

EE460: Thai Economy

Rethinking growth

Why Nations Fail by Acemoglu and Robinson

National Economic and Social Development Plans

Happiness

Fragile state Index

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 Labor.”
Manchester School 22 (May): 139–191

W. Arthur Lewis, a British citizen, 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

Lewis's Dual economy

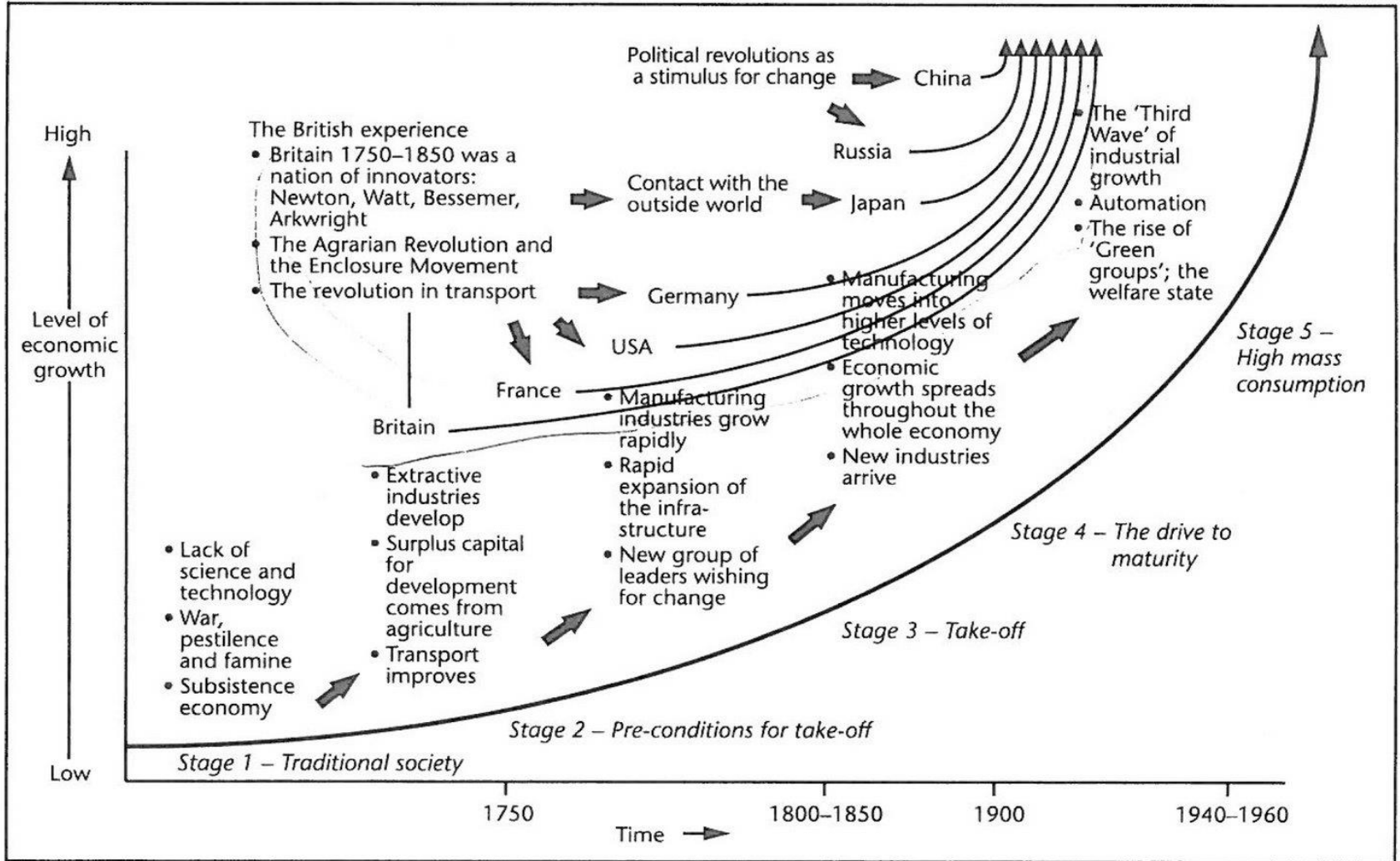
- A poor country's economy can be thought of as containing two sectors, a small "capitalist" sector and a very large "traditional" (agricultural) sector.
- Employers in the capitalist sector hire people to make money. Employers in the traditional sector, on the other hand, are not profit maximizing and, 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: Harvard University Press, 1976

- Gershenkron states the other way round.
- The 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

- As income increases, the demand for manufactured goods increases more rapidly relative to demand for primary products.
- 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.

The Singer-Prebisch thesis

- Due to the declining terms of trade primary products face, they 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.
- Then came the idea of inward-looking strategy.

Akamatsu's flying geese paradigm

- Akamatsu's 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***.

Akamatsu's flying geese paradigm

- 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."

Kaname Akamatsu (1935)

The metaphor of flying wild geese

- Depicting the catching-up process of post-war industrialization in Japan—a model successfully emulated by the East Asian ‘miracle’ economies, bringing hope to many other developing countries in Asia.
- In that paradigm sequential ***shifting of comparative advantage*** across economies, aided by factors such as foreign direct investment (FDI), structural change, infrastructure development, human capital formation, and industrial policy, unleashed trade-fueled economic development.

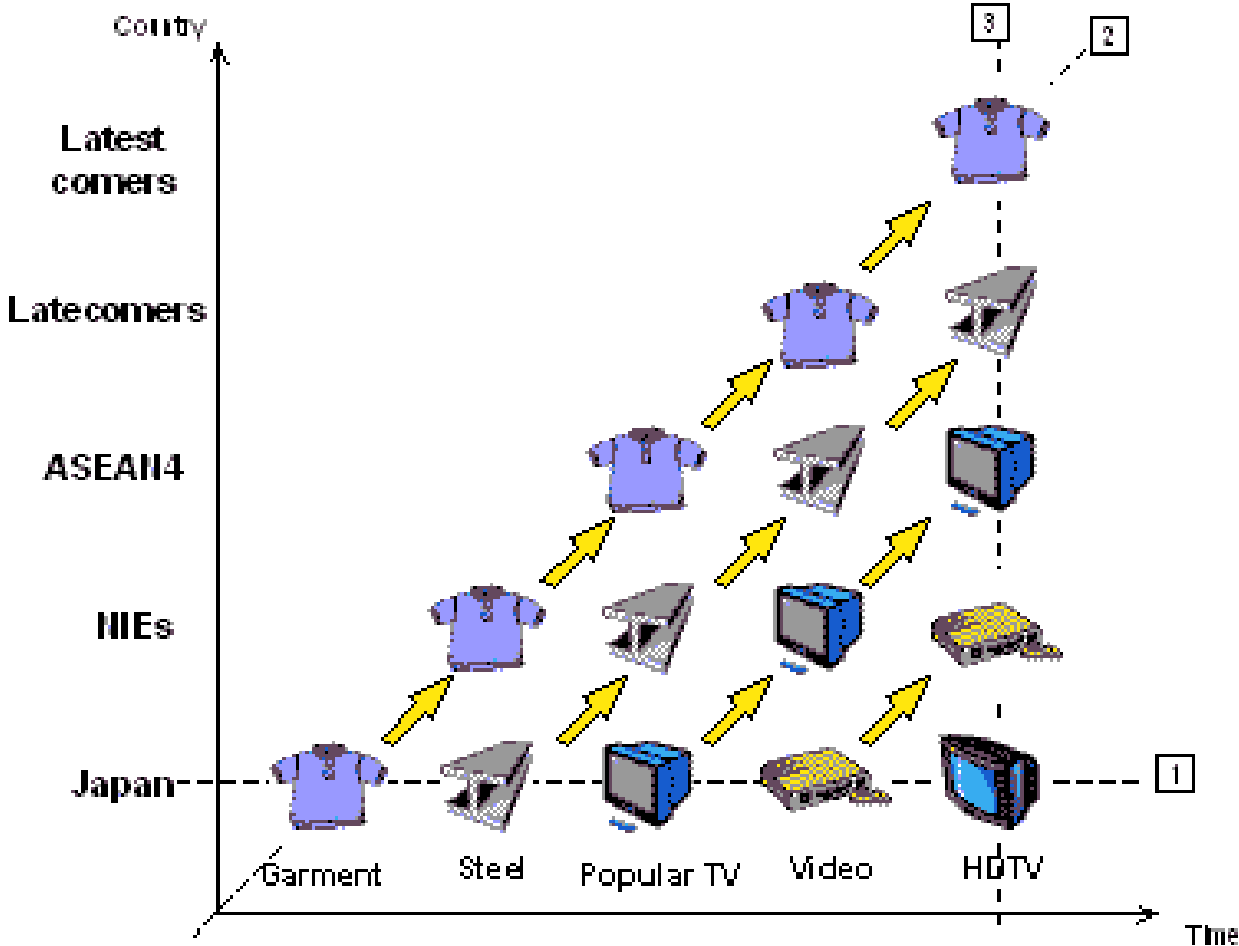
The FDI-driven economy

- *“FDI-driven economy” is the phrase used by many economists at recent business forums, meaning that foreign direct investment (FDI) is the major motive power for the national economy.*
- **FIEs leading in production and exports**

Philippines has lowest FDI percentage among Asean members

- The Philippines has the lowest Foreign Direct Investments (FDI) among the countries in Association of Southeast Asian Nations (Asean), according to 2014 United Nations Human Development Report
- Only 1.12 percent of the Philippines' gross domestic product (GDP) came from FDI compared to 2.26 percent in Indonesia, 2.35 percent in Thailand, 3.66 percent in Laos, 4.17 percent in Malaysia, 6 percent in Vietnam, 7.03 in Cambodia, 7.39 percent in Brunei, and 20.62 percent in Singapore. Myanmar has no data.

Structural Transformation in East Asia



New international economic landscape in the 1990s

- In the 1990s a new international division of labor took shape, based on the principles of the supply chain.
- The international economic landscape changed significantly, with international product fragmentation, agglomeration economies, intra-industry and intra-product trade, regionalization, the emergence of two giant economies, China and India, as dominant forces, and the appearance of many new players eyeing the field, including lower tier Southeast Asian economies.

Are the Geese Still Flying? Catch-up Industrialization in a Changing International Economic Environment

by Inderjit N. Kaur

- ***Catch-up industrialization*** can take three forms—producing more capital-intensive goods (i.e. capital-intensity upgrading), producing higher quality and more complex goods (i.e. quality upgrading), and economy-wide transformation up the technological ladder (i.e. economy-wide upgrading).
- The common theme is that there is a hierarchy that is based on technological capability, and catch-up involves sequential shifting of comparative advantage. In the earlier phases, imitation and learning suffice, but, ultimately, ***innovation is key***.

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

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.

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**

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.

Fragile State Index (2014)

Fragile States Index 2014		Total	Demographic Pressures	Refugees and IDPs	Group Grievance	Human Flight	Uneven Development	Poverty and Economic Decline	Legitimacy of the State	Public Services	Human Rights	Security Apparatus	Factionalized Elites	External Intervention
80	Thailand	77.0	7.6	6.5	8.0	3.8	6.1	3.6	7.1	4.9	7.4	7.9	9.5	4.6
117	Malaysia	66.2	5.5	4.5	6.2	4.8	5.6	3.9	6.6	4.6	6.9	6.5	7.0	4.1
160	France	34.8	3	2.5	6.4	2.2	4	4.5	2.1	1.8	2.2	2.6	1.9	1.6
176	Denmark	22.8	2.8	1.4	3.4	2.0	1.8	2.2	0.8	1.7	1.6	1.8	1.4	1.9

Why Nations Fail

- Daron Acemoglu and James Robinson (AR)
- Book Reviews by William A. McCleary in *Thammasat Economic Journal*, 31(1) March 2013
- Rejection of three alternative explanations of why experiences of various countries has been different: Geography, culture, and ignorance of correct policies.

Extractive institutions

- Nations are poor because they do not have institutions which allow them to generate growth potential.
- Political institutions in ***which power is heavily concentrated.***
- The extractive institutions do not create an environment in which a large proportion of population can share in the benefits.

Inclusive institutions

- Political institutions in ***which power is widely shared and many groups*** can participate in the decisions which affect their prosperity and access to public services.
- Institutions that generate opportunities to invest, create new or better products, self-improvement.
- By securing property rights, an objective system of law, and limited monopoly privileges.

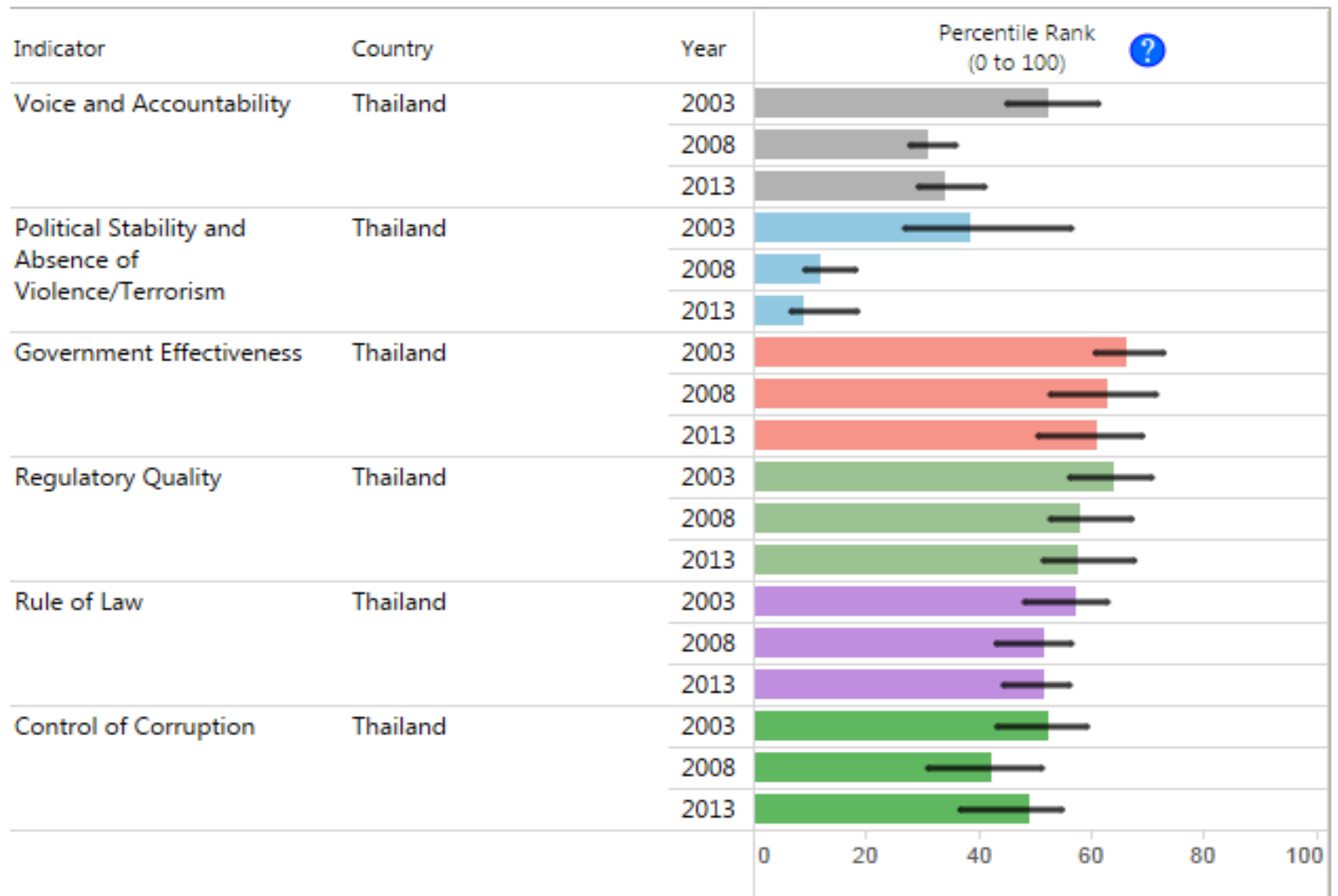
Illustrative Examples of AR's Analytical Approach

- England in the industrial revolution
- The Glorious Revolution (1688) expanded the powers which the king could exercise only with the consent of parliament and made the government more responsive to a wider set of groups in society.
- Extractive societies of Soviet Russia and China which has experienced years of spectacular growth could slow down.

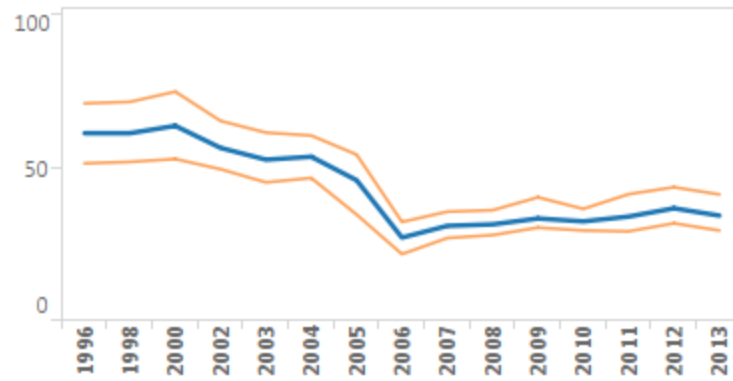
How to measure quality of government

- 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

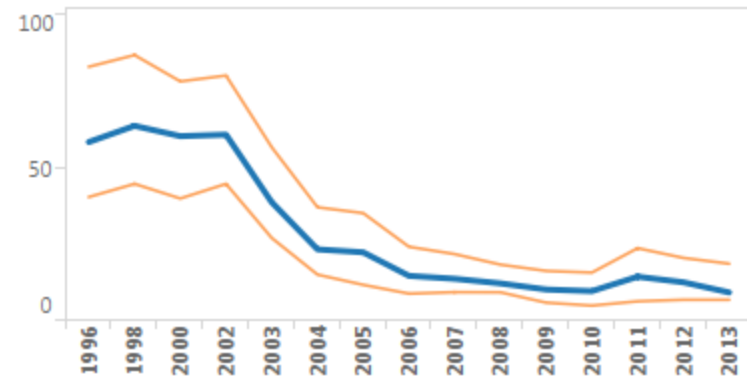
Worldwide Governance Indicators



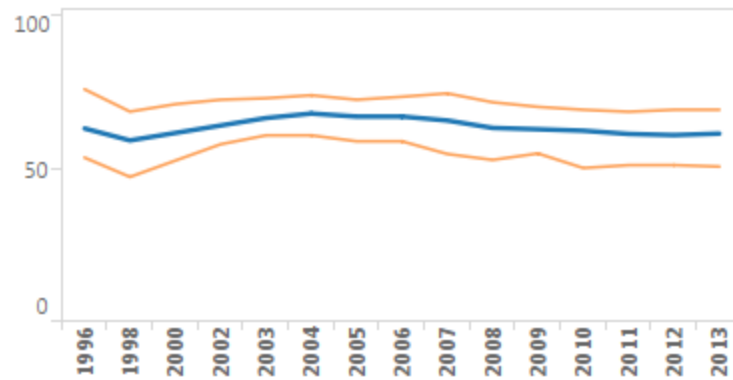
Voice and Accountability



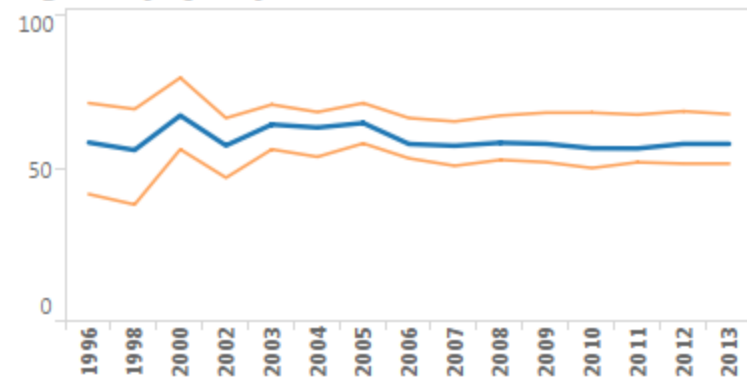
Political Stability and Absence of Violence/Terrorism



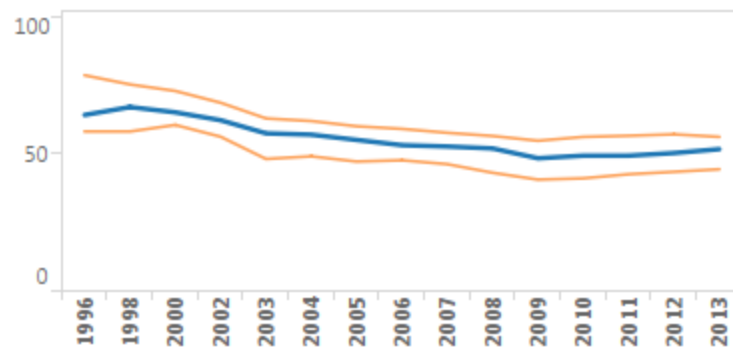
Government Effectiveness



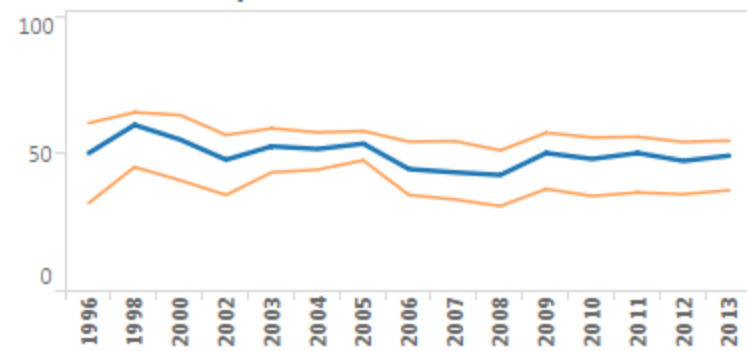
Regulatory Quality



Rule of Law



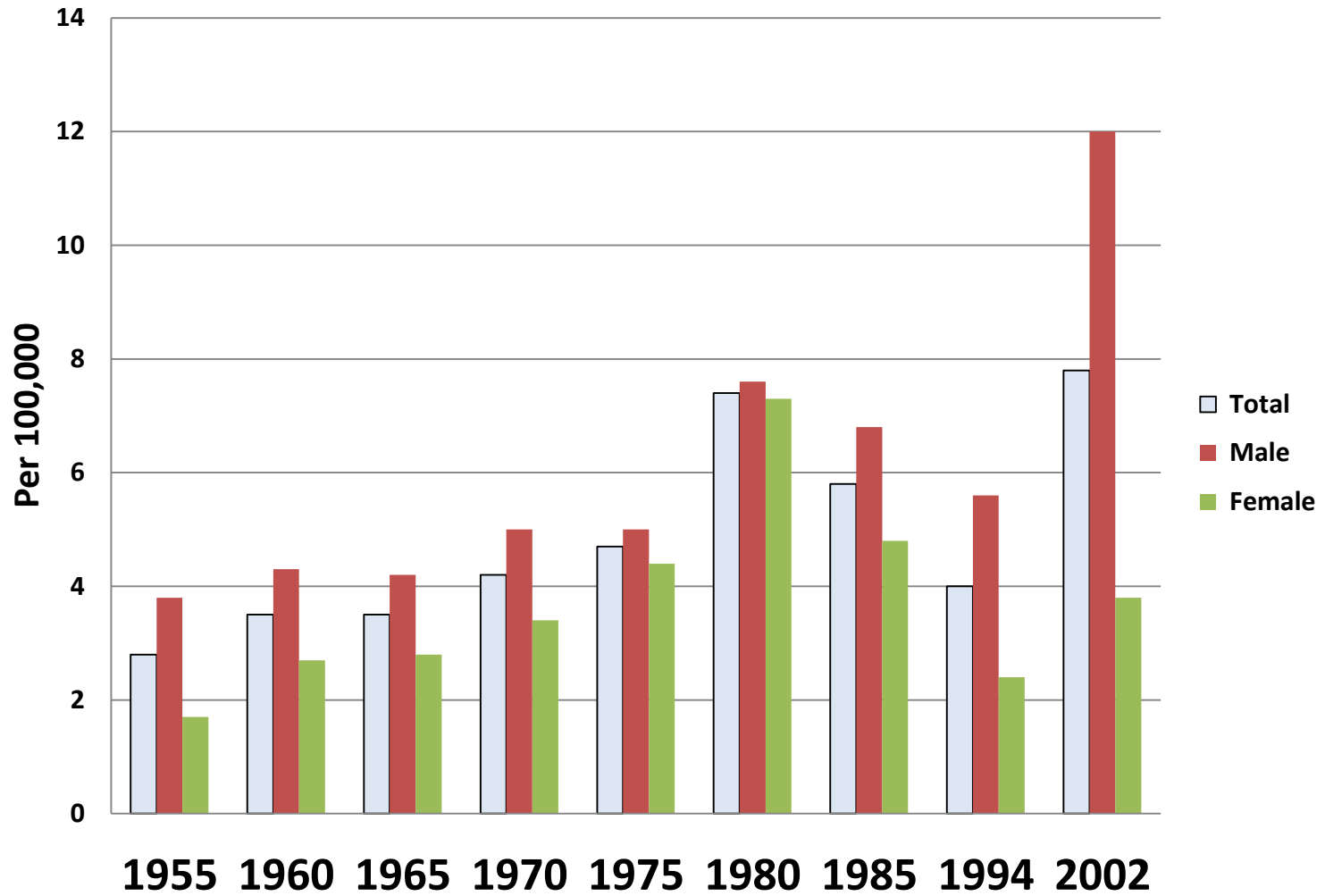
Control of Corruption



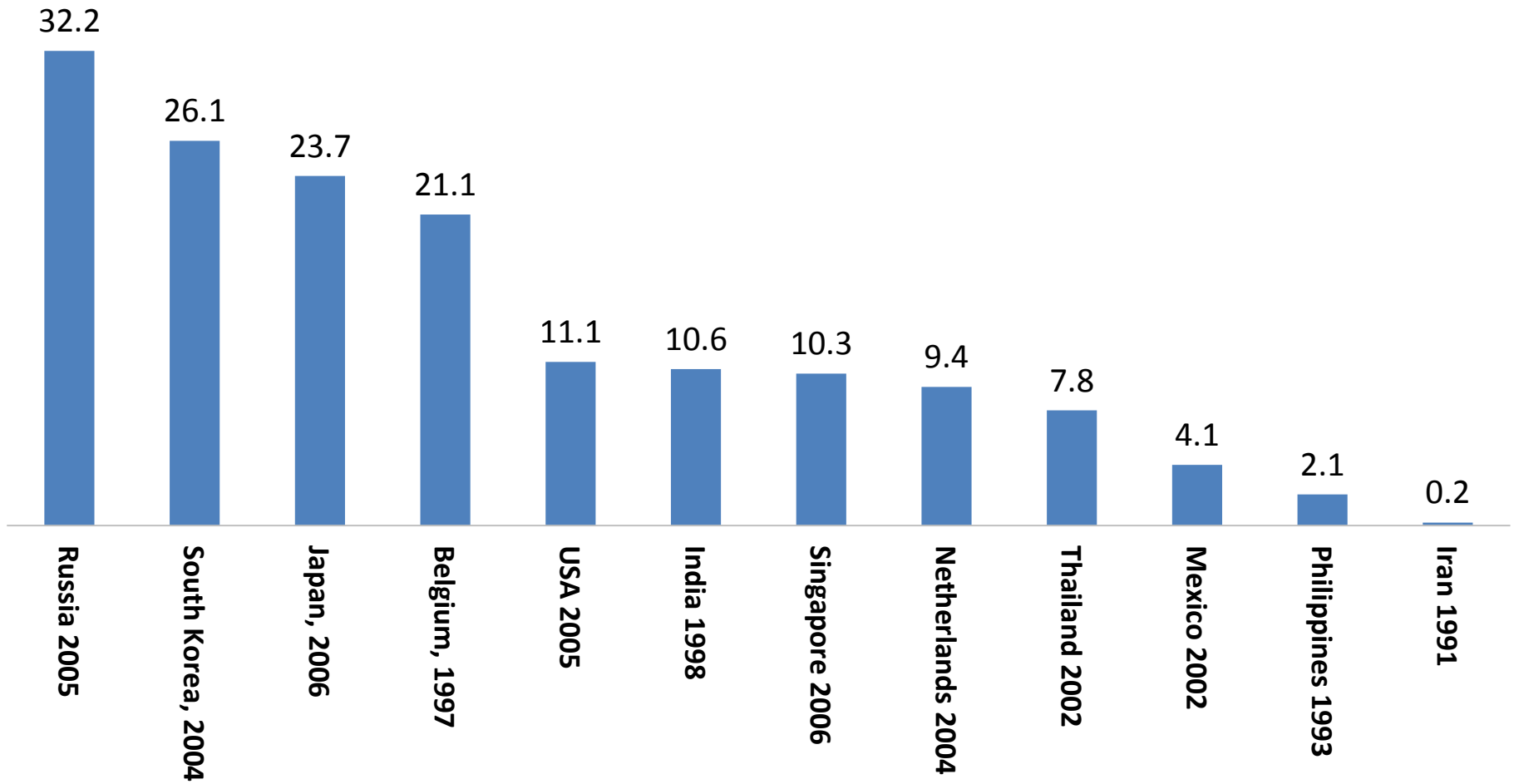
Can public policy make people happy?

- 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 (GNH) more superior than Gross National Product (GNP)?