions tracked by the World Economic Forum. It stood out relative to ASEAN, upper-middle-income countries, as well as its structural peers, and it even looked impressive relative to high-income countries.<sup>2</sup> Today, however, Thailand no longer stands out—the pack of other countries has caught up with it on virtually all dimensions. Over the past decade, mega projects that could have relieved infrastructure constraints and made Thailand the hub of ASEAN did not get off the ground. Thailand also did not seize its “head start” to invest in its institutions and in innovation to make its universities the envy of the region and its businesses world-class.

<sup>1</sup> Official aggregate poverty numbers for 2014 are available but not the household level poverty numbers which the World Bank team behind this report uses to analyze trends, and regional variations. As such, this report has only been able to analyze trends through 2013.

<sup>2</sup> The structural peers selected for this report are: Bulgaria, China, Colombia, Malaysia and Mexico.

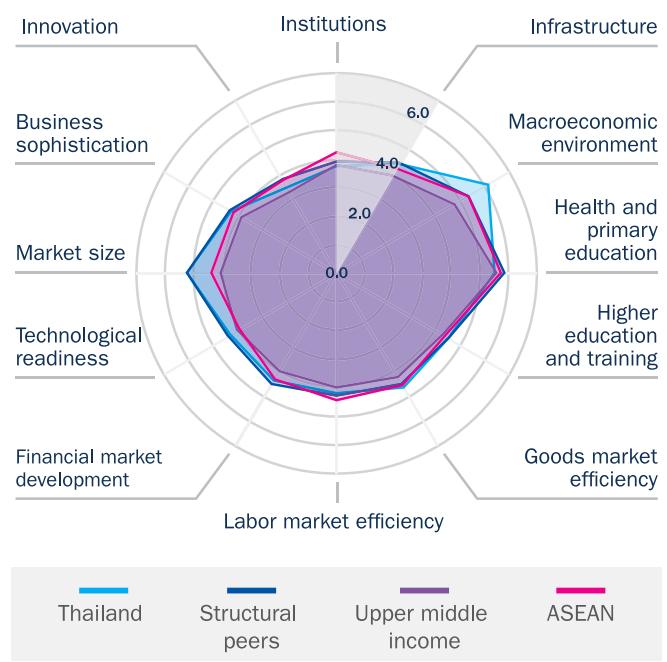
**FIGURE** Global Competitiveness, score (7=best)  
1:

2006/07



**Source:** World Economic Forum's Global Competitiveness database.<sup>3</sup>

2016/17



## TOGETHER, ANALYTICAL WORK FOR THIS SYSTEMATIC COUNTRY DIAGNOSTIC (SCD), A LITERATURE REVIEW, AND FEEDBACK FROM CONSULTATIONS INFORMED THE PRIORITIZATION OF TEN “DEVELOPMENT PRIORITIES” FOR ENSURING STRONG, SHARED, AND SUSTAINABLE GROWTH IN THAILAND.

One of these priorities is cross-cutting while the remaining 9 are grouped into three “pathways”. As the table below shows, four of these priorities have been singled out for their likely high impact on improving the lives of the bottom 40 percent. All of the priorities aim to address some of Thailand’s most pressing challenges and make the most of its opportunities, while mitigating some of the identified risks that could undermine future progress.

### IN MORE DETAIL, THE THREE PATHWAYS ARE:

- (i) **Creating more and better jobs** through improved infrastructure, more competition, and increased firm-level competitiveness.
- (ii) **Providing more targeted support to the bottom 40 percent of the population** by improving the education and skills of the

workforce; implementing effective policies to boost productivity in the agricultural sector, where approximately half of the bottom 40 percent of the population and the poor continue to be employed; and providing a smarter social protection system focused providing a safety net for poor people.

(iii) **Making growth greener and more sustainable**, which includes efforts to manage Thailand’s natural resources and environment; reduce vulnerability to natural disasters and climate change; and promote energy efficiency and renewable energy.

FINALLY, THESE THREE PATHWAYS COULD BE SUPPORTED BY CROSS-CUTTING EFFORTS TO STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR. WITHIN EACH PATHWAY, POLICY PRIORITIES AND SPECIFIC INTERVENTIONS ARE PROPOSED, AS LAID OUT BELOW.

<sup>3</sup> www.weforum.org/gcr, accessed on October 7, 2016.

**TABLE 1:** Development priorities for ensuring strong, shared, and sustainable growth

PATHWAY	DEVELOPMENT PRIORITY AREAS	EXPECTED IMPACT ON POOR AND B40
1 Creating more and better jobs	Boost investments in infrastructure	Very High
	Increase competition through free trade agreements and deregulation	Very High
	Increase firm-level competitiveness through greater technology absorption and innovation	High
4 Providing more support to the B40	Improve the overall education and skills of the workforce	Very High
	Implement effective policies to boost agricultural productivity	High
	Build smarter social protection systems, focusing on providing a safety net for poor people	High
7 Making growth greener and more resilient	Manage Thailand's natural resources and environment	High
	Reduce vulnerability to natural disasters and climate change by focusing on better land zoning and management to reduce the flooddrought prone areas	Medium
9	Promote energy efficiency and clean energy by focusing on implementing Thailand's plans and commitments for energy efficiency and alternative energy	Medium

## PATHWAY 1 : CREATING MORE AND BETTER JOBS



### A NEW AND IMPROVED ENGINE IS NEEDED TO GENERATE NEW SOURCES OF GROWTH AND CREATE MORE AND BETTER JOBS.

Thailand needs to find a new engine that can deliver results like the locomotive that drove the boom in 1986-1996—an engine that sustainably and consistently creates opportunities for millions to improve their livelihoods. This will involve restoring the competitive edge Thailand has lost, through better infrastructure, more competition, and an emphasis on 15 boosting firm-level competitiveness. Creating lots of low-skilled jobs is no longer an option (nor would it be a desirable option for Thailand); those jobs will increasingly be created in places such as Cambodia, Vietnam or Myanmar. Instead, Thailand needs to upgrade its industries and service sector and create high value-added jobs that require more skills. This will be challenging and require substantial investments in terms of physical capital as well as investments in improving the business and institutional climate.

### IN PARTICULAR, MORE AND BETTER INFRASTRUCTURE IS NEEDED TO PROVIDE ADEQUATE INPUTS AND CONNECTIVITY TO THE PRODUCTIVE SECTOR.

Thailand has had difficulty preparing and implementing major infrastructure investment programs, and improving the capacity to foster both public and private investment in infrastructure will be important. The Government could focus on its infrastructure development plans to attract private sector investments in a more concerted manner. As discussed in the 11<sup>th</sup> and 12<sup>th</sup> National Economic and Social Development Plan, Thailand's new infrastructure and logistics development plans could cover the following: encouraging the development of multimodal transportation, facilitating cross-border trade, enhancing the efficiency of logistics and transport management systems, improving railways, modernizing the public transportation network, and introducing high-speed communication and egovernment services. The Government has recognized that Public Private Partnerships should play a more important role in infrastructure delivery going forward. The introduction of the 2013 Private Investment in State Undertaking Act B.E. 2556 (PISU Act) has improved the regulatory environment to foster infrastructure investment through Public Private Partnerships, though progress in project implementation has been slow. A five year Strategic Plan for Public Private Partnerships was approved in 2015 <sup>4</sup>, with 66 projects in the pipeline worth THB 1.41 trillion, the majority in the transport sector, five of which have been approved for fast track implementation.

<sup>4</sup> <http://www.unescap.org/sites/default/files/PPP%20Thailand-sent.pdf>

## POLICIES AIMED AT INCREASING THE LEVEL OF COMPETITION WILL ALSO BE IMPORTANT FOR ENSURING STRONG AND SUSTAINED ECONOMIC GROWTH.

Although Thailand has a relatively open economy overall, some subsectors—particularly in services—are more protected from import and domestic competition. Deeper trade integration will be critical for fostering competition, facilitating innovation and technology spillovers, and opening up new opportunities, such as through the ASEAN Economic Community (AEC) or the new mega agreements currently being introduced in Asia (such as EU-FTAs, TPP, RCEP, and FTAAP). Ensuring more access to finance will also help increase competition—if firms face fewer obstacles in getting credit and capital, and if there are good mechanisms for resolving financial distress, firms are better placed to improve productivity and maintain sustained levels of private investment. Introducing competitive neutrality in Thailand's SOEs will also be important for providing a level playing field, avoiding crowding out of private firms, and improving the efficiency of the SOE sector.



## GREATER TECHNOLOGY ABSORPTION AND INNOVATION TO BOOST FIRM-LEVEL COMPETITIVENESS IS ALSO KEY.

In particular, Thai enterprises could leverage greater spillovers from FDI to help them upgrade and innovate. Building the capabilities to enable Thai firms to upgrade and innovate is now a priority, which calls for a strengthening of the national innovation system, greater emphasis on developing a skilled workforce, and increased investment in research capital and institutions that would promote the deepening of the knowledge economy. Thai firms also need to build their competencies in higher-value-adding niche sectors, taking advantage of their existing capabilities. Moving up the value chain will entail undertaking more complex functions such as design, research and development, and branding. It requires moving from the export of low-value parts and components to higher-value products and services and also to final manufactures. This would be particularly relevant for Thai SMEs which, while dominating the landscape of firms, have seen a continuous decrease in their contribution to GDP during the past 12 years from 41.3 percent of GDP in 2002 to 37.4 percent in 2013. Moreover, the productivity gap between SMEs and larger firms has widened. As the gap in productivity between small and large firms is significant, improving productivity in smaller firms will take extra effort because their turnover rates are high (70 percent fold up after a few years).

## PATHWAY 2: PROVIDING MORE SUPPORT TO THE BOTTOM 40 PERCENT

### THAILAND'S LAGGING REGIONS PRESENT RISKS TO SOCIAL COHESION AND POLITICAL STABILITY.

The tensions in Thai society - that culminated with the coups in 2006 and again in 2014 - reflect a deeply divided society. These divisions, in part, reflect growing regional disparities. The lagging regions are falling further behind. Empowered by more education, by broader horizons gained from labor migration, and supported by a strong and vocal network of civil society organizations, people from these lagging regions have become a far more potent force in Thailand than in the past. They can point to their regions falling further behind; and to a system of government that is Bangkok-centric - in terms of both the centralization of decision-making power; as well as the distribution of budgetary resources. Unless more efforts and resources are directed to narrowing Thailand's regional gaps, the underlying tensions will likely persist or worsen, fuelling discontent and political divisiveness.

### MORE TARGETED SUPPORT WILL BE CRITICAL TO IMPROVE THE LIVELIHOODS OF THE BOTTOM 40 PERCENT OF HOUSEHOLDS, AND IT CAN ALSO HELP FOSTER SOCIAL COHESION AND STABILITY MORE GENERALLY.

International evidence shows how inequality and social tensions can lead to political conflict and unrest. Likely, the current sharp political divisions and tensions in Thailand have their roots in a growing sense that economic prosperity has not been widely shared and/or everyone does not have equal opportunities in society. More targeted support for the bottom 40 percent—namely, through improved education; better agricultural policies; and building a smarter social protection system which focuses on providing a safety net for poor people — is thus an important priority in terms of having a large impact on the bottom 40 percent as well as helping to strengthen social cohesion and maintain greater political stability.

### IMPROVING ACCESS TO HIGH-QUALITY EDUCATION IS A TOP PRIORITY FOR ENABLING THE POOR AND BOTTOM 40 PERCENT TO BENEFIT FULLY FROM GROWTH, AS WELL AS IMPROVING THAILAND'S ECONOMIC GROWTH PROSPECTS.

For individuals, having the necessary skills and competencies to obtain productive employment can help them secure a better future and, for those who are poor, help them break out of the cycle of poverty. A better-educated and skilled workforce is also critical to Thailand's economic growth prospects, as the strong growth Thailand needs in competitive skillintensive exports will depend on having a stronger human capital base. A recent firm survey shows that manufacturing firms are considering the lack of skilled workers a top constraint for further growth. Worrisomely, according to the Global Competitiveness Indicators, the quality of Thailand's education system is perceived to have worsened relative to its upper middle income peers (and ASEAN neighbors). Given its poor performance, virtually all dimensions of Thailand's education system need further attention and reforms. Still, three reforms areas seem of critical importance in the immediate future: first, investing more in the early years of children's lives with an effort to dramatically improving access to quality ECD services for the poor. Second, addressing Thailand's problems with small schools where approximately 1 million (mainly poor) children, on average, are currently getting an inferior quality education. Three, broader and sustained education reforms along multiple dimensions are also needed to improve outcomes, including: increasing school autonomy and strengthening the use of information to hold teachers and schools accountable for performance.



### RAISING LABOR PRODUCTIVITY IN THE AGRICULTURAL SECTOR REMAINS OF CRITICAL IMPORTANCE, NOT ONLY FROM THE PERSPECTIVE OF BOOSTING INCOMES OF THE BOTTOM 40 PERCENT BUT ALSO FROM A GROWTH PERSPECTIVE, GIVEN THAT AGRICULTURE STILL ACCOUNTS FOR ABOUT 11 PERCENT OF GDP.

Higher agricultural growth would not only increase GDP directly, but it would also provide positive spillovers to agribusinesses and the food processing industry and stimulate regional development. Agricultural growth can also help reduce rural poverty, often more than any other sector, would appropriate policies and programs be put in place. Higher pro-poor agricultural growth depends on improvements in agricultural policy, including: (i) the development of a better-functioning land rental market, (ii) increased efficiency and sustainability of irrigation investments, and (iii) more and better funding of agricultural research and extension programs, and (iv) the move away from commodity support programs such as for rice and rubber toward broad-based agricultural and food policy. More effort is also merited in the hotspots of rural poverty, especially in northeast of the country, where agricultural programs need to be better designed (including around strong partnerships with civil society) to lift a large number of smallholders farmers out of poverty.

### A KEY PRIORITY IS TO BUILD A SMART SOCIAL PROTECTION SYSTEM THAT MEETS THE NEEDS OF THE POOR AND THE MOST VULNERABLE, WHILE ENSURING FISCAL SUSTAINABILITY.

Thailand stands out in contrast to many upper middle income countries by not having a generalized safety net program for the poor.<sup>5</sup> Developing a backbone national social safety program for the poor – incorporating design lessons from international experience – would go a long way in terms of providing support to vulnerable groups and, likely, help reduce social tension. In more detail, such a program would be based on a number of principles: first, a targeting method would be needed to identify who are poor (and near poor) households using their key income and non-income characteristics. Second, the information collected from households could be consolidated into a social registry which would be the basis for identifying beneficiaries for any safety net benefit and other targeted programs. Third, design of a national safety net program for poor households would be important, including “graduation pathways” to promote program exit and sustainable livelihoods where possible. Finally, to ensure that any safety net programs is fiscally sustainable, it will be important to re-examine the broader social protection system, including revisiting the generosity of existing contributory pensions, matching pension schemes and social pensions in order to see how fiscal space might be created for such a program.



<sup>5</sup> E.g. all of the “structural peers” selected for comparison purposes throughout this report have such generalized social safety nets targeted at poor people.

## PATHWAY 3: MAKING GROWTH GREENER AND MORE RESILIENT

### ENSURING THE SUSTAINABILITY OF GROWTH AND THE LIVELIHOODS OF THE BOTTOM 40 PERCENT WILL DEPEND TO A LARGE EXTENT ON THAILAND'S ABILITY TO IMPROVE ENERGY EFFICIENCY, AND MAKE GROWTH GREENER AND MORE RESILIENT.

Green growth decouples growth from heavy dependence on resource use, carbon emissions, and environmental damage. It also promotes growth through the creation of new green product markets, technologies, investments, and changes in consumption and conservation behavior. Green growth will be critical for ensuring the availability of resources to power future growth while protecting Thailand's wealth of natural resources for future generations. For instance, Thailand's ability to attract nearly 30 million visitors annually (providing 12 percent of annual GDP) hinges on its ability to conserve its beautiful coastal areas and coral reefs.

### IMPLEMENTING EXISTING OR PROPOSED PLANS CAN GO A LONG WAY TOWARD PRESERVING THAILAND'S NATURAL RESOURCES AND ENVIRONMENT.

Forest and fishery depletion is continuing, water shortages on the one hand and floods on the other hand are increasing concerns. To manage "brown" environment (air, water, waste) problems, Thailand can draw on the plans and regulations it has already in place. Pushing forward with the implementation of the plans is now key. Importantly, flood and drought risk management could be strengthened by being less reactive. In addition, understanding and mitigating the potential environmental and health impacts arising from necessary large-scale public investments in an inclusive manner will be important to ensure the viability and sustainability of such investments.

### REDUCING VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE WILL BE IMPORTANT FOR CONTINUED GROWTH AND SHARED PROSPERITY.

The 2011 flood clearly showed the extent of damage natural disasters can inflict on Thailand's economy and the bottom 40 percent. As a low-lying country, Thailand is expected to suffer from more frequent coastal flooding—with the impact area including central Thailand and Bangkok—as well as more pronounced droughts around the agriculturally important Mekong region and saline intrusion as a result of climate change.<sup>6</sup> Thailand recently took a number of steps to identify a policy agenda for enhancing climate resilience, including a National Adaptation Plan under development. Further work in a number of areas will be important: first, better land zoning and management is needed to reduce the flood-drought prone areas. Specifically, deforestation in the upper reaches increases the risk of flash floods and sediment loads in rivers, while reducing storage and drainage capacity. Lack of careful planning for public infrastructure (roads, floodways, etc.) and urban/industrial areas exacerbate the risk of flooding. Second, to achieve its commitments to reduce carbon emissions, timely and effective policies, market-based instruments, and cooperation with the private sector will all be important.



<sup>6</sup> For more details, please see Intergovernmental Panel on Climate Change's fifth assessment (available at <http://www.ipcc.ch/report/ar5/wg2/>).



## MAKING GROWTH GREENER WILL INVOLVE IMPROVING ENERGY EFFICIENCY AND RELYING ON CLEANER SOURCES OF ENERGY.

The best fuel for improving green growth is energy efficiency. Thailand is growing on an energy-intensive path, and high energy demand growth is expected to continue in the future. Making the economy more energy-efficient will be important for coping with energy supply constraints. It has been estimated that in 2012, 73 percent of Thailand's emissions came from the energy sector. In 2015, Thailand pledged to reduce its carbon emissions by 20-25 percent from their 2005 levels<sup>7</sup>, while the Power Development Plan (PDP) for 2015-2036 pledges to increase renewable energy so it comprises up to 20 percent of overall power supplies. Nevertheless, the PDP also proposed to build 7,390 MW of coal-fired power plants and 2,000 MW of nuclear, which raised strong environmental and social concerns.

## SEVERAL CONCRETE EFFORTS COULD ACCELERATE THE SHIFT TOWARD MORE ENERGY EFFICIENCY AND CLEANER ENERGY

First, targeted efforts in the major energy-consuming sectors, i.e. manufacturing and transport, could contribute significantly to the government's goal. In the transport sector, key measures will involve improving vehicle fuel efficiency and expanding infrastructure investment to promote greater use of rail transport. Other efforts will include more stringent regulations of large factories and buildings, strengthening the capacity of the industry to adopt low global warming and energy efficient technologies, improving energy efficiency standards for buildings and appliances and their enforcement, and greater use of demand side management measures. Moreover, adopting new and innovative measures – such as energy efficiency resource standards among power producers, performance-based EE incentives – will also help induce new investment and adoption of new and more efficient technology. Second, avoiding energy price and demand distortion by maintaining the current pricing/subsidies policies. By March 2016, subsidies for most petroleum products have been lifted, excise taxes have been largely reinstated for petroleum products, subsidies for electricity are limited to very small "life line" consumption for households. Third, given that Thailand will increasingly have to import its electricity, Thailand could take a leading role in power grid code harmonization and take a leading initiative in the design of power market rules to facilitate commercialization of power trade both bilaterally and multilaterally in the Greater Mekong Subregion and ASEAN. Similarly, for natural gas, Thailand energy authorities could take an active role in optimizing and collaborating on natural gas procurement among the current regional gas trading countries such as China, Malaysia, Myanmar, Singapore and Thailand. Thailand can also help bring global good practice in developing power infrastructure projects in countries with less experience than Thailand.

<sup>7</sup> Thailand made the commitment at the twenty-first session of the Conference of the Parties (COP-21) as part of the United Nations Framework Convention on Climate Change Conference (UNFCCC).

## CROSS-CUTTING PRIORITY: STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR TO IMPLEMENT REFORM PRIORITIES

### FINALLY, STRONGER INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR TO IMPLEMENT REFORMS WILL BE ESSENTIAL TO MAKING PROGRESS ON THE THREE PATHWAYS DESCRIBED

Thailand will need to ensure that it has the institutions (and people) to help provide an environment in which more and better jobs are created. It will also need strong institutions that can deliver the new programs to improve Thailand's infrastructure, provide more targeted support for the bottom 40 percent, and implement politics and programs for cleaner growth.

### THE THAI AUTHORITIES HAVE LAUNCHED SEVERAL PROMISING INITIATIVES TO REVIVE ECONOMIC GROWTH. THE IMPACT OF THESE INITIATIVES WILL DEPEND ON SUCCESSFUL IMPLEMENTATION.

Successful implementation, in turn, will not only take political will; it will also require improving the institutional capacity of the public sector to formulate and implement multiyear infrastructure programs. A few examples include: the government may consider comprehensively revamping and modernizing the Public Investment Management (PIM) system. Further strengthening of the procurement system would also help ensure efficient implementation of public projects and the achievement of savings for public finances. In light of the planned mega projects that could resuscitate growth, reviewing public procurement systems and allowing for innovative approaches such as turnkey contracting would be useful. Stronger capacity to deliver new programs will also be needed for successful delivery of more targeted support for the bottom 40 percent and for the implementation of environmental policies and programs.



### GETTING THAILAND BACK ON TRACK WILL ALSO INVOLVE OVERCOMING THE GOVERNANCE CHALLENGES THAT LED TO THE POLICY AND IMPLEMENTATION STALEMATE OVER THE PAST DECADE.

The gridlock among political groups in Thailand has its roots in the widening gaps in Thai society; a perception that a ruling elite has benefitted from significant levels of corruption, an unfair judicial system has favoured those with money, and government regulations (and concessions) that have protected vested interests at the expense of encouraging growth and job creation. This gridlock has impeded decision-making, prevented the effective implementation of public investment, and blocked efforts to liberalize key sectors, especially the service sector.

## OPPORTUNITIES TO GET BACK ON TRACK

### THAILAND IS WELL-POSITIONED TO REVIVE GROWTH AND ENSURE PROSPERITY FOR ALL.

The country is strategically well-located, surrounded by countries with rapidly growing economies and an ample supply of labor. The ASEAN Economic Community (starting on Jan 1, 2016) is strengthening trade and other linkages. As the second-largest economy in ASEAN (after Indonesia), Thailand has a strong starting position in terms of an agile business sector, a historically strong civil service, and a large cohort of young people in their 20s and 30s with a tertiary education. Importantly, analysis shows that Thailand has considerable potential to increase productivity in the future: the differences in labor productivity across sectors and subsectors in manufacturing and services (see Klyuev, 2015 and Figure 2) are higher than for many countries in the region, indicating significant potential for increasing aggregate productivity. Similarly, high differences in productivity levels across manufacturing and across service subsectors (Klyuev, 2015; Dheera-aumpon, 2014) indicate considerable scope for increasing within-sector productivity through intra-sector reallocation of capital and labor.

### A NUMBER OF RECENT POLICY INITIATIVES GIVE RISE TO SOME OPTIMISM.

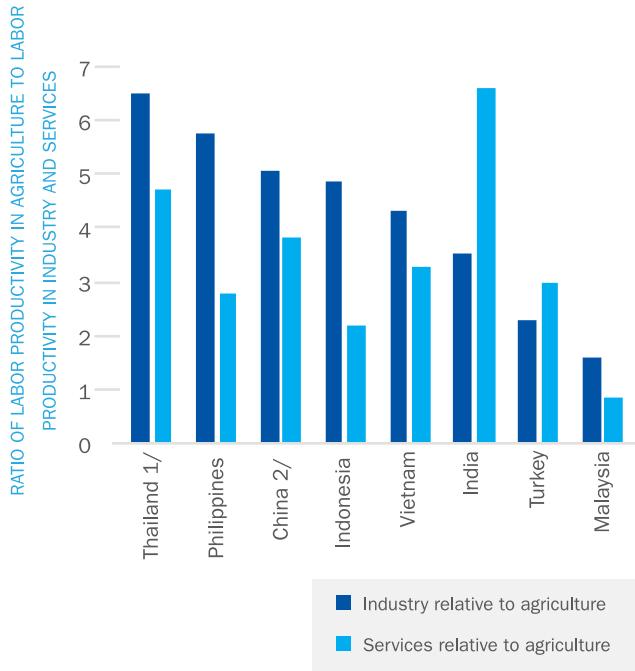
These include a focus on 10 industries as “new engines of growth” (so-called “S-curve industries”); the creation of an Eastern Economic Corridor; and the launch of a major push for the creation of an electronic payment system. Thailand also introduced a child grant for poor families with newborns in 2015. There has also been a major push to bring more SMEs into formal economy by providing them with incentives to move towards a single financial account. Moreover, the Government has transferred responsibility of supervision and regulation of State Financial Institutions to Bank of Thailand. And, finally, a number of large-scale infrastructure investments – many of which have been on the drawing boards since the early 2000s – have gotten underway.

THESE INITIATIVES ARE PROMISING SIGNALS THAT THAILAND IS EDGING BACK ON TRACK, BUT THEIR IMPACT WILL DEPEND ON THE QUALITY OF IMPLEMENTATION.

Launching good policy initiatives is a first important step; successfully implementing the initiatives is what is required to transform Thailand’s economy. Only time will tell whether Thailand will seize the opportunity to revive growth and secure prosperity for all.



**FIGURE 2:** The differences between labor productivity in agricultural and nonagricultural sectors are much bigger in Thailand than elsewhere



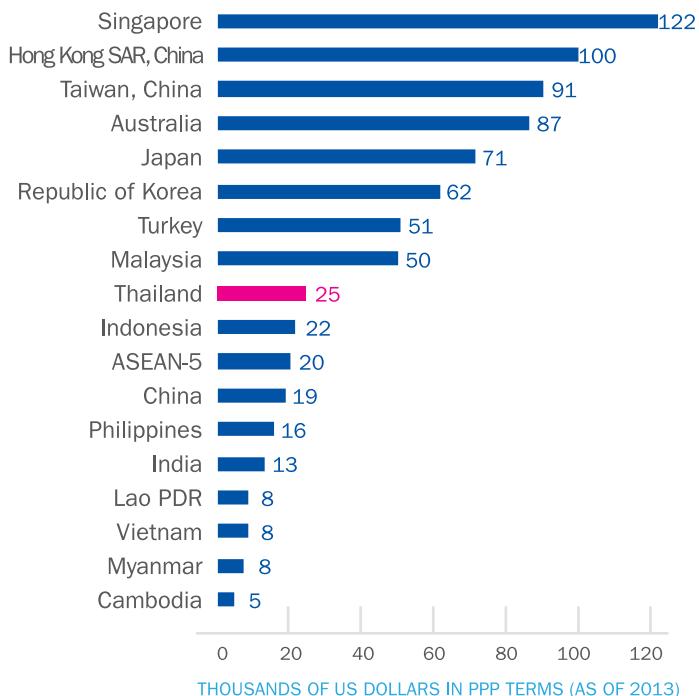
**Note:** GDP at constant basic prices per worker, using 2011 PPP reference year 2013.

1/ Calculated using total number of workers

2/ Calculated using World Bank calculations of fulltime equivalent workers

**Source:** APO Productivity Database 2015 and Labor Force Survey (for calculation of “Thailand 2/”).

**FIGURE 3:** Thai labor productivity is comparable to ASEAN-5 countries but only half of the level in Malaysia and Turkey (USD'000/worker)



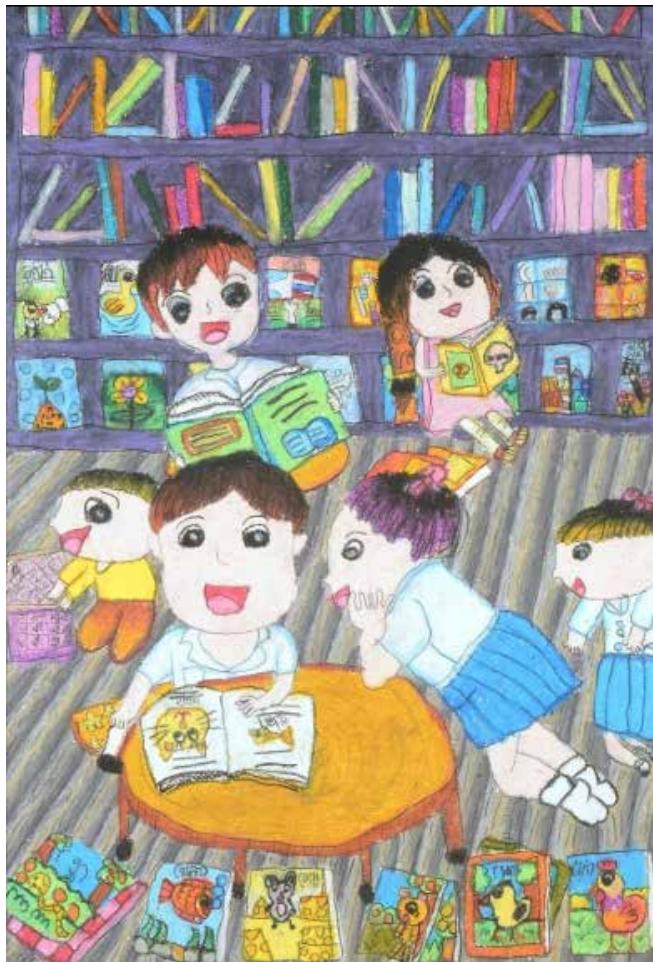
**Note:** GDP at constant basic prices per worker, using 2011 PPP reference year 2013.

**Source:** APO Productivity Database 2015.



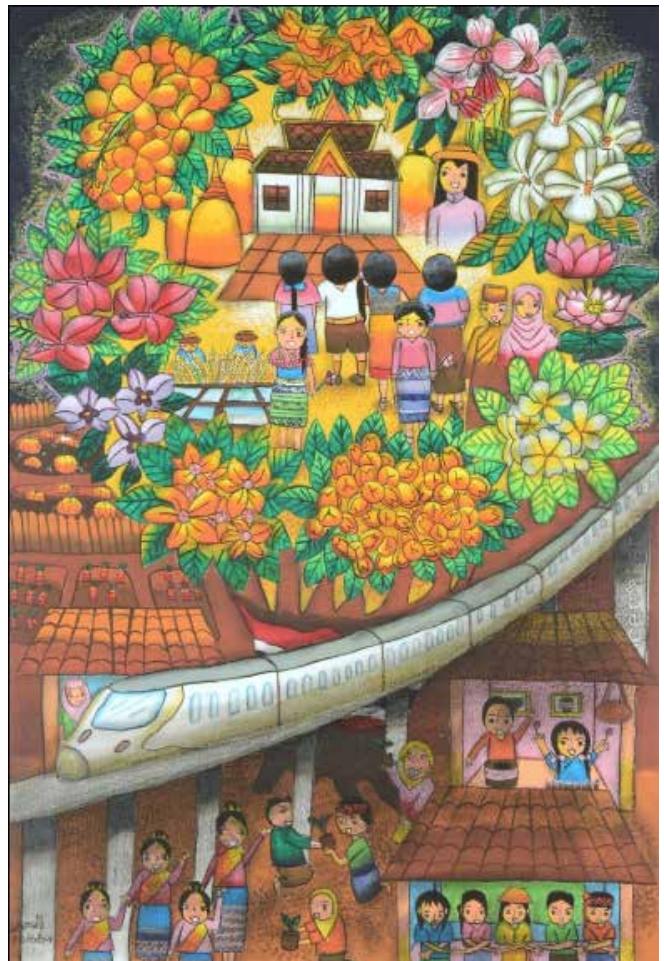
## CHILDREN'S DREAMS FOR THAILAND

As part of the government's consultations for their 12th National Economic and Social Development Plan, it organized a drawing competition for school children from across the country. The children were asked to draw under the title "Your Dream for Thailand". Some of the common themes in the drawings were the wish for Thailand to be united and peaceful though there are differences in nationality, culture and religion; to take better care of the environment; and for children to be educated for a brighter future. Below are two of the winning drawings and the comments from the artists who drew them.



**RAKPLOY MAMUI AGE: 10 | GRADE: 4**

"Children are reading books eagerly and going to the library, which is a source of knowledge. They will help drive Thailand's development in the future."



**JUTHAMANI KAMDAM AGE: 10 | GRADE: 6**

"The Thai way of life is close to nature, culture, and tradition. Though we are diverse in religion and culture, everyone still lives together in harmony and peace. These values will unite all Thais together to cooperate for a prosperous and developed Thailand."



## INTRODUCTION



# INTRODUCTION



# INTRODUCTION

**OVER THE PAST FEW DECADES, THAILAND HAS MADE TREMENDOUS PROGRESS TOWARD THE TWIN GOALS OF ELIMINATING EXTREME POVERTY AND BOOSTING SHARED PROSPERITY.**

For more than a quarter century prior to the 1997 Asian financial crisis, Thailand's economy grew at an average annual rate of 7.5 percent, creating millions of jobs that helped pull millions of people out of poverty and accommodated the country's rapidly growing population. Extreme poverty as measured by the international extreme poverty line (USD 1.90 per day, 2011 PPP) is no longer a concern for Thailand as a whole, falling from a rate of 14.3 percent in 1988 to less than 0.1 percent in 2013. Gains along multiple dimensions of welfare have been impressive: average per capita income has risen by 4.2 percent in 2000-2013, many more children are now getting many more years of education, and virtually everyone is now covered by health insurance while other forms of social security have expanded. Access to safe water and basic sanitation is almost universal, and mobility and connectivity have increased remarkably (UNDP, 2014b).



**NOTABLY, THAILAND HAS ACHIEVED THESE GAINS DESPITE HIGH POLITICAL INSTABILITY, WITH SHORT-LIVED CONSTITUTIONS AND FREQUENT MILITARY COUPS.**

Since becoming a constitutional monarchy in 1932, Thailand has experienced 18 coups (the most recent one on May 22, 2014, as well as a few additional attempted coups), with 18 different constitutions and 35 different prime ministers (Malesky and Samphantharak, 2011). Few other countries in the world have experienced as many coups.<sup>8</sup> Nonetheless, Thailand maintained high growth rates and was able to continue to attract sizeable amounts of FDI,<sup>9</sup> thanks in large part to a strong bureaucracy that served as a buffer against political turmoil and to factors such as its hub location in Southeast Asia that made it relatively attractive for foreign investors compared to its neighbors in earlier years.

**HOWEVER, CONTINUED INSTABILITY COULD AFFECT FUTURE GROWTH AND PROSPECTS FOR SHARED INCOME GAINS.**

There are now indications that continued political instability may start hurting Thailand's growth prospects. First, while Thailand's governance indicators—most noticeably voice and accountability and political stability—have worsened in the past decade, they have improved among many of its neighbors (Figure 4). Foreign investors now have choices. Second, the quality of the bureaucracy has worsened, while it has improved in neighboring countries (Figure 5). The “shock absorber” against political shocks is no longer as effective as it was.

<sup>8</sup> Researchers have different views on what constitutes a coup, and as such, different global databases provide different counts on which country has experienced the most coups. According to Wikipedia, only Haiti surpasses Thailand in having more coups in its history (with 25 coups).

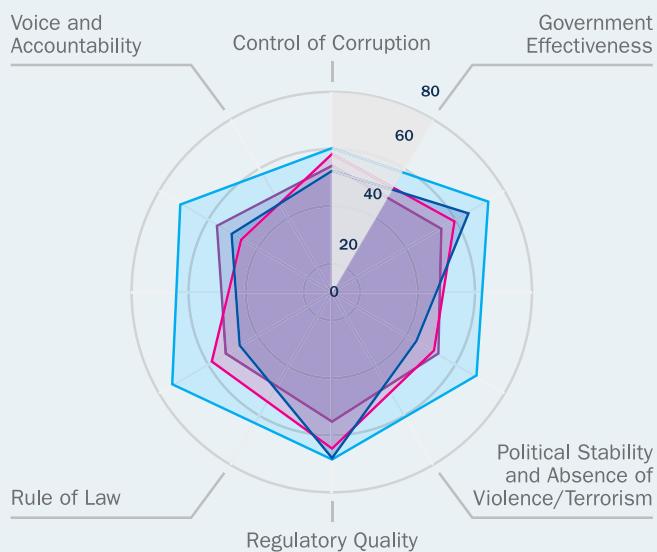
([https://en.wikipedia.org/wiki/List\\_of\\_coups\\_and\\_attempts\\_by\\_country](https://en.wikipedia.org/wiki/List_of_coups_and_attempts_by_country)). A more careful count by Powell & Thyne (2011) suggests that six countries may have experienced more coups than Thailand: Bolivia, Argentina, Sudan, Venezuela, Haiti, and Iraq.

<sup>9</sup> On average, FDI amounted to 2.3 percent of GDP during 1986-2000.

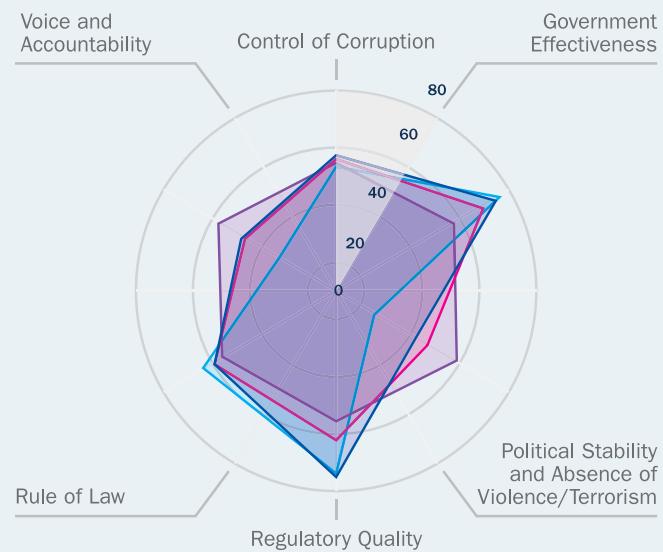
**FIGURE** Governance Indicators, percentile rank, 0 to 100

4 :

1996



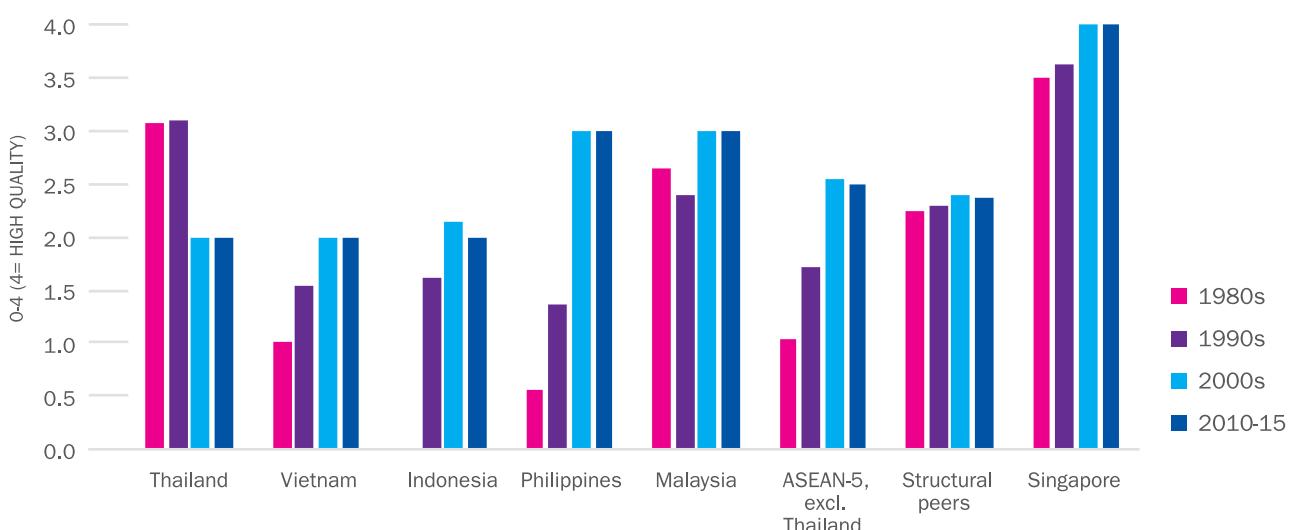
2015



**Source:** World Bank, World Governance Indicators.<sup>10</sup>

**FIGURE** Bureaucratic Quality<sup>11</sup>

5 :



**Source:** Political Risk Services, International Country Risk Guide (ICRG).

<sup>10</sup> Structural peers are: Bulgaria, Colombia, China, Malaysia and Mexico (see Box 1 for details).

<sup>11</sup> High points are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. In these low-risk countries, the bureaucracy tends to be somewhat autonomous from political pressure and to have an established mechanism for recruitment and training.



## INTRODUCTION



Introduction



Country Context



Growth



Inclusion and Poverty



Sustainability



Policy Priorities



Knowledge Gaps

### MOREOVER, POVERTY AND INEQUALITY CONTINUE TO POSE SIGNIFICANT CHALLENGES.

As of 2014, 7.1 million Thais were still living in poverty (based on the current national poverty line, or about USD 6.20 in 2011 PPP), equivalent to 10.5 percent of the population.<sup>12</sup> Moreover, in 2013, an additional 6.7 million, or 10.1 percent, were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty. Both household data and provincial-level data also paint a picture of non-income gaps between the poor and non-poor, often persisting over time despite the rapid economic growth. Although inequality has declined over the past three decades, the distribution in Thailand remains unequal compared to numerous countries in East Asia. Significant disparities in household income and consumption remained across and within regions of Thailand, with pockets of poverty persisting in lagging regions such as the Northeast, North, and Deep South.

### SLOWER GROWTH THAN IN THE PAST, IF IT CONTINUES, WILL CONSTRAIN FURTHER PROGRESS IN REDUCING POVERTY AND PROMOTING INCLUSION.

Historically, economic growth has been the key driver of poverty reduction in Thailand. More recently, growth has fallen from an average annual rate of more than 9 percent in the boom years of 1986-96 to less than 3 percent a year in the last two years. Looking ahead, the World Bank forecasts growth of 3.2 percent for 2016-18, and the IMF projects that growth will stay below 3.5 percent during 2016-2021 (WEO, October 2016)—well below the projected growth rates of other upper middle income countries in ASEAN as well as China and India.

### THE KEY ENGINES THAT DROVE PAST GROWTH HAVE LOST STEAM OR ARE UNSUSTAINABLE.

The engine that delivered most of the productivity gains in the past—the movement of people from the low-productivity agricultural sector into higher-productivity jobs, particularly in the manufacturing sector—lost steam almost a decade ago. Furthermore, recent progress in creating shared

prosperity is largely related to temporarily record-high agricultural prices, which have helped raise farm wages but without the corresponding productivity growth. The increasing importance of farm income in boosting shared prosperity with low agricultural productivity growth is worrisome in part because agricultural prices have already declined in 2015 and 2016 and are projected to remain subdued going forward, while the manufacturing sector has stopped creating new jobs.

### THE SYSTEMATIC COUNTRY DIAGNOSTIC (SCD) OF THAILAND IDENTIFIES PATHS TO FOSTER HIGHER PRODUCTIVITY-DRIVEN GROWTH AND SHARED PROSPERITY.

The SCD aims to help the country, the World Bank Group (WBG), and other partners identify key priority or focus areas for progress toward sustained poverty reduction and shared prosperity. The analysis presented is not limited to areas or sectors where the WBG is currently (or anticipates to be) active but rather focuses on the country's key development challenges and the underlying constraints to meeting the objective of growth leading to shared prosperity and poverty reduction. Where appropriate, the analysis contrasts the experience of Thailand with its neighbors and peers (see Box 1 for more details).

<sup>12</sup> Official aggregate poverty numbers for 2014 are available but, not the household level poverty numbers which the World Bank team behind this report uses to analyze trends, and regional variations. As such, this report has only been able to analyze trends through 2013.

## **BOX Benchmarking with Peer Countries**

### **1 :**

This SCD benchmarks Thailand vis-à-vis countries in the same region (ASEAN countries), countries in the same income classification (upper-middle-income), and a set of structurally similar countries (“structural peers”).

Structural peers are countries anywhere in the world that meet three criteria that also define Thailand

- Upper-middle-income countries.
- Countries with a strong track record in macro-economic management (identified as scoring at or above the 70th percentile during 2005-2015 in WEO's Global Competitiveness Index third pillar (macro environment))
- Economies not driven by exports of natural resources (identified by excluding economies in the 20th percentile of the indicator “natural resource as a share of GDP 2006-12”)

Using these criteria, the structural peers for Thailand are: Bulgaria (USD 4,319 per capita), China (USD 2,966 per capita), Colombia (USD 4,457 per capita), Malaysia (USD 6,499 per capita), and Mexico (USD 7,814 per capita).

In this SCD, references to “structural peers' average” indicate the unweighted average for these countries (excluding Thailand).

## **THIS SCD IS ORGANIZED AS FOLLOWS.**

It begins with an overview of the country context, describing some distinctive country features that have affected Thailand's development. It then takes a closer look at economic growth in Thailand, analyzing key trends and the likely prospects for future growth. Against this backdrop, recent progress in reducing poverty and promoting inclusion is examined, with a focus on understanding the factors that drive or constrain inclusive growth. The risks to Thailand's growth and its inclusiveness and sustainability going forward are then discussed. Based on this analysis as well as inputs from extensive consultations with government and other stakeholders, some key priority areas for ensuring strong, inclusive, and sustainable growth in Thailand are proposed.





# COUNTRY CONTEXT

# COUNTRY CONTEXT

## THAILAND IS AN UPPER-MIDDLE-INCOME COUNTRY WITHIN A RAPIDLY GROWING REGION.

With a population of 67.7 million and a gross domestic product (GDP) of USD 373.8 billion, Thailand is the second largest economy (after Indonesia) in the Association of Southeast Asian Nations (ASEAN) Economic Community and the Greater Mekong Subregion (GMS). Thailand achieved most of the MDG goals well in advance of the 2015 deadline and set several more ambitious goals (MDG+) for itself in 2004, some of which may also have been met by the end December 2015 deadline.



## THAILAND'S ECONOMY HAS DIVERSIFIED.

The manufacturing sector is competitive, and the large agriculture sector is gradually becoming more productive. Many Thailand-based enterprises have integrated successfully with global value chains, providing the foundation for transformation of the economy (ADB, 2013). The economy is export-led, with exports accounting for more than twothirds of GDP.

## UNEMPLOYMENT IS LOW, BUT THE COUNTRY HAS A LARGE SHARE OF WORKERS IN THE INFORMAL SECTOR.

The unemployment rate is low at 1.4 percent of the total labor force in 2014. Of the 35 million employed, 51 percent are in work categories associated with the informal economy, namely self-employed workers (31 percent) and unpaid family labor (20 percent). Around 5.8 million of Thailand's agricultural workers (40 percent) are "unpaid family workers," compared to only 6 and 13 percent of workers in the industry and service sectors, respectively. In more developed countries, these workers would likely be out of the labor force or on the unemployment rolls. Women are slightly more likely than men to be working as self-employed workers or unpaid family labor.<sup>13</sup> In addition, female heads of household working in the agricultural sector tend to have lower education, lower income, higher debts from the informal sector, and much less land tenure than male heads working in agriculture. The degree of informality raises concerns for workplace safety, job security, and other social protection.

<sup>13</sup> Fifty two percent of female employment is either self-employed or unpaid family workers, compared to 49 percent of male employment.

## DISTINCTIVE COUNTRY FEATURES AFFECTING DEVELOPMENT

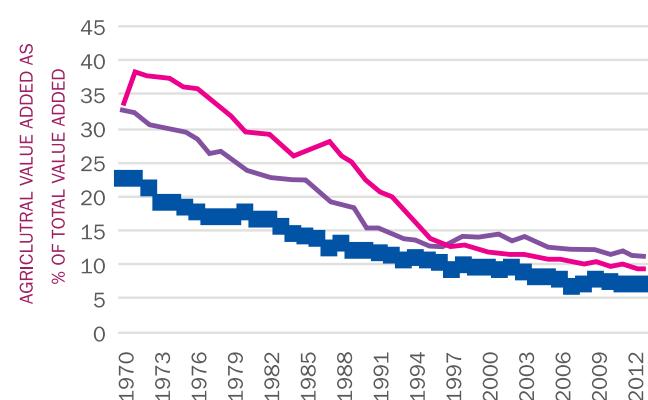
**THAILAND HAS A VERY FLUID WORKFORCE, WITH MILLIONS OF WORKERS MOVING IN AND OUT OF THE AGRICULTURAL AND INDUSTRIAL SECTORS DURING THE COURSE OF EACH YEAR (AND/OR IN AND OUT OF THE LABOR FORCE).**

Millions of workers continue to migrate between agricultural and industrial jobs, keeping a foot in the primary and secondary economies.<sup>14</sup> While these fluctuations have declined over time, in 2013, approximately 2.3 million workers (approximately 6 percent of total employment in 2013) moved from an agricultural job (where they work during the planting and harvesting season) to an industrial job or out of the labor force.

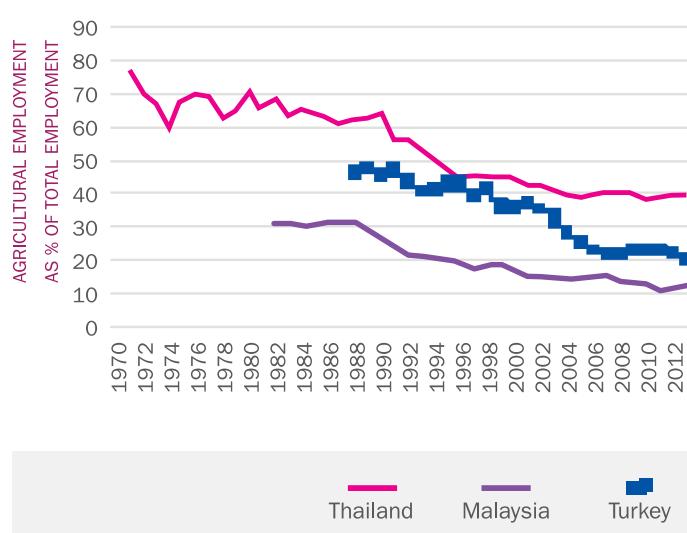
WHILE THERE HAVE BEEN IMPORTANT CHANGES IN THE LAST TWO DECADES IN THE NUMBER AND TYPOLOGY OF FARMS, COMMERCIALIZATION, AND DIVERSIFICATION, THAI AGRICULTURE IS STILL DOMINATED BY SMALLHOLDERS AND IS OFTEN CONSIDERED TO BE A SOCIAL SAFETY NET.

In 1970, farmers comprised nearly 80 percent of Thailand's workforce. Even as the industrial and service sectors began to grow and provide better-paid jobs, families kept their agricultural land. Doing so meant having an extra (although meager) source of income and, more importantly, a potential retirement income and a job during economic downturns. Employment figures for the agricultural sector are thus difficult to interpret: on paper, Thailand has approximately 14.6 million workers employed in agriculture (40 percent of employment), an unusually high share for a country at Thailand's income level (Figure 6). However, the number of full-time farm operators who worked at least 40 hours a week declined from 16.3 million farmers in 1992 to 9.6 million in 2010—still 27 percent of employment. This points to the duality of farm structures in Thailand: commercial full-time farmers coexist with parttime farmers using land as a safety net rather than a productive asset, slowing down the land consolidation needed for productivity growth in the sector.

**FIGURE 6** While agriculture's share of total value-added has declined, the movement of Thai workers out of agriculture has slowed in recent years



**Source:** Asia Productivity Database, accessed on November 1, 2015.

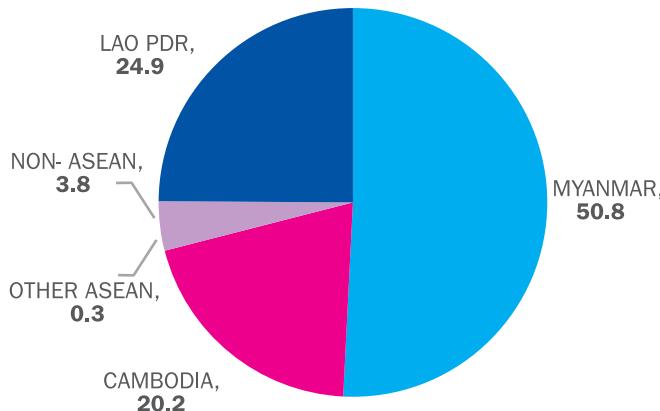


<sup>14</sup> Interestingly, similarly large fluctuations are not observed for the services sector during the year.

## THAILAND PLAYS AN IMPORTANT ROLE IN THE REGION AS AN IMPORTANT DESTINATION FOR MIGRANT WORKERS.

Thailand has an estimated 3.7 million migrant workers (5.6 percent of the population, or 9.6 percent of total employment), with the share of males ranging from 50-60 percent, depending on the source.<sup>15</sup> Virtually all migrants to Thailand come from neighboring Myanmar, Lao PDR, and Cambodia (Figure 7). At the current rate, Thailand has substantially more migrants than its structural peers (except Malaysia) but, as a share of its workforce, fewer than both Malaysia and Singapore (Figure 8). Studies suggest that the inflow has not negatively affected Thai labor (Lathapipat, 2015).

**FIGURE 7:** Most of Thailand's international migrants are from neighboring countries

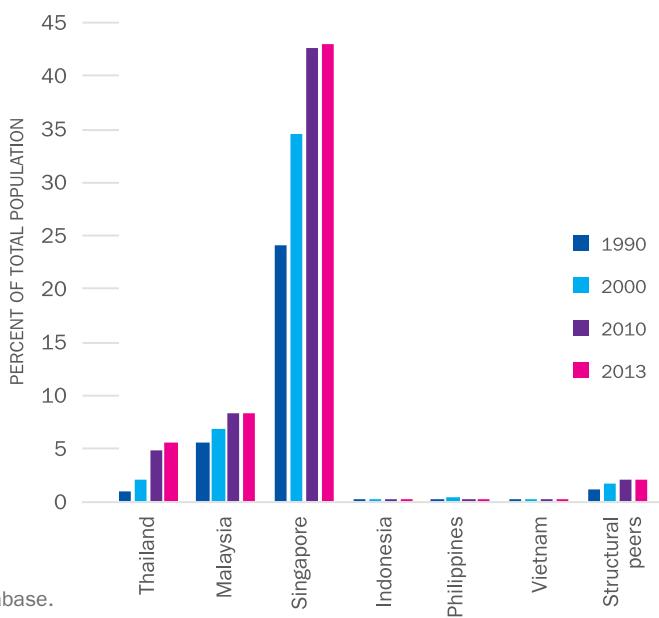


**Source:** UN: Trends in International Migrant Stock: The 2013 Revision Database.

## A LARGE PROPORTION OF THESE MIGRANTS ARE POOR AND VULNERABLE.

According to SES 2013, about one-third of those who speak Mon/Burmese, Cambodian/Souy, and Karen at home are living below the national poverty line. The Thai Government is intent on regularizing their status and providing social services, but the systems are far from perfect. More than half of Thailand's migrants are undocumented migrants who are prey to human trafficking, exploitation, and human rights abuses (UNDP, 2014b). Thailand is one of the major sending and receiving countries for human trafficking, and although data on the number of people who have been trafficked in Thailand is limited, it was estimated that several thousands were forced to become sex workers or labor in fishing industries (Box 2). With the upcoming regional labor movement as a result of the ASEAN Economic Community (AEC), there is increasing concern over the possibility of an escalation in human trafficking.

**FIGURE 8:** Thailand has a higher percentage of migrants than the average of its structural peers but less than Malaysia and Singapore



<sup>15</sup> The estimate of 3.7 million migrants (of both registered and unregistered workers) are from the UN's Trends in International Migrant Stock (The 2013 Revision Database). These data suggest that approximately half of these migrant workers are female.

**BOX An example of migrants' vulnerability: The fishery sector 2 :**

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The fishery sector in the Greater Mekong sub-region has been identified as being particularly vulnerable to coercive and deceptive labor practices (Pearson et al., 2006). The industry, which makes Thailand the world's third-largest seafood exporter, has been found in need of further controls and restructuring to prevent illegal fishing, illegal migrant labor, and human trafficking. The shortage of Thai nationals willing to work on fishing vessels and the availability of labor from neighboring countries implies that the industry's workforce is mostly composed by migrants (ILO, 2013a; ILO, 2013b).

***Why are seafarers so vulnerable? Fragmented recruitment and incorrect practices***

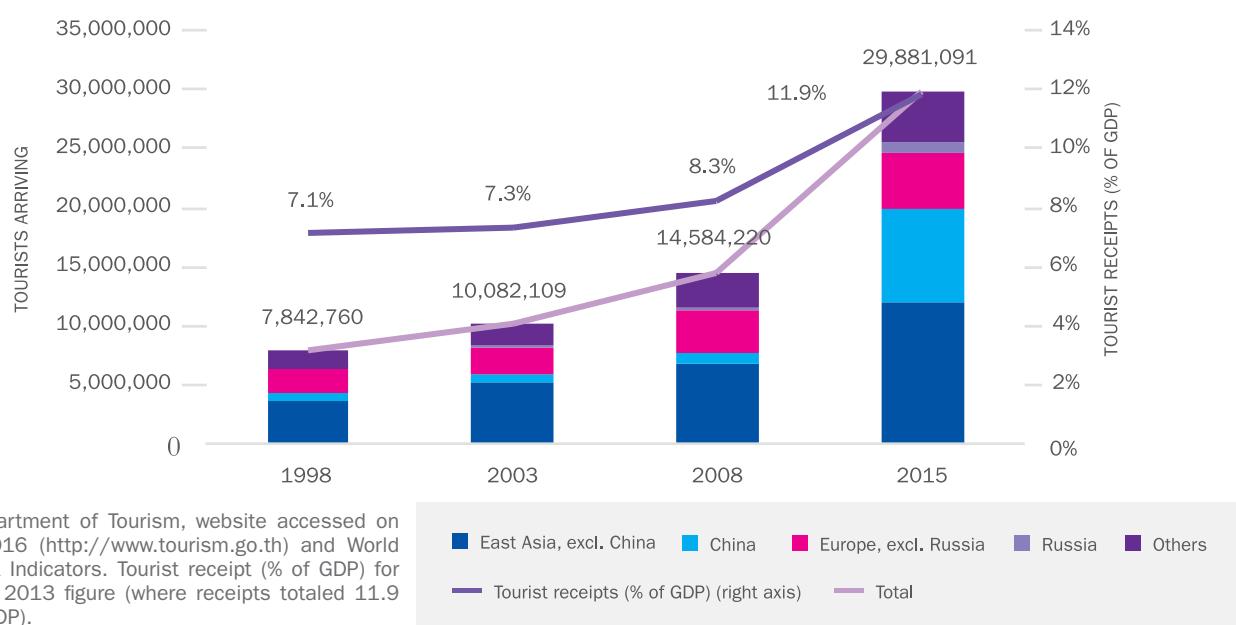
Recruitment of fishermen is handled by a variety of brokers (at origin or destination) who use different methods to attract potential workers. The process is often characterized by subcontracting, no written contracts, and lack of transparency in wages and conditions of work (Robertson, 2011). The payment system on boats makes fishers vulnerable to irregularity and ambiguity of pay (ILO, 2013a). Payments generally depend on profit sharing at the end of a fishing period (varying in length between short- and long-haul fishing), at times combined with a monthly basic wage (Chantavanich et al., 2016). The practice of wage withholding is done to prevent the workforce from renegeing on the work agreement, but it could result in forced labor practices as it may keep the migrants on the vessel against their will (Chantavanich et al., 2016; Derks, 2010).



## TOURISM IS AN IMPORTANT PART OF THAILAND'S ECONOMY AND HAS THUS FAR REMAINED A SOLID SOURCE OF REVENUE THROUGH THE COUNTRY'S ECONOMIC UPS AND DOWNS.

With nearly 30 million visitors in 2015, Thailand is considered one of the world's top tourist destinations and generates approximately 12 percent of GDP from tourist receipts (Figure 9). Thailand has an impressive ability to attract new groups of tourists (from Russia and now China) and different segments of the tourist market (from low-budget tourists to golfers to medical tourists). With tourist numbers doubling over the past decade, authorities are planning for even more rapid growth: the Electricity Generating Authority of Thailand (EGAT) presumes that by 2032, Thailand will receive more than 100 million tourists a year, 40 percent of them visiting Phuket and neighboring areas such as Krabi.

**FIGURE 9:** Tourism is an important source of revenue for Thailand



**Source:** Department of Tourism, website accessed on June 15, 2016 (<http://www.tourism.go.th>) and World Development Indicators. Tourist receipt (% of GDP) for 2015 is the 2013 figure (where receipts totaled 11.9 percent of GDP).

## HOWEVER, THERE ARE GROWING CONCERNs OVER THAILAND'S ABILITY TO MANAGE ITS NATURAL RESOURCES IN THE WAKE OF SO MANY ARRIVALS.

Numerous examples of short-sighted planning and degradation of formerly pristine coastal resort destinations can be found. As an example of the challenges involved in supporting such rapidly growing tourist numbers, the power consumption of a tourist is four times higher than that of a local resident on average.<sup>16</sup> Existing locations are overused and may become unsustainable.

## VIOLENCE IN THE DEEP SOUTH CONTINUES, WITH LIMITED SIGNS OF A TRANSITION TO PEACE.

The secessionist movements in Thailand's southernmost provinces (Pattani, Yala, and Narathiwat) date back more than a century, making them one of the oldest subnational conflicts in Southeast Asia. Since the reemergence of the insurgency in 2004 after 30 years of dormancy, state-minority relations have deteriorated in the South, with nearly 13,000 violent events that resulted in more than 6,000 deaths and 11,000 injuries.<sup>17</sup>

<sup>16</sup> "Future of Krabi's power plant unclear." Bangkok Post. 2015-09-27. Retrieved 27 September 2015.

<sup>17</sup> The justification for separatist violence is based on long-running grievances of the predominantly Malay Muslim community with the central Thai state.

**IN ADDITION TO CAUSING THE TRAGIC LOSS OF THOUSANDS OF HUMAN LIVES, THE CONFLICT HAS HAMPERED DEVELOPMENT EFFORTS AND Affected THE WELL-BEING OF THE APPROXIMATELY 2 MILLION PEOPLE IN THE AFFECTED PROVINCES.**

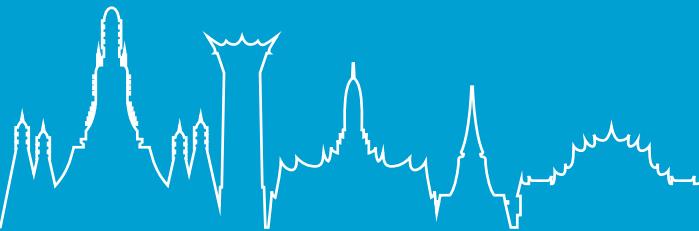
Similar to other countries affected by conflict,<sup>18</sup> poverty rates in the Deep South have been substantially above national averages, and their human development achievements have consistently lagged the rest of the country. Although the State's main response to

the resurgence of violence has been security led, greater emphasis has been placed on various social and economic development efforts in recent years. Nonetheless, despite higher budgets provided to the conflict-affected areas to improve service delivery and gain the confidence of local communities, the Deep South has continued to lag behind in several development indicators, particularly in education (see Annex 1: Deep South for more details).



Socioeconomic inequalities have exacerbated the situation, inspiring resentment and violent responses among some minority Malay Muslims living in the areas. Peace dialogues have been initiated by successive governments since 2013 with leaders of insurgent groups, mainly the Barisan Revolusi Nasional (BRN)—one of the rebel groups active in the South—with facilitation support from the Government of Malaysia. Given the fractious nature of the insurgent leadership, high levels of distrust, and persistent violence, it is too early to predict the outcome of these efforts. While the attempt at dialogue is encouraging, the insurgency remains active, levels of violence are significant, and it is not clear how and when a definitive end to the conflict will be secured.

<sup>18</sup> For example, see WDR 2011.



# GROWTH

# GROWTH : STELLAR PAST PERFORMANCE BUT RECENT SLOWDOWN. CAN GROWTH BE REVIVED?

## HISTORICALLY, GROWTH PERFORMANCE HAS BEEN STRONG

PRIOR TO THE ASIAN CRISIS OF 1997, THAILAND'S EXPORT-ORIENTED "ECONOMIC MODEL" DELIVERED HIGH GROWTH RATES, MILLIONS OF JOBS, AND RAPID POVERTY REDUCTION.

For more than a quarter century, the country's economy grew at an average annual rate of 7.5 percent, contributing to its exceptional success in reducing poverty and sharing prosperity. Since the mid-1990s, exports mainly of manufactures have served as the leading drivers of Thailand's economic growth.<sup>19</sup> Exports grew at a blistering annual rate of 15 percent from 1986 to 1996, driving the demand for capital investments and labor hours. The strong outward orientation influenced the allocation of inputs and sustained unconstrained expansion of outputs as long as they were competitive. The continued growth of outputs and export of manufactures allowed the gains of the more productive manufacturing sector to be extended over a greater volume of factor inputs, including labor from agriculture. Thanks to such growth, the poverty rate fell from 67.7 percent (34 million people) in 1986 to 35 percent (20 million people) in 1996.<sup>20</sup>

### DURING 1986-96, INVESTMENT INCREASED AT A RAPID CLIP OF 14.8 PERCENT PER YEAR ON AVERAGE.

Private investment averaged more than 30 percent of GDP, reaching 32 percent in 1995. Rising foreign direct investment (FDI) brought in foreign savings and, more importantly, the technology and marketing skills necessary for maintaining export competitiveness.

PUBLIC INVESTMENT, ESPECIALLY IN INFRASTRUCTURE AND BASIC EDUCATION, ROSE CONTINUALLY NOT ONLY TO BUILD THE COUNTRY'S INFRASTRUCTURE IN GENERAL BUT ALSO TO REDUCE COSTS FOR INVESTORS AND FACILITATE THE INTER SECTOR REALLOCATION OF LABOR.

Infrastructure was typically built ahead of demand. The Eastern Seaboard Infrastructure Development program, a mega-infrastructure plan, was developed and implemented to encourage private investment and support expansion of manufactured exports.



<sup>19</sup>[http://econ.nida.ac.th/en/index.php?option=com\\_content&view=article&id=458%3Arecent-evidence-of-thevalidity-of-the-export-led-growth-hypothesis-forthailand&catid=29%3Apresentation-33&Itemid=117&lang=en;http://econpapers.repec.org/RePEc:bth:wpaper:2009-02](http://econ.nida.ac.th/en/index.php?option=com_content&view=article&id=458%3Arecent-evidence-of-thevalidity-of-the-export-led-growth-hypothesis-forthailand&catid=29%3Apresentation-33&Itemid=117&lang=en;http://econpapers.repec.org/RePEc:bth:wpaper:2009-02)

<sup>20</sup>The numbers reported here are national poverty rates. Food poverty plummeted as well during this period: in 1986, Thailand had 3.6 million people who were considered poor due to inadequate calorie intake. By 1996, that number had dropped to 700,000.

## GROWTH WAS DRIVEN MAINLY BY CAPITAL AND LABOR INPUTS, WITH TOTAL FACTOR PRODUCTIVITY GROWTH PLAYING A SMALLER ROLE.

During 1988-1996, total factor productivity (TFP) contributed an average of 1.5 percentage points a year toward overall GDP growth, playing a far lesser role than the rapid accumulation of capital (Table 2).<sup>21</sup>

**TABLE 2:** Rapid accumulation of capital inputs was the key driver of growth, with total factor productivity growth playing a smaller role

PERCENTAGE POINTS ANNUAL CONTRIBUTION FROM:					
Period	GDP	Capital	Labor Quality	Hours	TFP
1988-2013	5.5%	3.1p.p	0.9p.p	0.6p.p	0.8p.p
1988-1996	9.4%	6.2p.p	0.7p.p	0.1p.p	1.5p.p
2000-2013	4.5%	1.4p.p	1.0p.p	0.6p.p	1.5p.p

**Note:** p.p means “percentage point.” For example, for 1988-2013, it shows that capital accumulation contributed 3.1 percentage points per year on average to the observed 5.5 percent annual growth in GDP.

**Source:** Authors’ calculations based on data from LFS and National Accounts data.

## AS THE ECONOMY BECAME MORE CAPITAL-INTENSIVE, THE AVERAGE PRODUCTIVITY OF WORKERS ROSE RAPIDLY.

The rapid growth in investment reflected the underlying growth of the more capitalintensive sectors, such as manufacturing and construction. Reflecting the bigger importance that machines play in those sectors, overall labor productivity in the economy soared as workers moved from sectors that employed few machines (e.g., agriculture) to sectors that did employ them. As described in Box 3, depending on the method of calculation, labor productivity in industrial or service sector jobs has been five to ten times higher than labor productivity in agriculture. As Figure 12 shows, the shift from sectors with low labor productivity (mainly reflecting low capital intensity) to sectors with higher labor productivity

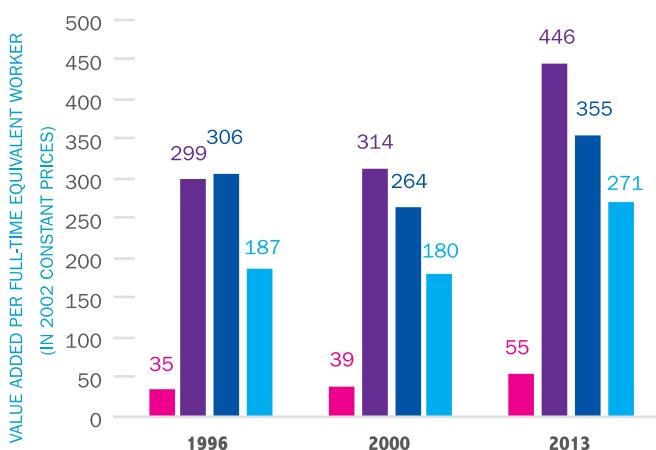
(labeled as “Labor productivity growth coming from ‘cross sector reallocations’”) was an important part of overall productivity growth in Thailand and in most of East Asia. In Thailand, this movement—sometimes referred to as “structural transformation”—contributed 1.3 percentage points of growth toward overall productivity growth of 7.1 percent (during 1987-1996).

<sup>21</sup> The important role of capital accumulation in driving Thailand’s economic growth during the period before the Asian crisis is a well-established fact (see, for instance, Bosworth (2005) (Economic Growth in Thailand: the Macroeconomic Context; or Lathapipat and Chucherd 2013). However, researchers differ in their estimates of the role played by TFP before and after the crisis. To our knowledge, only one other paper on Thailand (Chuenchoksan and Nakornthab 2008) explicitly take improvements in the quality of labor into account, as is also done in the calculations in Table 2. When ignoring the improvements in labor quality, the contribution of TFP growth is overestimated.

### **BOX How large are the productivity differences across 3 : Thailand's sectors?**

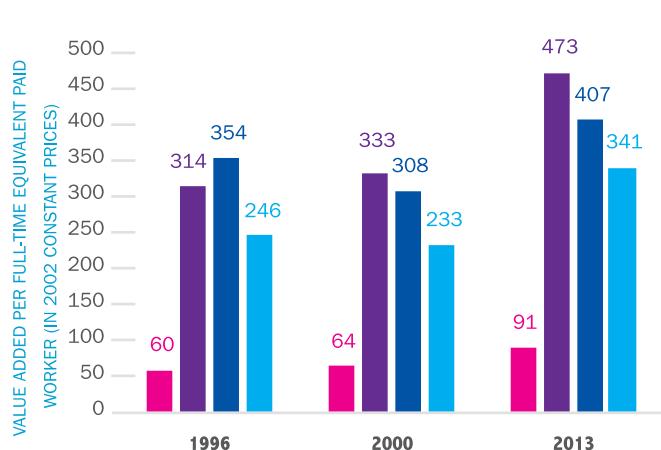
Given the difficulties in estimating employment in agriculture as discussed earlier, it is equally difficult to calculate labor productivity: should value-added in agriculture be divided by the 11.5 million full-time equivalent workers or by a smaller number, assuming the 5.5 million unpaid family workers' contribution to output to be very small? Depending on whether unpaid family workers are included in employment or not, labor productivity in industrial or service sector jobs has for decades been around 5-10 times larger than labor productivity in the agricultural sector (see figures below).

**FIGURE 10 :** Most of Thailand's international migrants  
are from neighboring countries



**Source:** Authors' calculations based on labor force survey (for employment data) and NESDB (for value-added)

**FIGURE 11 :** Even in terms of labor productivity per  
full-time equivalent paid worker



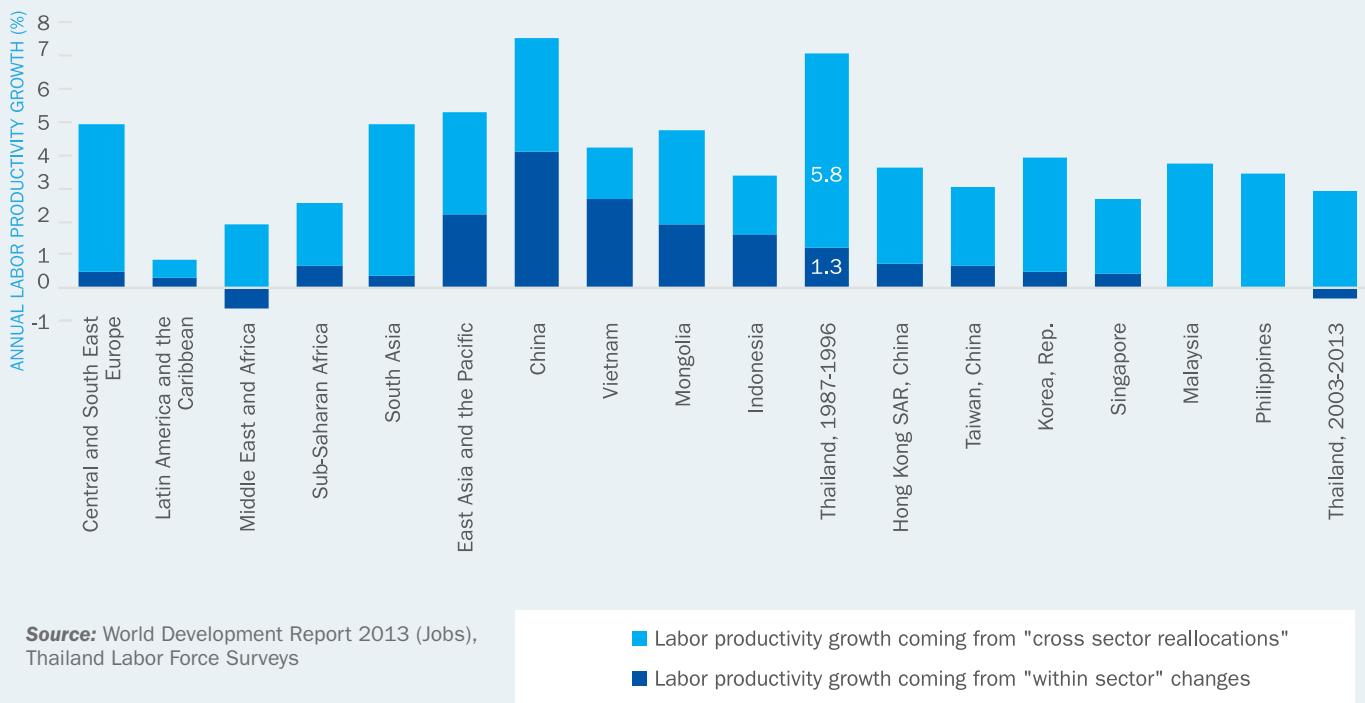
 Agriculture  
  Services  
 Industry  
  Total



**FIGURE** Labor reallocation was a driver of labor productivity growth

**12 :** in Thailand and the rest of East Asia

1999-2008, except Thailand 1986-1996 and 2003-2013



## GROWTH HAS SLOWED SIGNIFICANTLY IN RECENT YEARS, RAISING CONCERN ABOUT STRUCTURAL WEAKNESSES

### THAILAND NEVER FULLY RECOVERED AFTER THE 1997 CRISIS.

During the Asian crisis, the slump in investment in Thailand was exceptionally deep, and its recovery was exceptionally slow (Zhou, 2013). Thailand and Malaysia were the worst affected during the currency crisis of 1997 with a 20- percentage-point decline, but the latter's investment rate recovered much faster than the former. Private investment in Thailand fell from more than 32 percent of GDP in 1995 to less than 12 percent of GDP in 1999 and has recovered to 19 percent since then (Table 4). Public investment fell from 9 percent of GDP in 1995 to 5.6 percent in 2013. Only export growth

remained robust for much longer, but since the onset of the financial crisis in 2007-2008, Thailand's export performance has faltered. Exports on average grew 13 percent per year from 2006 to 2011 before slowing down to less than 1 percent from 2012 to 2014, a far more pronounced drop than what is observed in neighboring countries.<sup>22</sup>

<sup>22</sup> World Bank. 2015a. "Thailand Economic Monitor, January 2015."



**FIGURE 13 :** Investment never fully recovered after the 1997 crisis...  
(investment and domestic savings, % of GDP)



Source: World Bank Indicators

### THAILAND'S GROWTH RATE HAS BEEN THE LOWEST AMONG COMPARABLE COUNTRIES IN THE REGION SINCE 2010, AND IS EXPECTED TO REMAIN THE LOWEST FOR THE NEXT FIVE YEARS.

Growth fell from an average annual rate of more than 9 percent in the boom years of 1986-96 to 5 percent in 2000-07 and less than 3 percent in 2010-15 (Table 4). The World Bank forecasts growth of 3.2 percent per year during 2016-18, similar to IMF's growth projections for the period 2016-2021. Thailand's growth rate is falling behind that of its peers in the region and elsewhere, resulting in adverse perceptions among domestic and foreign investors. Moreover, growth may be too low to generate the resources needed to strengthen social protection adequately to ensure shared prosperity on a sustained basis.

**FIGURE 14 :** ...with both private and public investment behind the decline  
Gross fixed capital formation (public and private, % of GDP)



Source: NESDB

### SLOWER GROWTH IN 2010-15 WAS DUE IN PART TO A DETERIORATING GLOBAL ENVIRONMENT AND A NUMBER OF COUNTRY-SPECIFIC SHOCKS,

namely political unrest (in 2010), the tsunami in Japan (2011), a major flood (2011), and protracted political tensions culminating in a coup (2014). Following the global financial crisis, per capita GDP of developing countries grew by 4.6 percent per year in 2010-13, about 2 percentage points slower than in the pre-crisis period (Qureshi et al., 2014). Estimates suggest that on average, about two-thirds of this developing-country slowdown resulted from a decline linked to sluggish recovery in advanced economies, while another third was structural resulting mainly from slower productivity growth (World Bank, 2014).

## RATES, NEIGHBORING COUNTRIES THAT FACED THE SAME ADVERSE EXTERNAL ENVIRONMENT GREW FASTER THAN THAILAND.

Neighbors like Malaysia, Philippines, Indonesia, China, and India grew faster than Thailand (Table 3). Evidence suggests that countries that implemented reforms and investments to boost productivity growth did better than those that did not during this period (Dabla-Norris et al., 2013; Qureshi, 2014).

## THAILAND IS NOW FACING A MIDDLE-INCOME TRAP CONTENDING WITH STRUCTURAL BOTTLENECKS THAT HAVE PREVENTED SOME COUNTRIES FROM SUSTAINING STRONG PRODUCTIVITY-DRIVEN GROWTH AND ACHIEVING HIGH INCOME LEVELS.

In East Asia, only Korea, Singapore, and Taiwan, China succeeded in sustaining such growth long enough to become a high-income economy. In contrast, Argentina, Brazil, Mexico, and Peru—which attained upper middle-income levels long before Korea and Taiwan, China—have not been able to do the same. This is because middle-income countries face bottlenecks to higher growth that are different from those they faced earlier. The earlier period of rapid growth is driven by capital accumulation and labor-intensive exports, and the economy reaps productivity gains mainly from structural change. However, with rising incomes and wages, labor-intensive exports are increasingly squeezed by competition from lower-cost producers in low-income countries and better quality exports from higher-income ones. Indeed, rising production costs are eating into Thailand's competitiveness relative to some of its neighbours: its exports of garments, food products, auto parts and electronic components are being squeezed both by products from China, which is higher up the income scale, as well as from Cambodia, which enjoys the advantage of lower wage costs.<sup>24</sup>

## THE SLOWDOWN IN THAILAND CAN BE ATTRIBUTED LARGELY TO SLOW GROWTH IN THE NONAGRICULTURAL SECTORS.

In 1986-96 when industry and services grew at 12 percent and 9 percent a year, respectively, GDP grew rapidly (Table 4). In 2000-07, the industry and service sectors grew at around half their earlier rate, and industrial growth collapsed further during 2010-15.<sup>25</sup> The service sector was more resilient, maintaining growth at a steady rate of around 5 percent. In contrast, agricultural growth revived after the 1997 crisis due to the recovery of exports, driven by depreciation of the national currency and increasing global demand for agricultural commodities. However, during 2010-15, agricultural growth slowed down, as well.

**TABLE 3:** Other countries in the region are achieving more rapid GDP growth than Thailand

	2010-2015	WB MFM 2016-2018	IMF 2016-2021
Thailand	2.9	3.2	3.2
China	8.7	6.5	6.1
Indonesia	5.6	5.3	5.5
Malaysia	5.6	4.3	4.7
Philippines	6.2	6.3	6.8
Vietnam	6	6.2	6.2
India	7.2	n.a.	7.8
Structural peers <sup>23</sup>	4.6	n.a.	3.8

**Source:** IMF WEO October 2016, World Bank EAP Update, October 2016 and NESDB (for Thailand 2010-2015).

<sup>23</sup> Bulgaria, China, Colombia, Malaysia and Mexico. See Box 1 for a description of how these countries were selected.

<sup>24</sup> OECD, 2013, Innovation Report for South East Asia

<sup>25</sup> The manufacturing sector accounted for around 30 percent of GDP from 2000 onward. It increased from 28 percent in 2001 to 31.1 percent in 2010, and then declined to 27.7 per cent in 2014. By contrast, the share of service sector in GDP slightly increased in the past seven years from 2008. When the manufacturing sector is disaggregated according to the 4-digit International Standard of Industrial Classification (Rev 3), growth performance varied substantially across industries. Among these top-10 fastest growth sectors, the largest industry was manufacturing of office, accounting and computing machinery (ISIC 3000) dominated by hard disk drive manufacturing. Its annual growth rate registered at 14.5 percent so that its share to total manufacturing gross output increased from 7.1 percent in 2000-02 to 16.6 percent in 2011-13. The other major industries in these top-10 included machinery (ISIC 2921 and 2915), auto parts (bearing and gears, ISIC 2913), and testing equipment (ISIC 3312), with growth rates of 17, 15, and 14.5 percent, respectively.

**TABLE 4:** The recent slowdown in GDP growth can be attributed mainly to a slowdown in the industry and service sectors

Average annual growth rates in GDP and its components (excluding crisis periods, 97-00 and 2008-10)

	BY SECTOR				BY EXPENDITURE				
	GDP	Consumption			Expenditure				Imports
		Agri	Indu.	Services	Private	Govern.	Invest	Exports	
1986-96	9.4	3.9	11.9	9.1	8.5	14.8	14.8	15.0	18.3
2000-07	5.4	2.8	6.3	5.1	5.4	7.7	7.7	8.1	8.7
2010-15	2.9	1.2	1.2	4.6	2.4	3.4	1.6	3.4	2.6

**Source:** Authors' calculations based on APO Database 2015 for 1986-96 and 2000-07 and NESDB (2015) for 2010-15.

### STRUCTURAL CHANGE STALLED AFTER 2004 AS WORKERS STOPPED MOVING FROM THE AGRICULTURE SECTOR INTO THE SECONDARY SECTORS OF THE ECONOMY.

As such, one engine of overall labor productivity growth (i.e. the movement of people from lower- to higher-productivity sectors) stopped working, as shown in Figure 12 above: during the period 2003-2013, labor productivity growth coming from ‘cross sector reallocations’ had collapsed. With workers moving back into the lower-productivity agricultural sector, the contribution of “structural transformation” was negative.

### TWO FORCES—PUSH AND PULL FACTORS—WERE BEHIND THE STALLING OF STRUCTURAL TRANSFORMATION.

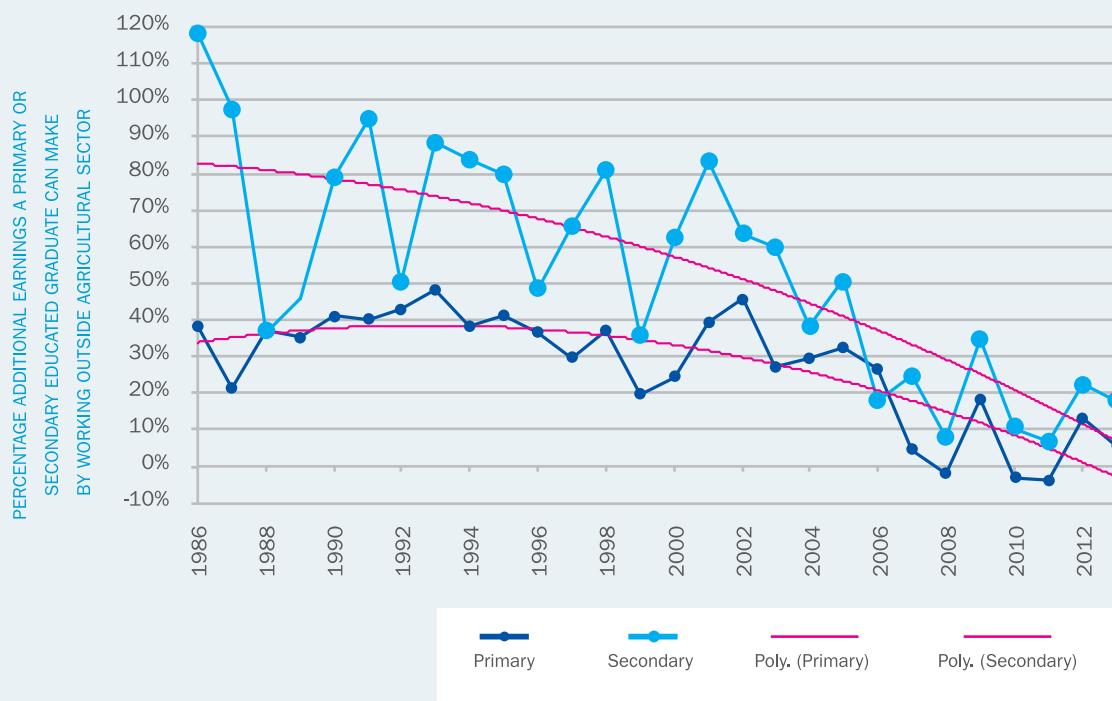
On the “push” side, booming agricultural prices—with real prices rising by nearly 70 percent between 2001 and 2011 (Figure 15—rapidly pushed up real wages for agricultural workers, despite little growth in agricultural productivity (Lathapipat, 2015). Real agricultural wages rose by more than 70 percent between 2001 and 2013, which nearly eliminated the hourly “wage premium” between agricultural and off-farm jobs (Figure 16). With this wage premium all but gone, farmers saw few incentives to move out of agriculture but rather to move within the sector, mainly from crop production to production of fisheries, livestock, and perennial crops. Moreover, employment in the agricultural

sector expanded by more than one million workers (since 2004), pulling even secondary and post-secondary educated workers back into the agricultural sector. Other factors outside of the agricultural sector also likely caused structural transformation to slow down: in particular, there are some indications that workers increasingly found it harder to find good jobs. Job growth slowed, and even highly educated workers (at all age levels) started finding jobs in the informal sector (especially in wholesale and retail). Possibly, their skills may not have matched what firms were seeking (see firm level survey results in Figure 66).



**FIGURE 15 :** Agricultural prices boomed between 2001 and 2012

Source: World Bank Commodity Markets Outlook (2015).

**FIGURE 16 :** The hourly wage premium of a primary- and secondary-educated graduate to work in the off-farm sector has decreased significantly

Source: Authors' calculations based on Labor Force Survey



GROWTH

**THE SLOWDOWN OF LABOR AND CAPITAL PRODUCTIVITY GROWTH IN RECENT YEARS (WORLD BANK, 2016) HAS FURTHER WIDENED THE PRODUCTIVITY GAP BETWEEN SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) AND LARGER FIRMS, WHICH IS WORRISOME GIVEN THE PREDOMINANCE OF SMEs IN THAILAND'S BUSINESS SECTOR.<sup>26</sup>**

Virtually all of Thailand's firms (99.7 percent) (or 2.7 million enterprises) are classified as being small or medium-sized, accounting for 80.3 percent (13.0 million) of total employment in the country. However, while SMEs dominate the landscape of firms, their contribution to GDP has decreased continuously during the past 12 years from 41.3 percent of GDP in 2002 to 37.4 percent in 2013, causing concern among policymakers. Moreover, the productivity gap between SMEs and larger firms has widened. As the gap in productivity between small and large firms is significant, improving productivity in smaller firms will take extra effort because their turnover rates are high (70 percent fold up after a few years).

## FALTERING EXPORT GROWTH HAS ALSO PLAYED AN IMPORTANT ROLE IN THE SLOWDOWN

**ANALYSIS UNDERTAKEN FOR THIS SCD SUGGESTS THAT THE SIGNIFICANT SLOWDOWN IN THAILAND'S EXPORT GROWTH IN RECENT YEARS IS DUE IN PART TO A LOSS OF MARKET SHARE IN LABORINTENSIVE MANUFACTURING.**

Many labor-intensive and resource-based manufactured exports (20 percent of total exports) have become less competitive, a trend that accelerated in 2010-14. In the face of rising wage rates, export items like textiles, footwear, leather products, and wood products have been losing export markets. This is also reflected in manufacturing value added where laborintensive and resource-based subsectors have declined, contributing in part to stagnating manufacturing employment in recent years.

**ANOTHER CONTRIBUTING FACTOR TO THE EXPORT SLOWDOWN HAS BEEN STAGNATION IN THE LEVEL OF SOPHISTICATION OF THAILAND'S MEDIUM- AND HIGH-TECH EXPORTS.**

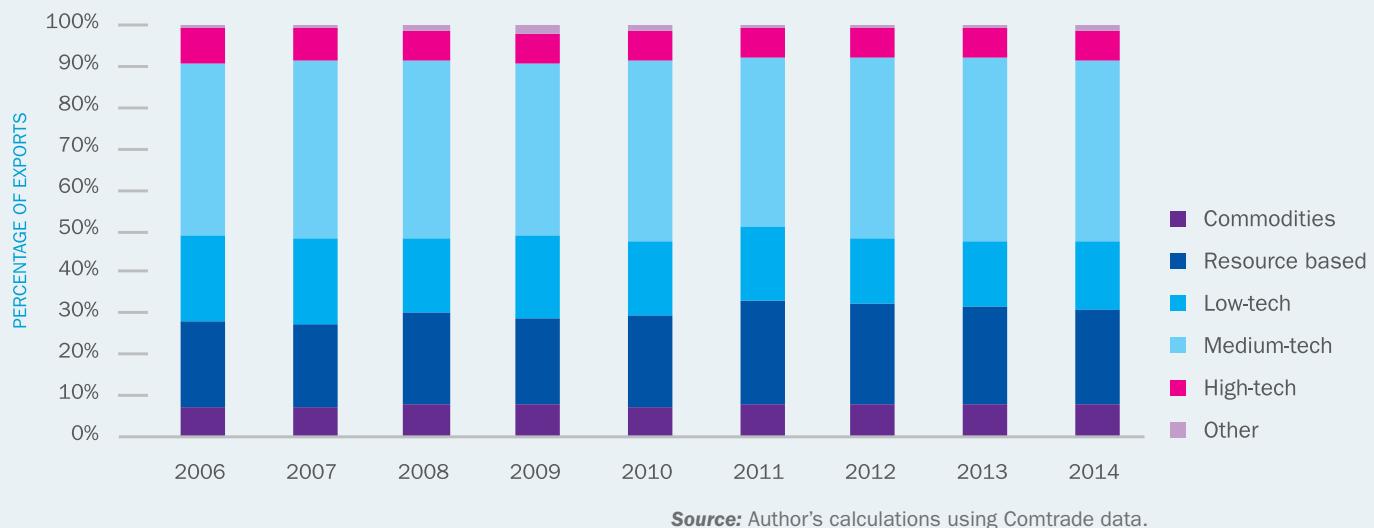
Although Thailand's exports became more sophisticated during the 1990s and early 2000s, that upgrading seems to have slowed since the late 2000s. Since goods that embody greater value-added fetch higher prices in world markets, increasing the quality content of exports can be a stable source of export growth. According to a strand of the trade literature, countries that produce goods that are more sophisticated tend to see higher rates of future economic growth.<sup>27</sup> Thailand's exports are dominated by medium-tech manufacturing (~43 percent), resource-based manufacturing (~21 percent), and low-tech manufacturing (~18 percent). Even though the technological composition of Thai exports has changed little over the last 8 years, low-tech manufacturing has lost its weight in the export bundle (from 20 percent to 16 percent) while resource-based manufacturing has become more important (from 20 to 23 percent) (Figure 17). Furthermore, Thailand has been losing world market shares in commodities, resource-based manufacturing, and low-tech manufacturing since 2011.



<sup>26</sup> Source: "Thailand Productivity and Investment Climate Study" 2015, Ministry of Industry and Thailand Productivity Institute"

<sup>27</sup> There is an ongoing debate over whether export competitiveness is best achieved through an evolutionary process of upgrading – selling lower quality goods to regional markets and building capabilities before moving into more competitive, sophisticated global markets – or leapfrogging immediately to sophisticated goods and / or rich country markets, and therefore benefitting from the prospect of greater spillovers of knowledge and technology (Hausmann et al., 2006). The concept of having a "sophisticated product" refers normally to the technological content of the product (Lall, 2000). More recently, Hausmann, Hwang and Rodrik (2006) developed a series of tools premised on the argument that exporting more sophisticated products leads to faster growth.

**FIGURE** The share of medium- and high-tech manufactures has remained unchanged  
**17 :** (Lall's Classification of Tech Exports, 2007-14)



THAILAND'S EXPORTS HAVE BECOME LESS SERVICES-INTENSIVE SINCE 2008, BOTH DIRECTLY AND INDIRECTLY AS INPUTS IN OTHER SECTORS' EXPORTS, WHICH MAY HAVE IMPLICATIONS FOR COMPETITIVENESS AND GROWTH.

Services are not only a source of competitiveness as inputs into manufacturing and agriculture, but direct exports of services also provide an opportunity for export diversification and can be used as an engine for economic growth. In other countries, services value added embodied in gross exports grew faster than gross exports themselves. In addition, growth in the indirect services linkages was lower than all economies except the Philippines and Taiwan, China, and lower than growth in the direct services value added contained in gross exports. Growth in the use of services inputs for manufacturing exports, including the Global Value-Chain (GVC)- intensive sectors, has also been among the lowest in Thailand. Between 2008 and 2011, the use of financial services for manufacturing exports had the strongest growth (9 percent annual growth), followed by distribution services (7.6 percent annual growth) and electricity, gas, and water supply (6.9 percent annual growth). This is particularly significant for Thailand's loss of export market share wherein competitive services inputs are necessary for reviving the manufacturing sector by enhancing the quality of goods products.

## THE ECONOMY'S WEAKNESSES CAN ALSO BE ATTRIBUTED TO A SLUMP IN INVESTMENT

WHILE THAILAND HAS TRADITIONALLY ENJOYED RELATIVELY HIGH LEVELS OF PRIVATE AND PUBLIC INVESTMENT, A MARKED SLOWDOWN IN RECENT YEARS COULD POSE CHALLENGES TO COMPETITIVENESS.

Private investment declined significantly in the aftermath of the 1997 crisis, from levels above 30 percent of GDP in the early 1990s to less than 20 percent in recent years. Global foreign direct investment (FDI) declined in the aftermath of the 2008 crisis, although some emerging economies have been able to maintain inflow levels. Although FDI inflows have been comparable to those received by other peer and emerging economies, such inflows to Thailand have become more volatile since 2008, and net inflows slowed significantly in 2008-2014. Following a slowdown in 2008-2011, FDI inflows to Thailand reached an estimate of 3.2 and 3.8 percent of GDP in 2012 and 2013, respectively. Inflows contracted again to an estimate of around 1 percent of GDP in 2014 and 2015, in the context of increasing political instability.

**TABLE 5 :** Average FDI inflows in selected economies (% of GDP)

	1986 1997	1998 2007	2008 2014
Thailand	1.6	3.9	2.6
East Asia and Pacific	2.3	2.9	4.7
Upper middle income	2.4	5.0	5.4
Structural peers	2.5	5.0	3.7
Bulgaria	1.1	11.6	6.1
China	2.9	3.8	3.3
Colombia	1.8	3.2	3.9
Malaysia	5.0	3.4	3.2
Mexico	1.6	2.9	2.3

**Source:** World Development Indicators

### MANY REASONS HAVE BEEN CITED FOR THE SLOW RECOVERY OF PRIVATE INVESTMENT IN THAILAND (JONGWANICH AND KOHAPIBOON 2008; ZHOU 2013).

First, reflecting over-investment and overleveraged firms during the boom years, it took nearly a decade after the crisis simply to work off excess capacity: as Figure 18 shows, capacity utilization remained low for nearly a decade following the crisis. Reflecting this, gross profits took a long time to recover as well (as Figure 19 shows). And, second, in more recent years, political turmoil and social tensions created uncertainty and political paralysis. The uncertainty put a damper on investors' appetite; and the paralysis kept public investments low and, more broadly, prevented the public sector from helping to address the bottlenecks – whether on the infrastructure side; in terms of innovation; or in terms of worker skills – that would have shored up investors' confidence in Thailand's economic

future. Indeed, for the past five years, when asked, business executives list government and policy instability as their leading concerns for doing business in Thailand (see Figure 63).<sup>28</sup>

### A DISTURBING SIGN ON THE FDI FRONT IS THE DWINDLING SHARE OF FDI BEING DEDICATED TO EXPORTS PROJECTS.

Even though foreign investment in export projects increased in absolute terms from 2.5 billion USD in 2009 to 5.1 billion USD in 2014, its share in total investment fell from 60 percent to 35 percent during this period (Figure 20). The number of foreign investment projects approved for export purposes fell starting in 2010, and by 2014, the number of approved foreign investment projects for exports was the lowest compared to the previous six years, with only 201 investments approved.



<sup>28</sup> The literature on cross-country determinants of FDI has found that political stability, rule of law, and investor protection framework are among the institutional variables that positively influence foreign investment, although empirical evidence varies across countries and regions (Asiedu 2002; Sánchez-Martín et al., 2014).

**FIGURE 18 :** Capacity utilization



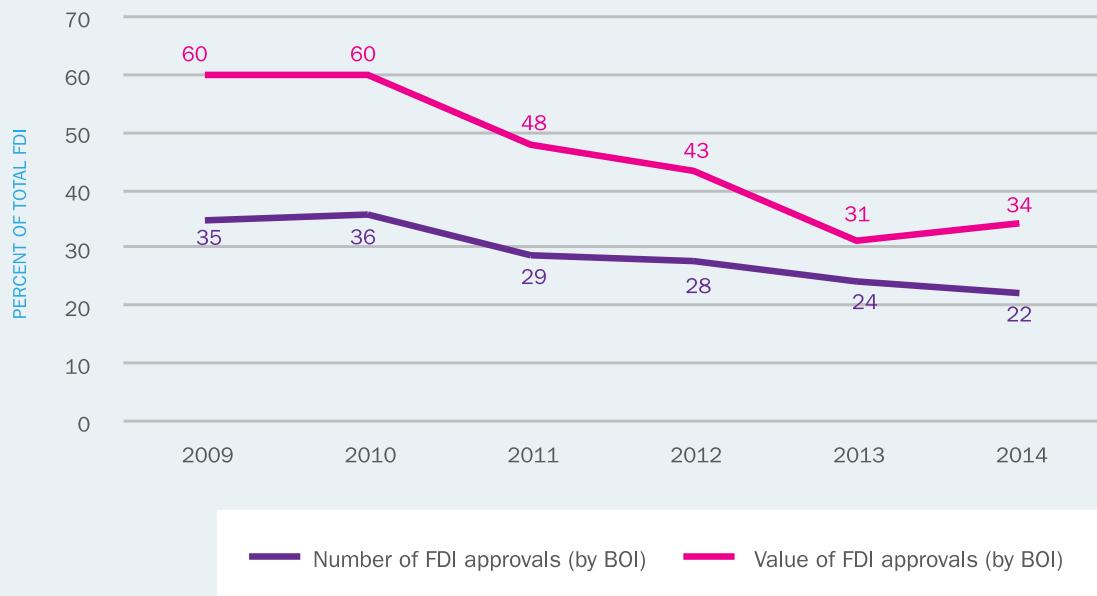
Source: Bank of Thailand

**FIGURE 19 :** Gross corporate profits<sup>29</sup>



Source: NESDB

**FIGURE 20 :** Foreign Investment Dedicated to Exports



Source: Authors' calculations using Thailand's BOI data

<sup>29</sup> Calculated from national accounts data as: "Appropriated corporation profit" divided by "net national income"



## THAILAND HAS ALSO BEEN RELATIVELY LESS SUCCESSFUL IN LEVERAGING SPOILLOVERS FROM FDI, WHICH CAN BE ATTRIBUTED IN PART TO SKILLS SHORTAGES.

Although Thailand is a key production base for MNCs producing electronics and automotive parts, it has been less successful than Singapore and Malaysia in developing indigenous technological capabilities and leveraging spillovers from FDI. Skills shortages and mismatches and inadequacies in the technological innovation system were cited as factors that limited the ability of Thai firms to increase productivity<sup>30</sup> and also posed an obstacle to successfully leverage spillovers from FDI.

## PUBLIC INVESTMENT ALSO HAS MAJOR IMPLICATIONS FOR COMPETITIVENESS AND GROWTH.

Recent analysis has found that public investment increases have a bigger impact on growth than even private investment, not only because of its own direct impact but also because of its impact in inducing more private investment (IMF, 2015). This analysis also shows that both public and private investment were consistently positive and statistically significant across all samples. In Thailand, public investment has been critical for increasing private investment, exports, productivity, and growth.

## HOWEVER, IMPLEMENTATION OF PUBLIC INVESTMENT PROJECTS HAS LAGGED IN RECENT YEARS.

Major deficits in infrastructure were identified starting as far back as 2004, with a focus on reducing transport congestion within greater Bangkok, connecting it to other parts of Thailand, and expanding power supply. Two Government efforts to launch and implement mega-infrastructure investment programs were made in 2004 and in 2007, and both times, they were not implemented. The implementation of the THB 3.38 trillion infrastructure development master plan (2015-2022) (with 20 priority projects worth THB 1.796 trillion) approved in July 2014 is expected to be crucial for “crowding in” private investments. However, of the 20 priority projects, 10 projects have been in the pipeline since 2004 and have never been implemented, possibly due to a series

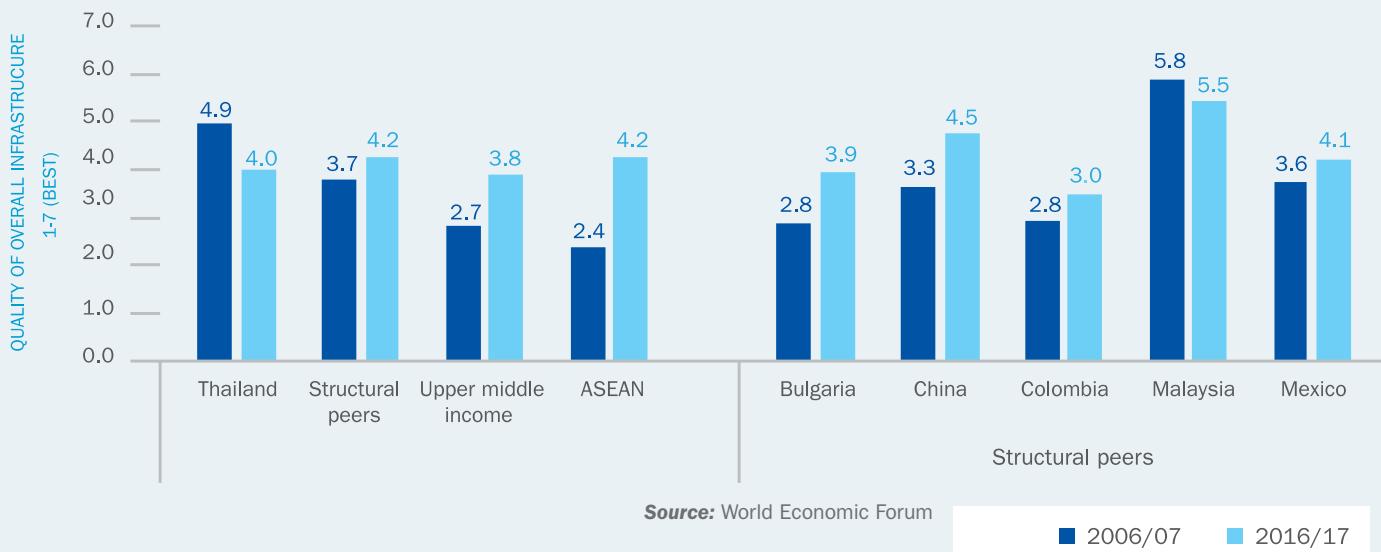
of challenges described below. As acknowledged by the National Economic and Social Development Board, “fiscal constraints, plus unnecessary rules and regulations could delay infrastructure progress and hinder economic growth in the long run” (NESDB, 2011).

## WHILE THE PERCEIVED QUALITY OF PUBLIC INFRASTRUCTURE REMAINS HIGH, IT HAS DECLINED OVER THE PAST DECADE.

The Infrastructure Development programs of the 1970s, 1980s, and early 1990s placed Thailand in an outstanding position among emerging economies in terms of infrastructure. However, the advantage Thailand still enjoyed vis-à-vis peer economies in 2006 in infrastructure quality seems to be vanishing (Figure 21). The quality of Thailand’s infrastructure is perceived as having worsened, even as other countries in the region and elsewhere have strengthened their infrastructure (Figure 22). Recent analyses identify gaps in Thailand’s infrastructure as an important factor undermining competitiveness (World Bank 2006 and 2010), especially with respect to the greater Bangkok region, the heart of Thai manufacturing and exports. There is congestion in transport within Bangkok and outside, especially connections to ports as well as connections from Bangkok to other parts of Thailand. Thailand does well with regard to access to electricity and water but seems to lag behind in roads per capita, probably due to persisting regional disparities.

**FIGURE** The quality of Thailand's infrastructure is perceived to have declined

**21 :** vis-à-vis its peers



### INFRASTRUCTURE PROJECTS HAVE BEEN AFFECTED BY A SERIES OF PUBLIC INVESTMENT MANAGEMENT (PIM) CHALLENGES THAT HAVE ARisen OVER TIME.

The Thai PIM System was at the frontier of performing systems in the 1990s but, similar to some OECD countries, started to lag. A slowdown in investment in megaprojects since 1997, low disbursement rates averaging around 70–75 percent, and implementation delays even for shovel-ready projects are symptoms of a PIM function that has deteriorated over time. According to a preliminary PIM assessment conducted in 2013, increasing institutional fragmentation, outdated appraisal guidelines (with manuals akin to systems from the 1990s), limited capacity in core and line agencies for integrated large projects (including PPP), and missing independent appraisal review systems may be some of the causes behind weakening of the PIM function.

### THE FOLLOWING FACTORS ACCOUNT FOR THE SLOW IMPLEMENTATION OF THAILAND'S MEGAPROJECTS<sup>31</sup>:

- **Lack of multi-year costed and appraised sector investment plans** that have gone through public consultations, passed environmental impact assessments,
- **Multiple plans and a single-year budget.** Thailand has a five-year National Development Plan, four-year Government Administrative Plan, 32 annual Ministerial Operating Plans, 76 Provincial Development Plans, 18 Regional/Cluster Development Plans, and more than 5,000 local authority development plans. These plans are not effectively linked, costed, or informed by the medium-term resource envelope. Therefore, it is impossible for the single-year budget system to allocate resources to these plans.
- **Continued unconstrained budgeting.** The Bureau of the Budget does not provide spending agencies with expenditure ceilings under which they can fit their budget requests. Agencies tend to request budgets on a needs basis, and under single-year budgeting, every

<sup>31</sup> Issues and recommendations are detailed in World Bank (2012) forthcoming World Bank report on Public Investment Management

year there is a new appropriation for money for which the agency has to submit another round of budget requests, which are then debated and sometimes not approved/delayed or redeployed to other priorities, causing agencies to shy away from undertaking big projects.

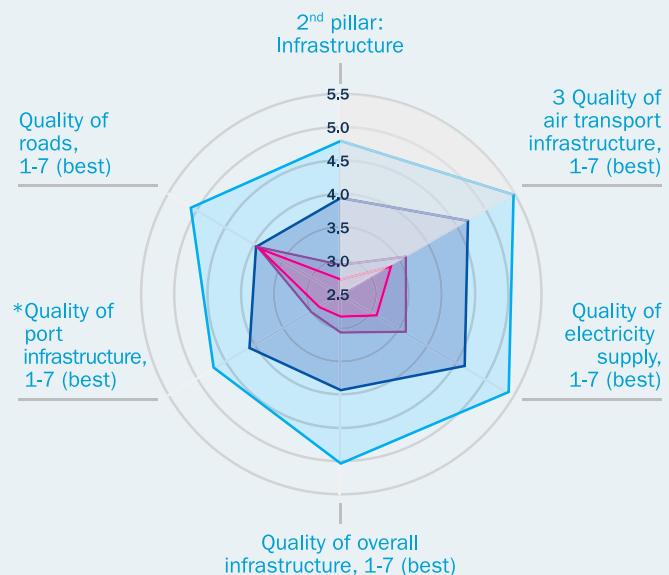
- **Lack of public trust** in authorities' follow-up on environmental and social impact mitigation measures. Therefore, people do not accept proposed measures to mitigate impact.
- **Use of e-reverse** auctions for all construction contracts in the procurement system, which is not appropriate. Agencies are not allowed to start procurement before budget has been secured, and by the time procurement is concluded, the fiscal year is closing. Now authorities have implemented integrity pacts for all projects, so complaints from bidders can result in long delays.

### PART OF THE SLOWDOWN IN INFRASTRUCTURE IMPLEMENTATION COULD ALSO BE ATTRIBUTED TO THE STATE-OWNED ENTERPRISE (SOE) SECTOR, WHICH HAS HAD LOW INVESTMENT AND INEFFICIENT PERFORMANCE<sup>32</sup>

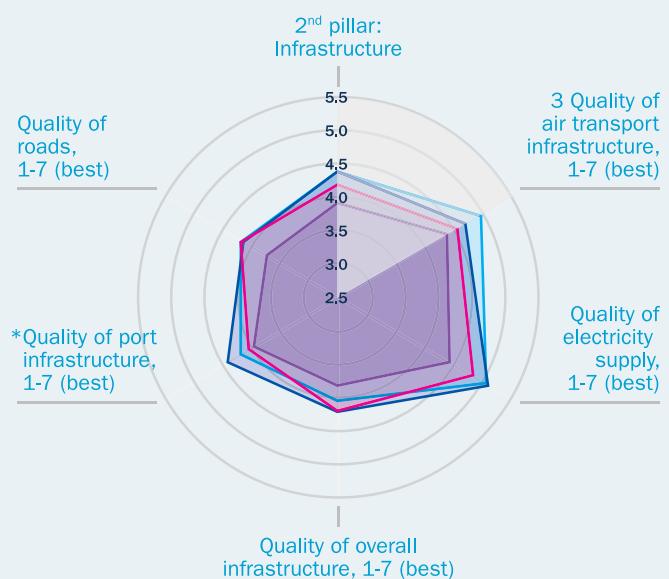
Investments by SOEs account for approximately 30-40 percent of total public investments (IMF, 2015), so the slowdown in public investment is partly a problem of SOEs no longer investing at the same rate they did in the early 1990s. The underlying problem is that SOEs are not performing as well as their domestic and/or international peers—as Figure 23 shows, at least 10 SOEs (across all sectors) are delivering poorer returns than domestic or international peers. The performance problems are also visible in the State Enterprise Policy Office (SEPO) annual evaluation which shows that only 8 SOEs (out of 56) got SEPO's top score in 2014, down from 14 in 2008. Worryingly, a growing number of SOEs are no longer being scored at all (11 in 2014 compared to 2 in 2008).

**FIGURE 22 :** Thailand's peers have caught up in terms of the quality of their roads, ports and airports

2006/07



2016/17



**Source:** Global Competitiveness Indicators, World Economic Forum

<sup>32</sup> As of today, Thailand has 56 commercial entities with majority government ownership that are categorized as SOEs. These include: (i) 46 non-financial SOEs concentrated in key sectors of the economy such as electricity production and distribution, transportation, and water, some of which are among the largest listed companies in Thailand, and (ii) 10 financial SOEs, including a state-owned bank, a government pawnshop, and eight specialized financial institutions (SFIs) that carry out high-profile policy functions, with a growing share of the financial sector.

**FIGURE** Thailand's state-owned enterprise are not performing as well as their domestic and international peers<sup>33</sup>  
**23 :** Return on assets, 2014 (Red = SOEs; Blue = selected domestic and international peers)



**Source:** Authors' choice of peers; data from State Enterprise Policy Office, Stock Exchange of Thailand, Petronas, Singapore Airline, Hong Kong SAR, China International Airport website

### SOEs FACE INVESTMENT SELECTION AND IMPLEMENTATION CHALLENGES SIMILAR TO THOSE OBSERVED AT THE CENTRAL GOVERNMENT LEVEL

Overall, the performance of SOEs in Thailand is uneven, with some of them seemingly in need of recapitalization, restructuring, or downsizing by discontinuing some inefficient activities.<sup>34</sup> Political interference in decision making, and burdensome procedures and procurement rules help partly explain underperformance in some SOEs. Ownership arrangements largely follow an advisory model, with line ministries being responsible for SOEs in their portfolio and acting as de facto owners, policymakers, and regulators for the SOE. Having line ministries in charge of ownership and policymaking may influence the nature of competition in the market and lead to anti-competitive behavior and inefficiencies, particularly in the absence of independent regulatory bodies. Moreover, the mix of functions not only dilutes the ownership function but also dilutes the importance of commercial returns and performance for the SOEs, and it reduces transparency and accountability for SOE service delivery and public policy objectives.

### RECOGNIZING THAT THAILAND HAS BEEN LOSING ITS RELATIVE ATTRACTIVENESS AS AN INVESTMENT DESTINATION, THE GOVERNMENT HAS LAUNCHED SEVERAL PROMISING INITIATIVES TO ATTRACT PRIVATE INVESTMENT AND IMPROVE THE IMPLEMENTATION OF INFRASTRUCTURE PROJECTS.

The government's strategy involves providing fiscal stimulus to boost economic activity, accelerate the approval of investment applications for projects, and encourage more foreign investment in various sectors and promote the implementation of infrastructure through the use of public-private partnerships (PPPs). This new vision for investment attraction is articulated in the "Seven-year investment promotion strategy" (2015-2021). Under this refocused strategy, a new incentive regime was also introduced last year (2015). Moreover, the government has designated 2016 as the "Special Investment Promotion Year" with incentives for private investment in selected industries and proposals for fast tracking infrastructure projects, including through mechanisms such as PPPs. More recent measures include revised regulations to speed approvals of PPPs through a fast-track scheme so as to further encourage the implementation of infrastructure projects through PPPs.

<sup>34</sup> IMF-World Bank PIMA diagnostic discussions held on March 10, 2016. [http://www2.mof.go.th/picture\\_news\\_detail.php?id=9553](http://www2.mof.go.th/picture_news_detail.php?id=9553)



GROWTH



Introduction



Country Context



Growth



Inclusion and Poverty



Sustainability



Policy Priorities



Knowledge Gaps

## THE GOT RECOGNIZES THAT PPPs IN INFRASTRUCTURE CAN HELP LOWER INVESTMENT-SPECIFIC RISKS AND INCENTIVIZE ADDITIONAL PRIVATE SECTOR FINANCE IN AREAS OF KEY NEED INCLUDING ROADS AND URBAN TRANSPORT.

PPPs can expand and improve the delivery of services and the operation of infrastructure by tapping the expertise and efficiency of the private sector, mobilize private capital to facilitate cost effective delivery of infrastructure and services and enable more efficient use of resources by improving the identification of long-term risks and their allocation, while maintaining affordable tariffs. If adequately structured, such projects involving PPPs can shape incentives, allocate share risks to the parties best equipped to manage them, and share rewards fairly, and include clear accountability mechanisms and whilst ensuring meet social and environmental standards are met. The GoT could leverage the enabling environment it has developed for large scale publicprivate partnership projects to become a vehicle for infrastructure delivery by in the country and ensuring it has the capacity to engage in adequate planning, structuring, contract negotiation, management, accounting and budgeting for contingent liabilities. Use of PPPs in infrastructure can help accelerate funding of projects during this time of fiscal constraint, reduce the cost of delivery and boost quality. The need for PPPs infrastructure investments will be felt all the more forcibly as Thailand's rate of urbanization increases.



## MISSED OPPORTUNITIES: THE DECADE WHEN THAILAND STRUGGLED TO REFORM AND LOST ITS COMPETITIVE EDGE

### THAILAND HAS LOST THE COMPETITIVE EDGE IT ONCE ENJOYED OVER ITS PEERS AND OTHER COUNTRIES IN THE REGION.

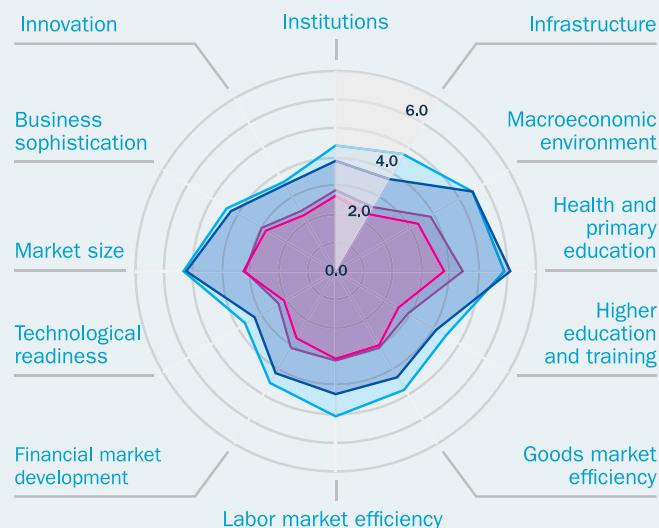
Comparing Thailand's Global Competitiveness Score (compiled by the World Economic Forum) in 2006/07 and 2016/17 is telling (Figure 24). Ten years ago, Thailand looked strong and healthy on all the dimensions tracked by the World Economic Forum. It stood out relative to ASEAN, upper-middle-income countries, as well as its structural peers, and it even looked impressive relative to high-income countries. Today, however, Thailand no longer stands out—the pack of other countries has caught up to it on virtually all dimensions.

### THE TWO GRAPHS BELOW TELL THE STORY OF MISSED OPPORTUNITIES.

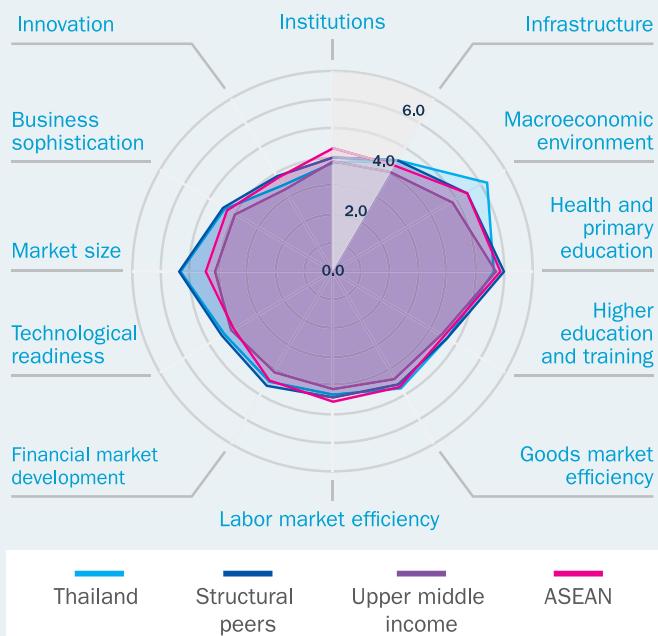
As described earlier, over the past decade, mega projects that could have relieved infrastructure constraints and made Thailand the hub of ASEAN did not get off the ground. Thailand also did not seize its "head start" to invest in its institutions and in innovation to make its universities the envy of the region and its businesses world-class. As the next section will show, although it was a decade in which growth was widely shared and poverty rapidly reduced, this was as much thanks to luck—i.e. favorable agricultural prices—as it was to policy design.

**FIGURE 24:** Other countries have been catching up to Thailand on multiple dimensions (Global Competitiveness, Score (7=best))

2006/07



2016/17



Source: World Economic Forum's Global Competitiveness database<sup>35</sup>

## AS MENTIONED EARLIER, GOVERNANCE CHALLENGES ARE LIKELY TO HAVE CONTRIBUTED TO THE EROSION OF THAILAND'S COMPETITIVE EDGE.

Looking at the different governance dimensions, Thailand has been able to maintain intermediate levels of effectiveness in executive and regulatory quality in spite of increasing political instability (Figure 25). At the same time, according to the perceptions of surveyed experts, Thailand has experienced a marked decline in voice and accountability, control of corruption, and rule of law relative to other countries.



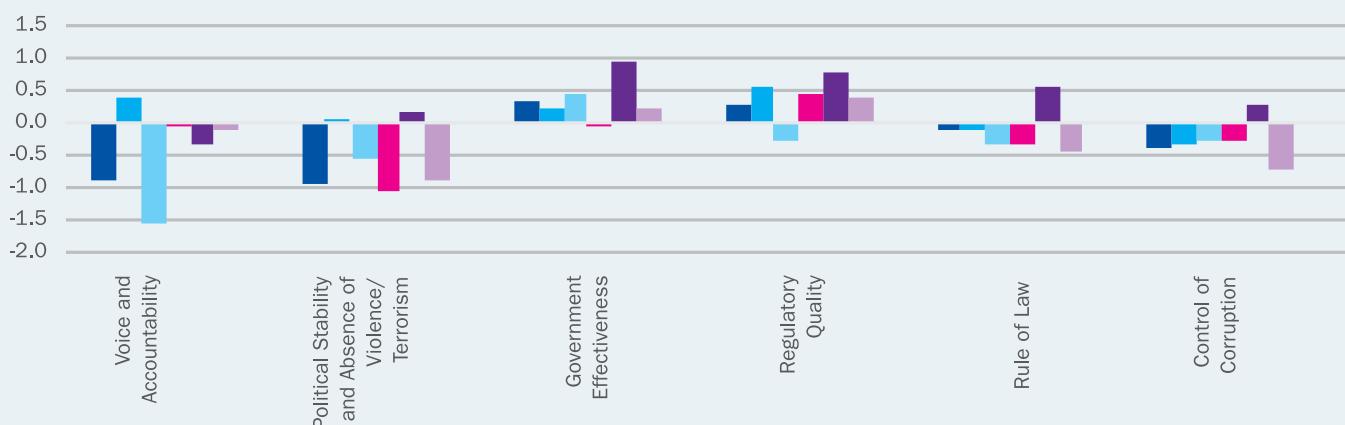
<sup>35</sup> www.weforum.org/gcr, accessed on October 7, 2016.



## WHILE COMPARATOR COUNTRIES ALSO HAVE SIGNIFICANT GOVERNANCE CHALLENGES (FIGURE 25), THAILAND SEEMS TO BE LOSING GROUND, WHICH MAY ULTIMATELY AFFECT ECONOMIC PERFORMANCE.

Institutional quality influences the perceptions and behavior of economic agents in numerous ways. First, political instability is likely to hinder the capacity to implement long-term investment projects as well as to sustain major reforms. Second, even if it is not clear whether corruption hinders economic growth (Shleifer and Vishny, 1993; Khan, 1996), from the point of view of the firm, it may affect the business environment and the ability to innovate in some cases (Sharma and Mitra, 2015; Paunov, 2016). Finally, well-grounded empirical evidence shows that rule of law is among the main determinants of FDI (Cartensen and Taubal, 2004; Bevan and Estrin, 2004).

**FIGURE** World Governance Indicators in 2015, Thailand and peers  
25 :



**Source:** World Bank, World Governance Indicators. World Governance Indicators are measured on a scale from -2.5 (minimum) to 2.5 (maximum).

■ Thailand ■ Bulgaria ■ China ■ Colombia ■ Malaysia ■ Mexico

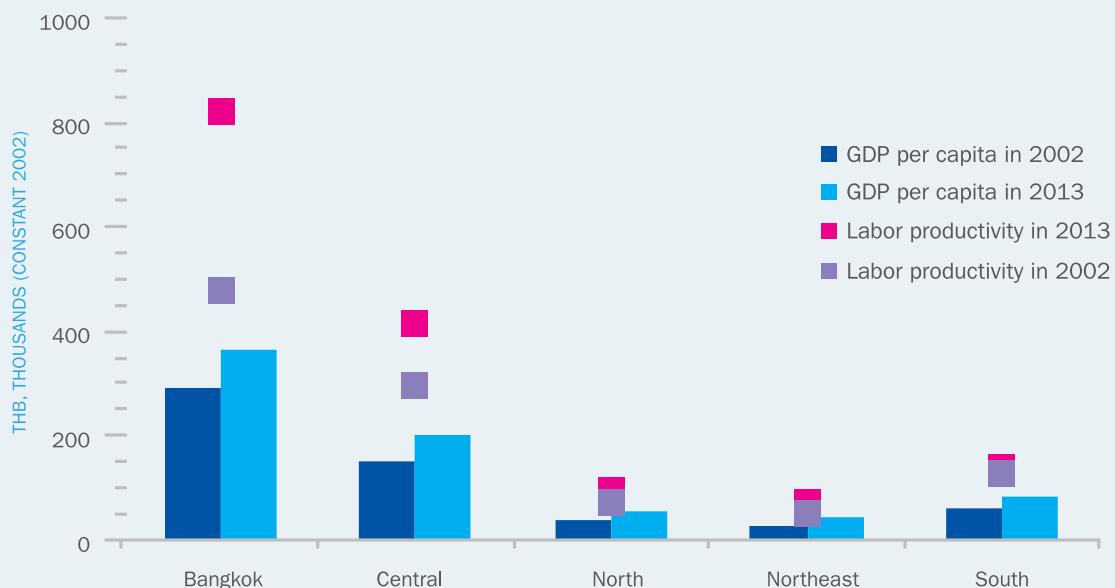
## THAILAND'S LAGGING REGIONS HAVE FALLEN FURTHER BEHIND AND REPRESENT ANOTHER UNTAPPED POTENTIAL



DUE TO LIMITED GROWTH IN LABOR PRODUCTIVITY, THAILAND'S LAGGING REGIONS-ESPECIALLY THE NORTHEASTERN REGION-HAVE BEEN FALLING FURTHER BEHIND IN RECENT YEARS.

In terms of regional value-added per capita, the pecking order of Thailand's regions – with Bangkok the richest, followed by the Central region, then the South, the North and with the Northern Eastern region at the bottom – have remained unchanged for decades (if not centuries) (see NESDB and World Bank 2005 and Figure 26). Worrisomely, though, this gap has widened further in recent years. The widening gap reflects much more rapid productivity growth in the Bangkok and Central regions – reflecting the concentration of Thailand's economic sector in and around Bangkok and the Central region.

**FIGURE 26 :** Regional value-added per capita; and labor productivity



**Source:** Gross provincial products from the National Economic and Social Development Board and employment from the National Statistical Office.

### THE CONCENTRATION OF THE ECONOMIC SECTOR IN AND AROUND BANGKOK IS REINFORCED BY THE ORGANIZATION OF THAILAND'S PUBLIC SECTOR AND HOW BUDGETARY RESOURCES ARE ALLOCATED.

Thailand has a highly centralized fiscal system which only grants limited autonomy to lower government levels in terms of functions, area, staffing, funding and decision making (NESDB and World Bank 2005). The central government appoints the chief local officials, determines local salaries, and approves local budgets. Even local utilization of the restricted funding is to a large part centrally mandated. For example, staffing levels and staff appointments of local governments are centrally controlled. Local authorities are required to hire personnel and pay salaries, wages, and benefits in accordance with central regulations that often result in overstaffing and overspending. This most visible example of this Bangkok-centric public policy is how budgetary resources are allocated: although Bangkok accounts for about 17 percent of population and 25.8 percent of GDP, it benefits from about 72.2 percent of total expenditures. This is in sharp contrast to the Northeast

which accounts for about 34 percent of population and 11.5 percent of GDP, but received only 5.8 percent of expenditures. Even correcting for the fact that Bangkok is the administrative capital for the country, such concentration of expenditures is extreme (World Bank, 2012a).

### THE LAGGING REGIONS REPRESENT UNTAPPED POTENTIAL.

For instance, the one third of Thailand's workers living in the Northeast contributes only 10 percent of Thailand's total output in 2013, and the productivity per workers in Bangkok was more than 10 times higher than average productivity per worker in the Northeast. To illustrate the magnitude of the lost opportunities that Thailand's lagging regions represent from an overall growth perspective, consider the following example: if, during the period 2002-2013, the Northeast had narrowed the labor productivity gap to 25 percent of Bangkok's level (in 2013), annual growth of Thailand's GDP would have been 1.6 percentage points faster (ie the economy would have grown by 5.9 percent per year instead of the actual growth of 4.3 percent).



# INCLUSION AND POVERTY

# INCLUSION AND POVERTY: IMPRESSIVE PROGRESS BUT CHALLENGES REMAIN

## A. WHAT ARE THE TRENDS IN POVERTY?

**POVERTY HAS FALLEN PRECIPITOUSLY OVER THE PAST THREE DECADES, BUT MAJOR CHALLENGES REMAIN IN REDUCING POVERTY AND INEQUALITY**

**THAILAND HAS MADE IMPRESSIVE PROGRESS IN REDUCING POVERTY OVER THE PAST THREE DECADES.**

As will be discussed further below, growth remains the main driver for poverty reduction in Thailand, with GDP per capita increasing drastically from 1,084 in 1986 to 3,415 in 2013 (constant 2005 US dollars). Extreme poverty as measured by the international extreme poverty line (USD 1.90 per day, 2011 PPP) is no longer a concern for Thailand as a whole, falling from 14.3 percent in 1988 to 0.1 percent in 2012. Similarly, measured by the official food poverty lines from the NESDB, the poverty headcount dropped from 7.2 percent in 1986 to 0.6 percent in 2013. Based on the national poverty line (in 2013, approximately USD 6.20 per day 2011 PPP), the poverty rate fell from 67 percent in 1986 to 10.5 percent in 2014, with 26.8 million Thai people moving out of poverty (Figure 27). Box 4 below provides an overview of how poverty is measured in Thailand.

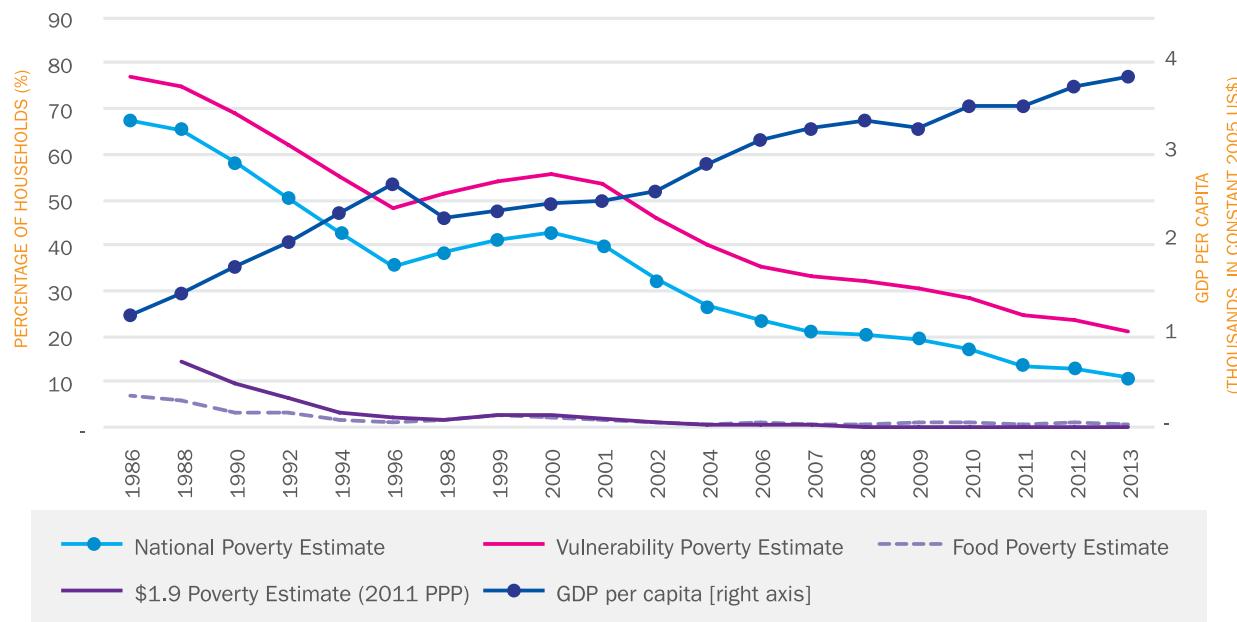
**DESPITE THE PROGRESS IN REDUCING POVERTY, POVERTY AND VULNERABILITY CONTINUE TO POSE SIGNIFICANT CHALLENGES.**

As of 2014, 7.1 million Thais were still living in poverty, measured by the national poverty line (at about USD 6.20 in 2011 PPP). Moreover, in 2013, an additional 6.7 million, or 14 million in total, were living within 20 percent above the national poverty line and remained vulnerable to falling back



into poverty. As of 2014, 7.1 million Thais were still living in poverty, measured by the national poverty line (at about USD 6.20 in 2011 PPP). Moreover, in 2013, an additional 6.7 million, or 14 million in total, were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty.

**FIGURE** By all measures of poverty, Thailand has made impressive progress in poverty  
**27 :** reduction



**Note:** For the Vulnerability Poverty Estimate, vulnerability is defined as within 20 percent above the national poverty line.

**Source:** Poverty estimates calculated from Socio-Economic Surveys.

### POCKETS OF POVERTY REMAIN IN LAGGING REGIONS, SUCH AS THE NORTHEAST, NORTH, AND DEEP SOUTH.

As of 2014, 4.7 million poor people (out of the total 7.1 million in Thailand) lived in the Northeast and North regions, which have the highest share of poor relative to the total population living in each region as well as the highest number of poor. The share of Thailand's poor living in the Northeast and North increased from 61 percent in 1986 to 71 percent in 2013, despite the fact that the total population living in these two regions declined from 55 percent to 45 percent. Among the top 15 provinces with the greatest number of poor, 9 of them have been on the lists for both 1996 and 2013, of which 8 are in the Northeast. For the three conflict-affected provinces in the Deep South, poverty rates have remained stubbornly above national averages (and remain at 33 percent in 2013).



## BOX How is poverty measured for Thailand?

**4 :**

The national poverty line in Thailand captures the expenditure needed to cover basic minimum food and non-food needs. Poverty lines in Thailand are household-specific—they depend on the demographic composition of households and the price vector that they face in local areas. National poverty lines in Thailand have been revised every ten years to take into consideration improvements in standards of living. The revisions capture updates in the concept of basic minimum needs—from a heavily food- and carbohydrates-based poverty basket toward more non-food items and more diversified foods. As a consequence of continuously raising the bar, the line and poverty rate have almost doubled from THB 473 per capita and 32 percent to THB 881 per capita and 65 percent poor in 1988, respectively, using the earliest and most recent lines. The current poverty line is based on 2011 consumption patterns and is estimated using the 2011 Socio-Economic Survey.

The national poverty line is the sum of the household-level food and non-food lines:

- The **food poverty line** captures the amount of money needed to cover basic calorie and protein needs for a household with a given age and gender composition. It is calculated by applying the cost of a calorie and gram of protein in a given area to the household's calorie and protein needs. The cost of a calorie and a gram of protein is calculated from the Socio-Economic Survey using the expenditure patterns of households in the bottom decile. The cost of a calorie is allowed to vary across 9 geographic areas: Bangkok, and rural and urban areas in the Central, Northern, North-eastern, and Southern regions. Minimum calorie and protein intakes for households are estimated using 2003 nutritional norms from the Bureau of Nutrition at the Ministry of Health. These nutritional norms vary by age and sex. The cost of meeting these nutritional needs is adjusted using an economy of scale coefficient—this assumes that the cost of a calorie and gram of protein is lower in households with more members.
- The **non-food poverty line** includes nine broad categories of non-food goods and services: housing, including maintenance; housing expenditures including fuel, lighting, water, purchase of furniture and appliances; domestic workers; clothing, laundry and dry cleaning; footwear; personal care and personal services; health care; transportation and communication; education expenditure. Expenditures on non-food items are examined for those households whose food expenditures fall within 10 percent of the food poverty lines and whose total expenditures lie under median expenditure. Average non-food expenditure per capita is calculated in each of the nine geographic areas for each of the non-food categories. Economies of scale parameters are applied to each non-food category separately. There are no economies of scale for private goods such as personal care and medical care, and economies of scale are higher for goods that can be shared such as housing and domestic workers.

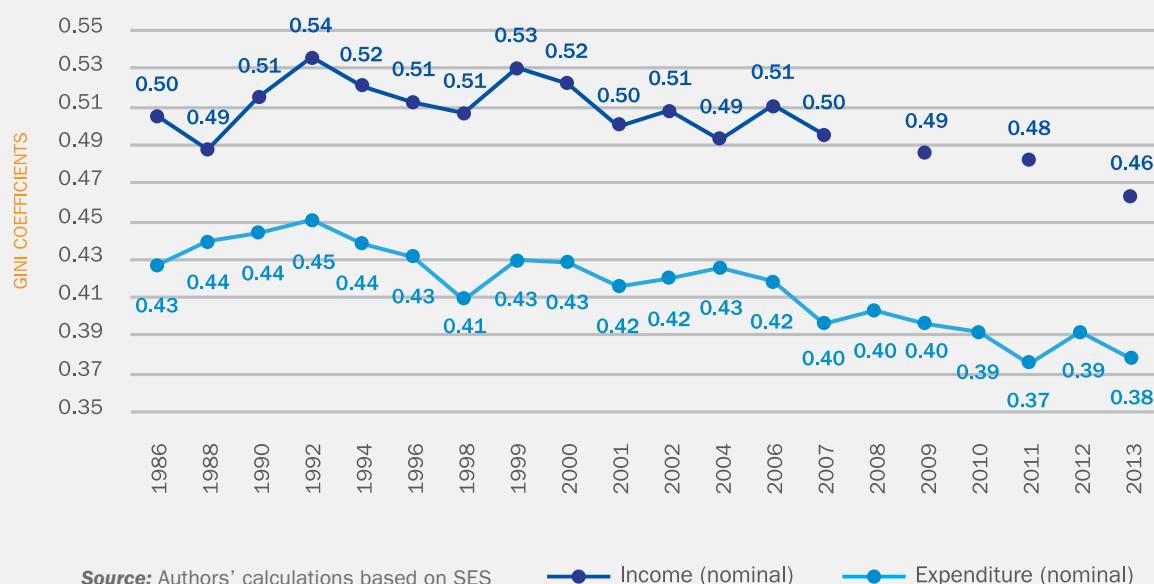


## ALTHOUGH INEQUALITY HAS DECLINED OVER THE PAST THREE DECADES, THE DISTRIBUTION IN THAILAND REMAINS UNEQUAL COMPARED TO MANY COUNTRIES IN EAST ASIA.

As shown in Figure 28, the Gini coefficient for Thailand has been on a downward trend, falling from 0.43 in 1986 to 0.38 in 2013 for real per capita household expenditure and from 0.50 to 0.46 for real per capita household income. As will be discussed in more detail below, inequality has fallen as the bottom 40 percent of the population has witnessed higher growth compared with the average population. Nevertheless, Thailand's Gini coefficient has remained high compared with many countries in the region (such as

Cambodia, Lao PDR, Mongolia, and Vietnam) and across the world (Figure 29).<sup>36</sup> Furthermore, the measurement of inequality in Thailand is likely to be underestimated by limited information on the evolution of incomes and wealth at the top end of the distribution. Analysis of non-responses over time in the SES data suggests that non-response among richer households is quite pertinent in Thailand. The ways in which in-kind income and durable use value are calculated in Thailand are likely to result in further underestimation of the inequality of the income distribution.

**FIGURE 28 :** Gini coefficients have been on a downward trend in Thailand (1986-2013)

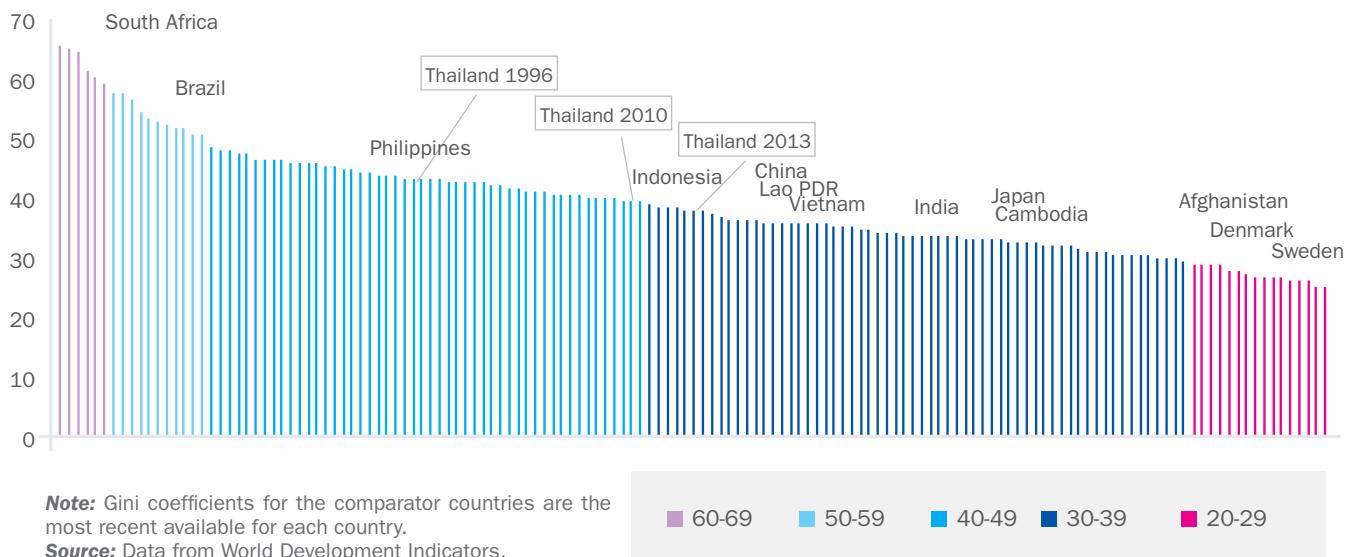


**Source:** Authors' calculations based on SES

—●— Income (nominal)      —●— Expenditure (nominal)

<sup>36</sup> As in many other countries, the measurement of inequality in Thailand is likely to be affected by limited information on the evolution of incomes and wealth at the top end of the distribution. Analysis of non-responses over time in the SES data does however suggest that non-response among richer households are quite pertinent in Thailand.

**FIGURE 29 :** Thailand's Gini coefficient declined but remains relatively unequal compared to many other countries  
*(Gini coefficients around the world)*



### MOREOVER, WHILE INEQUALITY HAS DECLINED AT THE NATIONAL LEVEL, SIGNIFICANT DISPARITIES IN HOUSEHOLD INCOME AND CONSUMPTION REMAINED ACROSS AND WITHIN REGIONS.

Gaps have widened within urban areas and within the two leading regions (Bangkok and central) in relative terms. In 1986, the poverty rate in the rural areas (75.7 percent) was about 160 percent that in urban areas (47.6 percent).

The ratio increased to around 240 percent in 2000 before dropping back to around 180 percent in 2013. The regional disparities are also striking: in 2013, only 1 percent of the population in BMR lived below the national poverty line compared to 17.4 percent in the Northeast and 16.7 percent in the North.

**TABLE 6 :** Poverty in Thailand remains predominantly a rural phenomenon and is concentrated in certain regions (poverty headcount by region, %)

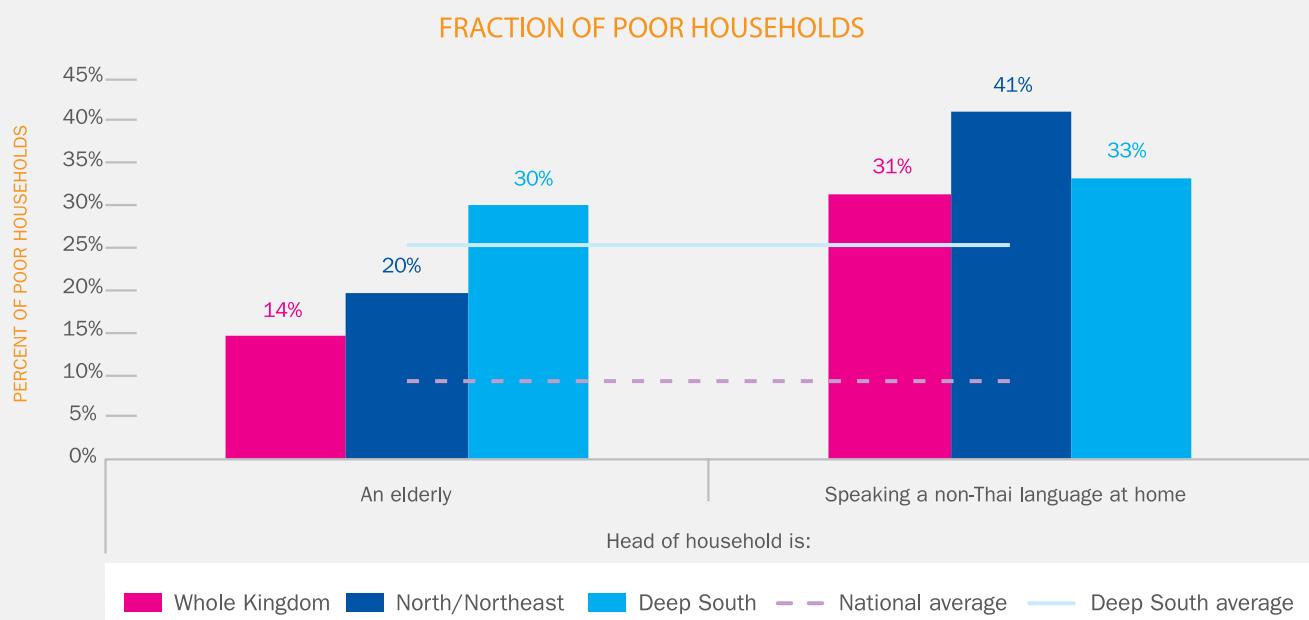
	Total	Bangkok	Central	North	Northeast	South	Deep South	Urban	Rural
<b>1986</b>	67.4	36.6	66.9	66.6	80.2	67.0	n.a.	47.6	75.7
<b>2000</b>	42.6	6.0	29.0	49.1	59.6	42.0	64.7	22.3	51.7
<b>2013</b>	10.9	1.1	5.4	16.7	17.4	11.0	32.8	7.7	13.9

**Note:** The SES has been provincially representable since 1994. The South numbers include the Deep South provinces.  
**Source:** Authors' calculations based on SES.

## SOME SUBGROUPS ARE PARTICULARLY VULNERABLE.

Pockets of poverty are concentrated in the lagging North, Northeast, and Deep South, as well as among the ethnic minorities (Figure 30). For instance, households headed by an elderly (above 65 years old) have a higher poverty rate (14 percent) compared to the national average, and for these elderly-headed households, poverty rates are higher in the North/Northeast (20 percent) and Deep South (30 percent). Among ethnic minorities (i.e. identified as those speaking a language other than Thai at home), the poverty rate spikes to 31 percent for the entire country and is even higher in the North/Northeast (40 percent) and Deep South (33 percent).

**FIGURE** Pockets of high poverty are concentrated in the North, Northeast, and Deep South (2013)  
**30 :**



**TABLE** Proportion of vulnerable groups  
**7 :**

	HEAD OF HOUSEHOLD IS:	
	An elderly	A person speaking a non-Thai language at home
Deep South	21%	71%
North and Northeast	25%	5%
Whole Kingdom	20%	6%

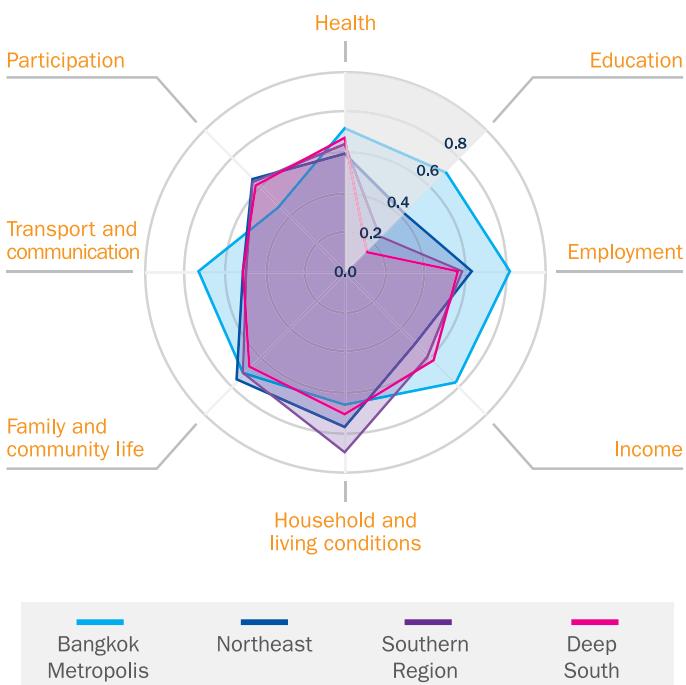
Source: Authors' calculations based on SES.

## POVERTY IN THAILAND CAN ALSO BE SEEN IN NON-INCOME DIMENSIONS

### POVERTY IN THAILAND IS NOT ONLY CHARACTERIZED BY LOWER INCOMES BUT ALSO DIFFERENCES IN NON-INCOME DIMENSIONS.

Both household data and provincial-level data paint a picture of non-income gaps between the poor and non-poor, often persisting over time despite the rapid economic growth. From household data, it is clear that the poor continue to have poorer access to basic services. From provincial-level data, the UNDP “regional human achievement index” – tracking human development across multiple dimensions such as education, housing and living conditions, and the degree to which people actively participate in public life—confirm household level data: the poorer provinces of Thailand persistently lag in multiple dimensions (Figure 31).

**FIGURE 31 :** Poorer provinces lag in multiple dimensions (UNDP's Regional Human Achievement Index 2014)



Source: UNDP (2014a).

AS IN MANY UPPER-INCOME COUNTRIES, THE INEQUALITIES HAVE BECOME HARDER TO SPOT.

The inequalities in the easy-to-measure and easy-to-fix areas have narrowed (e.g., number of children enrolled in primary and lower secondary education). However, inequalities persist or have widened where it really matters (e.g., quality of education provided, enrolment rates at the post-secondary education level).

FOR EXAMPLE, WHILE THE GAPS IN LOWER SECONDARY ENROLMENT DUE TO SOCIO-ECONOMIC STATUS HAVE NARROWED, THEY REMAIN PERSISTENTLY LARGE AT THE POST-SECONDARY LEVEL.

Around 90 percent of Thailand’s youth complete a lower secondary education, with relatively small differences between the bottom 40 percent and the rest of the population. Somewhat troubling, though, is that there does not seem to have been any further increases in enrolment rates in recent years. The postsecondary enrolment rates are more problematic: on average, gross enrolment rates are at 69 percent, but the bottom 40 percent and especially the poor are trailing behind the rest at 59 and 46 percent, respectively. One factor driving the differences could be the possible lower quality of lower secondary education received by the poor, as discussed below.

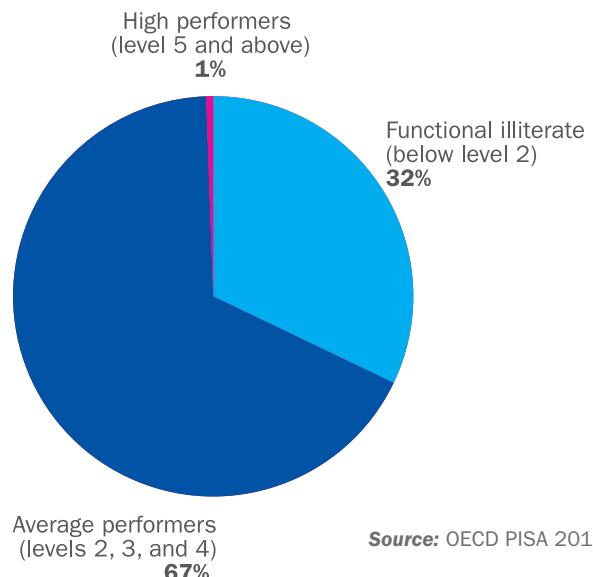
ALTHOUGH THE BOTTOM 40 PERCENT ARE STAYING IN SCHOOL LONGER, RESULTS FROM THE OECD'S ASSESSMENT OF STUDENTS' LEARNING OUTCOMES (PISA) SUGGEST THAT A VERY LARGE SHARE OF THEM ARE FUNCTIONALLY ILLITERATE.

The PISA results show that one-third of all 15-year-old students nationwide are functionally illiterate, and the situation is worse for the poorest-performing students in small village schools.<sup>37</sup> In the most recent PISA reading assessment (in 2012), one-third of Thai 15-year-olds knew the alphabet and could read, but they could not locate information or identify the main messages in a text—they were “functionally illiterate,” lacking critical skills for many jobs in a growing modern economy (Figure 32). The greatest concentration of the functionally illiterate is found

<sup>37</sup> PISA tests 15-year olds, irrespective of which grade they are enrolled in. For Thailand's 2012 PISA round, 75+ percent of the assessed students were in grade 9 and another 20+ percent in grade 8, with the remaining students in grades 7 or 10.

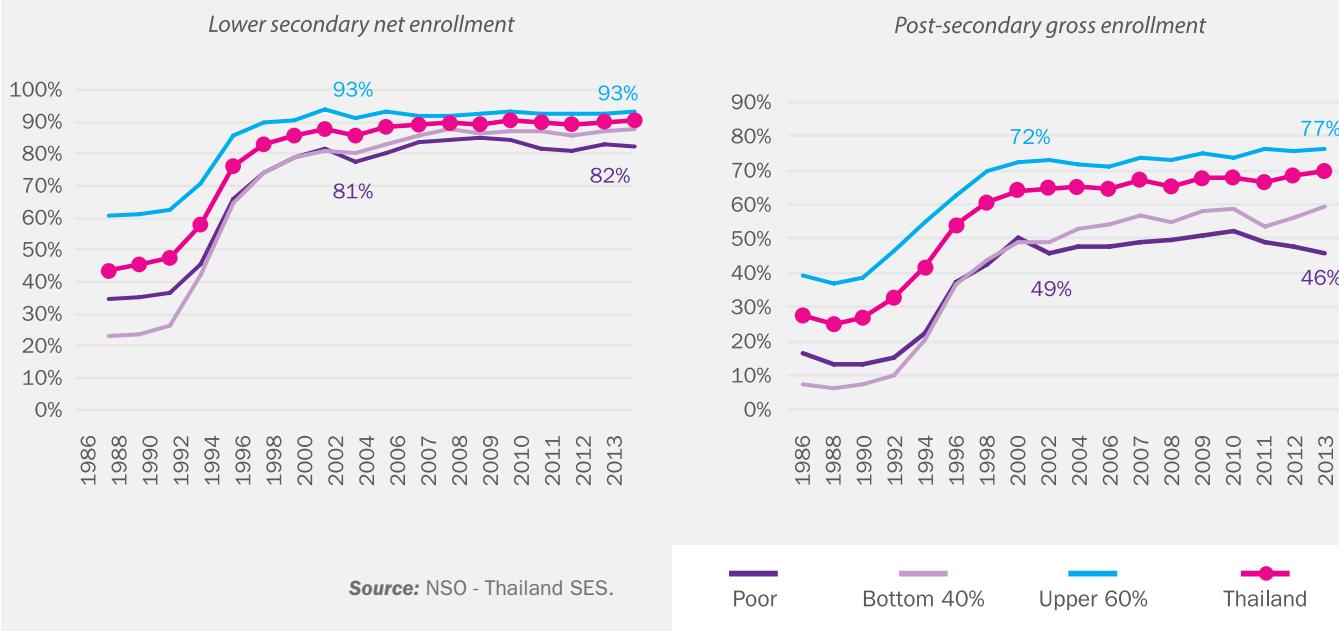
in villages, where 47 percent of their 15-year-old students are functionally illiterate. While it is not possible to merge PISA data with household expenditure data to accurately pinpoint the quality of education received by the poor and bottom 40 percent, given their rural nature, the poor and the bottom 40 percent are most likely to be enrolled in schools in which nearly half are functionally illiterate after 7 or 8 years of schooling. If a student is functionally illiterate at age 15 (i.e. the end of lower secondary education), they will never finish a secondary education or proceed to a tertiary education. As World Bank (2015b) points out, there are no easy fixes for these problems; broad and sustained reforms on several fronts will be needed to raise learning outcomes.

**FIGURE 32 :** Distribution of Thailand's 15-year-olds on the 2012 PISA reading assessment<sup>38</sup>



**Source:** OECD PISA 2012.

**FIGURE 33 :** Enrolment increased rapidly in the 1990s (and gaps were narrowed) but have since stagnated; the gaps between the poor and non-poor remain wide for postsecondary gross enrolment



<sup>38</sup> PISA results are reported both as an overall score (a number between 0 and 700) but also as the percentage of students performing at different six "proficiency levels". For instance, the description of proficiency level 2 (which we refer to as the functionally literate level) is: "Some tasks at this level require the reader to locate one or more pieces of information, which may need to be inferred and may need to meet several conditions. Others require recognizing the main idea in a text, understanding relationships, or construing meaning within a limited part of the text when the information is not prominent and the reader must make low level inferences. Tasks at this level may involve comparisons or contrasts based on a single feature in the text. Typical reflective tasks at this level require readers to make a comparison or several connections between the text and outside knowledge, by drawing on personal experience and attitudes" (OECD, 2014).

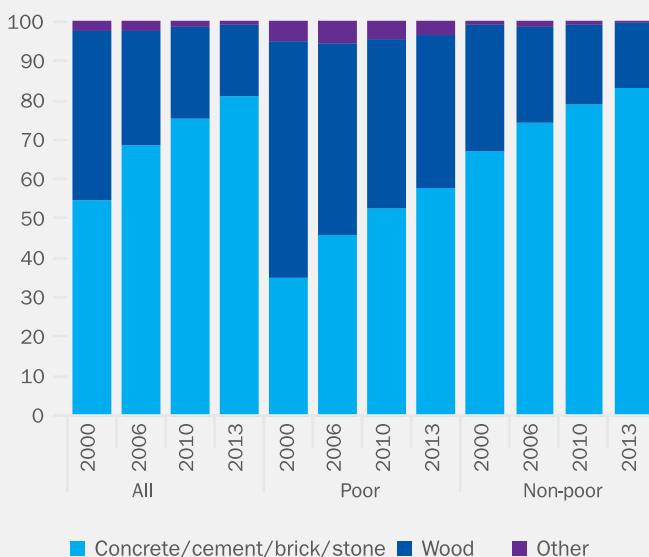
**IN TERMS OF HOUSING AND LIVING CONDITIONS, WHILE ALMOST ALL THAI HOUSEHOLDS HAVE ACCESS TO ELECTRICITY, DISPARITIES PERSIST IN OTHER AREAS SUCH AS THE BUILDING MATERIALS USED FOR HOMES.**

Having houses constructed with weaker materials is a potential source of vulnerability, particularly for poor households living in areas that are prone to national disasters such as floods. The Northeastern region is particularly hard-hit by droughts, affecting more than half of the population living in that region (UNDP, 2014a). In 2013, less than 60 percent of poor households lived in houses built with concrete, cement, brick, or stone, compared to over 80 percent of rich households.

**THE POOR ALSO LACK THE SAME ACCESS TO INFORMATION ENJOYED BY THE NON-POOR, AS REFLECTED IN INTERNET PENETRATION RATES.<sup>39</sup>**

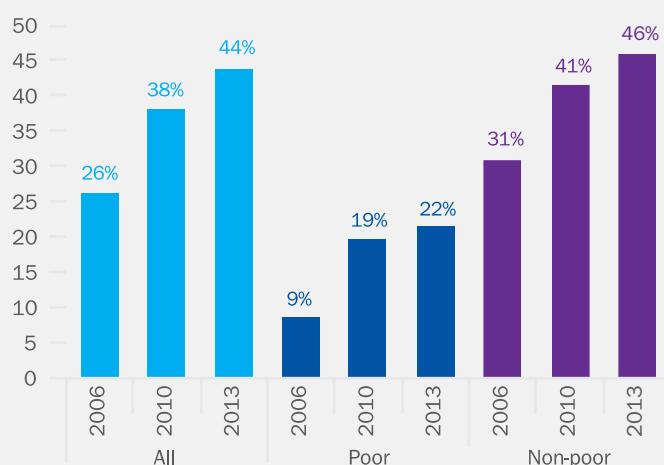
As indicated in the World Bank's World Development Report (WDR) 2016, the internet can be a force for development, especially for the poor in developing countries through its contribution to economic growth, social and economic opportunity, and efficiency of public service delivery. Inadequate and unequal access to the Internet limits the opportunities for the poor. Despite significant progress, the Internet penetration rate for poor households is low in Thailand. As of 2013, only 21.5 percent of poor households in Thailand had access to the Internet, compared with 45.9 percent of the non-poor (Figure 35).

**FIGURE 34 :** Building Material for Walls



**Source:** Data from Socio-Economic Surveys.

**FIGURE 35 :** Access to the Internet



**Source:** Data from Socio-Economic Surveys.

<sup>39</sup> Measured by household members who accessed the Internet during the past 12 months.

## IN ADDITION, THE POOR AND THE BOTTOM 40 PERCENT ARE LIKELY OVERREPRESENTED IN THE GROWING NUMBER OF DEATHS AND INJURIES FROM ROAD ACCIDENTS.

A recent study by the University of Michigan Transportation Research Institute shows that, with 44 deaths per 100,000 person per year, Thailand ranks 2<sup>nd</sup> in the world in terms of accidents and deaths resulting from road traffic accidents, behind only Namibia.<sup>40</sup> Road traffic injuries and fatalities are a major public health and development challenge in Thailand. Every year, over 12,000 persons are killed in road traffic crashes, with nearly 100,000 people injured, and thousands of people are crippled for the rest of their lives, with disproportionate impacts on the young and the poor. While almost half of the number of accidents are in Bangkok, 96.4 percent of fatal accidents occur outside Bangkok.

## WHO ARE THE POOR AND BOTTOM 40 PERCENT IN THAILAND?

### THE POOR AND THE BOTTOM 40 PERCENT ARE MORE LIKELY TO WORK IN AGRICULTURE.

In line with the overall declining trend in agricultural sector employment, the ratio of the labor force (15-65 years of age) in the agricultural sector has declined steadily from 70 percent in 1986 to 40 percent in 2013. However, some 12-15 million workers still worked in agriculture in 2013, of which approximately 8.8 million were from the bottom 40 percent (or 2.8 million poor).<sup>41</sup> It is worth noting that after a steadily declining trend, the number of workers in agriculture increased during the recent years in 2011-2013, particularly for the poor and bottom 40 in urban areas.<sup>42</sup>

## THE POOR AND THE BOTTOM 40 PERCENT ARE LESS LIKELY TO HAVE STABLE ENGAGEMENT IN THE LABOR MARKET (E.G., AS PRIVATE OR PUBLIC EMPLOYEES).

In part, reflecting their large share of workers in the agricultural sector, more than half of poor household heads worked as own account workers in 2013, and only 29 percent of poor household heads were public or private employees, compared to 49 percent overall (Figure 36). Related to small firm size (lack of economies of scale, limited capital and technology intensity) and limited risk-sharing mechanisms, own account workers tend to be more vulnerable to shocks, especially because more than half of the own account workers are working in the agricultural sector. Natural disasters and price fluctuations for commodities present risks that are not easily addressed by farmers who lack adequate insurance and risk mitigation tools. These market failures have thus far been met with Government programs such as price guarantees and social subsidies instead of with development of the necessary financial infrastructure and market reforms, creating a fiscal liability which may not be sustainable in the future. A similar situation can be seen for the bottom 40 percent who are not employed in agriculture—they, too, are vulnerable to shocks and lack appropriate financial tools to mitigate these risks.

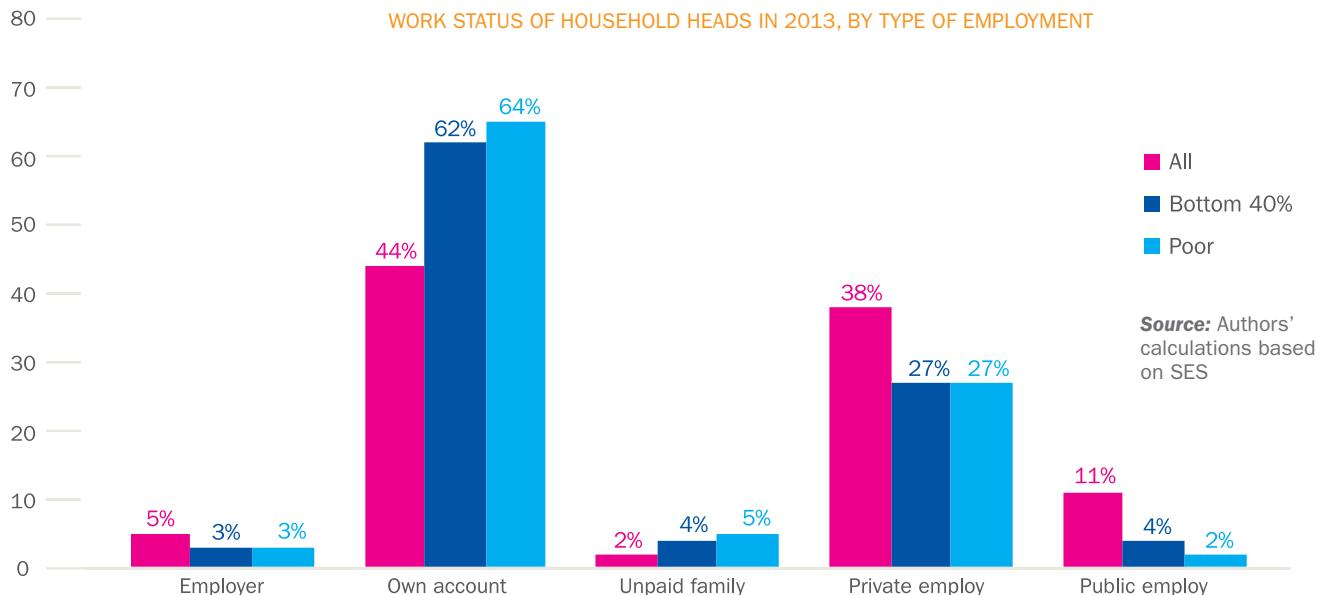


<sup>40</sup> University of Michigan Transportation Research Institute, Mortality from road crashes in 193 countries: A comparison with other leading causes of death, 2014.

<sup>41</sup> As discussed earlier, establishing an accurate count of employment in agriculture is difficult for a range of reasons

<sup>42</sup> As discussed earlier, the increase in employment in agriculture in the recent years might show that agriculture provided some sort of safety-net nature for the poor and bottom 40; it might also indicate the latent underemployment problems.

**FIGURE 36 :** Heads of poor households are more likely to be own account workers than employees in the public or private sectors



### THE POOR AND THE BOTTOM 40 PERCENT TEND TO BE IN HOUSEHOLDS HEADED BY SOMEONE LESS EDUCATED.

Heads of poor households tend to be less educated than heads of non-poor households, and the gap has been widening over time. The average number of years of education for heads of poor households increased from 3.7 years in 1986 to 4.0 in 2013 (and from 3.3 to 4.6 for the bottom 40 percent), compared to an increase of 6.2 to 7.7 over the same period for the nonpoor.

Looking at the sub-periods, the increase in average years of schooling for heads of poor households occurred mainly in the early part of the period. In the 2000s, the gaps between the poor and the non-poor widened as the number of years of schooling continued to increase rapidly for the non-poor but not for the poor (Table 8). Similar disparities in years of schooling could be seen between the bottom 40 percent and the top 60 percent, between rural versus urban households, and between males and females.

**TABLE 8 :** Years of schooling for heads of households

	HEAD OF HOUSEHOLD: YEARS OF SCHOOLING			
	1986	1996	2000	2013
All	4.6	5.4	5.9	7.4
Poor	3.7	3.8	4.0	4.0
Non-poor	6.2	6.1	7.0	7.7
Bottom 40%	3.3	3.8	4.0	4.6
Upper 60%	5.2	6.2	6.8	8.7
Rural	3.9	4.4	4.8	6.1
Urban	6.0	7.3	8.0	8.6
Women	3.9	4.8	5.4	7.0
Men	4.8	5.6	6.1	7.6

**Source:** Data from Socio-Economic Surveys.

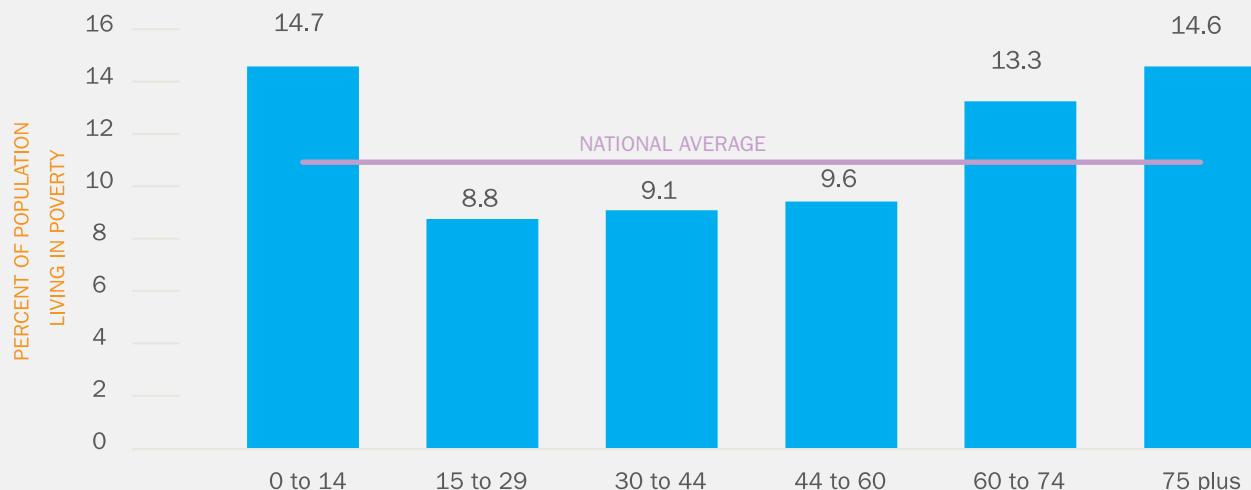
### THE POOR TEND TO BE HEADED BY OLDER HOUSEHOLD HEADS.

Households headed by older people have higher poverty rates than other households. The average age of the head of household increased from 45 years in 1985 to 51 years in 2013, but the average age of heads of poor households was about 57 years in 2013. As shown in Figure 37, the average poverty rates among households with older heads were higher than for other groups and higher than the national average. The poverty rate of the elderly is also higher than that of the overall population. A second notable feature is higher child poverty rates, which may be driven in part by the prevalence of “missing generation” households where grandparents are the primary caretakers for grandchildren in the absence of parents.

### POSSIBLY REFLECTING THEIR INCREASED VULNERABILITIES, THE POOR ARE THE LEAST HAPPY IN THAI SOCIETY.

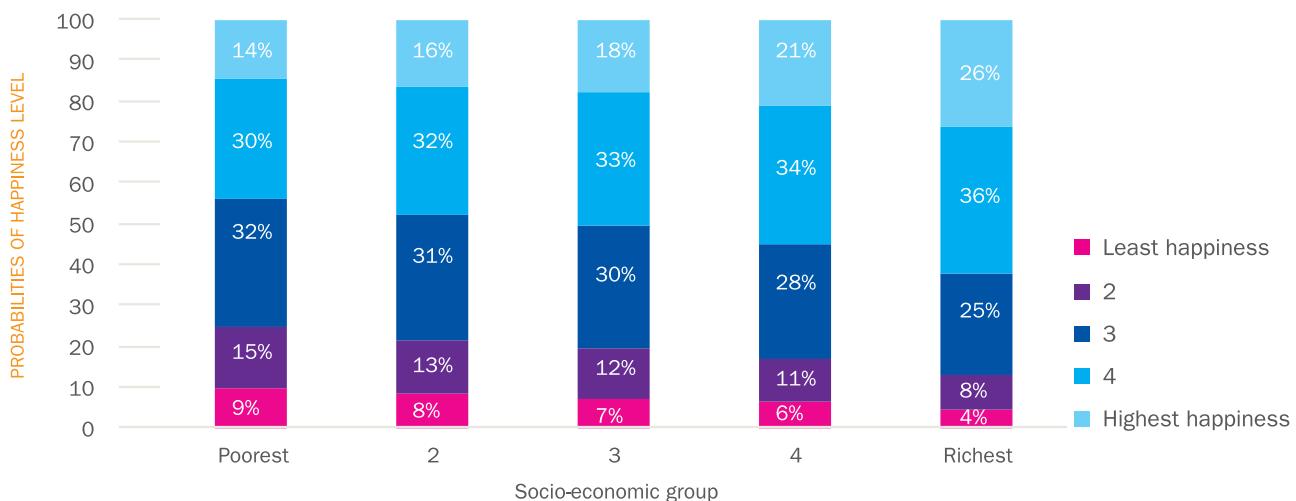
Based on analysis of the “Mental Health Survey” which was included as a module in the 2010 SES, individuals from the poorest households are twice as likely to report being unhappy with their lives relative to the richest segment of the population. Unfortunately, the survey does not provide much additional information that could help interpret the results. Possibly, the higher levels of unhappiness among the poor could reflect the fact that poor people have poorer access to quality public services (i.e. quality education or health services) and job opportunities. In addition, they are more vulnerable to shocks such as weather-related shocks for farmers or accidents that could render them unable to work and to have a satisfactory life.

**FIGURE 37 :** Poverty rates are significantly higher amongst the elderly and children



**Source:** SES, 2013

**FIGURE** Poorer households are more likely to report they are unhappy with their lives<sup>43</sup>  
**38 :**



**Source:** Authors' analysis of Mental Health Survey attached to the 2010 Socio-Economic Survey.



## B.HOW INCLUSIVE IS GROWTH, AND WHAT FACTORS AFFECT SHARED GROWTH IN THAILAND?

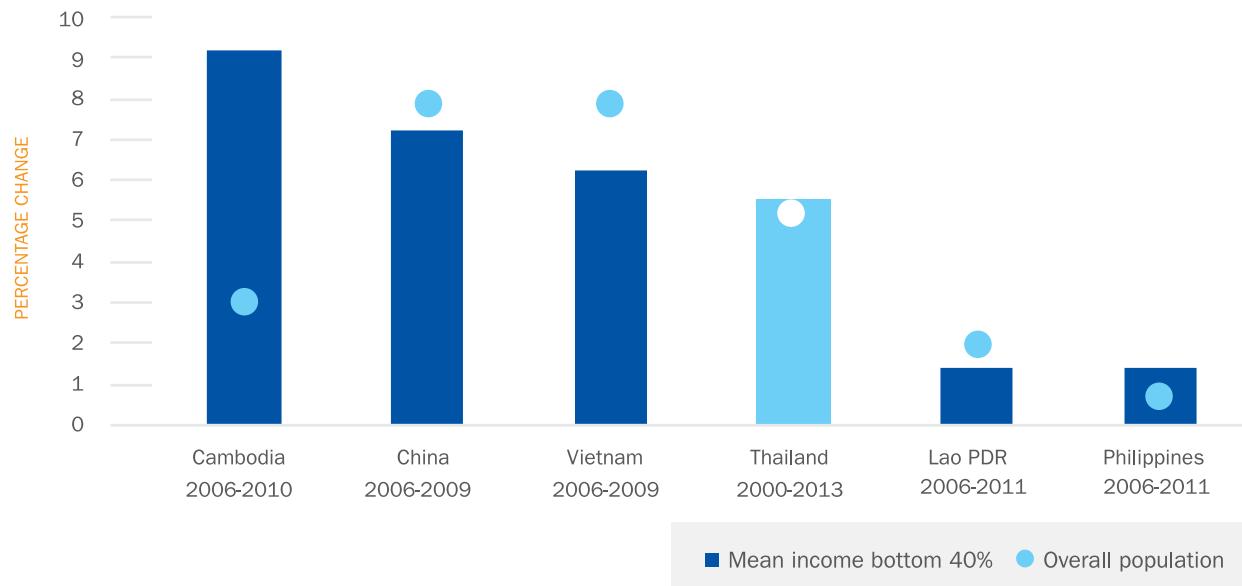
### THE BOTTOM 40 PERCENT HAVE BEEN SHARING IN ECONOMIC GROWTH, ALTHOUGH PROGRESS HAS BEEN UNEVEN

#### THAILAND HAS MADE SIGNIFICANT STRIDES OVERALL IN IMPROVING THE INCLUSIVITY OF ECONOMIC GROWTH.

Incomes of the bottom 40 percent of the population have tended to grow faster than average income growth (Figure 40). Broadly speaking, the income distribution has become more equalized, with the bottom 40 percent accounting for 17 percent of total household expenditure in 2013, compared with 15.5 percent in 1986. This compares favorably with many other countries in the most recent period with comparable data. In 2000-2013, while the average consumption of the overall Thai population grew at 5.1 percent, that of the bottom 40 percent grew at 5.5 percent (see Figure 39).

<sup>43</sup> Analysis based on the following question: "How would you scale your life happiness in general? (this year)" (the Least happiness = 00; the Highest Happiness = 10)

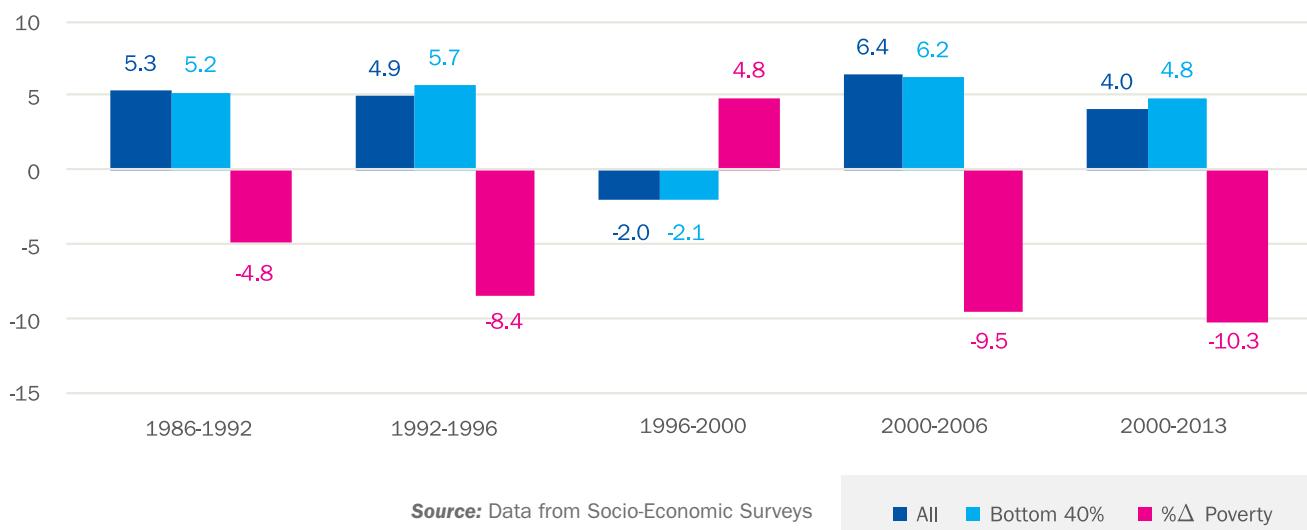
**FIGURE** Shared prosperity in Thailand and select other countries (annualized growth rate **39 :** of consumption for the poorest 40 percent and the overall population)



#### HOWEVER, THE INCLUSIVENESS OF GROWTH HAS VARIED ACROSS DIFFERENT SUB-PERIODS.

Inclusive growth can be seen for most time periods since 1986, with the exception of the 1996-2000 crisis period (when incomes fell for most income groups) and the 2000-2006 period when growth for the bottom 40 percent lagged that of the rest of the population (Figure 40). While the discussion here focuses on three big time periods (1986-1996, 1996-2000 and 2000-2013), Annex 2: Inclusiveness of growth includes graphs that explain what happened in each of the sub-periods.

**FIGURE** Annual consumption and poverty changes (%) **40 :**



## ECONOMIC GROWTH HAS BEEN THE MAIN FORCE BEHIND POVERTY REDUCTION AND SHARED PROSPERITY, ALTHOUGH REDISTRIBUTION IS PLAYING A GREATER ROLE

**ECONOMIC GROWTH HAS BEEN THE KEY DRIVER OF POVERTY REDUCTION IN THAILAND, BUT REDISTRIBUTION IS INCREASINGLY PLAYING A BIGGER ROLE.**

As shown in Table 9 which decomposes changes in poverty over the past three decades into a “growth component” and a “redistribution component,” poverty reduction was driven exclusively by growth during 1986-96: if not for the worsened income distribution, poverty reduction would have been 24 percent instead of 22.5 percent. Poverty then increased 4.6 percent during 1996-2000 due to negative growth. Since 2000, economic growth has continued to play the dominant role in reducing poverty but, increasingly, redistribution has also helped: nearly 85 percent of poverty reduction was attributable to growth while the remaining 15 percent was attributable to improvements in income distribution. Further analysis suggests that particularly for the 2006-2013 period, growth has been highly pro-

poor, and redistribution has also played a larger role, primarily through the introduction of elderly pensions and universal health care.

### MORE AND GRADUALLY BETTER JOBS WERE CRUCIAL IN TRANSLATING ECONOMIC GROWTH INTO SHARED PROSPERITY.

As the economy modernized, millions of off-farm jobs were created: 6.7 million such jobs were created in during 1987-96, and another 5.7 million during the years 2000-13 (see Table 10 and “Annex 4: Details on the labor market” for more details, including a breakdown by gender). These jobs initially required very little education, but they provided a rapidly expanding population (and former farmers) with higher incomes, the possibility of further skills development, and insulation from the whims of nature (droughts, floods and fluctuating commodity prices). There is an interesting gender dimension to this story: during the boom years (1986-1996), men were the primary beneficiaries of the rapidly expanding “modern” economy, taking up 60 percent of the new jobs on offer. This gradually changed, and during the more recent period of 2000-2013, women took a slightly bigger share of these new jobs (52 percent).

**TABLE** Decomposition of Poverty Changes into Growth and Redistribution Components  
**9 :**

	PERIOD			
	1986-1996	1996-2000	2000-2013	1986-2013
Change in poverty (%)	-22.5	4.6	-39.4	-57.3
Growth component	-24.1	4.6	-33.2	-50.2
Redistribution component	1.6	0.0	-6.2	-7.1

**Note:** The measure of poverty is based on real per capita household expenditure, which is normalized to 2011 using national CPI produced by the Bureau of Trade and Economic Indices, Ministry of Commerce. Bourguignon (2005) residual included in the redistribution component. The unique poverty line is set at the unique average real household poverty line in 2011.

**TABLE** Employment by sector

**10 :**

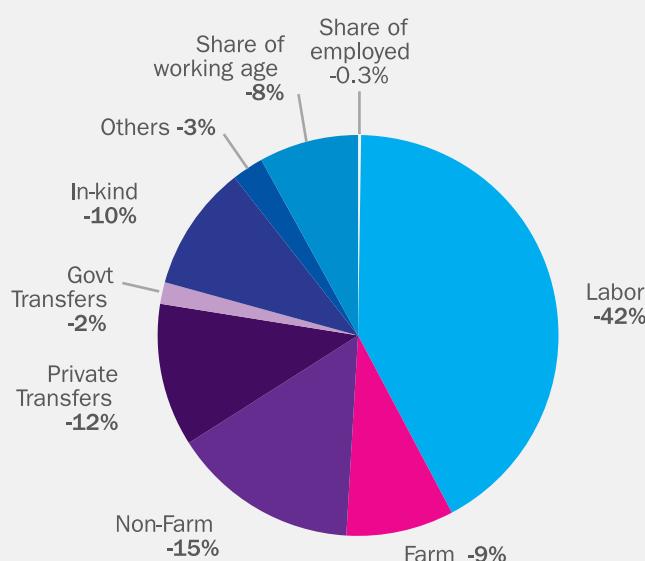
	Thousands				Change, thousands		
	1987	1996	2000	2013	1987-96	1996-00	2000-13
<b>Employment</b>	24,937	30,361	30,628	37,419	5,424	267	6,791
Agriculture	14,958	13,676	13,490	14,609	-1,282	-186	1,119
Industry	3,275	7,045	6,228	8,001	3,770	-817	1,773
Services	6,704	9,639	10,909	14,808	2,935	1,270	3,899
<b>Industry</b>	9,979	16,684	17,138	22,809	6,705	453	5,672
Population age 15-65	31,877	39,349	41,670	47,803	7,473	2,320	6,133

Authors' calculations based on the average of all rounds of the LFSs (except for the periods before 1998 where rounds 1 and 3 were used)

### OFF-FARM JOBS PROVIDED BETTER INCOMES, ESPECIALLY DURING THE EARLY BOOM YEARS

A decomposition analysis identifying the factors which contribute to poverty reduction shows that during the 1988-1996 period, labor income and non-farm income were major contributors to poverty reduction. These contributed 42 percent and 15 percent, respectively, to the total reduction of poverty experienced in Thailand (the population below the poverty line fell from 65 to

35 percent by 1996) (Figure 41). During this period, private transfers accounted for 12 percent of the decline in poverty, and government transfers only 2 percent. The demographic composition of the household also seems to have played a role, with greater shares of adults in working-age accounting for 8 percent of the drop in poverty, suggesting that a bigger pool of potential workers and a reduced dependency ratio may have stimulated income generation.

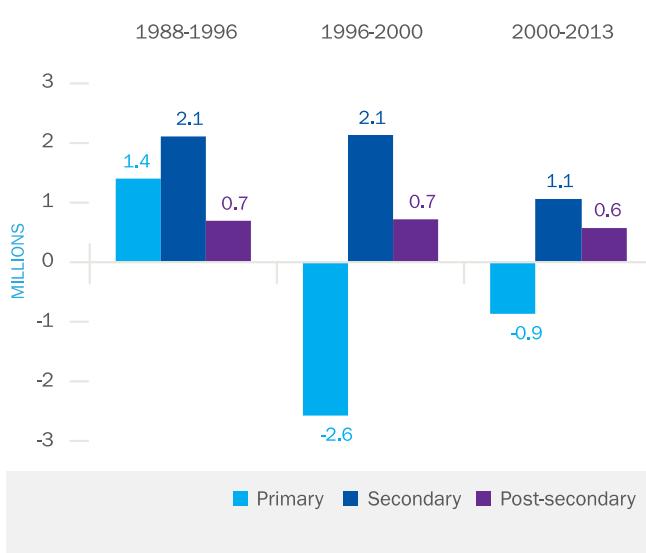
**FIGURE** Decomposing the factors that explained the decline in poverty during 1988-1996  
**41 :**


**Note:** Poverty decomposition (based on Azevedo et al., 2013) is performed with consumption as welfare measure, population weights and ranking for all components. **Source:** World Bank staff calculations using SES 1988, 1996.

## AS THE ECONOMY BECAME MORE SOPHISTICATED, CONSISTENT WITH THE IMPROVEMENT IN EDUCATION LEVEL OF THE GENERAL LABOR FORCE, THE NEW JOBS CREATED FOR WORKERS WITH HIGHER EDUCATION INCREASED.

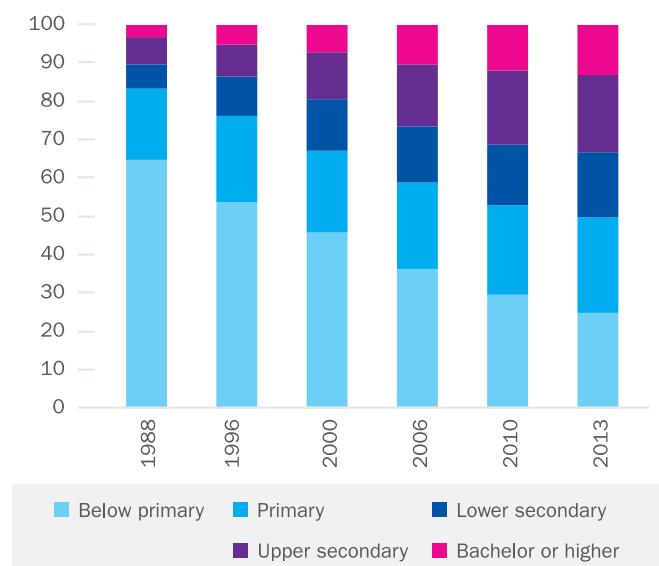
As mentioned above, initially a large share of the new jobs required little education. This meant that the poor and the bottom 40 percent could apply. Starting from the 1996- 2000 period, however, the net number of jobs requiring primary education that were created actually declined. Instead, more and more of the jobs being created required either a secondary or postsecondary education. In 2000-2013, the trends of increasing demand for workers with secondary education or tertiary education continued.

**FIGURE 42 :** Net Job Creation by education level (million)



Source: Labor Force Survey.

**FIGURE 43 :** Shares of Thai labor force by level of education



Source: Labor Force Survey.

## ALONGSIDE THE RAPID GROWTH IN JOBS AND THEIR INCREASED SOPHISTICATION, THE EDUCATIONAL BACKGROUND OF THE POPULATION ALSO INCREASED RAPIDLY.

The increase in the number of employed workers in Thailand was accompanied by significant improvements in the educational attainment of the labor force. As shown in the Figure 43, the share of the labor force with primary education or below declined from 84.5 percent in 1986 to 49.2 percent in 2013. Over the same period, the share of workers with secondary education jumped from 10.8 percent to 32.5 percent, while the share of workers with post-secondary education increased from 4.7 percent to 18 percent.



## THE DRIVERS OF SHARED GROWTH CHANGED AFTER THE 1997 ASIAN CRISIS BUT NOT NECESSARILY ALL FOR THE BETTER

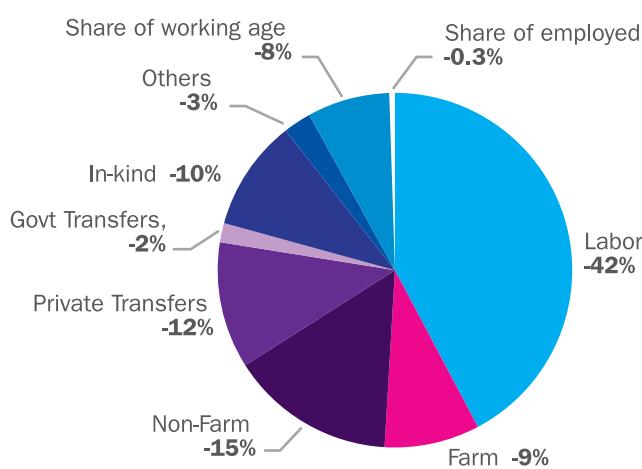
DURING 2000-13 (WHEN REDISTRIBUTION STARTED TO PLAY A BIGGER ROLE), POVERTY REDUCTION CONTINUED TO BE DRIVEN MAINLY BY INCOMES, OF WHICH FARM INCOMES PLAYED A KEY ROLE.

A comparison of the economic and demographic factors explaining the decline in poverty in 1988- 1996 versus 2000-2013 reveals stark differences (Figure 44). In 2000-2013,

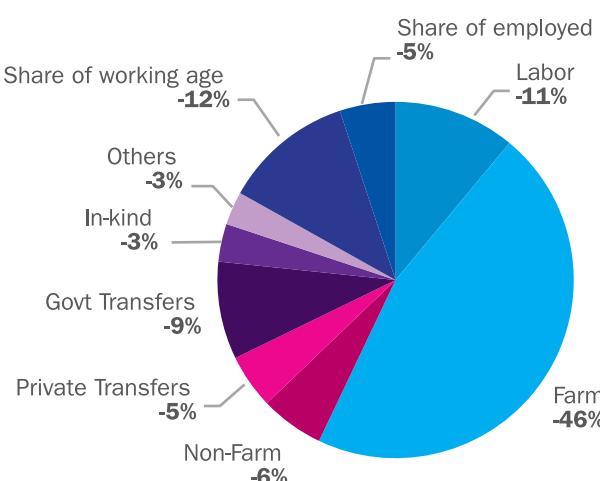
increasing farm income accounted for 46 percent of the observed decline in poverty, compared to only 9 percent in 1988-1996. During the first half of the 2000s, the increasing role of farm income was associated with increased farm commercialization, diversification from paddy production to other agricultural outputs, and greater integration in global food value chains. After 2008, partly as a result of the hikes in global agricultural prices and partly as a result of domestic price support schemes, farm income played an even stronger role in contributing to poverty reduction. At the same time, the limited new job creation in non-agricultural sectors over the decade was likely the main factor that led to the declining role of labor income.

**FIGURE 44 :** The contribution of income and household composition to poverty reduction

1988 - 1996



2000 - 2013



**Note:** Poverty decomposition (based on Azevedo et al., 2013) is performed with consumption as welfare measure, population weights and ranking for all components. **Source:** SES 1988, 1996; 2000, 2013.

## THE INCREASING IMPORTANCE OF FARM INCOME IN THE CONTEXT OF LIMITED IMPROVEMENT IN PRODUCTIVITY RAISES CONCERN ABOUT THE LACK OF STRUCTURAL TRANSFORMATION AS WELL AS SUSTAINABILITY.

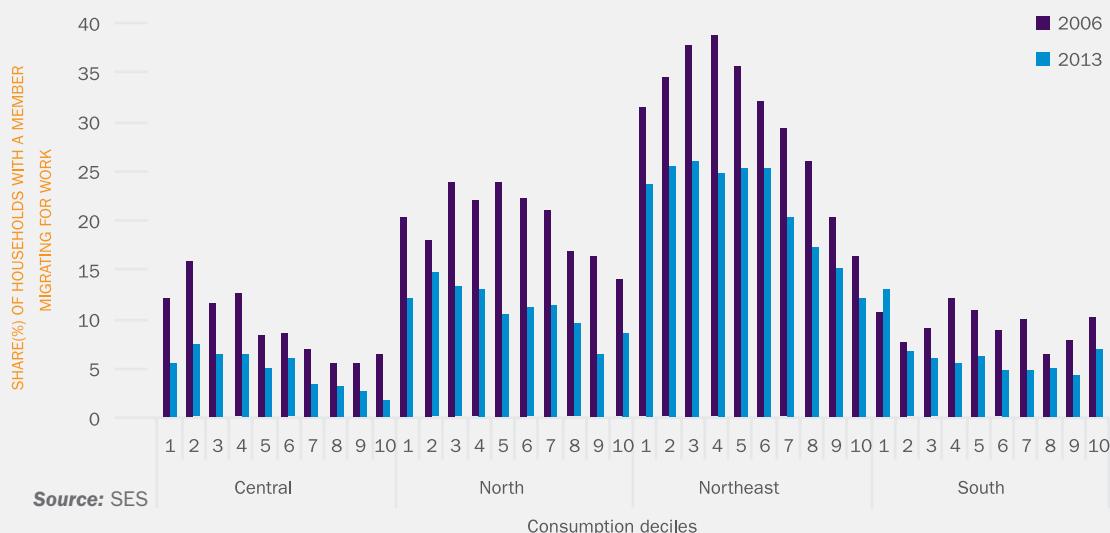
In part, the rising importance of farm income reflects the structural problems facing the economy: a slowdown in non-agriculture employment growth (Table 10) and the stalling of structural transformation (discussed in Section 3), combined with the struggle within agriculture to move labor from low- to higher-productivity jobs. It is worrisome because it likely reflects the 70 percent real increase in agricultural prices (Figure 15) and not productivity increases in agriculture. When agricultural prices fall back to more normal levels—a process that has already started—the inclusiveness of growth will no longer look good.

## A MORE “HEALTHY” AND SUSTAINABLE CHANGE THAT HAS TAKEN PLACE IS THE INCREASED ROLE OF PRIVATE TRANSFERS IN POVERTY REDUCTION

**IN THAILAND, PRIVATE TRANSFERS ARE COMPRISED MAINLY OF REMITTANCES FROM MIGRATION, WHICH CONTINUES TO BE AN IMPORTANT SOURCE OF INCOME.**

Over one-fifth of Thai households have migrants, with the highest proportions being from poor households and disadvantaged regions (Figure 45). Looking across income groups, a higher share of poor households and the bottom 40 percent have migrants (over 25 percent) compared to the top 60 percent (around 18 percent). In terms of geographic location, 26 percent of households in the Northeast and 15 percent in the North have migrants, shares that are significantly higher than those for other regions. Notably, while migration flows have generally declined over time, the share of households in the bottom 40 percent with migrant workers has stayed constant—for example, in the Northeast, it has remained at 80 percent for households in the bottom decile and around 70 percent for the remaining three deciles.

**FIGURE 45:** Share of households having a member migrating for work purposes, by decile and geographic region (2006, 2013)



**A COMPARISON OF OBSERVED CONSUMPTION LEVELS REVEALS THAT REMITTANCES BENEFIT THE POOR (THE BOTTOM 40 PERCENT) RELATIVELY MORE THAN THE NON-POOR (THE TOP 60 PERCENT), SUGGESTING THAT REMITTANCES ARE LIKELY AN IMPORTANT CONTRIBUTING FACTOR TO SHARED GROWTH IN THAILAND.**

Among those receiving remittances, the remittances account for an average of 30-40 percent of their household income, and the reliance on this source seems not to have changed over time. This points to an important role for remittances in promoting shared prosperity.

**THE RELATIVELY HIGH COST OF REMITTANCES IS AN ISSUE OF CONCERN, ESPECIALLY FOR THE POOR WHO TRANSACT IN SMALL AMOUNTS.**

According to the commercial banks’ standard rate, the starting remittance fee to different clearing zones is THB 30 for every THB 10,000 and an additional THB 1 is charged for every THB 1,000 fraction. The fee is therefore the same for a remittance of THB 1,000 or THB 10,000, creating a much higher proportional cost for the small remitter.



## THE LABOR MARKET HAS PLAYED A CRITICAL ROLE IN CREATING SHARED PROSPERITY, ALTHOUGH CHALLENGES REMAIN

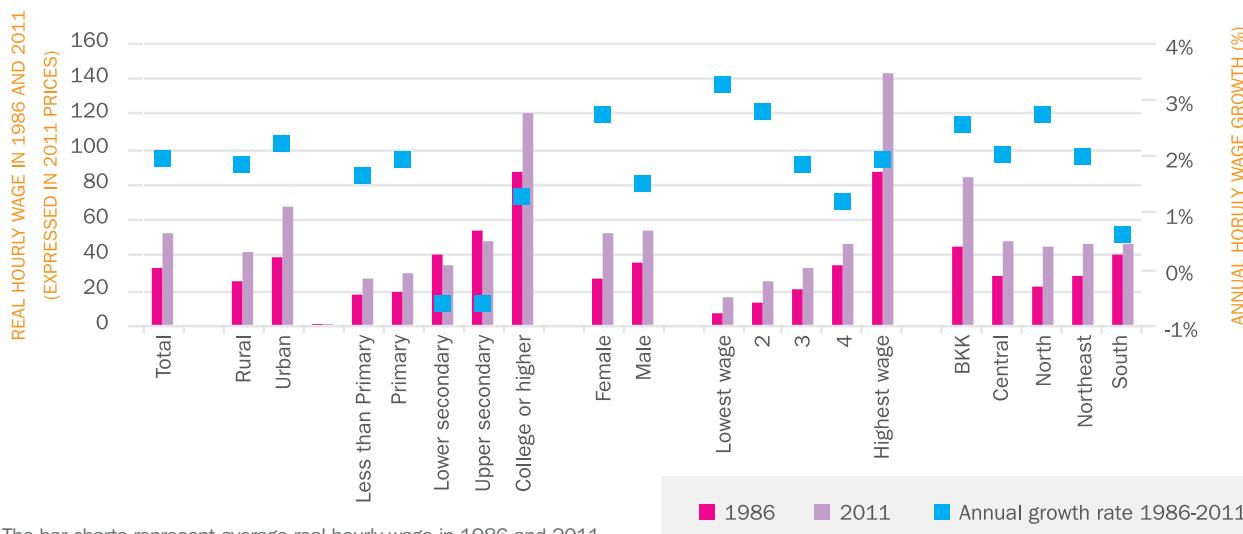
GIVEN THE IMPORTANCE OF THE LABOR MARKET IN TRANSFORMING ECONOMIC GROWTH INTO POVERTY REDUCTION, THIS SECTION PROVIDES SOME MORE DETAILS ON HOW EXACTLY THIS WORKED.

The aim of such analysis is to understand whether the labor market is likely to continue to play this supportive role in the coming years.

**IN THE PAST THREE DECADES, THE LABOR MARKET HAS BEEN CHARACTERIZED BY A LARGE INCREASE IN THE WORKING-AGE POPULATION, WHILE UNEMPLOYMENT REMAINED LOW.**

Throughout the period from 1986 to 2013, the Thai population between 15-65 years of age grew massively from 30.7 million in 1986 to 47.6 million in 2013, and its labor force increased from 26.1 million to 37.8 million over the same period. The increase in the labor force can thus be attributed to a “demographic dividend,” being brought about by a rapid increase in the prime-age population (between 25-54 years old). Throughout this period, unemployment remained low. Demographic dividends have therefore played a non-negligible role in poverty reduction: as Figure 44 shows, 17 percent of the poverty reduction was due to there being more adults in the working age population (who ended up working).

**FIGURE 46 :** Real hourly wages in 1986 and 2011 with annualized growth rate, by location, education, gender and wage quintiles



**Note:** The bar charts represent average real hourly wage in 1986 and 2011 (expressed in 2011 prices) for workers aged 15-65, the scatter points represent the annualized real wage growth in hourly wage (between 1986 and 2011). Statistics by area, education level, gender, wage quintiles and geographic region.  
**Source:** LFS 1986, 2011.

### WAGE GROWTH AMONG THOSE WITH LOWER WAGES AND LESS EDUCATION HAS BEEN A STRONG EQUALIZING FORCE.

Faster wage growth has led to some convergence in wages, even before the recent minimum wage increases were implemented. The real wage increase in Thailand from 1986 to 2011 (i.e. ahead of the recent large minimum wage increase) averaged around 2 percent per year, and the average real hourly wage rate (in constant 2011 THB) almost doubled from around THB 30 in 1986 to around THB 53 in 2011 (Figure 46). As shown in Figure 46, those with the lowest education level (a group of people in which the bottom 40 percent comprise the vast majority) have experienced the largest wage increases.<sup>44</sup> This reflects a labor market that gradually tightened at that end: more and more new labor market entrants had secondary or post-secondary education, but that “educational upgrading” took place faster than what firms demanded. Firms (and farms) still wanted laborers for jobs requiring only primary education or less, which benefited the bottom 40 percent. The faster wage growth for female workers also contributed to some convergence in wages, and this could be related to the increase in their skill level. For example, female employees have achieved greater levels of schooling (from an average of six years in 1986 to ten years in 2011), exceeding male employees (from an average of seven years of schooling in 1986 to nine years in 2011).

<sup>44</sup> However, as illustrated in the figure, the real wage growth rates for the college-educated and for workers in the highest wage quintile were relatively high in absolute terms.

## HOWEVER, THE AVERAGE WAGE AND LABOR PARTICIPATION RATES FOR FEMALE WORKERS HAVE REMAINED LOWER THAN FOR MALE WORKERS, DESPITE WOMEN HAVING MORE YEARS OF EDUCATION.

Although Thailand has achieved gender parity in education at all levels, this does not result in equal economic opportunities. According to data from UNESCO 2014, the gross primary education enrolment ratio for both sexes for the period 2006-2010 was 98 percent. However, women lag behind men in terms of pay and quality of jobs: women were paid 16 percent less than men in 2013.<sup>45</sup> Although Thailand is ahead of its peers, women's participation rates are nearly 20 percentage points below those of males (71 percent versus 87 percent in 2013). The situation is particularly acute in the Deep South of Thailand where the female participation rate stands at 66 percent vs. 86 percent for males. Low female participation rates are likely related to the less promising employment prospects faced by women. Moreover, the lower participation rates also likely reflect women's family obligations (e.g. childcare and elderly care) which would make their reservation wage higher.

## MOREOVER, WOMEN ARE UNDERREPRESENTED IN SEVERAL NON-AGRICULTURAL SECTORS AND HIGHPAID OCCUPATIONS.

In particular, they are underrepresented in sectors such as utilities, real estate, transportation and communication, and public administration as well as in high-paid occupations such as managerial or executive positions. Notably, female students tend to study in fields that are not directly linked with productivity enhancement such as humanities, social sciences, and health-related fields, while male students prefer to focus on engineering and technical skills. The selection of the field of study is largely attributed to socialization and gender stereotyping.

## SIMILARLY, LESBIAN, GAY, BISEXUAL, TRANSGENDER, AND INTERSEX (LGBTI) PERSONS FACE LIMITED EMPLOYMENT OPPORTUNITIES AND DISCRIMINATION IN THE WORLD OF WORK.

LGBTI<sup>46</sup> people experience employment discrimination and workplace exclusion, which affects the type of employment they obtain and compensation they receive. Transgender individuals are being systematically excluded from many mainstream jobs in both the public and private sectors and are marginalized to a few stereotypical jobs open to them (Suriyasarn, 2014). The ILO has found that jobs in the public sector are the least LGBTI friendly (Suriyasarn, 2014). As a result of repeated rejections, a hostile work environment, limited freedom of gender expression at work, and limited career advancement opportunities, LGBTI persons opt out of formal jobs in large organizations and seek employment in smaller enterprises or non-government organizations (Suriyasarn, 2014). The cost to the economy of such exclusionary treatment of LGBTI people includes unemployment or underemployment, lost labor time and lost productivity, underinvestment in human capital, and the inefficient allocation of human resources (Williams, 2014). On the micro level, workplace discrimination reduces wages for LGBTI people in Thailand (Suriyasarn, 2014).

## IN TERMS OF GEOGRAPHIC INEQUALITIES, THE WAGE GAPS BETWEEN RURAL AND URBAN AS WELL AS BETWEEN BANGKOK AND OTHER REGIONS (PARTICULARLY THE NORTHEAST AND DEEP SOUTH REGIONS) HAVE INCREASED.

In 1986, the average wage rate in Bangkok was only slightly above that in the Northeast, while in 2011, the average wage rate in Bangkok was almost twice that in the Northeast, reflecting the fact that the industrial heartland—where 75 percent of manufacturing output is produced and where productivity levels are highest—lies around Bangkok.

<sup>45</sup> This gap in pay is based on a regression analysis which compares male and female workers with the same characteristics (Annex 4: Details on the labor market)

<sup>46</sup> The acronym LGBTI refers to people who are lesbian, gay, bisexual, transgender or intersex. Exclusion based on sexual orientation and gender identity (SOGI) exists in different forms across cultures, countries and regions. Homosexuality is punishable by death and illegal in some countries, and although homosexuality is not illegal in many others, lesbian, gay, or bisexual people commonly face social exclusion. Transgender or intersex people may not be homosexual at all but are frequently classified as "gay" regardless. Social stigma driven by homophobia, transphobia and discriminatory laws fuels the exclusion of LGBTI people and creates barriers to accessing markets, essential services, and spaces. Such social stigma also often precludes participation by LGBTI persons in social institutions and decisionmaking, and exposes them to violence. Sources: World Bank. 2013. Inclusion Matters: The Foundation for Shared Prosperity (Advance Edition). Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0; Crehan, Phil. (2016). Latin America and Caribbean Region: Addressing Social Exclusion based on Sexual Orientation and Gender Identity (SOGI). Washington, DC: World Bank Group.



## RECENT CHANGES IN MINIMUM WAGE REGULATIONS HAVE HAD A MAJOR IMPACT ON THE BOTTOM 40 PERCENT, BUT THE IMPACTS ARE MIXED.

The most significant change in recent years was the adoption of a national daily minimum wage of THB 300, as described in Box 5. Empirical analysis suggests that the major increase in the minimum wage further supported the incomes of wage workers. However, not all benefited equally, as some very low-paid workers in microenterprises

experienced higher levels of non-compliance, thus yielding no increase to their wage. Additionally, during 2002-2013, the increase in the minimum wage resulted in some contraction in employment of the less educated and in particular reduced employment of young less educated workers (Lathapipat and Poggi, 2016). Even if the adoption of the national minimum wage may not have fully revealed its effects yet, greater enforcement is needed to allow fair rewards to vulnerable groups who are overrepresented in the low-wage sectors.

### BOX The evolution of minimum wage policies 5 : in Thailand

The minimum wage policy in Thailand started in Bangkok and vicinities in 1973 followed by the entire kingdom in 1974, with minimum wage bands set by geographic region to take into account differences in the cost of living and other socioeconomic conditions (e.g., inflation reflected by the CPI, and since 1990, economic growth) (Del Carpio et al., 2014). In 1998, the Labor Protection Act (No. 2) further modified the wage adjustments criteria into a two-tiered system intended to differentiate minimum wage levels by province and industry. The province-specific minima were implemented since the early 2000s and the wage adjustment criteria was readjusted in 2008.

Most recently in 2011, the government announced a change in the minimum wage regulations aimed at harmonizing wages into one national minimum wage rate in two major steps:

- (i) The daily minimum wage was set at THB 300 in seven core industrial provinces (Bangkok and vicinities plus Phuket province), while the wage in other provinces was raised by 40 percent. The policy started in the second quarter of 2012 and lasted for nine months.
- (ii) Starting in January 2013, the entire kingdom was subject to the THB 300 minimum wage rate.

## THE EMPLOYMENT COMPOSITION IS SHIFTING TOWARD MORE EDUCATED WORKERS, WHICH POSES FURTHER CHALLENGES TO YOUNG WORKERS.

Statistics for the bottom 40 percent suggest that total employment for young females and males decreased by 6.8 and 2.5 percent, respectively, in 2012- 2013. While some moved into education, others moved out of employment or out of the labor force. For example, almost one in four females aged 15-25 were neither working nor studying in 2013.

## GOVERNMENT PROGRAMS HAVE ALSO LIKELY CONTRIBUTED TO SHARED PROSPERITY, ALTHOUGH THEY STILL LEAVE A SIGNIFICANT SHARE OF THE POPULATION POOR OR VULNERABLE TO POVERTY

THAILAND HAS IMPLEMENTED SEVERAL PUBLIC TRANSFERS AND OTHER GOVERNMENT INITIATIVES AIMED AT REDUCING POVERTY, ALTHOUGH THEIR IMPACTS ON SHARED GROWTH ARE NOT WELL UNDERSTOOD YET.

The importance of public transfers in reducing poverty has increased in recent years. As shown in Figure 44 above, in 2000-2013, public transfers accounted for 9 percent of the decline in poverty compared to only 2 percent during 1988-1996, reflecting the introduction of social pensions for the elderly.<sup>47</sup> Recent governments have used a variety of other interventions to support the poor or help reduce their vulnerability to shocks, ranging from agricultural price supports to provision of universal access to health. The discussion below reviews four major programs: agricultural price supports, social pensions, universal health care, and the Village Fund.

THE AGRICULTURAL PRICE SUPPORT SCHEMES-PERHAPS AMONG THE MOST DIRECT INTERVENTIONS AIMED AT HELPING POOR FARMERS-MAY NOT BE AS PRO-POOR AS PLANNED AND ARE FISCALLY COSTLY.

The sustained increase in agricultural prices was among the major contributors to poverty reduction, but a closer look at the price-support schemes reveals several inefficiencies which have reduced their effectiveness. Research suggests that the rice pledging scheme, although wellintentioned, was biased in favor of richer farmers (net rice sellers) and created hardship for the poor (net rice purchasers). The take-up has been found to favor large farms (Duangbootsee and Myers, 2014) and to not induce greater investments in farm modernization (Attavanich, 2016). According to TDRI, 63 percent of the funds spent on the pledging program went to merchants and millers, with the rest going to farmers. Only 5 percent of funds spent went to poor farmers. It has also

worsened Thai competitiveness in world markets, leading to the accumulation of very large rice reserves which are still being cleared. The program's ultimate fiscal cost is still unknown because it will depend on how much of the tons of rice which has accumulated in government warehouses in recent years can be sold and at what price. Thus, it appears that such schemes may actually be costly and inefficient ways of supporting the poor.

ALTHOUGH SOCIAL PENSIONS SEEM TO HAVE HELPED REDUCE POVERTY AMONG ELDERLY-HEADED HOUSEHOLDS TO SOME EXTENT, A SIGNIFICANT PROPORTION OF BENEFITS HAVE ALSO BEEN GOING TO THE NON-POOR.

Thailand has eight pension programs covering different segments of the elderly, including both formal sector pensions, which were introduced relatively late in the demographic transition and have very limited coverage, and a universal social pension under the Old Age Act for anyone age 60 and above who is not receiving a formal sector pension. Although the social pension level is modest (ranging from THB 600 per month for those ages 60-69 to THB 1,000 for those age 90 and over), there are indications that the social pension has had an impact on reducing old age poverty, particularly in the informal sector. At the same time, because the social pension is universal, the majority of the benefits have been going to the non-poor.<sup>48</sup> A more recent study has found relatively limited impacts on poverty for the majority of beneficiaries.<sup>49</sup>

THAILAND HAS MADE GREAT STRIDES IN PROVIDING HOUSEHOLDS WITH BETTER PROTECTION AGAINST THE RISK OF FALLING ILL

The most important step was the introduction of the Universal Health Coverage (UHC) scheme in 2001. The UHC scheme has provided free health care services to all Thai citizens in the informal sector as well as those who were not covered by existing publicly run health insurance schemes such as the Social Security Scheme and Civil Servant Medical Benefits Scheme. Under Thailand's health schemes, 99.5 percent of the population have health protection coverage,<sup>50</sup> and most Thais are financed by patient self-payment and private insurance.

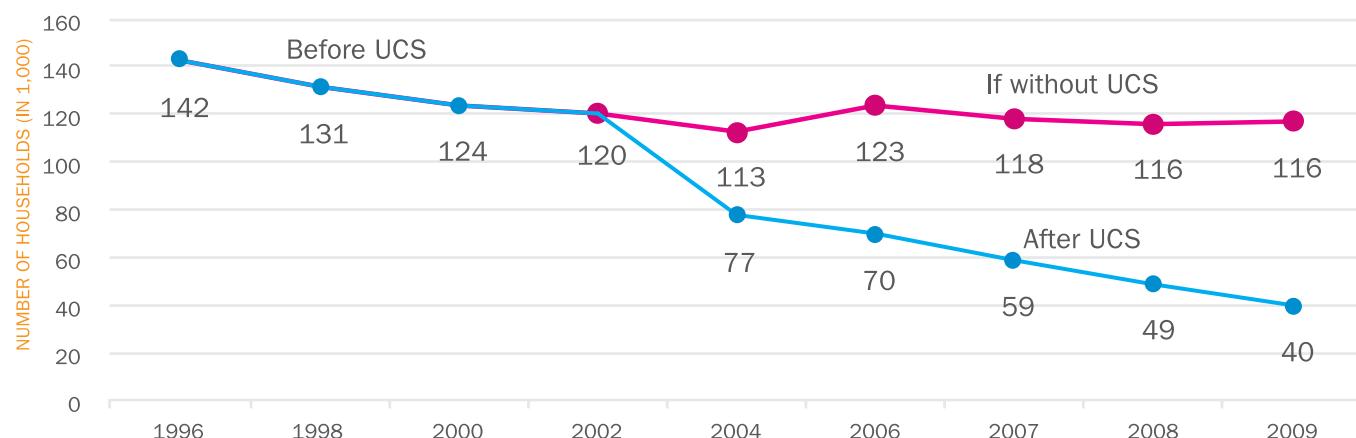
<sup>47</sup> Annex 2 breaks down this overall story further by shorter time periods, with analysis by region of Thailand. The annex also provides more details on the composition of incomes of different population groups.

<sup>48</sup> World Bank (2012c).

<sup>49</sup> Badiani-Magnusson (forthcoming) as cited in World Bank (2016).

<sup>50</sup> World Bank. 2012d Thailand: Sustaining Health Protection for All. World Bank Thailand. Available at: <http://www.worldbank.org/en/news/feature/2012/08/20/thailand-sustaining-health-protection-for-all>

**FIGURE** The actual/estimated number of households who were/would have been impoverished from **47 :** health care costs-related expenditures fell after the introduction of UHC in 2001



**Source:** Tangcharoensathien, Limwattananon, Patcharanarumol, and Thammatacharee (2014).

### THE UHC SCHEME HAS IMPLIED THAT FALLING ILL DOES NOT NECESSARILY MEAN BECOMING POOR.

Out-of-pocket health expenditures fell from 42 percent in 1996 to 11 percent in 2013. As a result, the incidence of catastrophic health expenditures has dropped from 6.8 percent in 1996 to 2.8 percent in 2008 in the poorest quintile. Similarly, the incidence of impoverishment due to health care costs fell from 2.7 percent in 2000 to 0.49 percent in 2009. It is estimated that as many as 76,000 households avoided impoverishment due to health care costs in 2009 thanks to the UHC scheme (Figure 47).<sup>51</sup> With costs taken out of the equation, the poor were able to access health services when they needed them: the number of outpatient visits per person per year increased from 2.5 in 2003 to 3.2 in 2010.

### THE MAIN WORRY ON THE HEALTH FRONT NOW IS HOW TO RESPOND TO GROWING COST PRESSURES.

The success of UHC was underpinned by the Thai government's ability to increase financing for UHC for the three publicly run health insurance schemes, which was possible thanks to economic growth and the prioritization of social sectors in

government spending, reallocation from military and security budgets, and gained fiscal space from the declining need to service external debts. However, this enabling environment is no longer there as economic growth has faltered and reprioritization of government expenditure has reached its ceiling. The proportion of government health expenditures out of total government expenditures grew from 10 percent in 2001 to 17 percent in 2013. For a number of reasons, costs continue to rise, with the government financing the lion's share. The increases reflect the expansion of the breadth and depth of health coverage, increased utilization of health services, higher costs for each visit (associated with rising labor costs and other factors such as the introduction of more sophisticated medical devices and surgical procedures), rising prevalence of chronic non-communicable diseases, and the demographic transition to an aging society, which will result in greater demand for special and long-term care.

<sup>51</sup> Tangcharoensathien et al. (2014).

## LIMITED ACCESS TO HEALTH CARE FOR VULNERABLE GROUPS AND PEOPLE IN REMOTE AREAS AS WELL AS INCREASING NUMBERS OF TEEN PREGNANCIES ARE ANOTHER A GROWING CONCERN.

Although UHC has increased women's access to health care (especially for HIV/AIDS prevention, maternal care, and child care), women in rural and remote mountainous areas of the north as well as in the three southern conflict-affected provinces have limited access to health care. In addition, worrying trends are the increase in teen pregnancy rates and HIV infection among young pregnant women. In 2013, WHO reported that Thailand's adolescent pregnancy rate ranked 5<sup>th</sup> among ASEAN countries (47 per 1,000 females ages 15-19). When individuals cannot realize their full educational and occupational potential, society loses their economic contributions. Teen pregnancy is also relevant from the point of view of development because it is a manifestation of lack of opportunity and because early motherhood can have implications in terms of continuing the poverty cycle between generations, social exclusion, and high social costs.<sup>52</sup>

## ANOTHER CONCERN ON THE HEALTH FRONT IS CONTINUED OR INCREASED HIV/AIDS PREVALENCE AMONG CERTAIN GROUPS.

According to the 2010 and 2012 UNAIDS reports, Thailand's surveillance data showed an increase in the level of HIV/AIDS infection among pregnant women aged 20-24. HIV/AIDS is also a critical challenge for the LGBTI community in Thailand, especially among MSM and transgender women who are a particularly vulnerable population in HIV transmission. Considering the marginalized or hidden nature of this group in some societies, services for HIV/AIDS prevention or treatment may not be provided or may be inadequately resourced. Although HIV prevalence among men having sex with men (MSM) declined from 16.0 percent in 2010 to 12.2 percent in 2012, it remains significantly higher than in most groups of FSW and the general population. In addition, a new higher risk group is non-venue-based female sex workers who have higher HIV prevalence. These non-venue-based female sex workers are outside the formal HIV prevention program.

## DESPITE THE POSITIVE IMPACT OF UHC, LGBTI PEOPLE REMAIN VULNERABLE TO HEALTH RISKS

ILO (2014) reports that some insurance companies refuse to sell insurance to LGBTI people and that LGBTI people are forced to pay higher premiums because their lifestyle is considered "high-risk," with more vulnerability to contracting HIV (Suriyasarn 2013)<sup>53</sup> Moreover, insurance companies, which commonly allow non-married partners as beneficiaries in male-female couples only, do not issue life insurance policies with a same-sex partner as beneficiary because same-sex partners are not considered "natural heirs"—defined as blood relations or relations through marriage under Thai law.<sup>54</sup> This leaves LGBTI people vulnerable to health and other risks.

## EFFORTS TO EXPAND FORMAL BORROWING—including THROUGH THE VILLAGE FUND PROGRAM—MAY PERHAPS HAVE BEEN MORE SUCCESSFUL IN FACILITATING SHARED GROWTH IN THAILAND.

Since 2001, formal borrowing has expanded rapidly while informal financing has decreased, giving low-income people better access to lower-cost and more reliable formal financing. Empirical evidence shows that the introduction of the Village Fund Program, a microfinance scheme promoted by the government in 2001, increased total short-term credit available at the village level while boosting agricultural investment, income growth, and consumption of borrowers (Kaboski and Townsend, 2012), and the effect on expenditure was stronger for lower-income quantiles (Boonperm et al., 2013). Additionally, the take-up of this type of credit has reduced individuals' likelihood to migrate (Khun and Chamratrithirong, 2011; Poggi, 2015). Borrowing has been found to be the most relevant coping strategy for rural households to react to shocks (Tongruksawattana et al., 2013), and access to formal financial systems has helped in smoothing consumption in the face of income shocks (Kinnan and Townsend, 2012). The presence of village-level microfinance institutions such as women's lending groups improved access to formal credit, reducing the likelihood of households becoming customers of moneylenders (Kaboski and Townsend, 2005).

<sup>52</sup> World Bank. 2012e. Teenage Pregnancy and Opportunities in Latin America and the Caribbean. On Teenage Fertility Decisions, Poverty and Economic Achievement. Washington, DC: World Bank.

<sup>53</sup> Busakorn

<sup>54</sup> C. Boonprasert (ed.): Violated lives, op. cit., p. 19 as cited in ILO 2014.

WHILE ACCESS TO FORMAL CREDIT HAS LIKELY HELPED THE POOR AND BOTTOM 40 PERCENT BY PROVIDING ACCESS TO CHEAPER AND MORE RELIABLE CREDIT, IT HAS ALSO BROUGHT A NEW RISK : THE RISK OF INDEBTEDNESS.

Currently at 83 percent of GDP, Thailand's household debt level is among the highest in the region and is well above average for a country in the upper-middle income range. At the household level, the high level of indebtedness among low-income households is particularly worrying. The debt servicing ratio (DSR) for households in the first income quintile is almost 50 percent. Policymakers and keen observers have often cited the household debt situation as a cause for concern for macroeconomic stability, and some have tried to draw a correlation between household debt and the economic slowdown although those associations have largely been judgment calls.<sup>55</sup>

### THUS, DESPITE RECENT EFFORTS, THE POOR AND THE BOTTOM 40 PERCENT REMAIN VULNERABLE TO OTHER RISKS

While UHC reduces the direct costs associated with seeking care, having a household member fall ill can still be a major shock. The opportunity costs of caring for sick family members can be high, and oftentimes it is women who bear more of the burden. Similarly, the death of a family member and the high funeral expenses can also be a major shock for a household. Given the limited development of the insurance system, millions of farmers are impoverished by droughts every year, particularly those in the Northeast who are more prone to such disasters and at the same time have less ability to cope.

## CHALLENGES REMAIN IN TERMS OF SOCIAL INCLUSION

ALTHOUGH SIGNIFICANT PROGRESS HAS BEEN MADE IN FOSTERING INCLUSIVE GROWTH, SOCIAL EXCLUSION CONTINUES TO AFFECT WOMEN, LGBTI, AND OTHER GROUPS IN THAI SOCIETY.

While the earlier section highlighted some of the inequities facing women, LGBTI, and other groups in terms of employment and health, these groups also face social exclusion that is manifested in their legal status and in violence against them. Such discrimination marginalizes a significant proportion of the population, not only hurting the affected individuals but also undermining the inclusiveness of growth. Box 6 provides an examination of issues facing LGBTI people in Thailand, provides context on the legal and institutional framework, and offers pathways forward.



<sup>55</sup> See Muthitacharoen, Nuntramas, Chotewattanakul (October 2014): Rising Household Debt: Implications for Economic Stability

**BOX Inclusion of LGBTI people in Thailand's development: progress, challenges, and 6 : steps ahead**

In recent years, Thailand has been advancing toward inclusion of LGBTI people. Legal and institutional progress started with the decriminalization of homosexuality in 1956. The 2007 Constitution prohibits discrimination based on sexual orientation, in addition to labour standards which specifically prohibit discrimination based on sexual orientation. Sexual orientation and gender identity (SOGI) are specifically protected statuses in the Gender Equality Act of 2015. Some legal protections also exist for transgender individuals, like the ability to change their sex assigned at birth on official documents and the legality of gender-confirming surgeries.

However, significant challenges remain to achieve full inclusion of LGBTI groups in practice. During consultations with LGBTI civil society organizations for a World Bank research project, participants mentioned that there is still significant stigma and exclusion of LGBTI people in society, school, and in the family. In the 2010-2014 World Values Survey, only 2.4 percent of Thai respondents believed homosexuality was “always justifiable,” only slightly above the average for the sample of countries surveyed. This stigma has implications on an LGBTI person’s ability to access markets, services, and spaces.

In the labor market, employment discrimination and workplace exclusion affect the type of employment LGBTI people obtain as well as the compensation they receive—thus limiting overall labor productivity. The ILO finds that jobs in the public sector are the least tolerant to LGBTI people, and as a result of repeated rejections and a hostile work environment they often opt out of formal jobs in large organizations and seek employment in non-government organizations or the informal sector—notably sex work. Participants during World Bank consultations mentioned that their current job in civil society organizations is one of the few professional opportunities that had been afforded to them throughout their adult life. Maya mentioned that as a transgender woman it has been very hard for her to find jobs within her field of expertise.

Stigma also limits their access to education and healthcare. In a study of 2,070 students, as high as 56 percent of LGBTI respondents reported being bullied within the past month due to their SOGI (UNESCO, 2014). This violence hampers the development of their human capital, and thus limits their future employment prospects and even perpetrates a cycle of poverty. Finally, LGBTI people experience many obstacles when accessing appropriate healthcare coverage as well as services. In fact, some insurance companies refuse to sell insurance to LGBTI people or require them to pay higher premiums—under the guise that their lifestyle is considered “high-risk” (Suriyasarn, 2014). For transgender individuals, the services needed for gender-confirming surgeries are inadequate and often lead some of them to self-medicate in harmful ways.



Stigma also fuels the rampant violence committed against LGBTI people. In a survey of 868 LGBT Thai respondents, 27 percent experienced violence in their families due to their SOGI. Other research shows that, in Pattaya, as high as 89 percent of transgender women reported an experience of violence due to their gender identity and expression (Policy Research and Development Institute Foundation 2008).

The ILO, UNDP, UNESCO, bilateral aid agencies, and recently the World Bank are pursuing data collection efforts on LGBTI people in an attempt to fill significant knowledge gaps which limit progress on the policy level. In fact, the bulk of data on LGBTI issues in Thailand is qualitative in nature and based on interviews and consultation with the communities, and biased toward those living in cities. The true extent of economic development outcomes—from housing to education to health care—are largely unknown, and the impact of discrimination and violence on socioeconomic status and essential assets is largely unexamined.

In Thailand, the ILO “PRIDE” campaign is addressing this knowledge gap by measuring SOGI-based discrimination in the workplace. SIDA, USAID and UNDP launched “Being LGBTI in Asia”, a regional campaign to undertake numerous consultations and literature reviews (Phase 1) in support of the rights of LGBTI people. Currently, Phase 2 is working with community-based organizations and national human rights institutions to increase their capacity, as well as support sensitization of lawmakers and governments. UNESCO and UNDP committed to combat homophobic/transphobic bullying in schools—with a focus on teacher sensitivity, awareness-raising, peer support and counselling—to support the “Education and Respect for All: Preventing and Addressing Homophobic and Transphobic Bullying in Educational Institutions” program. Finally, USAID supports LGBTI organizations by funding programs to increase their visibility and empowerment.

## ALTHOUGH THE GENDER EQUALITY ACT PROMULGATED IN 2015 WAS A LANDMARK ACHIEVEMENT FOR THAILAND, THAI LAW FALLS SHORT ON A NUMBER OF DIMENSIONS RELATED TO EQUALITY AND NONDISCRIMINATION.

The Gender Equality Act was significant in promoting gender<sup>56</sup> equality and recognizing sexual orientation and gender identity as important factors for the overall development of the country. Along with this law, a gender equality fund was established as well as committees to promote public awareness and to eliminate all forms of

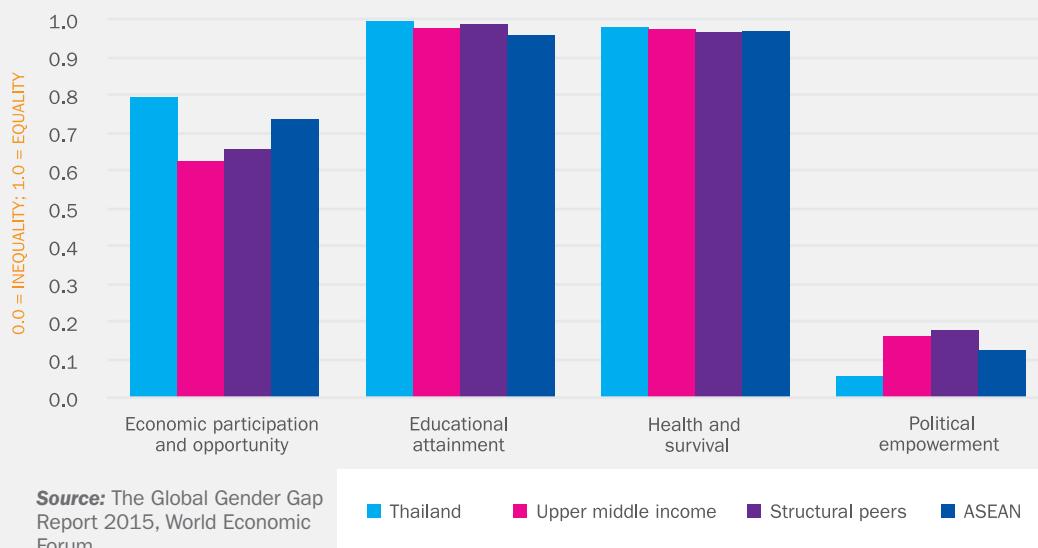
discrimination. However, the Gender Equality Act contains no provisions to promote and protect equal opportunity and gender equality and gives no clear mention of sexual or gender-based violence and sexual harassment (Sriyai, 2012) Furthermore, the exception clause in the Bill is inconsistent with equality and non-discrimination principles and not in compliance with international treaties to which Thailand is a party, in particular the CEDAW (Suriyasarn, 2014).

<sup>56</sup> Gender refers to the social attributes and opportunities associated with being male and female. It encompasses the relationships between women and men and girls and boys, as well as the relations between women and those between men (UNDP 2008). Ideals about the appropriate attitudes and behaviors for men and women are learned, socially constructed norms that vary across local contexts and interact with socio-cultural factors, including class, race, poverty level, ethnic group, and age (Connell 2008). At a local level, and a broad societal level, the situations in which men's and women's roles are formed vary and change over time (Kimmel, Connell 2000). Sources: UNDP 2008. Gender Equality Strategy 2008-2011. New York: United Nations Development Programme; Connell, R. 2000. Men and the Boys. Berkeley: University of California Press; Kimmel, M. 2000. The Gendered Society. New York: Oxford University Press; Connell, R. 2000. Men and the Boys. Berkeley: University of California Press; Kimmel, M. 2000. The Gendered Society. New York: Oxford University Press.

## IN TERMS OF GENDER INEQUALITIES, IN ADDITION TO THE LOW FEMALE LABOR PARTICIPATION RATES DISCUSSED EARLIER, ANOTHER PRESSING GAP IS THE SCARCITY OF WOMEN IN LEADERSHIP POSITIONS.

A major gap can be seen in “political empowerment”: Thailand has exceptionally few women in politics and leadership positions (Figure 48).

**FIGURE 48 :** While progress has been made in some gender dimensions, Thailand has exceptionally few women in politics and leadership positions



## SOCIAL ACCEPTANCE OF VIOLENCE AGAINST WOMEN AND GIRLS (VAWG) IS HIGH, SUGGESTING A RIGID DICHOTOMY OF MASCULINITY AND FEMININITY AND MALE-FEMALE GENDER ROLES.

According to the Multiple Indicator Cluster Survey (2012), around 13 percent of 21,981 women ages 15-49 feel that their husband/partner has a right to hit or beat them for at least one of a variety of reasons, with 11 percent of women agreeing with and justifying violence in instances where they neglect their children.<sup>57</sup> A study by UN WOMEN (2012) with 574 15-18 year olds across four provinces in Thailand revealed that although close to 100 percent of respondents said that they find it unacceptable for a man to perpetrate VAWG, they also expressed the view that violence is acceptable if the woman has done something wrong such as having an affair, and they were simultaneously inclined to hold the female victim responsible for the event (UN Women 2012).

## A SIMILAR DICHOTOMY CAN BE SEEN IN THE CASE OF LGBTI INDIVIDUALS.

Although a recent national poll with 1,252 respondents nationwide (NIDA 2013) indicated a high level of acceptance of LGBTI persons in the larger Thai society, almost 9 percent of all respondents did not accept LGBTI friends and colleagues in the same workplace, and 17 percent did not accept them in the family.<sup>58</sup>

<sup>57</sup> For more information please see: [https://micssurveysprod.s3.amazonaws.com/MICS4/East%20Asia%20and%20the%20Pacific/Thailand/20122013/Summary/Thailand%202012%20MICS%20Summary\\_English.pdf](https://micssurveysprod.s3.amazonaws.com/MICS4/East%20Asia%20and%20the%20Pacific/Thailand/20122013/Summary/Thailand%202012%20MICS%20Summary_English.pdf)

<sup>58</sup> The poll was conducted during 15-16 May 2013 with 1,252 respondents representing Thais in all education levels and a wide range of occupations from all regions of Thailand (S.E. <1.4). The reasons for acceptance among the 88.49 percent include: “LGBTs are no burden to others,” “[sexuality does not matter] as long as they are good persons,” “LGBT people are capable,” “Thai society is more accepting now.” The 8.79 per cent that do not accept LGBT persons say “[diverse sexuality is] unnatural,” and “LGBTs create a negative image for the organization.”

## LACK OF LEGAL RECOGNITION FOR TRANSGENDER IDENTITY AND SAME-SEX PARTNERSHIP AND LACK OF CONSTITUTIONAL LAW ON ANTI-DISCRIMINATION BASED ON SEXUAL ORIENTATION OR GENDER IDENTITY HAVE NEGATIVE IMPACTS ON THE COUNTRY'S DEVELOPMENT.

LGBTI Thais face major barriers to many social and economic opportunities throughout their lives, leaving them deprived of chances to advance in education, employment, and other areas of life. On a macro level, global data shows a correlation between the enactment of rights for LGBTI people, a rise in GDP per capita, and higher levels on the Human Development Index (HDI). A study that examined 39 countries including Thailand revealed a clear positive correlation between per capita GDP and legal rights for LGBTI people: the simplest correlation shows that one additional right is associated with USD 1,400 more in per capita GDP and with a higher HDI value (Williams, 2014).<sup>59</sup>

## A SIGNIFICANT PROPORTION OF LGBTI INDIVIDUALS ARE VICTIMS OF VIOLENCE.

A 2012-2013 survey involving 868 LGBT respondents from eight provinces in four regions of Thailand revealed that 27 percent experienced violence based on their sexual orientation and gender identity in the family (Samakkikarom, 2013).<sup>60</sup> Between January 2008 and December 2014, the Trans Murder Monitoring Project identified 1,731 killings of transgender people in 62 countries, including 14 in Thailand, which ranked 4<sup>th</sup> in Asia.<sup>61</sup> In a research conducted by the Policy Research and Development Institute Foundation (2008), in Pattaya, 89 percent of transgender women reported experiencing violence as a result of their gender identity and/or behaviour (Policy Research and Development Institute Foundation 2008).

## VIOLENCE AGAINST LGBTI STUDENTS IN SCHOOLS IS A SERIOUS PROBLEM WHICH AFFECTS THEIR EQUAL ENJOYMENT OF HIGH-QUALITY EDUCATION

Persistent stigma, marginalization, discrimination, and violence against LGBTI people in education obstructs the path to gaining skills and competencies to secure a better future, hampers their future employment prospects, and perpetrates the cycle of poverty. ILO (2013) reports gender-based harassment and violence against LGBTI people in school, including serious physical and sexual violence and rape of LGBTI individuals perpetrated by students as well as teachers (Suriyasarn 2013). Research (UNESCO, 2014) with 2,070 students found homophobic/transphobic bullying to be pervasive and endemic in schools: 56 percent of LGBTI respondents reported being bullied within the past month due to their sexual orientation/gender identity.. Being bullied for these reasons was linked with higher rates of alcohol consumption, unprotected sex, absenteeism, and suicide attempts among LGBTI students (UNESCO, 2014). These findings also suggest that depression is likely to affect a higher proportion of LGBTI people than non-LGBTI people, especially those who face anti-LGBTI stigma and victimization, parental rejection, and/or feel they have to conceal their LGBTI identity (Ojanen, 2016).

<sup>59</sup> Correlation between per capita GDP and legal rights for LGBTI people was measured by the Global Index on Legal Recognition of Homosexual Orientation (GILHRO) and the Transgender Rights Index (TRI).

<sup>60</sup> With the highest percentage (38.4%) among MTF transgender persons, followed by gay men (13.8%), toms and transmen (12.7%), feminine lesbians (11.5%), bisexual women (5.6%), and bisexual men (5.4%). Ronnaphoom Samakkikarom and Jetsada Taesombat, Partnership and Making Family for LGBT: Meaning, Needs and Violence, research presentation at Thammasat University, 19 June 2013. The research project was supported by the Foundation for SOGI Rights and Justice and Teeranat Kanjanauksorn Foundation, and funded by the Thai Health Promotion Foundation.

<sup>61</sup> Updated May 2015, The highest numbers of murders recorded since January 2008 were in India (48), the Philippines (35), Pakistan (22). Available at: [www.transrespect-transphobia.org/en\\_US/tvt-project/tmm-results/idahot-2015.htm](http://www.transrespect-transphobia.org/en_US/tvt-project/tmm-results/idahot-2015.htm)



# SUSTAINABILITY

# HOW SUSTAINABLE IS THAILAND'S "ECONOMIC MODEL" AND WHAT ARE THE RISKS ON THE HORIZON?

**BASED ON THE ANALYSIS PRESENTED ABOVE, A NUMBER OF RISKS TO THAILAND'S ABILITY TO GENERATE INCLUSIVE, SUSTAINABLE GROWTH FOR THE FUTURE HAVE BEEN IDENTIFIED.**

In particular, this section highlights four such risks: (i) failure to restart the “structural transformation” engine to drive productivity growth and further poverty reduction, (ii) a rapid decline in the working-age population, (iii) continued social and political instability stemming from widening regional gaps and the lack of a modern social safety net system, and (iv) a worsening environmental situation.

## RESTARTING THE “STRUCTURAL TRANSFORMATION” ENGINE WILL BE KEY FOR PRODUCTIVITY GROWTH AND FURTHER POVERTY REDUCTION

**LOOKING AHEAD, WITH AGRICULTURAL PRICES SET TO REMAIN LOW, THEY WILL NOT BE THE MAIN ENGINE OF POVERTY REDUCTION IN THAILAND.**

As discussed earlier, the 70 percent real increase in agricultural prices was the locomotive behind Thailand's rapid poverty reduction since 2002. Rising agricultural income in recent years mainly reflected a real increase in agricultural prices and not productivity increases in agriculture. However, since 2011, prices have fallen by 22 percent. Moreover, most forecasters expect agricultural prices to remain broadly flat between now and 2021 (Figure 49). As agricultural prices fall back to lower levels, growth could become less inclusive, with negative impacts on the rural poor.



**FIGURE 49 :** Agricultural prices have dropped by 22 percent since their peak and are not expected to increase much in the future<sup>60</sup>



**Source:** World Bank Commodity Outlook

<sup>60</sup> Graph shows: World Agricultural Commodity Price Index, constant 2005 USD converted into an index with 2002=100

## THE LOW AGRICULTURAL PRICES MAY SLOW THE PATH TO SHARED PROSPERITY, ESPECIALLY FOR HOUSEHOLDS HIGHLY DEPENDENT ON AGRICULTURE.

Areas more exposed to variability in cash-crop prices such as the Deep South have seen their poverty rates fall while agricultural commodity prices were booming (as shown in Figure 50 plotting the growth in rubber export prices and the poverty rate in the area). Analysis conducted for this report suggests that between 2011 and 2014, reduced prices increased the likelihood of being poor for households involved in agriculture. As prices are forecasted to remain at low levels in the near future, new incentives are needed to raise farm incomes and keep lifting individuals engaged in agriculture out of poverty.



**FIGURE 50 :** Poverty rates in the Deep South dropped as rubber prices boomed



**Source:** World Bank calculations based on SES and World Bank Commodity Outlook

## SEVERAL FACTORS COULD IMPEDE SUCH STRUCTURAL TRANSFORMATION.

First, failure of the economy to generate more productive farm and off-farm jobs that boost labor demand will keep workers in low-productivity agricultural subsectors. Second, structural transformation could be hampered by failure of the economy to improve human capital, because even if more jobs are generated, if they require skills that agriculture workers do not have, those workers will be unable to take up those jobs. Third, inefficient water management arrangements and the continued bias of water use for paddy pose risks to sustained agricultural growth. Fourth, policies such as rice and rubber support programs may make it attractive to stay in agriculture due to relatively high rewards, even if productivity is low.



## FUTURE GROWTH WILL DEPEND ON THAILAND'S ABILITY TO RE-IGNITE THE MOVEMENT OF WORKERS FROM LOW-PRODUCTIVITY TO HIGHER-PRODUCTIVITY ACTIVITIES (BOTH ACROSS AND WITHIN SECTORS), CREATING MORE AND BETTER JOBS.

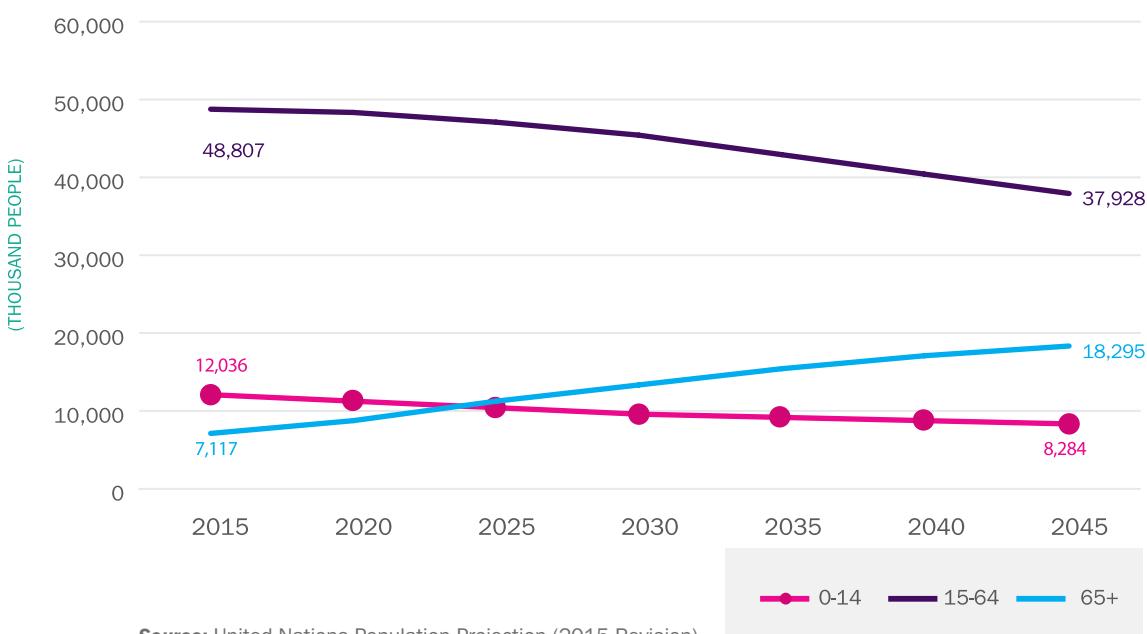
As mentioned above, the movement of labor from low-to high-productivity sectors has been a key driver of overall productivity improvements in Thailand (and in many East Asian countries). Thailand still has approximately 15 million workers left in the agriculture sector (approximately 27-41 percent of the workforce),<sup>63</sup> and unless it manages to restart the engine of structural transformation and help workers attain better employment opportunities (by increasing productivity in both the agricultural and non-farm sectors), Thailand is likely to face growth well short of the draft 12<sup>th</sup> National Economic and Social Development Plan's target 5 percent growth per year during 2017-2021.

## THAILAND WILL LIKELY GROW OLD BEFORE IT BECOMES RICH

THAILAND FACES ONE OF THE WORLD'S SHARPEST DEMOGRAPHIC TRANSITIONS IN THE COMING 30 YEARS, WHICH WILL LIKELY AFFECT ITS ABILITY TO GENERATE GROWTH AND CREATE SHARED PROSPERITY.

Specifically, Thailand's working-age population will shrink by approximately 10 million (from 48.8 million in 2016 to 37.9 million in 2045, Figure 51) while the number of elderly people (age 65 and older) will increase by about 10 million (from 7.1 million in 2015 to 18.3 million in 2045). Only nine other economies in the world will experience a faster decline in the working-age population (relative to their total population) in the coming 30 years, but all of those countries are starting this transition at substantially higher income levels.<sup>64</sup> By 2040, elderly people will account for more than one-quarter of Thailand's total population—the highest share of elderly of any developing country in East Asia and the Pacific.<sup>65</sup>

**FIGURE 51 :** Projected total population by age groups (0-14, 15-64 and 65+)



<sup>63</sup> This range reflects the different ways in which agricultural workers can be counted (see earlier discussion).

<sup>64</sup> These are: Republic of Korea; Hong Kong SAR, China; Singapore; Spain; Cuba; Italy; Macao SAR, China; Slovenia, and Portugal.

<sup>65</sup> World Bank (2016).

## THERE ARE SEVERAL REASONS WHY AGING WILL PRESENT HEADWIND TO GENERATING INCLUSIVE GROWTH.

First, from a growth perspective, Thailand's economy will have to work harder for each percentage point of growth. That is, future growth will increasingly have to come from improvements to labor productivity growth. Second, a rapidly aging population will present fiscal challenges, both in terms of rising healthcare expenditure and pension commitments. As discussed in World Bank (2016), although formal sector pensions are quite affordable currently due to their immaturity, poor parametric design—a combination of low contribution rates, a defined benefit design, and a low retirement age relative to life expectancy at retirement—is likely to make formal sector pensions unsustainable over time. Those fiscal pressures will make it harder to mobilize resources for the type of transformational investments that Thailand needs to increase growth. Finally, a rapidly aging population will likely result in more poor and vulnerable people—especially in the already poor Northeast where old age dependency rates are particularly high, which will further widen regional disparities.

of decision-making power; as well as the distribution of budgetary resources. Unless more efforts and resources are directed to narrowing Thailand's regional gaps, the underlying tensions will likely persist or worsen, fuelling discontent and political divisiveness.

## THIS RISK OF DIVERSENCE IS FURTHER HEIGHTENED BECAUSE THAILAND LACKS A MODERN SOCIAL PROTECTION SYSTEM THAT COULD HELP MITIGATE SOME OF THE VULNERABILITIES FELT BY POOR PEOPLE.

Thailand has a handful of social protection programs aimed at supporting vulnerable groups and individuals, but these programs are fragmented, with no assessment of the overall support reaching households. As a consequence, assistance is thinly distributed, with limited impact on those who need it most. Another striking feature is the lack of a poverty or needs-based floor benefit/transfer for the poor, which is very unusual globally for a country of Thailand's income level. Thailand is a laggard in never having had a needs-based approach to social protection across the whole population.

## LAGGING REGIONS FALLING FURTHER BEHIND, AND A DATED SAFETY NET REPRESENTS GROWING RISKS TO SOCIAL COHESION (AND POLITICAL STABILITY)

### THAILAND'S LAGGING REGIONS PRESENT RISKS TO SOCIAL COHESION AND POLITICAL STABILITY.

The tensions in Thai society - that culminated with the coups in 2006 and again in 2014 - reflect a deeply divided society. These divisions, in part, reflect growing regional disparities. The lagging regions are falling further behind. Empowered by more education, by broader horizons gained from labor migration, and supported by a strong and vocal network of civil society organizations, people from these lagging regions have become a far more potent force in Thailand than in the past. They can point to their regions falling further behind; and to a system of government that is Bangkok-centric - in terms of both the centralization



## THE GROWING MIDDLE CLASS, POCKETS OF PERSISTENT POVERTY, AND REGULAR POVERTYINDUCING SHOCKS COULD MAKE IT DIFFICULT FOR THE CURRENT SOCIAL PROTECTION SYSTEM TO MEET THE ASPIRATIONS OF EACH GROUP.

The poor are in need of targeted support through social assistance to address fundamental challenges in health, income generation, and risk management, but the current system only addresses their health and old-age challenges. The absence of holistic support to the “missing demographic middle” limits their productive capacity and their permanent pathway out of poverty. An equal number of non-poor are vulnerable to falling into poverty due to a combination of frequent economic shocks and no systematic (or appropriately funded) insurance or relief programs, with negative consequences for their productive capacity and, potentially, social stability. Finally, as seen in many countries, a rising middle class demands a state that provides quality social support, but only 28 percent of the active labor force was covered by formal sector pensions in 2014.

## INTERNATIONAL EVIDENCE SHOWS THAT SUCH UNMET ASPIRATIONS AND INEQUALITY CAN LEAD TO SOCIAL CONFLICT, POSING A THREAT TO ECONOMIC AND SOCIAL STABILITY.

Strong evidence indicates that political instability generally stems from perceived and actual inequalities. Using one of the six dimensions in the Worldwide Governance Indicators (WGI) project (Kaufmann et al., 2010), Ortiz and Cummins (2011) find that unequal societies are much more prone to being destabilized or overthrown by unconstitutional or forceful means. Such conflict can in turn affect economic performance in numerous ways. For example, increasing political instability and unrest can have a negative impact on investment levels,<sup>66</sup> or it can hamper the ability of political systems to respond to external shocks effectively.<sup>67</sup> percent but could also help reduce inequalities and ultimately help heal the political divisions that have undermined the ability of the political system to address Thailand’s loss of competitiveness.

## ENVIRONMENTAL AND NATURAL RESOURCE DEGRADATION AND VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE MAY MAKE GROWTH UNSUSTAINABLE

### NATURAL CAPITAL CONSTITUTES A SIGNIFICANT SHARE OF THAILAND’S WEALTH.

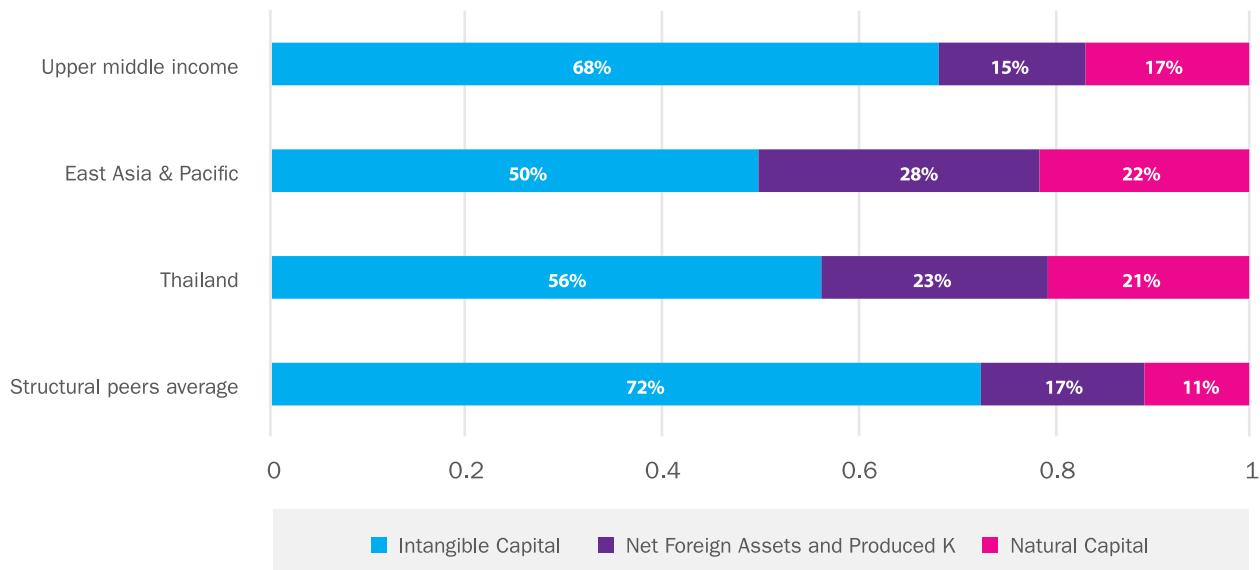
In 2005, natural capital—defined as the sum of crop land, pasture land, timber, non-timber forest, protected areas, oil, natural gas, coal, and minerals—comprised 21 percent of Thailand’s per capita total wealth, similar to other EAP countries (where the average contribution was 22 percent) but higher than its structural peers (where it was 11 percent) (Figure 52). This share would have been even higher if the tourism and recreation value of coastal resources had been estimated and incorporated.



<sup>66</sup> Alesina and Perotti (1996), as cited in Ferreira (1999).

<sup>67</sup> Rodrik (1997), as cited in Ferreira (1999).

**FIGURE 52 :** Composition of total wealth per capita in 2005 (2005USD)



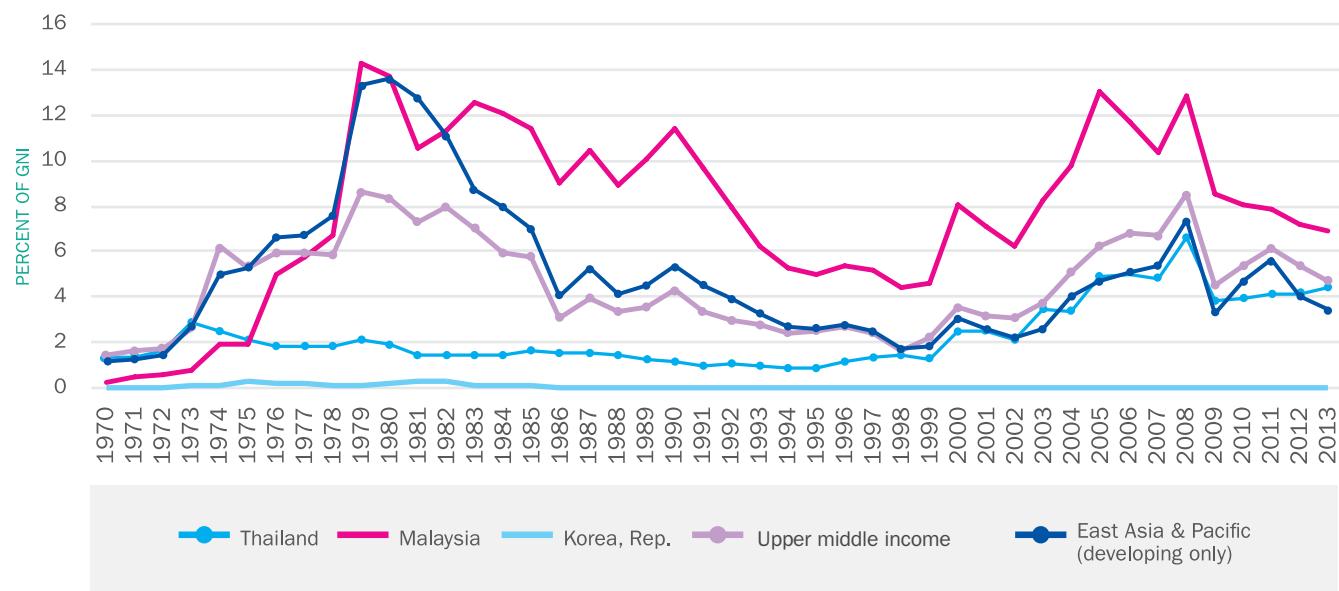
**Source:** Author's calculations based on <http://data.worldbank.org/data-catalog/wealth-of-nations>

**Note:** Non-natural capital is the sum of the value of net foreign assets, produced capital and intangible capital; intangible capital is the difference between total wealth and tangible capital, both produced and natural.

### HOWEVER, GROWTH HAS BEEN DEPLETING NATURAL RESOURCES AVAILABLE FOR FUTURE GENERATIONS.

As Figure 53 indicates, fueled by more rapid exploitation of available energy resources, the rate of natural resource depletion started to rise rapidly since 2002 and now stands at 4.4 percent of GNI. While this is around the average for EAP and upper-middle-income countries, it is almost double Thailand's natural resource depletion rate in 2002 and three times the rate in the 1980s. Four targets were set for the MDG goal of ensuring environmental sustainability. Thailand has achieved the goal of halving the proportion of people who lack access to safe drinking water and basic sanitation and is likely to achieve the goal of significantly improving the lives of slum dwellers. However, the chance of achieving the other two targets—of reducing biodiversity loss and integrating sustainable development into national policies—is rated only “potentially” (UNDP, 2014b).

**FIGURE 53 :** Natural resource depletion in Thailand and select other countries  
*(total natural resource depletion, in % of GNI)*



**Source:** World Development Indicators.

### NATURAL FORESTS AND COASTAL AND MARINE RESOURCES ARE BEING DEPLETED, PUTTING FUTURE ECONOMIC GROWTH AT RISK.

Forest areas have declined steadily, falling from 171 million rai in 1961 to 107.6 million rai in 2009. Key here is the loss of natural forests, caused mainly by illegal logging and smuggling into neighboring countries. Other drivers of forest loss include land development for tourism and real estate, weak enforcement of the land titling regime, agricultural clearing, forest fires (often set by villagers to clear land for farming), hydroelectric projects, and illegal wildlife trading. Natural forest depletion means loss of the large variety of ecosystem services they provide, including but not limited to providing a habitat for Thailand's globally significant biodiversity and watershed protection. Marine and coastal resources continue to deteriorate due to coastal erosion, illegal

logging, ocean waste, conversion to intensive shrimp farming, and illegal and destructive fishing. Yet, Thailand's ability to attract 30+ million visitors annually (providing 12 percent of annual GDP) hinges on its ability to conserve its beautiful coastal areas and coral reefs. Destruction of mangroves and coral reefs also reduce the coasts' resilience to storm surges and sea level rise.

### ALTHOUGH THAILAND HAS ABUNDANT WATER RESOURCES, PRODUCTIVE GROWTH IS LIMITED BY INADEQUATE WATER ALLOCATIONS/RIGHTS AND FLOOD AND DROUGHT RISK MANAGEMENT.

Thailand has an estimated exploitable volume of 126 billion cubic meters (m<sup>3</sup>)/annum against the reported national demand of 50–56 billion m<sup>3</sup>/annum (excluding navigation and ecosystem requirements) (ADB, 2013). Agriculture is the largest user of water, accounting for about two-thirds of

total water use, followed by water for human consumption, ecology, and industries. The amount of water used by agriculture increased by 37 percent between 2001 and 2009, and the demand for water from agriculture continues to rise (Poapongsakorn, 2013). However, no National Water Law or any formal system of water allocation and rights exists. Water resource management (WRM) institutions are fragmented, with responsibility spread across 30 departments in 8 ministries, so existing water policies, legislation, and guidelines have also been formulated in a disjointed fashion. In 2002, the Department of Water Resources (DWR) was established in the Ministry of Environment and Natural Resources as a regulator and to provide limited support to integrated WRM and operation of the 25+ river basin committees (RBCs), but RBCs still do not have legal standing. Furthermore, limited information exists to support water allocation decisions. Finally, while water resources investments are significant, operation of the infrastructure is not always efficient.

### AIR AND WATER QUALITY HAS GENERALLY IMPROVED BUT REMAINS LOW, ESPECIALLY IN URBAN AREAS.

The air pollution problem is largely due to energy combustion from vehicles and factories. Despite a steady decline over the last decade, small particle and ground-level ozone concentrations in large cities remain the key concern. Particulate matter 10 and 2.5 per m<sup>3</sup> levels in Bangkok still exceeded WHO air quality guidelines and national standards. In addition, volatile organic compounds continue to exceed the national standard around the Map Ta Put industrial estate. The smog problem in northern Thailand, due to burning of crop residues after harvest season, is another key cause of air pollution. Water quality in the national internal water bodies is improving and close to reaching the national target of 80 percent at or better than acceptable standards, but it is worse in central Thailand and around Bangkok due to discharges from households, contamination from agricultural production and livestock, commercial and industrial activities near the water resources, and direct discharges of wastewater into the rivers. Solid and hazardous waste generation may be

on the decline, but the fact that nearly 50 percent of solid waste generated is disposed of through open burning and dumping in the environment is a major cause of concern.

### INADEQUATE PUBLIC CONSULTATIONS ON LARGE-SCALE PUBLIC INVESTMENTS THREATEN THE SUSTAINABILITY OF SUCH INVESTMENTS.

Thailand has sophisticated public institutions for environmental management and well-developed regulations and procedures for assessing the environmental and health impacts of public and private investments. However, limited public consultations and information sharing on plans regarding large public investment projects, as well as inadequate monitoring and enforcement of environmental management plans, remain weak links toward sustainability. In addition, the cumulative impacts of multiple developments in the same general area are not always captured in individual environmental impact assessments. It was recently proposed that a Strategic Environmental Assessment (SEA) be adopted for national planning and policies and sectoral plans to evaluate options for development. However, there is still no regulatory requirement to conduct an SEA.

## CLIMATE CHANGE AND VULNERABILITIES ARE RISKS TO FUTURE GROWTH AND SHARED PROSPERITY.

The latest IPCC report confirms that Southeast Asia will be among the two most vulnerable regions in the world. The Thai meteorological department has already reported that the annual mean temperature rose by one degree Celsius from 1981 to 2007, and precipitation has suffered an overall decrease over the last fifty years. Climate change projections include increased flooding risks during the wet season—affecting agricultural lands along the Mekong River and its tributaries—and more severe water shortages in the dry season. If Thailand is unprepared, these changes can potentially negate any gains that might be made in agricultural productivity. Thailand is also likely to be affected by sea-level rise: sea levels are rising globally (having already risen approximately 12–22 cm during the last century), and as a low-lying country with its capital

close to the ocean, Thailand is extremely vulnerable. Saline intrusion from the sea has already contaminated some underground water sources, and higher salt levels in the soil from coastal flooding—which will intensify with rising sea levels and could hit Bangkok and central Thailand the hardest—could make soils in Thai coastal farms even less productive. As described in Box 7, the 2011 flood, Thailand's costliest disaster, illustrates the country's vulnerability to climate risks. The inter-regional disparities in poverty rates and also the stalled transition for poorer households out of agricultural employment could further intensify since climate change often disproportionately affects the poorest communities, particularly for regions where more households are dependent on natural resources.

### **BOX An Example of Thailand's Vulnerability to Climate Risks: the 2011 Flood 7 :**

In 2011, the Chao Phraya river, fed in wide, low-lying plains and discharging into the former floodplains in Bangkok, experienced the most severe flooding ever recorded due to intense and particularly long rains (Komori, et al., 2012). The floods affected more than 13 million people, resulted in more than 680 deaths, and brought estimated damage and losses worth THB 1.43 trillion (USD 46.5 billion) to the economy (World Bank, 2012b). About 19,000 homes were destroyed (World Bank, 2011) and 2.5 million people displaced (Haraguchi & Lall, 2015).

Although Thailand's agricultural GDP rose by 0.7 percent in 2011, production decreased by 10.1 percent in the non-agricultural sector, and manufacturing decreased by 21.8 percent (Okazumi & Nakasu, 2015). The 2011 floods hit supply chains in electronics and car manufacturing not only in Thailand but also in Japan and other countries that depend on Thai suppliers for parts. Before the floods, Thailand had a 43 percent share in global hard disk drive production before the floods; in late 2011, its production dropped by more than 80 percent due to facility and supply chain disruptions, leading to a 30-percent global production decrease in the six months after the floods and causing a price spike between 50 percent and 100 percent (Haraguchi & Lall, 2015; Japanese Ministry of Economy, 2011). This experience led some Japanese companies to reconsider Thailand for investments or as a source for procuring parts (Haraguchi & Lall, 2015).

The flood exposed the vulnerability of the population and limitations in the government's ability to help affected people. Analysis of household survey data by Noy and Platel (2014) found that households who reported being affected by the flood saw a negative impact on their income. The estimated average decrease in income was about THB 7,600 per person for directly impacted households. Households that were not directly impacted (but lived in affected districts) suffered an almost equivalent decrease in income of about THB 6,700 per person. These impacts translate into changes in consumption, with more expenditure in housing (to rebuild) and less in luxury goods. The poorest quartile of the population sustained an average income loss of about THB 13,000 per person, of which about 70 percent was loss in agricultural income. Data also suggest that Government post-disaster assistance, which averaged THB 100 per person, was not only inadequate but also skewed toward the rich, with the richest quartile receiving on average about THB 500 per person.

## SCENARIO ANALYSES SHOW THAT THAILAND IS MODERATELY VULNERABLE TO CLIMATE CHANGE IMPACTS BY 2030, BUT THE BOTTOM 40 AND THE POOR WILL BE HIT THE HARDEST.

In the high-impact high-vulnerability scenario, total GNI losses are estimated to be around 2.5 percent of GNI. The bottom 40 percent is affected more than the average population, with income reduced by over 4.5 percent in the same scenario. The impact on poverty is also large, with about 1 million more people with an income below USD 4 per day due to climate change (this represents more than 1.2 percent of Thailand's population in 2030). Disaggregating the impacts, the largest effect of climate change is through food prices and the impact on food consumers. However, in the optimistic scenario with rapid and inclusive development, the impacts of climate change on poverty are much reduced and are close to zero. The reason for this is that there are much fewer people in poverty under the prosperity scenario (less than one million). These results show the potential and importance of development to reduce climate change impacts on poverty.

## THAILAND'S GROWTH HAS BEEN HIGHLY ENERGY-INTENSIVE AND RELIED ON OIL AND GAS, WHICH IS NOT SUSTAINABLE.

Thailand's proven oil and gas reserves are running low, which calls for looking 90° toward alternative sources, including increasing energy imports in the coming years to supplement domestic energy production. On the domestic front, Thailand's Power Development Plan (PDP) for 2015-2036 proposes to build 7,390 MW of coal-fired power plants and 2,000 MW of nuclear, which raised strong environmental and social concerns. Moreover, as plans for increasing Thailand's energy capacity will rely to some extent on additional electricity imports from Lao PDR (and potentially Myanmar), the development of power projects to serve Thailand's domestic demand will have social and environmental implications beyond the Thai border.



# POLICY PRIORITIES

# POLICY PRIORITIES FOR STRONG, INCLUSIVE AND SUSTAINABLE GROWTH

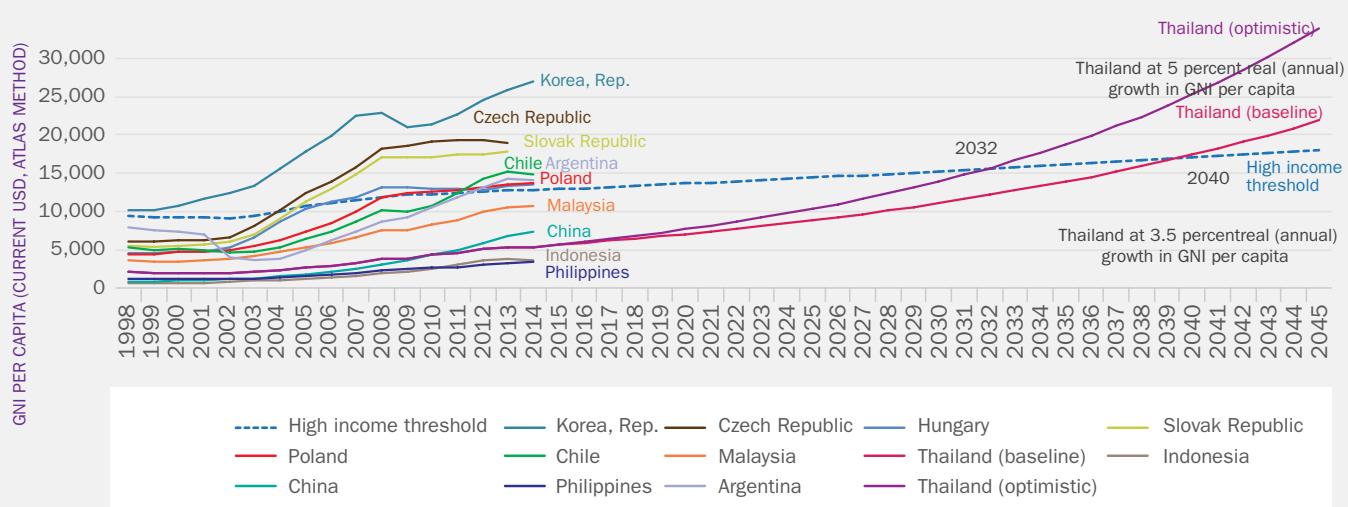
THE FINDINGS PRESENTED ABOVE CLEARLY INDICATE THAT WHILE THAILAND HAS MADE IMPRESSIVE PROGRESS IN PROMOTING SHARED GROWTH, SUCH GROWTH IS BY NO MEANS GUARANTEED GOING FORWARD.

With the current trends in growth and shared prosperity and the risks on the horizon, a business-as-usual model is unlikely to deliver satisfactory results. Such a model is likely only to deliver growth of around 3.5 percent per year, is unlikely to eliminate poverty, and will continue to come with significant environmental costs. Moreover, at this rate, achieving high-income status will likely be at least two decades away (Figure 54). Achieving high-income status by 2032, for example, would require average growth of 5 percent per year (in GNI per capita).

AT THE SAME TIME, THAILAND RETAINS SOME OPPORTUNITIES FOR RENEWED ROBUST GROWTH.

Thailand is strategically well-located in a rapidly growing region, surrounded by countries with rapidly growing economies and an ample supply of labor. The ASEAN Economic Community (which started on Jan 1, 2016) is strengthening trade and other linkages. As the second-largest economy in ASEAN (after Indonesia), Thailand has a strong starting position in terms of an agile business sector, a historically strong civil service, and a large cohort of young people in their 20s and 30s with a tertiary education.

**FIGURE** At current growth rates, Thailand will need at least another two decades to **54 :** achieve high income status



Source: World Development Indicators

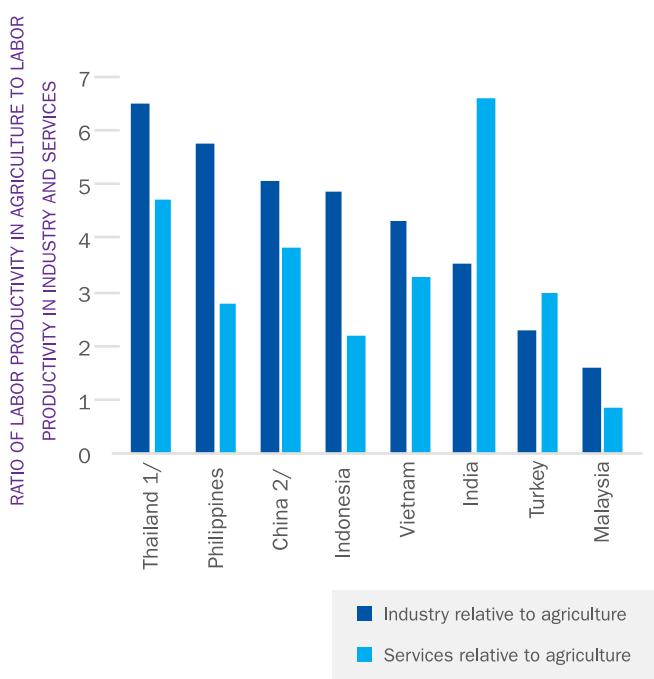


## IMPORTANTLY, ANALYSIS SHOWS THAT THAILAND HAS CONSIDERABLE POTENTIAL TO INCREASE PRODUCTIVITY IN THE FUTURE.

Not only is Thai labor productivity lower than in other upper-middle-income countries, its dispersion is also higher. Comparative data for 2013 shows Thailand to be at the same level as the ASEAN-5 average but considerably lower than Malaysia, Turkey, and Korea (Figure 56). The differences in labor productivity across the three sectors as well as across subsectors in manufacturing and services (see Klyuev, 2015 and Figure 55) are higher than for many countries in the region,

indicating significant potential for increasing aggregate productivity. Similarly, high differences in productivity levels across manufacturing and across service subsectors (Klyuev, 2015; Dheera-aumpon, 2014) indicate considerable scope for increasing within-sector productivity through intra-sector reallocation of capital and labor, whereby poorly performing firms exit and more productive firms expand and enter. There are studies showing considerable misallocation of resources (Amarase et al., 2013; Dheera-Aumpon, 2014) in Thailand, but whether and how much of that potential can be tapped will depend on future policies.

**FIGURE 55 :** The differences between labor productivity in the agricultural and non-agricultural sectors are much bigger in Thailand than elsewhere



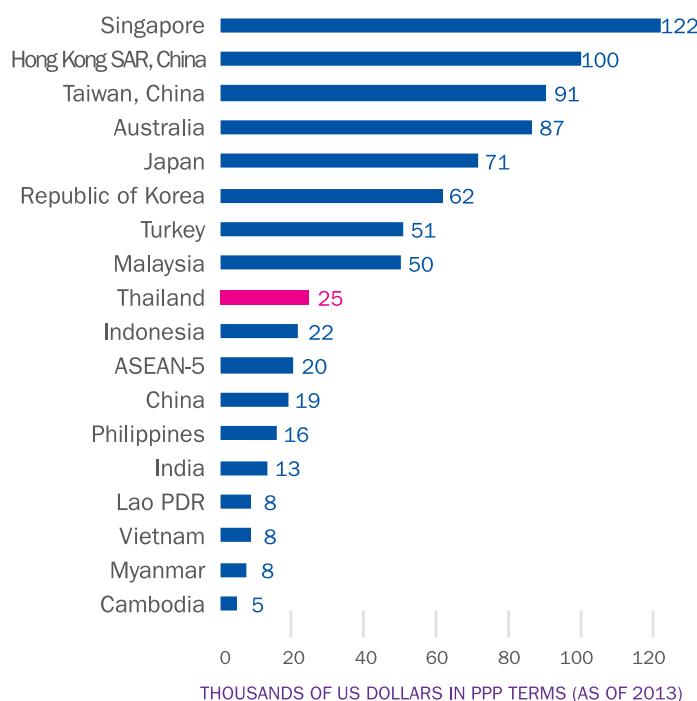
**Note:** GDP at constant basic prices per worker, using 2011 PPP reference year 2013.

1/ Calculated using total number of workers

2/ Calculated using World Bank calculations of full-time equivalent workers

**Source:** APO Productivity Database 2015 and Labor force survey (for calculation of "Thailand 2/").

**FIGURE 56 :** Thai labor productivity is comparable to ASEAN-5 countries but only half of the level in Malaysia and Turkey (USD '000/worker)



**Note:** GDP at constant basic prices per worker, using 2011 PPP reference year 2013.

**Source:** APO Productivity Database 2015.

## TO IDENTIFY POLICY PRIORITIES GOING FORWARD, IN-DEPTH WORLD BANK ASSESSMENTS AND AN EXTENSIVE LITERATURE REVIEW WERE USED TO HELP PINPOINT A FEW CRITICAL AREAS TO BE ADDRESSED TO ENSURE STRONG, INCLUSIVE, AND SUSTAINABLE GROWTH IN THAILAND.

While arguments can be made for a wide range of interventions across various sectors, not all measures will have an equal impact in helping Thailand generate economic growth and ensure the inclusivity of that growth. Looking across the numerous expert assessments of challenges and key areas for intervention, World Bank experts focused on identifying priorities which would, in their judgement would likely have a high impact on the poor and bottom 40 percent.

## AN EquALLY IMPORTANT PART OF THE PRIORITIZATION PROCESS WAS THE EXTENSIVE CONSULTATIONS THAT WERE HELD WITH GOVERNMENT, LOCAL EXPERTS, AND A BROAD RANGE OF OTHER STAKEHOLDERS.

The prioritization was heavily informed by these consultations, which gave key stakeholders opportunities to influence the SCD. A technical working group consisting of government counterparts from Bank of Thailand, Fiscal Policy Office, NESDB, National Statistical Office, and Bureau of the Budget was established to help identify literature and ongoing and planned government initiatives and to receive feedback on emerging findings. More broadly, seven meetings were held in select areas of the country with 421 government officials, academics, and civil society experts to solicit feedback on both findings and the key opportunities to create growth that benefits everyone.<sup>68</sup>

## DIFFERENT TOOLS WERE USED DURING THESE MEETINGS TO ENLIST LOCAL EXPERTS TO HELP IDENTIFY PRIORITIES.

First, all participants were given a questionnaire which asked them to identify the top five opportunities for eliminating poverty and creating shared prosperity (an English language version of the survey is included in “Annex 4: Questionnaire used for consultations”). The questionnaire was completed by 300 participants, and their priorities are shown in Table 11.<sup>69</sup>



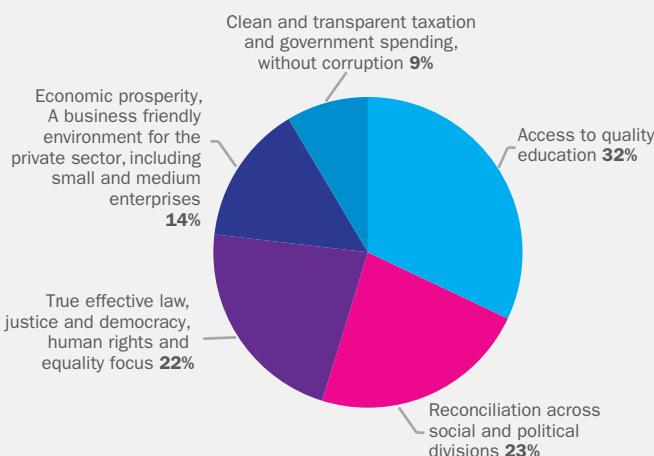
Second, in three of the meetings, groups of 8-10 participants were asked, as a group, to identify their top three constraints. This exercise triggered exactly the types of discussions that the authors of this report were having during preparation of the report—namely, to what extent is, for example, education a more important development priority to focus on than, for example, improving the business climate. Approximately 180 people in 23 groups participated in this exercise, and their results are also summarized in Table 11. Finally, the World Bank team brought and installed a “Wall of Hope” at all locations. On this wall, participants and individuals passing by could write their hopes for Thailand on a postcard and post it on the wall. Postcards were filled out by 544 individuals and have been analyzed and summarized in Figure 57.

<sup>68</sup> In particular, two meetings were held at in Bangkok (on March 17); two were held in Pattani (on April 25); two in Udon Thani (on May 11) and one in Chiang Mai (on May 31).

<sup>69</sup> The questionnaire was also available online but was completed by only seven people.



**FIGURE** Results from Wall of Hope postcards  
**57 :**



**TABLE** Top five priorities emerging from individual questionnaires and group discussions: opportunities for **11 :** ending poverty and creating more shared prosperity<sup>70</sup>

PRIORITY	% of respondents picking as top 5	% of groups picking as top 3 priority
Access to quality education	17	96
Increasing productivity and incomes in agriculture, including through access to irrigation	10	70
High quality, expert government bureaucracy and central and local administrations	11	52
Reconciliation across social and political divisions	8	17
Access to quality health services	7	13

**Source:** Results obtained from consultation meetings

**IRRESPECTIVE OF THE TOOL USED, A CLEAR LIST OF “TIER 1” PRIORITIES EMERGED FROM THE CONSULTATIONS, WITH VERY LITTLE VARIATION ACROSS THE REGIONS OF THAILAND WHERE CONSULTATIONS WERE HELD.**

(i) Education (as critical for both growth and to create shared prosperity);

(ii) High quality, expert government bureaucracy and central and local administrations (as a critical cross-cutting issue); and

(iii) Increasing productivity and incomes in agriculture, including through access to irrigation (as critical to providing the 15 million farmers with more opportunities).

<sup>70</sup> 300 individuals filled in the questionnaire and provided their top 5 priorities; 23 groups (with approximately 180 people) reached a consensus view on top 3 priorities.

LIKELY AS A RESULT OF THE FOCUS ON PICKING ONLY 3-5 TOP PRIORITIES, THE PRIORITIES EXPRESSED BY LOCAL EXPERTS DO NOT INCLUDE PRIORITIES WHICH ARE DEEMED IMPORTANT IN MANY RECENT ACADEMIC AND POLICY PAPERS (E.G. BY TDRI OR BOT) AND/OR BY THE AUTHORS OF THIS REPORT.

For instance, there is near-consensus amongst economic observers of Thailand that increasing both private and public investment in infrastructure is needed to address infrastructure gaps and help jump start growth. Similarly, most observers agree that Thailand will need to climb up the value-added chain by enhancing competition amongst firms and boosting innovation. Likely, by insisting that respondents focus on the top 3-5 priorities, the discussions zoomed in on what was considered the top-tier of priorities. As discussed below, this report widens that set of priorities to ten.

TOGETHER, ANALYTICAL WORK FOR THIS SYSTEMATIC COUNTRY DIAGNOSTIC (SCD), A LITERATURE REVIEW, AND FEEDBACK FROM CONSULTATIONS INFORMED THE PRIORITIZATION OF TEN “DEVELOPMENT PRIORITIES” FOR ENSURING STRONG, SHARED, AND SUSTAINABLE GROWTH IN THAILAND.

One of these priorities is cross-cutting while the remaining 9 are grouped into three “pathways”. As the table below shows, four of these priorities have been singled out for their likely high impact on improving the lives of the bottom 40 percent. All of the priorities aim to address some of Thailand’s most pressing challenges and make the most of its opportunities, while mitigating some of the identified risks that could undermine future progress.

**TABLE 12 :** Development priorities for ensuring strong, shared, and sustainable growth

PATHWAY	DEVELOPMENT PRIORITY AREAS	EXPECTED IMPACT ON POOR AND B40	
10. Strengthen the institutional capability of the public sector to implement reform priorities (Very high)	1 Creating more and better jobs	Boost investments in infrastructure	Very High
	2	Increase competition through free trade agreements and deregulation	Very High
	3	Increase firm-level competitiveness through greater technology absorption and innovation	High
	4 Providing more support to the B40	Improve the overall education and skills of the workforce	Very High
	5	Implement effective policies to boost agricultural productivity	High
	6	Build smarter social protection systems, focusing on providing a safety net for poor people	High
	7 Making growth greener and more resilient	Manage Thailand's natural resources and environment	High
	8	Reduce vulnerability to natural disasters and climate change by focusing on better land zoning and management to reduce the flood/drought prone areas	Medium
	9	Promote energy efficiency and clean energy by focusing on implementing Thailand's plans and commitments for energy efficiency and alternative energy	Medium



### IN MORE DETAIL, THE THREE PATHWAYS ARE:

(i) Creating more and better jobs through improved infrastructure, more competition, and increased firm-level competitiveness.

(ii) Providing more targeted support to the bottom 40 percent of the population by improving the education and skills of the workforce; implementing effective policies to boost productivity in the agricultural sector, where approximately half of the bottom 40 percent of the population and the poor continue to be employed; and providing a smarter social protection system focused providing a safety net for poor people.

(iii) Making growth greener and more sustainable, which includes efforts to manage Thailand's natural resources and environment; reduce vulnerability to natural disasters and climate change; and promote energy efficiency and renewable energy.

### FINALLY, THESE THREE PATHWAYS COULD BE SUPPORTED BY CROSS-CUTTING EFFORTS TO STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR.

Within each pathway, policy priorities and specific interventions are proposed, as laid out below.

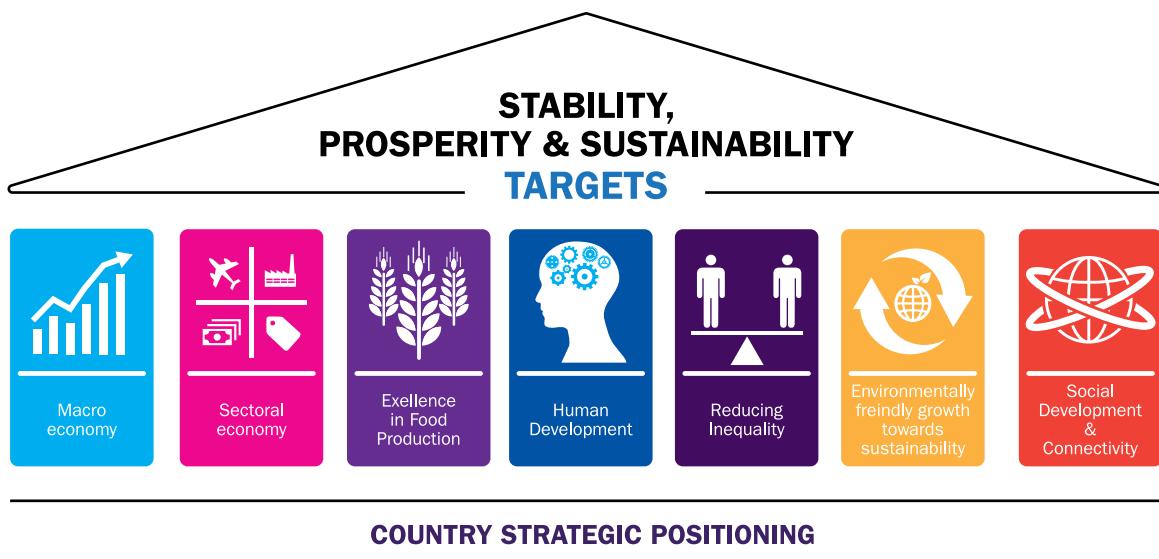
### THESE PATHWAYS ARE CONSISTENT WITH THE STRATEGIC AREAS IDENTIFIED IN THE GOVERNMENT'S AMBITIOUS AND WIDE-RANGING 12TH PLAN BUT REPRESENT A MORE FOCUSED VIEW OF THE AREAS THAT REQUIRE GREATER POLICY ATTENTION.

The government's 12<sup>th</sup> Plan (see below) lays out a broad development agenda, with seven "targets" covering macroeconomics through "spatial development and connectivity." A total of ten plans will guide the country toward achieving those seven targets, again covering a very large and ambitious policy agenda. Rather than covering all of these areas, the pathways proposed here focus on the key areas where more attention is needed to address the most critical challenges to poverty reduction and shared growth as described above.

AS DESCRIBED ABOVE, THE PRIORITIZATION AIMED TO IDENTIFY THE CRITICAL AREAS FOR ENSURING STRONG, INCLUSIVE, AND SUSTAINABLE GROWTH ACROSS THAILAND, WITH A PARTICULAR FOCUS ON INTERVENTIONS WITH THE GREATEST IMPACT ON THE POOR AND BOTTOM 40 PERCENT.

Ultimately, the priorities chosen reflect the expert assessment of the World Bank's country team (who authored this report). Some areas were deemed lesser priorities not because they are unimportant but because progress is already being made in those areas, such as in improving macroeconomic and fiscal management; providing equal access to affordable quality health services; and expanding access to clean water. Some other areas, despite being both important development challenges and areas requiring more attention, were not included in the pathways because the impact on overall poverty and shared prosperity may be limited relative to the priorities identified. For example, as noted earlier, while road accidents likely affect the poor disproportionately and while each death and accident is a tragedy, making improvements will likely not have as big an impact on the 7 million people living in poverty as, for example, improvements in the quality of education provided to the 1 million children in Thailand's small and poorly resourced schools. This is not meant to imply that they are unimportant—in fact, the earlier discussion of such issues is intended to highlight the important of such issues to Thailand's development and to help foster dialogue and continued work on such issues going forward. Moreover, by improving jobs and social protection for all, the pathways proposed could benefit these smaller groups, as well.

**FIGURE** The government's 12<sup>th</sup> National Economic and Social Development Plan  
**58 :**

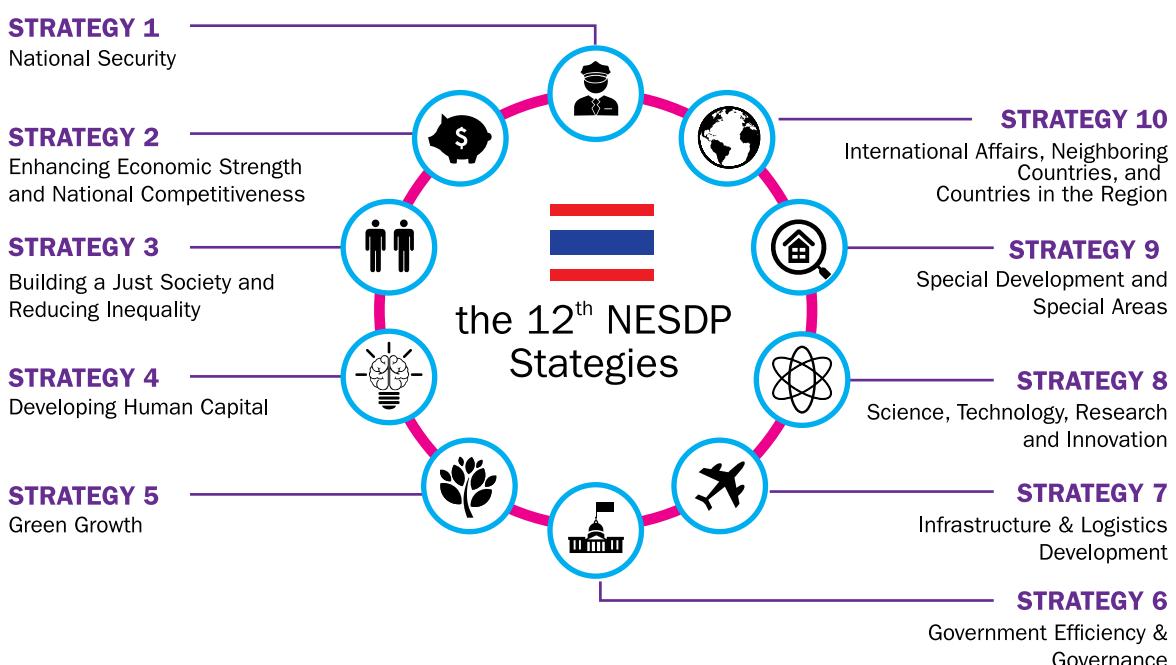


#### COUNTRY STRATEGIC POSITIONING

Thailand will become a high-income country with fair income distribution, a hub of transportation and logistics of ASEAN, a trading and service nation, a center of organic and safe agricultural products, creative industries and environmental-friendly innovation.

#### VISION FRAMEWORK FOR THE 12<sup>TH</sup> NESDP

To focus on the direction of development towards a transition from a middle-income country to high income country with a stable and sustainable society coexist happily.





## A. CREATING MORE AND BETTER JOBS

### A NEW AND IMPROVED ENGINE IS NEEDED TO GENERATE NEW SOURCES OF GROWTH AND CREATE MORE AND BETTER JOBS.

Thailand needs to find a new engine that can deliver results like the locomotive that drove the boom in 1986–1996—an engine that sustainably and consistently creates opportunities for millions to improve their livelihoods. This will require restoring the competitive edge Thailand has lost, which arguably must involve better infrastructure, more competition, and an emphasis on boosting firm-level competitiveness. Creating lots of low-skilled jobs is no longer an option (nor is it a desirable option for Thailand); those jobs are now more likely to be created in Cambodia, Vietnam, India, China, or Myanmar. Instead, Thailand needs to upgrade its industries and service sector and create high value-added jobs that require more skills. This will be harder and require much-needed investments in terms of physical capital as well as investments in improving the business and institutional climate.

THE GOVERNMENT IS WELL-AWARE OF THE NEED TO GENERATE NEW SOURCES OF GROWTH AND RAISE THE COUNTRY'S COMPETITIVENESS, AND HAS LAUNCHED SEVERAL PROMISING INITIATIVES IN THE PAST YEAR.

These include a focus on 10 industries as “new engines of growth” (so-called “S-curve industries”); renewed emphasis on the Eastern Economic Corridor; and a major push for the creation of an electronic payment system. These three initiatives are discussed in more details in Box 8.

THESE INITIATIVES ARE PROMISING SIGNALS THAT THAILAND IS EDGING BACK ON TRACK, BUT THEIR IMPACT WILL DEPEND ON THE QUALITY OF IMPLEMENTATION.

Ultimately, the priorities chosen reflect the expert assessment of the World Bank’s country team (who authored this report). Some areas were deemed lesser priorities not because they are unimportant but because progress is already being made in those areas, such as in improving macroeconomic and fiscal management; providing equal access to affordable quality health services; and expanding access to clean water. Some other areas, despite being both important development challenges and areas requiring more attention, were not

**BOX** Major government initiatives launched in 2015 to revive growth  
**8 :** and restore competitiveness.

**New S-curve Industries.** On November 17th, 2015, the Cabinet approved a proposal from Ministry of Industry to promote ten industries as the new engine of growth for Thailand. The ten industries which will be promoted are five existing industries which will be encouraged to move up the value-added ladder (an initiative called “Extending the S-Curve”): (i) “Next – Generation Automotive”; (ii) “Smart Electronics”; (iii) “Affluent, Medical and Wellness Tourism”; (iv) “Agriculture and Biotechnology”; and (v) “Food for the Future”. In addition, five additional (new) industries will be promoted to generate growth in the medium to long-term: (i) “Robotics”; (ii) “Aviation and Logistics”; (ii) “Biofuels and Bio-chemicals”, (iv) “Digital”; and (v) “Medical Hub”.

**Eastern Economic Corridor.** Covering the area of three provinces of the eastern region – Chonburi, Rayong and Chachoengsao – this initiative aims to build on the success of the “Eastern Seaboard” project (which was launched back in 1982). The Eastern Seaboard project boosted the GDP of the Eastern region from 3.6 percent of national GDP in 1982 to 17.7 percent in 2014. However, the Eastern region is facing new challenges as many of its manufacturers have relocated to neighboring countries where costs are lower.

Hence, the government is focusing on boosting the region's attractiveness through a number of mega investments, including:

- Laemchabang Seaport Project Phase 3 with an investment value of USD 1 billion.
- U-Tapao International Airport Expansion Project to receive more than 10 million passengers per year and become the most important aviation HR development center and aircraft maintenance hub in ASEAN
- Chuk Samet Seaport development project in Sattahip to become ferry terminal to Bangkok and Hua Hin
- Dual track and High speed rail which will connect Rayong and Leamchabang with Bangkok with an investment value of USD 6,500 million
- Connect the highway network

The government also has plans to develop a future industrial estate around U-Tapao Airport and Chuck Samet Seaport which will incentivize investors to invest in the new S-Curve industries. The project expected to attract FDI of around USD 50 billion and generate more and better jobs in the coming two decades.

**National e-Payment.** With the rapid growth in internet and mobile usage, the government is making a big push to launch an electronic payment system to propel e-commerce industry and transform Thailand into a cashless society. There are about 11 million online consumers in Thailand with an estimated of USD 58.4 billion in Thai e-commerce market value in 2015 but the market is rapidly growing.

The Cabinet approved a strategic plan for national e-payment infrastructure development on December 22nd, 2015, laying out a 2 phase plan for the next 3-5 years: First, launching an electronic money transfer service at all major Thai banks called "PromptPay" for peer-to-peer transfers. PromptPay is expected to be ready for service in the last quarter of 2016. The second phase will allow electronic payments for goods and services, personal income tax returns, and subsidiaries and welfare services by 2017. With the national e-payment system in place, the number of online consumer is expect to double in the next 3-5 years.





## BOOST INVESTMENTS IN INFRASTRUCTURE

### AMPLE FISCAL SPACE, ACCESS TO INTERNATIONAL FINANCIAL MARKETS, AND A STRONG TRACK RECORD OF MACRO-MANAGEMENT PLACE THAILAND IN A GOOD POSITION TO EXPAND INFRASTRUCTURE SPENDING.

Fiscal management has remained exceptionally prudent in terms of deficit and debt and at the cost of stimulating growth (Table 13). Over the last five years, the general government deficit has averaged 1 percent of GDP, and the cyclically

adjusted primary balance has always been in surplus. As of March 2016, total debt stands at 32 percent and 44 percent of GDP for general government and the public sector, respectively. Thailand's abundant international reserves, totaling 12 months of imports, and exchange rate flexibility adds to the economy's resilience to external shocks. Thailand thus has room to increase spending and public debt, provided that the infrastructure spending is carefully selected to help boost economic growth. Public-private partnerships (PPPs) could potentially be used to stretch public resources further.

**TABLE 13 :** Fiscal Situation 2009-2014 (% of fiscal year GDP)

	2009/10	2010/11	2011/12	2012/13	2013/14
<b>General Government</b>					
Revenue	22.4	22.6	23.1	24.1	22.5
Expenditure	23.2	23.2	24.9	24.3	24.3
Overall balance	-0.8	-0.6	-1.8	-0.2	-1.8
<b>Cyclically-adjusted Primary</b>					
Balance	0.3	0.4	0.1	0.9	0
Debt to GDP Ratio	29.3	29.8	32.4	31.9	33.8
Public Sector Overall balance	-1.5	-0.7	-2.8	0.3	-1.7
Debt to GDP ratio	42.6	41.7	45.4	45.5	45.5

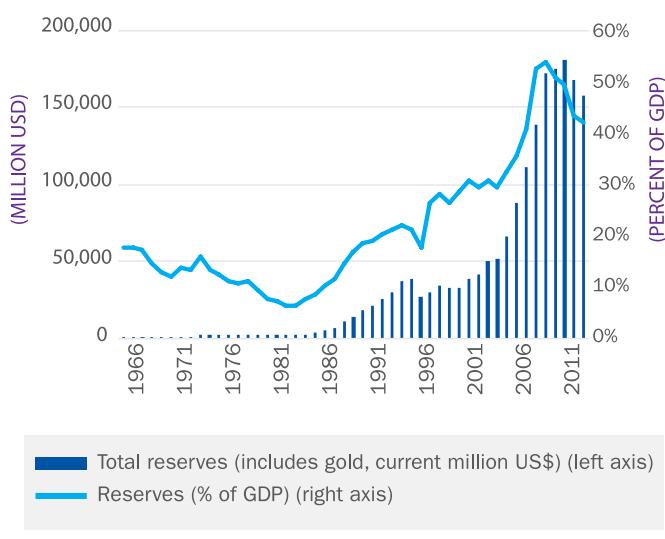
*Source:* IMF

### NOTABLY, DEFICITS WERE NOT KEPT LOW BY DESIGN; RATHER, THEY WERE LOWER THAN EXPECTED BECAUSE DIFFERENT GOVERNMENTS STRUGGLED TO IMPLEMENT LARGE-SCALE PUBLIC INVESTMENT PROGRAMS.

Increases in healthcare, social assistance, short-term transfers, subsidies as well as salaries have raised the share of current expenditure in total expenditure from 56 percent in 1997 to 79 percent in 2014. Correspondingly, the share of capital spending has been reduced from 41 percent to 18 percent respectively (Figure 61) to avoid higher deficits.

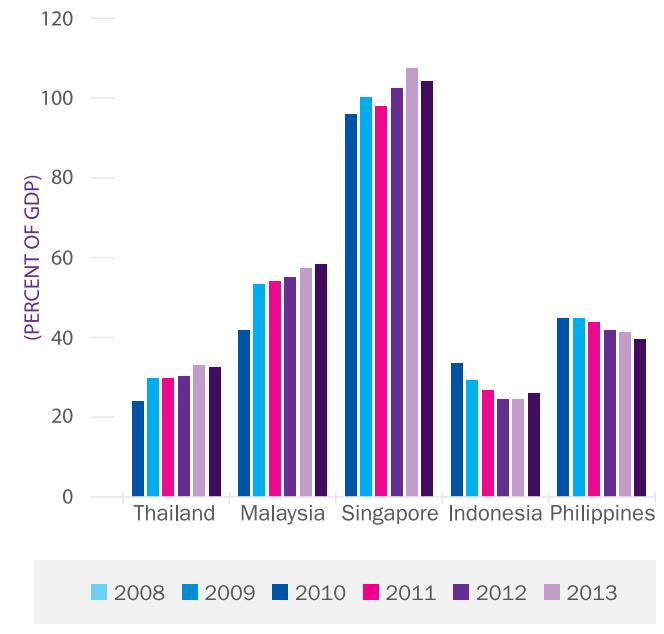
This has brought down public gross capital formation to only 5 percent of GDP from 9 percent of GDP in 1995, resulting in large shortfalls in infrastructure investment. The failure to scale up public investment has stored up fiscal trouble for later: prolonged periods of low spending deprive infrastructure of investment and create serious infrastructure gaps that begin to affect business, private investment and exports adversely. There is then huge pressure to invest big in infrastructure.

**FIGURE 59 :** International reserves



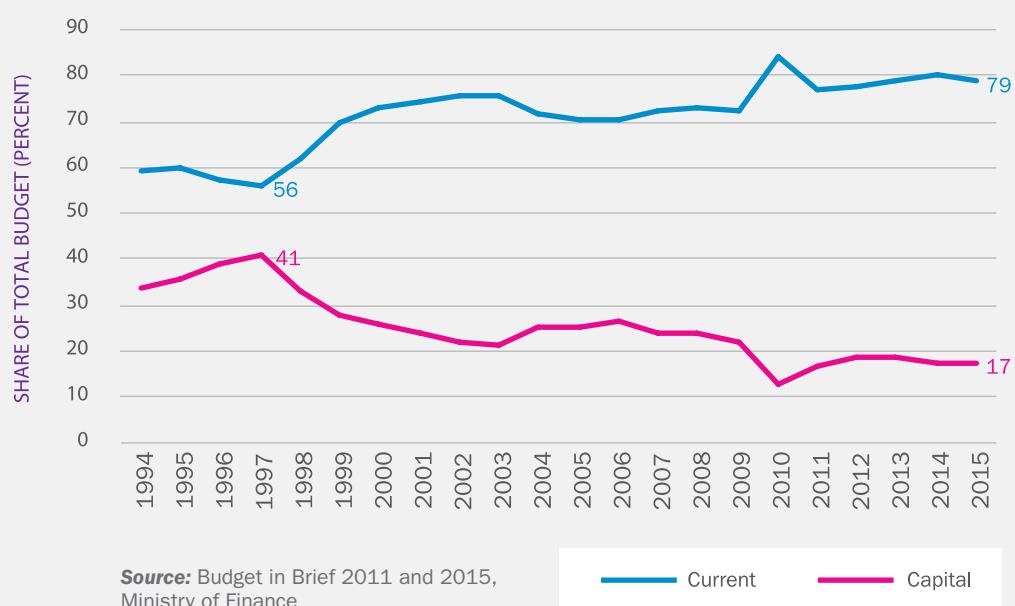
Source: WDI.

**FIGURE 60 :** Public debt as a share of GDP



Source: IMF Article IV 2015.

**FIGURE 61 :** Share of Current and Capital Expenditures in Total Expenditure



Source: Budget in Brief 2011 and 2015,  
Ministry of Finance

— Current — Capital



## THERE ARE SEVERAL TRANSPORT INFRASTRUCTURE INVESTMENT THAT HAS BEEN IN THE PIPELINE FOR QUITE SOME TIME. THESE PROJECTS AIM TO ADDRESS TRANSPORT BOTTLENECKS, IMPROVE TRANSPORT EFFICIENCY AND SAFETY, AND CONNECT THE LAGGING REGIONS IN THAILAND.

Railway double tracking projects, for example, have been discussed extensively during the past decade. Over 90 percent of railway in Thailand which covers 47 provinces have been single-track, which is rather constrained in terms of efficiency and safety. There are over 100 derailing accidents and more than 150 railway/personal vehicle accidents each year, which calls for investment in improved railway signaling. Delays in transport infrastructure investment in some cases does not only mean delays in benefits of connecting the lagging regions, but it also has increasing cost implications. For example, the feasibility study of Bang Pa-in to Korat Motorway conducted in 2003 estimated the project cost of THB25 billion. The project starts implementation in 2016 with the final cost estimated to be THB84.6 billion.

## THE GOVERNMENT COULD FOCUS ON ATTRACTING PRIVATE SECTOR INVESTMENTS IN A MORE CONCERTED MANNER.

In the last few years, Thailand has attracted private sector investments in some areas of infrastructure, including areas like renewable power generation. Thailand has well-functioning capital markets, which can mobilize long-term private capital needed for funding well-structured infrastructure projects. The new infrastructure and logistics development plans could cover the following, as already discussed in the 11<sup>th</sup> and 12<sup>th</sup> National Economic and Social Development Plan: encouraging the development of multimodal transportation, facilitating cross-border trade, enhancing the efficiency of logistics and transport management systems, improving railways, modernizing the public transportation network, and introducing high-speed communication and e-government services. The Government could proceed with the implementation of its PPPs agenda, and leverage the enabling environment it has created through the passing of the PISU Act and PPPs fast-track scheme. It will be important for the first projects implemented under the new PPPs law to be well structured and allocate risks fairly amongst parties, as these first projects

will set a precedent for the entire program going forward. Developing sustainable PPPs will require a comprehensive approach to address the multiple challenges faced by many infrastructure sectors and public services. While the political will is present, capacity building within Government will be needed in order to ensure that public-private partnership projects are adequately prepared and structured to balance public policy considerations, investors' interests, lender's bankability requirements and community needs, and that there is adequate public sector capacity for implementation and contract monitoring and management.

## REFORM OF THE SOE SECTOR MAY BE NEEDED TO FACILITATE THE EXECUTION OF LARGE INFRASTRUCTURE INVESTMENT PLANS.

As mentioned above, the Government appears to have had difficulty preparing and implementing major infrastructure investment programs. After more than a decade, the Government recently announced another mega-infrastructure investment plan for THB 1.93 trillion for implementation over eight years. In order to make this announcement credible, the strengthening of the public investment management framework would be desirable, as discussed later in this section. The authorities are already launching a series of SOE reforms, including the creation of a holding company for firms in the sector. Additional areas for action would be clarifying the policy framework for SOEs, restructuring public companies that are not making progress, opening up some infrastructure sectors to private competition, and strengthening capacity at the State Enterprise Policy Office (SEPO).

## INCREASE COMPETITION THROUGH FREE TRADE AGREEMENTS AND DEREGULATION

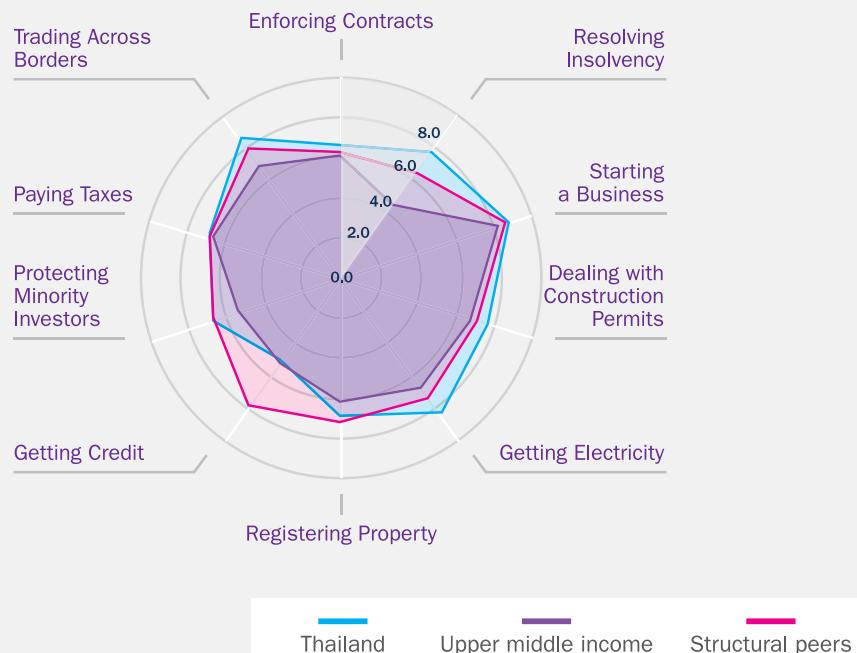
### LACK OF ADEQUATE COMPETITIVE PRESSURES MAY BE SLOWING OR PREVENTING INTRA-SECTOR RESOURCE REALLOCATION.

Dynamism in firm entry when markets are open usually contributes to innovation, increases productivity, and crowds out inefficient firms. When firms with different levels of productivity survive and/or there is high dispersion of productivity across subsectors, within manufacturing or within services, competitive pressures are obviously not high. The regulatory and institutional framework that governs domestic market competition and market entry affect the ability of firms to reallocate resources to more productive uses, and the efficiency of their investments may depend on that ability.

ACCORDING TO THE 2017 DOING BUSINESS REPORT, THAILAND RANKED 46 OUT OF 190 ECONOMIES ON EASE OF DOING BUSINESS.

Businesses encounter barriers to their operations for many reasons: for example, due to cumbersome procedures for obtaining licenses or construction permits or due to lengthy, costly, and unreliable procedures involved in enforcing contracts or resolving commercial disputes. These can be seen as “generic” barriers to business operations, in addition to those mentioned above related to accessing credit, trading across borders, or entering a new market. Barriers to business operations usually result in a less-friendly environment, which may even encourage firms to move part of business operations to the informal economy. These barriers can inhibit access to credit, innovation, and productivity growth. It can thus be hypothesized that high barriers to business operations hamper productivity growth and discourage private investment.

**FIGURE** Ease of Doing Business (score, 100=best)<sup>71</sup>  
62 :



Source: World Bank Doing Business Report 2017

<sup>71</sup> Figure is showing “distance to frontier”: This measure shows the distance of each economy to the “frontier.” The frontier represents the highest performance observed on each of the indicators across all economies measured in Doing Business since the inclusion of the indicator. An economy’s distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.



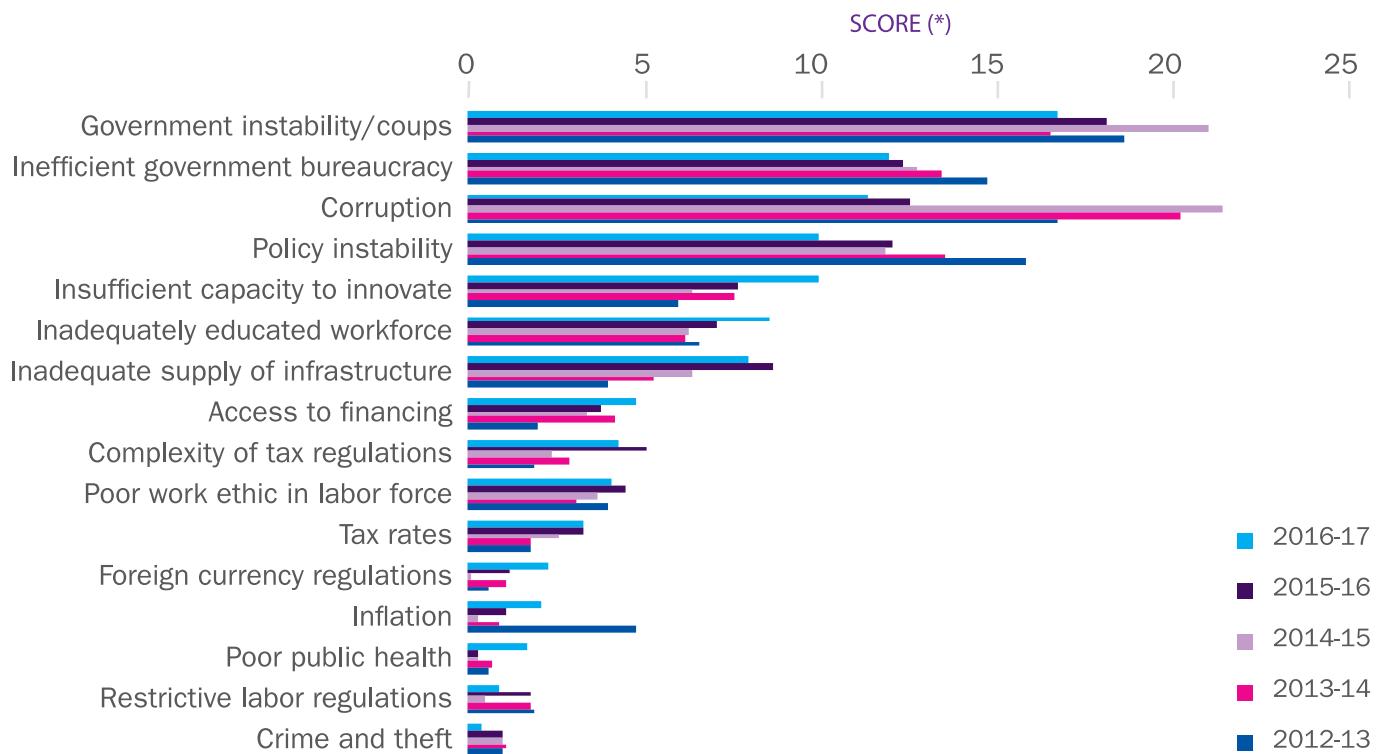
## GOVERNMENT CAN IMPROVE THE BUSINESS CLIMATE BY IMPLEMENTING A SERIES OF REGULATORY REFORMS THAT COULD IMPROVE THE EASE OF DOING BUSINESS.

Two important issues raised by the private sector include the time taken to secure construction permits (Thailand 103 days compared with 26 days in Singapore), enforcing contracts (Thailand 440 days compared with 150 days in Singapore). Thailand could benefit from reviewing and rationalizing multiple rules and regulations that have gradually built up. Currently the Government is considering a “Guillotine Approach” to deregulation whereby it is working with the private sector to eliminate the approximately 6,000 outdated rules and regulations that serve no purpose but to create inefficiencies, avenues for corruption, and bureaucratic red-tape.

## IN ADDITION REDUCING UNCERTAINTY-ESPECIALLY POLITICAL UNCERTAINTY-WILL BE IMPORTANT FOR MAINTAINING A BUSINESS-FRIENDLY ENVIRONMENT IN THAILAND.

As highlighted earlier, among business executives surveyed as part of the World Economic Forum report, the top four concerns for 2016-17 were government instability, corruption, an inefficient government bureaucracy, and policy instability (Figure 63). International good practices suggest measures for tackling corruption, especially where it affects the business environment, for example through improvements in the areas of tax inspections, granting construction permits, provision of public utilities, and public procurement processes. In addition, ensuring greater transparency in public finances will be critical for building greater trust in government.

**FIGURE** Top 10 Obstacles to Doing Business  
**63 :**



**Note:** From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

**Source:** WEF's Executive Opinion Survey (2012-13, 2013-14, 2014-15, 2015-2016 and 2016-17).

## DEEPER TRADE INTEGRATION AND IMPLEMENTATION OF AEC COMMITMENTS WILL BE CRITICAL FOR FOSTERING COMPETITION AND FACILITATING INNOVATION AND TECHNOLOGY SPOILLOVERS.

New mega trade agreements such as the AEC or the new mega agreements currently being introduced in Asia (such as EU-FTAs, Trans Pacific Partnership, Regional Comprehensive Economic Partnership (RCEP), and the Free Trade Area of the Asia Pacific) come with deeper commitments and open up new opportunities. These deeper commitments include areas such as competition policy, government procurement, investment policies and investors' protection, intellectual property rights, and labor and environmental standards. Thailand can also improve competitiveness by implementing Mutual Recognition Agreements agreed under the ASEAN Economic Community 2015 on free flow of skilled professionals and improving the Investment State Dispute Settlement (ISDS) mechanism.

## INVESTMENT STATE DISPUTE SETTLEMENT (ISDS) HELPS TO PROVIDE AN EFFECTIVE, SWIFT AND INDEPENDENT MECHANISM TO IMPLEMENT AND ENFORCE LEGAL COMMITMENTS AND THUS ATTRACT FOREIGN INVESTORS.

A majority of Thailand's investment treaties have an ISDS provision. This is necessary, particularly in countries where international public law commitments are not directly enforceable in domestic courts. ISDS fulfills that role, thus re-establishing a measure of equilibrium to the disadvantaged position that foreign investors may have in comparison to domestic investors. From an investment climate perspective, Thailand will greatly benefit from constructively using its IIA regime, by setting up effective mechanisms to implement IIAs and prevent disputes. Not only will this prevent costly investor-State disputes- it will also signal to the investor community Thailand's commitment to increasing investor protection and strengthening its investment climate.

## ALTHOUGH THAILAND HAS A RELATIVELY OPEN ECONOMY OVERALL, SOME SUBSECTORS PARTICULARLY IN THE SERVICE SECTOR ARE MORE PROTECTED FROM IMPORT AND DOMESTIC COMPETITION.

The service sector is more protected than manufacturing. The service sector is protected in two ways: (i) foreign entry/investment into many of the service sectors is restricted,

and (ii) delivery of some services by foreign firms is also restricted. In terms of trade policy, average applied tariff rates have come down from around 40 percent in the 1980s to 9 percent in 2005-06, but the average may hide higher protection for some products.

## THERE IS A SERIES OF OPPORTUNITIES FOR INCREASING COMPETITION IN SERVICES.

In telecommunications, for example, foreign-owned companies may only provide services on a re-sale basis. Education and health facilities must be held by nationals. Thailand could consider progressively lifting the restrictions on entry of foreigners to perform professional services (see World Bank, 2015d). Other measures could include lifting the minimum capital requirement of THB 100 million for foreign subsidiaries to operate in the retail sector, lifting the limits on foreign ownership in a "local bank," and introducing clear and objective criteria for the granting of licenses to foreigners in automobile and life insurance.

## GREATER ACCESS TO FINANCE AND BROADER FINANCIAL SECTOR DEVELOPMENT WILL ALSO HELP INCREASE COMPETITION.

Obtaining finance is essential for successful entrepreneurs to invest, expand their businesses, and adopt new technologies required for productivity gains. If firms face fewer obstacles in getting credit and capital, and if there are good mechanisms for resolving financial distress (company insolvency), they are better placed to improve productivity and maintain sustained levels of private investment. Broader financial sector development is also critical for competition and investment across the economy beyond just the mSME sector, affecting corporates, SOEs and major infrastructure projects as well as the ability of the public sector to develop appropriate debt management tools. The capital market in Thailand (ie the Stock Exchange of Thailand) is well developed – compared to other neighboring countries – however it only serves the large conglomerates and well-established enterprises.



## THE GOVERNMENT HAS TAKEN IMPORTANT STEPS TO EXPAND ACCESS TO CREDIT TO SMALL AND MEDIUM-SIZED ENTERPRISES BUT MORE REMAINS TO BE DONE.

For instance, a stock exchange for small and medium-sized enterprises (the “Market for Alternative Investments”, MAI) became operational in 1999. However, 17 years later, the MAI covers less than 0.1 percent of the registered SME in Thailand, leaving the vast majority of SMEs raising funds using traditional mechanisms (ie through friends, families, bank loans, and informal loans).

## MORE RECENTLY, IN NOVEMBER 2015 THE GOVERNMENT INTRODUCED THE BUSINESS SECURITY ACT WHICH CAME INTO FORCE ON IN JULY 2016, WITH THE INTRODUCTION OF THAILAND’S FIRST COLLATERAL REGISTRY AS THE TECHNOLOGY ENABLER

The Act provides access to only licensed financial institutions and the taking of business collateral, meaning that only business entities falling under the scope of the Companies Act can take advantage of the new Act. A vast majority of mSME’s are not formally registered legal entities and they may have valuable collateral but are not in position to take advantage of the new Act. Given its infancy, the Department of Business Development (DBD) (the administrator of the new system) has only partially automated the functionality of the system and made it available to only a limited set of licensed financial institutions regulated by the Bank of Thailand and other credit providers authorized under Ministerial regulations: as of October 2016, it is only those financial institutions lending to those formal companies who can submit their documents electronically. This creates an uneven playing field and, more importantly, the vast majority of mSME’s access funds from other types of financial institutions (such as non-bank financial institutions, specialized financial institution (SFI’s), and leasing companies, etc.,) these other types of financial service providers would benefit greatly if they had access to both an expanded scope of assets envisaged under the Business Security Act and the new Collateral Registry system. Furthermore, the Act does not appear to apply to the financing of consumer goods, which are often the only asset that a start-up or microbusiness possess. The financing secured with such assets has been

the stepping stone for many, primarily women entrepreneurs, to open or expand their microbusinesses. A robust financial sector eco-system is much larger than just those institutions regulated by the Central Bank in terms of providing access to credit for mSME’s.

## THE INTRODUCTION OF THE BUSINESS SECURITY ACT WHICH PROVIDES FOR AN EXPANDED SCOPE OF MOBILE PROPERTY TO BE PLEDGED AS COLLATERALS IS PARTICULARLY RELEVANT FOR THE MSME SECTOR BUT FURTHER WORK ON IMPLEMENTING THE ACT SUCCESSFULLY IS NEEDED.

While the implementation of the new Act and registry as the central repository over these registered security interests administered by the Department of Business Development is very encouraging, further strengthening of the both Business Security Act and enhancements to the Registry system to align to international best practice are required. Once these two aspects have been implemented fully, a dedicated effort must be applied to develop a robust movables based lending market. This includes a coordinated approach to building up the financial sector ecosystem, including enhancements to the bankruptcy and insolvency regime. Over time, the visible benefits will be the decline in interest rates and NPL’s, diversification of financial services providers portfolio of products and services will grow and become more innovative and the overall cost of borrowing will decrease, which ultimately leads to diversified economy and job creation.

## RELATIVE TO ITS NEIGHBORS IN THE REGION, THAILAND HAS FALLEN SOMEWHAT BEHIND IN TERMS OF ITS ABILITY TO ADDRESS POLICY AND INSTITUTIONAL ISSUES RELATED TO ACCESS TO FINANCE.

While the implementation of the new Act and registry as the central repository over these registered security interests administered by the Department of Business Development is very encouraging, further strengthening of the both Business Security Act and enhancements to the Registry system to align to international best practice are required. Once these two aspects have been implemented fully, a dedicated effort must be applied to develop a robust movables based lending market.

## INCREASING COMPETITION WILL ALSO REQUIRE IMPROVED PERFORMANCE OF THAILAND'S SOES, WHICH COULD INVOLVE TRANSFORMATION OF THE SOE OWNERSHIP FRAMEWORK.

Today, the global trend is to transform the SOE ownership framework from an advisory to centralized model, which can have substantial impacts on SOE governance and performance by bringing greater clarity and professionalism to the state's ownership role and reducing the scope for political involvement. This model delegates the state's ownership functions to a specialized ownership entity and refocuses the line ministries' role in policy-making and setting mandates while creating independent regulatory bodies. The ministry of finance focuses on financial monitoring, budgetary relations, and financing of public service obligations. This approach promotes good corporate governance in terms of transparency, accountability, and checks and balances. The Thai Government is in the process of setting up a State Investment Corporation (SIC) to act as a centralized owner, but full implementation of the real centralized model with good governance practices for all 56 SOEs will be a substantial challenge.

IN TERMS OF THE ROLE OF SOES MORE GENERALLY, THE GOVERNMENT AS A FACILITATOR COULD ENCOURAGE THE PRIVATE SECTOR TO COMPETE FAIRLY IN THE MARKETPLACE AND, IN THE CASE OF SOCIAL OBJECTIVES, MANDATE SOES TO FILL THE GAPS THAT MAY NOT BE ATTRACTIVE TO PRIVATE OPERATORS.

This will lead to optimum performance and deploy assets more efficiently, which in turn benefits both domestic development and the long-term growth of the overall economy.

## IMPROVE FIRM-LEVEL COMPETITIVENESS AND INNOVATION THROUGH GREATER TECHNOLOGY ABSORPTION AND INNOVATION

FDI INFLOW HAS ALWAYS BEEN IMPORTANT FOR EXPORT AND PRODUCTIVITY GROWTH AND IS STILL CRITICAL FOR UPGRADING OF MANUFACTURING AND SERVICE SECTORS.

A lower level of FDI inflow could be equally or more useful for raising productivity-driven growth if it comes from foreign firms and into subsectors that are more likely to help Thailand upgrade the sophistication of its exports of both manufactures and services. In this context, the behavior of Japanese investors and Japanese FDI inflow may be particularly important,<sup>72</sup> but a few other niche investors with necessary technology in fast-growing world export sectors may be just as critical.

## THAI ENTERPRISES COULD LEVERAGE GREATER SPILLOVERS FROM FDI TO HELP THEM UPGRADE AND INNOVATE.

As discussed earlier, Thailand has been less successful than Singapore and Malaysia in leveraging spillovers from FDI. Building the capabilities to enable Thai firms to upgrade and innovate is now a priority. This in turn calls for a strengthening of the national innovation system, greater emphasis on developing a skilled workforce, and increased investment in research capital and institutions that would promote the deepening of the knowledge economy.



<sup>72</sup> There are three reasons for this. First, Japanese firms played a key role in making Thailand a manufacturing hub and has a dominant presence. Second, Japanese firms' overseas investment grew at 12% a year before the global financial crisis and this trend has accelerated recently due to yen appreciation & energy supply uncertainty after 2011 earthquake Kang & Piao 2015). Third, their continued FDI expansion will be a good signal to other potential foreign investors that Thailand is a favorable place for FDI to export.



## THAI FIRMS NEED TO BUILD THEIR COMPETENCIES IN HIGHER-VALUE-ADDING NICHE SECTORS, TAKING ADVANTAGE OF THEIR EXISTING CAPABILITIES.

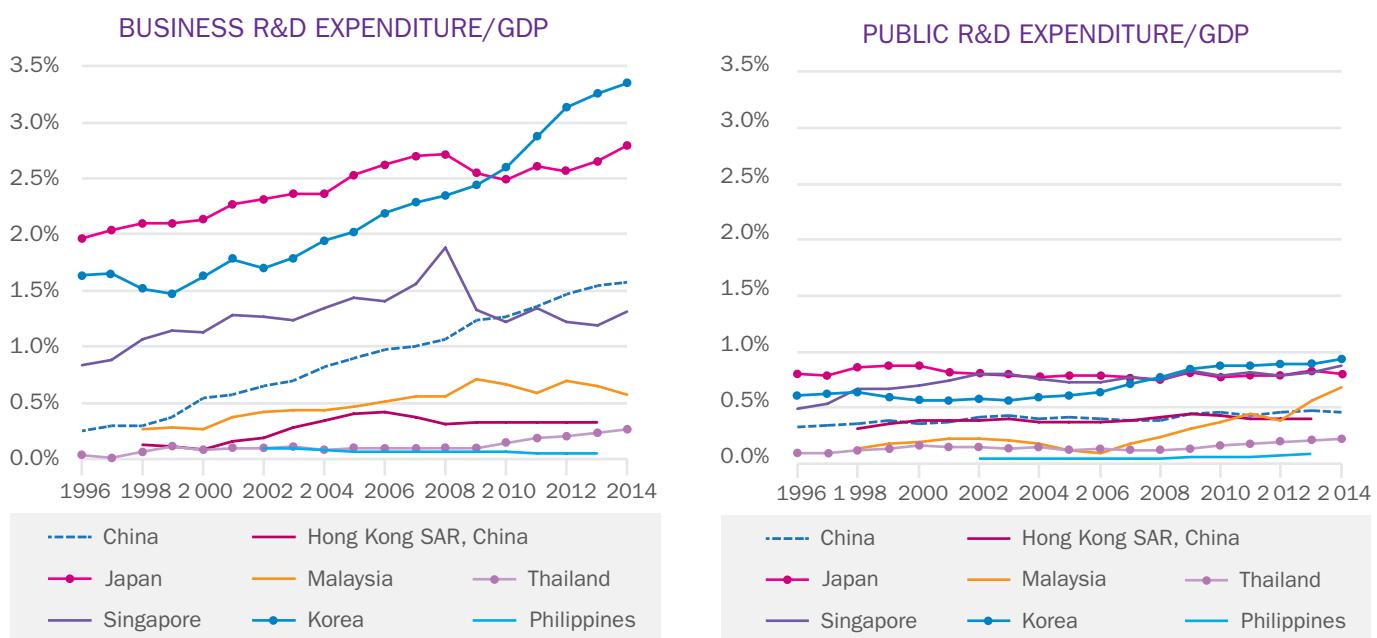
Moving up the value chain would imply undertaking more complex functions such as design, research and development, and branding. It requires moving from the export of low-value parts and components to higher-value products and services and also to final manufactures. This would be particularly relevant for Thai SMEs which, while dominating the landscape of firms, have seen a continuous decrease in their contribution to GDP during the past 12 years from 41.3 percent of GDP in 2002 to 37.4 percent in 2013. As the gap in productivity between small and large firms is significant, improving productivity in smaller firms will take extra effort because their turnover rates are high (70 percent foldup after a few years). Policies would need to enable the SME sector to shift from a cost-based to a value- or knowledge-based competitive advantage. The recent UNCTAD Science Technology and Innovation Policy Review (2015) notes that the country also has a sizeable research infrastructure, but the linkages between industry and research are limited. These can be fostered by collaborative grants that include recipients from both industry and research with a view

toward addressing problems faced by firms, greater incentives in universities and research institutions for researchers to collaborate with industry, and a greater awareness about intellectual property and the potential for commercializing research.

## DESPITE RECENT EMPIRICAL EVIDENCE SUGGESTING VERY HIGH RETURNS TO RESEARCH AND DEVELOPMENT SPENDING, THAILAND HAS BEEN LAGGING BEHIND ITS NEIGHBORS OVER THE PAST TWO DECADES.

Lathapipat (2016)<sup>73</sup> estimates that the gross rate of return on investment for business R&D activities ranges between 77-82 percent, while the corresponding figure for public R&D conducted by universities and research institutions is in the 252-334 percent range. Given the evidence of very high returns, it is worrisome for Thailand's growth potential that its R&D intensity, defined as the ratio of GERD to GDP, is only less than half a percent of GDP in 2014 (sum of 0.26 for business and 0.22 for public R&D). From Figure 64, it is clearly evident that Thailand has been falling further and further behind most of its peers in the ASEAN+3 region, which have substantially increased their investments in R&D activities over the last two decades.

**FIGURE 64 :** Business and Public Research and Development Intensity



Source: UNESCO Institute for Statistics as shown in World Bank (2016)

<sup>73</sup> Lathapipat D. (2016). "Research and Development Spending and Total Factor Productivity Growth: Evidence from ASEAN+3 Economies." Unpublished Manuscript. Lathapipat's work focuses on a panel of 8 economies in the ASEAN+3 group for which data on public and private business gross expenditure on research and development (GERD) are available for the period 1996-2014.



## B. PROVIDE MORE TARGETED SUPPORT FOR THE BOTTOM 40 PERCENT

**GREATER AND MORE APPROPRIATE TARGETED SUPPORT FOR THE BOTTOM 40 PERCENT IS CRITICAL NOT ONLY TO IMPROVE THE LIVELIHOODS OF THOSE HOUSEHOLDS BUT ALSO TO HELP FOSTER SOCIAL COHESION AND STABILITY MORE GENERALLY.**

As discussed earlier, international evidence shows how inequality and social tensions can lead to political conflict and unrest. Although the causes of the current political turmoil are complex, it likely has its roots in a growing sense that economic prosperity has not been widely shared and/or everyone does not have equal opportunities in society. Politicians and planners seem to recognize that Thailand will not heal socially or politically unless these inequities are addressed, which may explain the emphasis on addressing inequality in the 12th Plan and the introduction of the Child Grant to poor families in October 2015. Greater and more appropriate targeted support for the bottom 40 percent—namely, through quality education; higher agricultural productivity, and social protection—is thus an important priority in terms of having a large impact on the bottom 40 percent as well as giving them the means for upward economic and social mobility and thus helping to strengthen social cohesion and maintain greater political stability.

## IMPROVE THE EDUCATION AND SKILLS OF THE WORKFORCE

**EDUCATION IS ONE OF THE MOST POWERFUL INSTRUMENTS FOR REDUCING POVERTY AND INEQUALITY AND IT SETS THE FOUNDATION FOR SUSTAINED ECONOMIC GROWTH.**

Investment in education not only helps explain growth but education is also associated with higher individual earnings. Governments, private sector, families, individuals spend more than USD 5.6 trillion a year on education and training. In fact, on average, another year of schooling raises earnings by about 10 percent a year. In Thailand, another year of schooling raises earnings by about 9.4 percent a year. This is typically more than any other investment an individual could make. Returns are increasing – particularly in tertiary education.

**AS underscored by feedback from the consultations, improving access to high-quality education is a top priority for enabling the poor and bottom 40 percent to benefit fully from growth.**

As the economy develops and demands for higher skills increase, the widening gaps in education between the poor and non-poor and in the returns to additional years of education between the low-skilled and high-skilled put the poor in a more challenging position. The widened wage gaps between tertiary education and secondary education, which capture the divide in human capital between the poor and the non-poor, points to the daunting challenges. For individuals, having the necessary skills and competencies to obtain productive employment can help them secure a better future and, for those who are poor, help them break out of the cycle of poverty.

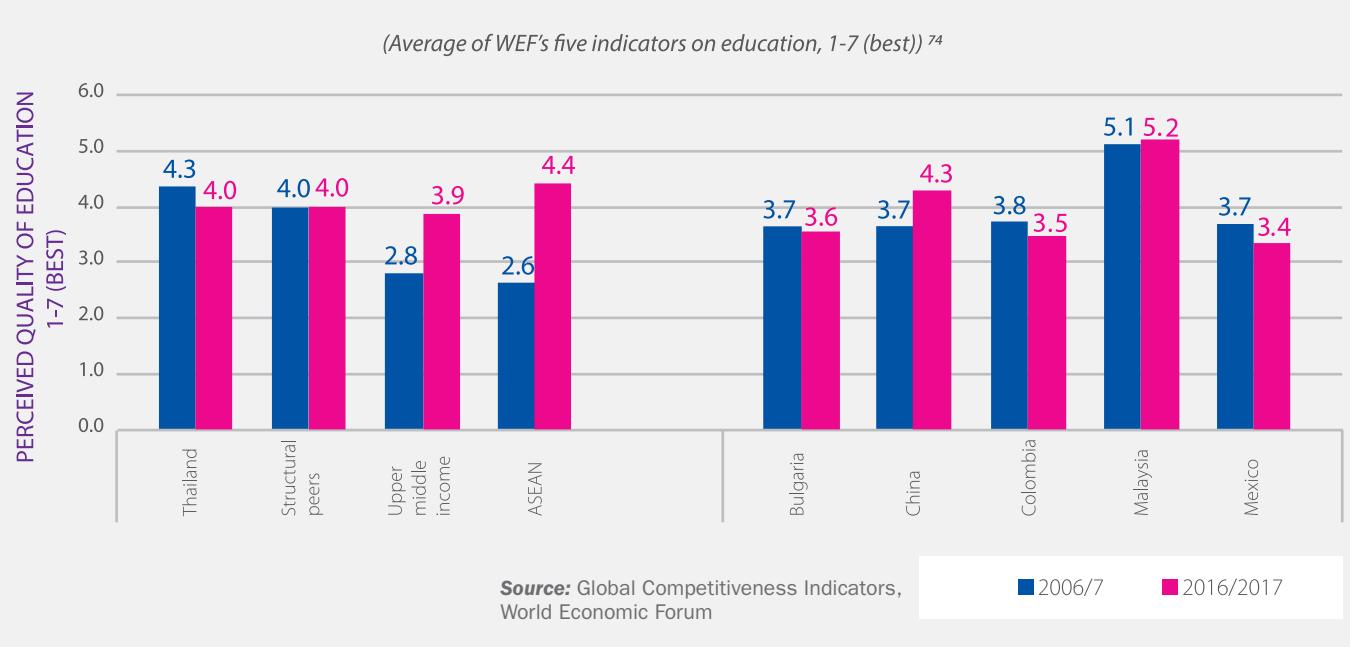


## A BETTER-EDUCATED AND SKILLED WORKFORCE IS ALSO CRITICAL TO THAILAND'S ECONOMIC GROWTH PROSPECTS, AS THE STRONG GROWTH THAILAND NEEDS IN COMPETITIVE SKILL-INTENSIVE EXPORTS WILL DEPEND ON HAVING A STRONGER HUMAN CAPITAL BASE.

Developing competitive skill-intensive exports depends on successful adoption of newer technologies and product innovation by firms, which relies in turn on good human capital because it involves research and development

(R&D) and innovation activities as well as learning from FDI and GVC participation. Having a workforce with stronger literacy, analytical reasoning, and problem solving skills can thus help Thailand move up the value-added ladder to a more knowledge-based economy. However, similar to indicators on infrastructure, Thailand's education system is perceived to have slipped while it has improved elsewhere (Figure 65).

**FIGURE** The quality of Thailand's education system is perceived  
**65 :** to have worsened relative to its peers



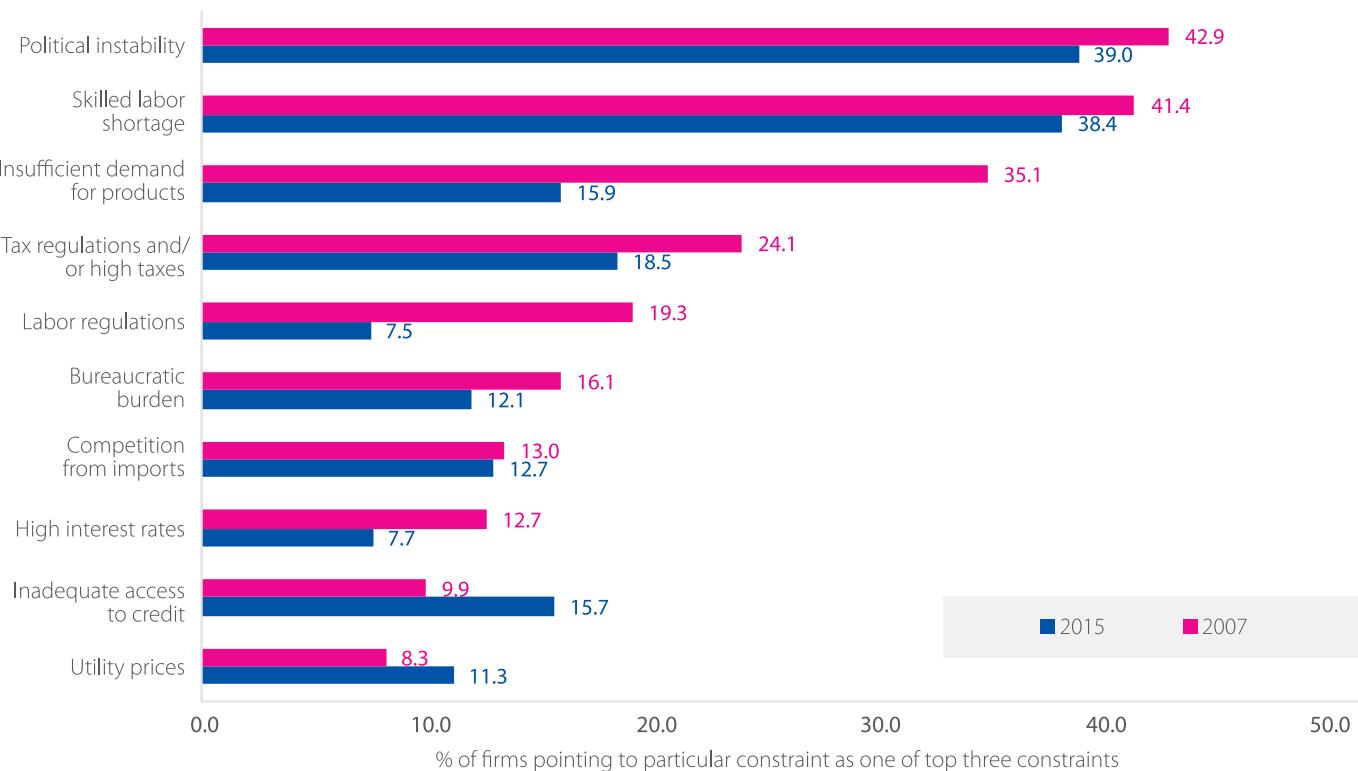
## SIMILARLY, MANUFACTURING FIRMS COMPLAIN THAT FINDING SKILLED LABOR IS INCREASINGLY A PROBLEM.

A shortage of skilled labor is the second most pressing constraint to growth (after political instability) for Thailand's manufacturing firms, according to results from the 2015 Productivity and Investment Climate Survey

(PICS) (see Figure 66). The same survey finds that the number of weeks it takes to fill a vacancy for a skilled worker has increased from 5.2 weeks in 2007 to 7.9 weeks in 2015.

<sup>74</sup> The graph shows the average of the following five indicators tracked by the World Economic Forum: Availability of research and training services, 1-7 (best); Extent of staff training, 1-7 (best); Quality of management schools, 1-7; (best); Quality of math and science education, 1-7 (best); and Quality of the education system, 1-7 (best)

**FIGURE** Main obstacle to doing business (% of firms pointing 66 : to particular constraint as one of top three constraints)



**Source:** Thailand Productivity and Investment Climate Study (PICS) 2015, Ministry of Industry and Thailand Productivity Institute

### COMPARED TO ITS INCOME LEVEL, THAILAND'S STUDENTS ARE PERFORMING AS EXPECTED, BUT THE PERFORMANCE OF STUDENTS IN RELATIVELY POORER THAN VIETNAM SHOWS THAT THAI STUDENTS COULD BE DOING MUCH BETTER.

On the OECD's Program for International Student Assessment (PISA),<sup>75</sup> Thailand's average score has now reached a level slightly above what would be expected for a country at Thailand's level of per capita income (Figure 67). With a GDP per capita of USD 3,390 (in constant 2005 USD) and an average PISA score of 437, Thailand's performance is roughly similar to those of Bulgaria, Romania, and Chile and well above those of Malaysia, Brazil, and Mexico, which have higher levels of per capita income. However, Vietnam's performance shows that it is possible to punch above its weight; Vietnam's GDP per capita is only USD 986, yet its 15-year-old students performed at the level of students in much richer countries such as Australia, Germany, and New Zealand.

### THAILAND FACES OTHER CHALLENGES ACROSS THE EDUCATION SYSTEM.

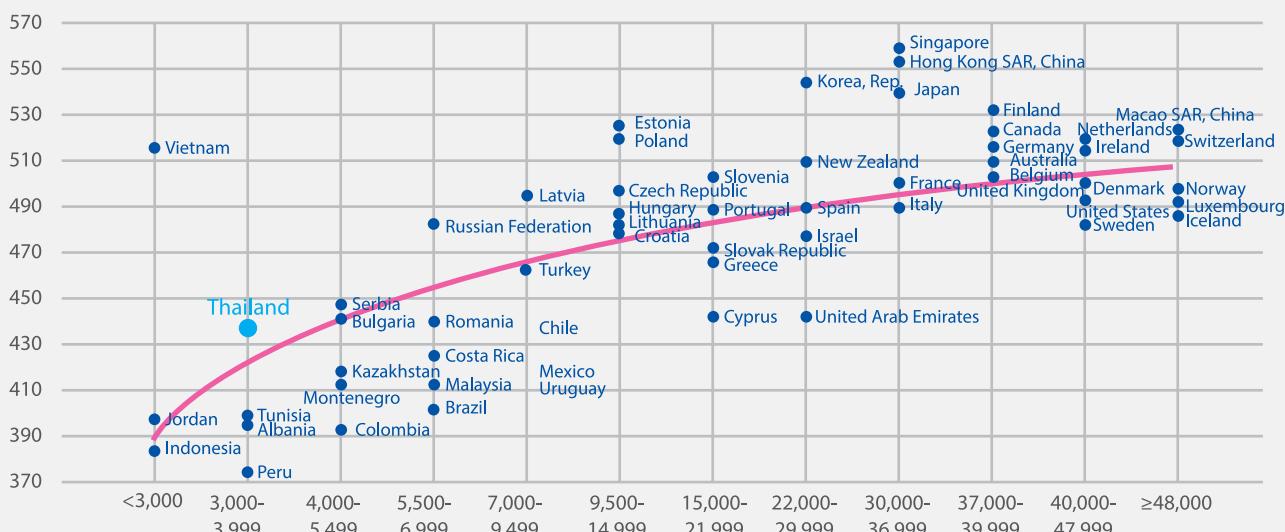
For example, the growing tertiary education sector is increasingly producing business and marketing graduates, with very few graduates in the engineering and science fields sought by the private sector. Moreover, Thailand's students and its workforce have a very low level of English language proficiency (ranked 62 out of 70 countries assessed on the EF English Language Proficiency Index<sup>76</sup> and 127 out of 168 countries/territories on ETS' TOEFL iBT tests).

<sup>75</sup> The PISA is an international survey that aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. The tests are designed to assess the extent to which students can apply their knowledge to real-life situations and be prepared for full participation in society. To date, students from more than 70 countries have participated in the assessment, which is conducted every three years (see [www.oecd.org/pisa/](http://www.oecd.org/pisa/) for more details).

<sup>76</sup> See <http://www.ef.com/epi/>



**FIGURE 67 :** Average PISA 2012 Scores vs. GDP Per Capita (constant 2005 USD)



**Note:** The average of PISA scores in mathematics, science, and reading is used in this graph.

**Source:** OECD 2012 PISA and World Development Indicators.

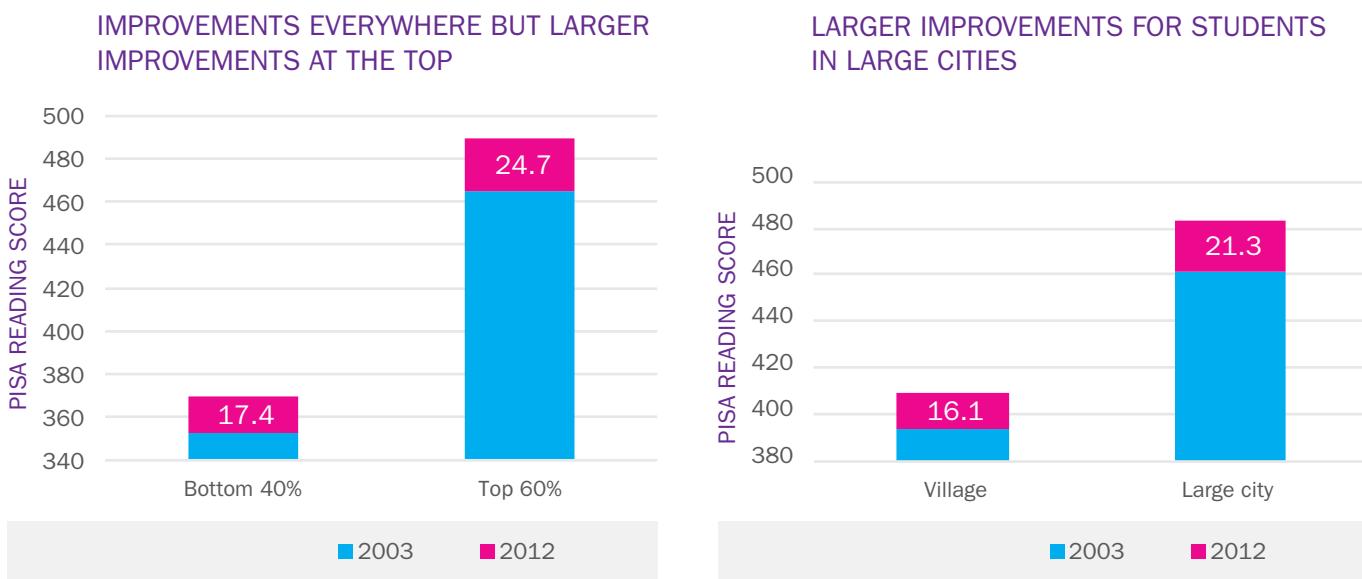
### THE SITUATION IS PARTICULARLY ACUTE FOR STUDENTS IN VILLAGE SCHOOLS, ESPECIALLY THE LOWEST-PERFORMING 40 PERCENT AMONG THEM WHO CONTINUE TO FALL FURTHER BEHIND, POSING A CONSTRAINT TO INCLUSION.

While functional illiteracy can be seen across the various types of schools in Thailand, the greatest concentration of functionally illiterate students is found in villages, where 47 percent of their 15-year-old students are functionally illiterate. In 2003, these 15-year-old students were, on average, 125 “points” behind their peers in large city schools on the PISA assessment, corresponding to more than three academic years of schooling. That gap widened to 139 points by 2012 (see Figure 68). Village schools face unique challenges in being “remote” and small—despite lower student numbers resulting from falling birth rates, the number of small schools rose from 10,899 (33 percent of OBEC schools) in 2003 to 14,669 (47 percent)

in 2011. These small schools, which predominantly serve the socioeconomically disadvantaged, lack adequate teachers, material resources, and physical infrastructure.



**FIGURE** Thailand PISA scores have improved but mainly in urban schools  
**68 :** and among the better students



**Source:** OECD PISA 2012.

### THE INEQUITIES IN LEARNING OUTCOMES HAVE THEIR ROOTS IN THE EARLY YEARS OF LIFE, WHERE TOO MANY POOR CHILDREN ARE BEING LEFT BEHIND, ESPECIALLY IN THE LAGGING REGIONS OF THAILAND.

Still, approximately 16 percent of Thailand's under 5 years of age are "stunted" (ie short for their height), with rates rising to 18.9 percent amongst the 0-5 years old living in the Northeast (MICS 2012).<sup>77</sup> Stunting is a largely irreversible outcome of inadequate nutrition and repeated bouts of infection during the first 1000 days of a child's life. Stunting has long-term effects on individuals and societies, including: diminished cognitive and physical development, reduced productive capacity and poor health, and an increased risk of degenerative diseases such as Diabetes.<sup>78</sup> Thailand's Mental Health Department also provide evidence that the learning problems observed in later years have their roots in the early years of life: the Department measures IQ and EQ (emotional quotient) of first graders in Thailand, and their results continue to show wide regional disparities, with children in Thailand's lagging regions (especially the Northeast) lagging far behind children in Bangkok.

### IN RECENT YEARS, ACCESS TO PRE-SCHOOLS HAS EXPANDED BUT, AGAIN, THE POOREST CHILDREN (WHO NEED SUCH SUPPORT THE MOST) HAVE NOT BENEFITTED AS MUCH AS THEIR RICHER PEERS.

Although access to preschool has improved markedly over the last decade, with average enrolment rate rising from 75 percent in 2004 to 85 percent in 2014, Table 14 shows that there remains significant gaps in enrolment between children across different family per capita consumption quintile.

<sup>77</sup> "Stunting", or being too short for one's age, is defined as a height that is more than two standard deviations below the World Health Organization (WHO) Child Growth Standards median.

<sup>78</sup> Source: WHA Global Nutrition Targets 2025: Stunting Policy Brief



**TABLE 14 :** Pre-Primary Adjusted Net Enrolment Rates in 2014 (4-5 Years Old)

Year	Q1 (Poorest)	Q2	Q3	Q4	Q5 (Richest)	Thailand
2004	65%	73%	79%	80%	91%	75%
2014	79%	86%	85%	90%	93%	85%

**Source:** NSO - Thailand SES 2014.

**MOREOVER, THERE IS ALSO AN IMPORTANT ISSUE SURROUNDING THE DISPARITY IN THE QUALITY OF PRE-PRIMARY EDUCATION RECEIVED, AS WELL AS LENGTH OF TIME CHILDREN SPEND IN PRE-PRIMARY SCHOOL.**

According to a quality assessment survey conducted by the Department of Health in 2013, only 67 percent of some 20,000 early childhood development (ECD) centers nationwide passed the quality assessment (UNICEF).<sup>79</sup> Furthermore, the PISA 2012 survey results indicate that the gap between the top and the bottom socioeconomic groups for 15 year-old students in regard to preschool attendance for more than 1 year is as high as 9 percentage

points (Table 15). This is particularly worrisome given the evidence that investing in early childhood education yields a very high return. In particular, it is estimated that each year of attending preschool is associated with an increase in the PISA test score equivalent to around 1.6 years of formal schooling (Lathapipat 2016). In light of these findings, it is important that Thailand addresses the inequality in children's primary school readiness by improving the quality of pre-primary schools and closing the attendance gaps between socio-economic groups.

**TABLE 15 :** Pre-Primary Adjusted Net Enrolment Rates in 2014 (4-5 Years Old)

	Q1 (Poorest)	Q2	Q3	Q4	Q5 (Richest)
Did not attend preschool	2%	2%	2%	1%	1%
Attend for 1 year or less	14%	13%	11%	9%	6%
Attend for more than 1 year	84%	85%	87%	90%	93%

**Source:** OECD PISA 2012.

<sup>79</sup> Source: [http://www.unicef.org/thailand/education\\_14938.html](http://www.unicef.org/thailand/education_14938.html)

## GIVEN ITS POOR PERFORMANCE, REFORMS ARE NEEDED ACROSS VIRTUALLY ALL DIMENSIONS OF THAILAND'S EDUCATION SYSTEM (SEE WORLD BANK 2015B AND OECD UNESCO 2016).

Still, three reforms areas seem of critical importance in the immediate future: first, investing more in the early years of children's lives with an effort to eliminating stunting and dramatically improve access to quality ECD services for the poor. Second, addressing Thailand's problems with small schools where approximately 1 million (mainly poor) children, on average, are currently getting an inferior quality education. Third, laying the foundations for a better run education system, by focusing on expanding autonomy to schools and by strengthening the mechanisms with which schools are held accountable for delivering a quality education. Broader and sustained education reforms along multiple dimensions are also needed to improve outcomes, including: increasing school autonomy and strengthening the use of information to hold teachers and schools accountable for performance. Below these options are discussed in more details.

## CLOSING THE SOCIOECONOMIC GAP IN ACCESS TO QUALITY INTEGRATED ECD SERVICES WILL REQUIRE EFFORTS ON THREE FRONTS: ON THE DEMAND SIDE; ON THE SUPPLY AND QUALITY SIDE; AND IN TERMS OF CREATING A MORE ENABLING ENVIRONMENT.<sup>80</sup>

On the demand side, the understanding of parents and communities on effective care for child development in areas such as breastfeeding, nutrition, protection, care and development of children are areas which need to be built upon and further strengthened. The supply and quality of adequately trained health professionals with parenting counselling skills (breastfeeding, nutrition, protection, care and development of children) and the supply of skilled ECD centre staff trained on nutrition, child protection, parenting counselling skills and monitoring of child development and developmental delays are related priority bottlenecks identified. Within the Enabling Environment domain, key bottlenecks identified include the capacity of ECD policy makers across Ministries to design and monitor integrated ECD plans as well as the comprehensive understanding of policy makers on the science of child development and evidence of impact of quality and integrated ECD as well as bottlenecks in the domain of legislation.

## TO HELP NARROW THE LEARNING GAPS IN THE SCHOOL SYSTEM, A MUCH MORE CONCERTED FOCUS ON THAILAND'S MANY SMALL SCHOOLS WILL BE NEEDED.

As suggested in World Bank (2015b), addressing the village school challenge could involve: reorganizing small schools into fewer but larger and better-resourced schools; financing schools based on the number of students enrolled, thus incentivizing schools to become larger and more efficient; improving teaching resources for small and remote schools; and increasing awareness and understanding of the small school challenge.

## BROAD AND SUSTAINED EDUCATION REFORMS ARE NEEDED TO IMPROVE OUTCOMES.

As World Bank (2015b) points out, there are no easy fixes for the types of problems Thailand's education system is facing. Reforms along multiple dimensions will be needed, including:

- ***Increasing school autonomy.*** Assessments of implementation of school autonomy and accountability policies in Thailand and elsewhere have shown that increasing school autonomy over personnel management can improve student learning, in particular at better-performing schools. Autonomy could perhaps first be increased for better-performing schools and delayed for other schools until they have a sufficient level of capacity and proper accountability for results.
- ***Strengthening the use of information to hold teachers and schools accountable for performance.*** Several measures could be considered: (i)making school-level results on standardized exams publicly available; (ii) in school and teacher evaluations, placing greater emphasis on improvements in student learning outcomes; and (iii) requiring publication of school budgets and resource allocations across schools to enable parents and communities to monitor the efficiency of resource usage by their schools.

<sup>80</sup> These recommendations are from UNICEF (2016): Programme Strategy note on "Early Childhood Development Outcome"



## IMPLEMENT EFFECTIVE POLICIES TO BOOST AGRICULTURAL PRODUCTIVITY

### RAISING LABOR PRODUCTIVITY IN THE AGRICULTURAL SECTOR REMAINS CRITICALLY IMPORTANT TO BOOSTING INCOMES OF THE BOTTOM 40 PERCENT.

Despite greater commercialization and diversification of the sector in recent years, farm labor productivity remains low, calling for an improved agricultural policy to boost agricultural productivity. Achieving higher productivity requires a shift in mindsets to stop viewing agriculture as a social safety net. The best social policy for rural areas is the creation of good paid jobs, inside and outside of agriculture. However, the creation of more productive jobs in agriculture is constrained by numerous factors, among which the significant ones appear to be those related to the land rental market, the efficiency and sustainability of irrigation investments, and a decline in funding for agricultural research and extension programs against the increased funding of selected commodity programs that produce distortive outcomes.<sup>81</sup>

### DEVELOPING A BETTER-FUNCTIONING LAND RENTAL MARKET WOULD INCREASE THE COMPETITIVENESS AND PRODUCTIVITY OF THAI AGRICULTURE.

It would help accelerate the process of land consolidation for use by more professional and commercial farm operators yet allow rural people to keep owning land without the fear of losing it to tenants. For the land rental market to function more efficiently, several legal and regulatory changes are needed. The Agricultural Land Tenancy Act B.E. 2524, which aims to protect tenant farmers' rights and their investment security, stipulates that the tenancy contract must be at least six years. If a landowner wants to sell the land, he/she must give his/her tenant the first chance to buy the land. Another obstacle is that the legal process to evict a tenant from land is very lengthy and costly, usually taking a few years of court proceedings. Even if the owner wins the case, the eviction process itself is also difficult and time-consuming, unless one resorts to the use of force. To avoid such problems, most land tenancy agreements are

without written contracts. For those landowners (particularly absentee landlords) who cannot force tenants off the land, the opportunity cost of leaving the land idle is lower than the rental benefit. This implies that some farm lands will eventually remain vacant, affecting future food supply. Had there been no restrictions in the current land tenancy market, many small absentee holders would have rented their land to capable and entrepreneurial farmers, boosting the total productivity of the agricultural sector.<sup>82</sup>

### INCREASING THE EFFICIENCY AND SUSTAINABILITY OF IRRIGATION INVESTMENTS WOULD ALSO HELP BOOST AGRICULTURAL PRODUCTIVITY NOW AND MAINTAIN THE GROWTH IN THE FUTURE.

As noted earlier, agriculture accounts for two-thirds of total water use, and the demand for water from farmers is projected to grow. Yet, Thailand has increasingly been facing water shortages and water conflicts, posing challenges to the agricultural growth outlook. Some of the problems can be resolved by modernizing the existing irrigation systems, but most issues require strategic comprehensive reforms. Recognizing this challenge, the Government has been drafting a new water law, which would need to address issues related to: (i) a water rights allocation and conflict resolution framework; (ii) decentralization of water resource management to River Basin Committees; (iii) strengthening of the capacity of water user groups; and (iv) establishment of market-based incentives or incentive-based systems for more efficient management of water demand, for example through water use fees and tradable water rights.

<sup>81</sup> The presentation of the constraints for agricultural productivity growth and increased competitiveness of the Thai agriculture is based on the report of Mr. Nipon Poapongsakorn from TDRI prepared for the World Bank.

<sup>82</sup> In October 2016, the Agricultural Land Reform Act was amended. However, the amendment only affects public land managed by the Department of Treasury. To streamline the rental market (and address the issues highlighted above), the Agricultural Land Tenancy Act will need to be revised.

## FUNDING FOR PUBLIC AGRICULTURAL RESEARCH AND EXTENSION, WHICH HAVE PLAYED AN IMPORTANT ROLE IN HELPING THE AGRICULTURE SECTOR INCREASE COMPETITIVENESS AND PRODUCTIVITY IN THE PAST, NEEDS TO BE INCREASED.

Suphannachart and Warr (2011) estimate that a 1 percent increase in domestic public agricultural research spending in Thailand leads to agricultural TFP growth of 0.16 percent in the short run and 0.07 percent in the long run.<sup>83</sup> Yet in the past decade, funding for agricultural research and extension declined, while the quality of programs worsened. At the same time, spending for commodity support programs such as rice and rubber increased significantly, which has crowded out public spending on research and extension thereby worsening the level and quality of agricultural growth, driving agricultural production up without a correspondent increase in productivity. Going forward, public funds for agricultural research and extension need to be increased, preferably to 2 percent of agricultural GDO in the next 10 years, which would be compatible with Thailand's main competitors such as Brazil, Malaysia, and China. In addition, the research and extension programs require improvements such as complementing project-based research funding with core funding, encouraging innovative technology transfer mechanisms by non-government actors, and promoting more inclusive value chains by helping smallholders through producer companies and contract farming.

## THE LATTER IS PARTICULARLY IMPORTANT IN THE POVERTY HOTSPOTS IN THE NORTH AND DEEP SOUTH OF THE COUNTRY.

In these areas, more targeted and concerted support from extension, credit, agribusiness, and other services are needed to help smallholders benefit from the development of regional food value chains. Where the local governments have appreciated needs and constraints of local farmers and NGOs/civil society was invited to help, national programs have a large impact on poverty reduction. In Surin province, for example, the orientation of the programs to the needs of small farmers through promotion of organic rice, rural tourism, and handicrafts (OTOP), with the support of NGOs, helped reduce poverty from 73.8 percent in 2000 to 17.5 percent

in 2010 (see “Annex 3: Example of pathways out of poverty: a locally led development approach” for more details).<sup>84</sup> On the other hand, in the neighboring Si-Saket province, which shares similar characteristics for agriculture with Surin, the poverty dropped only marginally, from 62.2 percent to 55.9 percent. The difference was that while Si-Saket focused on implementation of general farm commodity programs, which usually benefit the larger, more commercial farmers, Surin proactively focused on addressing market failures of smallholder agriculture such as helping to link small local farmers with powerful international buyers, overcome collective action problems, and establish social and financial resources to take advantage of market opportunities and national programs. The experience of Surin province would need to be scaled up to other provinces of Thailand to leverage agriculture for poverty reduction.

## BUILD SMARTER SOCIAL PROTECTION SYSTEMS, FOCUSING ON PROVIDING A SAFETY NET FOR POOR PEOPLE

### THAILAND'S SMALL SOCIAL PROTECTION SYSTEM PROVIDES AN OPPORTUNITY TO BUILD A SMART, EFFICIENT, AND EFFECTIVE SYSTEM FROM THE GROUND UP.

Thailand stands out in contrast to many upper middle income countries by not having a generalized safety net program for the poor.<sup>85</sup> Developing a backbone national social safety program for the poor – incorporating design lessons from international experience – would go a long way in terms of providing support to vulnerable groups and, likely, help reduce social tension.

<sup>83</sup> Suphannachart Waleerat and Peter Warr (2011). Research and productivity in Thai agriculture. *The Australian Journal of Agricultural and Resource Economics*, 55, pp. 35–52.

<sup>84</sup> Joel Moore and John Donaldson (2016). Human-Scale Economics: Economic Growth and Poverty Reduction in Northeastern Thailand. *World Development*, 55, pp. 1-15.

<sup>85</sup> E.g. all of the “structural peers” selected for comparison purposes throughout this report have such generalized social safety nets targeted at poor people.



## A NUMBER OF KEY MEASURES ARE NEEDED TO ENSURE THAT PROGRAMS REACH THE POOR AND VULNERABLE AND ARE SUSTAINABLE.

First, a social registry is required to identify who the poor (and near poor) are and what their needs are. Ensuring inter-operability among program-specific data will allow policymakers to identify holes and avoid duplications in the social assistance and social insurance programs. Second, poverty-targeted (rather than demographic-targeted) programs that are tailored to promoting sustainable income generation and risk reduction could be developed, supplemented by pure social assistance for the most excluded groups. Finally, the financing structure behind the largest social insurance programs (pensions, health) could be revisited to enhance fiscal sustainability in the face of a growing middle class.

## IN THE FACE OF THAILAND'S RAPIDLY AGING POPULATION, PROVIDING APPROPRIATE FINANCIAL AND SOCIAL SUPPORT TO THE ELDERLY WILL BE A PARTICULAR CHALLENGE IN THE COMING DECADES.

In Thailand, the family has typically borne primary responsibility for care of the elderly, both economically and socially. Private transfers are thus the major source of funding for old-age support, with the elderly being more likely to depend on private transfers and assets than on public transfers. With rising dependency ratios, Thai workers will need to utilize a variety of financial products to help prepare for their own retirement, including savings, insurance, pensions, and other diversified financial products. The role of the state may also need to increase in order to support those elderly in need, so putting in place a household targeting system will be vitally important. One key issue is the distributional question of relative spending on formal sector pension schemes versus the social pension. For the social pension, there is also the question of whether to target, and if so, how tightly. With rapid aging, the coverage/adequacy tradeoff for the social pension will start to become more acute in the coming years.

## THAILAND CAN TAKE STEPS TO ADDRESS THESE CHALLENGES, BUT NONE OF THOSE STEPS WILL BE EASY.

As discussed in World Bank (2015c), such steps include raising the participation rates of women and the elderly, raising the quality of the workforce (through more and better education, provided throughout life), and having more accommodating migration policies. Pension schemes will also need tweaking to ensure that living longer will not imply becoming poor, and the health care system will need an overhaul to support a different disease burden and needs of the elderly. As the experiences of several OECD countries show, none of the reforms are easy to implement. Thailand will have to implement them from a much weaker starting point (in terms of its income level and level of capacity) and at a much more rapid speed.

## ONE PROMISING RECENT INITIATIVE IS THE INTRODUCTION OF A CHILD SUPPORT GRANT IN 2015.

Observing the higher poverty rates for children (see Figure 37), in October 2015, the government started implementing a new scheme to support poor families with small children. The scheme uses a combination of a Proxy Means Test and a Community-based Targeting to identify needy families.<sup>86</sup> Under the scheme, and during the first year of implementation, poor and near-poor families with children (age 0 to 1 years of age) received a monthly allowance of THB 400 baht per child. Specifically, during the first year of implementation, cash assistance was provided to parents and caretakers of children born from October 2015 to September 2016.<sup>87</sup> About 128,000 young children in Thailand were expected to receive the benefit during this first year of implementation, and the uptake as of end August 2016 is reported to be close to 100 percent. Additionally, in March 2016, the Cabinet voted an expansion of the policy to cover young children 0-3 from poor and near poor families. As such, the scheme will gradually be expanded in the coming years and is expected to cover approximately 100,000 children from each age cohort.

<sup>86</sup> The proxy means test uses a combination of income test and additional criteria, including: (A) Family dependency, including: i) elderly; ii) people with disabilities; iii) child under 15 years old; iv) an unemployed family member at the age of 15-65; (B) No car; (C) Not more than 1 Rai of land for agriculture; and (D) Housing structure and components.

<sup>87</sup> The transfer is unconditional, but during delivery process, there are information sessions around key issues, like ECD and the relevance of breastfeeding.



## C. MAKE GROWTH GREENER AND MORE RESILIENT

### ENSURING THE SUSTAINABILITY OF GROWTH AND THE LIVELIHOODS OF THE BOTTOM 40 PERCENT WILL DEPEND TO A LARGE EXTENT ON THAILAND'S ABILITY TO MAKE GROWTH GREENER AND MORE RESILIENT.

Green growth decouples growth from heavy dependence on resource use, carbon emissions, and environmental damage. It also promotes growth through the creation of new green product markets, technologies, investments, and changes in consumption and conservation behavior. Greater resilience to natural disasters and climate change will help reduce the vulnerability of agricultural workers—who comprise the majority of the bottom 40 percent—and businesses to potentially devastating shocks. At the same time, greener growth will be critical for ensuring the availability of resources to power future growth while protecting Thailand's wealth of natural resources for future generations and preserving the places upon which Thailand's tourism industry relies.

### THAILAND IS ON THE RIGHT TRACK IN ADDRESSING ITS KEY ENERGY CHALLENGES.

The new integrated energy plans provide a solid pathway for implementation, and Thailand's capacity and leadership commitment to implement the required actions is high. Implementation progress toward achieving the multiple targets could be reviewed systematically. As positive progress is made in improving energy efficiency, expanding alternative energy, increasing regional energy cooperation, and effectively contributing to the NDC target, the need for environmentally or socially sensitive energy options such as coal or nuclear power projects on the planning horizon may be reduced.

## MANAGE THAILAND'S NATURAL RESOURCES AND ENVIRONMENT

### REVERSING FOREST AND FISHERIES DEPLETION WILL REQUIRE IMPLEMENTING PROPOSED PLANS AND AVOIDING CONFLICTING POLICIES.

Improved forest management requires accelerated identification and clarification of forest boundaries and greater use of economic instruments as incentives for conservation, such as payment of environmental services as proposed by the National Reform Council in 2014, as well as adjustments in conflicting policies promoting rubber and other large-scale plantations. In its National Environmental Quality Management Plan (2012-2016), Thailand targets to increase forest coverage area to 40 percent. National policy documents also state that the government will protect and conserve marine and coastal resources through limits and bans on the use of destructive fishing gear, enhanced maritime security, seasonal fishing bans, fishing stock assessment, and promotion of the role of village fishing in coastal resources conservation.

### TO MANAGE "BROWN" ENVIRONMENT (AIR, WATER, WASTE) PROBLEMS, THAILAND NEEDS TO IMPLEMENT THE PLANS AND REGULATIONS IT ALREADY HAS IN PLACE.

Thailand has comprehensive regulations and policies to manage air pollution, but enforcement of these regulations needs to be strengthened. Additionally, environmental concerns should be kept in mind when making policy decisions in seemingly unrelated areas that may nevertheless have negative environmental concerns. An example is introducing tax incentives to encourage car ownership, which may increase emission of air pollutants. Regarding water pollution, enforcement of the more stringent regulations announced in 2012 that stipulate more detailed effluent standards by source, wastewater quality collection, and reporting would likely lead to improvements. Similarly, enforcement of waste management regulations issued in the past few years (including the Electrical and Electronics Waste



Management and National Waste Management Acts and provincial waste management plans) will be a key step in addressing waste problems effectively.

### MOREOVER, UNDERSTANDING AND MITIGATING THE POTENTIAL ENVIRONMENTAL AND HEALTH IMPACTS ARISING FROM NECESSARY LARGE-SCALE PUBLIC INVESTMENTS IN AN INCLUSIVE MANNER WILL BE IMPORTANT TO ENSURE THE VIABILITY AND SUSTAINABILITY OF SUCH INVESTMENTS.

Stronger involvement of the public in the EIA process as well as in monitoring and evaluation of EMP implementation is a key component of good governance, as acknowledged by the National Environmental Quality Management Plan (2012-2016). Enhanced coordination among different sector public agencies and the public would also improve policy and investment planning and implementation. Furthermore, the cumulative impacts of multiple large-scale development projects should be taken into account, possibly through strategic impact assessments.

### REDUCE VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE BY FOCUSING ON BETTER LAND ZONING AND MANAGEMENT TO REDUCE THE FLOOD-DROUGHT PRONE AREAS.

#### BETTER LAND ZONING AND MANAGEMENT IS NEEDED TO REDUCE THE FLOOD-DROUGHT PRONE AREAS.

Specifically, deforestation in the upper reaches increases the risk of flash floods and sediment loads in rivers, while reducing storage and drainage capacity. Lack of careful planning for public infrastructure (roads, floodways, etc.) and urban/industrial areas exacerbate the risk of flooding. Flood and drought risk management has regional implications, too. As Thailand suffers from frequent and severe droughts, the government has drawn up and floated plans to divert water from the Mekong River into the Chao Phraya basin as well as the northeast of Thailand. These proposals have created considerable tension within the Mekong riparian countries,

including Lao PDR, Cambodia, and Vietnam which rely on dry season flows from the Mekong River. The Mekong countries still need to reach agreement on equitable use of water resources.

#### TO ACHIEVE ITS NATIONALLY DETERMINED CONTRIBUTIONS (NDC), TIMELY AND EFFECTIVE POLICIES, MARKET-BASED INSTRUMENTS, AND COOPERATION WITH THE PRIVATE SECTOR WILL ALL BE IMPORTANT.<sup>88</sup>

The government is studying several policy options (market- and non-market-based mechanisms) for reducing emissions and their suitability to the Thai context. In the NDC, the government adopted the use of market-based mechanisms to enhance the cost-effectiveness of mitigation actions. The government has made progress in developing the voluntary domestic market and is exploring the use of market instruments to promote energy efficiency improvement among large energy consumers in the industry and building sectors and low-carbon urban development. International experiences show that putting a price on carbon (through emission trading and carbon tax) is one of the key policies to help countries meet their climate targets effectively and has the potential to drive innovation and investment in clean technologies. Climate policies and market-based instruments could be designed to effectively align with and complement renewable energy and energy efficiency initiatives as well as land use and urban development and transport policies. Implementing coordinated green growth strategies will help Thai companies develop business models that take advantage of low carbon opportunities. Given Thailand's success in renewable energy and energy efficiency, the private sector could also be mobilized to further drive green growth and contribute to meeting NDC targets.

<sup>88</sup> The Nationally Determined Contributions (NDC) or Intended Nationally Determined Contributions are Thailand's commitments made under the UN Framework Convention for Climate Change for reductions in greenhouse gas emissions as well as its undertakings for adaptation planning. As part of its INDC declaration in October 2015, Thailand made the commitment to reduce green house gas emissions by 20 percent from the projected business-as-usual level by 2030 sessions around key issues, like ECD and the relevance of breastfeeding.

## PROMOTE ENERGY EFFICIENCY AND CLEAN ENERGY BY FOCUSING ON IMPLEMENTING THAILAND'S PLANS AND COMMITMENTS FOR ENERGY EFFICIENCY AND ALTERNATIVE ENERGY

**THE GOVERNMENT HAS SET AN AMBITIOUS TARGET TO IMPROVE ENERGY EFFICIENCY IN ALL SECTORS, WHICH IF IMPLEMENTED SUCCESSFULLY COULD HELP SHIFT THE COUNTRY TOWARD A HIGH-EFFICIENCY GROWTH PATH, BUT THE CHALLENGES LIE IN IMPLEMENTATION.**

Thailand pledged at the UNFCCC COP 21 meeting in 2015 to reduce its carbon emissions by 20-25 percent from their 2005 levels by 2030. This international commitment is underpinned by the government's Power Development Plan (PDP) for 2015-2036 which pledges to increase renewable energy so it comprises up to 20 percent of overall power generation from its current level of 10 percent. The challenge now is implementing these commitments.

### SEVERAL CONCRETE EFFORTS COULD ACCELERATE THE SHIFT TOWARD MORE ENERGY EFFICIENCY AND CLEANER ENERGY.

First, targeted efforts in the major energy-consuming sectors, i.e. manufacturing and transport, could contribute significantly to the government's goal. In the transport sector, key measures will involve improving vehicle fuel efficiency and expanding infrastructure investment to promote greater use of rail transport. Other efforts will include more stringent regulations of large factories and buildings, strengthening the capacity of the industry to adopt low global warming and energy efficient technologies, improving energy efficiency standards for buildings and appliances and their enforcement, and greater use of demand side management measures. Moreover, adopting new and innovative measures – such as energy efficiency resource standards among power producers, performance-based EE incentives – will also help induce new investment and adoption of new and more efficient technology. Second, avoiding energy price and demand distortion by maintaining the current pricing/

subsidies policies. By March 2016, subsidies for most petroleum products have been lifted, excise taxes have been largely reinstated for petroleum products, subsidies for electricity are limited to very small “life line” consumption for households. Third, given that Thailand will increasingly have to import its electricity, Thailand could take a leading role in power grid code harmonization and take a leading initiative in the design of power market rules to facilitate commercialization of power trade both bilaterally and multilaterally in the Greater Mekong Subregion and ASEAN. Similarly, for natural gas, Thailand energy authorities could take an active role in optimizing and collaborating on natural gas procurement among the current regional gas trading countries such as China, Malaysia, Myanmar, Singapore and Thailand. Thailand can also help bring global good practice in developing power infrastructure projects in countries with less experience than Thailand.





## STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR TO IMPLEMENT REFORM PRIORITIES.

### ALL REFORM PRIORITIES IDENTIFIED IN THE SCD WOULD REQUIRE SIGNIFICANT IMPLEMENTATION CAPACITY IN THE PUBLIC SECTOR.

The World Bank's forthcoming WDR 2017 proposes three principles to guide those thinking about improving governance for development. First, it is important to think not only about what form

institutions should have, but about the functions that institutions must perform: "Think not only about the form of institutions, but about their *functions*." Second, while capacity building matters, how to use the capacity and where to invest in capacity depends on the relative bargaining powers of actors: "Think not only about capacity building, but about *power asymmetries*." Third, in order to achieve the rule of law, countries could focus on first strengthen the different roles of law to enhance contestability, change incentives, and reshape preferences: "Think not only about the rule of law, but about the *role of law*". Box 9 provides more details on the approach and outlines how it has been applied to this report.

#### **BOX** Applying the World Development Report 2017 Framework to Thailand **9 :**

The WDR 2017 outlines three principles for rethinking governance for development

Traditional approach	Three principles for rethinking governance for development
Invest in designing the right <b>form</b> of institutions.	Think not only about the form of institutions, but about their <b>functions</b> .
Build the capacity of institutions to implement policies.	Think not only about capacity building, but about <b>power asymmetries</b> .
Focus on strengthening the rule of law to ensure those policies and rules are applied impersonally.	Think not only about the rule of law, but about the <b>role of law</b> .

*Source:* Adapted from the World Development Report 2017

The SCD has applied this framework by focusing on:

- Specific functions rather than forms, that fiscal institutions could undertake to implement the 8 year infrastructure plan.
- Reflecting current realities in terms of power asymmetries, the SCD recommends deregulation for improving competitiveness and promoting private enterprise to improve the role of law.
- Making suggestions on implementing ASEAN Economic Community agreements on skilled labor

This approach means that governance reforms proposed by the SCD are calibrated to solve problems identified by stakeholders during countrywide consultations and promotes economic development for all by strengthening functions, reducing power asymmetries and enhancing the role of law.

## STRENGTHENING THE INSTITUTIONAL CAPABILITY TO CREATE MORE AND BETTER JOBS

IN ORDER TO BOOST INVESTMENTS IN INFRASTRUCTURE, IT WOULD BE CRITICAL FOR CENTRAL FISCAL AGENCIES - THE BOB, NESDB, AND THE MINISTRY OF FINANCE TO:

- Develop and Publish detailed project appraisals for all infrastructure projects under the Governments THB 1.796 trillion (USD 51.3 billion equivalent) Logistics Infrastructure Investment Program FY2015-2023. Currently Thailand does not publish project appraisal information for projects beyond a short feasibility study. Project appraisals could include cost benefit analysis, social and environmental safeguard assessments along with mitigation measures, and detailed procurement and implementation plans.
- Introduce multiyear budgeting and hardwire it to projects that have been fully appraised and commence implementation. Currently investment projects do not have detailed costings and the single year budget system makes implementation of multi-year projects cumbersome and ineffective. In order for Thailand to implement this 8 year investment program, it would be important that there is corresponding multiyear budgetary commitment approved by the Parliament.
- Implement a procurement system that mandates transparent international bidding for all mega projects (projects above THB 1 billion). When firms compete the government wins. By requiring transparent international bidding, domestic firms will be able to compete with international firms and in doing so the government will get internationally competitive prices while domestic firms will have the incentive to improve standards – which will allow them to also compete for contracts internationally.

- Involve citizens in monitoring of public projects through use of innovative technologies. This can be done by geo-tagging projects and inviting the public to send in pictures and feedback on project progress. At the same time provide citizens with information on implementation stage of the project. This would enhance transparency and provide a platform for collaborative governance.

SIMILARLY, TO INCREASE COMPETITIVENESS, THAILAND COULD BENEFIT FROM IMPLEMENTING EXISTING AEC-2015 COMMITMENTS AND DEREGULATION. IN THIS REGARD THE NATIONAL COMPETITIVENESS DEVELOPMENT COMMITTEE (NCDC) ESTABLISHED IN DECEMBER 2015 UNDER THE PRIME MINISTER'S OFFICE COULD CONSIDER:

- Fast-tracking Mutual Recognition Agreements for services liberalized under the AEC-2016. This would help address the skills gap identified by firms, enhance firm level competitiveness.
- Deregulation through the Guillotine Approach. At this time the government is collaborating with the private sector to identify approximately 6,000 laws, rules and regulations that are outdated, overlapping or unclear. By eliminating rules and regulations that are essentially redundant or overlapping, the government will be able to increase efficiency. And by publicizing all rules and regulations, including those that have been abolished, the government will enhance transparency.
- Improve ease of doing business. Currently, it takes 103 days for agencies to consider and grant construction permits in Thailand. By comparison, this can be done in only 26 days in Singapore. Similarly, it takes 440 days to enforce contracts in Thailand, while it only takes 150 days in Singapore. And finally it takes 264 hours to file taxes in Thailand while taxpayers take only 118 hours in Malaysia. As Thailand competes for investments, it does so with the likes of Singapore and Malaysia. Therefore it is important that the regulatory capability is enhanced so that Thailand can reclaim its position



within top 20 economies in the Ease of Doing Business. Global rankings matter to global investors. In this regard, the NCDC may consider implementing an action plan of regulatory modernization that would reduce time, minimize costs to private sector, and improve quality of government's regulatory functions for private enterprise.

- Being a small open economy, Thailand would benefit from proactive adoption and implementation of international standards. Two standards are important in the current state of play. These are: (i) international labour standards pertaining to fisheries – due to the importance of export markets; and (ii) international civil aviation organization standards – due to importance of air transport links for tourism, medical hubs, and logistics services.

## STRENGTHENING THE INSTITUTIONAL CAPABILITY TO PROVIDE MORE SUPPORT TO THE BOTTOM 40 PERCENT AND TO MAKE GROWTH GREENER AND MORE RESILIENT

AS THE COUNTRY IMPLEMENTS ITS PLANNED “4.0 ECONOMIC GROWTH MODEL” FOR REVIVING GROWTH AND BOOSTING SHARED PROSPERITY, INSTITUTIONAL CAPACITY TO PROVIDE AN EFFECTIVE SOCIAL PROTECTION SYSTEM, BOOSTING AGRICULTURAL PRODUCTIVITY, AND IMPROVING EDUCATION AND SKILLS WILL BE PARAMOUNT.

In this regard some considerations for improving institutional capability include:

- Defragmenting the institutional arrangements for water management. Currently there is no single agency that has the responsibility and accountability for managing water resources in a manner that prevents floods and droughts. Currently there are more than 10 agencies that are working on narrow water management issues without having an overall agency that can effectively manage water resources nationwide. This institutional fragmentation was a key reason why the Government’s

2011 THB 350 billion National Water Management scheme never got off the ground – as no agency could actually manage the upstream, mid-stream, and downstream systems. The government may consider administrative mergers of organizations in order to have a capability endowed organization that has the mandate and capacity to plan and implement transformative water management systems to avoid the perennial floods and drought issues. This will be a boon not just for the agriculture sector, but also make it more resilient to climate change.

- Restructuring the agency mandates on social protection. Having a functioning social protection system would require the MOF, NESDB and the Bureau of the Budget to plan and budget component elements of the social protection system and to drive implementation. This is because by its nature, a social protection system spans different administrative structures (local authorities, pensions, child care, social insurance) and requires central fiscal agencies to play a key role. Current institutional fragmentation across these central fiscal agencies does not allow each agency to take a clear lead role. It does not matter which agency is assigned the role to develop and execute the social protection program, what matters is that institutional collaboration is strong, budgets are allocated and spent through implementing agencies in a programmatic manner.



# KNOWLEDGE GAPS



# IDENTIFIED DATA AND KNOWLEDGE GAPS

WHILE THAILAND HAS GOOD DATA IN MOST AREAS (ESPECIALLY FOR THE POST-1997 CRISIS PERIOD), DATA ARE WEAK IN SOME AREAS.

For example, very little is known about the approximately 3.7 million migrant workers estimated to be living in Thailand, including their exact number, the sectors in which they work, and their well-being and needs. Similarly, lack of sex-disaggregated quantitative data among key sectors as well as limited reporting of violence against LGBTI people limits effective policy dialogue. For instance, the true extent of economic development outcomes—from housing to education to health care—is largely unknown. The impact of discrimination and violence on socio-economic status and/or essential assets is another largely unexamined issue. The true extent, nature, and consequences of SOGI-motivated violence are also largely unknown, limiting effective policy development. In addition, the research available tends to focus on LGBTI individuals within cities (mostly Bangkok), so there is a dearth of data on sexual and gender minorities in poor and rural areas (Crehan, 2015). Furthermore, the impact of climate change on different development scenarios and on the poor needs to be examined in more detail. Relatedly, ways to enhance social protection in a way that mitigates the adverse impacts of climate change and natural disasters need to be examined.

ANOTHER GAP IS THE LACK OF TIME SERIES OF DISAGGREGATED PUBLIC SPENDING, AND A CONSISTENT TIME SERIES ON PUBLIC EXPENDITURE BY FUNCTIONAL USE ONLY STARTS IN 2005.<sup>89</sup>

The former means that there is no research on the impact of public spending on provincial-level outcomes (e.g., poverty, job creation). The latter means that it is difficult to decipher how government priorities have shifted over time (e.g., from defense to social sectors).

WHILE A GREAT DEAL IS KNOWN ABOUT HOUSEHOLDS OVER TIME, LESS IS KNOWN ABOUT THE COMMUNITIES IN WHICH THEY LIVE BECAUSE THAILAND DOES NOT ACCOMPANY THE HOUSEHOLD QUESTIONNAIRE WITH A COMMUNITY QUESTIONNAIRE.

Again, this makes it difficult to gauge the impact that government actions (e.g., building roads, marketplaces) might have had in improving livelihoods.

THAILAND SHOULD MAKE IT A PRIORITY THAT ITS SURVEY DATA, SUCH AS THE LABOR FORCE SURVEY (LFS), ARE CONSISTENT AND COMPARABLE ACROSS TIME TO ENABLE EFFECTIVE MONITORING OF THE ECONOMIC CONDITIONS.

The LFS undertaken by the National Statistical Office (NSO) since 1963 is the primary source of data on the country's labor market and are among the most timely and important economic data series produced. Beginning in 1971, two rounds of the LFS were collected each year. Another round

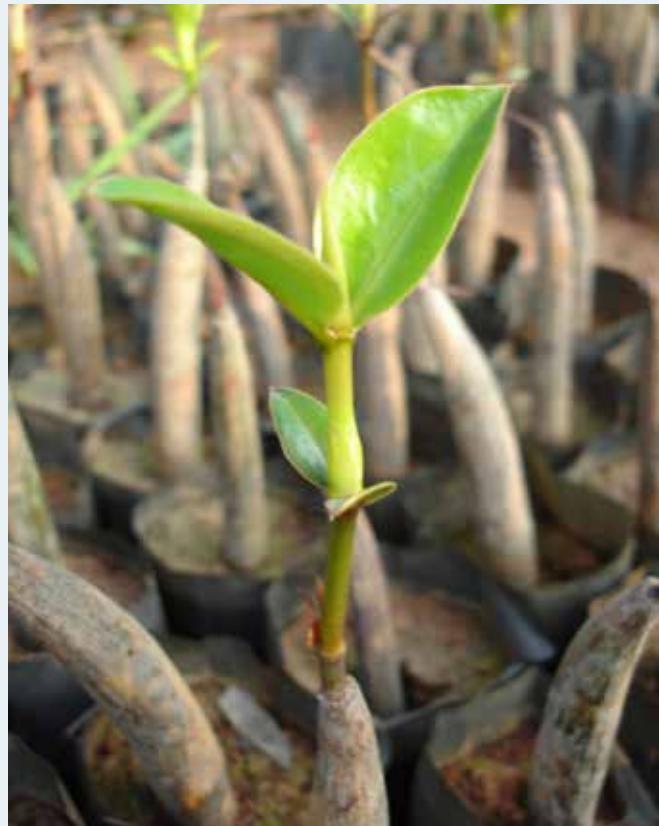


<sup>89</sup> As the World Bank 2009 PEFA assessment notes: "Local governments receive approximately 25 percent of total revenues but there is little systematic reporting/consolidation of their operations and financial performance, [...] their accounts are not consistently presented to central government, and no comprehensive information has been produced about the functional distribution of their expenditure since 1996."

was added during the 1984-1997 period, while a fourth round was included in 1998. This has allowed researchers to measure the performance of the Thai economy at a quarterly frequency ever since. In addition to enabling investigation of short-run fluctuations, the comparability and long time series of the survey data mean that statistics on long-run labor market trends can also be analyzed. These characteristics render the LFS extremely valuable for researchers and policymakers alike. However, beginning in 2014 there was a major update in the sampling frame based on the new series of Population Projection for Thailand, 2010-2040. Unfortunately, no attempt has been made by the NSO to retrospectively revise the sampling weights for the survey data collected prior to 2014 to correspond with the new sampling frame. This effectively means that the long-run effects on the labor market of, say, the new minimum wage policy implemented during 2011-2012 or the recent fall in the global agricultural prices cannot be evaluated.<sup>90</sup>

#### **ANOTHER KNOWLEDGE GAP RELATES TO DETAILED RISK VULNERABILITY INFORMATION WHICH IS ARE NEEDED TO INTEGRATED CLIMATE RESILIENCE ACROSS SECTORS AND SUPPORT THE IMPLEMENTATION OF INDC AND THE NATIONAL ADAPTATION PLAN.**

Although the data and information needed for the climate risk assessment are mostly available through international and national sources, they are currently not systematically evaluated, nor forwarded/translated to the stakeholders and considered actionable to guide the prioritization of resilience measures across key sectors. Development of national and subnational climate services that include effective early warning system and long term monitoring of multi-hazard risks are needed to enhance the adaptive planning capacity of national agencies and local decision makers.



<sup>90</sup> The seriousness of the problem can be gauged by considering the number of employed workers in the third quarter in 2013 and 2014. Over this one year period, if one is to believe the currently available numbers, the total number of employed persons declined from 39.1 million to 38.4 million. The number of agricultural and fishery workers fell from 16.4 million (42 percent) to 13.5 million (35 percent) while the number of manufacturing workers increased from 5.4 million (14 percent) to 6.3 million (16 percent).

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# ANNEXES

## ANNEX 1: DEEP SOUTH

THIS ANNEX SUMMARIZES SOME KEY FEATURES OF THE SITUATION IN THE DEEP SOUTH.

### THE DEEP SOUTH IS AMONG THE PROVINCES WITH THE HIGHEST POVERTY RATES AND A LARGE NUMBER OF POOR POPULATIONS.

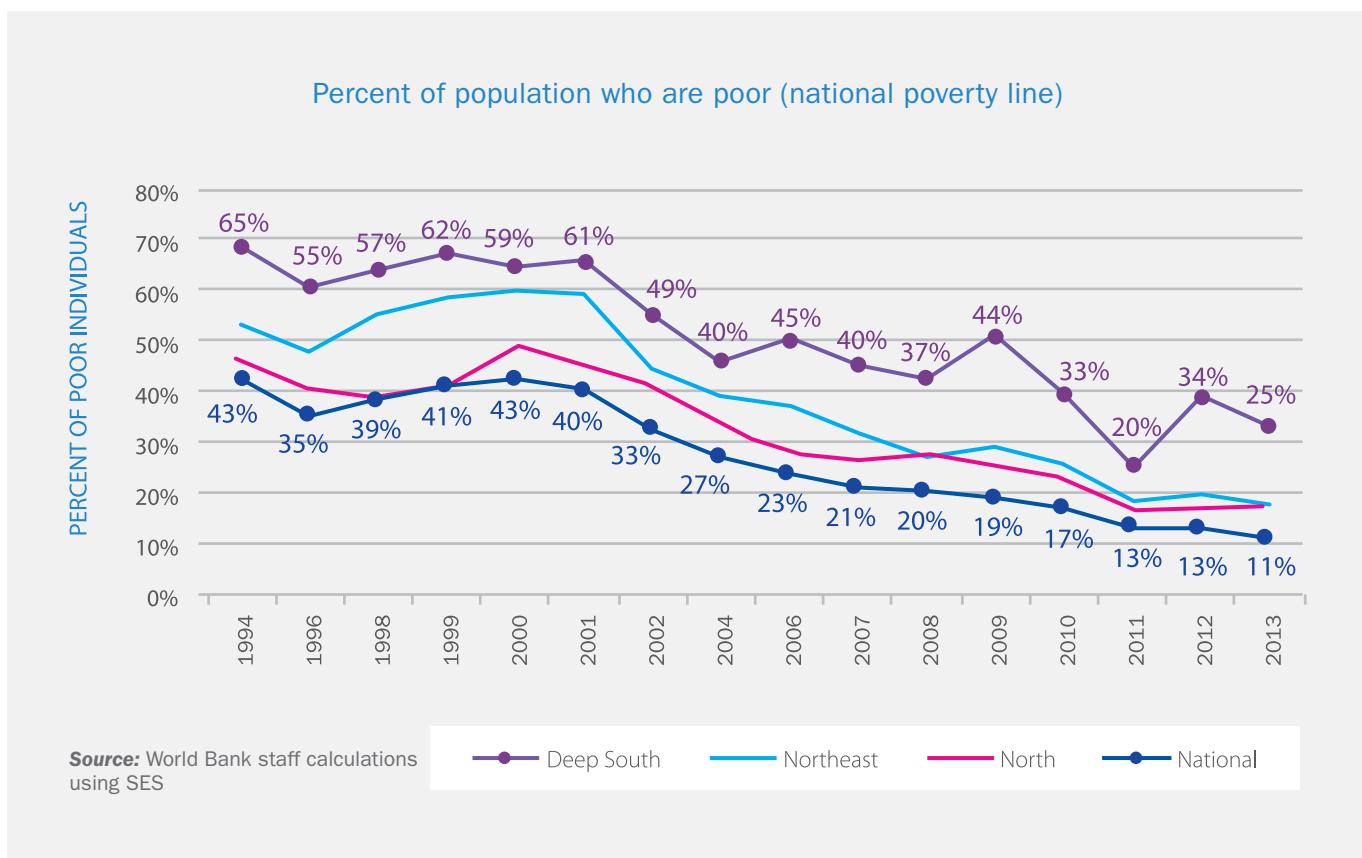
Pattani and Narathiwat had the 2<sup>nd</sup> and 3<sup>rd</sup> highest poverty rates, respectively, in Thailand in 2013 with the 7<sup>th</sup> and 8<sup>th</sup> highest number of poor, respectively. In more details, the Deep South provinces cover only 2.6 percent of the total of population but their 0.57 million poor people account for 7.8 percent of the total number of poor people in Thailand. In addition, 0.83 million (or 48 percent) of their total population (of 1.73 million) are vulnerable to falling into poverty.

### POVERTY IN THE DEEP SOUTH HAS BEEN DECLINED SUBSTANTIALLY OVER THE LAST TWO DECADES BUT RATES REMAINS SUBSTANTIALLY ABOVE THE NATIONAL AVERAGE.

Poverty fell from 69 percent in 1994 to 33 percent in 2013. While the decline is depressive, the rate remains substantially above the national average (11 percent). The total numbers of poor fell from 1.1 to 0.6 million in between 1994-2013.

### BOOMING RUBBER PRICES AND THE SOCIAL PENSION HAVE PLAYED A CRITICALLY IMPORTANT ROLE IN REDUCING POVERTY RATES IN THE DEEP SOUTH.

Analysis of the drivers of poverty reduction suggest that farm income and government transfers have increasingly dominated other income sources to alleviate poverty between 2006 and 2013, reflecting the role of rising agricultural prices and the social pension for the elderly.<sup>91</sup>



<sup>91</sup> Poverty decomposition is performed with a counterfactual unconditional distribution as a Shapley decomposition approach proposed by Azevedo, Sanfelice and Nguyen (2012).



## KEY GROUPS ARE MORE VULNERABLE IN THE DEEP SOUTH AND OR THEIR SHARE OF THE POPULATION IS LARGER.

There are higher poverty rates in disadvantaged household categories such as households headed by an elderly or households headed by those who speak a non-Thai language at home. A very large group of poor households is households which head speaks a non-Thai language at home. This household category covers 71 percent of total households in the Deep South, and their poverty rate is 33 percent of households.

## LANGUAGE IS AN IMPORTANT CONSTRAINT FOR THE DEEP SOUTH.

Pattani Malay or Yawi (in Thai) or Jawi (in Pattani) is the primary spoken language in the neighboring southernmost provinces of Thailand. It is a highly divergent dialect of Malay including the standard Bahasa Malaysia, because of its geographical isolation. Therefore, those who cannot speak Thai or English find themselves struggling to get access to higher education or advanced employment opportunities. According to the SES 2013, individuals who do not speak Thai at home tend to be much poorer when compared within other individuals within the same socio-economic classes.

## EDUCATIONAL OUTCOMES LOOK PARTICULARLY POOR IN THE DEEP SOUTH.

All three Deep Southern provinces are at the bottom of the national standardized test scores, according to the Ordinary National Educational Test (ONET) 2012 (for grades 6, 9, and 12). The problem is more severe for schools in small villages that have less than one teacher per class room and no adequate educational resources to provide quality education to the disadvantaged students. One-third or 310 from 920 schools in the Deep South under the Office of Basic Education Commission (OBEC) have less than 20 students per class (defined as small school - see Lathapipat and Sondergaard, 2015) and could be integrated or sharing education resources with another same-type schools within the same sub-district (e.g. providing same primary education level in the same local community). With a declining student-age population<sup>92</sup>, the number of small schools in the Deep South is expected to increase over the coming years.

## LABOR FORCE INACTIVITY RATES ARE PARTICULARLY WORRISOME IN THE DEEP SOUTH.

The inactivity defined as neither working nor studying in the Deep South provinces is among highest in the country. According to SES 2013, 18.54 percent of population age 15-65 was inactive. For youth (age 15-25), 18.52 percent of them were not studying or working, which reflecting their detachment from the labor market. Instead of staying in education or training to invest in skills that improve their future employability, these youth's economically inactivity risk both labor market and social exclusion. Male youth inactivity is among highest in the country, and this group could be targeted for recruitment into insurgency involvement. In addition, inactivity in female working age population is also among the highest in Thailand.

## A FUNDAMENTAL CHALLENGE FOR THE DEEP SOUTH IS THAT IT HAS NOT ENJOYED THE SAME LEVEL OF "STRUCTURAL TRANSFORMATION" AS OTHER PARTS OF THAILAND.

Percentages of both the non-agricultural gross provincial product (GPP) and the GPP per person employed in non-agricultural sectors are among lowest in the country. While the share of GPP of the "modern sectors" (i.e. the economy, excluding agriculture, fishing, mining, and construction) increased from 56.1 to 60.5 percent in 2001- 2013, this is still far lower than elsewhere: the GPP shares of modern sectors for Bangkok Metropolitan Area (included Samut Prakan, Nonthaburi, and Pathum Thani), Northeast, and South are 97.9, 74.8, and 71.9 percents in 2013. Equally troubling, productivity growth in the modern sectors (measured as the GPP per person employed in modern sectors) have been stagnant, hovering around 100,000 THB (constant 2002 THB) for more than a decade (2001-2013). By contrast, productivity (again measured as GPP per person employed in modern sectors) grew at a brisk pace in other regions: by 4.3 percent per year (during this period) in Bangkok Metropolitan area, by 2.7 percent in the Northeast, and by 1.6 percent in the South, respectively.

<sup>92</sup> According to NESDB's population and projection for 2015-2030, the population ages 5-19 in the Deep South will decrease by 30,000, or from 0.47 to 0.44 million.

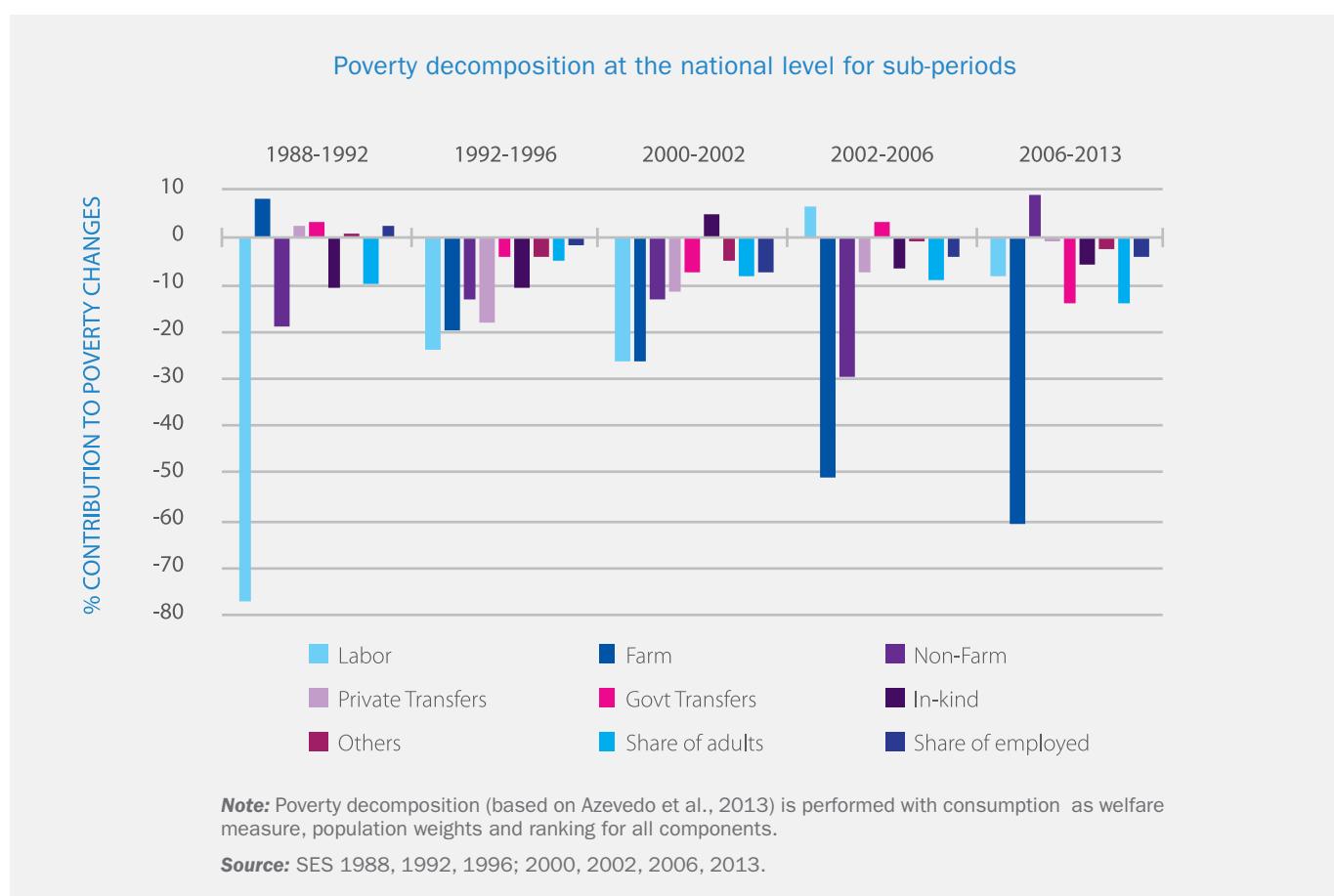
## ANNEX 2 : INCLUSIVENESS OF GROWTH

### THIS ANNEX INVESTIGATE THE INCLUSIVENESS OF GROWTH IN MORE DETAILS.

Specifically, the annex provides disaggregation over time and geographic regions (for information on the methodology and data used see Badiani-Magnusson et al., 2016). Moreover, the annex provides details on the income traits of the bottom 40 percent versus the rest of the population, including statistics on income generation by skill groups. Lastly, we report some key demographic indicators and their link to poverty reduction.

### BETWEEN 1988 AND 1996 LABOR INCOME AND NON-FARM INCOME WERE MAJOR CONTRIBUTORS TO POVERTY REDUCTION, AND IN THE 2000's THIS WAS LED BY FARM REVENUE.

Labor income played an essential role in reducing poverty for the 1986-1992 period, supplemented by farm-income and private transfers for the 1992-1996 period (see figure below). Between 2000-2002 and 2002-2006 reduced poverty is associated with greater farm, labor and non-farm income. The rising role of farm income over the period is associated with greater diversification from paddy into other outputs (e.g. perennials, fisheries or livestock), the increased farm commercialization and integration in global food value chains, and the increased share of processed and high quality food in exports. Between 2006 and 2013 farm income and government transfers have outstayed other income sources to alleviate poverty, reflecting the role played by rising global agricultural prices and the agricultural price support schemes on one side, and the introduction of the social pension for the elderly on the other.



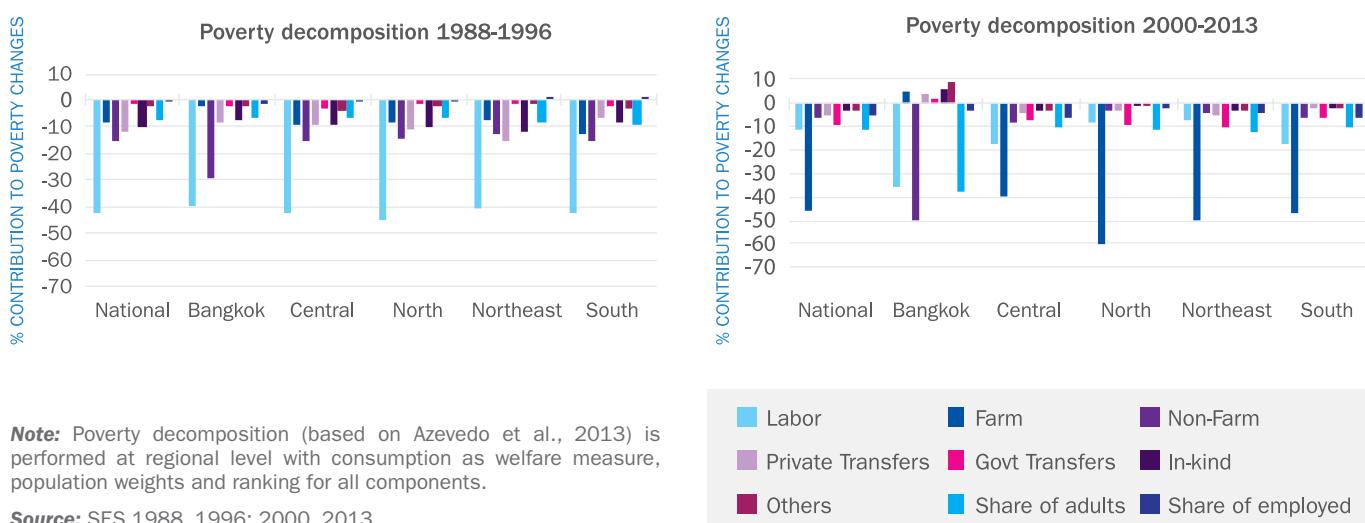


## LOOKING AT THE CONTRIBUTIONS TO POVERTY REDUCTION BY REGION, IT APPEARS THAT WHILE LABOR INCOME PLAYED THE LARGEST ROLE IN POVERTY REDUCTION THROUGHOUT THE FIVE REGIONS IN 1988-96, ITS ROLE WAS SURPASSED BY FARM INCOME IN ALL FOUR REGIONS EXCEPT BMR IN 2000-2013.

By 1996, the reduction in the number of poor in the North and Northeast regions is associated with growing contributions from non-farm income (around 12 percent contribution) and private transfers (11 and 16 percent contribution in each province) in addition to labor income which contributed to 40 percent of reduced poverty. In 2013, the contribution of farm income reaches around 60 percent in the North and 50 in the Northeast.

Additionally, around 10 percent contribution is accounted to public transfers in the two regions. Central and South regions display reduced poverty to be associated to farm income (around 40 percent) and labor income (around 18 percent). As the figure below clearly shows, Bangkok has been an outlier in terms of pathways out of poverty in the 2000s, where predominance of nonfarm and labor income accounted for more than 50 and 35 percent respectively in the reduction in poverty rates.

Poverty decomposition at regional level (1988-1996 and 2000-2013)



**Note:** Poverty decomposition (based on Azevedo et al., 2013) is performed at regional level with consumption as welfare measure, population weights and ranking for all components.

**Source:** SES 1988, 1996; 2000, 2013.



## THE POOR AND BOTTOM 40 PERCENT OF THE POPULATION RELY MORE ON FARM INCOME AND LABOR INCOME COMPARED TO THE NON-POOR AND HAVE A GROWING RELIANCE ON TRANSFERS.

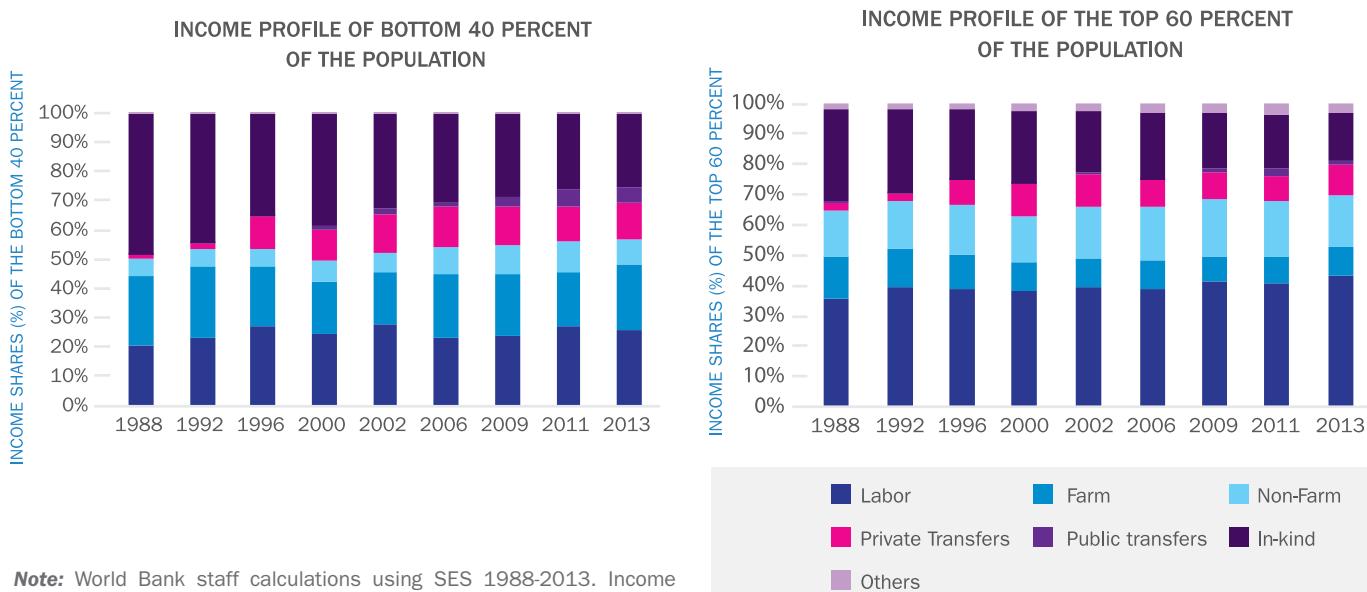
As shown in the figure below which compares the evolution of the income profile for the bottom 40 percent and the top 60 percent of the population<sup>93</sup>, the bottom 40 percent has relied more heavily on farm and in-kind income. Notably, the income profiles differed between the early period (1988-96) and the recent period (2000-13). In 1988-1996 when the economy was characterized by rapid growth with significant job creation in the secondary sectors, for the bottom 40 percent, farm income fell from 23 to 21 percent of the total income. The share of labor income to total income increased from 20 to 27 percent, in addition to in-kind income and private transfers which, in 1996, accounted respectively for 35 percent and 11 percent of the bottom 40 income. In contrast, the top 60 percent relied more heavily on labor income (more than 35 percent) and non-farm income (around 15 percent). In 2000-2013 as the structural transformation slowed down, the trend of the rising share of labor income slowed down for the bottom 40 percent with an average of 27 percent of

household income being sourced by labor income over the period, but this is on average 15 percent lower than the top 60. At the same time, in-kind income reduced its shares for the bottom 40 percent, while the share of private transfers increased from 11 percent in 2000 to 13 percent in 2013, and the share of public transfers increased sharply from 1 to 6 percent.

## CLOSER EXAMINATION OF THE DIFFERENT TYPES OF INCOME REVEALS THAT THE BOTTOM 40 PERCENT RECEIVES INCOME FROM VERY DIFFERENT OCCUPATIONS THAN THE TOP 60 PERCENT.

For the bottom 40 percent, labor income is mostly comprised of income generated from occupations as laborers (e.g., workers in crafts and related trades, plant and machines operators, skilled agricultural work and elementary occupations), although the share of labor income generated from clerical occupations has increased slightly for this group from 9 percent in 2006 to 16 percent in 2013. In contrast, the top 60 percent

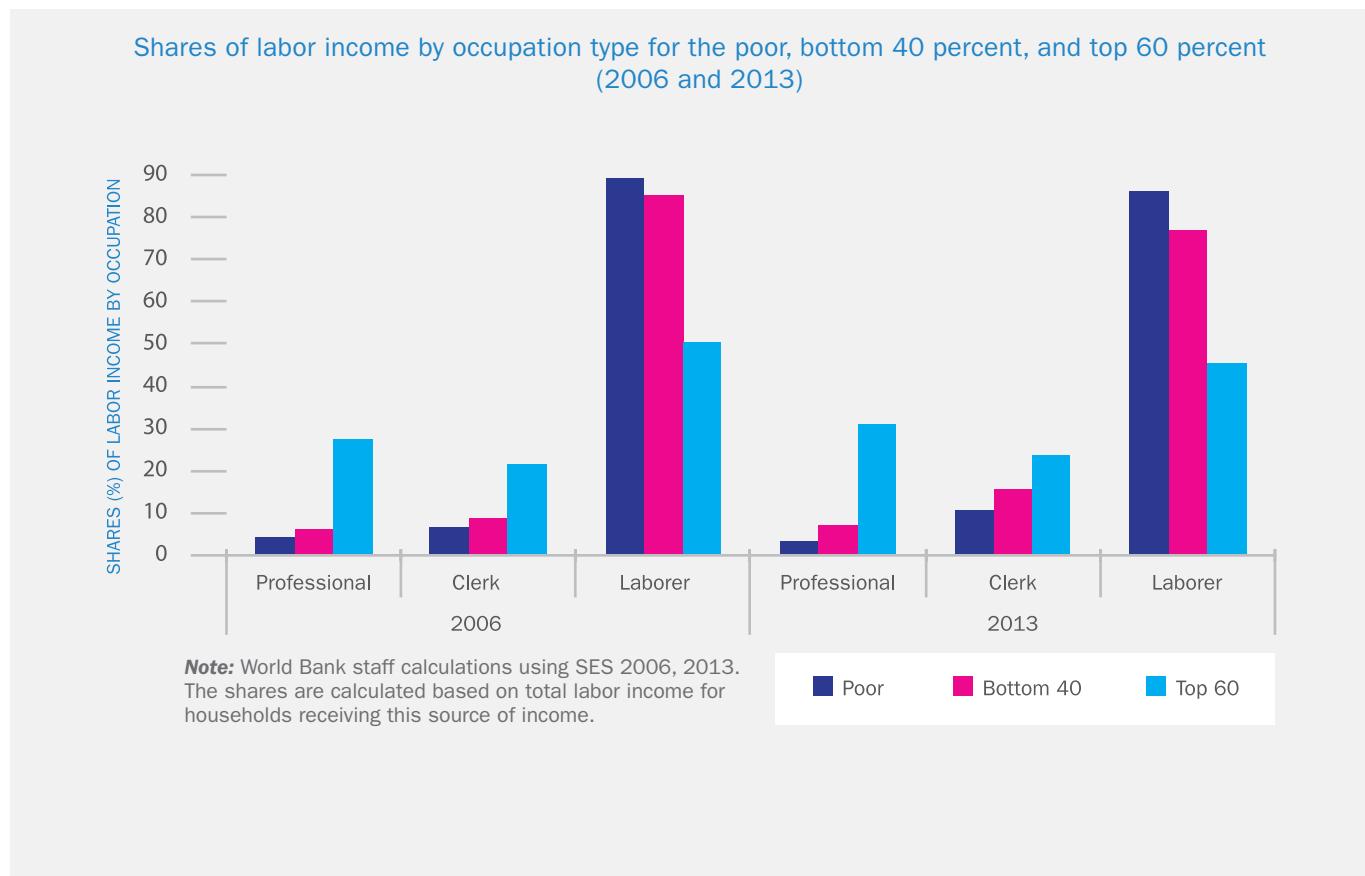
Evolution of the income profile of the bottom 40 percent and top 60 percent of the population  
(1988-2013)



**Note:** World Bank staff calculations using SES 1988-2013. Income shares are calculated using household weights.

<sup>93</sup> Bottom 40 and top 60 percentiles are based on consumption per capita, and the means are drawn using household weights.

have gained income shares from professional occupations over the last decade, with a much stronger role of professional income and clerical income (see figure below). These trends point to possible labormarket segmentation, although the increase in labor income from clerical work for the bottom 40 percent also reflects a potential for gradually diversifying income toward higher-skilled and highest-paid occupations.



### THE DEMOGRAPHIC COMPOSITION OF THE HOUSEHOLD HAS CHANGED OVER TIME, REDUCING ITS SIZE AND INCREASING THE NUMBER OF ADULTS WHICH COMPOSE IT.

The reduction in the average household size reflects a typical demographic transition in developing economies that experience economic advancements. During the period 1988 to 2013 the number of working-age adults (15-65) as a share of household size has increased. Looking at employment contribution to the household, the trend in the share of employed working-age members over total household size shows increasing trends, especially in the 2000s. This may suggest that demographic changes have positively contributed to the production capacity of the

household, due to a greater share of household members actively contributing to household income. Among the working-age adults in the household, the share of those which are employed has decreased during the 1990s and stabilized afterwards (on average during the 2000s the 79.9 percent of the working-age members of the household conducted an occupation). These trends coincide with a big increase in secondary net enrolment experienced during 1990s with more modest increases thereafter. Overall, the table below suggests that the change in the age structure and the growing number of people employed per household could have had important consequences on income generation and thus to poverty alleviation.

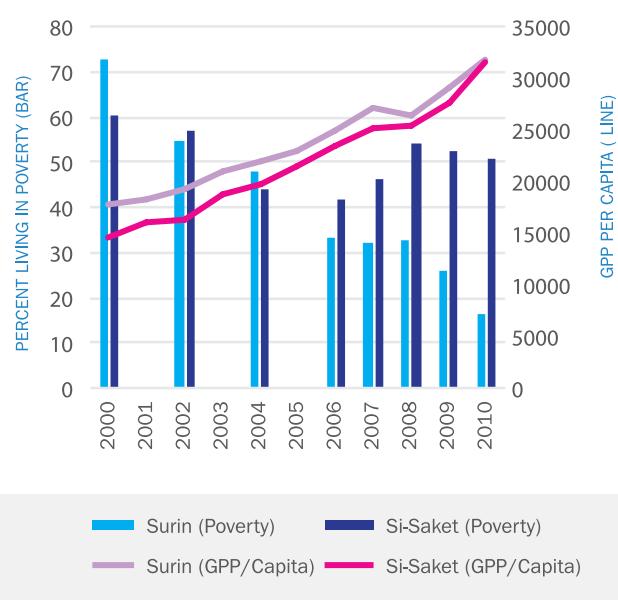
## Key household demographic indicators 1988-2013

WORKING - AGE (15-65)				WORKING - AGE EMPLOYED (15-65)		
Household size	Number of working-age	As a share (%) of household size	Number of employed	As a share (%) of household size	As a share (%) of working-age	
1988	4.0	2.6	67.2%	2.1	56.3%	
1992	3.9	2.5	69.0%	2.1	58.2%	
1996	3.7	2.4	70.0%	2.0	56.7%	
2000	3.6	2.4	69.9%	1.9	55.3%	
2002	3.5	2.3	70.8%	1.8	56.2%	
2006	3.3	2.2	70.8%	1.8	57.4%	
2013	3.0	2.1	74.3%	1.6	59.0%	
					79.3%	

**Note:** World Bank staff calculations using SES 1988-2013. The statistics at average household level are calculated using household weights. Working-age adults share is the yearly average of the proportion of individuals aged 15-65 over total household size. The share of employed working-age individuals is expressed as a mean share over total household size (column 5) or as a mean share over total number of working-age individuals (column 6).

## ANNEX 3 : EXAMPLE OF PATHWAYS OUT OF POVERTY: A LOCALLY LED DEVELOPMENT APPROACH

Based on Moore and Donaldson (2016) this box reports the experience of the Northeastern provinces of Surin and Si-Saket in their pathways out of poverty. Despite similar geographic, demographic and production traits as well as GPP growth rates, they experienced marked differences in poverty reduction over the first decade of the 2000s (see figure to the right). What explains the marked poverty reduction in Surin? The authors find that the formation of a strong and active civil society has harmonized small-scale, low tech industries to multi-actors' initiatives, thus generating shared prosperity within multiple channels. Three proximate factors are example of the different approach applied: organic farming, the One Tambon One Product initiative (OTOP) and rural-based tourism. How do these provinces compare?



**Note:** Figure: "Growth and poverty reduction in Surin and Si-Saket", reproduction of Moore and Donaldson (2016, p.2). GPP p.c. expressed in 2002 prices.



## A. COOPERATIVE ORGANIC RICE PRODUCTION

became less profitable in Si-Saket than Surin due to lack of province-wide organization and coordination, with fewer options to certify products and promote them along the local and tourist markets. Instead, the transition to organic farming in Surin has seen since the 1980's the formation of collective groups, organizations and province-wide establishments encouraging producers in numerous ways. First, with education and best farming practices, smallholder farmers developed better tools in organic farming processes and organic fertilizers. Second, the organizations helped in reducing imbalances between farmers and larger market actors in the agricultural supply chain, by either acting as intermediaries in reducing conflicts or by forming collective groups to directly operate parts of the output processing such as milling. Third, the network of local NGOs enhanced farmers to engage with international NGOs in the export of Fair Trade products and in the compliance with standards certification bodies. As early as in 2000, the Surin provincial governor advocated the organic agriculture cause to official state level involvement, with the integration of provincial agencies to secure funds, to coordinate activities and use of infrastructures, complementing the projects of local NGOs. The additional involvement of local "development monks" led by Surin's Abbot Nan increased the spread of information and practices across the communities.

## B. THE OTOP INITIATIVE

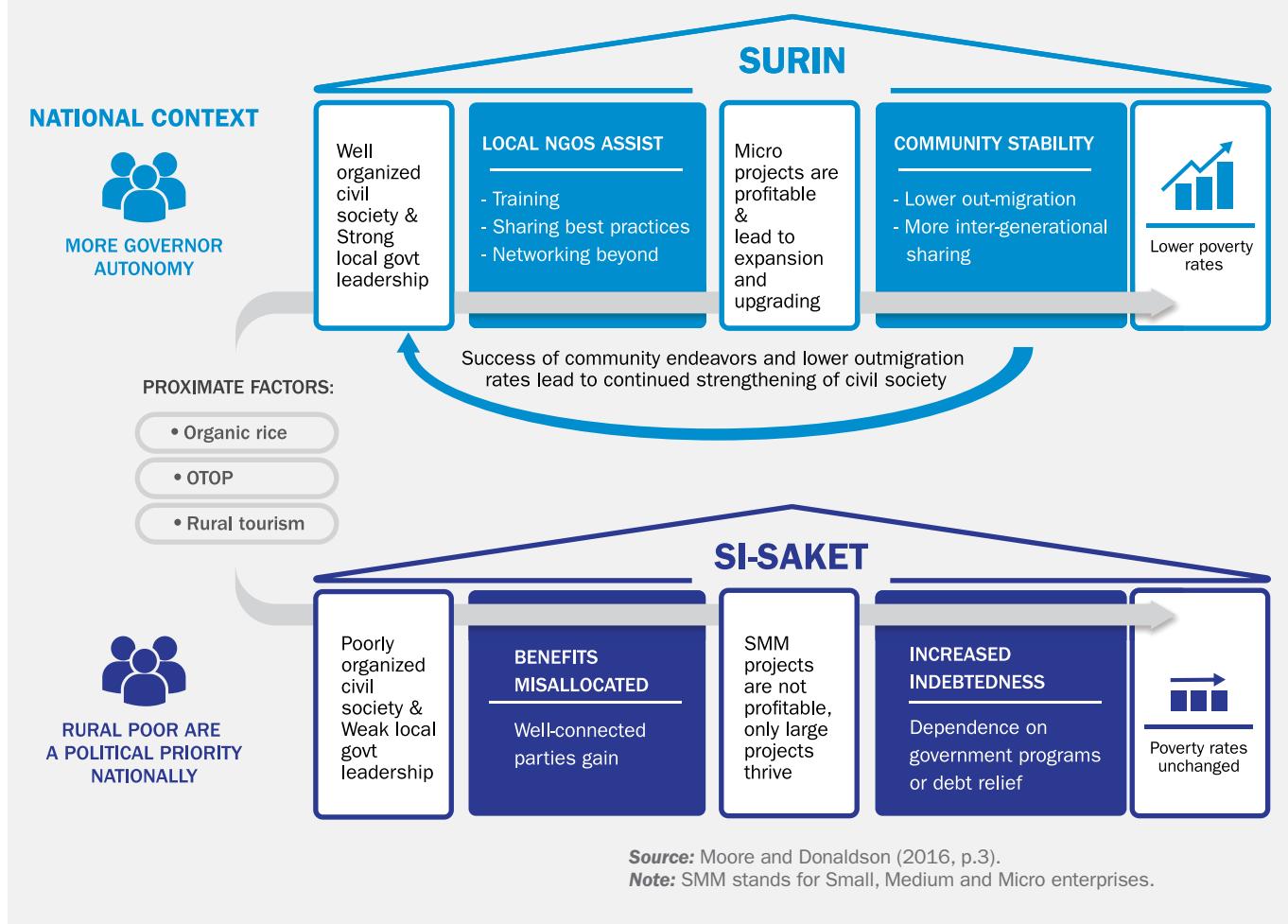
in Si-Saket, as in many other areas of the country, benefited only few already established producers. Instead in Surin the synergies among small producers, larger enterprises and the sponsorship of local authorities via festivals and events made the OTOP a source of market and finances for small producers, and a profitable off-season activity for farmers.

## C. RURAL-BASED TOURISM

has seen in Surin a strong synergy among entrepreneurs, local governments and NGOs in promoting participation of local residents (including ethnic minorities) in tourism-related attractions in several small-scale sites, from eco-friendly tourism to homestay, with festivals and events attracting visitors to discover local productions and culture. To a different extent, Si-Saket has developed its local attractions, but with greater shares of revenue catered in hotel and restaurants from day-visitors rather than tourists, thus being not structured to benefit local residents. Despite similar growth characteristics, Surin has outperformed its neighboring province Si-Saket. Local institutions and the active involvement of communities have had a central role to create synergies and induce economic activity to better serve the poor (Moore and Donaldson, 2016). Having these pathways as example, a locally led development approach may support many parts of Thailand to soon get back on track.



**FIGURE** The causal mechanisms behind Surin's success



## ANNEX 4 : DETAILS ON THE LABOR MARKET

### MILLIONS OF NEW AND BETTER JOBS WERE CREATED IN THE PAST FEW DECADES.

Specifically, 11.2 million new jobs were created between 1988 and 2013, benefitting both men and women (albeit men benefitted slightly more – 54 percent of the new jobs were taken by men). These new jobs were higher paid (and higher productivity) jobs in Thailand's growing industrial and service sector. Notably, women were far more likely to take up service sector jobs: the fractions of services sector employment rose from 26 to 45 for women and 25 to 35 for men during this period.

### GENDER INEQUITIES REMAINS IN TERMS OF FEMALE LABOR FORCE PARTICIPATION.

Women's participation rates are nearly 16 percentage points below that of males (71 percent versus 87 percent in 2013). The gap and participation rates are quite steady at this level since 2006 which reflects that additional jobs have been created for the increasing population at the same growth rates. In 2013, women accounted for 51 percent of the labor force and they hold 46 percent of jobs.



## THESE LABOR MARKET INEQUITIES HAVE PERSISTED, DESPITE THE FACT THAT WOMEN'S EDUCATIONAL OUTCOMES ARE SUPERIOR TO MEN'S.

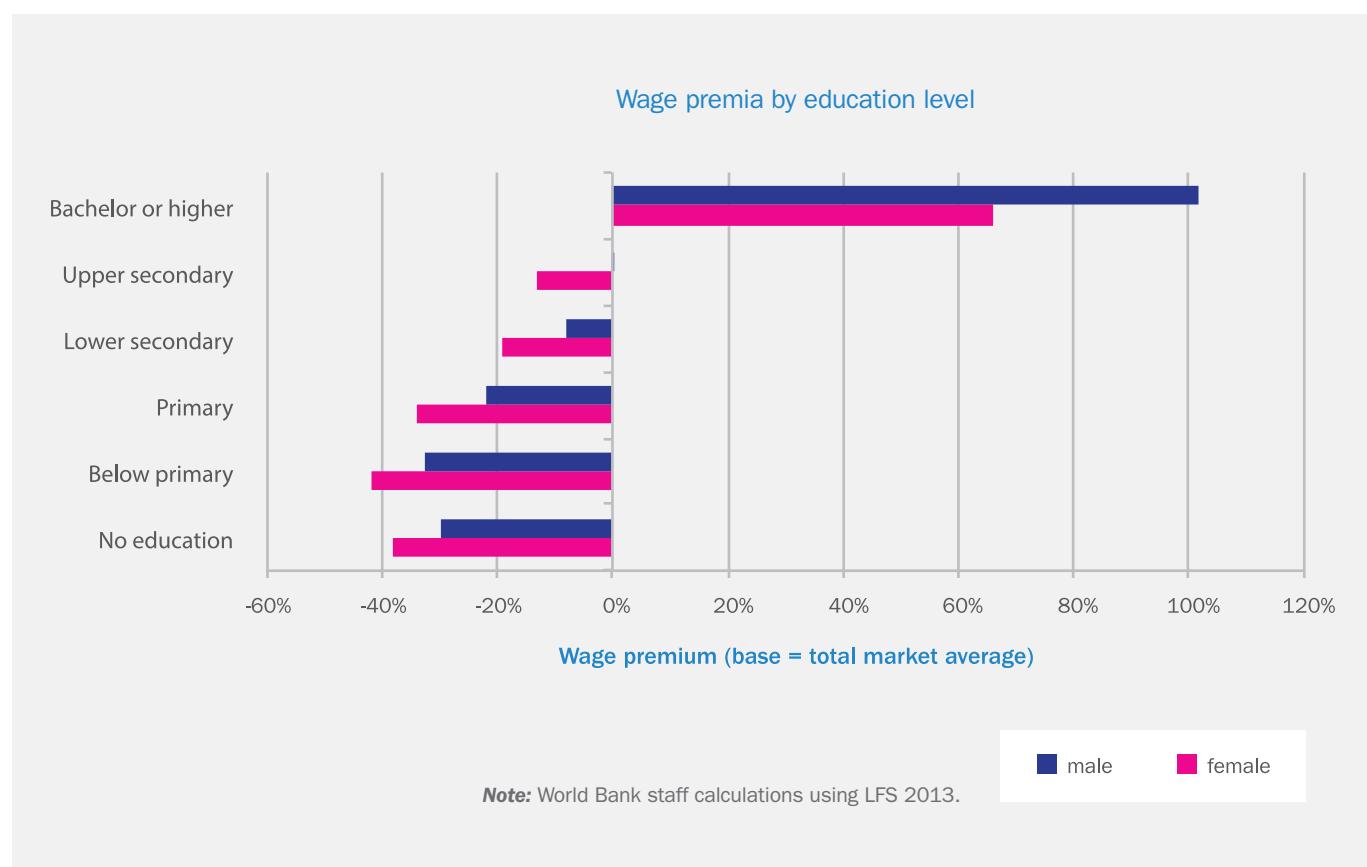
Specifically, the education level of young female workers is higher than young male workers. In 2013, young female wage workers (aged 15-24) have significantly higher proportions of upper secondary or university graduated than male wage workers within the same age cohort. And, more broadly, female workers aged 15-64 already have achieved greater levels of schooling (from an average of 4.9 years in 1986 to 8.6 years in 2013), exceeding male employees (from an average of 5.4 years of schooling in 1986 to 8.4 years in 2013).

## ALTHOUGH THE SITUATION IS IMPROVING, WOMEN'S PAY CONTINUE TO LAG BEHIND MEN (BY APPROXIMATELY 16 PERCENT IN 2013).

The faster wage growth for female workers could be contributed to some convergence in wages, and this could be related to the increase in their skill level. But this does not translate into the equal earnings per hour. After controlling for all other socioeconomic and geographic characteristics, women continue to earn less than men – by an estimated 16 percent in 2013.

## SOME WOMEN ARE WORSE OFF THAN OTHERS IN TERMS OF BEING PAID LESS.

Women with a higher education seem to suffer the biggest gap. Female wage workers have lower hourly earnings across all educational levels. Highest wage inequality occurs at top educational level positions, even though there are more female wage workers than male among wage workers at occupations with higher education.

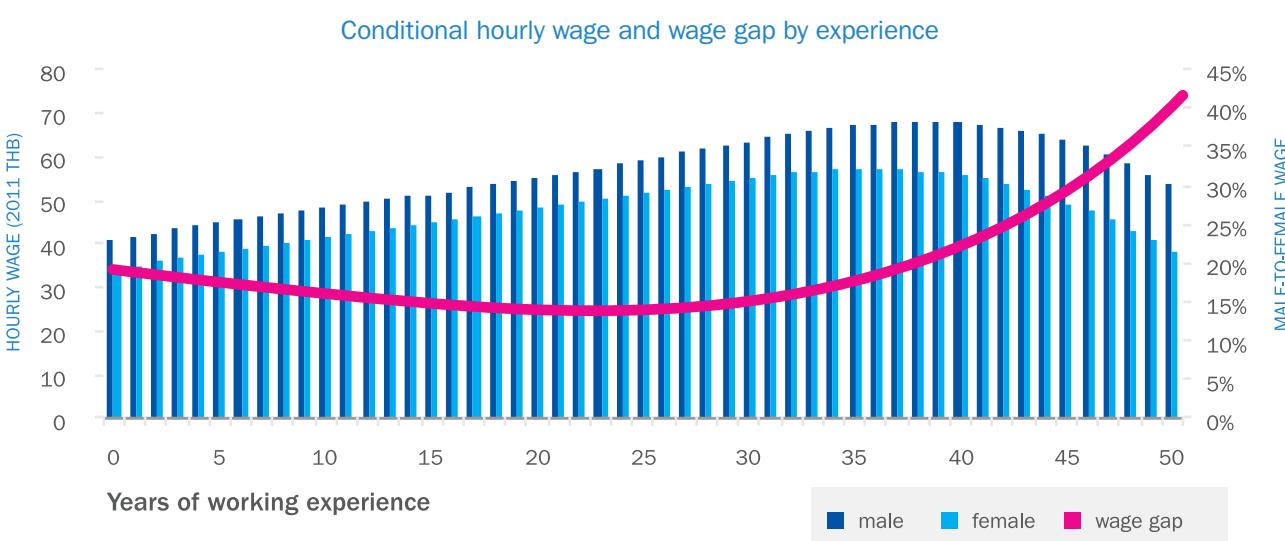


## WOMEN WORKING IN SMALL FIRMS FACE THE BIGGEST GAP IN WAGES.

On the other hand, wage inequality is lower in large firms which tend to have more standardized approach on remuneration and job promotion. Unfortunately, most wage workers are in small enterprises with less than 20 employees, which tend to have high wage gender gaps. In particular, 55 percent of female wage workers are in enterprises with hiring between 1 and 19 employees.

## FURTHERMORE, WOMEN WITH LOTS OF EXPERIENCE ALSO SUFFER A LARGE GAP.

Other things being equal, women have lower wage earnings than men at all levels of experience. The wage gender gap is getting worse for the higher years of work experience which could be from inequality in career development or motherhood and housewife contribution. Given lower job participation rate for female, female shared 20 percent of wage workers which their occupations are classified as managerial positions in 2013.



**ANNEX TABLE** Detailed breakdown of employment  
**1 :**

**Unit:** thousands

		Female				Male				Total			
		1988	1996	2000	2013	1988	1996	2000	2013	1988	1996	2000	2013
Agriculture	Total employment	7,437	6,172	5,608	6,295	8,798	7,505	7,882	8,314	16,236	13,676	13,490	14,609
	Employer	28	81	105	58	74	261	366	135	102	342	471	192
	Self-employed	1,197	1,302	1,178	1,850	4,549	4,427	4,470	4,730	5,747	5,729	5,648	6,579
	Unpaid family worker	5,323	3,986	3,446	3,562	3,001	1,782	1,816	2,246	8,324	5,768	5,262	5,808
	Public employee	4	8	8	4	20	13	17	6	24	20	25	10
	Private employee	885	795	871	744	1,155	1,021	1,214	1,093	2,039	1,817	2,084	1,837
	Others	-	-	-	183	-	-	-	183	-	-	-	366
	Non-Wage workers	6,733	5,559	4,894	5,474	7,891	6,746	6,914	7,118	14,624	12,305	11,807	12,592
	Part-time (<40hr)	92	100	159	333	86	101	189	443	178	201	348	776
	Full-time (>=40hr)	612	512	556	488	822	657	779	753	1,434	1,170	1,335	1,241
Industry	Total employment	1,282	2,762	2,683	3,144	1,993	4,283	3,545	4,857	3,275	7,045	6,228	8,001
	Employer	14	24	18	38	82	207	184	325	95	232	202	363
	Self-employed	222	380	364	426	288	363	362	431	509	743	726	857
	Unpaid family worker	218	237	250	264	82	103	117	196	300	340	366	460
	Public employee	26	24	27	40	107	115	103	120	133	139	130	161
	Private employee	802	2,096	2,025	2,347	1,435	3,496	2,780	3,692	2,237	5,592	4,804	6,039
	Others	-	-	-	122	-	-	-	122	-	-	-	245
	Non-Wage workers	618	913	898	747	586	862	814	1,002	1,205	1,775	1,712	1,748
	Part-time (<40hr)	32	50	65	206	92	142	182	362	124	192	247	569
	Full-time (>=40hr)	631	1,799	1,720	2,191	1,315	3,279	2,549	3,493	1,946	5,079	4,269	5,684
Services	Total employment	3,135	4,429	5,207	7,617	3,529	5,210	5,702	7,191	6,664	9,639	10,909	14,808
	Employer	45	48	80	136	104	173	202	268	149	221	282	404
	Self-employed	871	1,227	1,380	2,141	976	1,552	1,746	2,097	1,847	2,780	3,125	4,238
	Unpaid family worker	726	935	1,068	1,181	313	358	501	692	1,039	1,293	1,568	1,873
	Public employee	624	835	1,071	1,662	1,054	1,308	1,468	1,663	1,678	2,143	2,539	3,325
	Private employee	870	1,385	1,608	2,480	1,082	1,818	1,787	2,453	1,951	3,203	3,395	4,934
	Others	-	-	-	36	-	-	-	36	-	-	-	71
	Non-Wage workers	1,751	2,356	2,670	3,494	1,531	2,300	2,632	3,089	3,283	4,656	5,302	6,583
	Part-time (<40hr)	536	643	883	1,217	692	764	989	1,098	1,228	1,407	1,872	2,315
	Full-time (>=40hr)	848	1,430	1,654	2,906	1,306	2,146	2,081	3,004	2,154	3,576	3,736	5,910

		Female				Male				Total			
		1988	1996	2000	2013	1988	1996	2000	2013	1988	1996	2000	2013
Total	Total employment	11,855	13,363	13,498	17,056	14,321	16,998	17,130	20,362	26,175	30,361	30,628	37,419
	Employer	86	153	203	231	259	642	752	728	345	795	955	959
	Self-employed	2,290	2,909	2,921	4,416	5,813	6,342	6,578	7,257	8,103	9,251	9,499	11,673
	Unpaid family worker	6,267	5,158	4,764	5,007	3,396	2,243	2,433	3,133	9,663	7,401	7,196	8,141
	Public employee	654	866	1,106	1,706	1,181	1,436	1,588	1,789	1,835	2,302	2,694	3,495
	Private employee	2,557	4,276	4,504	5,571	3,671	6,335	5,780	7,238	6,228	10,612	10,283	12,809
	Others	-	-	-	341	-	-	-	341	-	-	-	682
	Non-Wage workers	9,103	8,829	8,461	9,715	10,008	9,908	10,360	11,209	19,111	18,737	18,821	20,924
	Part-time (<40hr)	660	792	1,106	1,757	870	1,007	1,361	1,903	1,530	1,799	2,467	3,660
	Full-time (>=40hr)	2,092	3,742	3,930	5,585	3,442	6,083	5,410	7,251	5,534	9,825	9,340	12,835

**Note:** Based on the average of all rounds of the LFS

## ANNEX TABLE Annualized growth of employment 2 :

	Female				Male				Total			
	1988-2013	1988-1996	1996-2000	2000-2013	1988-2013	1988-1996	1996-2000	2000-2013	1988-2013	1988-1996	1996-2000	2000-2013
Agriculture	-1%	-2%	-2%	1%	0%	-2%	1%	0%	0%	-2%	0%	1%
Industry	4%	10%	-1%	1%	4%	10%	-5%	2%	4%	10%	-3%	2%
Services	4%	4%	4%	3%	3%	5%	2%	2%	3%	5%	3%	2%
Total	1%	2%	0%	2%	1%	2%	0%	1%	1%	2%	0%	2%

**Note:** Based on the average of all rounds of the LFS

## ANNEX 5: QUESTIONNAIRE USED FOR CONSULTATIONS

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### SHARE YOUR VIEWS! THAILAND: HOW TO END POVERTY AND SHARE PROSPERITY MORE WIDELY?

The World Bank Group (WBG) is undertaking engagements with stakeholders in Thailand on the country's development opportunities, pressing challenges and ways to address them. The schedule of these meetings is posted on the World Bank Thailand website. We are using this survey to get feedback from as many stakeholders as possible. Please take a few minutes to fill out this short survey. The feedback we get will not be attributed to any individual but will be reflected and posted on the website, through a collective summary of feedback from all engagements.

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1. IN YOUR VIEW, WHAT ARE THE BIGGEST AND MOST IMPORTANT DEVELOPMENT AREAS FOR THAILAND WHERE PROGRAMS SHOULD BE FOCUSED TO END POVERTY AND SHARE PROSPERITY WIDELY AMONG PEOPLE THROUGHOUT THE COUNTRY? (PLEASE PICK MAX. 5)

- Reconciliation across social and political divisions
- High quality, expert government bureaucracy and central and local administrations
- Clean and transparent taxation and government spending, without corruption
- Access to quality education
- Access to quality health services
- Effective transport services – roads, rail, public transport
- Access to clean water and sanitation
- Energy efficiency (Thailand's economy has remained very energy intensive until now)
- A business friendly environment for the private sector, including small and medium enterprises
- Effective competition, with a level playing field and equal opportunities among private sector firms
- Access to financial services – bank accounts, credits for individuals or firms, mobile financial services, investment products, consumer financial education
- The balance of economic activity across Thailand's regions and the extent of economic concentration in Greater Bangkok Area
- Increasing productivity and incomes in agriculture, including through access to irrigation
- Social protection for the poor

- The rapid ageing of Thai society, including care for the elderly (list continues on the next page)
- Preventing and protecting against the impact from natural disasters – such as floods, droughts, earthquakes
- Protection of Thailand's environment and natural resources
- Equality and no discrimination among genders, including LGBTI (Lesbian, Gay, Bisexual, Transgender and Intersex people)
- Foreign language skills
- Foreign labor (please see below)
- Others 1: \_\_\_\_\_
- Others 2: \_\_\_\_\_

If you identify “foreign labor” as one of the top 5 priority development areas for Thailand, please indicate whether, in your view, there:

- There should be more foreign labor, and it should be easier for businesses in Thailand to hire foreign workers and for foreign workers to work in Thailand
- There should be less foreign labor, and regulation should be more strict for businesses in Thailand to hire foreign workers and for foreign workers to work in Thailand

**2. WOULD YOU LIKE TO SHARE ANY OTHER IDEAS, SUGGESTIONS, OR QUESTIONS ABOUT DEVELOPMENT OPPORTUNITIES AND CHALLENGES FOR YOURSELF, YOUR FAMILY, OR OTHER PEOPLE IN THAILAND?**

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**3. WHAT IS YOUR GENDER:** \_\_\_\_\_

**4. IF YOU WORK, FOR WHAT TYPE OF ORGANIZATION DO YOU WORK?**

- |   |                                      |
|---|--------------------------------------|
| <input type="radio"/> Government Agency   | <input type="radio"/> Civil Society  |
| <input type="radio"/> Academia            | <input type="radio"/> Private Sector |
| <input type="radio"/> Development Partner | <input type="radio"/> Other: _____   |
- 
-



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