



WORLD BANK GROUP

GETTING BACK ON TRACK



REVIVING GROWTH
AND SECURING
PROSPERITY FOR ALL

THAILAND SYSTEMATIC COUNTRY
DIAGNOSTIC



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GETTING BACK ON TRACK: REVIVING GROWTH AND SECURING PROSPERITY FOR ALL





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EXECUTIVE SUMMARY

OVER THE PAST FEW DECADES, THAILAND HAS MADE TREMENDOUS PROGRESS TOWARD THE TWIN GOALS OF ELIMINATING EXTREME POVERTY AND BOOSTING SHARED PROSPERITY.

For more than a quarter century prior to the 1997 Asian financial crisis, Thailand's economy grew at an average annual rate of 7.5 percent, creating millions of jobs that helped pull millions of people out of poverty. Extreme poverty as measured by the international extreme poverty line (USD 1.90 per day, 2011 PPP) is no longer a concern for Thailand as a whole, falling from a rate of 14.3 percent in 1988 to less than 0.1 percent in 2013. Gains along multiple dimensions of welfare have been impressive: per capita income has risen by 4.2 percent per year on average in 2000-2013, many more children are now getting many more years of education, and virtually everyone is now covered by health insurance while other forms of social security have expanded. Access to safe water and basic sanitation is almost universal, and mobility and connectivity have increased remarkably (UNDP, 2014b).

THAILAND HAS ACHIEVED THESE GAINS DESPITE HIGH POLITICAL INSTABILITY.

Since becoming a constitutional monarchy in 1932, Thailand has experienced 18 coups (the most recent on May 22, 2014, as well as a few additional attempted coups), with 18 different constitutions and 35 different prime ministers (Malesky and Samphantharak, 2011). Nonetheless, Thailand maintained high growth rates and continued to attract sizeable amounts of FDI, thanks in large part to a strong bureaucracy that served as a buffer against political turmoil and to factors such as its hub location in Southeast Asia that made it relatively attractive to foreign investors compared to its neighbors in earlier years.

GROWTH HAS BEEN SLOWING, AND CONTINUED INSTABILITY COULD AFFECT FUTURE GROWTH AND PROSPECTS FOR SHARED INCOME GAINS.

There are now indications that continued political instability may start hurting Thailand's growth prospects. First, while Thailand's governance indicators—most notably, voice and accountability and political stability—have worsened in the past decade, they have improved among many of its neighbors. Second, the quality of the bureaucracy has worsened, while it has improved in neighboring countries. The “shock absorber” against political shocks is no longer as effective as it was.

MOREOVER, POVERTY AND INEQUALITY CONTINUE TO POSE SIGNIFICANT CHALLENGES.

As of 2014, 7.1 million Thais were still living in poverty (based on the current national poverty line, or about USD 6.20 in 2011 PPP). Moreover, in 2013, an additional 6.7 million were living within 20 percent above the national poverty line and remained vulnerable to falling back into poverty.¹ Both household data and provincial-level data also paint a picture of non-income gaps between the poor and non-poor, often persisting over time despite the rapid economic growth. Inequality has declined over the past three decades, but remains high compared with many countries in East Asia. Significant spatial disparities in household income and consumption can be seen across and within regions of Thailand. Pockets of poverty remain concentrated in lagging regions such as the Northeast, North, and Deep South.

SLOWER GROWTH THAN IN THE PAST, IF IT CONTINUES, WILL CONSTRAIN FURTHER PROGRESS IN REDUCING POVERTY AND PROMOTING INCLUSION.

Historically, economic growth has been the key driver of poverty reduction in Thailand. More recently, growth has fallen from an average annual rate of more than 9 percent in the boom years of 1986-96 to less than 3 percent a year in the last two years. Looking ahead, the World Bank forecasts growth of 3.2 percent for 2016-18, and the IMF projects that growth will dip to 3.0 percent by the year 2021 (WEO, October 2016)—well below the projected growth rates of other upper middle income countries in ASEAN as well as China and India.

THE KEY ENGINES THAT DROVE PAST GROWTH HAVE LOST STEAM OR ARE UNSUSTAINABLE.

The engine that delivered most of the productivity gains in the past—the movement of people from the low-productivity agricultural sector into higher-productivity jobs, particularly in the manufacturing sector—lost steam almost a decade ago. Furthermore, recent progress in creating shared prosperity is largely related to temporarily record-high agricultural prices, caused by both a global commodity price boom and domestic policies, which have helped raise farm wages but without the corresponding productivity growth. The contribution of rising farm incomes to boosting

shared prosperity, despite low agricultural productivity growth, is unlikely to be sustainable because agricultural prices have declined in 2015 and 2016 and are projected to remain subdued in the years ahead. At the same time, the manufacturing sector has stopped creating new jobs. Services have experienced the fastest pace of job growth, but have failed to show rapid productivity growth.

ANALYSIS UNDERTAKEN FOR THIS SCD SUGGESTS THAT THE SIGNIFICANT SLOWDOWN IN THAILAND'S EXPORT GROWTH IN RECENT YEARS IS DUE IN PART TO A LOSS OF MARKET SHARE IN LABOR INTENSIVE MANUFACTURING.

Many labor-intensive and resource-based manufactured exports (20 percent of total exports) have become less competitive, a trend that accelerated in 2010-14. In the face of rising wage rates, export items like textiles, footwear, leather products, and wood products have been losing export markets. This is also reflected in manufacturing value added where laborintensive and resource-based subsectors have declined, contributing in part to stagnating manufacturing employment in recent years.

THAILAND HAS LOST THE COMPETITIVE EDGE IT ONCE ENJOYED OVER ITS PEERS AND OTHER COUNTRIES IN THE REGION.

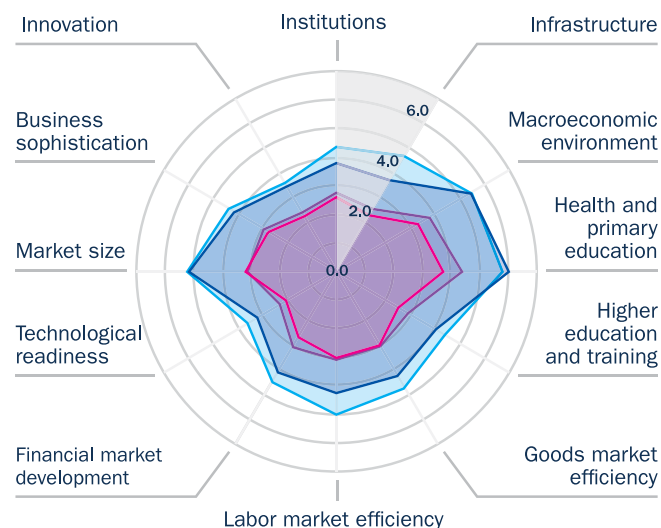
Comparing Thailand's Global Competitiveness Score (compiled by the World Economic Forum) in 2006/07 and 2016/17 is telling (Figure 1). Ten years ago, Thailand looked strong and healthy on all the dimensions tracked by the World Economic Forum. It stood out relative to ASEAN, upper-middle-income countries, as well as its structural peers, and it even looked impressive relative to high-income countries.² Today, however, Thailand no longer stands out—the pack of other countries has caught up with it on virtually all dimensions. Over the past decade, mega projects that could have relieved infrastructure constraints and made Thailand the hub of ASEAN did not get off the ground. Thailand also did not seize its “head start” to invest in its institutions and in innovation to make its universities the envy of the region and its businesses world-class.

¹ Official aggregate poverty numbers for 2014 are available but not the household level poverty numbers which the World Bank team behind this report uses to analyze trends, and regional variations. As such, this report has only been able to analyze trends through 2013.

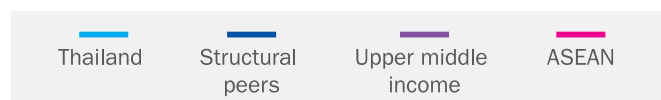
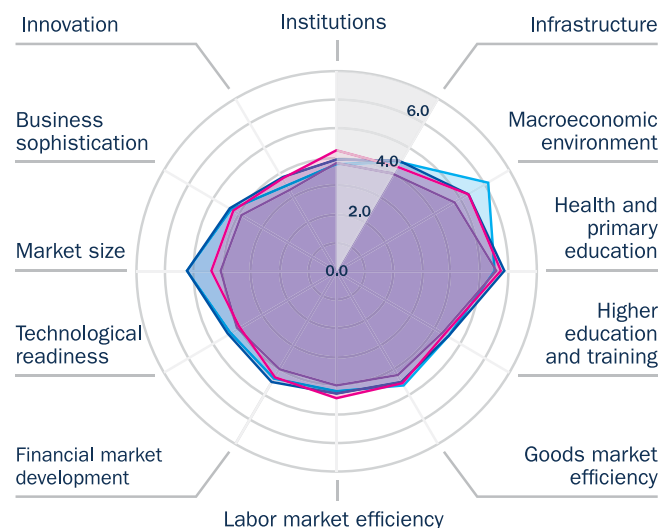
² The structural peers selected for this report are: Bulgaria, China, Colombia, Malaysia and Mexico.

FIGURE 1 : Global Competitiveness, score (7=best)

2006/07



2016/17



Source: World Economic Forum's Global Competitiveness database.³

TOGETHER, ANALYTICAL WORK FOR THIS SYSTEMATIC COUNTRY DIAGNOSTIC (SCD), A LITERATURE REVIEW, AND FEEDBACK FROM CONSULTATIONS INFORMED THE PRIORITIZATION OF TEN “DEVELOPMENT PRIORITIES” FOR ENSURING STRONG, SHARED, AND SUSTAINABLE GROWTH IN THAILAND.

One of these priorities is cross-cutting while the remaining 9 are grouped into three “pathways”. As the table below shows, four of these priorities have been singled out for their likely high impact on improving the lives of the bottom 40 percent. All of the priorities aim to address some of Thailand’s most pressing challenges and make the most of its opportunities, while mitigating some of the identified risks that could undermine future progress.

IN MORE DETAIL, THE THREE PATHWAYS ARE:

- (i) **Creating more and better jobs** through improved infrastructure, more competition, and increased firm-level competitiveness.
- (ii) **Providing more targeted support to the bottom 40 percent of the population** by improving the education and skills of the

workforce; implementing effective policies to boost productivity in the agricultural sector, where approximately half of the bottom 40 percent of the population and the poor continue to be employed; and providing a smarter social protection system focused providing a safety net for poor people.

- (iii) **Making growth greener and more sustainable**, which includes efforts to manage Thailand’s natural resources and environment; reduce vulnerability to natural disasters and climate change; and promote energy efficiency and renewable energy.

FINALLY, THESE THREE PATHWAYS COULD BE SUPPORTED BY CROSS-CUTTING EFFORTS TO STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR. WITHIN EACH PATHWAY, POLICY PRIORITIES AND SPECIFIC INTERVENTIONS ARE PROPOSED, AS LAID OUT BELOW.

³ www.weforum.org/gcr, accessed on October 7, 2016.

TABLE 1: Development priorities for ensuring strong, shared, and sustainable growth

	PATHWAY	DEVELOPMENT PRIORITY AREAS	EXPECTED IMPACT ON POOR AND B40
10. Strengthen the institutional capability of the public sector to implement reform priorities (Very high)	1 Creating more and better jobs	Boost investments in infrastructure	Very High
		Increase competition through free trade agreements and deregulation	Very High
		Increase firm-level competitiveness through greater technology absorption and innovation	High
	2 Providing more support to the B40	Improve the overall education and skills of the workforce	Very High
		Implement effective policies to boost agricultural productivity	High
		Build smarter social protection systems, focusing on providing a safety net for poor people	High
	3 Making growth greener and more resilient	Manage Thailand's natural resources and environment	High
		Reduce vulnerability to natural disasters and climate change by focusing on better land zoning and management to reduce the flooddrought prone areas	Medium
		Promote energy efficiency and clean energy by focusing on implementing Thailand's plans and commitments for energy efficiency and alternative energy	Medium

PATHWAY 1 : CREATING MORE AND BETTER JOBS



A NEW AND IMPROVED ENGINE IS NEEDED TO GENERATE NEW SOURCES OF GROWTH AND CREATE MORE AND BETTER JOBS.

Thailand needs to find a new engine that can deliver results like the locomotive that drove the boom in 1986-1996—an engine that sustainably and consistently creates opportunities for millions to improve their livelihoods. This will involve restoring the competitive edge Thailand has lost, through better infrastructure, more competition, and an emphasis on 15 boosting firm-level competitiveness. Creating lots of low-skilled jobs is no longer an option (nor would it be a desirable option for Thailand); those jobs will increasingly be created in places such as Cambodia, Vietnam or Myanmar. Instead, Thailand needs to upgrade its industries and service sector and create high value-added jobs that require more skills. This will be challenging and require substantial investments in terms of physical capital as well as investments in improving the business and institutional climate.

IN PARTICULAR, MORE AND BETTER INFRASTRUCTURE IS NEEDED TO PROVIDE ADEQUATE INPUTS AND CONNECTIVITY TO THE PRODUCTIVE SECTOR.

Thailand has had difficulty preparing and implementing major infrastructure investment programs, and improving the capacity to foster both public and private investment in infrastructure will be important. The Government could focus on its infrastructure development plans to attract private sector investments in a more concerted manner. As discussed in the 11th and 12th National Economic and Social Development Plan, Thailand's new infrastructure and logistics development plans could cover the following: encouraging the development of multimodal transportation, facilitating cross-border trade, enhancing the efficiency of logistics and transport management systems, improving railways, modernizing the public transportation network, and introducing high-speed communication and e-government services. The Government has recognized that Public Private Partnerships should play a more important role in infrastructure delivery going forward. The introduction of the 2013 Private Investment in State Undertaking Act B.E. 2556 (PISU Act) has improved the regulatory environment to foster infrastructure investment through Public Private Partnerships, though progress in project implementation has been slow. A five year Strategic Plan for Public Private Partnerships was approved in 2015⁴, with 66 projects in the pipeline worth THB 1.41 trillion, the majority in the transport sector, five of which have been approved for fast track implementation.

⁴ <http://www.unescap.org/sites/default/files/PPP%20Thailand-sent.pdf>

POLICIES AIMED AT INCREASING THE LEVEL OF COMPETITION WILL ALSO BE IMPORTANT FOR ENSURING STRONG AND SUSTAINED ECONOMIC GROWTH.

Although Thailand has a relatively open economy overall, some subsectors—particularly in services—are more protected from import and domestic competition. Deeper trade integration will be critical for fostering competition, facilitating innovation and technology spillovers, and opening up new opportunities, such as through the ASEAN Economic Community (AEC) or the new mega agreements currently being introduced in Asia (such as EU-FTAs, TPP, RCEP, and FTAAP). Ensuring more access to finance will also help increase competition—if firms face fewer obstacles in getting credit and capital, and if there are good mechanisms for resolving financial distress, firms are better placed to improve productivity and maintain sustained levels of private investment. Introducing competitive neutrality in Thailand’s SOEs will also be important for providing a level playing field, avoiding crowding out of private firms, and improving the efficiency of the SOE sector.



GREATER TECHNOLOGY ABSORPTION AND INNOVATION TO BOOST FIRM-LEVEL COMPETITIVENESS IS ALSO KEY.

In particular, Thai enterprises could leverage greater spillovers from FDI to help them upgrade and innovate. Building the capabilities to enable Thai firms to upgrade and innovate is now a priority, which calls for a strengthening of the national innovation system, greater emphasis on developing a skilled workforce, and increased investment in research capital and institutions that would promote the deepening of the knowledge economy. Thai firms also need to build their competencies in higher-value-adding niche sectors, taking advantage of their existing capabilities. Moving up the value chain will entail undertaking more complex functions such as design, research and development, and branding. It requires moving from the export of low-value parts and components to higher-value products and services and also to final manufactures. This would be particularly relevant for Thai SMEs which, while dominating the landscape of firms, have seen a continuous decrease in their contribution to GDP during the past 12 years from 41.3 percent of GDP in 2002 to 37.4 percent in 2013. Moreover, the productivity gap between SMEs and larger firms has widened. As the gap in productivity between small and large firms is significant, improving productivity in smaller firms will take extra effort because their turnover rates are high (70 percent fold up after a few years).

PATHWAY 2: PROVIDING MORE SUPPORT TO THE BOTTOM 40 PERCENT

THAILAND'S LAGGING REGIONS PRESENT RISKS TO SOCIAL COHESION AND POLITICAL STABILITY.

The tensions in Thai society - that culminated with the coups in 2006 and again in 2014 - reflect a deeply divided society. These divisions, in part, reflect growing regional disparities. The lagging regions are falling further behind. Empowered by more education, by broader horizons gained from labor migration, and supported by a strong and vocal network of civil society organizations, people from these lagging regions have become a far more potent force in Thailand than in the past. They can point to their regions falling further behind; and to a system of government that is Bangkok-centric - in terms of both the centralization of decision-making power; as well as the distribution of budgetary resources. Unless more efforts and resources are directed to narrowing Thailand's regional gaps, the underlying tensions will likely persist or worsen, fuelling discontent and political divisiveness.

MORE TARGETED SUPPORT WILL BE CRITICAL TO IMPROVE THE LIVELIHOODS OF THE BOTTOM 40 PERCENT OF HOUSEHOLDS, AND IT CAN ALSO TO HELP FOSTER SOCIAL COHESION AND STABILITY MORE GENERALLY.

International evidence shows how inequality and social tensions can lead to political conflict and unrest. Likely, the current sharp political divisions and tensions in Thailand have their roots in a growing sense that economic prosperity has not been widely shared and/or everyone does not have equal opportunities in society. More targeted support for the bottom 40 percent—namely, through improved education; better agricultural policies; and building a smarter social protection system which focuses on providing a safety for poor people — is thus an important priority in terms of having a large impact on the bottom 40 percent as well as helping to strengthen social cohesion and maintain greater political stability.

IMPROVING ACCESS TO HIGH-QUALITY EDUCATION IS A TOP PRIORITY FOR ENABLING THE POOR AND BOTTOM 40 PERCENT TO BENEFIT FULLY FROM GROWTH, AS WELL AS IMPROVING THAILAND'S ECONOMIC GROWTH PROSPECTS.

For individuals, having the necessary skills and competencies to obtain productive employment can help them secure a better future and, for those who are poor, help them break out of the cycle of poverty. A better-educated and skilled workforce is also critical to Thailand's economic growth prospects, as the strong growth Thailand needs in competitive skillintensive exports will depend on having a stronger human capital base. A recent firm survey shows that manufacturing firms are considering the lack of skilled workers a top constraint for further growth. Worryingly, according to the Global Competitiveness Indicators, the quality of Thailand's education system is perceived to have worsened relative to its upper middle income peers (and ASEAN neighbors). Given its poor performance, virtually all dimensions of Thailand's education system need further attention and reforms. Still, three reforms areas seem of critical importance in the immediate future: first, investing more in the early years of children's lives with an effort to dramatically improving access to quality ECD services for the poor. Second, addressing Thailand's problems with small schools where approximately 1 million (mainly poor) children, on average, are currently getting an inferior quality education. Three, broader and sustained education reforms along multiple dimensions are also needed to improve outcomes, including: increasing school autonomy and strengthening the use of information to hold teachers and schools accountable for performance.



RAISING LABOR PRODUCTIVITY IN THE AGRICULTURAL SECTOR REMAINS OF CRITICAL IMPORTANCE, NOT ONLY FROM THE PERSPECTIVE OF BOOSTING INCOMES OF THE BOTTOM 40 PERCENT BUT ALSO FROM A GROWTH PERSPECTIVE, GIVEN THAT AGRICULTURE STILL ACCOUNTS FOR ABOUT 11 PERCENT OF GDP.

Higher agricultural growth would not only increase GDP directly, but it would also provide positive spillovers to agribusinesses and the food processing industry and stimulate regional development. Agricultural growth can also help reduce rural poverty, often more than any other sector, would appropriate policies and programs be put in place. Higher pro-poor agricultural growth depends on improvements in agricultural policy, including: (i) the development of a better-functioning land rental market, (ii) increased efficiency and sustainability of irrigation investments, and (iii) more and better funding of agricultural research and extension programs, and (iv) the move away from commodity support programs such as for rice and rubber toward broad-based agricultural and food policy. More effort is also merited in the hotspots of rural poverty, especially in northeast of the country, where agricultural programs need to be better designed (including around strong partnerships with civil society) to lift a large number of smallholders farmers out of poverty.

A KEY PRIORITY IS TO BUILD A SMART SOCIAL PROTECTION SYSTEM THAT MEETS THE NEEDS OF THE POOR AND THE MOST VULNERABLE, WHILE ENSURING FISCAL SUSTAINABILITY.

Thailand stands out in contrast to many upper middle income countries by not having a generalized safety net program for the poor.⁵ Developing a backbone national social safety program for the poor – incorporating design lessons from international experience – would go a long way in terms of providing support to vulnerable groups and, likely, help reduce social tension. In more detail, such a program would be based on a number of principles: first, a targeting method would be needed to identify who are poor (and near poor) households using their key income and non-income characteristics. Second, the information collected from households could be consolidated into a social registry which would be the basis for identifying beneficiaries for any safety net benefit and other targeted programs. Third, design of a national safety net program for poor households would be important, including “graduation pathways” to promote program exit and sustainable livelihoods where possible. Finally, to ensure that any safety net programs is fiscally sustainable, it will be important to re-examine the broader social protection system, including revisiting the generosity of existing contributory pensions, matching pension schemes and social pensions in order to see how fiscal space might be created for such a program.



⁵ E.g. all of the “structural peers” selected for comparison purposes throughout this report have such generalized social safety nets targeted at poor people.

PATHWAY 3: MAKING GROWTH GREENER AND MORE RESILIENT

ENSURING THE SUSTAINABILITY OF GROWTH AND THE LIVELIHOODS OF THE BOTTOM 40 PERCENT WILL DEPEND TO A LARGE EXTENT ON THAILAND'S ABILITY TO IMPROVE ENERGY EFFICIENCY, AND MAKE GROWTH GREENER AND MORE RESILIENT.

Green growth decouples growth from heavy dependence on resource use, carbon emissions, and environmental damage. It also promotes growth through the creation of new green product markets, technologies, investments, and changes in consumption and conservation behavior. Green growth will be critical for ensuring the availability of resources to power future growth while protecting Thailand's wealth of natural resources for future generations. For instance, Thailand's ability to attract nearly 30 million visitors annually (providing 12 percent of annual GDP) hinges on its ability to conserve its beautiful coastal areas and coral reefs.

IMPLEMENTING EXISTING OR PROPOSED PLANS CAN GO A LONG WAY TOWARD PRESERVING THAILAND'S NATURAL RESOURCES AND ENVIRONMENT.

Forest and fishery depletion is continuing, water shortages on the one hand and floods on the other hand are increasing concerns. To manage "brown" environment (air, water, waste) problems, Thailand can draw on the plans and regulations it has already in place. Pushing forward with the implementation of the plans is now key. Importantly, flood and drought risk management could be strengthened by being less reactive. In addition, understanding and mitigating the potential environmental and health impacts arising from necessary large-scale public investments in an inclusive manner will be important to ensure the viability and sustainability of such investments.

REDUCING VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE WILL BE IMPORTANT FOR CONTINUED GROWTH AND SHARED PROSPERITY.

The 2011 flood clearly showed the extent of damage natural disasters can inflict on Thailand's economy and the bottom 40 percent. As a low-lying country, Thailand is expected to suffer from more frequent coastal flooding—with the impact area including central Thailand and Bangkok—as well as more pronounced droughts around the agriculturally important Mekong region and saline intrusion as a result of climate change.⁶ Thailand recently took a number of steps to identify a policy agenda for enhancing climate resilience, including a National Adaptation Plan under development. Further work in a number of areas will be important: first, better land zoning and management is needed to reduce the flood-drought prone areas. Specifically, deforestation in the upper reaches increases the risk of flash floods and sediment loads in rivers, while reducing storage and drainage capacity. Lack of careful planning for public infrastructure (roads, floodways, etc.) and urban/industrial areas exacerbate the risk of flooding. Second, to achieve its commitments to reduce carbon emissions, timely and effective policies, market-based instruments, and cooperation with the private sector will all be important.



⁶ For more details, please see Intergovernmental Panel on Climate Change's fifth assessment (available at <http://www.ipcc.ch/report/ar5/wg2/>).



MAKING GROWTH GREENER WILL INVOLVE IMPROVING ENERGY EFFICIENCY AND RELYING ON CLEANER SOURCES OF ENERGY.

The best fuel for improving green growth is energy efficiency. Thailand is growing on an energy-intensive path, and high energy demand growth is expected to continue in the future. Making the economy more energy-efficient will be important for coping with energy supply constraints. It has been estimated that in 2012, 73 percent of Thailand's emissions came from the energy sector. In 2015, Thailand pledged to reduce its carbon emissions by 20-25 percent from their 2005 levels⁷, while the Power Development Plan (PDP) for 2015-2036 pledges to increase renewable energy so it comprises up to 20 percent of overall power supplies. Nevertheless, the PDP also proposed to build 7,390 MW of coal-fired power plants and 2,000 MW of nuclear, which raised strong environmental and social concerns.

SEVERAL CONCRETE EFFORTS COULD ACCELERATE THE SHIFT TOWARD MORE ENERGY EFFICIENCY AND CLEANER ENERGY

First, targeted efforts in the major energy-consuming sectors, i.e. manufacturing and transport, could contribute significantly to the government's goal. In the transport sector, key measures will involve improving vehicle fuel efficiency and expanding infrastructure investment to promote greater use of rail transport. Other efforts will include more stringent regulations of large factories and buildings, strengthening the capacity of the industry to adopt low global warming and energy efficient technologies, improving energy efficiency standards for buildings and appliances and their enforcement, and greater use of demand side management measures. Moreover, adopting new and innovative measures – such as energy efficiency resource standards among power producers, performance-based EE incentives – will also help induce new investment and adoption of new and more efficient technology. Second, avoiding energy price and demand distortion by maintaining the current pricing/subsidies policies. By March 2016, subsidies for most petroleum products have been lifted, excise taxes have been largely reinstated for petroleum products, subsidies for electricity are limited to very small “life line” consumption for households. Third, given that Thailand will increasingly have to import its electricity, Thailand could take a leading role in power grid code harmonization and take a leading initiative in the design of power market rules to facilitate commercialization of power trade both bilaterally and multilaterally in the Greater Mekong Subregion and ASEAN. Similarly, for natural gas, Thailand energy authorities could take an active role in optimizing and collaborating on natural gas procurement among the current regional gas trading countries such as China, Malaysia, Myanmar, Singapore and Thailand. Thailand can also help bring global good practice in developing power infrastructure projects in countries with less experience than Thailand.

⁷ Thailand made the commitment at the twenty-first session of the Conference of the Parties (COP-21) as part of the United Nations Framework Convention on Climate Change Conference (UNFCCC).

CROSS-CUTTING PRIORITY: STRENGTHEN THE INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR TO IMPLEMENT REFORM PRIORITIES

FINALLY, STRONGER INSTITUTIONAL CAPABILITY OF THE PUBLIC SECTOR TO IMPLEMENT REFORMS WILL BE ESSENTIAL TO MAKING PROGRESS ON THE THREE PATHWAYS DESCRIBED

Thailand will need to ensure that it has the institutions (and people) to help provide an environment in which more and better jobs are created. It will also need strong institutions that can deliver the new programs to improve Thailand's infrastructure, provide more targeted support for the bottom 40 percent, and implement politics and programs for cleaner growth.

THE THAI AUTHORITIES HAVE LAUNCHED SEVERAL PROMISING INITIATIVES TO REVIVE ECONOMIC GROWTH. THE IMPACT OF THESE INITIATIVES WILL DEPEND ON SUCCESSFUL IMPLEMENTATION.

Successful implementation, in turn, will not only take political will; it will also require improving the institutional capacity of the public sector to formulate and implement multiyear infrastructure programs. A few examples include: the government may consider comprehensively revamping and modernizing the Public Investment Management (PIM) system. Further strengthening of the procurement system would also help ensure efficient implementation of public projects and the achievement of savings for public finances. In light of the planned mega projects that could resuscitate growth, reviewing public procurement systems and allowing for innovative approaches such as turnkey contracting would be useful. Stronger capacity to deliver new programs will also be needed for successful delivery of more targeted support for the bottom 40 percent and for the implementation of environmental policies and programs.



GETTING THAILAND BACK ON TRACK WILL ALSO INVOLVE OVERCOMING THE GOVERNANCE CHALLENGES THAT LED TO THE POLICY AND IMPLEMENTATION STALEMATE OVER THE PAST DECADE.

The gridlock among political groups in Thailand has its roots in the widening gaps in Thai society; a perception that a ruling elite has benefitted from significant levels of corruption, an unfair judicial system has favoured those with money, and government regulations (and concessions) that have protected vested interests at the expense of encouraging growth and job creation. This gridlock has impeded decision-making, prevented the effective implementation of public investment, and blocked efforts to liberalize key sectors, especially the service sector.

OPPORTUNITIES TO GET BACK ON TRACK

THAILAND IS WELL-POSITIONED TO REVIVE GROWTH AND ENSURE PROSPERITY FOR ALL.

The country is strategically well-located, surrounded by countries with rapidly growing economies and an ample supply of labor. The ASEAN Economic Community (starting on Jan 1, 2016) is strengthening trade and other linkages. As the second-largest economy in ASEAN (after Indonesia), Thailand has a strong starting position in terms of an agile business sector, a historically strong civil service, and a large cohort of young people in their 20s and 30s with a tertiary education. Importantly, analysis shows that Thailand has considerable potential to increase productivity in the future: the differences in labor productivity across sectors and subsectors in manufacturing and services (see Klyuev, 2015 and Figure 2) are higher than for many countries in the region, indicating significant potential for increasing aggregate productivity. Similarly, high differences in productivity levels across manufacturing and across service subsectors (Klyuev, 2015; Dheera-aumpon, 2014) indicate considerable scope for increasing within-sector productivity through intra-sector reallocation of capital and labor.

A NUMBER OF RECENT POLICY INITIATIVES GIVE RISE TO SOME OPTIMISM.

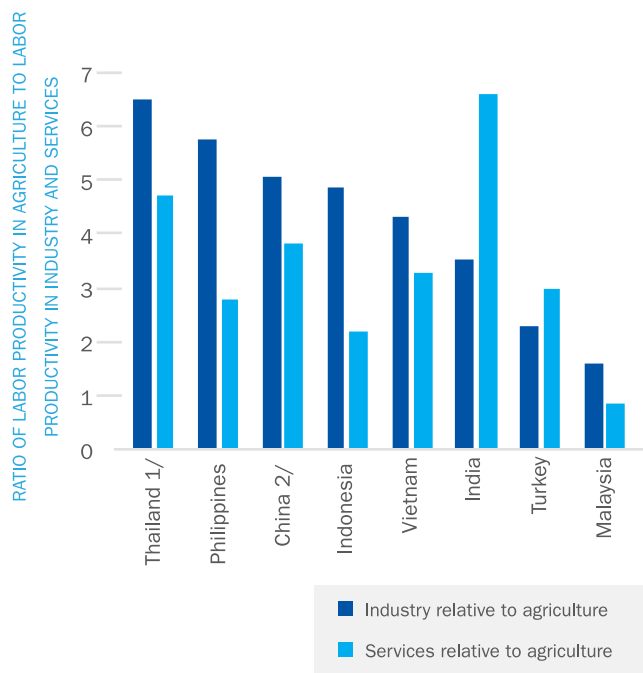
These include a focus on 10 industries as “new engines of growth” (so-called “S-curve industries”); the creation of an Eastern Economic Corridor; and the launch of a major push for the creation of an electronic payment system. Thailand also introduced a child grant for poor families with newborns in 2015. There has also been a major push to bring more SMEs into formal economy by providing them with incentives to move towards a single financial account. Moreover, the Government has transferred responsibility of supervision and regulation of State Financial Institutions to Bank of Thailand. And, finally, a number of large-scale infrastructure investments – many of which have been on the drawing boards since the early 2000s – have gotten underway.

THESE INITIATIVES ARE PROMISING SIGNALS THAT THAILAND IS EDGING BACK ON TRACK, BUT THEIR IMPACT WILL DEPEND ON THE QUALITY OF IMPLEMENTATION.

Launching good policy initiatives is a first important step; successfully implementing the initiatives is what is required to transform Thailand’s economy. Only time will tell whether Thailand will seize the opportunity to revive growth and secure prosperity for all.



FIGURE 2: The differences between labor productivity in agricultural and nonagricultural sectors are much bigger in Thailand than elsewhere



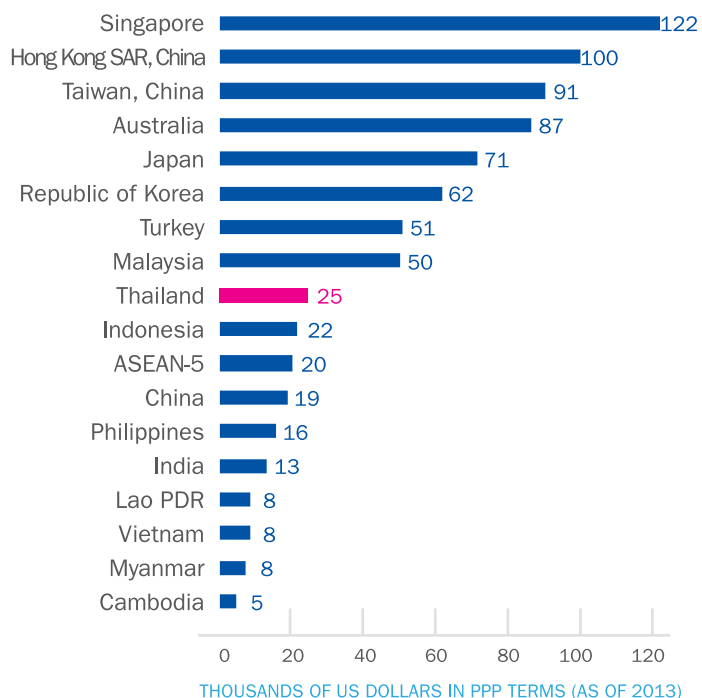
Note: GDP at constant basic prices per worker, using 2011 PPP, reference year 2013.

1/ Calculated using total number of workers

2/ Calculated using World Bank calculations of fulltime equivalent workers

Source: APO Productivity Database 2015 and Labor Force Survey (for calculation of “Thailand 2/”).

FIGURE 3: Thai labor productivity is comparable to ASEAN-5 countries but only half of the level in Malaysia and Turkey (USD’000/worker)



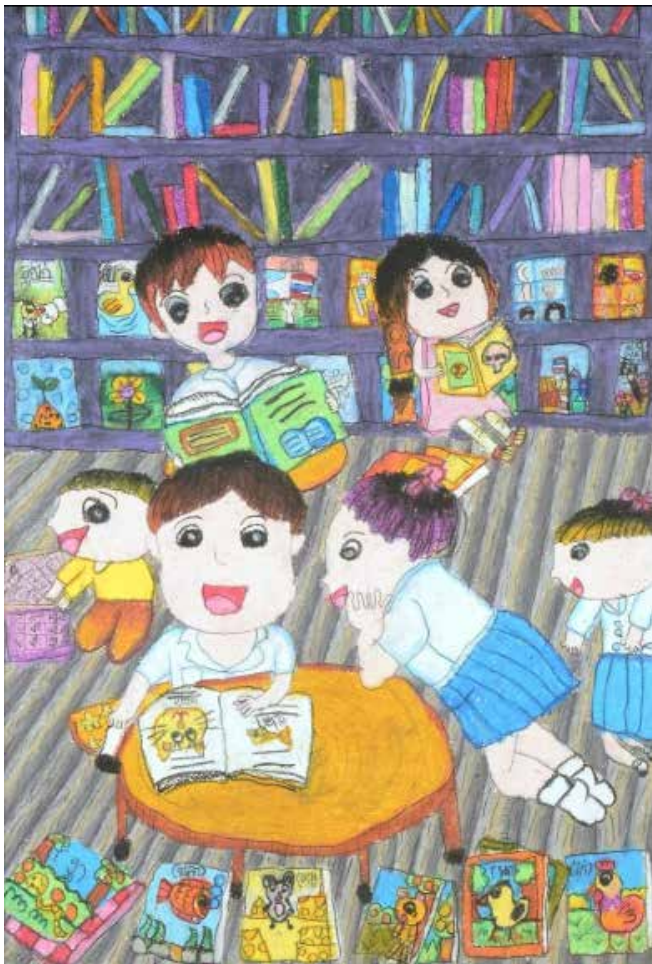
Note: GDP at constant basic prices per worker, using 2011 PPP, reference year 2013.

Source: APO Productivity Database 2015.



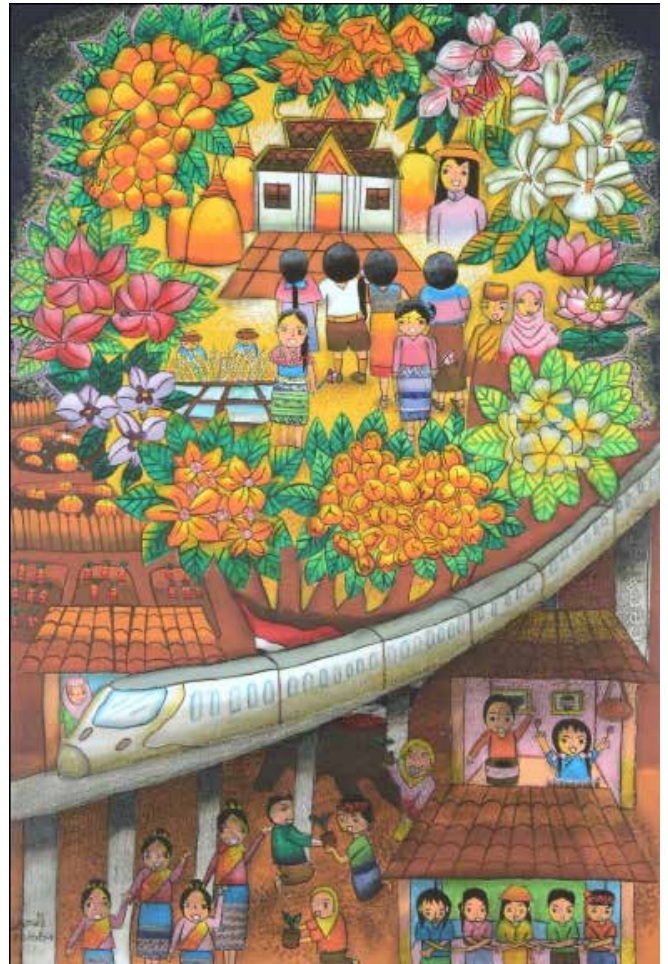
CHILDREN'S DREAMS FOR THAILAND

As part of the government's consultations for their 12th National Economic and Social Development Plan, it organized a drawing competition for school children from across the country. The children were asked to draw under the title "Your Dream for Thailand". Some of the common themes in the drawings were the wish for Thailand to be united and peaceful though there are differences in nationality, culture and religion; to take better care of the environment; and for children to be educated for a brighter future. Below are two of the winning drawings and the comments from the artists who drew them.



RAKPLOY MAMUI AGE: 10 | GRADE: 4

"Children are reading books eagerly and going to the library, which is a source of knowledge. They will help drive Thailand's development in the future."

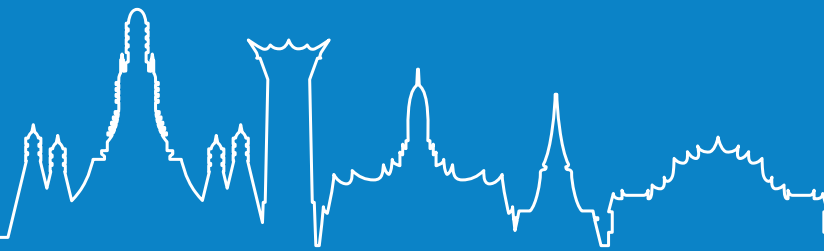


JUTHAMANI KAMDAM AGE: 10 | GRADE: 6

"The Thai way of life is close to nature, culture, and tradition. Though we are diverse in religion and culture, everyone still lives together in harmony and peace. These values will unite all Thais together to cooperate for a prosperous and developed Thailand."



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