

EE460: Thai Economy

Rethinking growth

National Economic and Social Development Plans

Happiness

Bhanupong

Lecture 2

GDP per capita can be raised over the long term through:

- 1. Capital deepening:** an increase in the economy's stock of capital—plant and equipment—relative to its workforce.
- 2. Technological progress:** the ability to produce more output without using any more inputs—capital or labor.

Rethinking growth

- Rethinking growth
Zagha, Nankani, and Gill (2006) Finance & Development, March
- <http://www.imf.org/external/pubs/ft/fandd/2006/09/basics.htm>
- Growth is a complex process of economic, social, and political transformation.
- New economic concepts were created to capture some of its dimensions.
- Development *strategies follow* those new concepts.

Development Theories

- Lewis: Dual economy, surplus labor

Economic Development with Unlimited Supplies of Labour.”

Manchester School 22 (May): 139–191

Lewis British citizen W. Arthur Lewis was awarded the Nobel Prize in 1979 along with **Theodore Schultz** for “pioneering research into economic development ... with particular consideration of the problems of developing countries

Other Development Theories

- Schultz: human capital
- Gerschenkron and Rostow: Stages of development, takeoff, and catching up
- Seer, Prebish, Hirschmann: Structuralism

Lewis's Dual economy

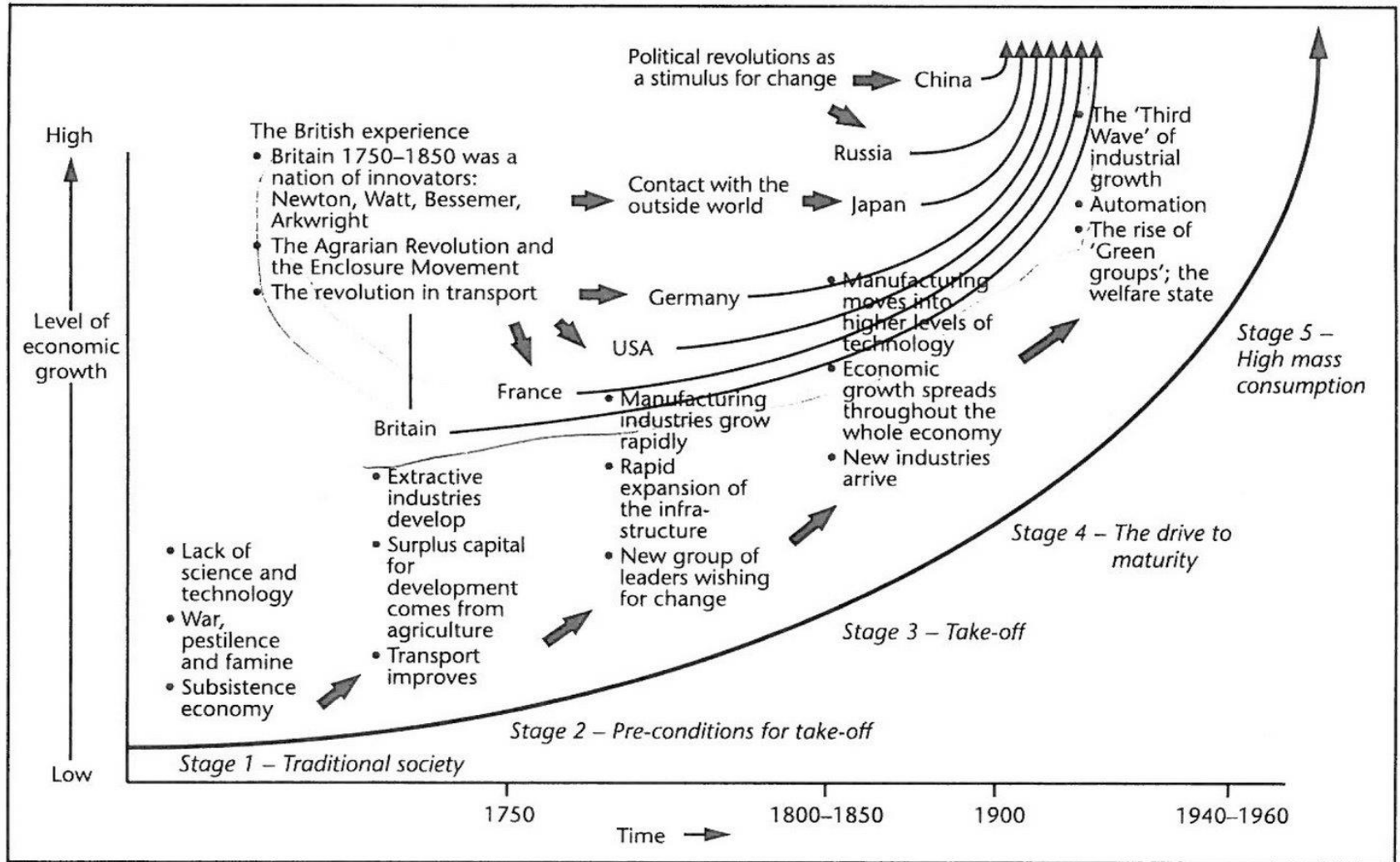
- A poor country's economy can be thought of as containing two sectors, a small "capitalist" sector and a very large "traditional" (agricultural) sector.
- Employers in the capitalist sector hire people to make money. Employers in the traditional sector, on the other hand, are not profit maximizing and, therefore, hire too many people so that their productivity is very low.

Lewis's Dual economy

- Lewis argued on this basis that the way ***to spur development*** in poor countries is to shift labor into manufacturing, where it is more productive.
- The capitalists save out of their profit and use this saving to expand, which then adds to growth.
- Has China reached the Lewis turning point?

Rostow, W.W. *The Stages of Economic Growth*.
Cambridge: Cambridge University Press, 1971

Fig. 15.3: Rostow's model of economic growth as applied to selected countries.



Gerschenkron, Alexander. *Economic Backwardness in Historical Perspective*.
Cambridge: The Belknap Press of Harvard University Press, 1976

- **Gershenkron** states the other way round:
- Economic growth does not proceed as the stage of development suggested.
- Rather, the ***economic backwardness*** plays an important role of the progress of one economy and that would decide whether such economy will evolve into other stages or not.
- Even though the two development theories aim to explain the evolution of one economy, there is a contrast between these two.

The Singer-Prebisch thesis

- It focuses on terms of trade between primary products (raw materials and resources used in the productive process - metals, agricultural products) and manufactured goods.
- By examining data over a long period of time, he suggested that the terms of trade for **primary** commodities did have a tendency to decline since the **income elasticity** of demand for manufactured goods is greater than that for primary goods, especially food.

The Singer-Prebisch thesis

- Thus, as income increases, the demand for manufactured goods increases more rapidly relative to demand for primary products, terms of trade of primary exports of LDCs would deteriorate.

The Singer-Prebisch thesis

- As many developing countries tend to export primary products and import manufactured products, this implies ***the need to increase the volume of exports*** in order to keep importing the same level of manufactured and capital goods, or otherwise experience a deterioration of the trade balance.
- Due to the declining terms of trade primary products face, Prebisch concluded that developing countries should strive to diversify their economies and lessen dependence on primary commodities export through developing their own manufacturing industry by structural change and industrialization.

Akamatsu's flying geese paradigm

- Akamatsu's third flying geese paradigm is a model for international division of labor in East Asia based on dynamic comparative advantage.
- The paradigm postulated that Asian nations will catch up with the West as a part of a regional hierarchy where the production of commoditized goods would continuously move from the more advanced countries to the less advanced ones.
- The underdeveloped nations in the region could be considered to be "aligned successively behind the advanced industrial nations in the order of their different stages of growth in a wild-geese-flying pattern."

Money and Economic Growth

- Supply leading or demand-following hypothesis: Output growth leads to demand for financial services, Supply of credit leads to output growth.
- Shaw: Money and capital are substitute (hence the role of financial intermediaries)
- McKinnon: Money and capital are complementary in the financially fragmented economy (Financial liberalization)

How many years would it take to double GDP?

- **The rule of 72**: If an economy grows at x percent per year, output will **double** in $72/x$ years.
- If Thailand has a 9 percent annual growth rate, then real GDP will take 8 years to double $(72/9) = 8$.
- It would take 18 years to double GDP if it grows at 4 % annually.

Successful growers avoided downturns and kept growth *steady*

Number of years(1960-2002) which growth rate was:

	negative	<1	<2	>2
LDCs	14	19	24	18
Thailand	5	8	16	27
OECD	3	3	4	38

Lessons of the 1990s

- Expectations about the impact of **economic reforms** on growth were unrealistic.
- A simple tariff cut would not automatically lead to growth, other trade incentives must be available: improving trade-related infrastructure, competitive exchange rates.

Lessons from the 1990s

- Democracy is ***not*** a shield against governments exerting their authorities to benefit elites.
- Informed citizens, low social polarization, and political competition are needed.
- Reforms should promote ***growth***, not just efficiency (need to provide incentives for expanding capacity).

Necessary conditions

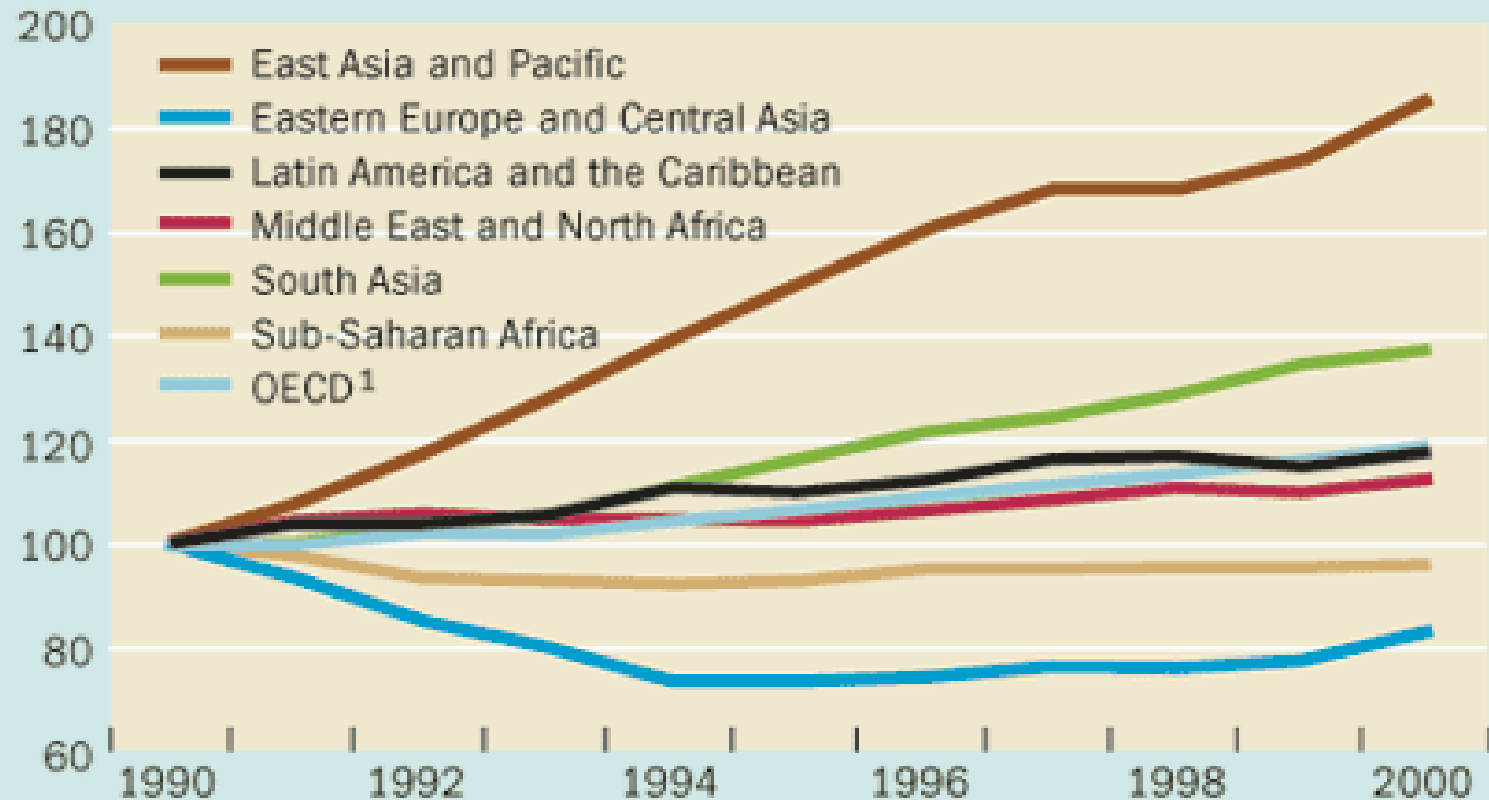
- The necessary conditions for economic growth can be created in numerous ways—**not** all of them *equally* conducive to growth (macroeconomic stability, market allocation of resources, openness to international trade).
- Stabilization and macroeconomic management need to be growth-oriented (decisive responses to shocks and macroeconomic policies that reduce vulnerabilities and cost of shocks).

Chart 1

Widely varying results

Economic regions grew at vastly different paces during the 1990s despite undertaking broadly similar reform policies.

(per capita GDP; 1990 = 100)



Source: World Bank, *World Development Indicators 2003*.

¹Organization for Economic Cooperation and Development.

Lessons of the 1990s

- Governments need to be accountable, not bypassed.
- Discretion is needed but **checks and balances** can lead to better decision making.
- Governments should **abandon** formulaic policymaking in which any reform goes and **concentrate on supporting growth**.
- Identify the **binding constraints** to growth and deal with them as the growth process unfolded through experimentation and trial and error.
- What are the lessons of the 2000s?

Timeline of development planning

1st Development Plan (1961-1966)

Import substitution

Infrastructure Investment

Promotion of private investment

Institutional establishment: Board of Investment (BOI) National Economic and Social Development Board (NESDB), Bureau of the budget (BOB), Fiscal Policy Office (FPO)

Early economic plans: Objectives and Missions

2nd Development plan (1967-1971)

Export promotion

Growth was driven by public investment in infrastructure

3rd Economic and social development plan (1972-1976)

Investment in rural area and education

Economic and Social Development Plans

4th Plan (1977-1981)

Increasing security spending,
Reducing social gaps,
Restoring *natural resources*

5th plan (1982-1986)

Public and private **cooperation**,
Rural development and investment

Economic and Social Development Plans

6th plan (1987-1991)

Maintain economic growth

Upgrade quality of life

7th plan (1992-1996)

income distribution,

improve quality of live and **environment**

Recent trend of (indicative) economic plans

8th plan (1997-2001)

Human-centered development

Public **participation**

Sustainable development

9th plan (2002-2006)

Competitiveness

Financial immune system

Self-reliant and resilient society

A policy shift?

10th Plan (2007-2011)

- *Sufficiency economy*
- Green growth
- Sustainable development
- 11th plan (2012-2016)?

The 11th National Economic and Social Development Plan

- To develop Thailand into a happy society with equity, fairness, and resilience.
- Apart from promoting a peaceful society with good governance, the 11th Plan also aims to promote sustainable development through the restructuring of the economy, society, and politics, while nurturing natural resources and the environment.
- Another objective is to prepare the people and the community to be resilient to changes.

Economic Moderation

Dr. Sumeth Tantiwechakul, Secretary General of H.M., NGO-Chai Pattana Foundation, Former President of Thammasat University Council

“Economic, social, political and environment problems are caused by ***excessive consumption***”

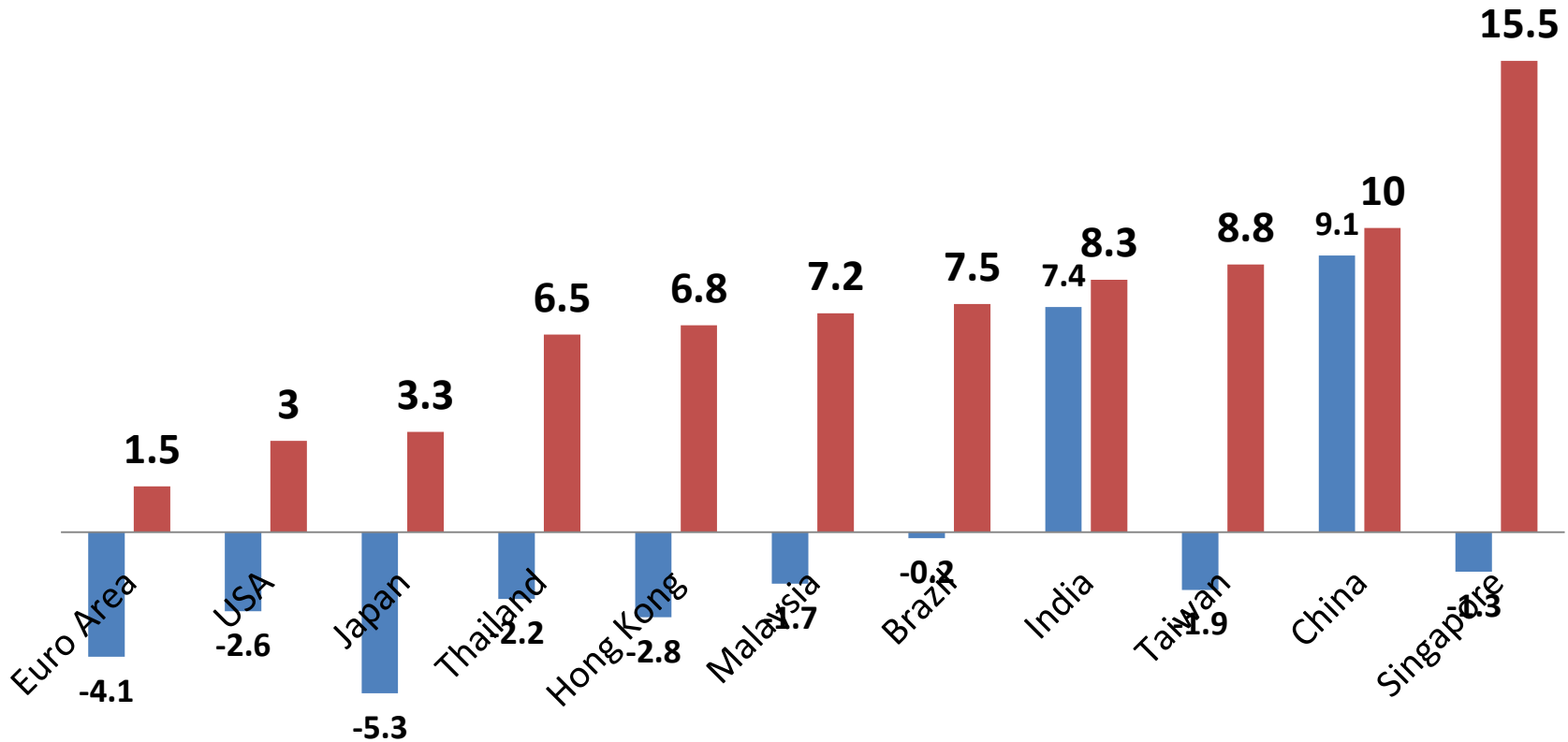
- Avoid creating debt without sufficient returns.
 - ***We must cut down expenses***
 - Adhere to the principle of enough to live on.
 - Do not spend more than what one can afford.
 - Seek to enhance income gradually.
-
- Is the idea in sharp contrast with the paradox of thrift?

Tenets of the idea

1. It can be applied at all levels, all disciplines, and all sectors of the economy: Agriculture, rural areas, finance, real estate, international trade and investment
2. Under similar principles of selectiveness, moderation, rationality, internal and social immunization, **sufficient economy will serve as immunization of the country to get through any crisis** to maintain a stable and durable existence under the currents of changes and globalization.

Global recovery after the GFC

■ 2009 ■ 2010



Richard Layard

Happiness

New York: Penguin Press, 2005

- Once subsistence income is guaranteed, making people happier is **not easy**.
- If we want people to be happier, we really have to know what conditions generate happiness and how to cultivate them.

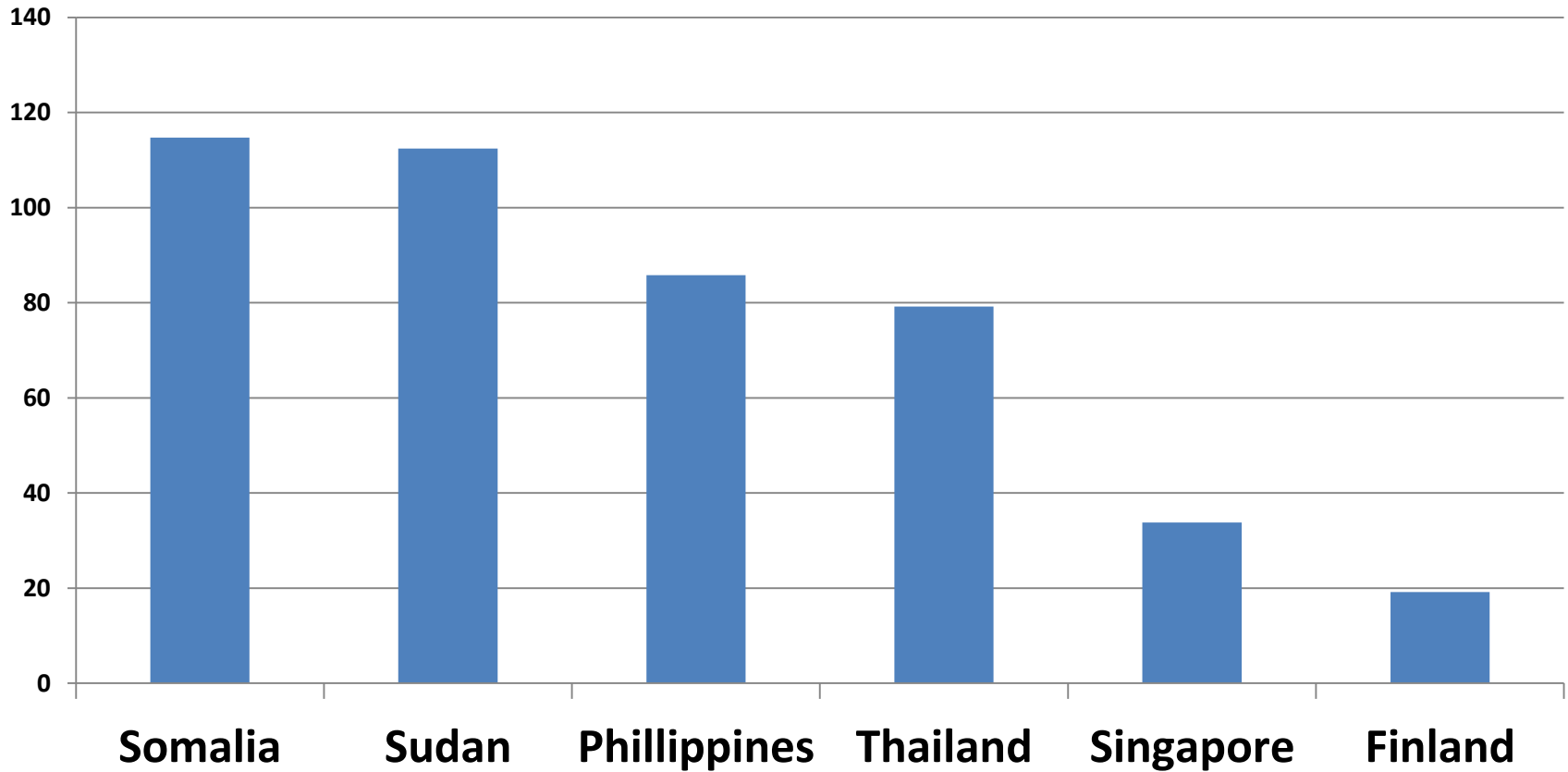
Sources of happiness

1. Proportion of people who say that other people can be **trusted**.
2. Proportion of people who belong to **social organizations**.
3. Divorce rate
4. Unemployment rate
5. Religious belief
6. **Quality of government**

Quality of government

Failed States Index

FSI 2009



What makes people happy?

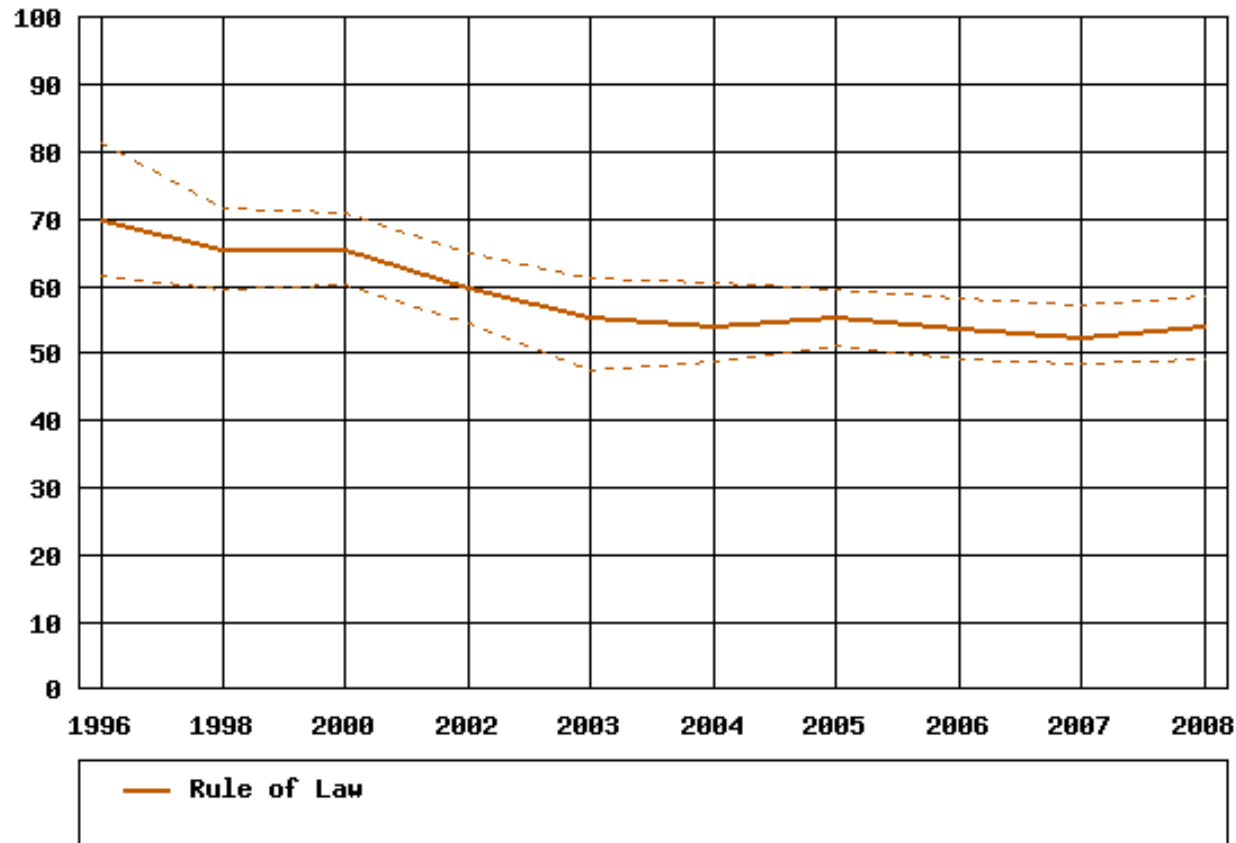
- We are programmed to seek happiness.
- Humans are **social** beings, wanting to trust each other.
- People are deeply attached to the **status quo**.
- Human beings are **status conscious**.
- Human beings are very **adaptable**.
- **Extra income** increases happiness *less and less* as people get richer.

How to measure quality of government

- Governance indicator
- Press freedom index
- Regulatory quality
- Political stability
- Voice and accountability
- Rule of law
- www.govindicators.org
- The Worldwide Governance Indicators (WGI) provided by the World Bank

Rule of law

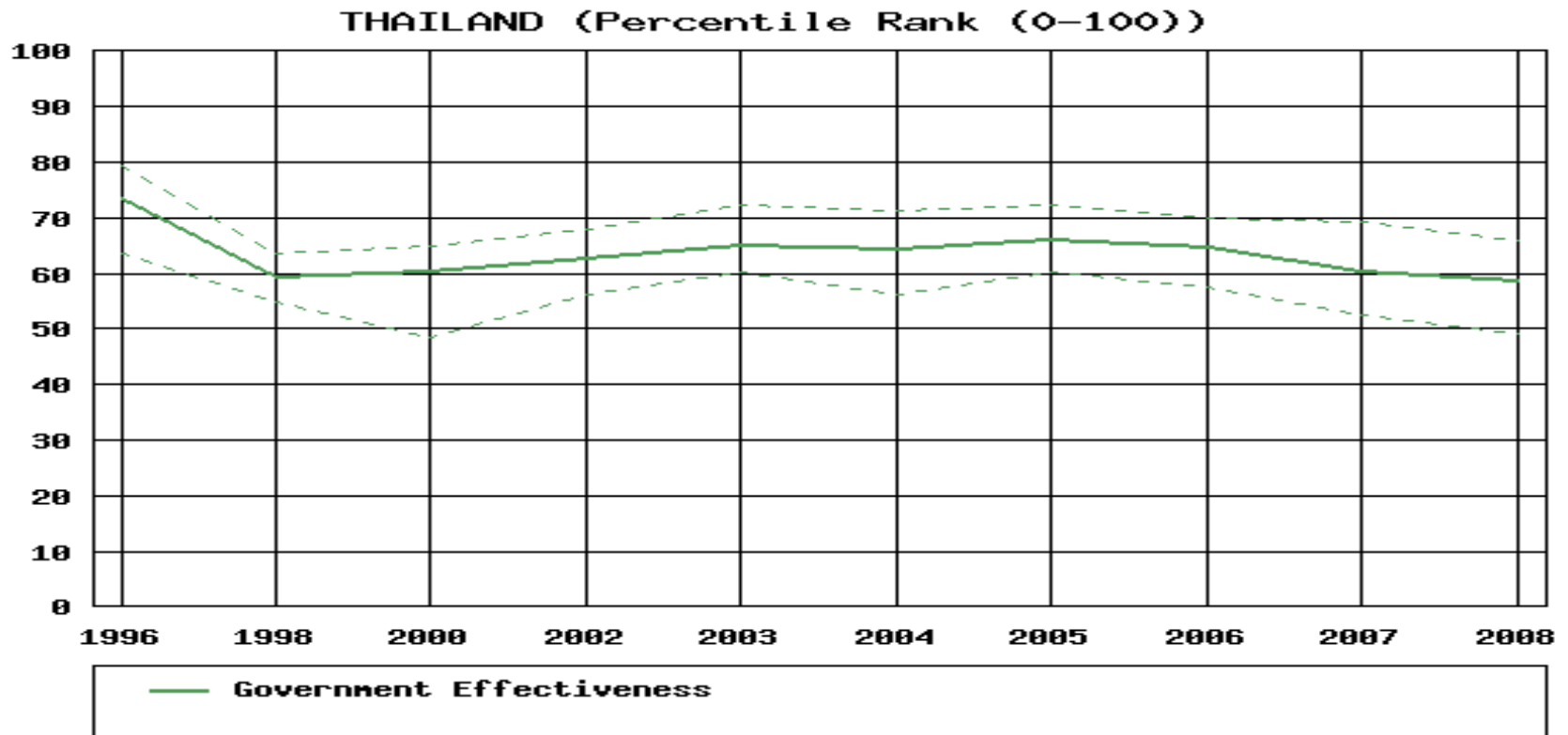
THAILAND (Percentile Rank (0-100))



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

Note: The governance indicators presented here aggregate the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

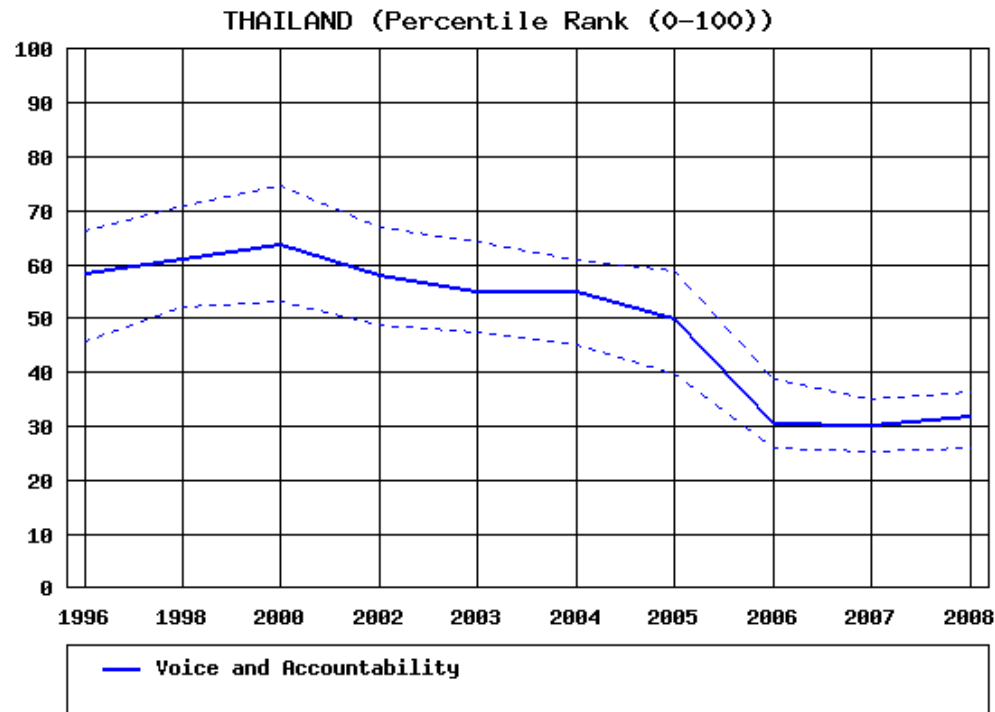
Government effectiveness



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

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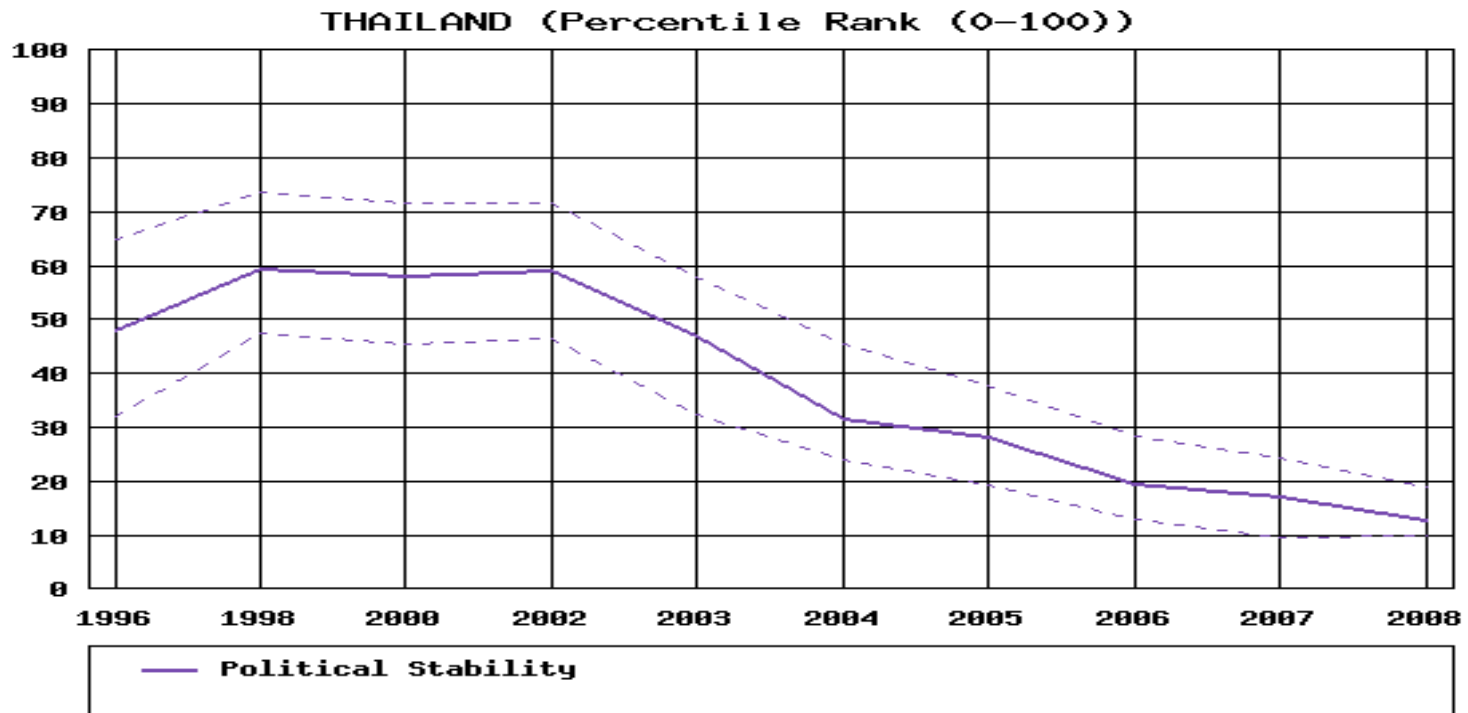
Voice and Accountability



Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2009: Governance Matters VIII: Governance Indicators for 1996-2008

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Political Stability

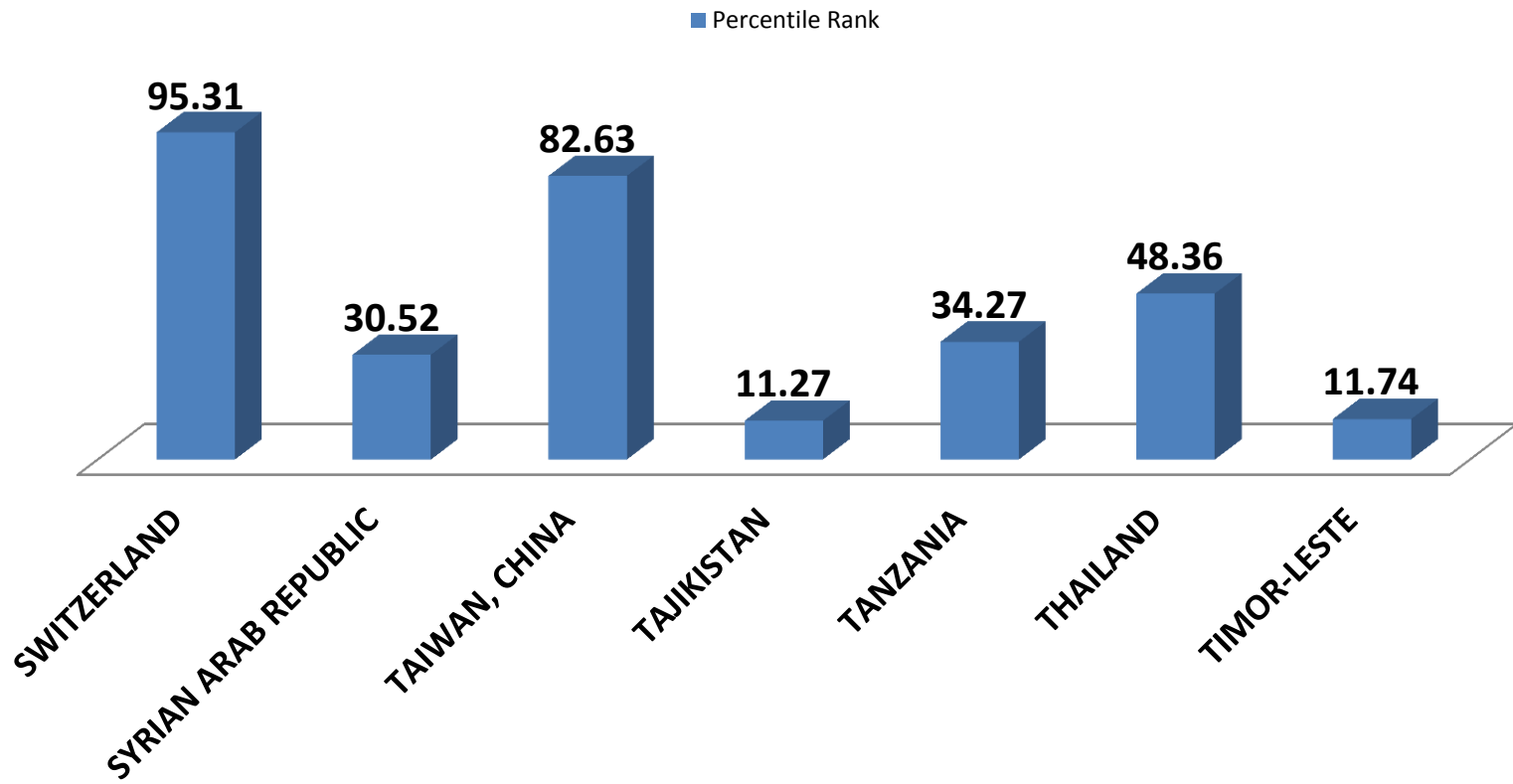


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Worldwide Governance Index

Control of corruption: 2011



Survey conducted by Thai Institute of Directors (IOD).

- Most of Thailand's business leaders acknowledge that corruption has been rampant since 2010 at high to very high levels, jeopardizing the country's long-term business credibility.
- The number of respondents totaled 1,066, up from 1,007 in 2010.

Higher cost of business operation

- They worked in both non-listed and listed companies, in Bangkok and the provinces, that generate sales of up to Bt50 billion annually.
- They agreed that corruption cost their businesses.
- The survey found that 63 per cent said it would have an impact on their operation at the high and very high levels, 54 per cent said that the corruption has added 10 per cent cost to their business operation, while 8 per cent of the respondents add 30 per cent to their operation.

How do they happen?

- The processes that could lead to corruption include procurement,
- business registration
- and bidding for state projects, as well as the procurement processes between private companies.
- Twenty-two per cent of respondents said the highest chance of corruption was in tendering with the government sector,
- while 14 per cent said the registration and permission process,
- 10 per cent pointed to procurement processes within the private sector.

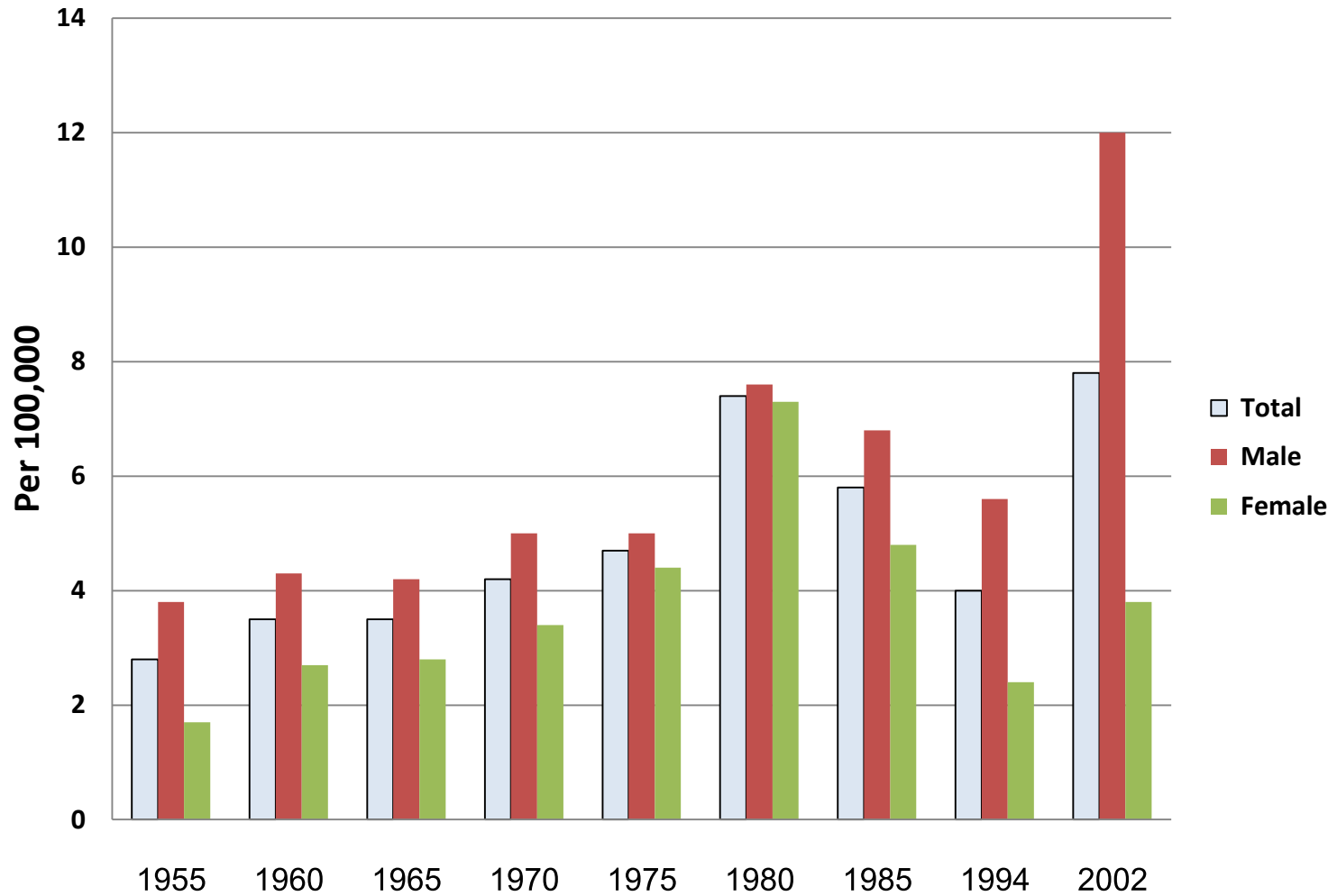
Where do they occur?

- The industries with a high chance of being involved in corruption included telecommunications (15 per cent),
- energy and public utilities (14 per cent), agriculture (11 per cent),
- property development (10 per cent),
- construction materials (9 per cent).

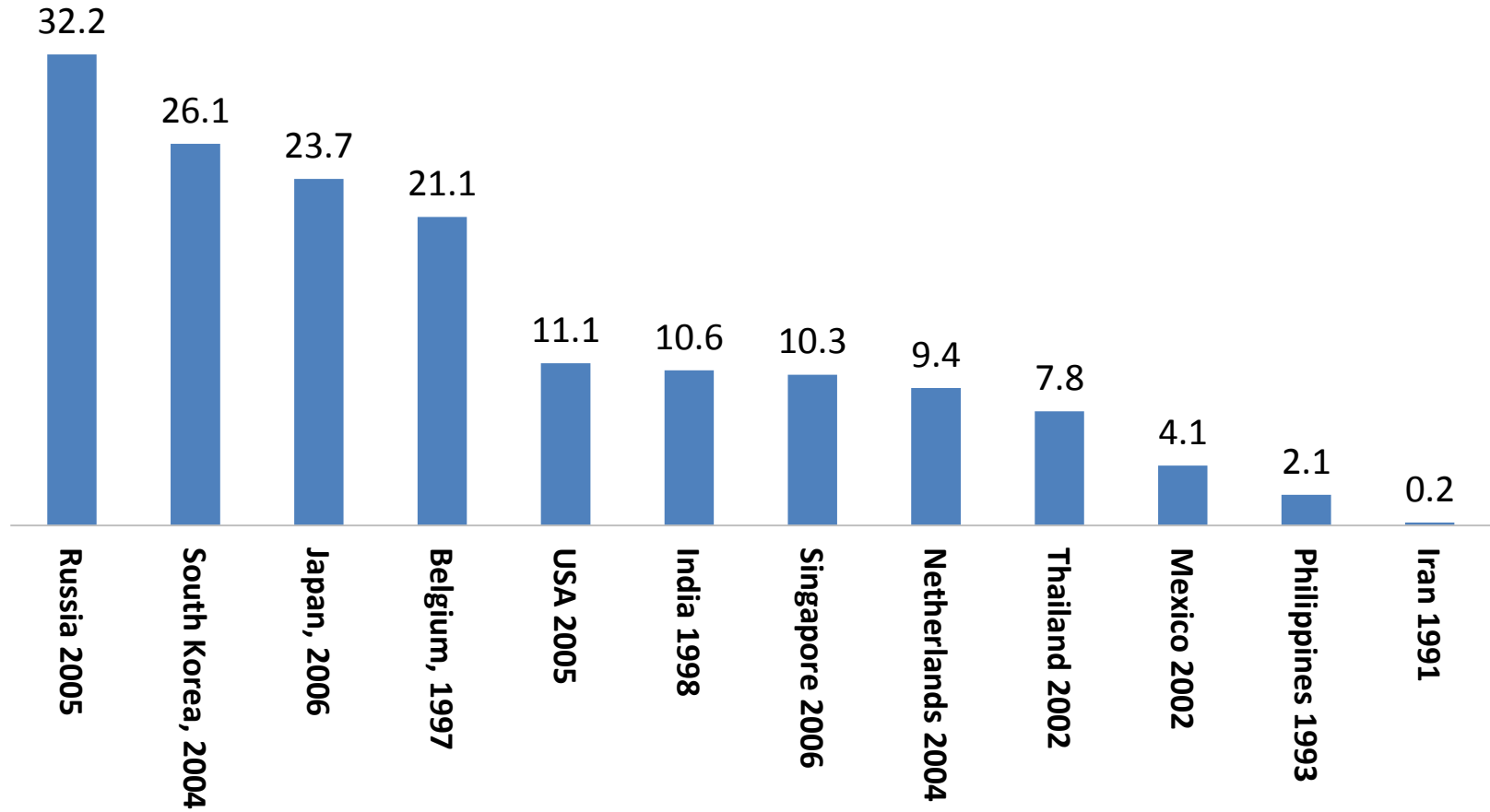
Can public policy make people happy?

- “The biggest disease today is not leprosy or tuberculosis, but rather the feeling of being unwanted, uncared for and deserted by everybody” Mother Teresa
- **Public policy** can more easily remove misery than augment happiness.
- To live happily is an inward power of the soul” Aristotle
- Hence, happiness depends on your **inner life** as much as on your outer circumstances.

Suicide rates in Thailand



Number of suicides per 100,000 people, per year



Research questions

1. Explain how Thailand's economic development plans evolved around development theories and changing socio-political environment.
2. Utilize Layard's sources of happiness to examine the impact of economic development on happiness of the Thais over the past three decades.
3. Select two development plans that you think they had provided the most important contribution to the Thai economy. Provide evidence to support your arguments.
4. Can sufficient economy principle serve as immunization for a country under globalization?
5. Is Gross National Happiness more superior to Gross National Product?