

# **Thailand's Inclusive Growth and Regional Economic Cooperation**

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## **ABSTRACT**

To achieve balanced and sustainable growth in Thailand, development strategy that enhances inclusive growth is necessary. The purpose of this paper is to examine Thailand's development strategy and its implication to regional economic cooperation. This paper finds that development strategy in Thailand has changed from the growth-oriented model to a new model of holistic people-oriented development. Losing advantage in cheap labor, Thailand needs to acquire new advantage in technological progress. A new paradigm shift occurred in the eleventh national development plan with creativity and knowledge as drivers of growth. Implications from Thai experience to the regional cooperation are as follow. To achieve inclusive growth, human resources development as in lifelong learning program and joint research is important. Harmonization in logistics and AEC help facilitating movement of people and knowledge distribution. Cooperation in managing risk from natural disaster and environmental problem is also important for the sustained growth in the region.

## **1. Introduction**

For economies nowadays, only achieving the basic economic growth is not enough. Inclusive growth which includes boosting economic growth, lowering inequality, and poverty reduction is necessary for sustainable growth in the long run. The concept of sustainable growth emerged in the late 18<sup>th</sup> century when people realized the adverse effects of the development (Office of National Economic and Social Development Board, 2008). Many countries are in the process of adjusting their development strategies to attain this goal.

In case of Thailand, national development has started in Thailand first National Economic and Social Development Plan in 1961. The objective of this national development plan was to promote development with growth. During the first plan (1961-1966), Thai economy focused on investing in the basic infrastructures such as transportation, telecommunication, water supply and electricity which intended to be the foundations of the agricultural and industrial sectors.

Currently, Thai economy is under the eleventh National Economic and Social Development Plan (2012-2016). During the past 51 years, the focus of Thai policymaker has changed through time. Thailand's development strategy has transformed from market-oriented to people-oriented in the current national development plan.

Rapid increase in economic integration in East Asia during the past decade has created the new challenges for countries in attaining inclusive growth. Ultimate goals of the national development are in the same direction as to achieve the inclusive growth. Economic cooperation in East Asian region can be one way to facilitate and accelerate inclusive growth in the region.

Thus, the main purpose of this paper is to examine Thailand's development strategy and its adjustment, along with the experience of inclusive growth in Thailand that will be benefit to the development at the regional level.

## **2. Thailand's Development Strategy**

The countries in East Asia have become the fast growing economies during the past decade. With development in their countries and the facilitation from economic integration in the region, their growth performances were outstanding.

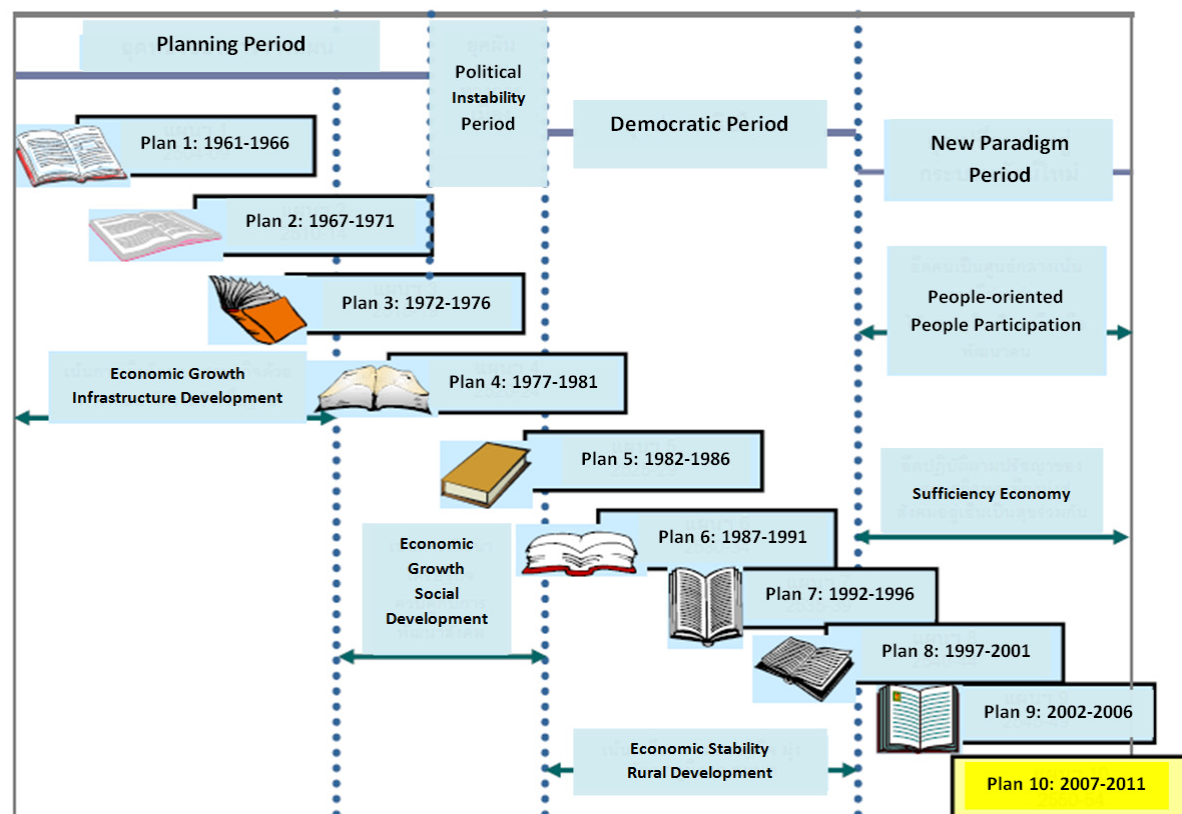
Thailand has set the National Economic and Social Development Plan to be the guideline for national development. The Office of National Economic and Social Development Board (NESDB) is the agency that responsible for formulation the national plan. The objective of the development plan is to achieve the economy with development and growth. The economic growth of Thai economy based on different drivers ranging from the input/resources - driven during 1960-1980 to efficiency/productivity - driven during 1980-2010. However, Thai economy has to develop into the next period of the innovation/creativity – driven economy in order to become and remain competitive in the current economic environment (NESDB).

### **2.1 Growth-oriented Development Model**

The focuses of Thailand's national development plans have changed from past to present according to development level and the necessities of Thai economy. Figure 1 presents the visions of each development plan. In the first three development plans (1961 – 1976), the major issue is on development of basic infrastructure to be the fundamental developments for both agricultural and industrial sectors in Thailand.

The objective of the fourth and fifth development plans is to balance the development both in terms of economic and social aspects. Thai economy moved on the development ladder by transforming the economy into manufacturing-oriented economy. By this, there was explicit policy highlighting the importance of science and technology in the Fifth Plan (1982 – 1986). During 1987 – 1996, sustainable development and the extension of development to the rural and remote areas in Thailand were the concerns. The policymakers have turned to the stability in the economy, looking forward to economic growth, extension development to the rural areas, quality of life, environment, and natural resource development.

Figure 1: Thailand's National Economic and Social Development Plan 1 - 10



Source: NESDB

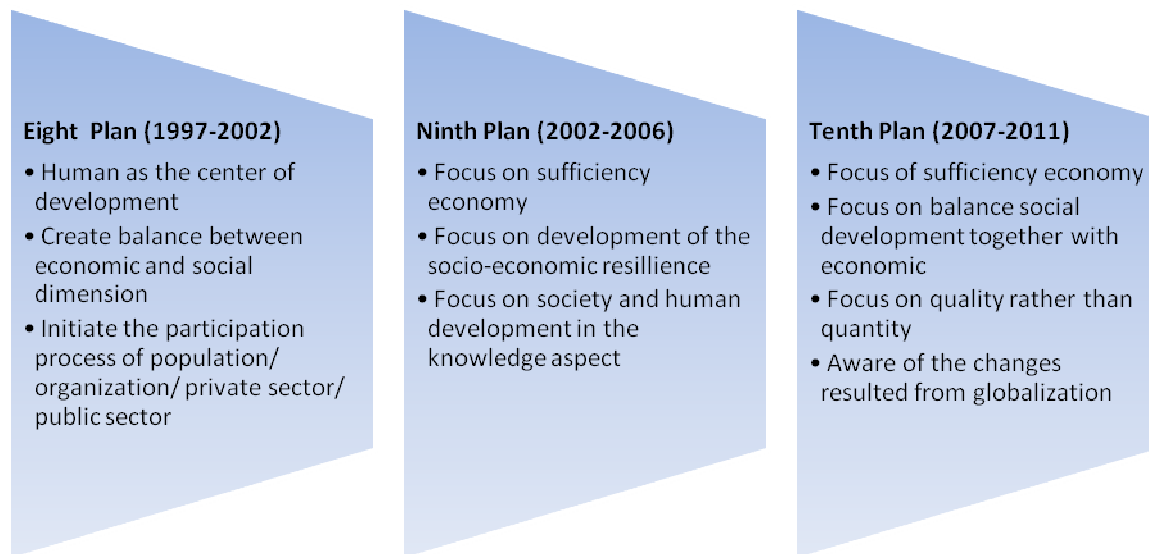
During Thailand's national development plan 1 – 7, the environments of Thai economy were centralized authority system, had economic as the major driver of growth in that period, and had labor as the major factor of production. The development strategy in this period was leading by the government with the top-down management style. With the development strategy focusing on market-oriented and opening to trade and investment with the international market, Thai economy has become relatively open to international market.

## 2.2 A New Model of Holistic 'People-oriented Development'

Thai government realized the need to focus on social development, in addition to economic development. This moved Thailand's national development into a new paradigm focusing on human-oriented development in the eighth development plan (Warr, 2011). The way to ensure a more balanced development in Thailand was through the broad-based participation and to link with society, private sector, and academia (NESDB).

Facing with Asian Financial Crisis in 1997-1998, Thai policymaker had adjusted the eighth development plan to cope with the result of this crisis. During 1997-2001, Thai economy was facing the wave of globalization, impact of economic problem, uneven development, and social and environmental problems. Transition of Thailand's development plan were from people-centered approach, integrated development, and bottom-up management style to macroeconomic framework adjustment, mitigation the effect on people and society, economic structure adjustment, and management adjustment.

Figure 2: Development of National Economic and Social Development Plan No. 8-10



Source: NESDB

The philosophy of sufficiency economy by the His Majesty the King, has been undertaken as the guideline for the ninth national development plan. The focus of this plan was to enhance people-oriented development, to encourage the balance among people, society, economy, and environment, to increase competitiveness, and to have good management in all level. During this period, Thai government realized that to achieve sustainable growth in the economy, the inclusive growth with concern both social and economic developments are necessary.

In the tenth development plan, the vision of Thailand has been set as “A happy society with equity, fairness and resilience”. This plan had continued the development strategy from the eighth and ninth plans. The development strategies in the tenth plan were on social and human development towards a knowledge and learning society. Capacity building and the economic restructuring toward balance and sustainability are the strategy in this plan. Moreover, environmental and natural resources developments are also the driving forces of Thai economy. Lastly, promoting good governance is another strategy that economy should have.

Furthermore, Thai government committed in establishing the National Council for Sustainable Development and formulating the National Sustainable Development Strategy (NESDB, 2008). National Sustainable Development Strategy (NSDS) has been developed bases on the experience of the ten national economic and social development plans of Thailand, environmental and social policies, and review of development situation in Thailand. This development strategy has served as the long-run plan (2007-2036) for Thailand to achieve sustainable growth. The aims of NSDS for the next 30 years are to

promote balanced development of social, economic, and environmental aspects (see Figure 3) (NESDB, 2008).

Figure 3: Vision of Thailand Sustainable Development



Source: NESDB, 2008

Based on the balanced and sustainable development, there are four strategic areas that Thai economy needs to concern

- (i) Eliminate poverty through sustained and equitable economic growth
- (ii) Enhance environmental security and sustainability
- (iii) Create a knowledge-based society and ethical society
- (iv) Ensure good governance at all levels of society

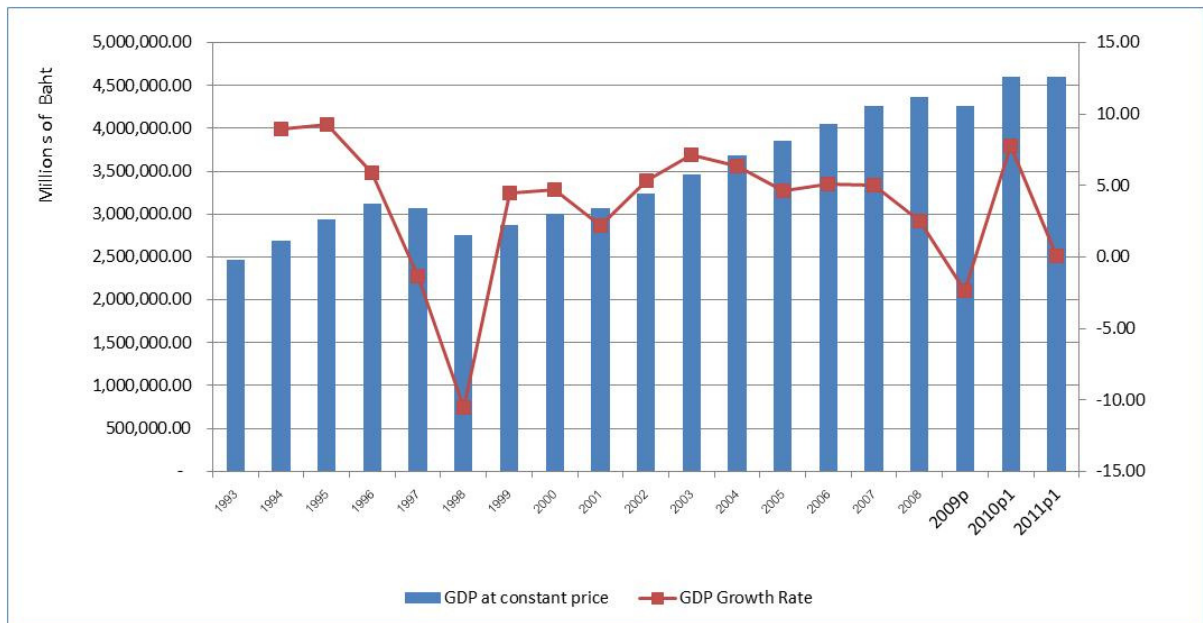
### 3. Successes and Challenges of Thailand's Development Strategy

Figure 4 shows the economic performance of Thailand in terms of real GDP and its growth rate. During the seventh development plan, Thailand experienced the relatively rapid pace of economic growth. However, not all aspects of inclusive growth have been achieved. Thai economy enjoyed the prosperity of high economic growth and dramatic decline in the poverty. Warr (2011) mentioned that even though the absolute poverty decreases, inequality has increased. Social problem and unsustainable development were the results.

NESDB (2009) has examined the achievement of the development goals during 2000-2005. Evaluation showed that achievement level of Thailand was at the moderate level. The successes and challenges on economic, social, and environmental situations were as follow.

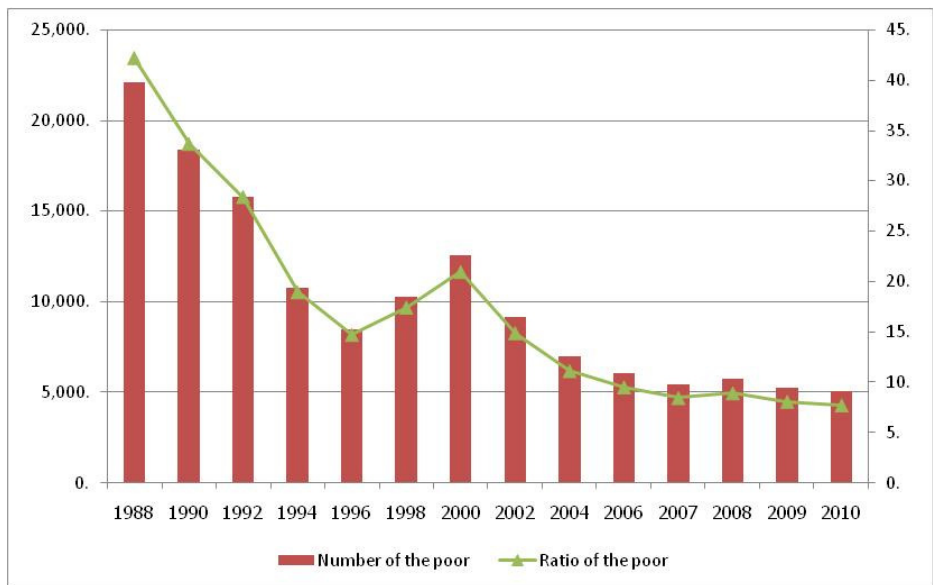
For economic aspect, during 2000-2005, Thailand average economic growth was 5% with the export value increased from 679 billion baht in 2000 to 1,100 billion baht in 2005. Development also showed a decrease in unemployment rate from 3.6% to 1.7%. Production in all sectors, agricultural, industrial, and tourism sectors increased in that period.

Figure 4: Thailand's GDP at Constant Price and Its Growth Rate



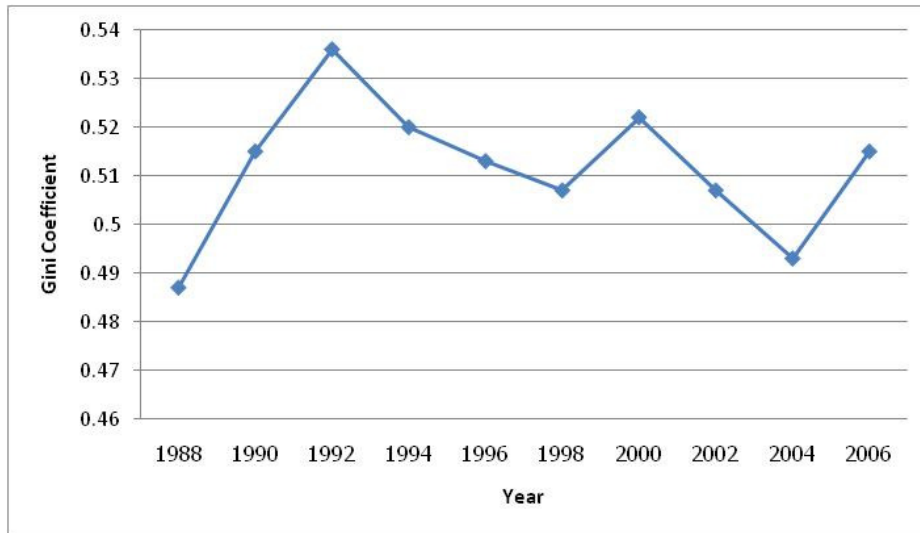
Source: NESDB

Figure 5: Number and Ratio of Poor People



Source: NESDB

Figure 6: Inequality (Gini Coefficient)



Source: NESDB

Even though Thai economy gained economic growth, structural problems in the economic system, society, natural resources, and the environment were still persistent. NESDB (2009) proposed that the structural problems happened because

- (i) The management focuses mainly on economic development and does not follow sufficient economy concept.
- (ii) Thai economy depends on external factors and economy cannot resist the effect of globalization and economic fluctuation
- (iii) The uneven development has posted the cost of environmental and natural resource problems.

In order to achieve sustainable development, government needs to develop the strategy that can cope with the following challenges which are to strengthen the system and structure of economic development, to preserve national competitiveness, to build capacity, to preserve and protect natural resources, and to apply good governance principle (Table 1).

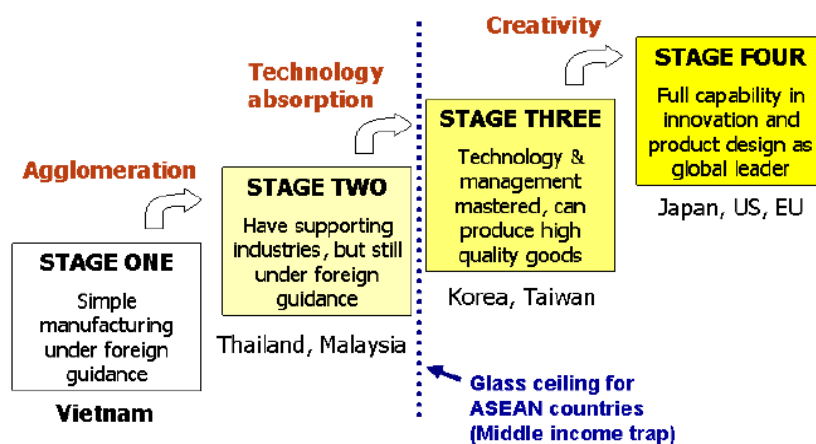
A success story of Thailand can be confirmed from the economic growth experience. However, Warr (2011) identified the aspects that Thailand cannot achieve which are inequality, problem in education policy, and environmental degradation. Even though the poverty incidence has declining, inequality has rising in Thailand. Warr (2011) mentioned that incomes of the poor increased but it increased at the slower rate than income growth of the rich.

Table 1: Challenges of Thailand toward Sustainable Development

Challenges	Details
1. Strengthen the system and structure of economic development	<ul style="list-style-type: none"> <li>Economic growth and appropriate and moderate rate</li> <li>Also focus on social benefits and well-being of people and local community</li> </ul>
2. Preserve national competitiveness	<ul style="list-style-type: none"> <li>Competitiveness in the aspects of social, economic, and natural resources and environmental capital</li> </ul>
3. Capacity building	<ul style="list-style-type: none"> <li>Capacity building in physical, mental, and wisdom aspects.</li> <li>Promote family relationship and community network.</li> <li>Promote rights and liberty of people and community.</li> </ul>
4. Preserve and protect natural resources	<ul style="list-style-type: none"> <li>To be a stable root of the country and to be a sustainable base for living.</li> </ul>
5. Good governance principle	<ul style="list-style-type: none"> <li>Emphasize the participation of every sector at every level of development.</li> <li>Reform the public administration system</li> <li>Private sector to participate in private sector reform</li> </ul>

Source: NESDB, 2008

Figure 7: Stages of Catching-up Industrialization



Source: Ohno, 2008

Comparing to other countries in East Asia in terms of industrialization catching-up stages, Thailand is the countries in stage two which means the economy relies on the technology absorption (Ohno, 2008). From this, the foreign guidance is necessary for economic development. Up to now, Thailand still cannot move on to the stage of creative economy. Thailand is facing the situation of middle-income trap. The constraint is that if the economy cannot develop itself to be the master in technology and management and produce high quality goods, the economy cannot go beyond what they are achieving now.

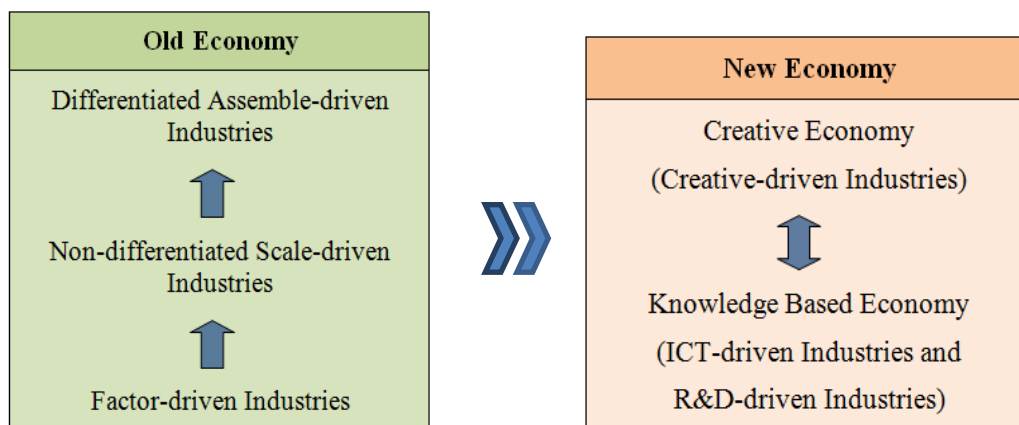
#### 4. New Sources of Inclusive Growth in Thailand



Thai economy is facing the problem of how to maintain its competitiveness in the global market. There are the needs for technological competences for Thai economy. In the situation that Thailand loses its advantage in cheap labor, acquiring new advantage in technological progress is necessary.

NESDB (2008) has examined the trend in global change in the next 20 years and found that Thailand will experience higher economic integration in the region. The center of the power in the world will be relocated to Asian countries. Financial market will have major change and development in the near future. Many countries, like Japan, are facing with the aging economies which will affect the demographic structure. As the result, structure of labor force will change. To remain resilience to the changing environment, people need to comprehend with technology that will be necessary for everyday life. In term of production and consumption, the energy problem is another concern that we cannot stay away from. The development of new sources of energy will be necessary. Other risk to the East Asian region and also other parts in the world is the climate change problem. This will be the threat to the people in the economy.

Figure 8: Transition from the Old Economy to the New Economy



Source: NESDB

From these factors, NESDB has formulated the development strategy based on the new concept. Another turning point in Thailand development strategy is from Plan tenth to eleventh. Differentiated assemble driver is not sufficient to maintain competitiveness in the global market. Thai policymakers are aiming for the new economy which has creativity and knowledge as the main drivers of growth.

Thus, a new paradigm in development strategy is in the eleventh national development plan (2012-2016). This is a major change in national development to focus more to the inclusive growth in the economy. Moving from the business owners-oriented to the people-oriented makes the need for employment growth and productivity growth more explicit.

Table 2: Thailand Eleventh National Economic and Social Development Plan (2012-2016)

Vision	“A happy society with equity, fairness and resilience.”
Key Development Strategies	<ol style="list-style-type: none"> <li>1. Creation of the just society.</li> <li>2. Development of the lifelong learning society.</li> <li>3. Strengthening of the agricultural sector and security of food and energy.</li> <li>4. Restructuring the economy toward quality growth and sustainability.</li> <li>5. Create regional connectivity for social and economic stability.</li> <li>6. Managing natural resources and environment toward sustainability.</li> </ol>

Source: NESDB

Experiences from the past development plan have revealed the structural problems in economy, society, environment, and administration. To attain the quality and sustainable growth, a development strategy should be designed to cope with risk management and improved resilience in utilizing Thailand’s economic and social capital (NESDB).

The development strategies under Thailand Eleventh National Economic and Social Development Plan (2012-2016) cover six aspects (see Table 2). First strategy is to create the society that enhances socio-economic security for all Thai citizens. Providing services, empowering all sectors to have choice in their living, and participate in society are development guidelines in this group. To create the capable human resource, lifelong learning is a necessary tool. Thailand has the third strategy on developing human resources with higher resilience to change, promoting the reduction of risk in health, and promoting lifelong learning. Agricultural sector is other source of growth driver that can be the solution for food and energy crisis problems. The development of bio-technology is one of the important factors.

The fourth strategy is to develop science, technology, innovation, and creativity which is the important factor for sustained and inclusive growth. Stability macroeconomic situation is another part that Thailand should achieve. Regional connectivity is the fifth strategy for Thailand. Development in transport and logistic systems, competitiveness improvement, preparation for AEC, and creation of human capital development partnership are necessary for development. Last strategy is to develop the environmental friendly economy and society and to prepare for the natural disaster response.

## 5. Implication for Regional Economic Cooperation

According to the experience of Thailand’s development plans and the current development strategies under the Eleventh National Development Plan, the implication for the regional economic cooperation can be summarized as in Table 3.

To achieve the inclusive growth in East Asia region, there are many important issues that the member countries can cooperate. First is how to connect people in East Asian countries together. Social interaction can be one channel of informal flow of knowledge, technology, and cooperation among people.

Second, human resources are the important driver of growth in the modern economy and also for the sustained one. Lifelong learning is the program that will give the lifetime benefit to people. To enhance the benefit from valuable human resource, basic research is necessary in developing the new platform for applied researches. With the joint research team, the knowledge from the researchers from the developed countries can be useful and transferred to the researchers in the team. Moreover, development in financial and capital markets is important for the growth of the economy.

Table 3: Thailand’s Strategies to Regional Economic Cooperation

Key Development Strategies	Regional Economic Cooperation
1. Creation of the just society	Social interaction in the region
2. Development of the lifelong learning society.	Lifelong Learning Program in the region
3. Strengthening of the agricultural sector and security of food and energy.	Basic research, Bio-technology
4. Restructuring the economy toward quality growth and sustainability.	R&D, Joint research, Financial and capital market, Exchange program
5. Create regional connectivity for social and economic stability.	Logistics, AEC, Human capital development, Movement of Labor
6. Managing natural resources and environment toward sustainability.	Joint research, Warning system, Risk management

Fifth, with harmonization in logistics, the people in East Asia can relocate and mobile to other parts of the region easily. This will help facilitating the knowledge distribution by allow people to retain their opportunities in acquiring new knowledge. Lastly, all the development mentioned above is how to maximize the benefits. Countries still need to cooperate in managing risk from natural disaster and environmental problems in order to achieve the sustained growth in the region.

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