Towards stronger, more inclusive and more sustainable growth in Thailand

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Thailand has achieved remarkable economic and social development since the 1960s. Among countries in Southeast Asia, Thailand was one of the first to open its economy by pursuing an active integration into global value chains and attracting foreign direct investment, which enabled the country to undertake significant investment in infrastructure. Thailand’s manufacturing sector was able to gain a competitive edge, while the tourism industry flourished. Amid continuous growth, Thailand became an upper-middle income country in 2011, according to a commonly used classification by the World Bank.

However, Thailand’s growth has been losing momentum over the last decade, as highlighted in the recent edition of the OECD Economic Survey of Thailand (OECD, 2023). GDP per capita has stagnated at the same time as other countries in the region experienced more vigorous growth (Figure 1). The already softer growth momentum was further weakened by the economic fallout from the pandemic, which -among others- severely affected the tourism industry.

Figure 1. After a rapid catch up, income convergence has stagnated since 2013

GDP per capita relative to the OECD average, computed at 2017 USD PPP
Looking ahead, resuming income convergence and achieving more rapid improvements in material living standards will hinge on Thailand’s ability to tackle a number of challenges (OECD, 2023).

Strengthening competition is one of these challenges, as strong competition is crucial for boosting productivity growth, which has been subdued over the last 20 years (Figure 2). A range of Thai industries are characterised by high concentration and low levels of competition, which tends to foster rigid industry structures in which strong performers find it more difficult to grow at the expense of established low-productivity firms. Thailand ranked 85th out of 141 countries in an indicator about the extent of market dominance elaborated by the World Economic Forum, suggesting that many markets for products and services are dominated by a few players. Analysis based on administrative data of Thai registered firms suggests an increase in market power among Thai firms, which coincided with lower business dynamism (Apaitan et al., 2020). Structural impediments to competition including regulatory constraints have been identified across a wide range of sectors, perhaps most notably in services sectors including telecommunications, energy and retail.

Source: World Bank, World Development Indicators database.
Figure 2. Boosting productivity is crucial to sustain high economic growth

Factors contributing to the Thai GDP growth, annual average, %


Rekindling the convergence process towards higher income levels will also include continuing to attract foreign investment, which has been an engine of growth in the past. Inward FDI stocks still have scope for further increases, including by expanding trade agreements and by relaxing remaining restrictions to foreign direct investment, especially in the particularly restrictive services sector. Based on the OECD FDI Restrictiveness Index, Thailand’s policies are more restrictive than in regional peers, and this holds particularly true for many services sectors. The same regulatory reforms that are required to strengthen competition and enhance the business climate will also be instrumental to attract more FDI.

Boosting growth is one thing, but spreading the fruits of this growth more widely is equally crucial. Income inequality and poverty remain significant concerns, but Thailand has made progress with social protection mechanisms, most of which have been established over the last 25 years. Over those years,
Thailand has strengthened its social safety net and achieved a significant expansion in coverage, including among those not formerly covered by social protection policies. A universal public healthcare system was established in 2002. Income inequality has significantly improved since the 1990s, as evidenced by a substantial decline in the Gini coefficient from 0.44 in 1990 to 0.38 in 2021.

However, Thailand’s social protection instruments are organised in a number of parallel systems, which has led to significant fragmentation. Social security benefits are currently provided to contributing formal-sector employees, but these amount to only 50% of the workforce. Building on past progress, Thailand can do more to reduce poverty and inequality through improvements in social protection. The main challenges for the future will be to achieve fully universal coverage with basic benefits, reconsider benefit adequacy for some benefits and improve the organisation of benefit delivery, ideally moving from a fragmented system to a single system that can deliver different tiers of benefits depending on the specific situation of beneficiaries.

Future growth will also have to become more sustainable. Thailand has pledged to achieve net zero greenhouse gas emissions by 2065, but the success of the green transition will hinge on better policy coordination. Currently, several ministries and agencies are involved in the design of environmental policies and there are different and sometimes overlapping plans, making policy coordination complex. A newly created leading environmental agency is tasked to coordinate the overall green transition strategy and monitor policy progress, but it will require a strong mandate to fulfil this task successfully.

At present, the energy sector is a major source of CO2 emissions. Renewable power generation has advanced but is mostly limited to small-scale producers incentivised by feed-in tariffs. The overall share of renewable energy sources
remains lower than in peer countries. More large-scale energy generation from renewable sources through public tenders and renewable energy certificates would help to address rising electricity demand and reduce emissions. That would require reducing private entry restrictions in the retail electricity market.

In addition, an effective carbon pricing mechanism will be key for achieving emission reduction goals. A voluntary emission trading system is in operation, but carbon prices are low compared with OECD countries. Moreover, regulated energy prices, such as a cap on diesel prices, weaken the effect of market prices and fossil-fuel taxes. Stricter environmental regulations should complement carbon pricing. A mix of price-based and regulatory measures is likely to enhance the effectiveness and political viability of mitigation efforts. Stricter air pollution standards could be one way forward, including on coal power plants and internal combustion engine cars.

The recently published OECD Economic Survey of Thailand aims to support the design of policies that can address these challenges and allow Thailand to achieve stronger, more inclusive and more sustainable growth.

References