

Getting Back on Track

Reviving Growth and Securing Prosperity for All

Thailand: Systematic Country Diagnostic



WORLD BANK GROUP



April, 2017

Objectives of the Systematic Country Diagnostic



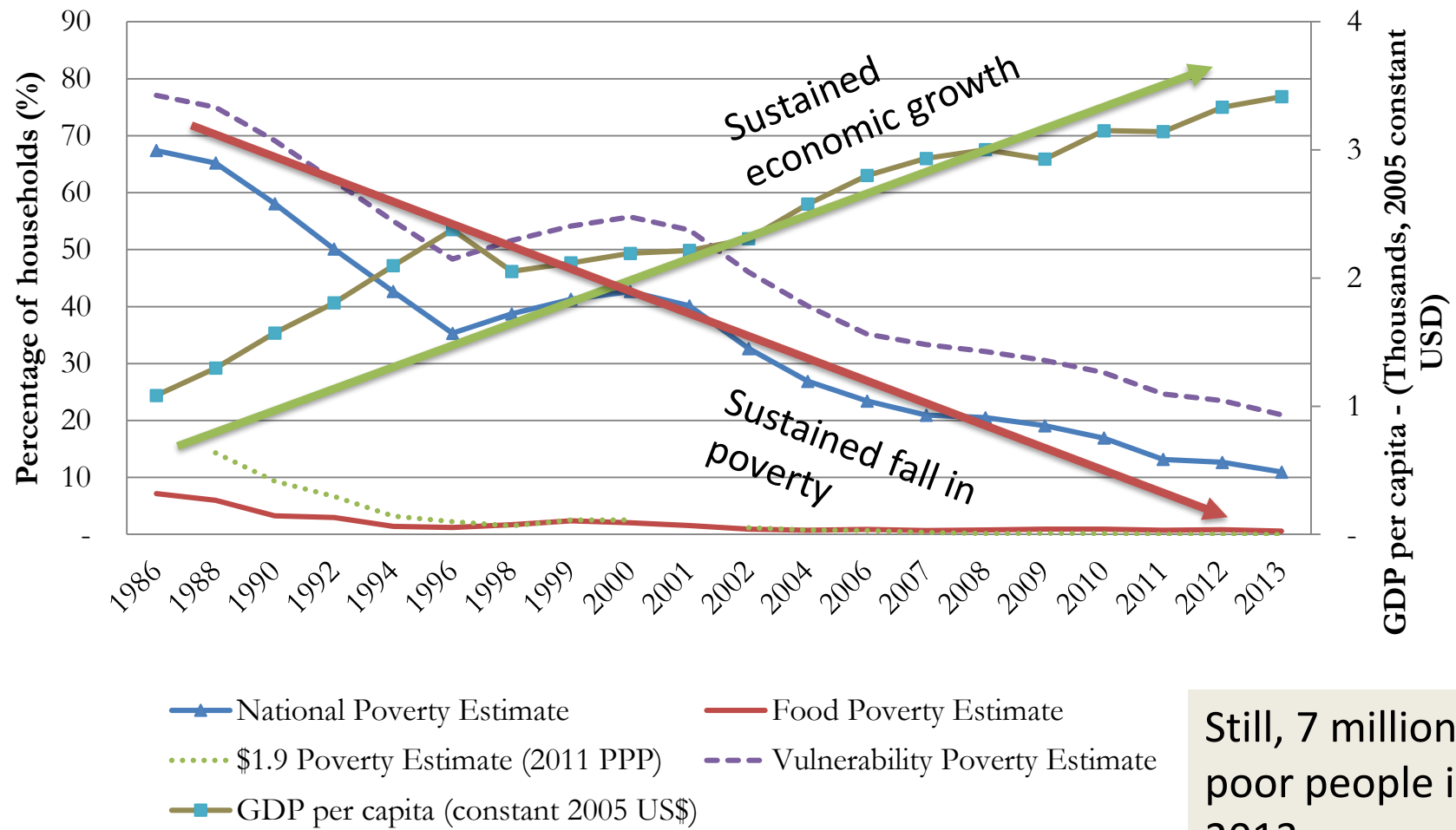
Identify key development opportunities, constraints and challenges for Thailand

Identify priorities for poverty reduction, inclusive and sustainable growth and widely shared prosperity

Definitions:

- **Inclusive growth:** Emphasis on growth of income/consumption of the poorest 40 % of the population.

Thailand represents an impressive development story



Still, 7 million poor people in 2013

Source: Socio-Economic Surveys, National Statistical Office

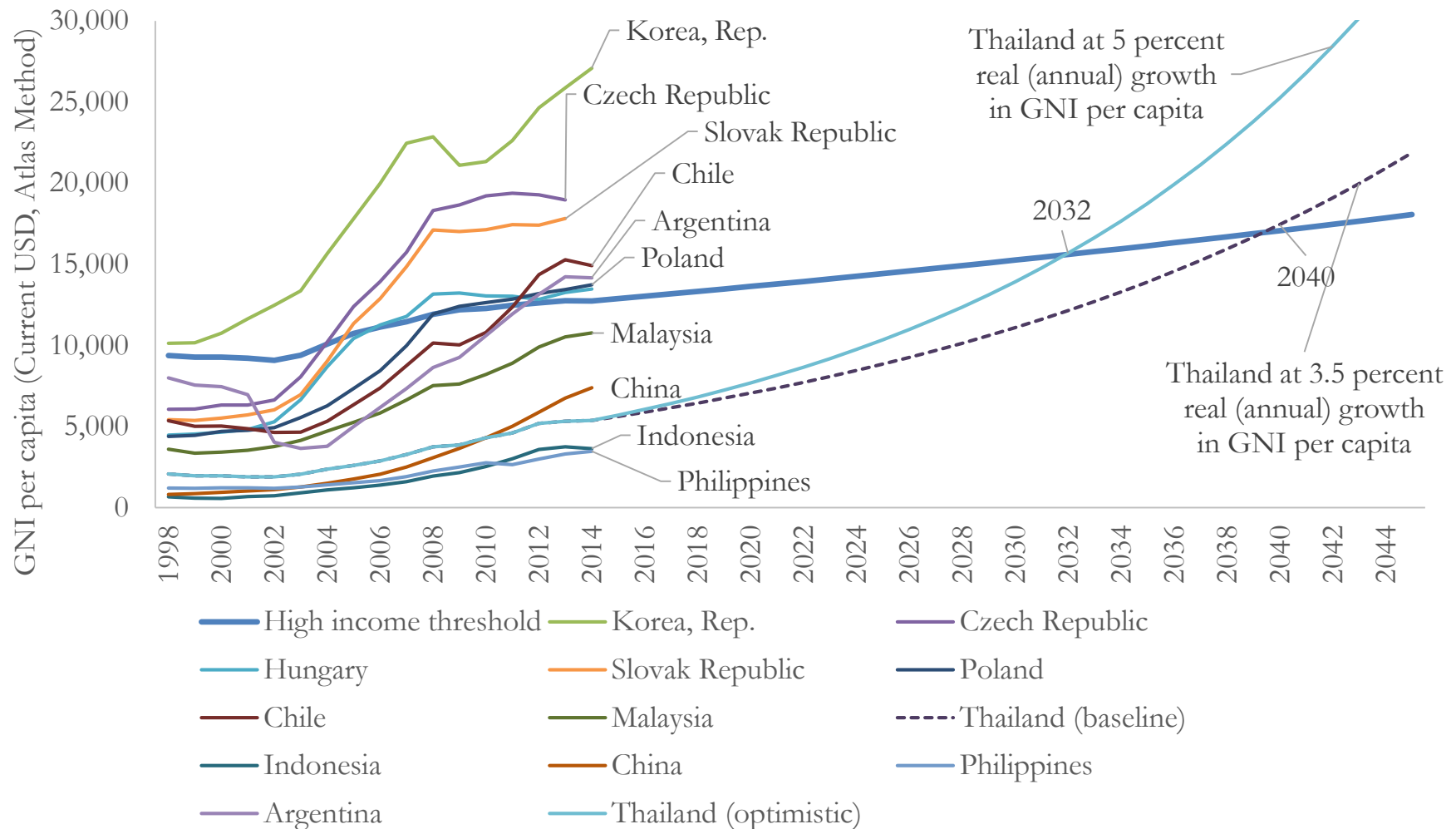
Slower GDP growth across the board

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

		By sector				By expenditure				
						Consumption				
	GDP	Agri	Indu.	Services		Private	Govern.	Invest	Exports	Imports
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.

Thailand will need at least another two decades to achieve high income status

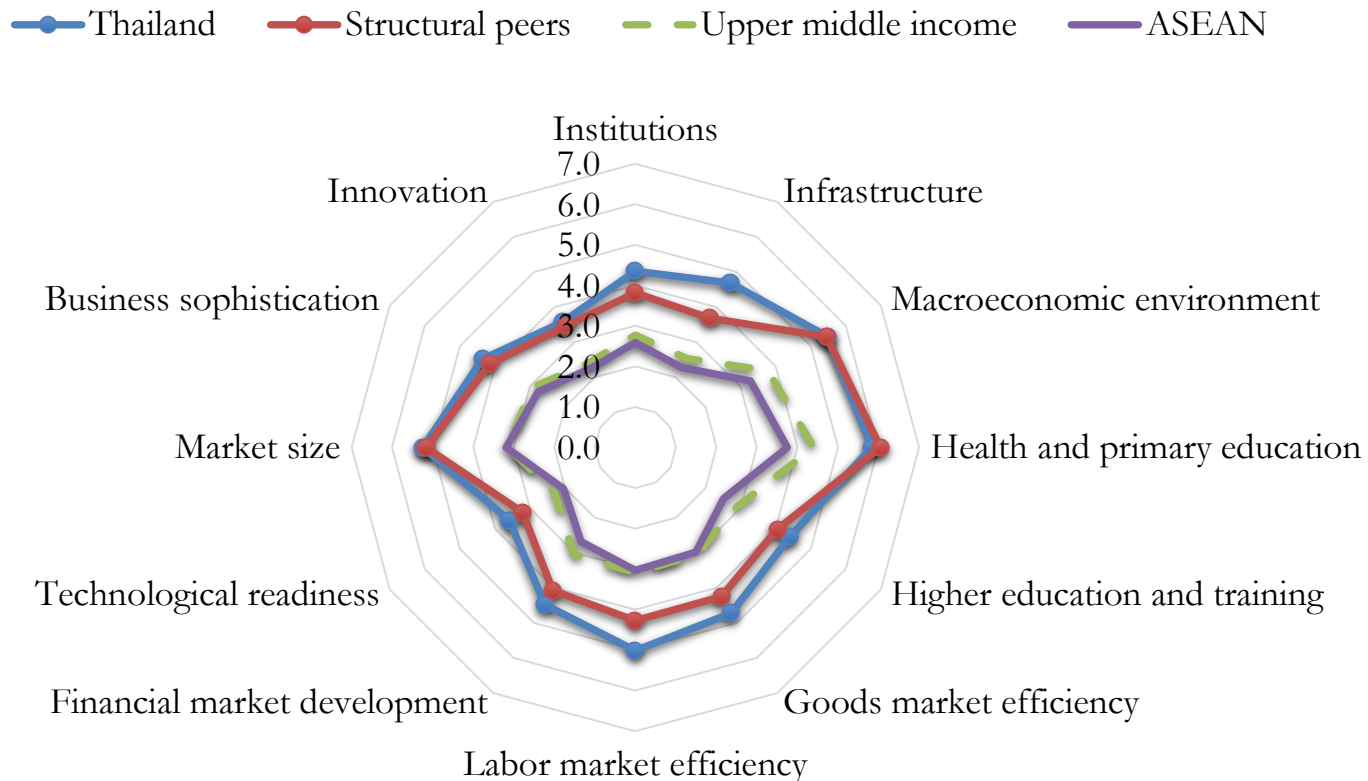


What happened?



Thailand's competitive edge has been eroded from 2006/07...

2006/07

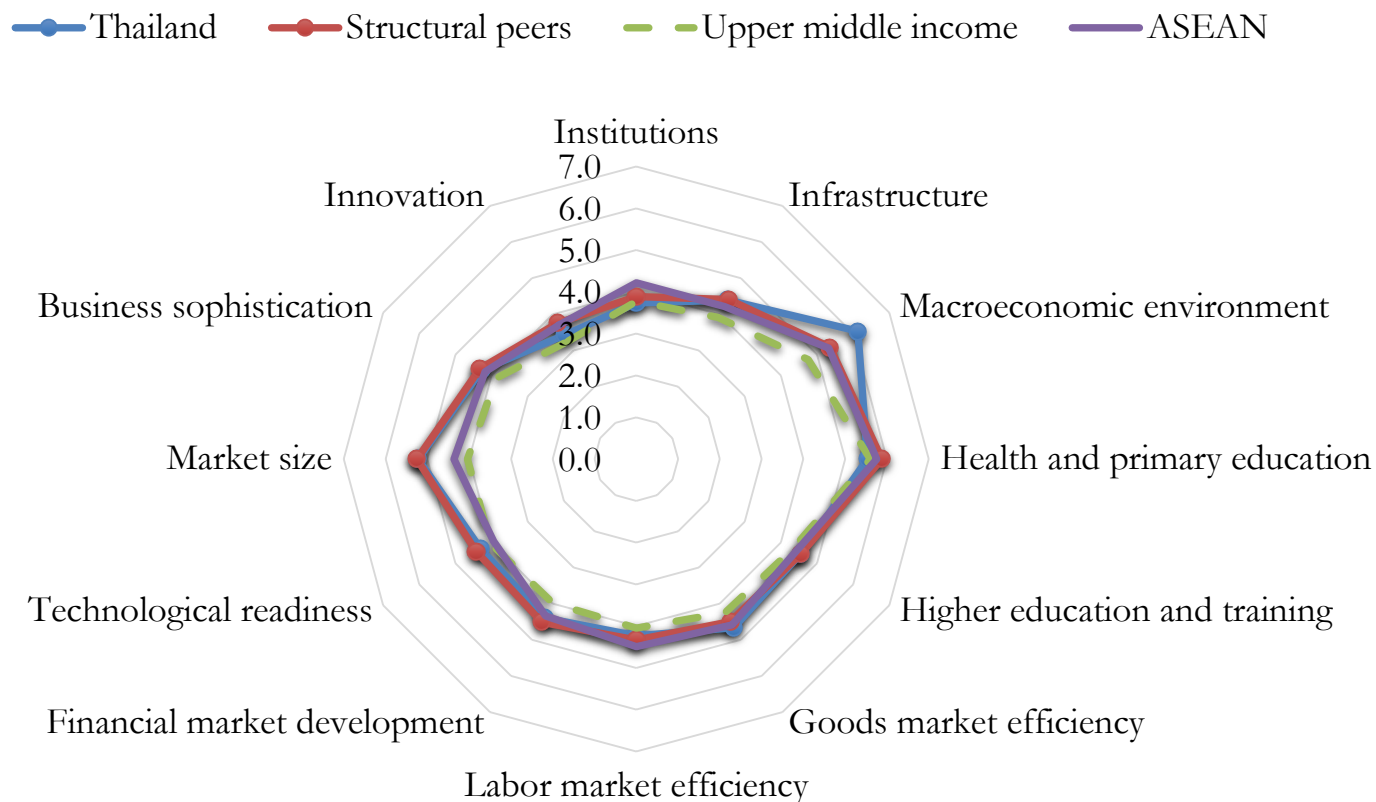


Source: World Economic Forum's Global Competitiveness database

Structural peers selected for this study: Bulgaria, China, Colombia, Malaysia and Mexico

...to 2015/16

2016/17

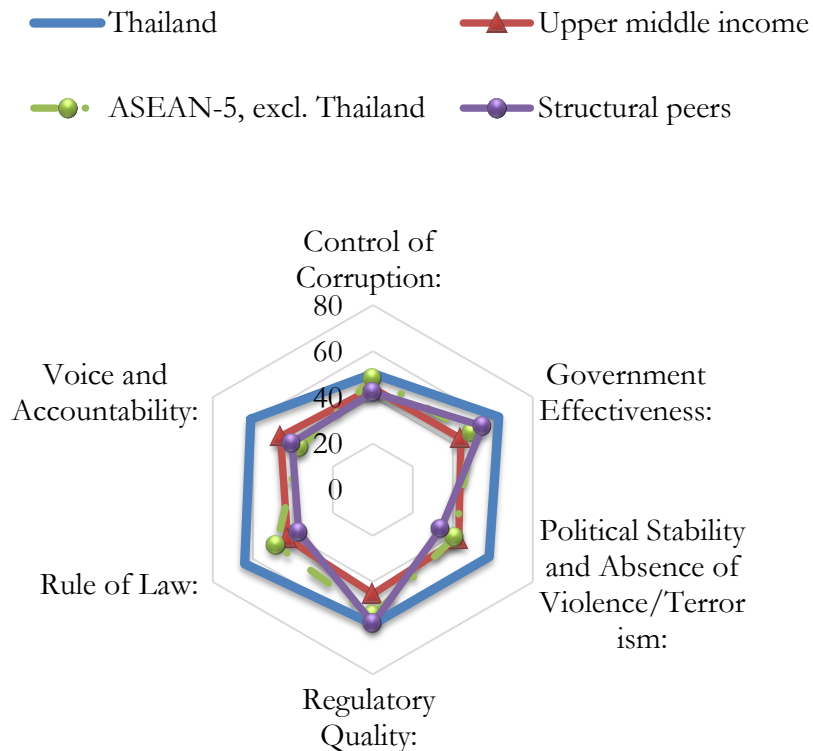


Source: World Economic Forum's Global Competitiveness database

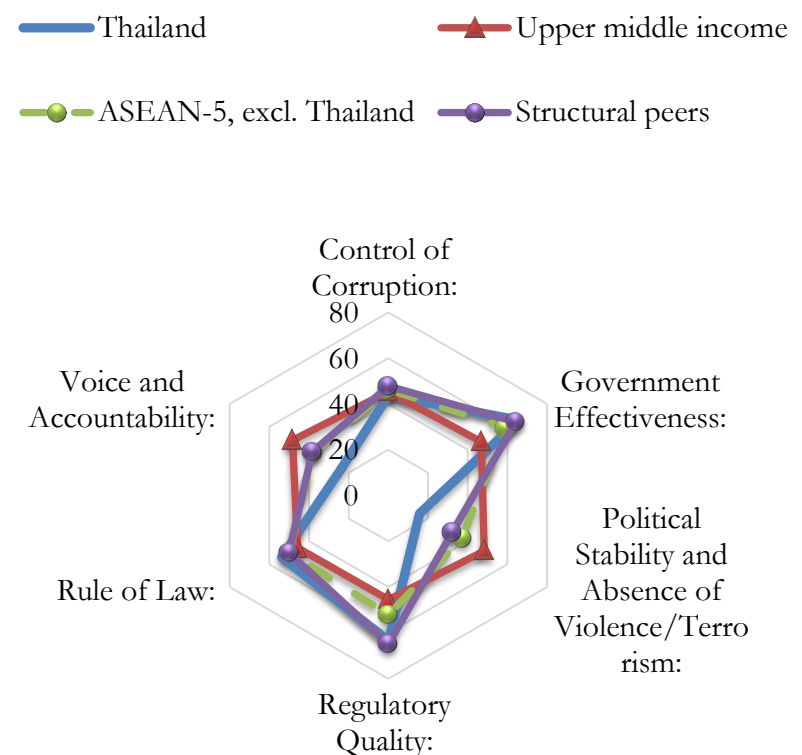
Structural peers selected for this study: Bulgaria, China, Colombia, Malaysia and Mexico

Governance indicators have worsened in Thailand while they improved elsewhere

1996



2015

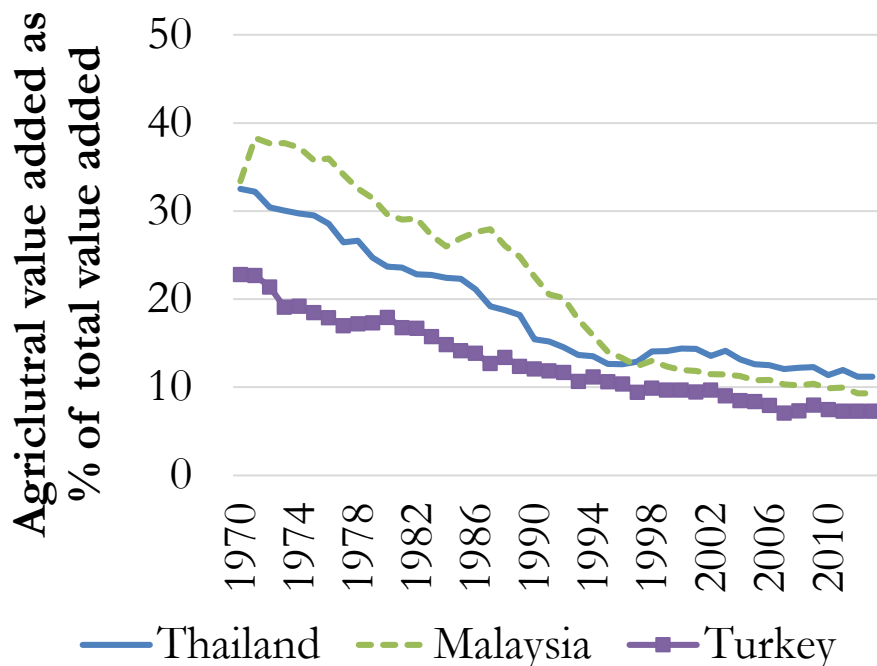


Source: World Bank Governance Indicators

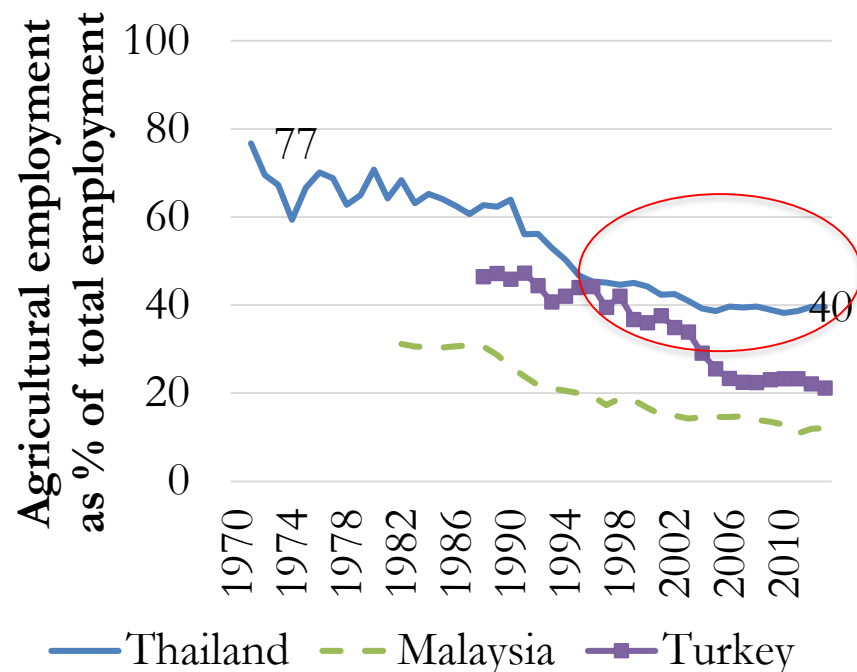
Stalled structural transformation

Thailand has an unusually large share of workers in agriculture (second highest share amongst middle income countries, after Albania)

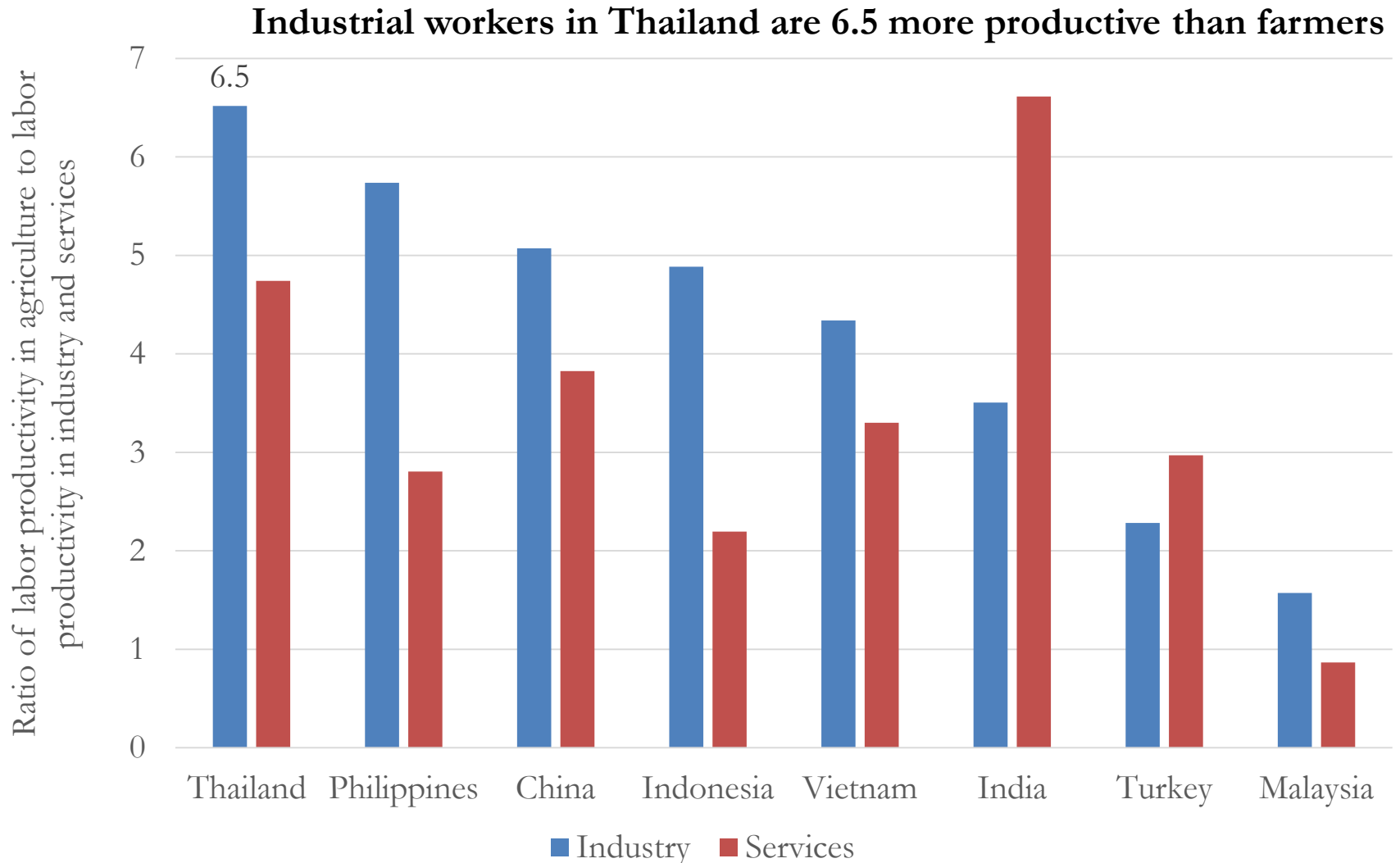
Share of value added



Share of employment



Large productivity gaps across sectors



Enrollment rates have risen (especially during the 1990s) but many students are not learning

47% of 15 year olds attending village schools are “functionally illiterate”: they struggle to **understand** what they read.



Functionally illiteracy by type of school

Large cities
16%



Small towns
31%

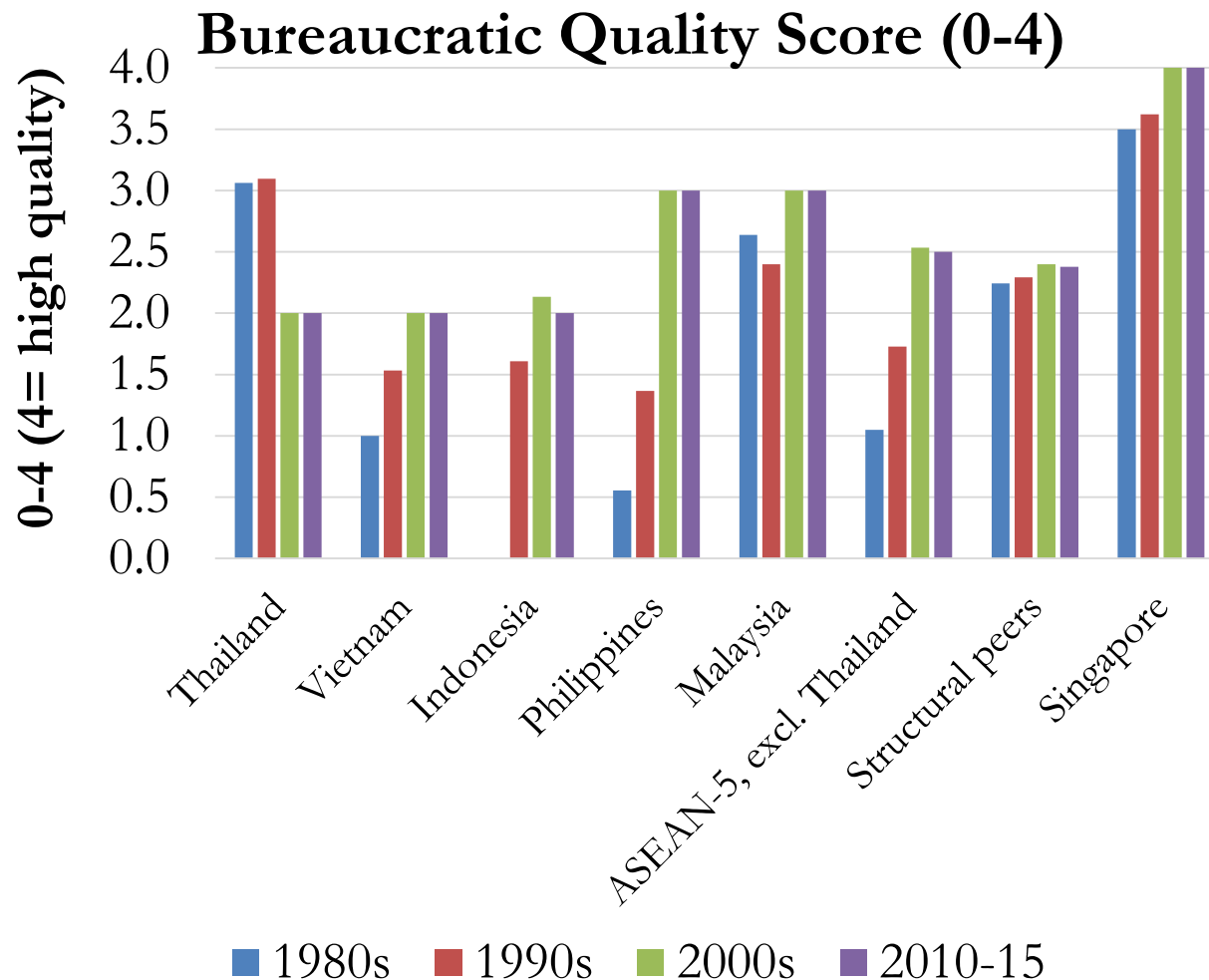


Village students
47%



Source: Results from OECD's Programme for International Student Assessment

“Bureaucratic quality” is perceived to have declined in Thailand while it improved elsewhere



The BQ score measures:

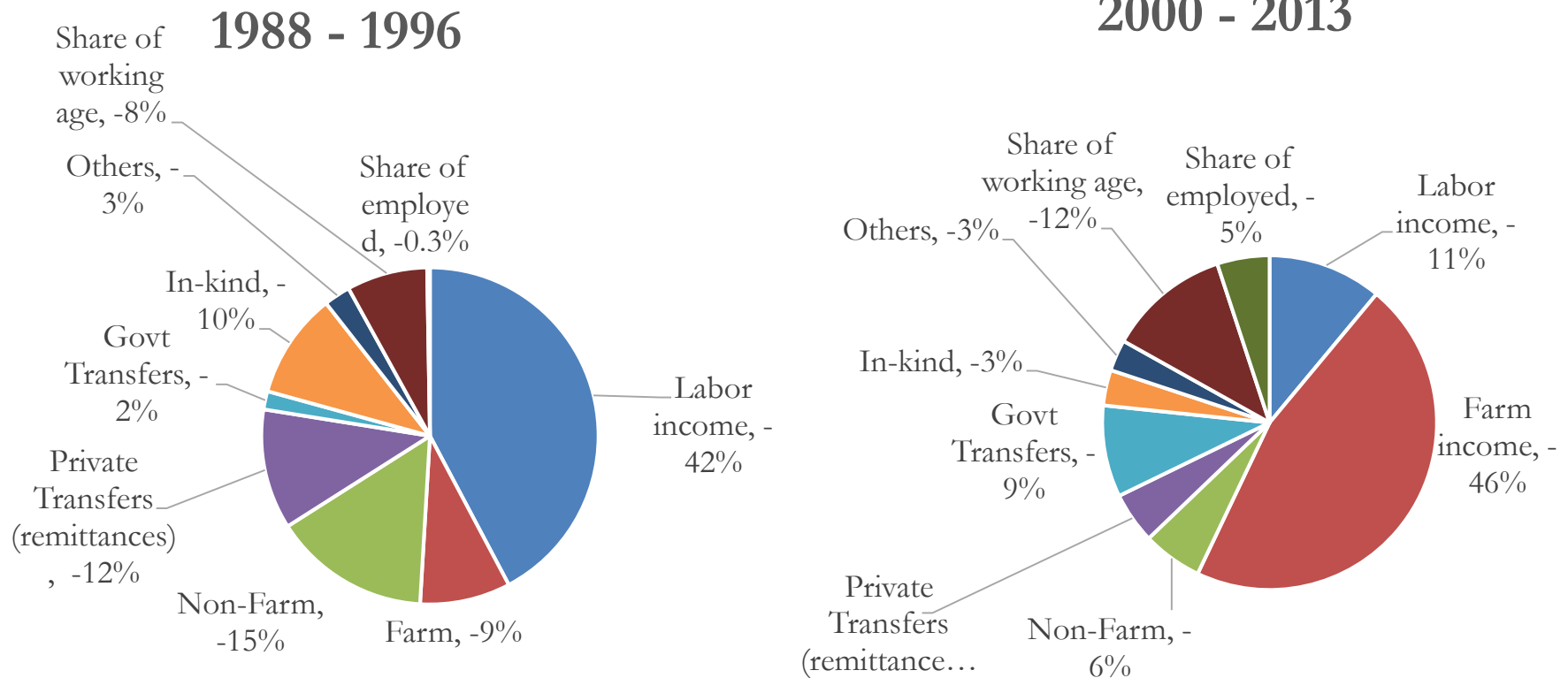
- the strength and expertise to govern without drastic changes in policy or interruptions,
- autonomy from political pressure,
- presence of an established mechanism for recruitment and training.

Looking ahead: Risks to inclusive and sustainable growth



Jobs were the key to reducing poverty in 1988-96. Farm incomes were the key in 2000-13.

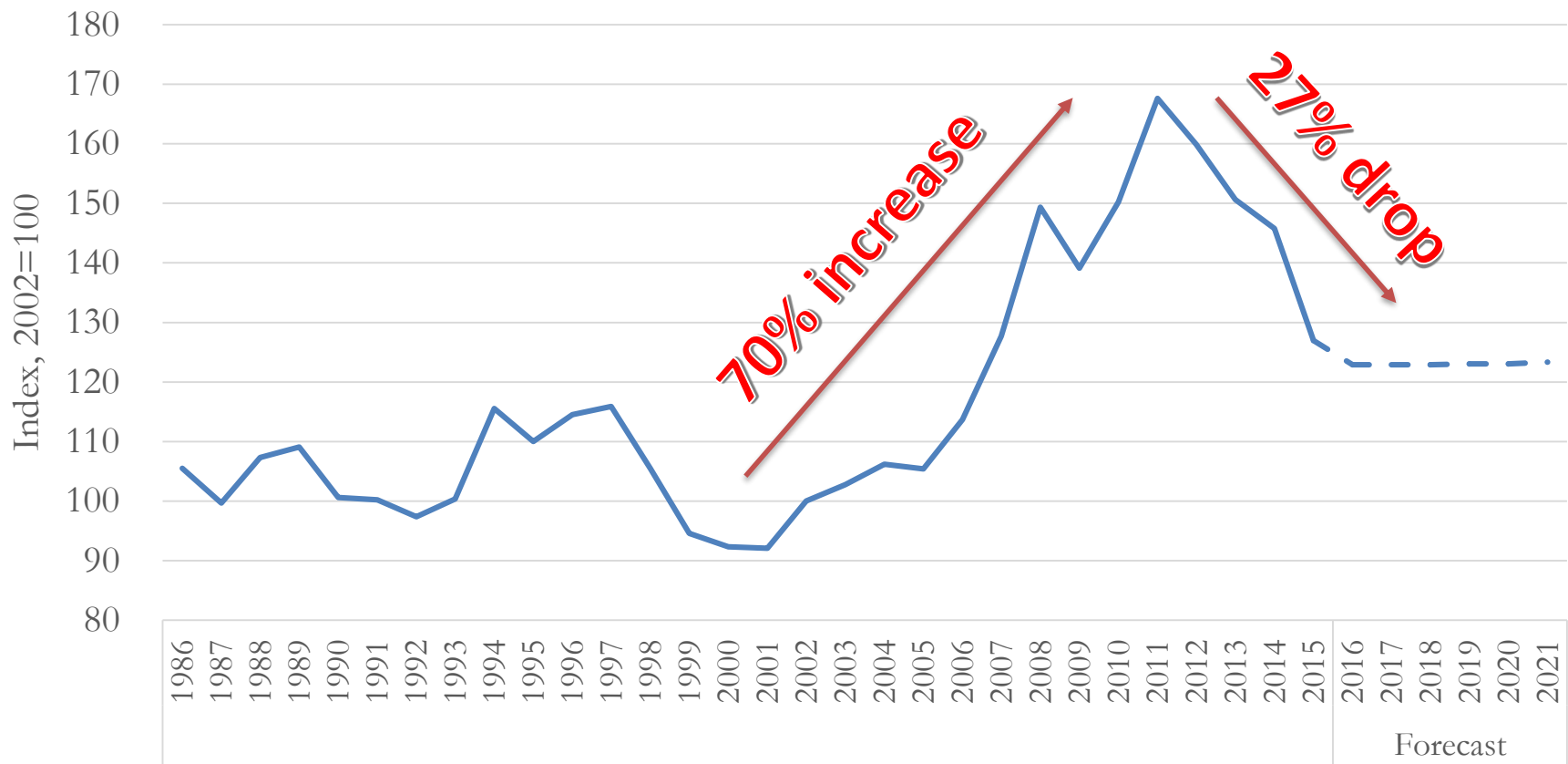
What factors explains the decline in poverty?



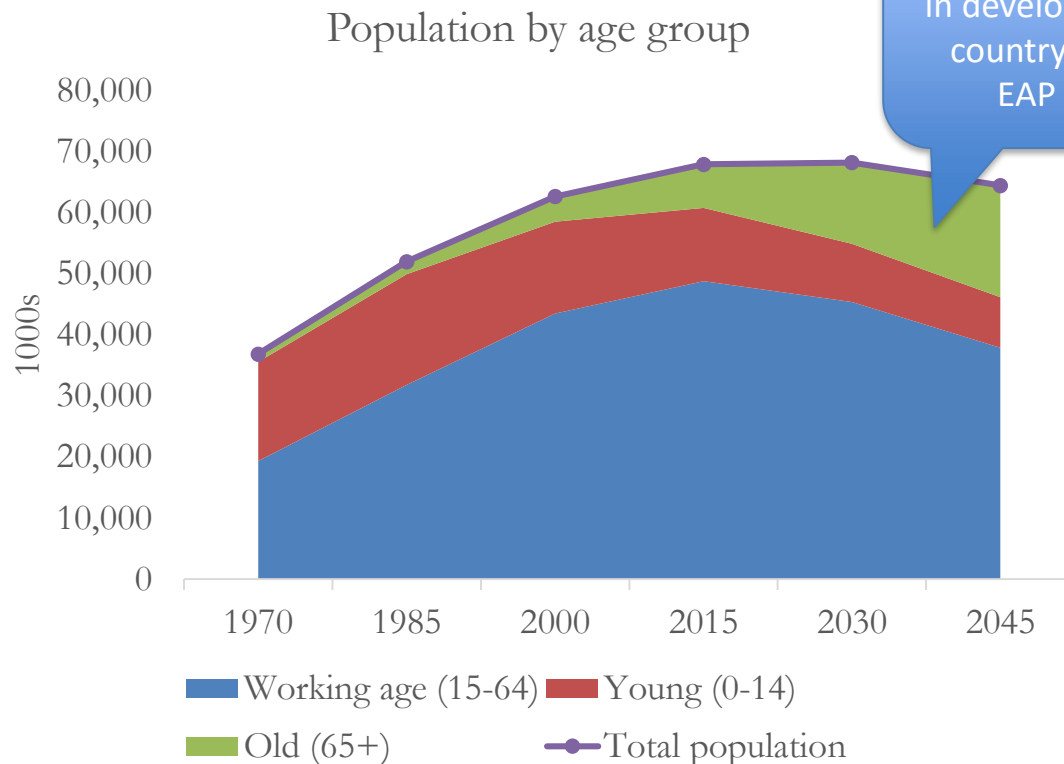
Source: World Bank calculations based on Socio-Economic Surveys (from NSO)

Booming agricultural prices was key to reducing poverty since 2000. What will drive further reductions?

World Agricultural Commodity Price Index , constant 2005 USD
converted into index, with 2002=100)



Aging will bring new challenges, both on growth side but also in terms of its inclusiveness



By 2040, highest share in developing country in EAP

Source: United Nations Population Projection (2015 Revision).

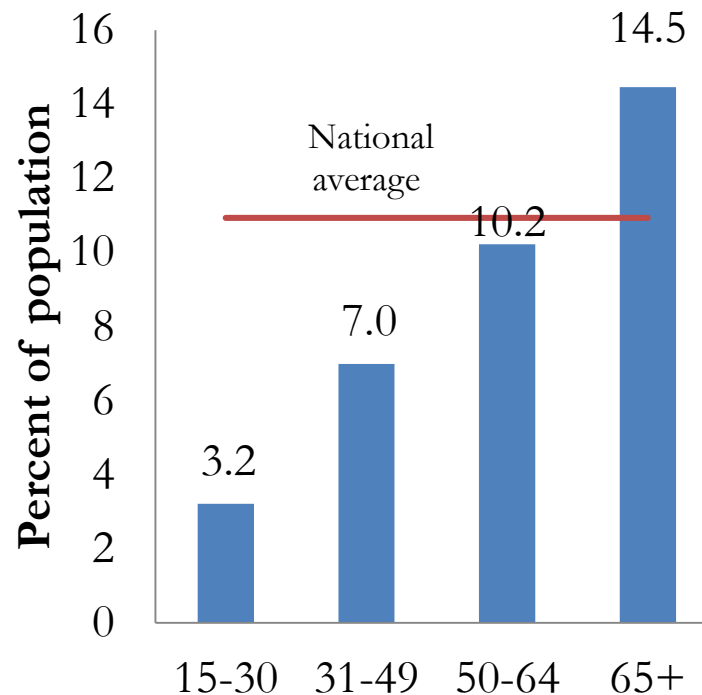
**11 million
more old people.**
How to care for them?

**11 million fewer
people in working
age population**

Example of challenges related to aging



Higher poverty rates for households headed by older people



14 million farmers in 1987
Average age: 35 years old
(Industry: 33 years old)

14 million farmers in 2015
Average age: 43 years old
(Industry: 38 years old)

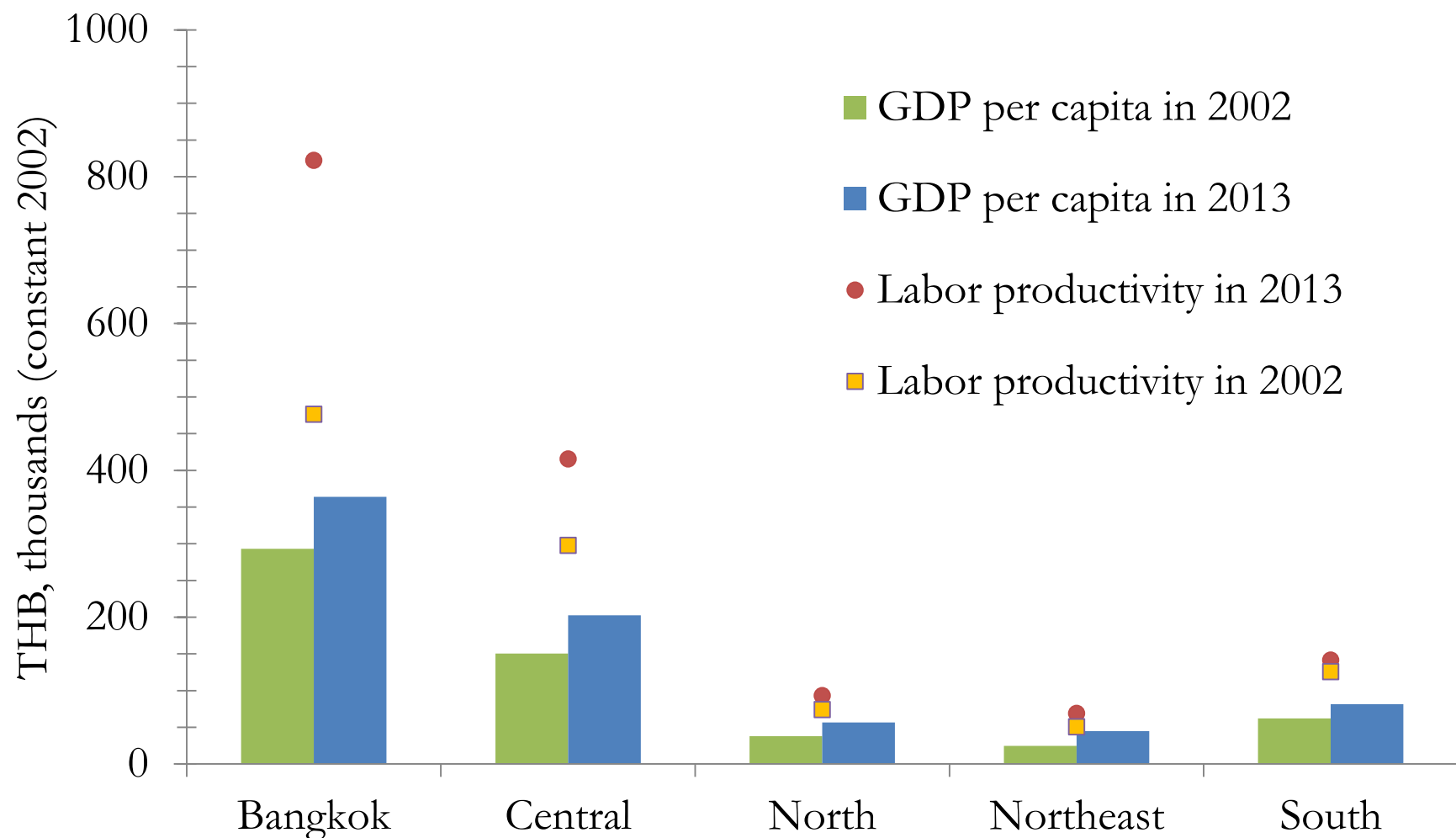
Political instability and social tensions

- Political instability and social tensions creates uncertainties that can deter investors
- How do Thai people perceive equity? Are the benefits of growth shared equitably? Do people have equal opportunities?
- What will happen to poverty, shared prosperity (and social tensions) if agricultural prices continue to fall?



Photo: Rufus Cox/Getty Images

The lagging regions are falling further behind

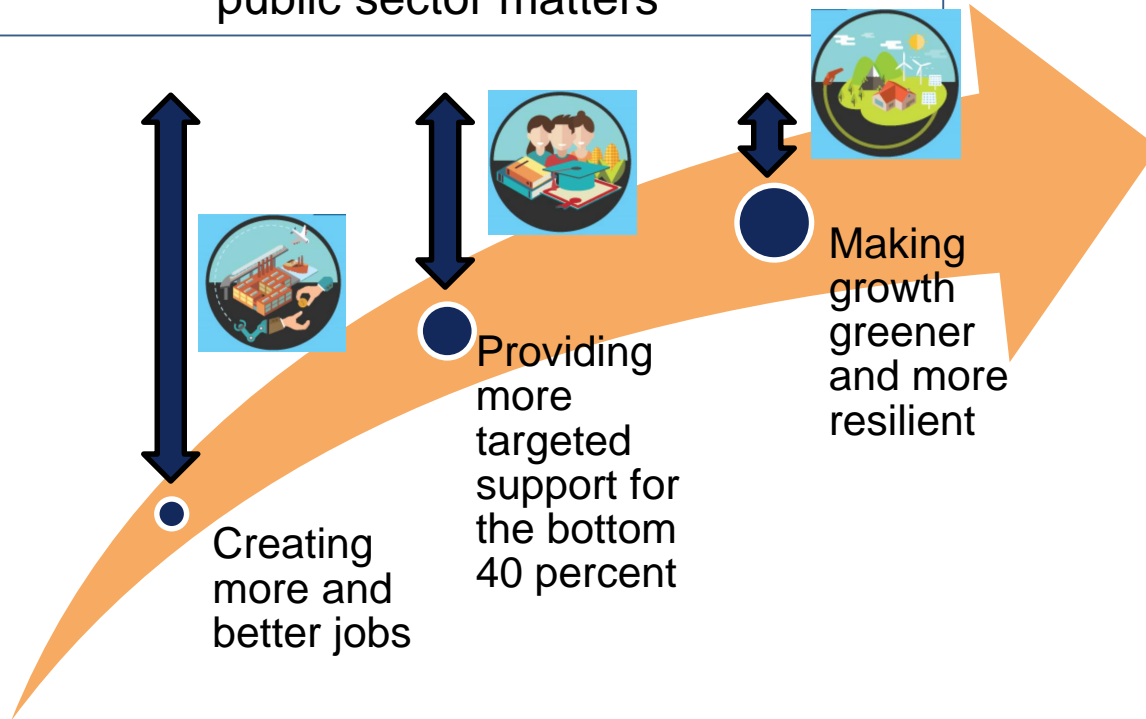


Opportunities to get back on track



What will it take to create more inclusive and sustainable growth?

Institutional capability of the public sector matters



Future growth pattern

- Reviving investment and job creation by focusing on improving competitiveness
- More inclusive growth
- Lower risks to sustainability

Current growth pattern

- Weak growth
- Poverty reductions sustainable?
- Growth environmentally sustainable?

Pathway 1: Creating more and better jobs

Rationale: More and gradually better jobs (12.6 million!) were the key engine behind Thailand's poverty reduction. Restoring this engine will be key for the future



Restoring Thailand's competitive edge by:

1. Increasing investment in infrastructure
2. Increasing competition through free-trade agreements and deregulation
3. Boosting firm-level competitiveness through greater technology absorption and innovation

Magnitude of challenge/opportunity: 11-15 million of Thailand's workforce remains in agriculture (where labor productivity is, on average, 5-10 times less than in non-farm jobs)

Pathway 2: Providing more targeted support for the bottom 40 percent (B40)

Rationale: More targeted support to the B40 percent is important to improve their livelihoods but will also help foster social cohesion and stability



Mobilizing several sectors to provide more targeted support to the B40:

1. Improving the quality of education provided to the B40
2. Implementing effective policies to boost agricultural productivity
3. Building a smarter social protection *system*, focusing on providing a safety net for poor people

Magnitude of challenge/opportunity:

- 47 percent of 15-year olds in village schools are “functionally illiterate”
- Rapid growth in number of elderly; fewer workers; fewer students

Pathway 3: Making growth greener and more resilient

Rationale: Greener growth will be critical for ensuring the availability of resources to power future growth while protecting natural resources for future generations and preserving the places upon which Thailand's tourism industry relies.

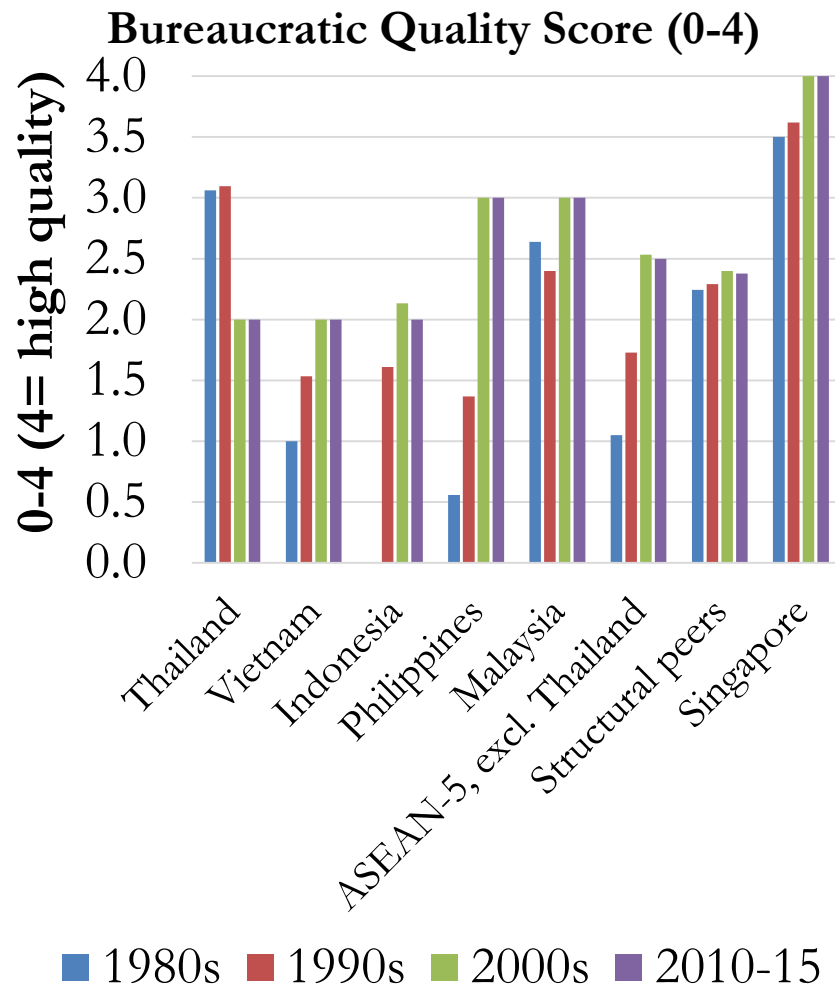


1. Managing Thailand's natural resources and environment, focusing on implementing proposed plans, and managing environmental impacts of large-scale public investments
2. Reducing vulnerability to natural disasters and climate change, focusing on better land zoning and management to reduce the flood-drought prone areas
3. Promoting energy efficiency and clean energy

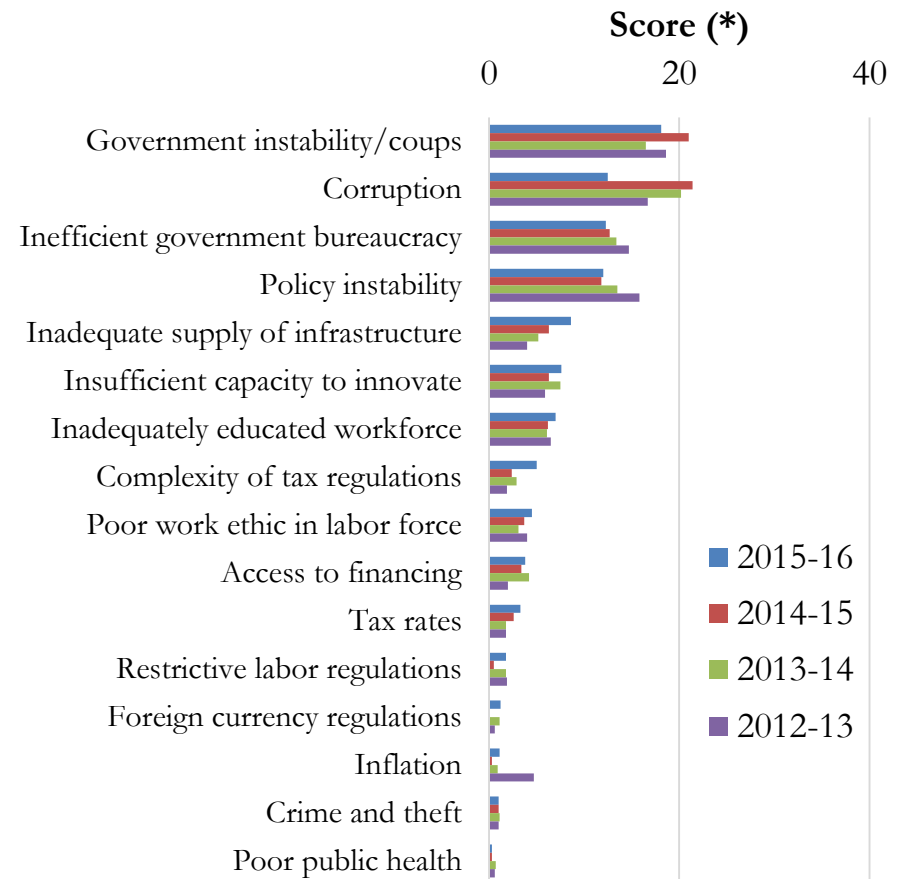
Magnitude of challenge/opportunity:

- Thailand's beautiful coastal areas and coral reefs help attract 30 million tourists each year (12 percent of GDP)

Cross-cutting priority: Strengthen the institutional capability of the public sector



Top 10 Obstacles to Doing Business



Source: WEF's Executive Opinion Survey

Major Reforms in Train

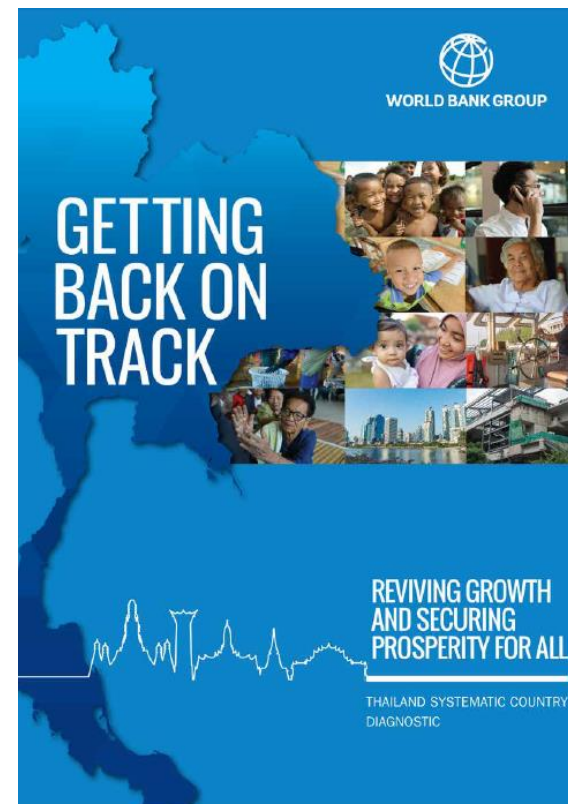
- **Tax reform** – personal income tax restructured, inheritance tax implemented, and land & property tax approved by Cabinet
- **Competitiveness** – promote 5-S curve innovative sectors, SME promotion (especially agro/tourism) and formalization incentives, reforms to regulatory framework to improve ease of doing business, Facilitation Law enacted, Skills and education sector reforms
- **Infrastructure** – multi-year mega project plans approved and under implementation – rail, roads, and plans improving integrated water management
- **SOE management** – Supervision Board established, holding company established, and listed companies being transferred to holding company
- **SFI supervision** – transfer of SFI supervision transfer to BOT

Thank you!

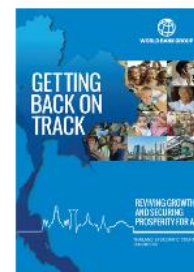
Suggestions or comments should be sent to: thailand@worldbank.org or to www.facebook.com/worldbankthailand

For more information on this report, please visit:

<http://www.worldbank.org/en/country/thailand/publication/thailand-systematic-country-diagnostic-getting-back-on-track-and-reviving-growth>



ONLINE MATERIALS



EXCEL FILE

Figures Used in the Report (35mb)

Annexes: Details on what is recommended in SCD

A thick orange horizontal bar with a slight upward curve on the right side, spanning the width of the slide.

Summary: What will it take to create more inclusive and sustainable growth?



A. Creating more and better jobs

- Boost investments in infrastructure
- Increase competition through free trade agreements and deregulation
- Increase firm-level competitiveness through greater technology absorption and innovation



B. Providing more targeted support for the bottom 40 percent

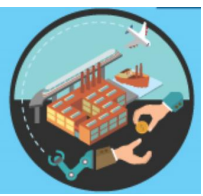
- Improve the overall education and skills of the workforce
- Implement effective policies to boost agricultural productivity
- Build smarter social protection systems, focusing on providing a safety net for poor people



C. Making growth greener and more resilient

- Manage Thailand's natural resources and environment
- Reduce vulnerability to natural disasters and climate change
- Promote energy efficiency and clean energy

Strengthen the institutional capability of the public sector to implement reform priorities



Details on priorities under “Creating more and better jobs”

1. Boost investments in infrastructure

- 1.1 Increase public spending (page 111)
- 1.2 Attract private sector investments, incl. through PPP (page 113)
- 1.3 Reform SOE (page 113)
- 1.4 Accelerate implementation of the mega projects (page 113 and page 134)

1.5 *Strengthen PIM;*

1.6 *Develop and public detailed appraisals;*

1.7 *Introduce multi-year budgeting;*

1.8 *Implement a procurement system that mandates transparent international bidding;*

1.9 *Involve citizen monitoring*

2. Increase competition through free trade agreements and deregulation

- 2.1 Implement AEC commitments (page 134)
- 2.2 Improve the Investor State Dispute Settlement Mechanism (page 116)
- 2.3 Increase competition in service sector by reviewing restrictions and prohibitions to invest that included in Foreign Business Act (page 116)
- 2.4 Take further steps to facilitate credit to mSME

2.5 *Improve ease of doing business, including through the use “guillotine” approach to eliminate 6000 outdated rules (page 134)*

3. Increase firm-level competitiveness through greater technology absorption and innovation

- 3.1 Strengthen the national innovation system, and put more emphasis on developing a skilled workforce (p. 119)
- 3.2 Strengthen the linkages between industry and research (p. 119)
- 3.3 Ramp up public spending on R&D (p. 119 and 128)



Details on priorities under “Providing more targeted support for the bottom 40 percent (B40)”

4. Improve the overall education and skills of the workforce

- 4.1 Close the socioeconomic gap in access to quality integrated ECD services by taking concerted efforts on three fronts (page 111)
- 4.2 Prepare and then implement plans for consolidating Thailand’s large number of small, schools (page 126)
- 4.3 Broad reforms are needed (page 126)

5. Implement effective policies to boost agricultural productivity

- 5.1 Develop a better-functioning land rental market (page 127)
- 5.2 Increase the efficiency and sustainability of irrigation investments (p. 127)
- 5.3 Increase funding for public agricultural research and extension (p. 128)
- 5.4 Build on/scale up good experiences (p.128 and annex 3)
- 5.5 Shift public spending away from commodity programs (p. 127)

6. Build smarter social protection systems, focusing on providing a safety net for poor people

- 6.1 Develop a “backbone national social safety program” for the poor (p. 128)
- 6.2 Promote development of a variety of financial products to help people prepare for their own retirement (p. 129)
- 6.3 Tweak pension schemes to ensure that living longer will not imply becoming poor (p. 129)
- 6.4 Prepare the workforce for an aging society (p. 129)
- 6.5 Expand promising new initiatives, incl. child grant

6.6 Restructure the agency mandates on social protection (page 135)



Details on priorities under “Making growth greener and more resilient”

7. Manage Thailand's natural resources and environment

- 7.1 Reverse forest and fisheries depletion will require implementing proposed (p. 130)
- 7.2 To manage “brown” environment (air, water, waste) problems, Thailand needs to implement the plans and regulations it already has in place (p. 130)
- 7.3 Understanding and mitigating the potential environmental and health impacts arising from necessary large-scale public investments in an inclusive manner (p. 131)

7.4 Defragment the institutional arrangements for water management (p 135)

8: Reduce Vulnerability to Natural Disasters and Climate Change

- 8.1 Introduce better land zoning and management to reduce the flood-drought prone areas (page 131)
- 8.2 To achieve its Nationally Determined Contributions (NDC), timely and effective policies, market-based instruments (e.g. a tax on carbon), and cooperation with the private sector will all be important (page 130)

9. Promote energy efficiency and clean energy

- 9.1 Implement commitments made at COP-21 (p. 132)
- 9.2 Target efforts in the major energy-consuming sectors (p. 132)
- 9.3 Avoid energy price and demand distortion by maintaining the current pricing/subsidies policies (p. 132)
- 9.4 Harmonize regional power grid code and power market rules (p. 132)



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