

# THAILAND SYSTEMATIC COUNTRY DIAGNOSTIC

## Public Engagement



**WORLD BANK GROUP**



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# Objectives of the Engagement



# Objectives of the Engagement



Identify key development opportunities, constraints and challenges for Thailand

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

## Definitions:

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

# Systematic Country Diagnostic





# Systematic Country Diagnostic

The SCD is a diagnostic study, based on empirical evidence, to identify **opportunities and constraints to inclusive growth** in Thailand.

# Questions

**What will it take to put Thailand on the path of inclusive and sustainable growth?**



- How to revive economic growth?
  - Why have exports, investment and private consumption stagnated?
  - What will it take to increase investments and revive consumption?
- How to make growth more inclusive?
  - How to boost agricultural productivity?
  - How to strengthen social safety nets and protection?
  - How to create more opportunities for the bottom 40% of the population?
- What are the opportunities for greener growth (improving energy efficiency and shifting away from coal)?

# Country Context

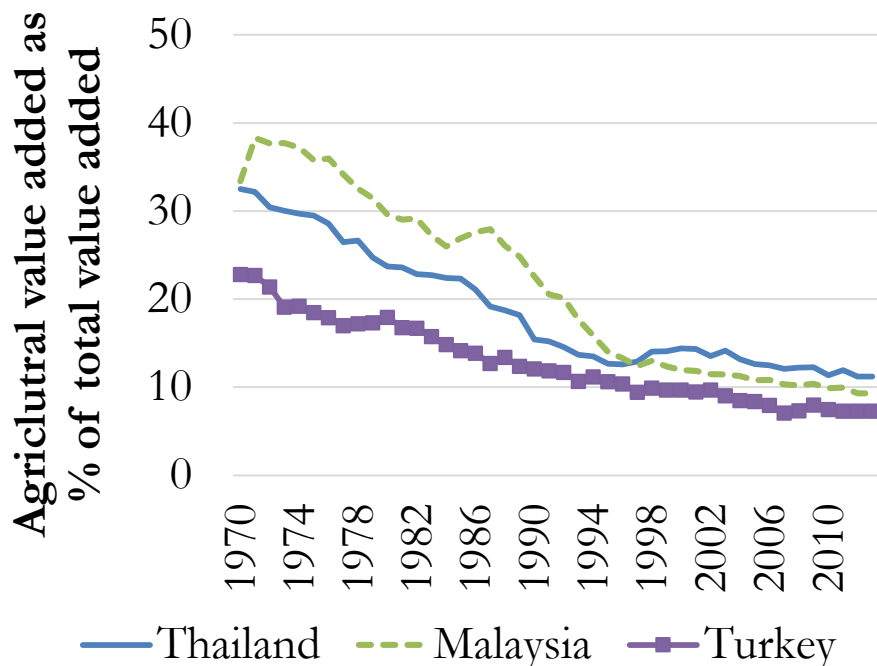




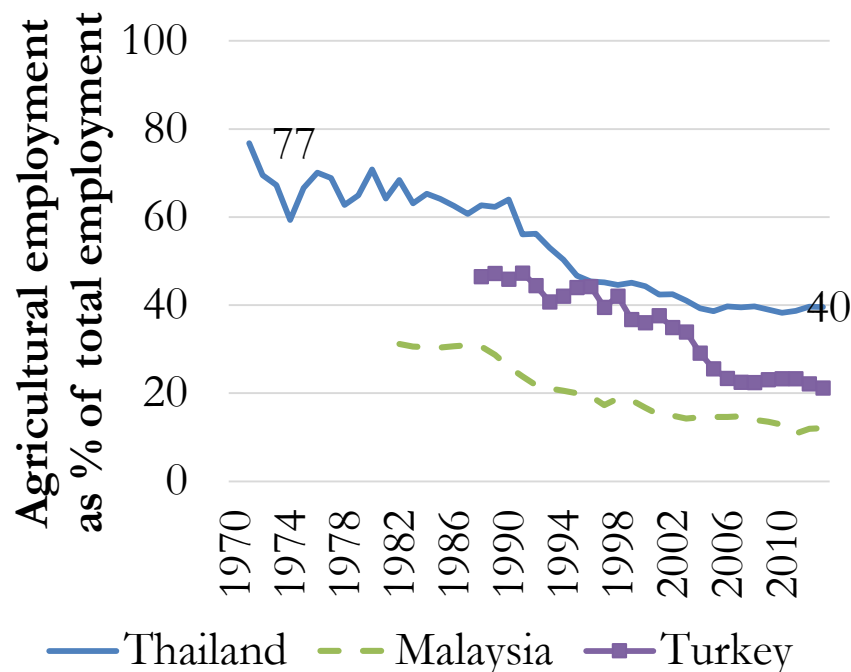
# Country Context

**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



Source: World Development Indicators database

# Growth: Stellar past performance but slowdown recently



# Slower GDP growth across the board

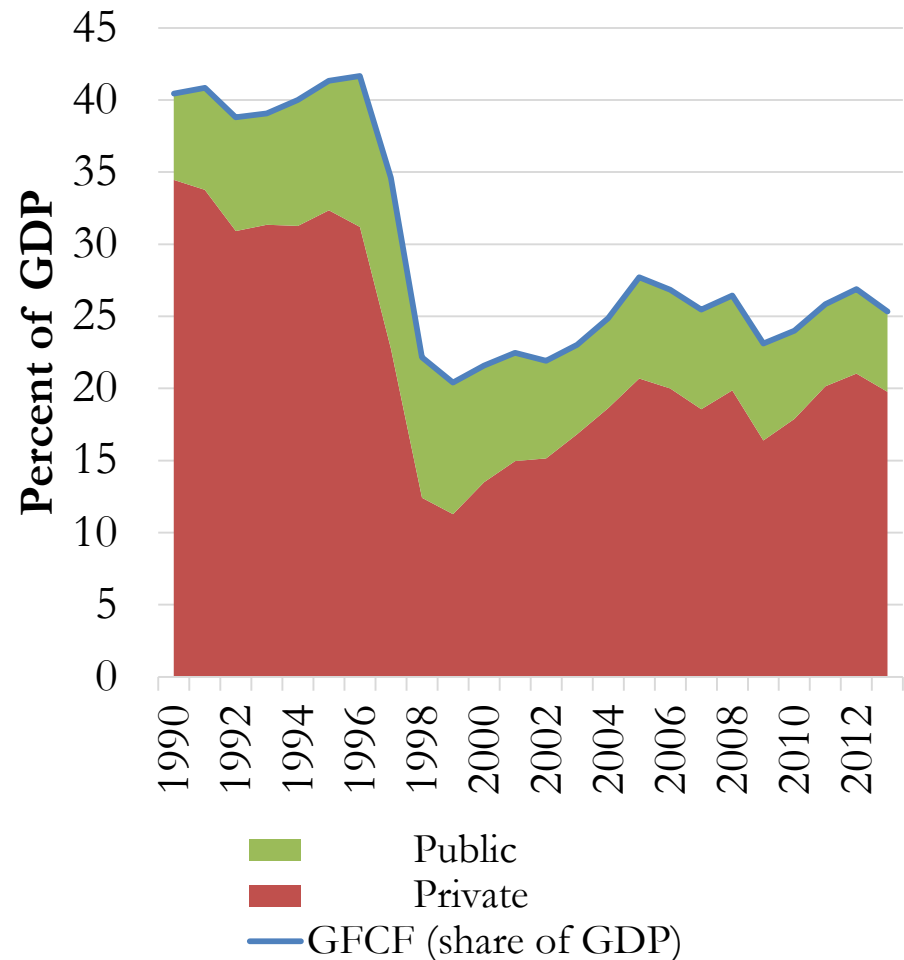
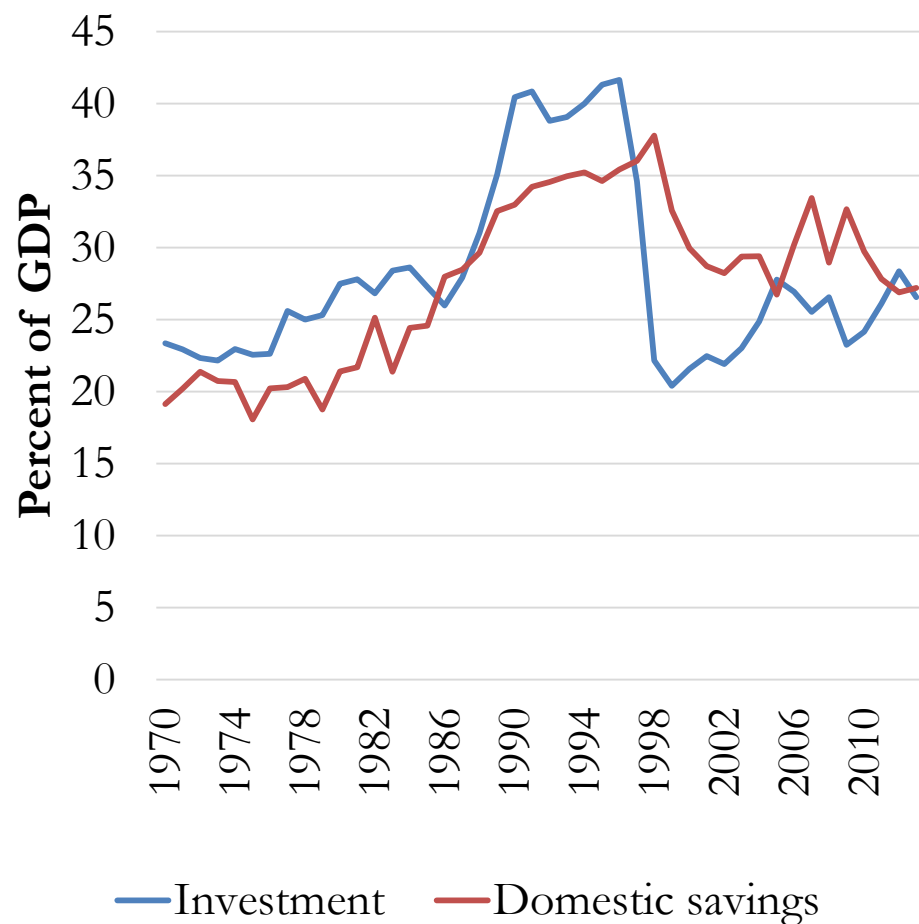
*Average annual growth rates in GDP and its components  
(excluding crisis periods, 97-00 and 2008-10)*

		By sector				By expenditure				
						Consumption				
	GDP	Agri	Indu.	Services		Private	Govern.	Invest 1/	Exports	Imports
1986-96	9.4	3.9	11.9	9.1		8.5	14.8	15.0	15.0	18.3
2000-07	5.4	2.8	6.3	5.1		5.4	7.7	7.2	8.1	8.7
2010-13	3.9	3.3	1.4	5.5		3.9	5.5	6.3	5.6	6.5
2013-14	0.9	0.7	-0.3	1.7		0.6	2.1	-2.4	0.2	-5.3

Source: Asia Productivity Database and NESDB

1/ Gross fixed capital formation

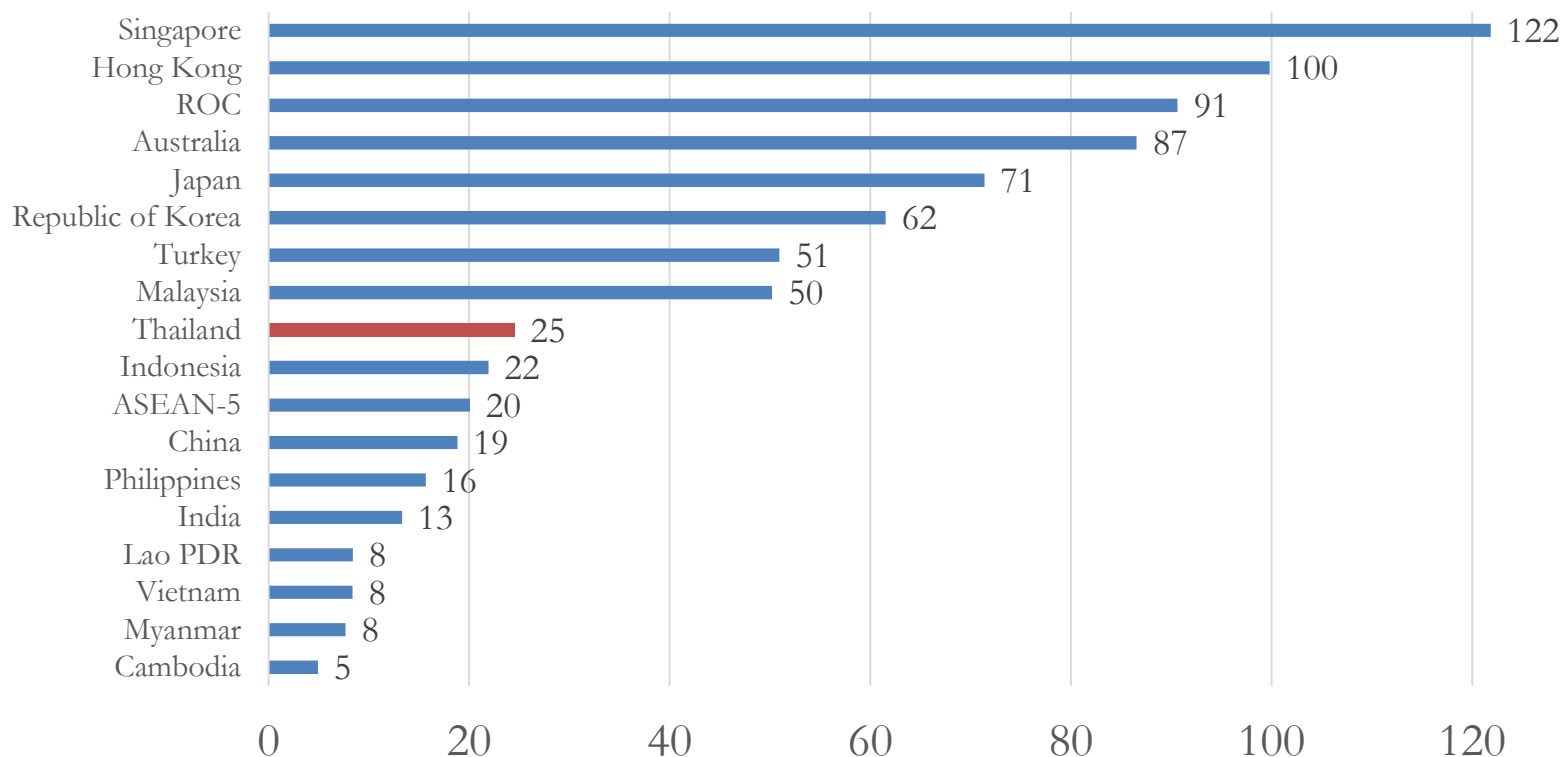
# Investment never fully recovered after the Asian crisis



Source: World Development Indicators and NESDB

# Plenty of room to improve productivity

**Labor productivity is 2x higher in neighboring Malaysia**

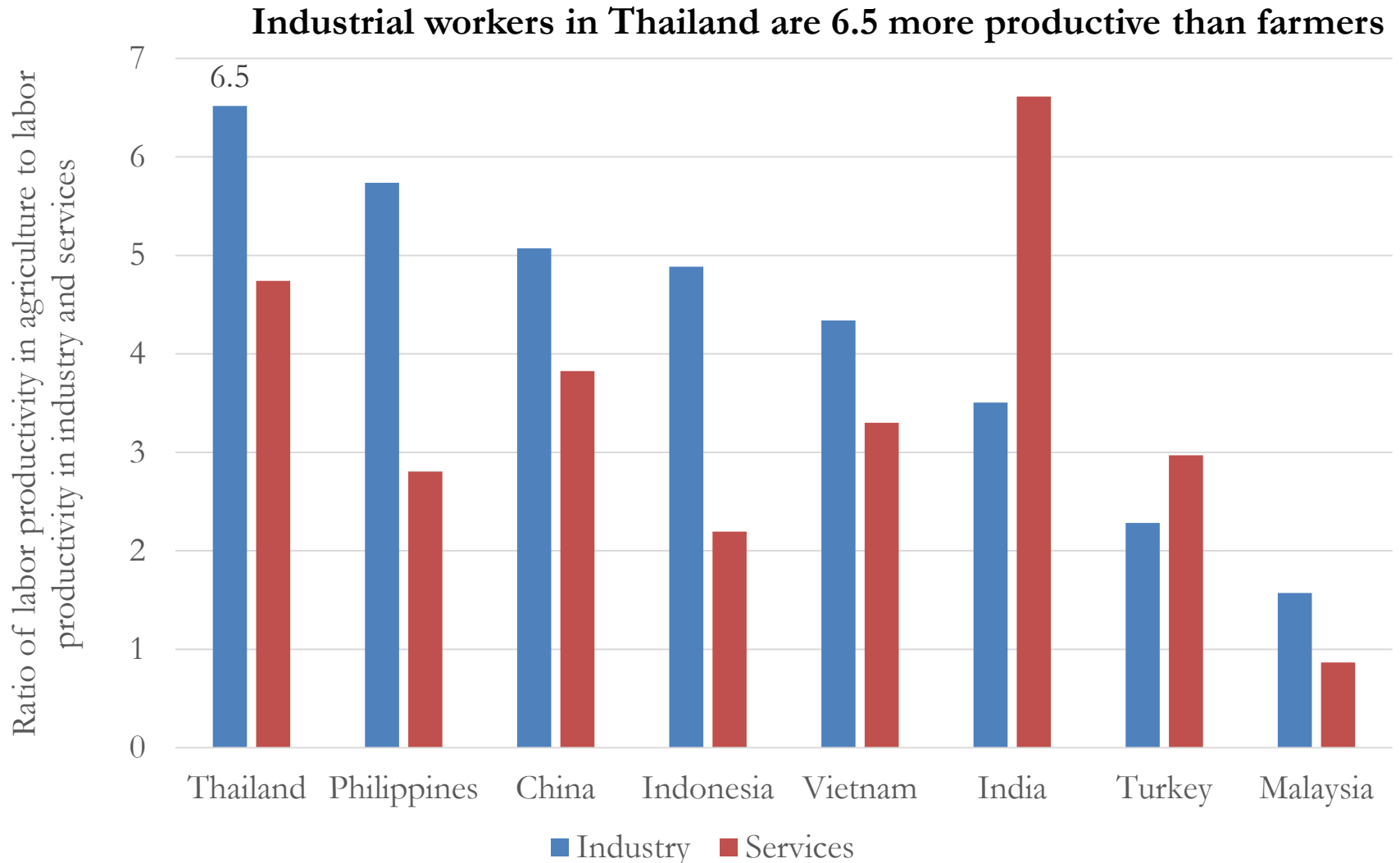


GDP per worker (Thousands of US dollars in PPP terms (as of 2013))

Source: Asia Productivity Database



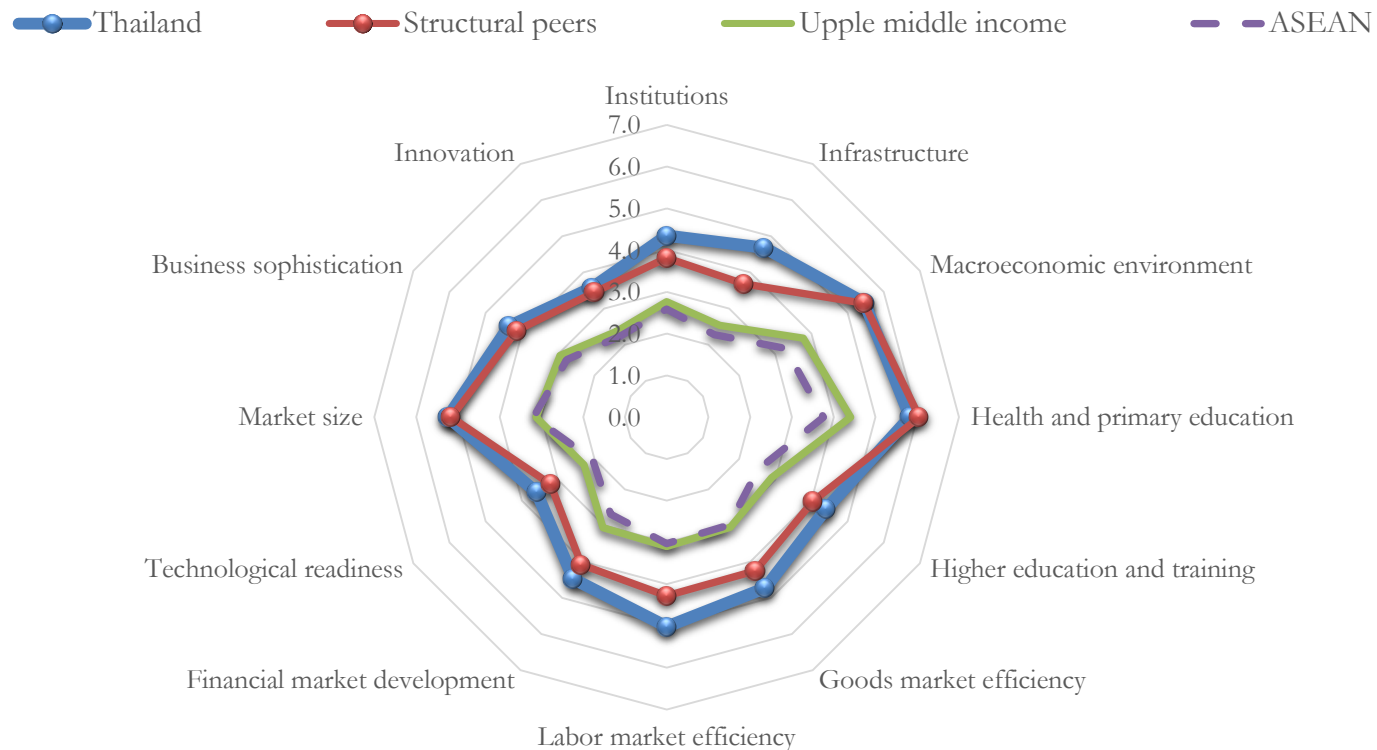
# Large productivity gaps across sectors



Source: Asia Productivity Database

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

2006/07

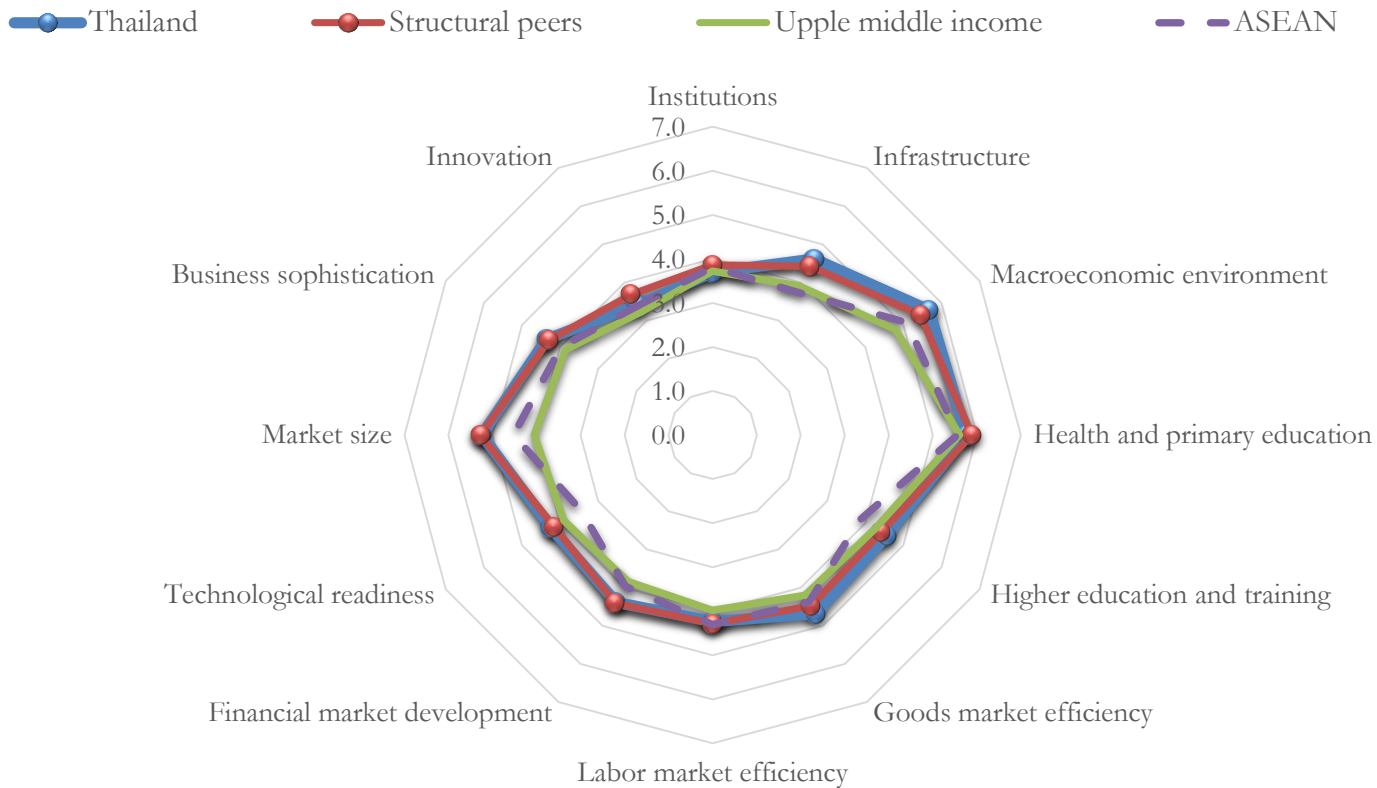


Source: World Economic Forum's Global Competitiveness database

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

...to 2015/16

2015-16

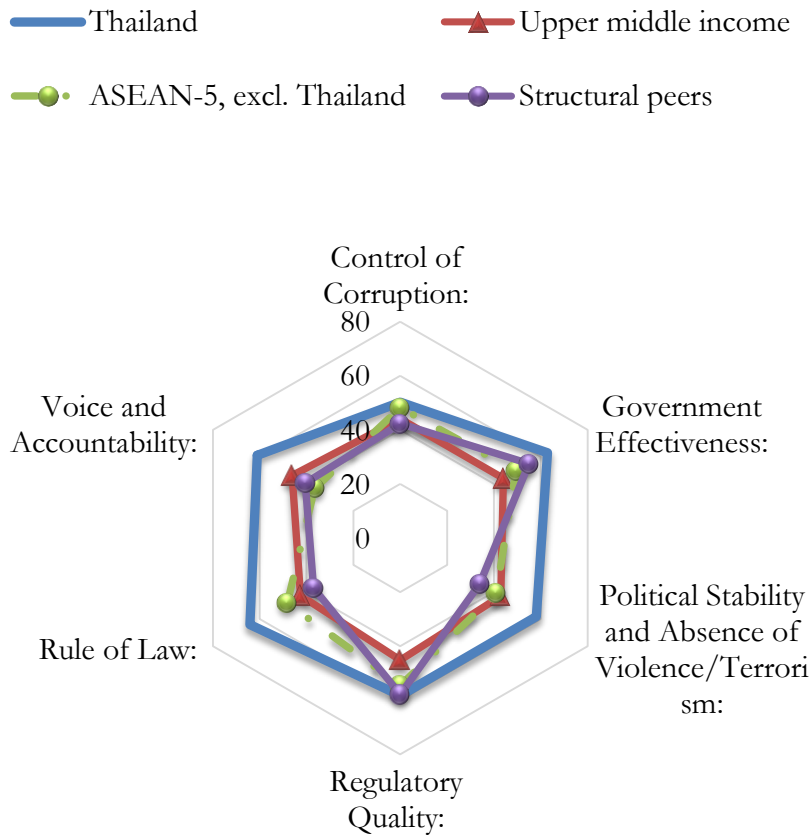


Source: World Economic Forum's Global Competitiveness database

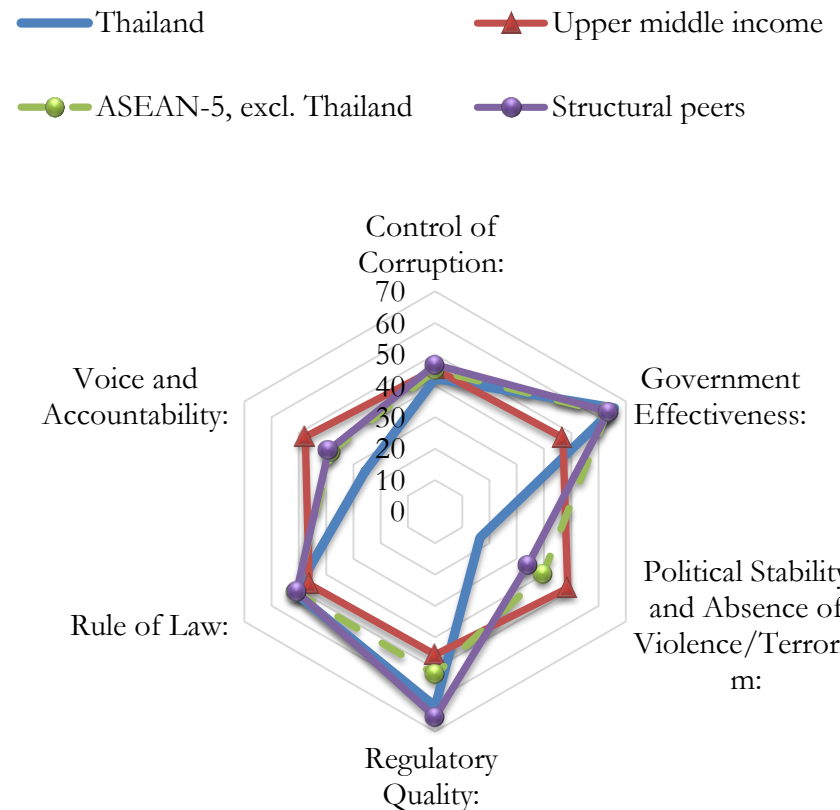
Structural peers selected for this study: Bulgaria, China, Colombia, Malaysia and Mexico

# Governance indicators have worsened in Thailand while they improved elsewhere

1996

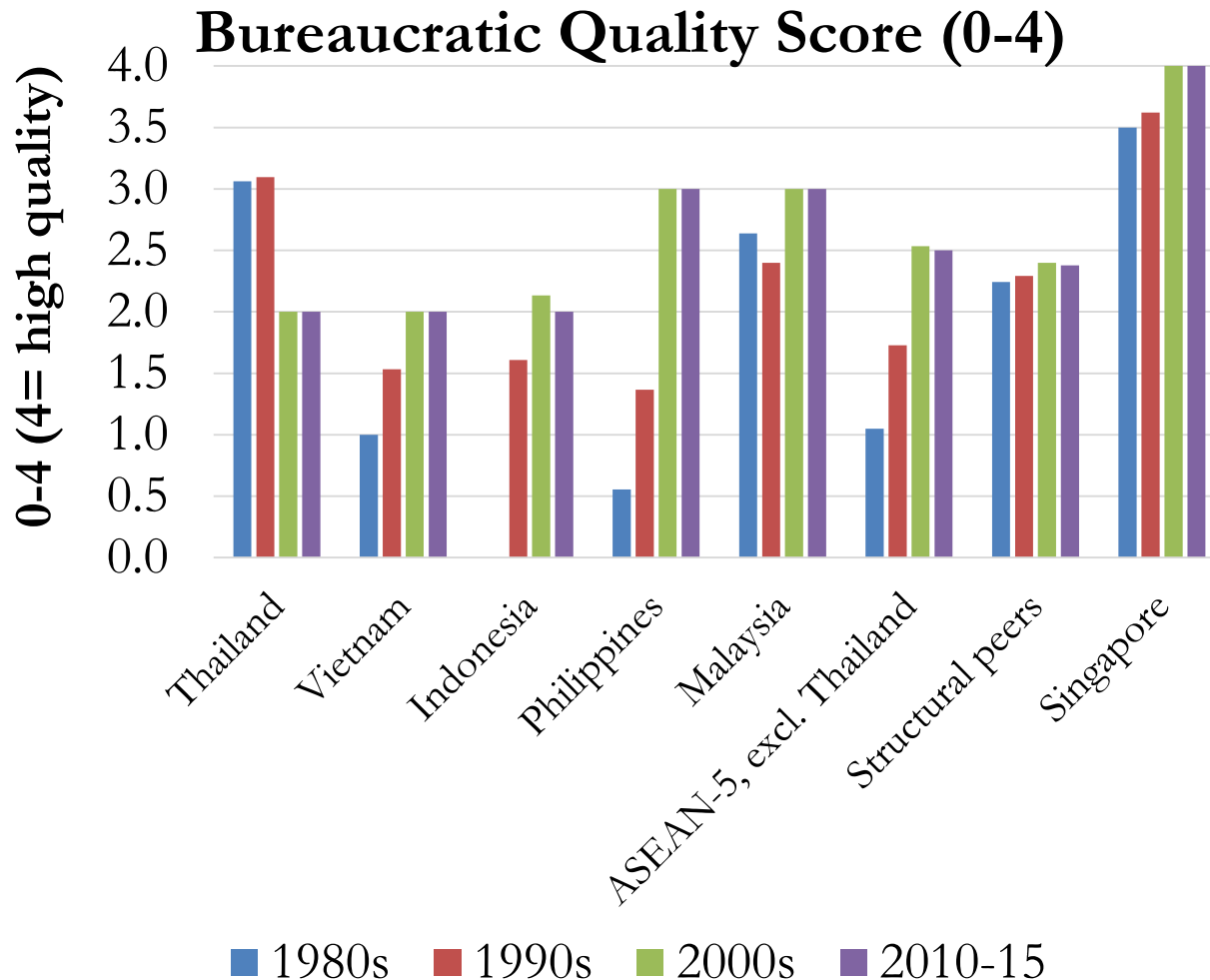


2014



Source: World Bank Governance Indicators

# “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.

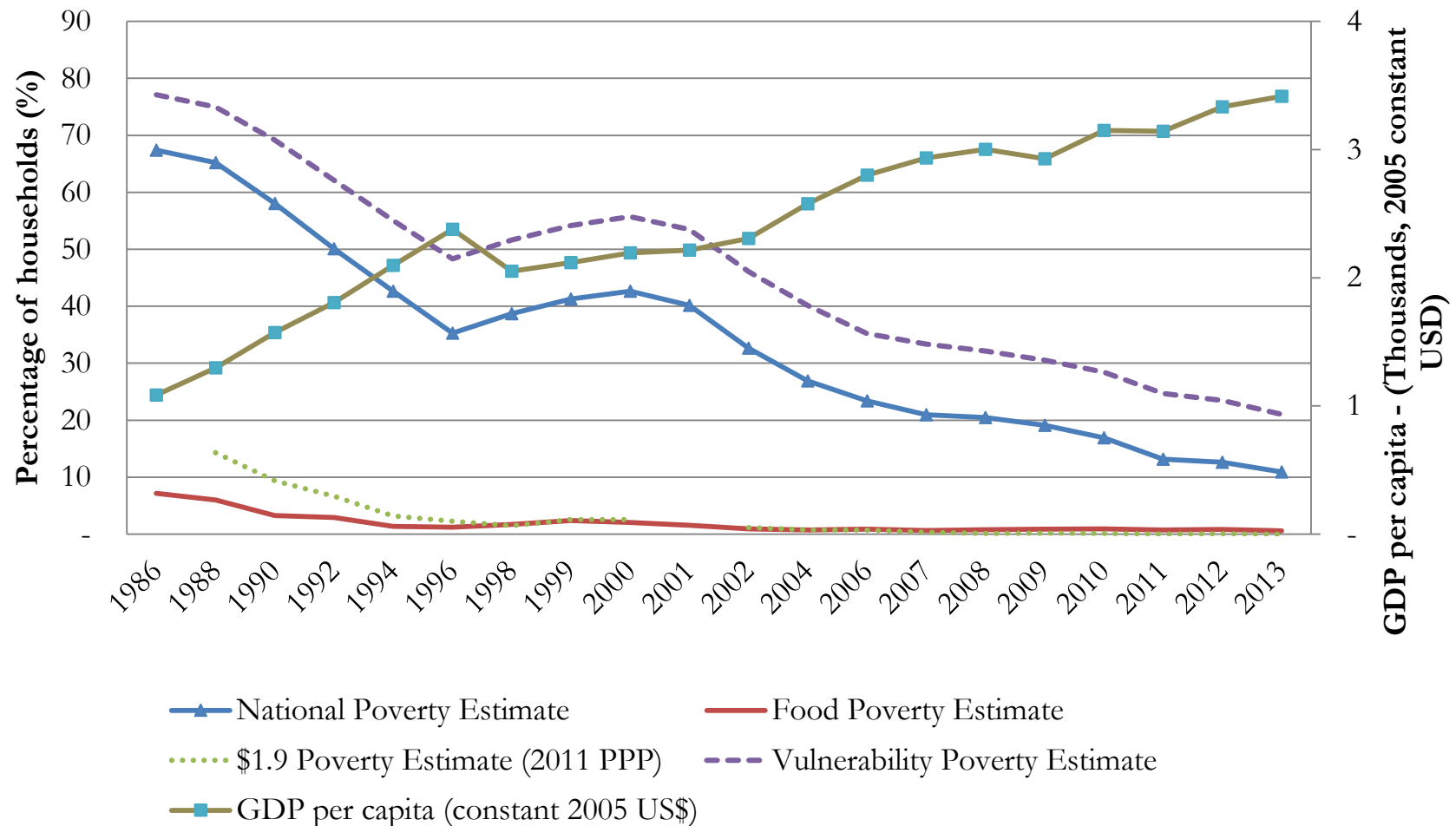
Source: Political Risk Services, International Country Risk Guide (ICRG).



# Inclusion and Poverty: impressive progress; challenges remain

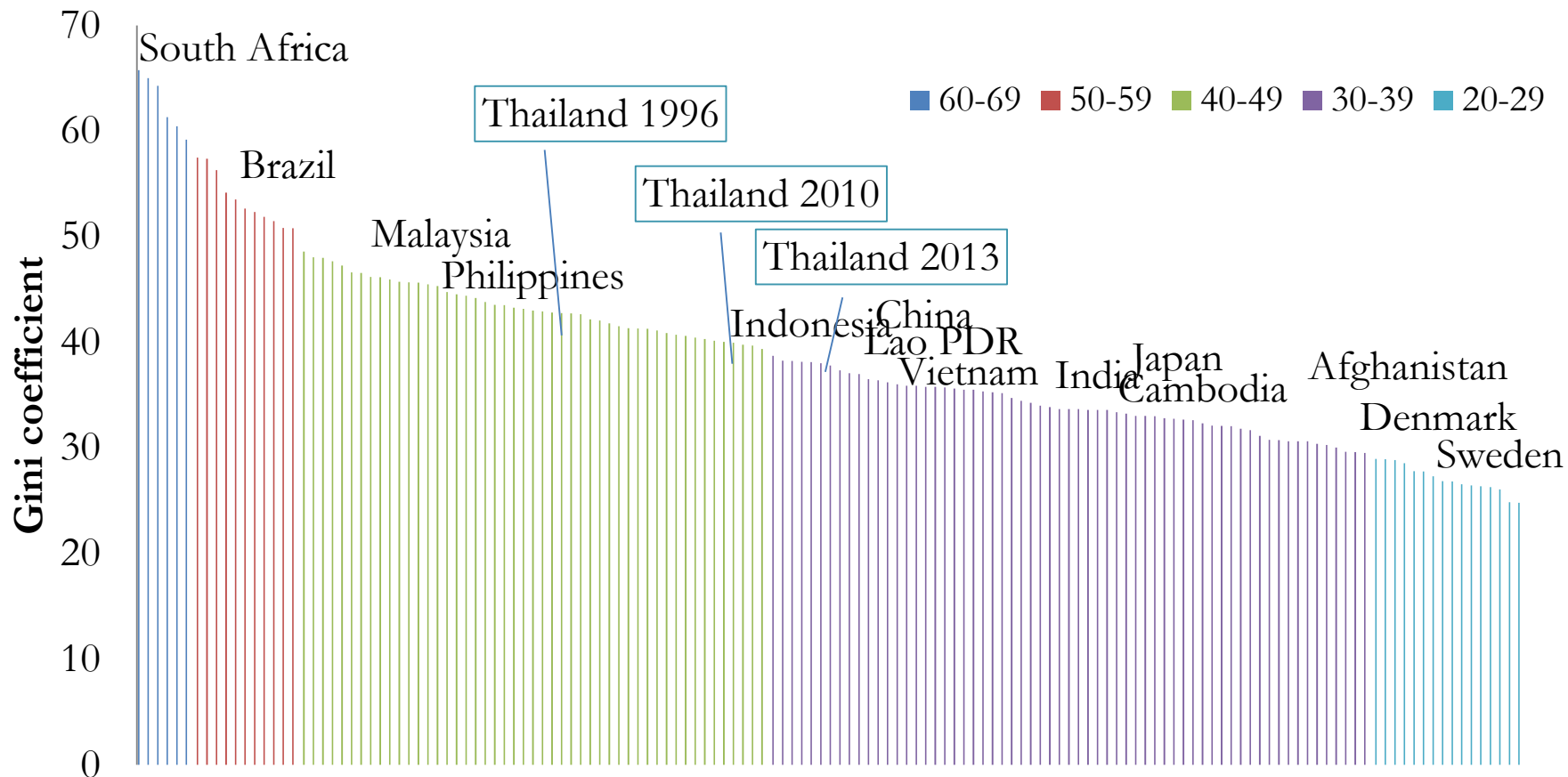


# By all measures of poverty, Thailand has made impressive progress in poverty reduction



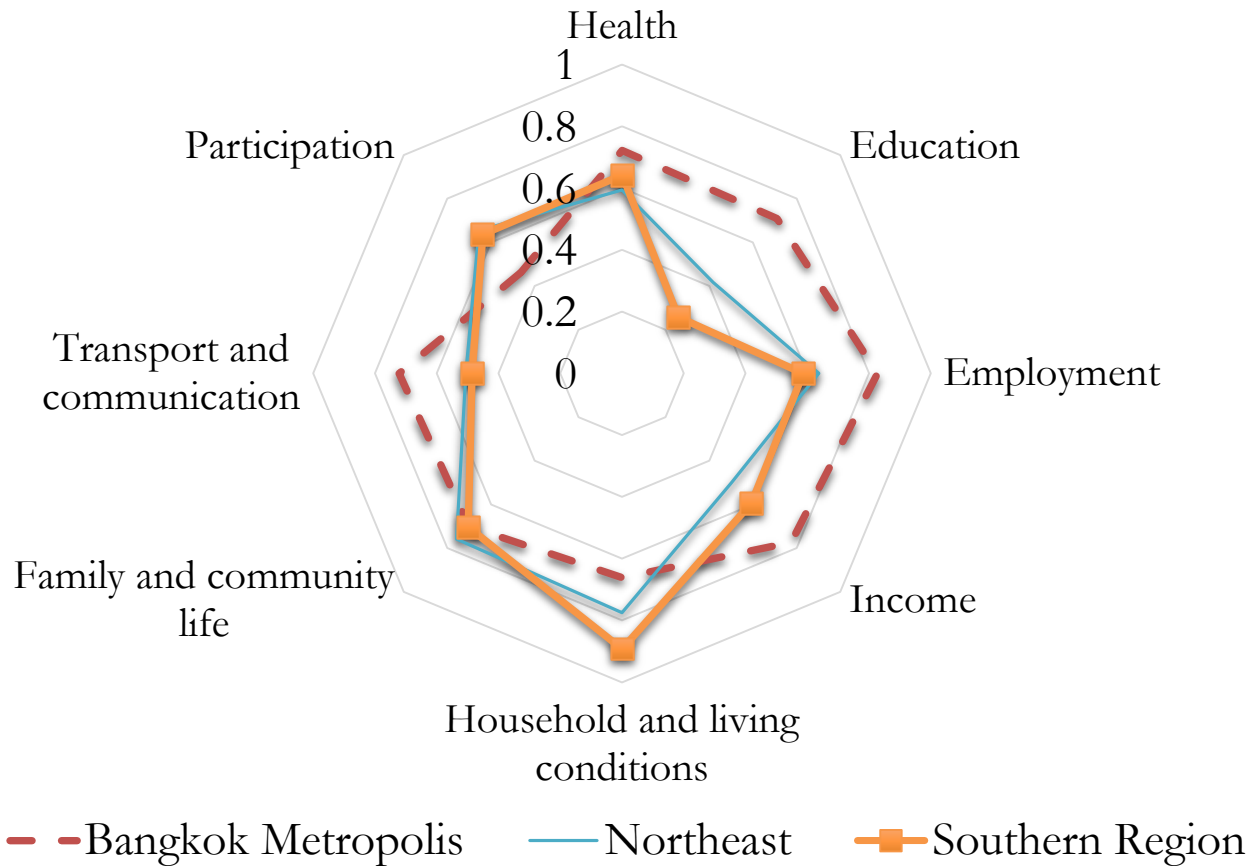
Source: Socio-Economic Surveys, National Statistical Office

# Thailand remains relatively unequal by international comparison



Source: World Development Indicators

# The Northeast and South lag in multiple dimensions

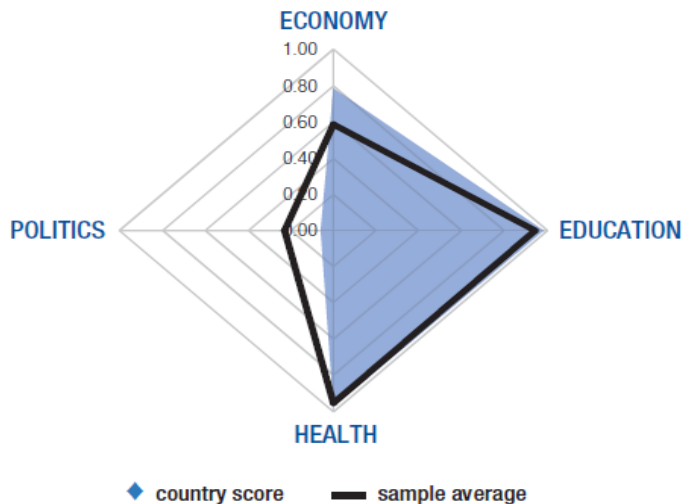


Source: Thailand Human Development Report, UNDP 2014

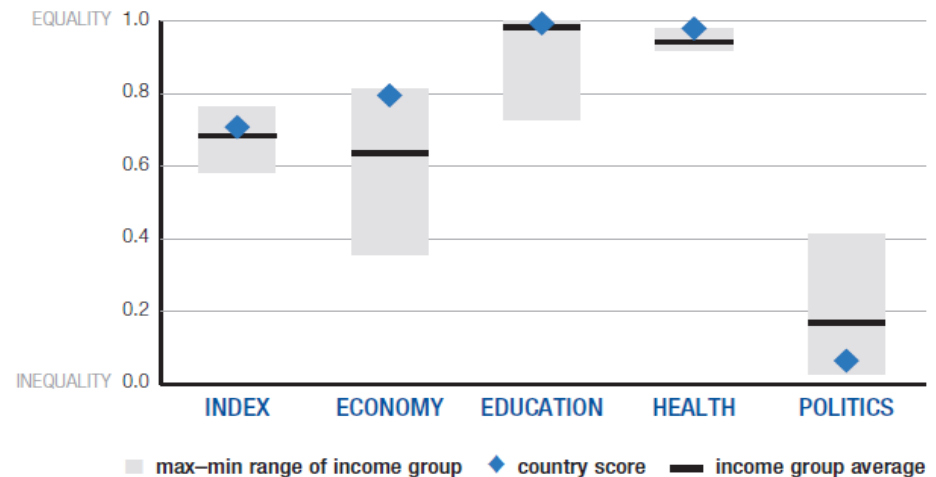
# Gender equality: much progress; challenges remain

- Full equality in education and health outcomes
- Thailand has exceptionally few women in politics
- Female labor force participation (at 71%) is relatively low
- Rising gender based violence (9,500 reported cases in 2007; 13,000 in 2012)

Against sample average



Against income group range and average



Source: Global Gender Gap Report 2015



# 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%

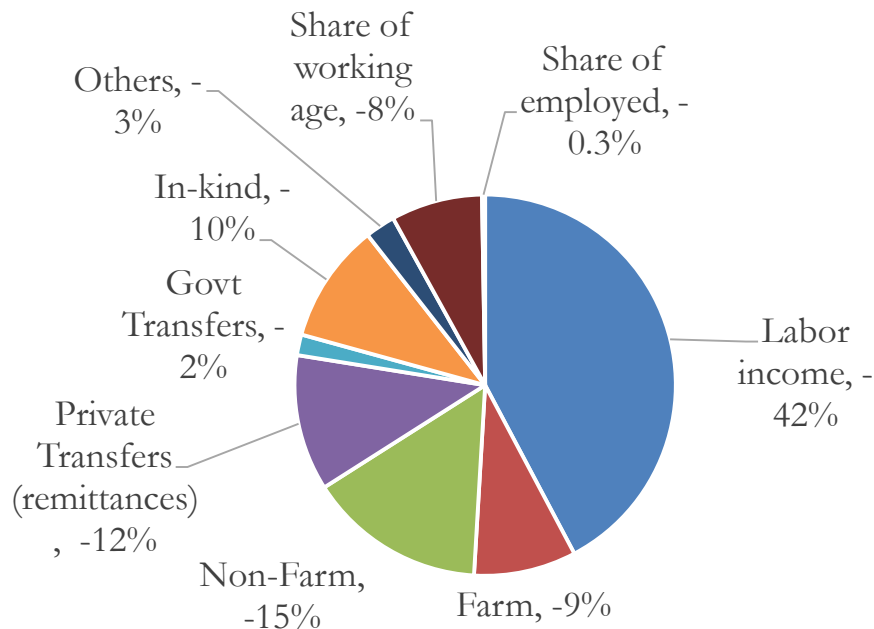


Source: Results from OECD's Programme for International Student Assessment

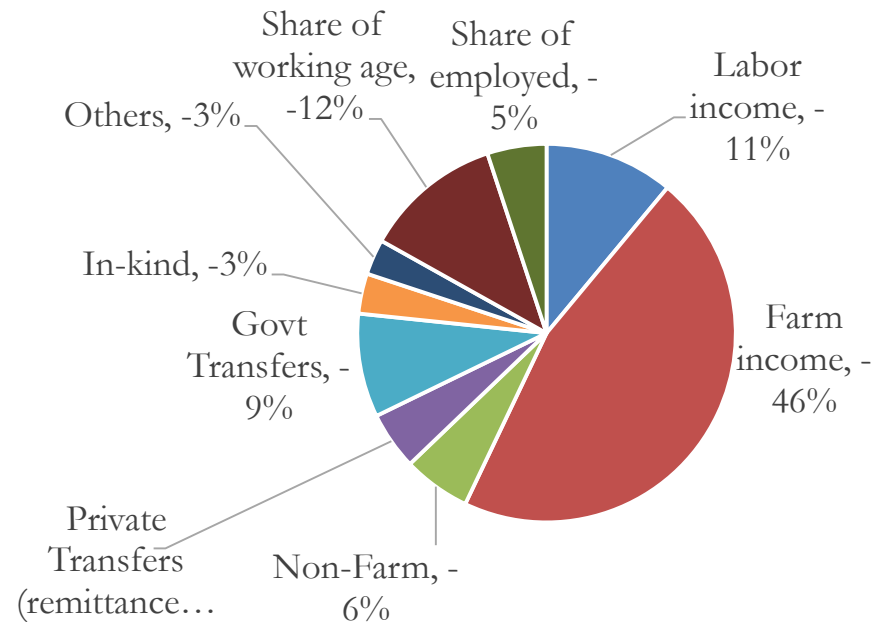
# Jobs were the key to reducing poverty in 1988-96. Farm incomes were the key in 2000-13.

*What factors explains the decline in poverty?*

1988 - 1996



2000 - 2013

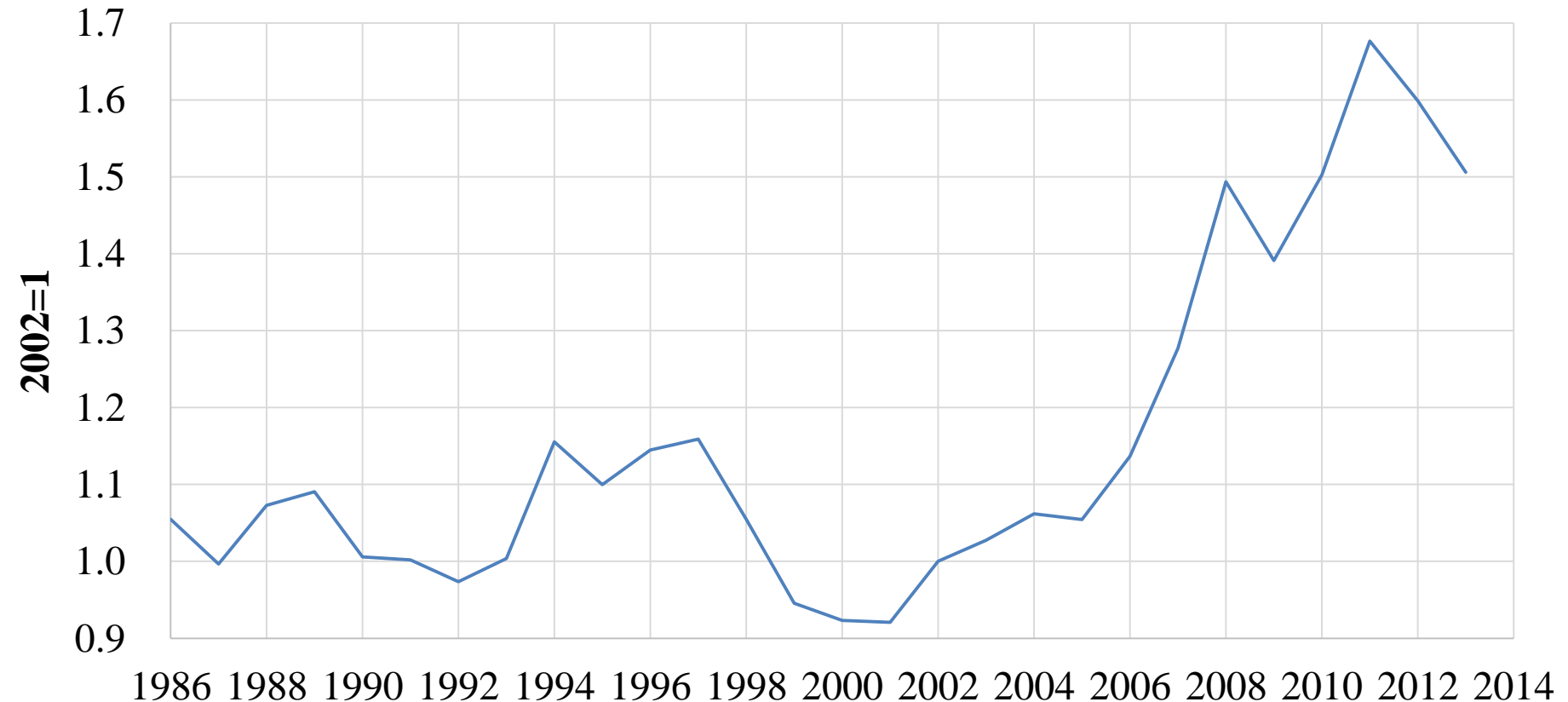


*Source:* World Bank calculations based on Socio-Economic Surveys (from NSO)

# How did farm incomes rise and reduce poverty?

## Answer: booming agricultural prices since 2001

**World Agricultural Commodity Price Index , constant 2005  
USD converted into index, with 2002=1)**



# How did “labor income” reduce poverty? Answer: millions of better paid jobs were created

	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
<b>Agriculture</b>	14,958	13,676	13,490	14,609		-1,282	-186	1,119
<b>Industry</b>	3,275	7,045	6,228	8,001		3,770	-817	1,773
<b>Services</b>	6,704	9,639	10,909	14,808		2,935	1,270	3,899
<b>Industry and Services</b>	9,979	16,684	17,138	22,809		6,705	453	5,672
<b>Population age 15-65</b>	31,877	39,349	41,670	47,803		7,473	2,320	6,133

*Source:* Labor Force Surveys (from NSO)

# Looking ahead: Risks to inclusive and sustainable growth?





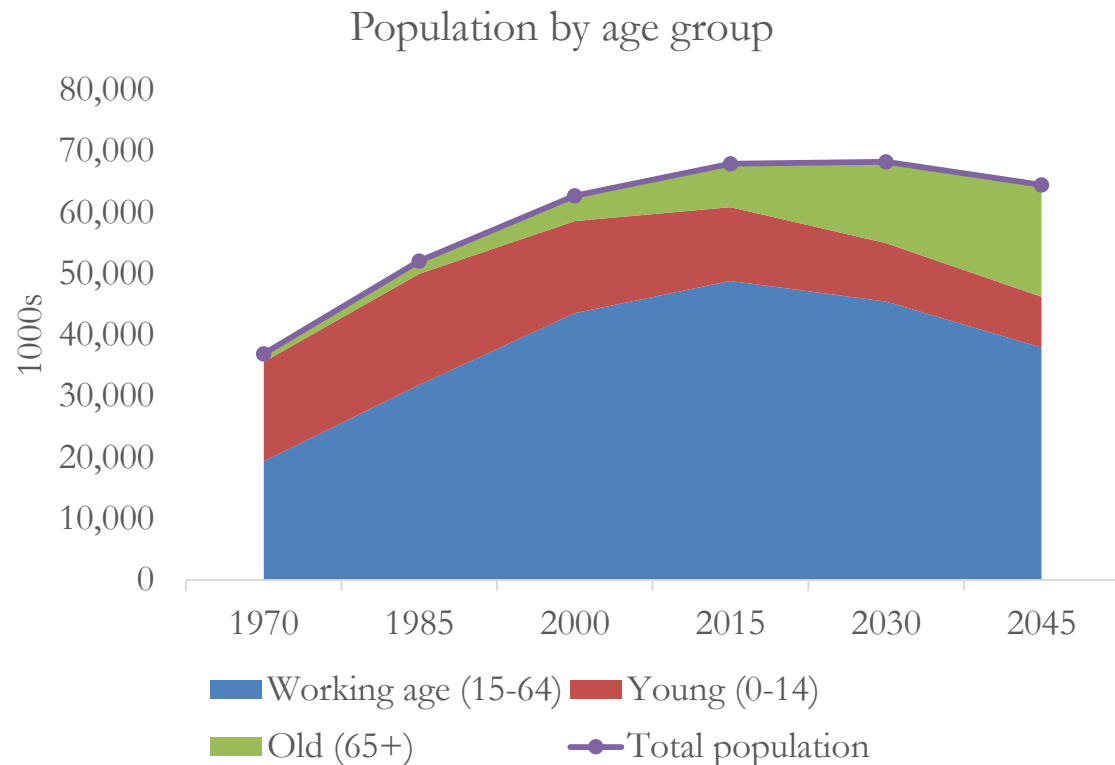
# Political instability and social tensions

- 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

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



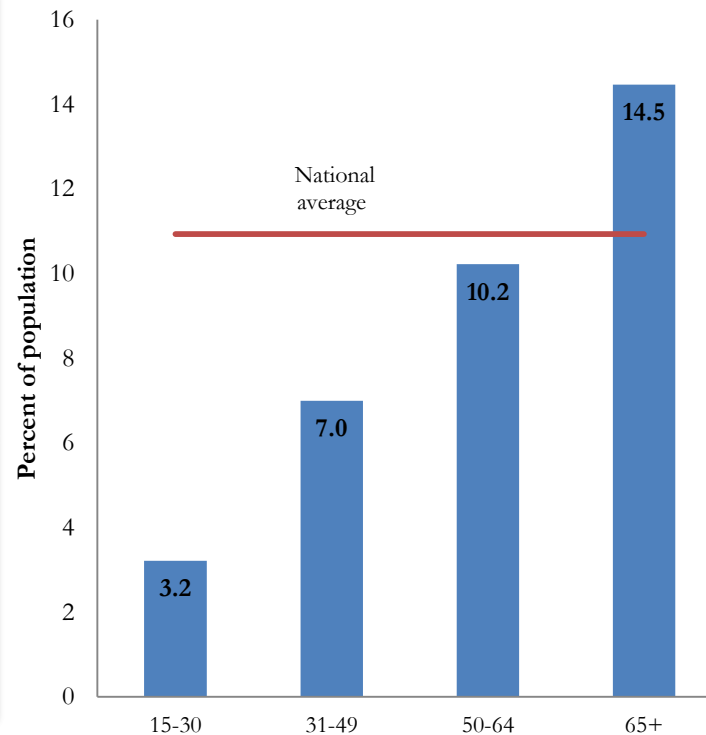
Source: United Nations Population Projection (2015 Revision).

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

11 million fewer  
people in working  
age population

# Example of challenges related to aging

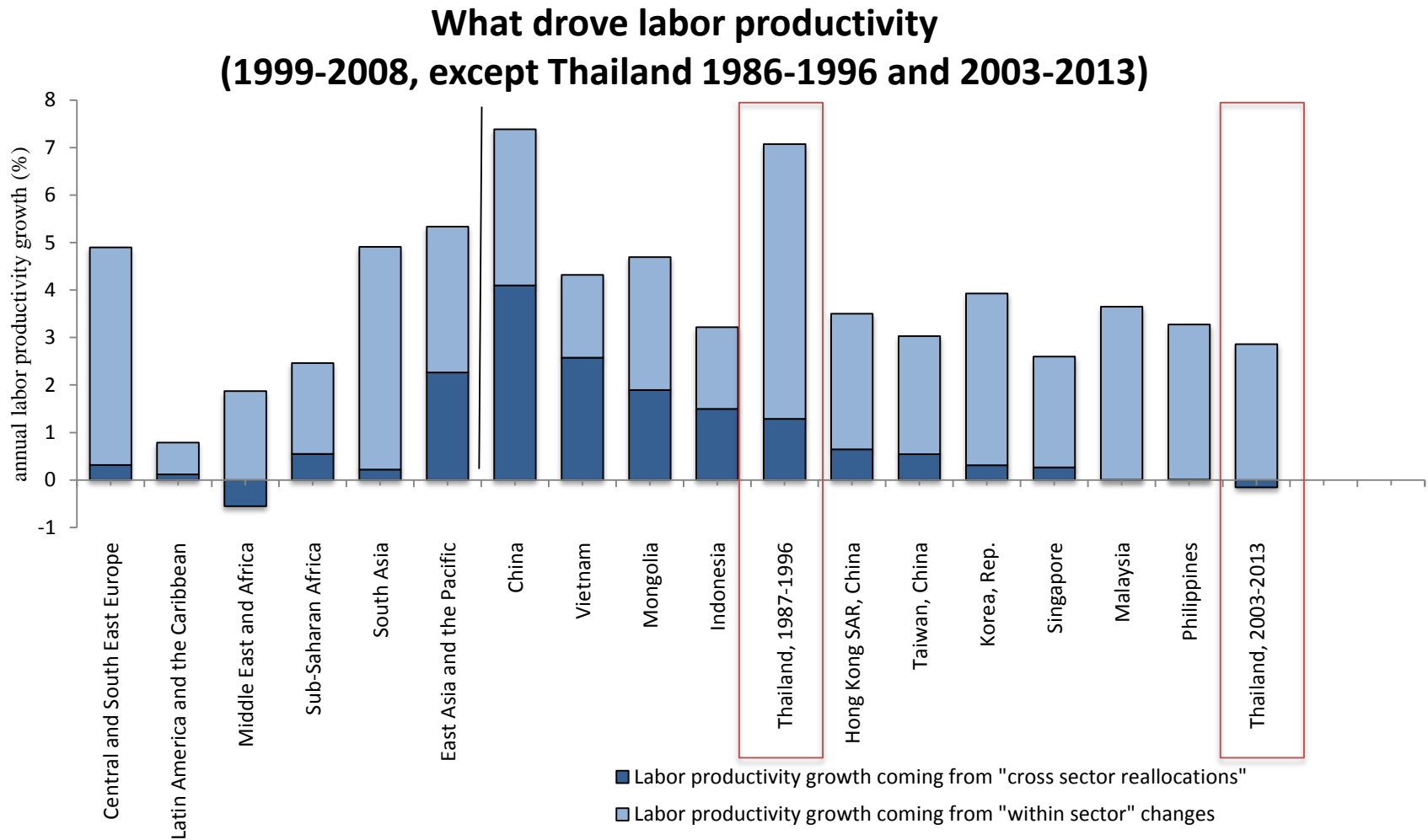
Higher poverty rates for households headed by older people



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)

# Can Thailand find a way to “re-start” structural transformation for faster productivity growth?



Source: World Development Report 2013 (Jobs), Thailand Labor Force Surveys

# Attracting FDI and gaining export market shares may become more challenging in the future

- Attracting FDI and being a hub for manufacturing exports in Asia was much easier in the 1980s and early 1990s compared to today
- Thailand will likely face headwinds due to a much more competitive regional and global economic environment in the future.
  - Neighboring countries are pushing ahead with far-reaching and deep reforms to improve their competitiveness:
    - e.g., Malaysia's "New Economic Model," Vietnam's investments in a better skilled workforce



# The environmental situation will increasingly present challenges to inclusive growth

The poorer regions are more affected by droughts

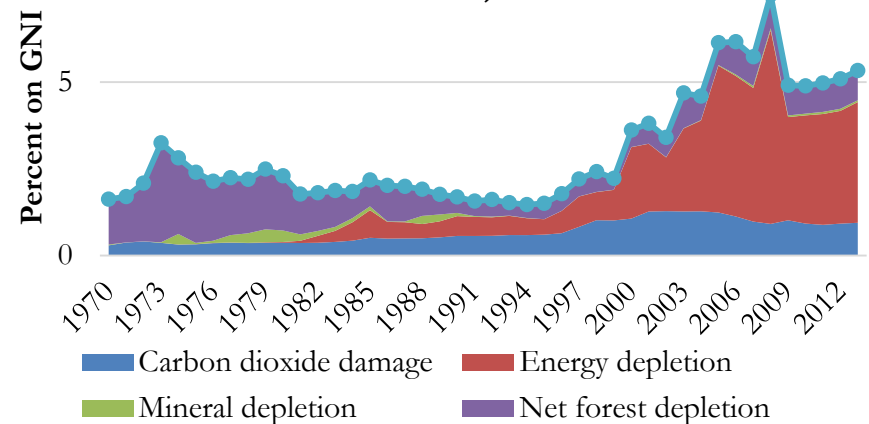
	Poverty incidence (%) 2013 number	Population affected By drought (persons), 2011	(%)
Kingdom	11	16,560,561	26
Bangkok	1	0	0
Central	5	2,041,717	13
North	17	3,642,235	31
Northeast	17	10,715,171	50
South	11	161,438	2

Source: Thailand Human Development Report, UNDP 2014



(Photo by Chanat Katanyu, printed in Bangkok Post March 3, 2016)

Thailand's natural resources are being depleted (total natural resource depletion, % of GNI)



# Systematic Country Diagnostic





# 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
- Improve the business and institutional environment
- Improve the overall education and skills of the workforce

## B. Providing more targeted support for the bottom 40 percent

- Expand *smart* social protection, especially for elderly and informal workers
- Boost agricultural productivity
- Narrow learning gap between socio-economic groups

## C. Making growth greener and sustainable

- Preserve Thailand's natural resources
- Manage the impacts of large-scale public investments

## D. Enhancing governance, accountability, and transparency

# Several positive recent signs

- Thailand first ever inheritance tax law became effective on Feb 1, 2016
- Introduction of targeted child grant for newborns in 2015.
- Major push to bring more SMEs into formal economy (providing them with incentives to move towards a single financial account) [SMEs have to register by March 15 to be eligible for tax break].
- Government transferred responsibility of supervision and regulation of State Financial Institutions to Bank of Thailand.
- Establishment of the Supervision Board for State Enterprises.
- Board of Investment regime revised: focus on innovative industries with high research and development content.

# Thank you!

A summary of recommendations and participant list from this meeting will be sent to you and posted on the WBG Website.

Suggestions or comments should be sent to: [thailand@worldbank.org](mailto:thailand@worldbank.org) or to [www.facebook.com/worldbankthailand](https://www.facebook.com/worldbankthailand)

There is an online survey available on the World Bank Thailand website:

[www.worldbank.org/thailand](http://www.worldbank.org/thailand)

