Contents

1. Objectives of the Engagement
2. Systematic Country Diagnostic (SCD)
3. Country Context
4. Growth Story
5. Poverty Story
6. Looking ahead: Risks to inclusive and sustainable growth?
7. Tentative priorities for creating more inclusive and sustainable growth
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

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)*

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Agri</th>
<th>Indust.</th>
<th>Services</th>
<th>Private</th>
<th>Govern.</th>
<th>Invest</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-96</td>
<td>9.4</td>
<td>3.9</td>
<td>11.9</td>
<td>9.1</td>
<td>8.5</td>
<td>14.8</td>
<td>15.0</td>
<td>15.0</td>
<td>18.3</td>
</tr>
<tr>
<td>2000-07</td>
<td>5.4</td>
<td>2.8</td>
<td>6.3</td>
<td>5.1</td>
<td>5.4</td>
<td>7.7</td>
<td>7.2</td>
<td>8.1</td>
<td>8.7</td>
</tr>
<tr>
<td>2010-13</td>
<td>3.9</td>
<td>3.3</td>
<td>1.4</td>
<td>5.5</td>
<td>3.9</td>
<td>5.5</td>
<td>6.3</td>
<td>5.6</td>
<td>6.5</td>
</tr>
<tr>
<td>2013-14</td>
<td>0.9</td>
<td>0.7</td>
<td>-0.3</td>
<td>1.7</td>
<td>0.6</td>
<td>2.1</td>
<td>-2.4</td>
<td>0.2</td>
<td>-5.3</td>
</tr>
</tbody>
</table>

*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

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per worker (Thousands of US dollars in PPP terms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>122</td>
</tr>
<tr>
<td>Hong Kong ROC</td>
<td>100</td>
</tr>
<tr>
<td>Australia</td>
<td>91</td>
</tr>
<tr>
<td>Japan</td>
<td>87</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>71</td>
</tr>
<tr>
<td>Turkey</td>
<td>62</td>
</tr>
<tr>
<td>Malaysia</td>
<td>51</td>
</tr>
<tr>
<td>Thailand</td>
<td>25</td>
</tr>
<tr>
<td>Indonesia</td>
<td>22</td>
</tr>
<tr>
<td>ASEAN-5</td>
<td>20</td>
</tr>
<tr>
<td>China</td>
<td>19</td>
</tr>
<tr>
<td>Philippines</td>
<td>16</td>
</tr>
<tr>
<td>India</td>
<td>13</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>8</td>
</tr>
<tr>
<td>Myanmar</td>
<td>8</td>
</tr>
<tr>
<td>Cambodia</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Asia Productivity Database
Large productivity gaps across sectors

Industrial workers in Thailand are 6.5 more productive than farmers

Ratio of labor productivity in agriculture to labor productivity in industry and services

- Thailand: 6.5
- Philippines
- China
- Indonesia
- Vietnam
- India
- Turkey
- Malaysia

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.

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.

Inclusion and Poverty: impressive progress; challenges remain
By all measures of poverty, Thailand has made impressive progress in poverty reduction.

![Graph showing poverty reduction in Thailand](image)

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)

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

- Share of working age, -8%
- Share of employed, -0.3%
- Private Transfers (remittances), -12%
- Non-Farm, -15%
- Farm, -9%
- In-kind, -10%
- Govt Transfers, -2%
- Others, -3%

Labor income, -42%

2000 - 2013

- Share of working age, -12%
- Share of employed, -5%
- Private Transfers (remittances), -6%
- Non-Farm, -15%
- Govt Transfers, -9%
- In-kind, -3%
- Others, -3%
- Labor income, -11%
- Farm income, -46%

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

<table>
<thead>
<tr>
<th></th>
<th>Thousands</th>
<th>Change, thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>24,937</td>
<td>30,361</td>
</tr>
<tr>
<td>Agriculture</td>
<td>14,958</td>
<td>13,676</td>
</tr>
<tr>
<td>Industry</td>
<td>3,275</td>
<td>7,045</td>
</tr>
<tr>
<td>Services</td>
<td>6,704</td>
<td>9,639</td>
</tr>
<tr>
<td>Industry and</td>
<td>9,979</td>
<td>16,684</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population age</td>
<td>31,877</td>
<td>39,349</td>
</tr>
</tbody>
</table>

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


- 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?


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

<table>
<thead>
<tr>
<th>Region</th>
<th>Poverty incidence (%) 2013 number</th>
<th>Population affected by drought (persons), 2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kingdom</td>
<td>11</td>
<td>16,560,561</td>
</tr>
<tr>
<td>Bangkok</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Central</td>
<td>5</td>
<td>2,041,717</td>
</tr>
<tr>
<td>North</td>
<td>17</td>
<td>3,642,235</td>
</tr>
<tr>
<td>Northeast</td>
<td>17</td>
<td>10,715,171</td>
</tr>
<tr>
<td>South</td>
<td>11</td>
<td>161,438</td>
</tr>
</tbody>
</table>

*Source: Thailand Human Development Report, UNDP 2014*

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

![Graph showing natural resource depletion](image)

(Peace by Chanat Katanyu, printed in Bangkok Post March 3, 2016)
Systematic Country Diagnostic
What will it take to create more inclusive and sustainable growth?

<table>
<thead>
<tr>
<th>A. Creating more and better jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Boost investments in infrastructure</td>
</tr>
<tr>
<td>• Increase competition through free trade agreements and deregulation</td>
</tr>
<tr>
<td>• Improve the business and institutional environment</td>
</tr>
<tr>
<td>• Improve the overall education and skills of the workforce</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Providing more targeted support for the bottom 40 percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expand <em>smart</em> social protection, especially for elderly and informal workers</td>
</tr>
<tr>
<td>• Boost agricultural productivity</td>
</tr>
<tr>
<td>• Narrow learning gap between socio-economic groups</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C. Making growth greener and sustainable</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Preserve Thailand's natural resources</td>
</tr>
<tr>
<td>• Manage the impacts of large-scale public investments</td>
</tr>
</tbody>
</table>

| 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.
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 or to www.facebook.com/worldbankthailand

There is an online survey available on the World Bank Thailand website: www.worldbank.org/thailand