Thailand 4.0: boosting productivity

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Thailand has made commendable socio-economic progress since the 1970s and has set itself the goal of joining the group of high-income countries by 2036. To make that happen, the government has spelled out a Thailand 4.0 vision that involves a transformation to a more productivity- and technology-driven economy. This is the next step – after Thailand 1.0 (accumulation of capital and labour inputs led by the agricultural sector), Thailand 2.0 (light industry) and Thailand 3.0 (heavy industry).

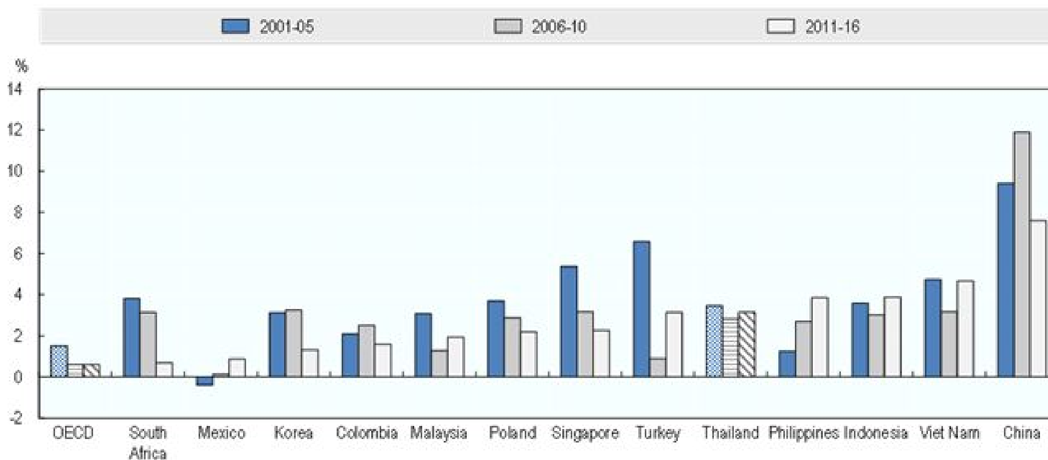
Thailand’s historical competitive advantage in labour-intensive manufacturing is being eroded by higher wage costs that partly reflect the acceleration of ageing. Gains from imported technology are contributing less to productivity growth, while high-technology and knowledge-intensive activities, domestic innovation, investment in knowledge-based capital and human resource development have become increasingly important, as discussed in the Initial Assessment Report of the Multi-dimensional Review of Thailand (OECD, 2018).

Since the first half of the 2000s, Thailand’s labour productivity growth has averaged 3%. However, in recent years, like in many OECD countries, it has not quite recovered to pre-global financial crisis rates (Figure 1), partly due to weak demand arising from lacklustre global trade, which slowed capital formation and the associated productivity gains. Intensified competition for foreign direct investment from China, the Philippines and Viet Nam has also held back investment, as have domestic political uncertainty, delays in

public investment projects and widening skills gaps.

Figure 1. Thailand needs to further boost labour productivity growth

Average growth of labour productivity per employee per year



Source: OECD calculations based on data provided by the National Statistical Office and Datastream; OECD, Productivity Statistics database.

Historically, structural reforms have played an important role in Thailand's economic transformation, with trade and investment liberalisation and business-friendly regulatory reforms encouraging participation in global value chains. However, over the past decade, limited structural reform and capital investment have held back productivity growth and improvements in well-being.

In recent years, economic growth has started to regain momentum, helped by a pick-up in global trade, which has supported exports, and by a substantial public infrastructure investment programme. This upturn is expected to continue in the near future, presenting a great opportunity to firmly implement extensive structural reforms to boost Thailand's economic potential. These reforms need to include:

- Developing human capital by improving education performance and strengthening technical and vocational education and training, as well as encouraging life-long learning and training to address skills mismatches.
- Promoting innovation by enhancing collaboration between the government, the business sector and academia.

- Improving the policy framework to encourage entry of innovative entrepreneurs and medium-sized enterprises by facilitating access to finance, streamlining licensing procedures and reducing transaction costs by increasing the use ICTs such as the QR payment system.
- Furthering regional integration by reducing barriers to the entry of foreign firms, such as caps on the foreign ownership in services sector.

The government has recognised the importance of these structural reforms, all of which are enshrined in Thailand 4.0. However, to adequately implement these reforms and address these cross-cutting issues, improved co-ordination and rigorous performance evaluations are needed across all planning and implementation agencies.

Reference

OECD (2018), *Multi-dimensional Review of Thailand: Volume 1. Initial Assessment*, OECD Development Pathways, OECD Publishing, Paris.