

# Chapter 8

## Thailand: Achieving Social-Economic Development Balance

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December 2012

**This chapter should be cited as**

Jitsuchon, S. (2012), 'Thailand: Achieving Social-Economic Development Balance', Zhang, Y., F. Kimura and S. Oum (eds.), *Moving Toward a New Development Model for East Asia- The Role of Domestic Policy and Regional Cooperation*. ERIA Research Project Report 2011-10, Jakarta: ERIA. pp.255-278.

## CHAPTER 8

### Thailand: Achieving Social-Economic Development Balance

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*After decades of high economic growth, Thailand is now facing many challenges; ensuring sufficient level of economic growth to avoid middle-income trap, and balancing its social and political successes with the economic one. Overall, the country has done well in reducing poverty, provision of basic and advanced health care and basic education. The least progress is economic and social inequality and environmental sustainability. The quality of human capital is also lagging behind other countries, as indicated by the low performance of the education system and the low levels of labor skills. To achieve a better socio-economic development balance, Thailand needs strong institutions that would steer the development process to a more balanced, productive and sustainable path of future economic and social development. More specifically, the country needs political leadership that is visionary, transparent and efficient.*

**Keywords:** social development, economic development; economic growth; poverty, inequality, social welfare.

**JEL classification:** A13, I24, H55, I38, O15, O33

## **1. Introduction**

It goes without saying that a country can only truly develop when its people not only have a high economic standard of living, but also live happily. The balance of economic and social development is thus a critical criterion against which any ‘development models’ should be judged. However, judgment is not a straightforward business because, while economic standards of living can be somewhat objectively evaluated, the ‘happiness’ cannot. Fortunately, progress is constantly being made on the question of what constitutes happiness.

This chapter will use Thailand as a case study in exploring the issues surrounding balancing economic and social development. It will make the case that, when there is a serious problem with such balancing, a country can easily risk falling into disarray and it will require tremendous collective effort to restore socio-economic peace and prosperity. The chapter will then discuss how, and with what measures, to bring about the desired balance.

The chapter consists of five sections. A brief historical account of economic and social development in Thailand over the past half century will be first presented in Section 1, followed by an identification of some fundamental social development issues in Section 2. Section 3 and 4 discuss what needs to be done to improve the balance. The conclusion is in Section 5.

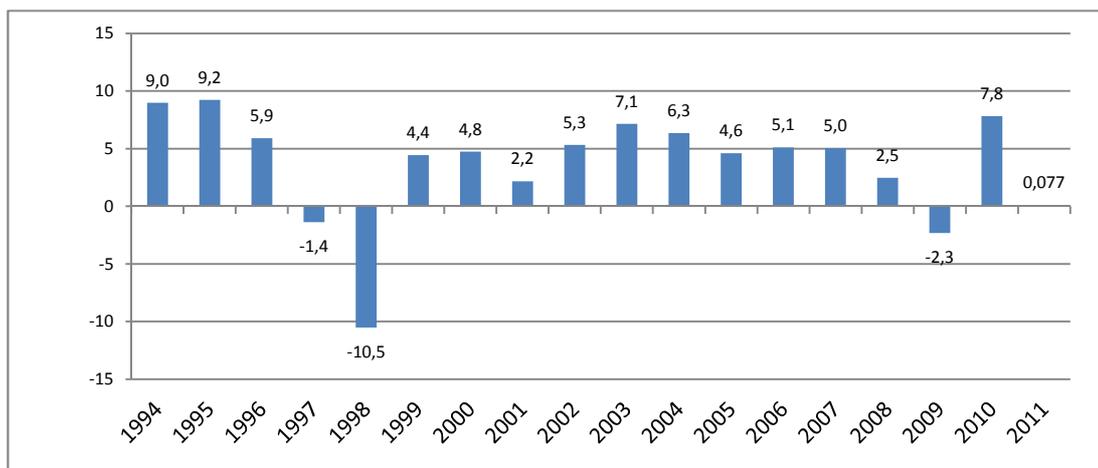
## **2. Historical Account of Thailand’s Economic Development**

Before the Asian financial crisis in 1997/98, Thailand had long been considered one of best performers in terms of achieving long-term economic growth. The World Bank (2011) lists Thailand as among ‘13 economic miracles’ with the highest economic growth after the Second World War. The average real annual economic growth between 1952 and 2011 was 6.2%, and on the first of July 2011, the World Bank announced that Thailand had moved up from its lower-middle income category

to an upper-income one. To some, the upgrading was a reassurance that this country is moving toward becoming a developed, high-income economy.

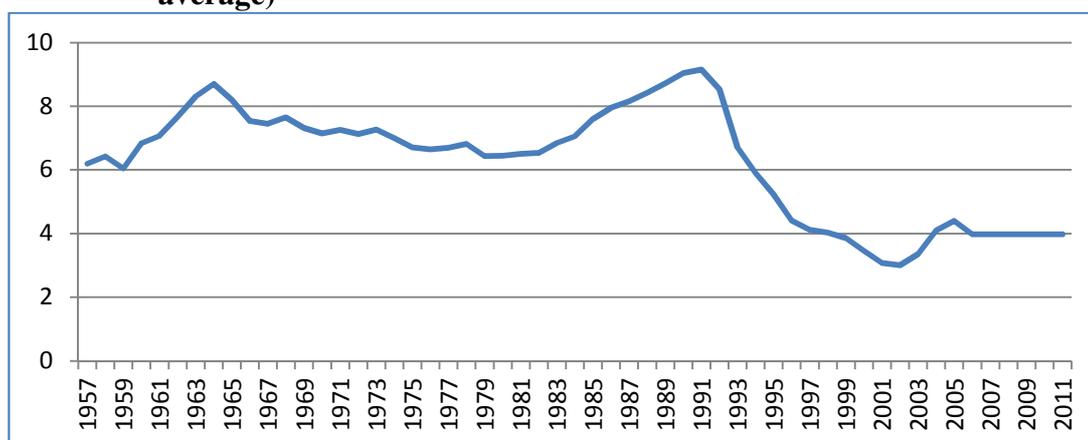
Thailand's recent performance has, however, been quite the opposite of its long-term past. Economic growth rates have been on a roller-coaster, as shown in Figure 1, where growth tumbled from close to 10% in the early and mid-1990s to much lower rates afterwards, due partly to three economic crises (1997/98, 2001, 2008/9). Since 1996, Thailand has never seen a growth rate above 8%, and those years where growth rates exceeded 6% were years of recovery from deep crises. Figure 2 shows that since 1997 Thailand's medium-term growth (measured by the 11-year moving average) has only been around 4%. This is a sharp decrease from around 7% or above during 1963-1993.

**Figure 1: Annual real GDP growth rates, 1994-2011 (%)**



Source: Office of National Economic and Social Development Board, Thailand

**Figure 2: Medium-term growth rates, 1950s-present (% , 11-year moving average)**



*Source:* calculated by the author using national income data from the Office of the National Economic and Social Development Board, Thailand.

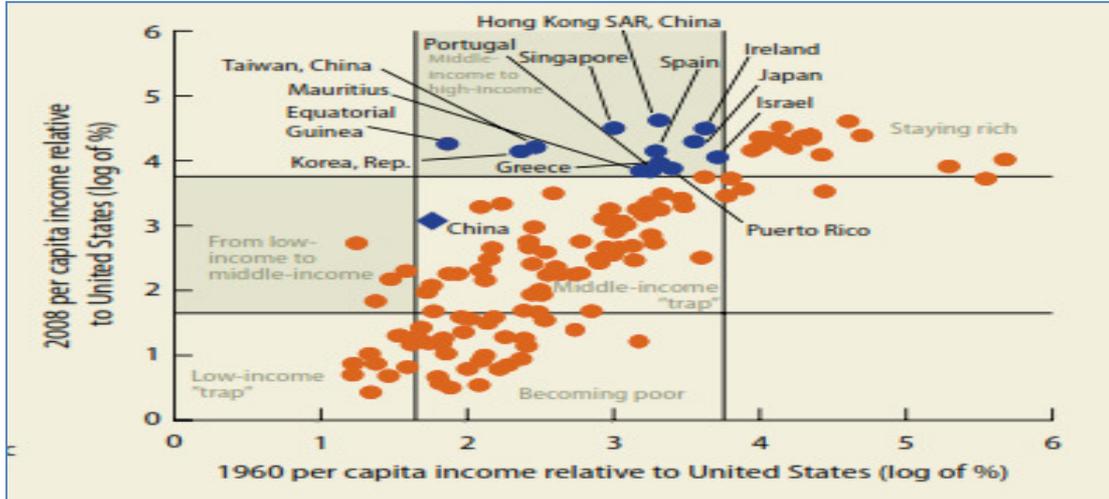
*Note:* The moving averages for years 2006-2011 are calculated using 2001-2011 data.

The increased growth uncertainty and, more importantly, the lower medium-term growth prospects indicate fundamental problems with the state of development the country is currently in. Specifically, it raises the possibility that Thailand might be now falling into the ‘middle-income trap’. A middle-income trap--hereafter the MIT--is commonly defined as a situation where a country that is successful in rising from its status as a least-developed or low income country into a middle income one, eventually remains there without much prospect of becoming an advanced and rich country. Although the general meaning of the term is clear, its operational definition is not. One problem arises from the fact that ‘middle-income country’ can be either a relative or an absolute concept. If we use it as a relative concept, the phenomenon is perhaps best depicted by Figure 3. When measuring economic performance against the US economy, only 13 countries managed to close the gap with the US during 1960 and 2008 in such a way that they escalated from being ‘middle-income’ against the US in 1960 to being more or less equally as rich as the US in 2008. Many more countries remained in a relatively middle-income position throughout the period (those in the middle box), including Thailand.

Figure 4 illustrates the absolute concept of the MIT. Japan and South Korea were successful in raising their per capita income steadily from 1950 to 2008, leaving

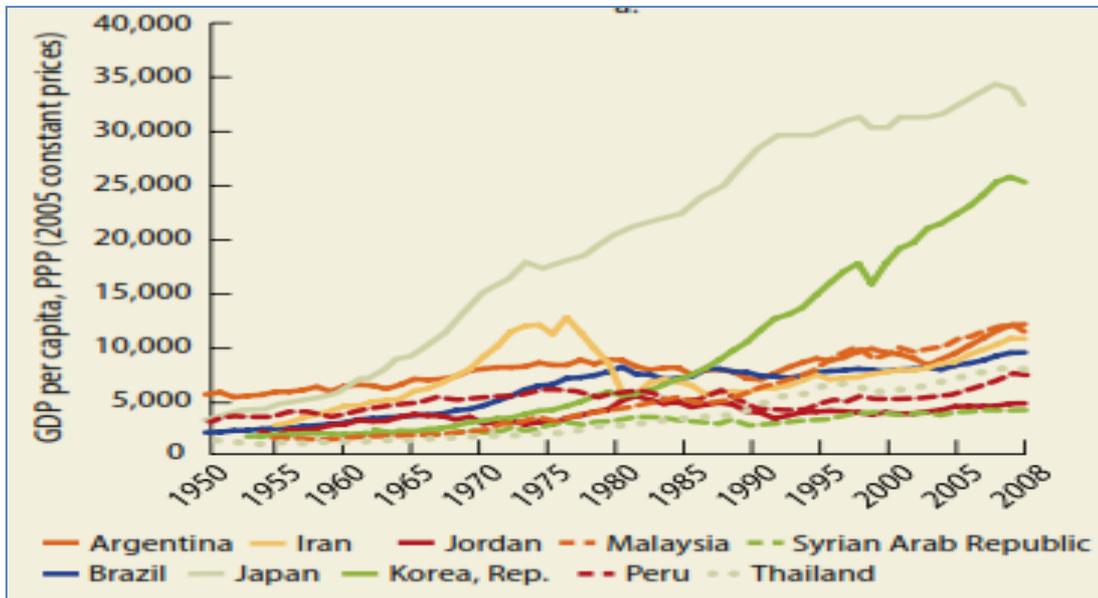
behind many other countries that had similar incomes in 1950. Again, this indicates that Thailand is indeed in the MIT.

**Figure 3: Countries' Positions in Relation to the US Economy, 1960 and 2008**



Source: World Bank (2012), Box 1.

**Figure 4: Per capita GDP of Selected Countries (2005 Constant Purchasing Power Parity (PPP))**



Source: World Bank (2012), Box 1.

Many factors can account for why Thailand is stuck in the MIT trap. Among them are weak institutions (both public and private sector) that are unable to steer the

economy toward more prosperous long-term growth, old business models relying too much on low wages, low technology and manufactured exports. Delayed human capital development and delayed technological improvement are thus the keys to helping Thailand escape the MIT trap. The ratio of R&D spending to GDP has stagnated at around 0.2%. The Thai business sector might have been successful in the past in making organizational and marketing innovations (evidenced by the country's high average long-term growth as mentioned in the beginning), but going upward to the next level of competition will need more product and process innovations.

### **3. Social Achievements and Remaining Challenges**

Despite its recent weakness, long-term economic growth has translated into many social achievements in Thailand. The question is how balanced the two areas of achievement are. Since there is no consensus on how to define such 'balance', I rely on the comparison of Thailand's scores in various social dimensions with other countries in the world. The dataset is from the latest human development report from the United Nations Development Programme (HDR, 2012). The scores are defined by converting Thailand's scores into 'percentile scores' by normalizing the countries' scores into a range from 0 to 100, with higher values indicating better positions. The score for economic achievement is represented by per capita Gross National Income (GNI) (in constant 2005 purchasing power parity (PPP\$)). Thailand's economic achievement score is 52.4 (meaning that 52.4% of countries have lower scores). The results are shown in Table 1.

#### **3.1. Comparisons of Economic and Social Achievements**

Let us first compare the overall human development index (HDI) with the economic score. The HDI score is 44.9, which is lower than the economic score described above. This indicates that overall human development is lagging slightly behind economic development. Drilling into the HDI components we find that the main reason for Thailand's low overall result is the low performance of education

(years of schooling and expected years of schooling), while the health dimension, represented by life expectancy scores higher. Interestingly, the well-being index score is very high in spite of the lower HDI. One of the reasons for this might be the low rate of poverty, which scores high in all aspects, with the exception of poverty vulnerability, which is only slightly better than the overall economic score. Looking at the rest of the detailed figures, other social dimensions have mixed scores, some higher and some lower.

Among those social dimensions with lower scores, there are some with very low scores which thus need particular attention. Their scores are highlighted with bold numbers in Table 1. They indicate that Thailand does much worse in three areas:

1. Educating its people.
2. Keeping emissions under control, protecting endangered species, protecting its people from being affected by natural disasters.
3. Economic inequality.

**Table 1: Comparison with economic development score of various social indicators, using international index scores**

Indicator Group	Comparison with economic percentile score			
	Better Score		Worse Score	
	Indicators	Score	Indicators	Score
HDI	Life Expectancy	61.0	HDI	44.9
			Mean Years Schooling	34.8
			Expected Years Schooling	46.0
Well-Being	Well-being Satisfaction	71.6		
	Satisfaction with Actions to preserve environment	92.8		
Poverty	\$1.25 PPP Poverty	55.0		
	National Poverty	92.5		
	Multidimensional Poverty Index	86.1		
	Vulnerable to Poverty	53.7		
	Severe Poverty	77.8		
Inequality	Gender Inequality Index	53.4	Quintile Income Ratio	10.6
			Income Gini Coefficient	7.8
Education	Tertiary Enrollment	66.3	Primary Enrollment	12.1
	Adult Literacy	62.9	Secondary Enrollment	39.1
	Pupil/Teacher Ratio	69.5		
Health	Maternal Mortality	56.8	Male Mortality	34.8

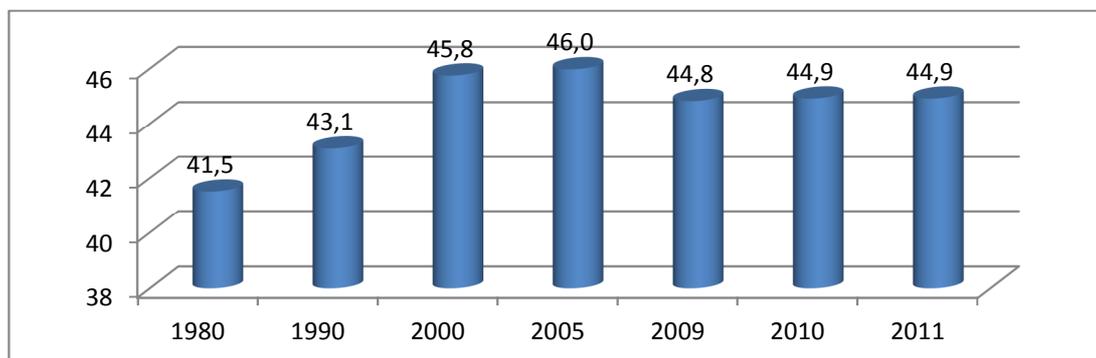
Indicator Group	Comparison with economic percentile score			
	Better Score		Worse Score	
	Indicators	Score	Indicators	Score
	Stunting	77.1	Female Mortality	41.8
	Wasting	59.3		
	Under 5 Mortality	64.0		
Environment	Adjusted Net Saving	89.6	CO2 Emission	41.6
	Forest Area	61.8	Growth of CO2 Emission	3.4
	Active in Environment Groups	96.2	Endangered Species	17.3
			Natural Resource Depletion	40.8
Health-Environment	Deaths from Water Pollution	69.3	Populations Affected by Natural Disaster	5.8
			Deaths from Natural Disaster	40.4
			Population live in degraded lands	27.1

*Note:* Economic score is represented by per capita GNI, which results in a score of 52.4.

*Source:* Author's Calculation based on World Development Indicators 2012.

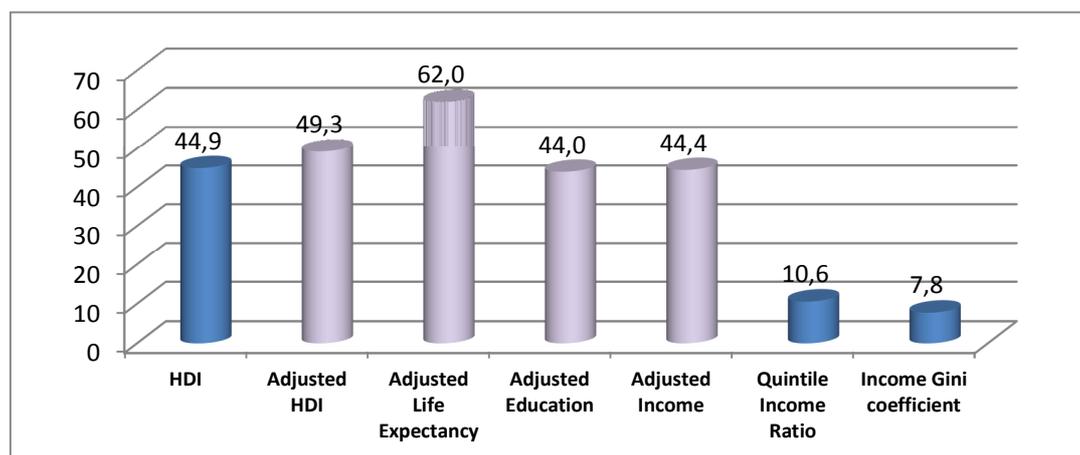
On the brighter side, Thailand's HDI has shown some improvement over the years, moving up from 41.5 in 1995 to 44.9 in 2011 (Figure 5). When adjusted by inequality, the HDI score is actually higher than the unadjusted one, in spite of the very high income inequality. This is mainly due to the high score for life expectancy, indicating that overall health achievement among the Thai people is somewhat more equal (Figure 6). The scores of the inequality-adjusted education and income levels are not as high, however. This can be explained by the very low scores for both the quintile income ratio and the Gini income index, which reflects very high inequality of income (or consumption) of Thailand when compared to other countries. In fact, Thailand's quintile income ratio (the ratio of the average income of the richest 20% of the population to the average income of the poorest 20% of the population) was ranked 15th among 142 countries in the HDI database. It is therefore safe to say that Thailand's inequality is among the world's highest.

**Figure 5: Thailand's Overall HDI Scores up to 2011 (Percentile of Countries Ranked below, %)**



Source: Author's calculation using HDI 2011 data

**Figure 6: Thailand's Inequality-adjusted HDI Scores up to 2011 (Percentile of Countries Ranked Below, %)**



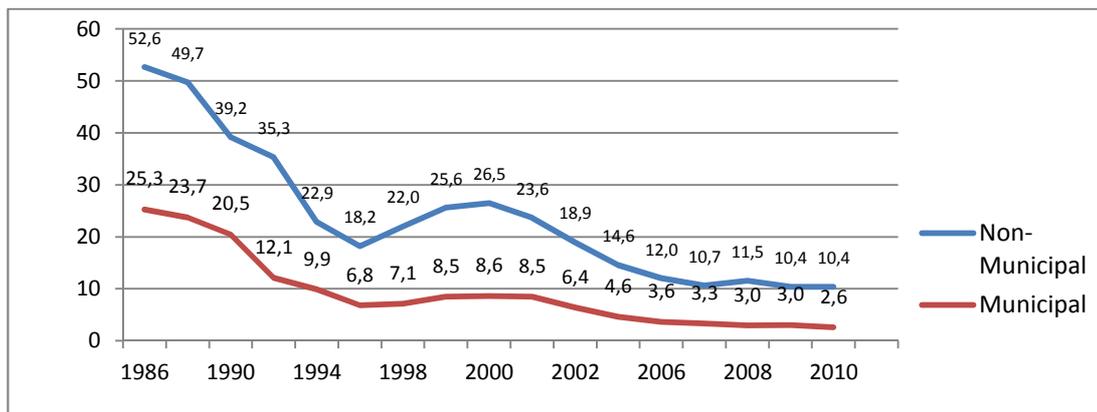
Note: Gini coefficients were derived from either income or consumption, so they are not perfectly comparable.

Source: Author's calculation using HDI 2011 data

### 3.2. Poverty and Social Inequality

Reducing poverty is perhaps Thailand's most important social achievement. More than 40% of the Thai population escaped from poverty in the past 25 years (see Figure 7). It might be interesting to see how poverty distributes among age groups. As expected, the poverty rate tends to be higher among the young and the elderly people (Figure 8); the young are usually those living in large families, which tend to be poorer than those in smaller families, while the elderly are more likely to earn less than the working-age population.

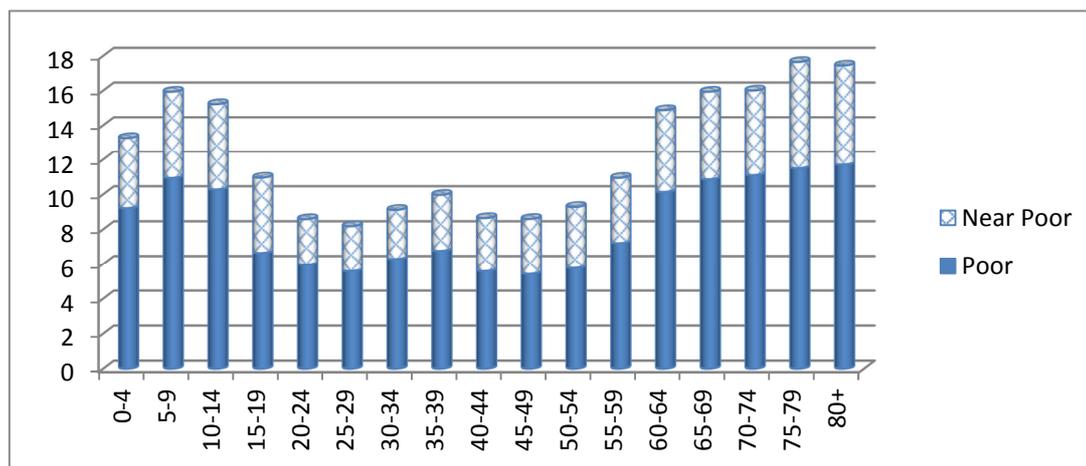
**Figure 7: Poverty Headcount Ratio, 1986-2010 (%)**



*Note:* A household is defined as poor if its monthly consumption falls below its household-specific poverty line.

*Source:* National Statistical Office, Thailand

**Figure 8: Poverty and Vulnerability (Poor plus Near-poor) Rates by Age Group, 2010 (%)**



*Source:* Socio-Economic Surveys, National Statistical Office, Thailand

Let us now turn to the implications of the high inequality level. The literature predicts that such high inequality would lead to many economic, social and political problems;. It certainly would make people ‘less happy’ than a more equal society with the same level of per capita income. Economic problems would include the recently found relationship between high inequality and lower long-term economic growth, and the narrow tax base (because of the limited size of the tax-paying middle-class) which would prevent government from spending on investment and social protection. Politically, the high inequality is a major obstacle to the development of democracy, as it nurtures the patronage system that is commonly

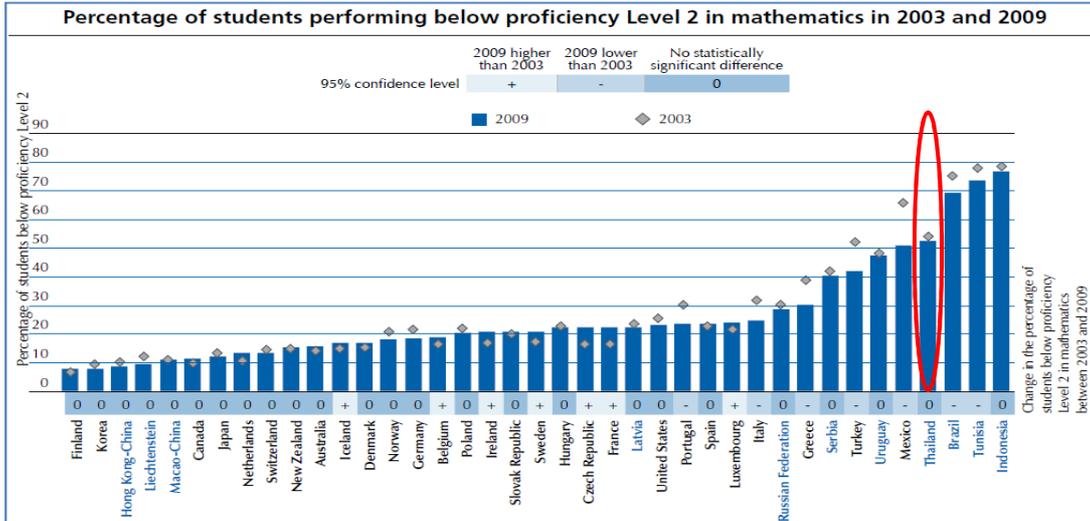
associated with vote-buying. Some socio-political researchers also argue that high inequality is the major factor that deepened the recent political crises and instability in Thailand.

Many social problems can also be linked with the high inequality. While poverty might have been the major cause in the past, the later boom in the sex industry in Thailand is more likely attributed to high inequality. Those who sell their services do not do it out of poverty anymore, but are motivated by the need to ‘feel equal’ with their peers (fellow college friends, for example). And because the differences of income between the potential service buyers and potential service sellers are quite large (and there are quite a few buyers and sellers) the ‘deals’ can be made in large numbers, resulting in a thriving market for sex service. In countries that are more equally rich (like the Scandinavian ones) or more equally poor (like some African countries), the sex industry tends to be a thin market.

### **3.3. Education**

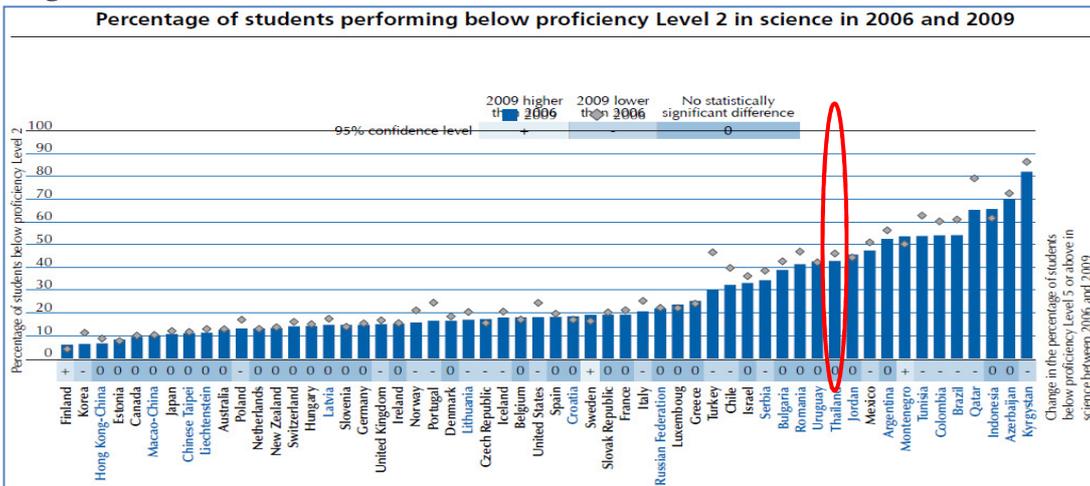
The mediocre level of the education element of the country’s HDI reveals one of Thailand’s most problematic areas, and a key obstacle to its long-term prosperity: human capital development. Starting from a low position in terms of basic educational provision, Thailand has made some impressive progress in the past two decades in widening education opportunities for its population. Now, most students finish at least higher secondary schools, and almost half of them go on to tertiary education. It has been estimated that around 52% of young Thai people in the age-range 10-25 has a good chance of obtaining at least a bachelor’s degree. This is a very impressive figure indeed. The key problems lie in the quality of the education or, more specifically, the lack of equality of access to good education among Thai students. Almost all education achievement indices of Thai students declined in the past several years. Figures 9 and 10 show how Thai students performed badly in mathematics and science using the Programme for International Student Assessment (PISA) scores. More than half of Thai students performed below proficiency level 2 in both subjects and, more worryingly, their performance deteriorated over the years from 2003 to 2009.

**Figure 9: Thai Students' Mathematics Performance**



Source: Programme for International Student Assessment (PISA), 2009

**Figure 10: Thai Students' Science Performance**

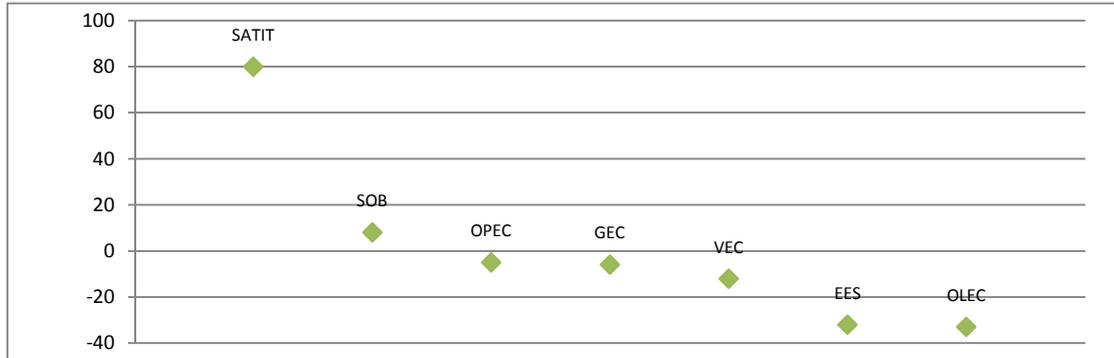


Source: Programme for International Student Assessment (PISA), 2009

The equality issue can be illustrated in Figures 11 to 13. Some selected types of school are offering an educational quality comparable to the international best. Figures 11 to 13 reveal that 'demonstration schools' outperformed other schools by a wide margin. On the other hand, small schools, such as the 'education expansion schools', which are schools in more remote areas which used to offer only primary education but had to move up to secondary education following the changing age

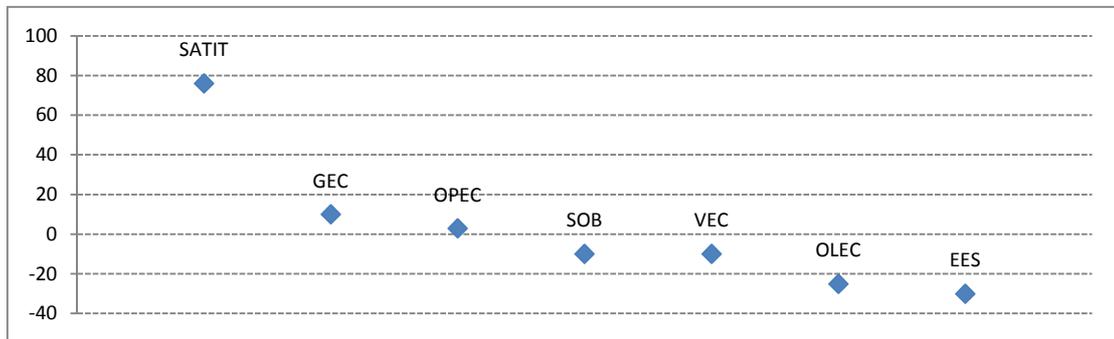
structure of their potential local students, and schools under the supervision of local governments, performed much worse than average.

**Figure 11: Performances in Mathematics of Thai Students by School Groups**



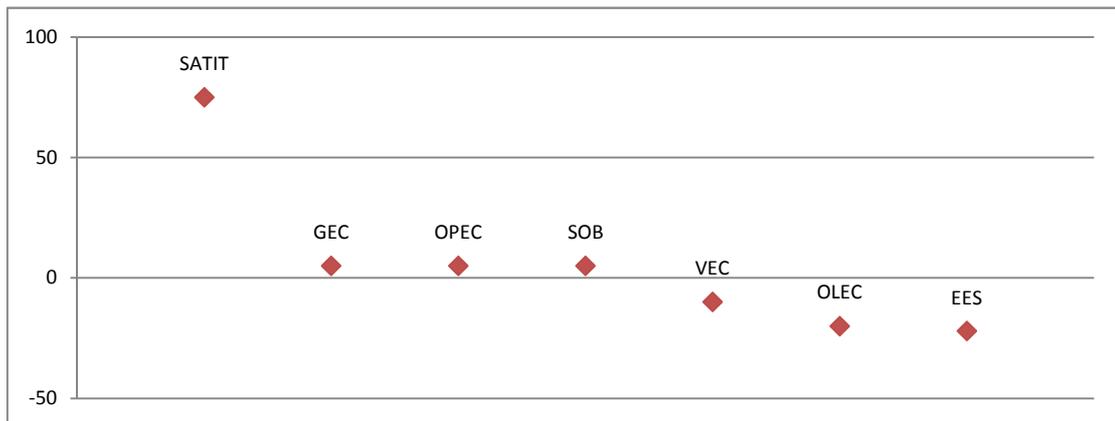
*Note:* SATIT= Demonstration Schools, GEC=Department of General Education, OPEC=Office of Private Education, SOB=Schools of Bangkok, VEC=Department of Vocational Schools, OLEC=Office of Local Education, EES=Educational Expansion Schools  
*Source:* Programme for International Student Assessment (PISA), 2009.

**Figure 12: Performances in Science of Thai Students by School Groups**



*Note:* see Figure 11 notes for the meaning of the abbreviations.  
*Source:* Programme for International Student Assessment (PISA), 2009

**Figure 13: Performances in Reading of Thai Students by School Groups**



*Note:* see Figure 11 notes for the meaning of the abbreviations.

*Source:* Programme for International Student Assessment (PISA), 2009

### **3.4. Socio-Political Development**

Another troubling aspect of Thai society that has become well known lately is its severe and prolonged political conflicts. The conflicts, which started around the years 2004/5, have been characterized not only by power struggling among elites, as most past conflicts were, but also by real economic and political conflicts between wider bases of different economic classes. The highly unequal society already mentioned earlier broadened and deepened the conflict to the point that the usual quid-pro-quo deals between the conflicting political elites cannot be easily achieved. How this deep-rooted societal conflict will unwind in the medium-term future will be crucial to Thailand's economic and social development. If the conflict leads to a more equal society, as many hope, the balance between economic and social achievement may be improved. On the other hand, the economy also risks falling into a populist policy trap, which would eventually dampen the country's economic efficiency and deteriorate the general well-being of all Thai people.

## **4. Moving Toward Balanced Development**

The preceding sections describe, in the case of Thailand, how some social developments have progressed more or less in unison with economic achievements,

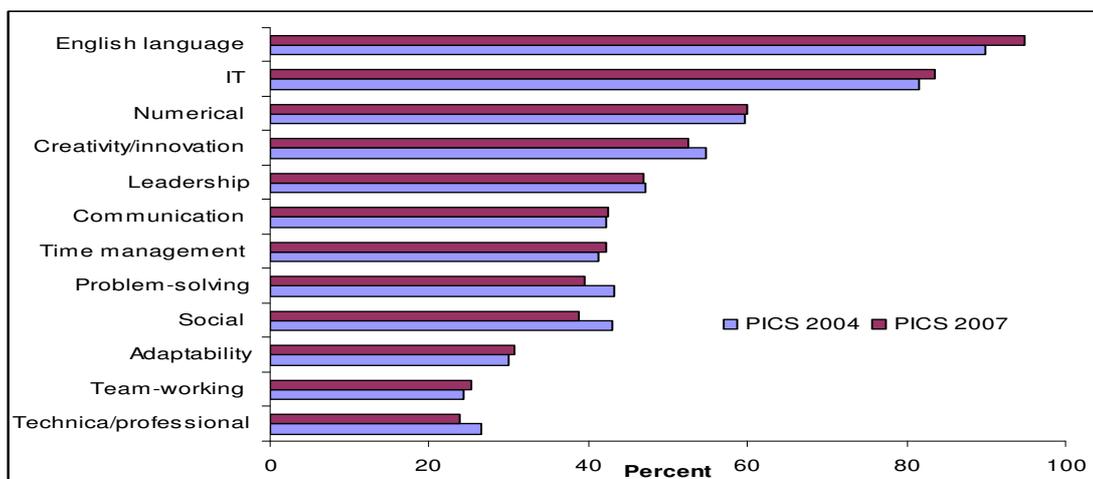
while some have lagged behind. Those falling behind are in two broad categories; human development and environmental quality. In this section, I will discuss how Thailand should improve in these two areas to make its economic development more balanced.

#### **4.1. Human Development as a Key to Social-Economic Balance**

Although Thailand has made significant progress in human development, much remains to be done. There are typically two principle channels through which a country's human quality is improved; education and health-care. Thailand has been doing quite well on health, as evidenced in the previous section, so the remaining important policy issue is education. And as pointed out earlier, the key problem with education is with its quality. The question is how to improve education quality. Numerous studies have found that the education system in Thailand does not need more money spent on it but rather a reform of its management. The Thai Development Research Institute (TDRI) (2012)) argues that accountability in the education system would help increase the quality of education. It proposes that a reward/punishment scheme should be introduced and linked to students' performance.

The next question is what kind of 'education quality' is most relevant in ensuring well-being. Acemoglu & Zilibotti (1999) argue that education must provide skills that are compatible with changes in technology in the modern world, to avoid the 'technology-skill-mismatch' problem. Surveys of foreign firms operating in Thailand reveal that the types of skill they desire from their employees are foreign language competence, information technology skills, communication skills, problem-solving abilities and leadership (Figure 14). The World Economic Forum (2009) suggests that 'entrepreneurship education' is required, where education engenders an entrepreneurial spirit in students, plus the creative ability to 'think outside the box'.

**Figure 14: Types of Skill Thai Workers Lacked, Reported by Foreign Investors in Thailand**



Source: World Bank (2008b).

#### **4.2. Towards a Comprehensive Welfare Society**

For a highly unequal society like Thailand, the natural policy recommendation is to strengthen redistribution policies. And among those redistribution policies, building up a comprehensive welfare society would perhaps be the most effective. A comprehensive welfare society is a society that looks after its citizens and residents in all the basic aspects of social protection and social assistance that a person deserves in his or her life journey from birth to death. Thailand needs to establish such a welfare society because the country does not have yet a decent social protection and welfares for its population. According to Jitsuchon, *et al.* (2009 and 2011), Thailand still has large ‘welfare gaps’, meaning that there are many basic social services that Thai people of all ages are still lacking. The key welfare gaps are:

- Children before school age are still not taken care of properly, especially in the area of intellectual and emotional development;
- Poor students are still denied access to quality education because their parents cannot afford additional costs (other than tuition fees which have been free for many years) such as transportation cost;
- More than three quarters of workers are not covered under social security, making them unable to get basic help when they most need it, such as unemployment/invalidity/maternity benefits, child allowance, etc.;

- Disabled and elderly people are paid monthly allowances that are not sufficient for most.

Jitsuchon, *et al.* (2009 and 2011) proposes a basic universal social protection and welfare system that would fill all these gaps, and estimates that it would need the government to bear an additional budget burden of around 2% of GDP. They argue that the proposed welfare system would not lead to a problem of people avoiding employment, as in the case in many countries, since the level of basic welfare would not provide a very comfortable life. Rather it would provide minimal, but adequate, social protection and welfare during times of need. How to mobilize resources to meet this proposal in the case of Thailand will be discussed in the next section.

The notion that providing basic social protection and welfare to all citizens is in fact affordable, as proposed in Jitsuchon, *et al.* (2009 and 2011) is not new. Many organizations under the United Nations system, especially the International Labor Organization (ILO), have been promoting this notion for some time. The idea is called the ‘social protection floor’ or SPF<sup>1</sup>. According to a 2010 ILO study, SPF is affordable at virtually all stages of development, with total additional cost ranging from 2.0% to 5.7% of GDP depending on how good the existing system is for each country. The key to affordability is the management of ‘fiscal space’, which can be broken down into four different measures: tax reform, gradual increase of social spending as a percentage of GDP, reallocation of resource between different kinds of social spending, and refocusing to increase the effectiveness of social spending in fighting poverty and vulnerability<sup>2</sup>.

### **4.3. Inclusive Growth**

Apart from provision of a comprehensive welfare system, Thailand should seriously rethink how it should move towards a growth strategy that allows more participation from all walks of life regardless of economic and social status. Specifically, the country needs to conceptualize and implement its own version of ‘inclusive growth’ that addresses the key problems that have prevented more equal

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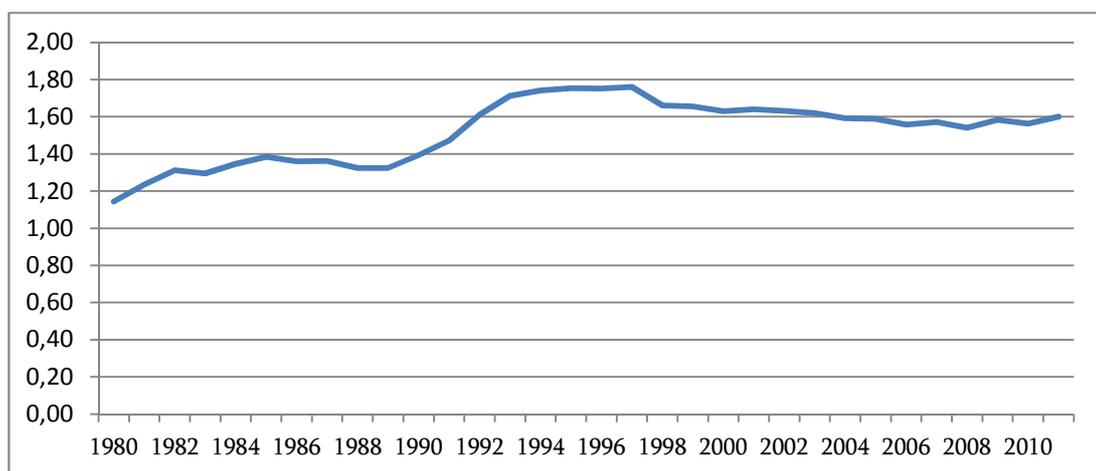
<sup>1</sup> See the ILO website on the social protection floor at <http://www.social-protection.org/gimi/gess/ShowTheme.do?tid=1321&ctx=0>

<sup>2</sup> <http://www.social-protection.org/gimi/gess/ShowTheme.do?tid=2526>

development in the past. Among one of these key problems is the fact that functional distribution of income in Thailand has adversely affected the income distribution. Since the outbreak of the Asian Financial Crisis in 1997/98, the earning prospects of low skill and unskilled laborers have been weak.

Figure 15 shows that the real minimum wage declined significantly from 1998 to 2000 and has stayed roughly unchanged since then. This is despite of the overall positive economic growth (albeit a low average growth as pointed out earlier), which means that other ‘factors of production’, namely, capital, land and entrepreneurship, have gained in relation to labor. This finding suggests that policies toward more equal functional distribution are badly needed.

**Figure 15: Real Minimum Wage in Thailand (2007 prices)**



*Note:* Real minimum wage = nominal minimum wage adjusted by consumer price indices.

*Source:* Author’s calculation using nominal minimum wage from the Ministry of Labor and consumer price indices from the Ministry of Commerce

There are many ways to promote inclusive growth, but the overarching concept is to make sure that future economic growth should benefit the poor and the lower income citizens more than proportionately and, equally importantly, to achieve this goal with as little intervention in the market mechanism as possible. Measures include, for example, systematic training to low skill workers, more innovations that increase labor productivity, rural infrastructure that benefits the local people more, and fiscal decentralization. Microfinance for the grass-roots population can also help reduce the economic gap at the same time as it promotes economic growth. Encouraging small enterprises to adopt more modern innovations, such as

information and communication technology, could be very effective in raising their profitability.

Macroeconomic policies can also play significant roles in an inclusive growth model. For example, fiscal policy needs to be more progressive, both on the revenue (tax) side and the expenditure side. The World Bank (2008a) finds that Thailand is collecting less tax than it should be at its development level. The lack of serious taxes on property is one explanation; a smaller personal income tax base due to a large informal sector is another. With tax revenue too low, Thai governments are unable to spend on necessary infrastructure investments that would generate higher economic growth.

#### **4.4. Green Growth**

For some time now, the term ‘green growth’ has become fashionable in development circles. It is fashionable because it represents a balanced view between economic growth and environmental sustainability. Lately, countries are beginning to see the concept as a new way to generate economic growth. The challenge is to achieve sufficiently high economic growth (to avoid falling deeper into the middle-income trap) while making it greener. One solution is to invest more in ‘green technology’ which would not only promote economic growth domestically but is potentially a good source of export revenue when the technology is mature and saleable. Thailand is not at that stage yet, but it should be aiming in that direction. There are many areas of green technology in which Thailand has a natural comparative advantage, such as solar energy, bio-energy, and organic agriculture. A proactive policy to develop these technologies would in the long-term put the country in the forefront of new green developments. And if progress is made in such a way that the cost of producing green products becomes sufficiently low, the technology would spread globally and help improve the quality of life of everyone on the planet.

Another possible measure is an environmental tax. There have been frequent attempts to implement more and higher ‘carbon taxes’ in Thailand, but with limited success. On monetary policy, there are debates over the role of the interest rate, set by monetary authorities, which affects the discount rates in most investment

programs, including investments in green technology. When discount rates are set too high, green technology investments will have lower social benefits when measured in net present value, and are thus discouraged.

## **5. Political Economy of Gap Narrowing**

The call for effective redistribution policies in this chapter is certainly nothing novel. Academia made this demand decades ago. And the government recognized their necessity and put the issues into the 5-year national plan as early as the fifth plan in the early 1980s. What is astounding is how little has been achieved in the past three decades, if there are any achievements at all. Jitsuchon (2012a) points out that inequality had been rising since the 1960s and had only shown some small signs of improvement after the early 1990s, a decade after the fifth national plan. And despite such improvement, the level of economic inequality remains today one of the world's highest (Table 1 shows, less than 8% of countries have a higher income inequality than Thailand). Reducing inequality is thus a daunting task. I believe that the failure to satisfactorily improve income distribution lies with politics, and thus one must find the solution there first before considering economic measures.

One positive thing about the current Thai politics is the rising political activism among the country's low income population. Unlike in the past, poor people have started to demand their political rights, and policies that are more favorable to them, and have become very active in making sure that government meets their demands. Such developments explain why Thailand has been full of 'populist policy/measures' in the past decade. Unfortunately, populism would not be good for Thailand, and even for the 'grassroots' themselves in the long-run. There have been numerous studies and writings warning against the use of populism for too long a time (such as Dornbusch and Edwards, 1991; Jitsuchon, 2012a; Warr, 2011; Jitsuchon, 2012b).

Jitsuchon (2012b) urges the government, and Thai society at large, to 'transform' populist policies into a comprehensive welfare system, as discussed in the previous section. He argues that the fiscal consequence of such transformation is minimal, as the fiscal cost of the current package of populist policies is close to what would be

needed to finance the proposed welfare system. But the consequence for inequality would be much better under the welfare system, since all Thais at all ages would be protected in all circumstances. The challenge is how to convince politicians that such a transformation would also be a winning political strategy, similar to the populist election campaign.

Before the proposed transformation towards a welfare system can pick up sufficient political support, the issue of financing and resource mobilization must be dealt with prudently. One might argue that the current expensive populist platform is not permanent, as the government will not have to spend so much every year, but only at the time when they want to secure popularity. Such political behavior is reported in literature on fiscal budget deficit cycles in democratic systems (Alesina and Tabellini (1987)). A 'rights-based' welfare system will, in contrast, cost the public sector and the taxpayer year in year out. In response to this concern, Jitsuchon, *et al.* (2011) argues that a simple solution lies with a minimal tax reform. The reform would raise tax revenues from the current level of 17-18% of GDP to around 20-21%, a level that is more commonly found in countries at similar levels of per capita income and development as Thailand (World Bank (2008a)). The 'minimal' tax reforms could consist of only two measures: increasing value-added tax from 7% to 10%, and introducing a new property tax law that would collect tax on the current value of land and houses. These two measures are certainly within the political reality, if only the politicians are too.

Another way to ensure sustainability of resource mobilization for a comprehensive welfare system would be to create an appropriate burden-sharing system between various parties in society. Theoretically, having the state as the sole provider of social welfare has at least 2 important limitations. First, it is a budgetary burden. Government will need to collect more revenue from taxes. This will not only entail a collection cost, but will also interfere with the market mechanism. Secondly, social benefits provided by the state may be inefficient compared to provision by other parties in society, including the private sector, community organizations, or Non-Governmental Organizations (NGOs). The creation of a participatory social welfare system should, therefore, be beneficial.

There are other policy measures to help reduce the development gap within Thai people. Promoting and ensuring transparency is crucial in preventing the widening of gaps between those becoming rich through non-transparent activities such as nepotism and corruption, and the rest of society. Secondly, it is important to make sure that the benefits of globalization spread more evenly among the Thai people. Normally it is the large entrepreneurs who benefit the most from expanding into global markets. Smaller firms must be encouraged and helped to join the globalization process more actively. Such measures as the introduction of innovation in all aspects of business life (product, process, organizational, and marketing) are needed.

## **6. Summary and Policy Recommendations**

- Although Thailand has been one of the best performers in term of long-term economic growth since World War II, the country is now facing many challenges.
- The first challenge is to ensure that future growth will be not too low compared to its past performance. Specifically, the country needs to escape from the middle-income trap, in which it seems to have been stuck for more than a decade. One of the causes of this recent slow economic growth is the country's low resilience to economic crisis, both home-grown and imported.
- On the social front the country is doing quite well in many areas and can claim to be achieving a satisfactory level of economic-social development balance. These areas include reducing poverty, provision of basic and advanced health care and basic education.
- There are some social areas, however, that show significant development delays. Economic and social inequality stands as the country's top priority problem. Environmental sustainability is also problematic. The quality of human capital is also lagging behind, as indicated by the low performance of the education system and the low levels of labor skills.
- The three fundamental problems hindering the development of a more balanced society in Thailand (human development, unequal society, and environmental challenges) can only be overcome with strong institutions, as they are problems that cannot be entirely dealt with by market mechanisms.

- More specifically, the country needs political leadership that is visionary, transparent and efficient.
- Ironically, the current political setting is, despite its deep-rooted conflicts and uncertainties, most supportive to a more equal society. This is because of the increased political activism of the party grass-roots, and the low income population, both in rural and urban areas. While the short term consequences include wasteful policies such as the current expensive and ill-designed populist measures, there is an emerging long-term potential for beneficial change.
- However, to realize such potential the country needs strong economic and social institutions that would steer the politicians to a more balanced, productive and sustainable path of future economic and social development.

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