Towards stronger, more inclusive and more sustainable growth in Thailand

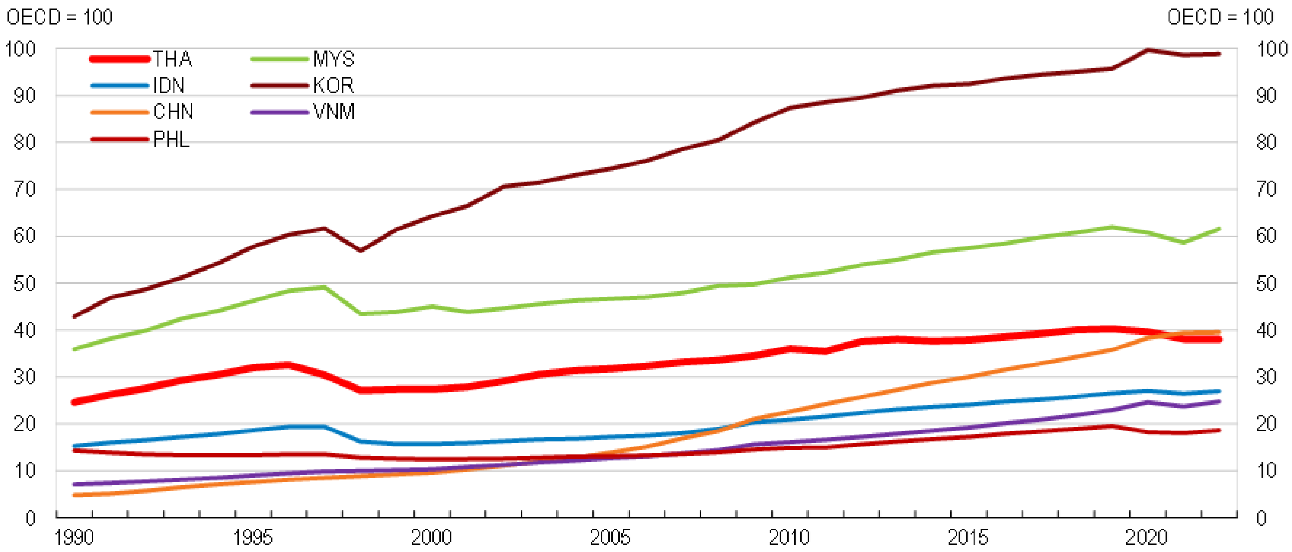
By **Jens Arnold**, **Kyongjun Kwak** and **Kosuke Suzuki**, OECD Economics Department

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



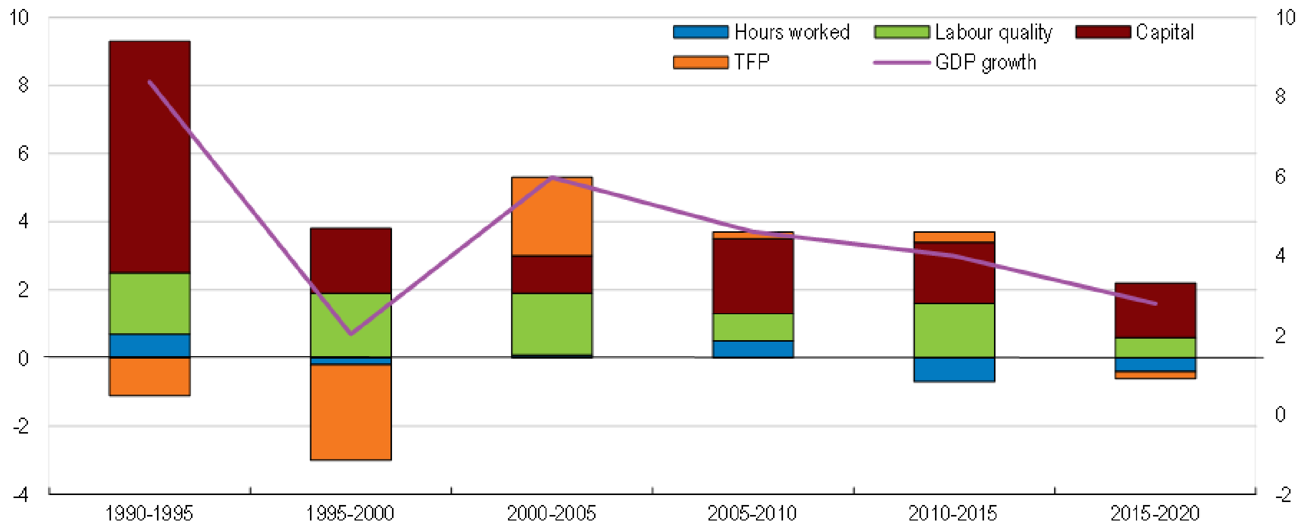
Source: World Bank, World Development Indicators database.

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.

Figure 2. Boosting productivity is crucial to sustain high economic growth

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



Source: Asian Productivity Organisation, APO Productivity database 2022.

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.

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Asia & Pacific economies are projected to rebound from COVID-19

by Patrick Lenain and Kosuke Suzuki, OECD Economics Department

While the world is struggling to exit from the coronavirus crisis, the region Asia & Pacific is a notorious exception: many countries in the region have stopped the COVID-19 pandemic after the first wave, and they quickly returned on a path of growth in the second half of 2020 – a rare accomplishment. The OECD projects that the region's recovery will continue in 2021 and 2022 (Table 1).

Table 1: Strong growth projected in Asia & Pacific
(Real GDP growth, % year-on-year)

	2020	2021	2022
Australia	-3.8	3.2	3.1
China	1.8	8.0	4.9
India*	-9.9	7.9	4.8
Indonesia	-2.4	4.0	5.1
Japan	-5.3	2.3	1.5
Korea	-1.1	2.8	3.4
New Zealand	-4.8	2.7	2.6
Dynamic Asia**	-4.6	4.3	4.6
Asia & Pacific	**-1.5**	**5.9**	**4.1**
Rest of world	-5.7	3.2	3.4
World	**-4.2**	**4.2**	**3.7**

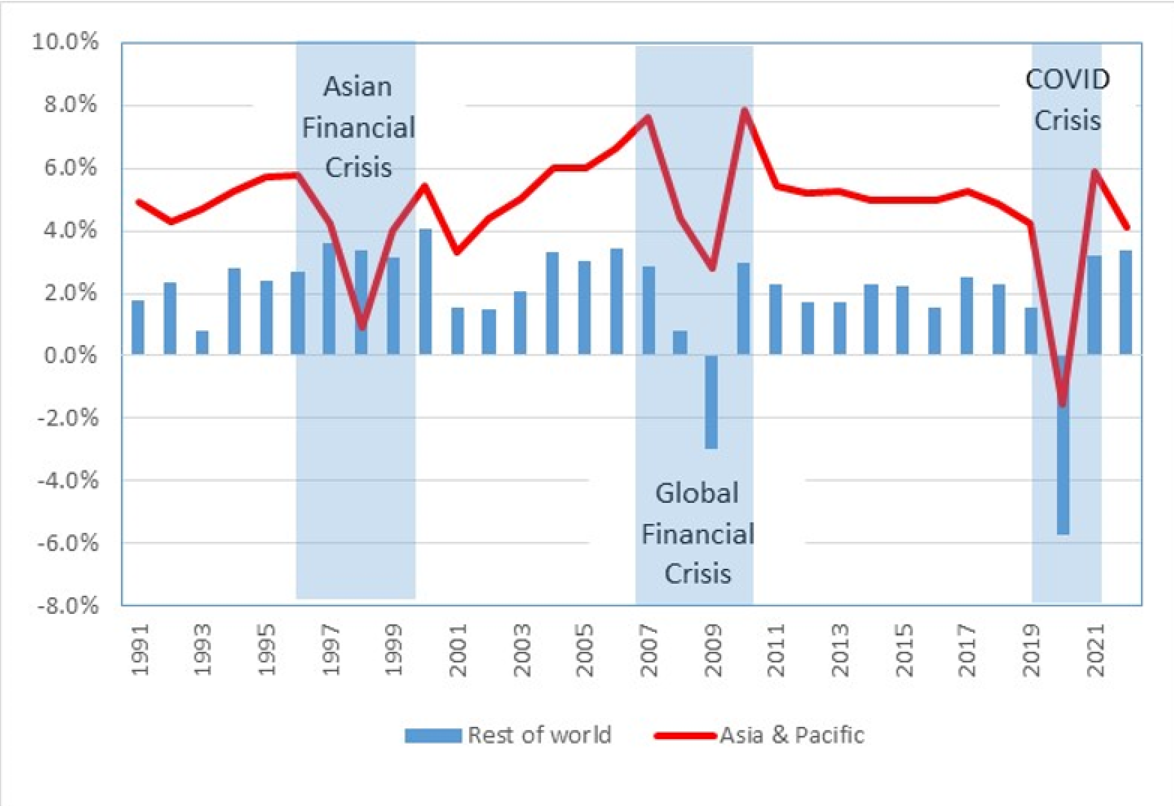
* Fiscal year starting in April.
** Dynamic Asia includes Chinese Taipei, Hong Kong, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Source: *OECD Economic Outlook*, December 2020.

The region's current resilience is in sharp contrast with the late 1990s, when the Asian Financial Crisis hit it very hard (Figure 1). Governments in the region drew lessons from this experience and were better prepared when the Global Financial Crisis arrived. They were also ready when the coronavirus struck: fiscal space was available, monetary policies were sound, exchange rates were flexible, foreign exchange reserves abundant, bank well capitalised, external indebtedness was low – and health systems had been re-organised.

Figure 1 – The economic performance of Asia & Pacific has improved

(Annual GDP growth in %)



Source: *OECD Economic Outlook*, December 2020.

Strong resilience in the face of crises contributes to long-term growth, especially in poor and emerging countries, as shown by a literature launched by Easterly et al. (1993). Thanks in large part to their growing resilience, the 15 countries and territories of Asia & Pacific doubled their share in world GDP from 19% in the early 1990s to 34% currently. The region has become an economic powerhouse and most likely will gain further ground. The Regional Comprehensive Economic Partnership (RCEP) recently signed will provide another boost to long-term growth, as discussed in the recent OECD Economic Survey of Thailand.

Of course, not all countries of the region have the same resilience. To throw light on this disparity, we use a hierarchical cluster analysis (Ward linkage), a statistical procedure that identifies homogenous groups of observations without making a difference between dependant and independent variables. We identify four groups of countries with common factors for each of the three crises. To group the region's economies, we use the following indicators: 1) the depth of recession, 2) the speed of recovery, and 3) the post-recession scarring of growth. The first two indicators provide a contemporary measure of resilience when faced with a shock, while the third indicator is an ex-post measure of resilience. For the current crisis, we use the number of COVID-19 deaths as a proxy of ex-post resilience, in line with empirical findings that the spread of the coronavirus has damaged economic activity due a combination of government-imposed lockdowns and self-imposed lockdowns (Golsbee and Syverson, 2020).

Our cluster analysis reveals some diversity within the region. The resilience of individual economies has changed rapidly – in both directions (Table 2). Some key findings are:

- Australia has shown great resilience during the first two crises, but fell into a recession with the coronavirus.
- While China and India were resilient in the face of the first two crises, they have lost some ground with the COVID-19 pandemic, especially India.
- Korea and Thailand have seen their resilience improve after each crisis.
- Vietnam has consistently been the most resilient economy in the region.

Table 2 – Many Asian & Pacific economies are resilient in the face of shocks, though not all

Asian Financial Crisis (1997-99)			
Sharp recession, slow exit & scarring	Recession, rapid exit & scarring	Mild recession & rapid exit	Muted impact of crisis
IDN, THA	HKG, KOR, MYS, SGP	JPN, NZL, PHL	AUS, CHN, IND, MNG, TWN, VNM
Global Financial Crisis (2008-09)			
Sharp recession & slow exit	Sharp Recession, rapid exit & scarring	Recession & rapid exit	Muted impact of crisis
JPN	HKG, SGP, TWN	KOR, MNG, MYS, NZL, PHL, THA	AUS, CHN, IDN, IND, VNM
COVID-19 Crisis (2020-21)			
Sharp recession, slow exit & scarring	Recession, slow exit & scarring	Recession, slow exit	Recession, swift exit
IDN, IND, PHL	AUS	CHN, HKG, JPN, MYS, TWN	KOR, MNG, NZL SGP, THA, VNM

Rising resilience →

Source: OECD estimates using a hierarchical cluster analysis procedure (Ward linkage).

Despite this diversity, the region displays overall a strong resilience and is placed to recover rapidly from the COVID-19 crisis, assuming that the pandemic is brought under control and that the large population can be vaccinated soon. If this happens, Asia & Pacific will confirm its new position as a global powerhouse. The return to economic growth should be an opportunity to address socioeconomic problems inherent in several countries, notably high informality and inequality, and make headways on a path of decarbonisation.

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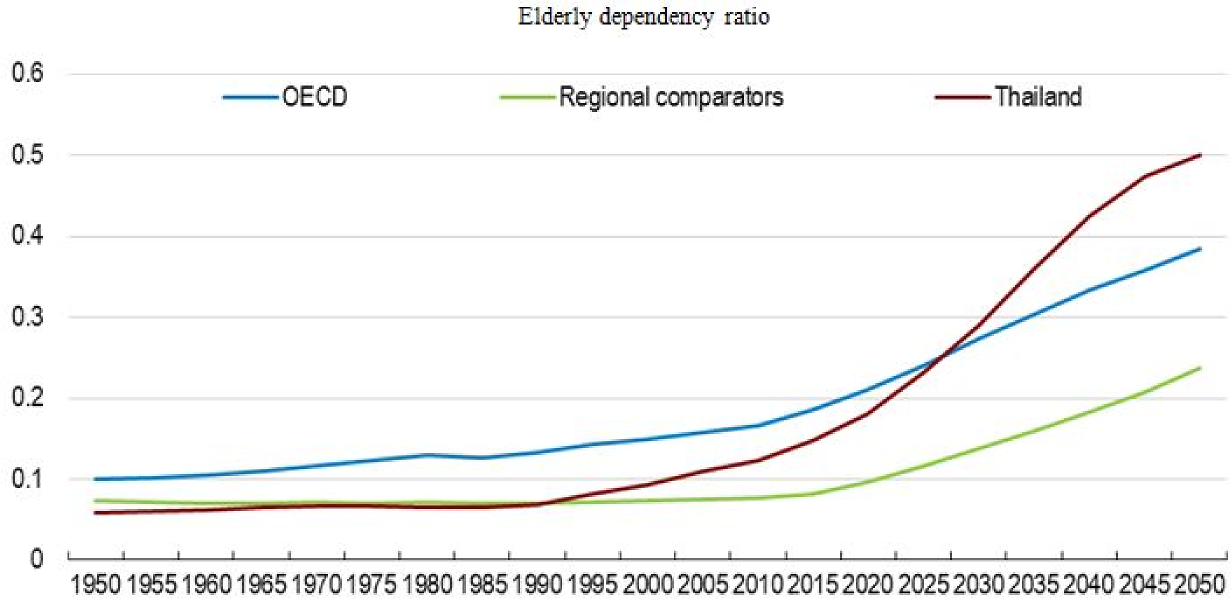
Sustainably financing pensions and healthcare in Thailand

By Adam Bogiatzis, Economist, South East Asia Desk, Economics Department.

Thailand has made remarkable socio-economic progress over the past several decades. Poverty has plummeted and access to education and health services has become near universal. As is commonly the case, improved health outcomes and expanded opportunities – particularly for women – have led to higher life expectancy, a declining fertility rate and ultimately an ageing population. However, the rate of Thailand's ageing is exceptional, particularly given its stage of development. Indeed, Thailand's elderly dependency ratio far exceeds that of other emerging economies in the region (including Indonesia, the Philippines, Malaysia and Viet Nam) and is expected to surpass the OECD average by 2030 (Figure 1).

Figure 1. The elderly dependency ratio is expected to exceed the OECD average by 2030



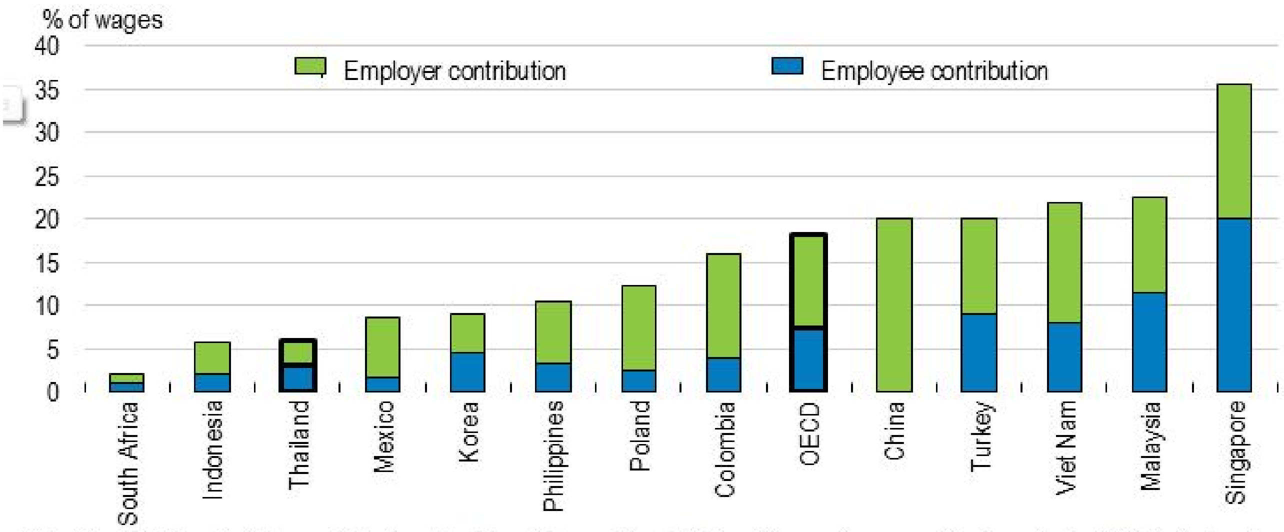
Note: The elderly dependency ratio is the number of persons aged 65 and above divided by the working age population (aged 15 to 64). Regional comparators refer to the simple average elderly dependency ratio for Malaysia, Philippines, Indonesia and Viet Nam.
Source: UN Population projections, 2017 revision.

With a rapidly ageing population, the public burden to provide social pensions (which will need to increase to improve very low replacement ratios and safeguard against elderly poverty) and healthcare will grow considerably. Indeed, the Initial Assessment Report of the Multi-dimensional Review of Thailand notes that although Thailand's current fiscal position is healthy, structural reforms to the pension and healthcare systems are needed to ensure fiscal sustainability (OECD, 2018).

On pensions, Thailand's shrinking labour force and longer retirements mean there are fewer work years available to support the burgeoning number of retirees. As a first step, the pensionable age of the private pension scheme (55 years and over) should be aligned with the public sector and the social pension scheme (60 years and over), with transitional arrangements put in place for current or imminent retirees. Moreover, consideration should be given to progressively raising the official retirement age in line with life expectancy. Indeed postponing retirement is an efficient way to both raise retirement income and improve financial sustainability (OECD, 2017). Thailand should also gradually increase the mandated private sector contribution rate (i.e. the share of wages mandatorily contributed to a pension fund). Under the national private pension fund, employers and employees combined contribute 6% of wages. This is below the contribution rates for comparator countries and the OECD average (Figure 2).

Figure 2. Thailand can boost mandatory contributions to pensions

Employer and employee contribution % of wages, 2014



Note: South Africa includes contributions for all social spending. In China, the employer contribution rate is 20% for the basic pension, but in the case of the Provident Fund the contribution rates vary by province. The OECD average only includes countries that have isolated contribution rates for pensions and excludes countries that have larger contribution rates for broader social security measures.

Source: OECD calculation based on World Bank Pension Data; and OECD (2015), Pensions at a Glance.

In healthcare, Thailand should avoid near-term regressive and often ineffective blanket cuts to the health budget and instead implement targeted structural reforms that will be beneficial over the longer run. For example, to prevent overburdening of hospitals, Thailand should increase health provision through preventive and primary care by boosting the number of family physicians and general practitioners, particularly in rural areas. Healthcare financing should also be reformed by reducing the exemptions on co-payments and allowing greater private contributions from those able to afford it.

Tax revenues are, and will continue to be, the dominant source of finance for Thailand's pension and healthcare systems. The government provides an old-age allowance to 82% of people aged over 60 and accounts for 78% of total healthcare expenditure – a share higher than the OECD average and regional comparator countries including Indonesia, Malaysia, the Philippines and Viet Nam. Therefore, a complementary set of reforms that boost revenue is needed. In this regard, Thailand needs to broaden the tax base whilst improving efficiency by relying more heavily on less distortive taxes such as those on consumption, property and inheritances. Moreover, the government should continue its efforts to improve collection efficiency by easing compliance through technological innovation, providing incentives that discourage tax avoidance and informality, and strengthening enforcement on tax evasion.

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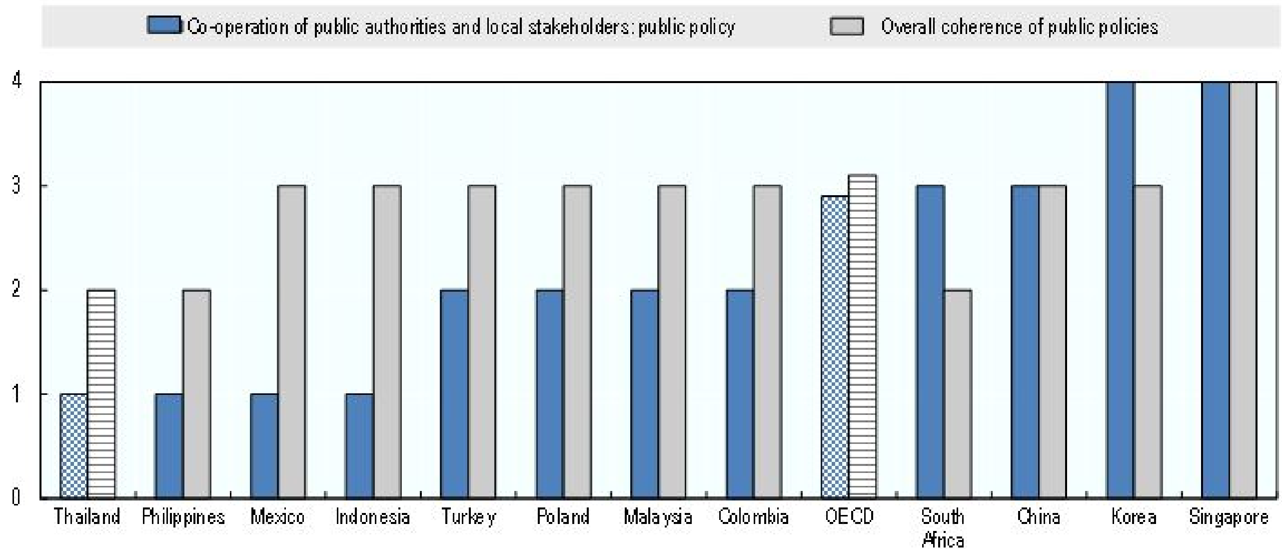
Thailand is advancing in participatory and evidence-based regulatory reform

By Hidekatsu Asada, Head of South East Asia Desk, and Abu Zeid Mohd Arif, Economist, South East Asia Desk, Economics Department

Reforming the public sector, long a priority for Thailand, involves several challenges. Among these, insufficient public participation in policy-making is undermining the efficient allocation of resources toward public needs and development goals. Additionally, the under-development of evidence-based regulations hampers the creation of a business-friendly environment essential for higher value-added activities. Thailand has undertaken reforms to address these issues by adopting OECD guidelines on promoting public consultation in policy-making and strengthening regulatory impact assessment (RIA), as documented in the Initial Assessment Report of Thailand’s Multi-dimensional Country Review (OECD, 2018).

Nevertheless, further improvement is needed. Thailand still ranks behind most comparators in terms of co-operation between local stakeholders and bureaucratic efficacy in developing and improving public policies (Figure 1). Insufficient public consultation continues to hamper the effective and efficient delivery of public services, particularly in rural areas. This is partly due to Thailand’s highly centralised, Bangkok-centric, governance structure.

Figure 1. Stakeholder engagement in public policy can be improved

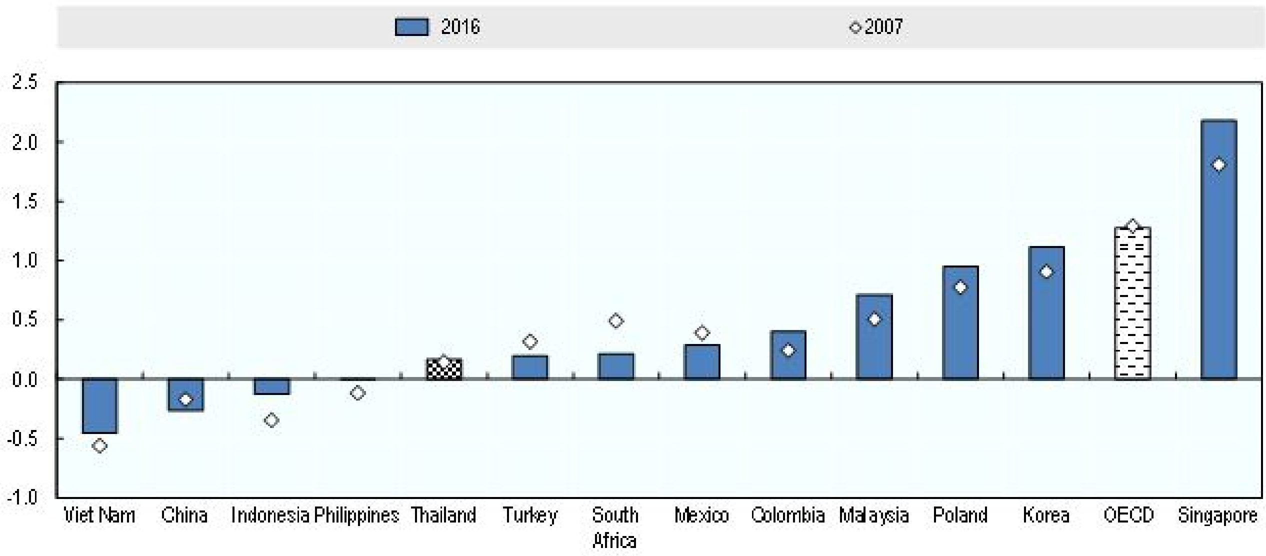


"Cooperation of public authorities and local stakeholders" measures whether "national public authorities and local stakeholders (local authorities, private sector, NGOs, etc.) work together to develop and improve public policy effectiveness" (scores range from 0 for very low cooperation to 4 for strong cooperation). The overall coherence of public policies scores range from 0 for very weak coherence to 4 for strong coherence.
Source: CEPII (2016), Institutional Profiles Database.

To address these issues, Thailand has released Public Consultation Guidelines to help government officials carry out public consultations with relevant stakeholders (NESDB, 2016a). The guidelines take into consideration the OECD Guiding Principles for Public Consultation, which highlight the need for active participation early in the policy process (OECD, 2001). While this is welcome, it is vital to ensure that the guidelines are actively followed across ministries and agencies.

Thailand also needs to boost regulatory quality. Measured by the perception of the government's ability to formulate and implement sound policies and regulations that permit and promote private sector development, it has only scantly improved over the past decade, when measured against regional comparators (Figure 2).

Figure 2. The quality of regulation has only marginally improved



Note: The index ranges from -2.5 (worst) to 2.5 (best).

Source: World Bank (2017c), Worldwide Governance Indicators database.

Against this backdrop, the government has stepped up regulatory reform efforts to foster a more business-friendly environment. To improve regulatory effectiveness, Thailand has beefed up its RIA laws. In the early 2000s, legislation was introduced to implement mandatory RIAs which are in line with the OECD Reference Checklist for Regulatory Decision-Making (OECD, 1995). However, compliance has remained weak owing to the lack of a dedicated agency to scrutinise RIA reports. Moreover, RIAs insufficiently cover subordinate laws, guidelines are underdeveloped, there is limited capacity among officials to conduct RIAs and insufficient consultation with stakeholders.

Under the new 2017 Constitution, RIA laws were strengthened ensuring mandatory consultation with stakeholders prior to the introduction of new regulations, and broadening coverage to subordinate laws. The government also published a set of guidelines in 2016 to improve public awareness and the capacity of officials to conduct RIAs (NESDB, 2016b). The guidelines include the standard format for RIAs and the procedure for stakeholder consultations. Moving forward, RIAs could be further expanded to include ex-post analysis after implementation of the regulations.

References

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Thailand 4.0: boosting productivity

By Hidekatsu Asada, Head of South East Asia Desk, Economics Department.

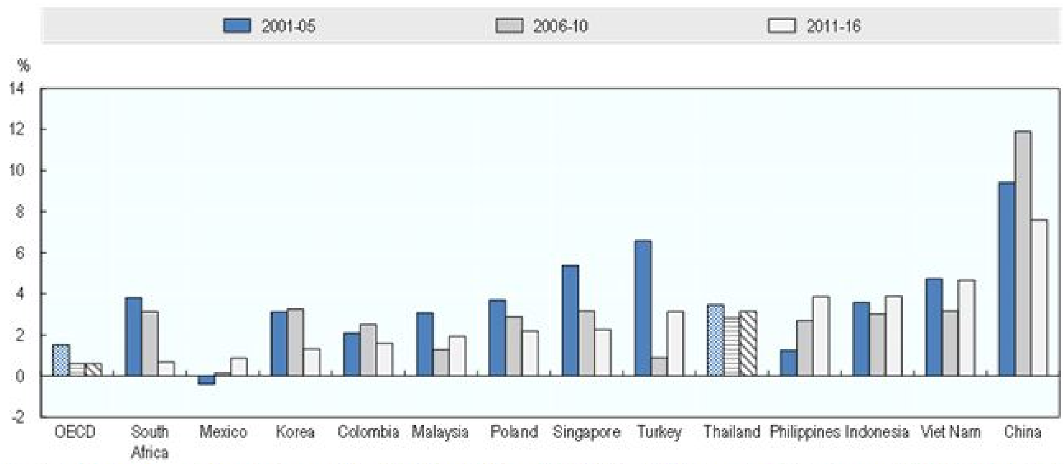
Thailand has made commendable socio-economic progress since the 1970s and has set itself the goal of joining the group of high-income countries by 2036. To make that happen, the government has spelled out a Thailand 4.0 vision that involves a transformation to a more productivity- and technology-driven 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.

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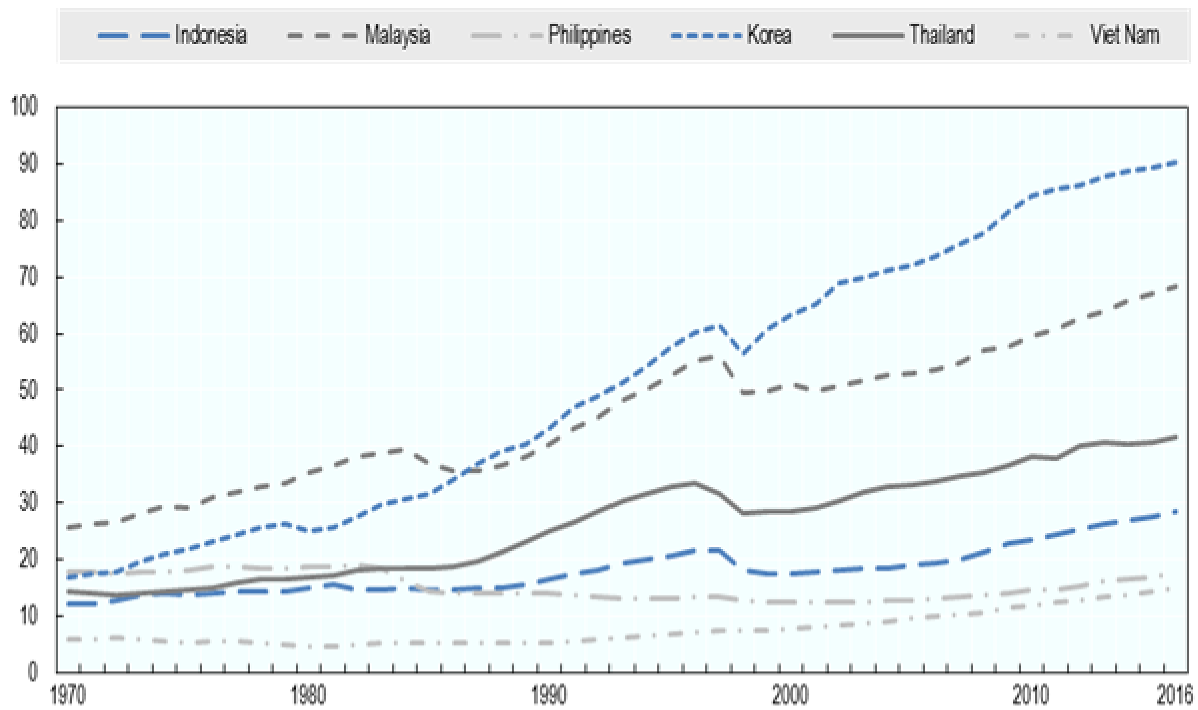
Thailand’s achievements and challenges as it aspires to become an inclusive high-income country

By Hidekatsu Asada, Head of South East Asia Desk, and Vincent Koen, Head of Division, Economics Department

From a feudal trading hub connecting South with East Asia in the 18th and 19th centuries, Thailand has developed into a rapidly modernising and more urban economy. The second half of the 20th century saw the rapid expansion in manufacturing and services, which underpinned its transformation into an upper-middle-income country (Figure 1).

Figure 1. GDP per capita in per cent of OECD average

Computed at 2016 PPP USD



Source: Conference Board (2017), Total Economy Database, May 2017.

To achieve high-income country status by 2036, as is

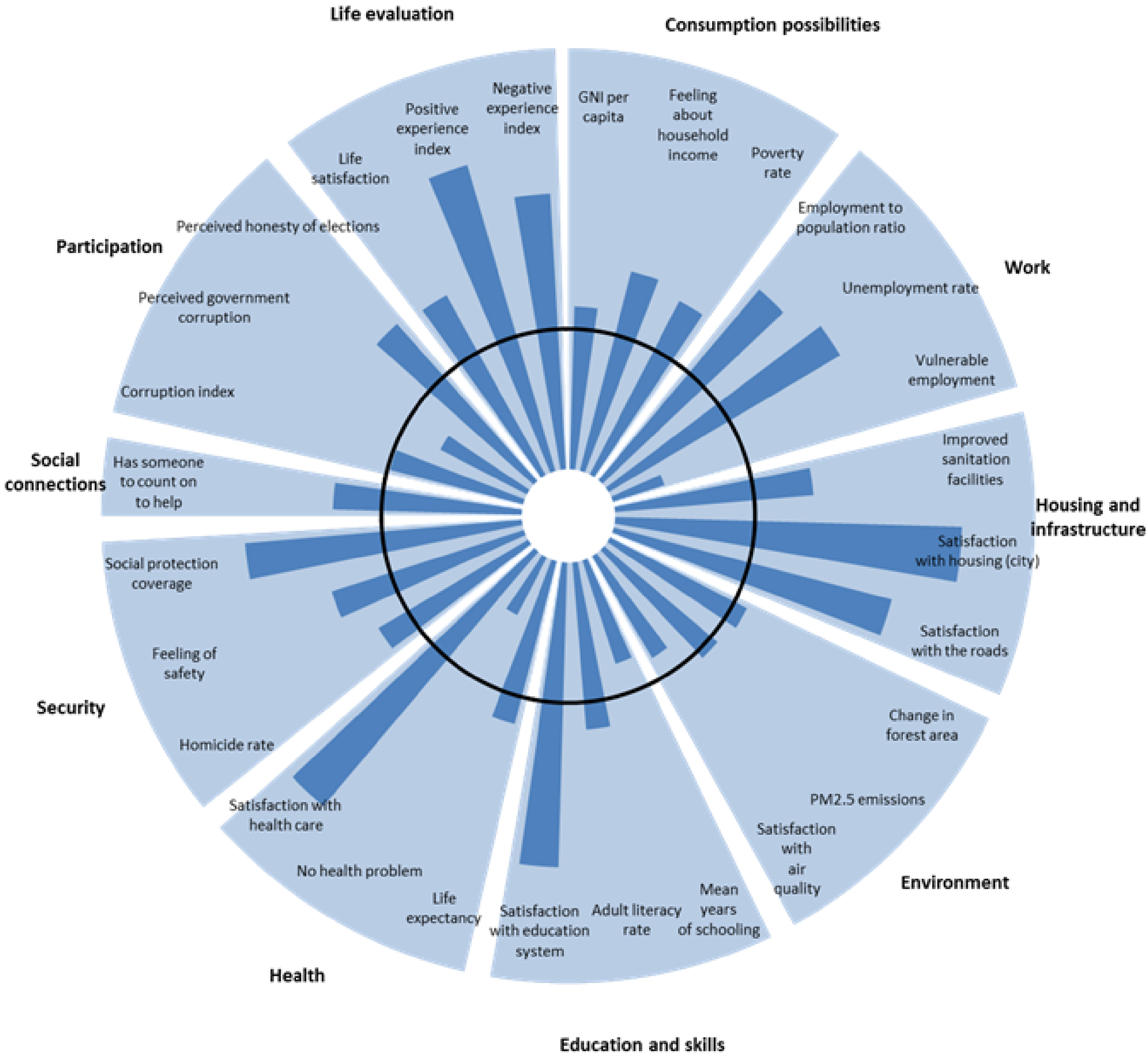
Thailand’s ambition, growth will need to rise from its current pace of around 4% to a cruising speed of 5-6% per annum. At the same time, Thailand’s pursuit of the United Nations 2030 Sustainable Development Goals reflects its commitment to make this growth more inclusive and environmentally sustainable.

The constraints and challenges Thailand faces in this process are discussed in the OECD’s first comprehensive evaluation of Thailand’s socio-economic development, the Initial Assessment report of the Multi-dimensional Review of Thailand (OECD, 2018).

Compared to countries at a similar level of development, Thailand performs relatively well in most well-being dimensions. Performance is notably strong in terms of life evaluation and social security (in particular thanks to the Universal Health Care programme implemented from 2002). The picture is more mixed, however, when it comes to dimensions such as the environment, education and skills, or work. For instance, while unemployment is very low, working conditions are worse than might be expected given Thailand’s level of development (Figure 2).

Figure 2. Current and expected well-being outcomes for Thailand: worldwide comparison

Progress on various dimensions of well-being measured by the OECD's "How's Life?" toolbox



Note: The bars represent the observed well-being values for Thailand and the black circle shows the expected values based on Thailand's level of GDP per capita. The latter stem from a set of bivariate regressions with GDP as the predictor and the various well-being outcomes as dependent variables from a cross-country dataset of around 150 countries with a population over a million. All indicators are normalised in terms of standard deviations across the panel. The observed values falling inside the black circle indicate areas where Thailand performs poorly in terms of what might be expected from a country with a similar level of GDP per capita. As this figure only shows outcomes at the national level, disparities between regions might be masked.

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

The Initial Assessment report identifies a number of key priorities for policymakers in Thailand.

First, structural change is needed to create more quality jobs and overcome regional imbalances. The necessary structural reforms encompass addressing infrastructure bottlenecks, promoting innovation and enhancing competition. Improving education and life-long skills training is key in this regard.

Second, Thailand’s ageing population and pervasive labour informality make better provisioning and funding of social protection essential. The fragmented social security system does not adequately protect the large informal and precariously employed labour force, and many elderly are at risk of poverty. While public finances are presently in robust shape, gradual revenue increases will be needed to fund rising pension and healthcare outlays arising from a rapidly ageing population and declining workforce. Inducing greater formal labour market participation will be key to expanding social protection and boosting tax revenue.

Third, environmental conservation and disaster risk management should be prioritised. Thailand has to enhance the management of its natural resources to safeguard sustainable development. Rapid urbanisation has put pressure on water resources and quality, and the effectiveness of water management must be improved. Insufficient disaster prevention readiness in the face of recurrent droughts and floods also entails significant costs. Measures to better mitigate and adapt to climate change are necessary to meet agreed international commitments and minimise economic and social losses.

Last not but least, Thailand’s sustainable and inclusive development requires good governance and effective public service delivery. Good governance is essential to enable markets to provide goods and services in an efficient manner, with minimal diversion of resources to less productive uses. Challenges in the public sector such as the gap between planning and implementation, and insufficient inter-ministerial co-ordination and public participation, must be overcome for the government’s aspiration to high-income-country status while ensuring inclusive growth and sustainable development to be realised.

Reference

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