

Thailand: Growth Strategies for Shared and Sustainable Growth

1. Consistency with DFSG objectives:

The objective of the proposed work is to analyze potential growth strategies for Thailand and identify the set of policies with the greatest potential for removing constraints to inclusive growth.

Thailand realized extraordinary gains from sustained economic growth over the past three decades, achieving rising incomes and sharp declines in poverty. However, the current growth strategy has also led to substantial inequalities, both geographic (between Bangkok and the rest of the country, especially the Northeast) and between income groups (Thailand has among the highest levels of income inequality in East Asia). These wide social and economic disparities are now regarded (quite widely) as contributing to the current political turmoil, which risks escalating into more violent conflict. There is also wide agreement on the need to increase the role of domestic consumption and investment as opposed to foreign demand in the growth process, which will require policies that promote a more robust middle-class. Therefore, a strategy for shared growth is required both to sustain Thailand's growth record over the next three decades, but also to ensure that growth is also of a higher 'quality' (i.e., translating more readily into welfare improvements for all Thais).

Given this background, the proposed work will assess different growth strategies, defined as specific sets of policy actions, that Thailand may pursue in the coming twenty years, with emphasis on their distributional implications in addition to their potential to generate overall GDP growth. The exercise will analyze proposed policies under the unifying framework of a model that will link the impact of the proposed macro-level policies to outcomes in labor markets and households. This framework of analysis allows for the explicit evaluation of the distributional impact of different growth strategies.

For example, policies to encourage higher steady-state consumption growth may include expanded social safety nets such as pension schemes. Economic geography suggests that while the geographic inequality in economic activity may be part of the growth process (i.e. agglomeration economies), fiscal resources should be devoted to ensuring that service delivery is more balanced across regions. Developing the services sector is another area that will be studied, and which will have implications for employment and income distribution. Policies to address climate change are another example.

This work will analyze the implications of these specific policies as a set (a "growth strategy"), explicitly describe the distributional implications of pursuing such a strategy, and contrast it with the current unbalanced growth model. Such analysis will allow the identification of pathways to removing the constraints to shared growth.

2. Technical soundness and originality:

Attention to inclusive growth in Thailand is a relatively recent phenomenon, and analysis of poverty and inequality has generally not been linked to broader growth strategies. In that sense, the proposed work would cover new ground for Thailand. Moreover the focus on the distributional impacts of growth strategies in the proposed work is likely novel. Usually growth strategies are considered solely on their ability to deliver growth in income per capita. The objective of this proposed exercise will be to identify the distributional implications of sets of policies – thus identifying those with the greatest potential for generating shared growth.

The methodology used to link macro policies with household outcomes will be a computable general equilibrium (CGE) model linked to a household survey to simulate the impact of policies on households and obtain resulting socio-economic indicators (such as inequality, poverty and employment). The potential for policy changes to affect relative prices is a key motivation for the selection of the CGE model¹. In addition, the model is expected to be expanded to also include demographic variables, as Thailand is ageing relatively fast, with important implications for the social safety net policies under consideration.

As noted, the analysis will use both macro and micro-level data. Some data – including the latest socio-economic survey – have already been obtained. A CGE model for Thailand already exists and will be updated with macro data, as well as data obtained from the household-survey. The World Bank is working in close collaboration with local universities, think tanks and government counterparts, and no difficulties are expected with additional data requirements that are likely to emerge.

3. Relevance to country priorities:

The proposed work fits within a broader and ongoing work program addressing issues of social and economic disparities in Thailand.

A Public Financial Management Review (PFMR) is currently under preparation with a strong focus on identifying aspects of fiscal policy that may contribute to reducing geographic disparities. A chapter (being prepared by PRMPP) of the PFMR analyzes the distributional impact of fiscal policy and identifies to what extent they contribute to geographic inequality; two chapters on health and education address issues of disparities in service delivery in those sectors across different local governments. Additional work on these issues includes an urban development report that considers the importance of agglomeration economies for the growth process, as well as the implications for geographic and income disparities. In another upcoming piece, DECRG will be looking at the impact of government policies during the global financial crisis to mitigate the impact of the shock on households, paying special attention to labor market developments.

¹ For example, policies to liberalize services sectors and increase their openness to trade will alter relative prices in that sector and have implications in the labor markets.

Within the context of this work program, a Country Economic Memorandum (CEM) has been launched to focus on a new, more balanced and inclusive growth model for the next twenty years. The CEM will put together in-depth work on different policy areas, and the proposed work will be a core chapter of the Thailand CEM; it is therefore directly linked to upcoming AAA endorsed by the country management unit.

Most importantly, the work will contribute to our ongoing dialogue with the Thai government as it enters a critical phase of work on the 11th 5-year development plan (2012 – 2016). The proposed work will also influence the World Bank – Thailand country partnership strategy going forward, which is expected to focus increasingly on issues of shared growth.

4. Knowledge sharing, dissemination and capacity building plan:

The work would entail the engagement of local consultants – either faculty from local universities or prominent think-tanks such as the Thailand Development Research Institute (TDRI). Potential partners have been identified, but further dialogue will depend on the availability of funding.

The dissemination strategy will include the actual publication of the CEM, which will contain the final piece proposed here, as well as workshops in Bangkok and other Thai cities (co-sponsored with local universities), and workshops with the government. In addition, a blog will be used to present elements of the analysis as it develops, in order to reach broader audiences on a more ‘real time’ basis.

5. Client and donor engagement:

The National Social and Economic Development Board (NESDB) would be the main client counterpart in the proposed work. Nevertheless, as with other activities under the broader work program, a larger set of stakeholders (both in the government, academia and civil society) will be involved in the proposed work. It is expected that the work will engage other government agencies such as the Ministry of Finance, the Ministry of Social Development, as well as local academics from universities and think tanks. Finally, because this work is connected with the government’s long-term development plans, there is the potential to involve other UN agencies working on Thailand as well, for example on issues of social safety nets.