Thammasat University
Bachelor of Economics

Growth and Inequality: Japan and Thailand cases 2022-2023

ECONOMICS OF SELECTED COUNTRIES
EE363
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Final Research Paper 2022

3405 words

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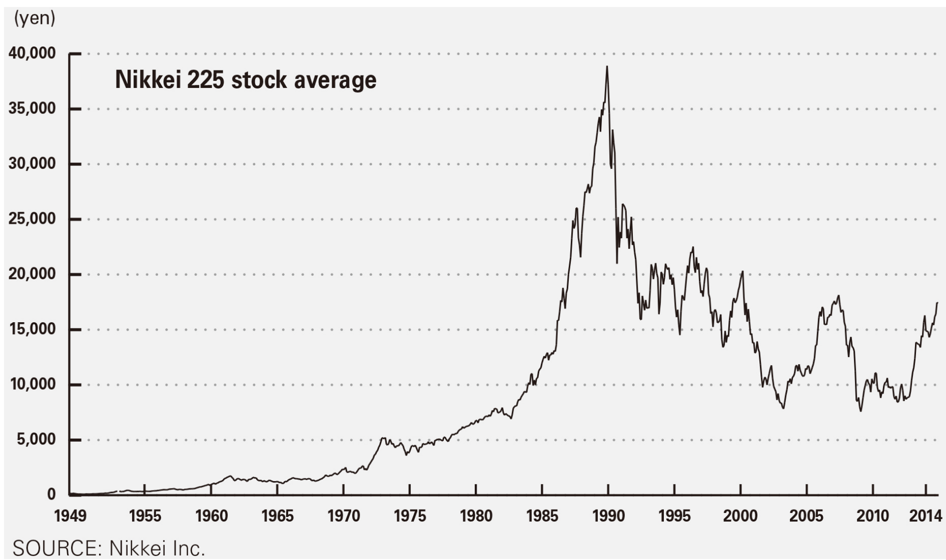
Introduction:

A country with a successful economy does not always come with just wealth. Matter of fact, Japan, one of the most successful countries (in terms of economic growth), has a debt of more than 10 trillion US dollars (O'Neill, 2022). To recover from such crises, such as World War 2, Global Financial Crisis (2007-2008) Financial Asian Crisis(1997-1998), borrowing must be made. The country's growth hasn't been created in just a few years but decades. Thailand, for instance, took more than 2 decades to have a stable economy. During those decades, there are ups and downs. Good and bad. Peaks and valleys. Nothing was a full guarantee that the economy would grow. However, what is guaranteed is that new policies were made. People do learn from their mistakes. Nevertheless, many countries left out the household in their equation, creating inequality. Inequality has been one of the most long-lasting issues in the world forever. Moreover, not many countries seem to be able to deal with the issue completely. Economic growth and political issues always interact with each other one way or another. Moreover, political issues, for instance, inequality, do not happen by themselves. It needed someone or something to trigger. Thus, this essay will be analyzing if growth and inequality have a positive, negative, or zero correlation. Japan and Thailand will be used as an example. Furthermore, to measure inequality, income distribution, education system, gender, wages, and poverty rate will be discussed.

Growth in Japan:

Since World War 2, Japan has been occupied by the Americans. The American occupation lasted for 7 years, from 1945 to 1952. During this period, Japan has been forced to change its traditional way of governing. General Douglas A. MacArthur, an American military leader, dissolved the formation of a large corporation known as zaibatsu. He also made Japan compensate for the damage it did to other countries, the Philippines, China, Indonesia, and East Asia (Larry A., 1991). As a result, diplomacy formed as well as laissez-faire. Furthermore, democracy strengthens. Women have the right to vote, police have less power, and citizens have free speech. Moreover, the Cold war and the Korean war also helped Japan regain its economy. These external factors increased the military demand which increased the overall economy of Japan. Japan has signed treaties with the US and many other countries as well. They also joined the World Bank as well as the United Nations (UN). However, after the US left Japan, the anti-monopoly law weakened and big companies started forming again. Nevertheless, it does not stop the economy from growing. In 1970, the rural area was overpopulated while the urban area was underpopulated. Inequality will be discussed in the next section. The Japanese government highly promoted factory workers, making workers in the agriculture go into industry for more than half, from 13.3 million to 6.7 million (Otsubo, 2007). The economy increased as well as the pollution. As an example, a famous disease called Minamata was caused by drinking or eating such toxic chemicals. Chisso was a big company producing chemicals and they were leaking their toxic chemicals into the rivers where people drink. This is one of many other pollutants that happened in Japan during the post-occupation. On the other hand, during the mid-1970, the Japanese economy rapidly Increased. Figure 1 illustrates the stock market in Japan. The graph shows the rapid increase in the stock market from 1980 onward. However, after 1990, Japan faced a rapid decline. The market declined for more than half of its peak.

Figure 1: Japanese stock exchange



Source: *Reiji Yoshida, 2015*

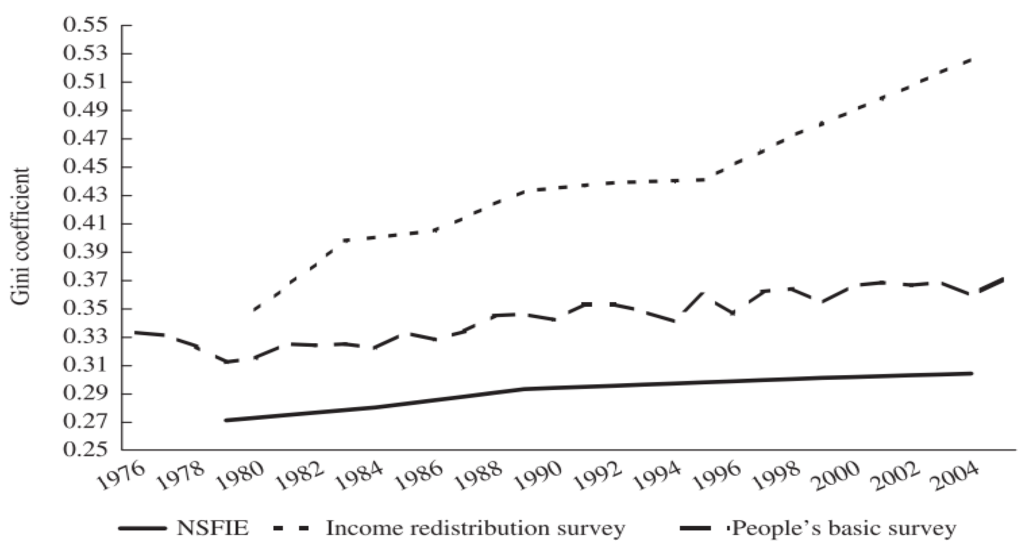
During its peak, people were way too optimistic about the market. Companies start expanding their businesses while banks start giving out more high loans. The government introduced the "convoy system". This system allows the Ministry of Finance(MOF) and the private firms to work closely with each other. It also guarantees a high profit in each industry and that banks would not fail, making the market have no risk and also lax management, not careful about maintaining bank purposes and its high standard. Afterward, Yen appreciated rapidly and the land price rose by 50%. As a result, the financial institutions created the bubble and as well burst the bubble. The economy slowed down around mid-1980 as shown in figure 1. Financial institutions and the Ministry of Finance can be blamed heavily for Japan's financial crisis (Hiromi, 1999).

After the financial crisis, the Japanese government planned its recovery by dissolving the convoy system. They shifted from their traditional Japanese market to a more laissez-faire. The government realized that the market needed to have its own risk and businesses should diversify on their own. Also, MOF should not intervene too much. During the bubble, people were pouring their money into non-performing loans(NPL). When the bubble burst, people were in debt that they couldn't afford to pay off. So, the government dissolved the NPL in 1992 (Otsubo, 2007). Afterward, the economy went sideways, until 2007 when the global financial crisis hit. The market equity declined by around 17%. However, according to Carnegie, Japan was one of the countries that got the least affected by the crisis. Japan's growth happened because of government intervention. However, the Japanese crisis also can be said that it happens because of government intervention. On the other hand, Japanese growth does not seem to only bring wealth to the country, but also inequality.

Inequality in Japan:

Japan has become one of the most successful countries in the world. However, they couldn't escape the inequality. To identify the level of inequality, gender, income distribution, and poverty will be discussed. Japanese macroeconomics is considered to be viewed as a successful economy, disregarding the view of individuals. From 1981 onward, during its economic peak, income inequality played a role. The income inequality rate rose for males, while it declined for women. However, working hours for women rose. As a result, earning inequality for women increased, creating gender inequality (Lise et al., 2014). In the mid-1980, the economy was increasing rapidly. With higher wages in the city, people started to migrate. People were optimistic about their economy and viewed the city as a land of opportunity.

Figure 2: Gini coefficient showing Income inequality



Source: *Ohtake, 2008*

However, during the rapid increase in income, the lower percentile couldn't increase by the same rate, which increased the gap between rich and poor people. The gap between society becomes higher. In addition, the Gini coefficient, as shown in figure 2, indicates the level of income inequality. The national survey of family income and expenditure(NSFIE) included a household with only two or more people. Income redistribution was conducted by the Ministry of health, labor, and welfare(MHLW). The line graph indicates the increase in income inequality. From 1990 to 2004, the economy was in a recession, the Gini coefficient still has an increasing trend. Moreover, in 1985, when the economy boomed, the Gini coefficient was also on the increasing trend. Does this mean that the economy and the Gini coefficient do not correlate, whatsoever? This question is somewhat complex since there are explanations for both of the scenarios. When the economic boom, the income for the lower percentile couldn't keep up with the increasing rate. On the other hand, when the economy burst, the money couldn't be equally distributed to those in the lower percentile. It is best to say that once the economy takes off, inequality occurs. However, the Gini index in Japan is way lower than the many other countries. However, although the graph showed an increasing trend, the Gini index in Japan is way lower than in the USA or Ukraine. Keep in mind that the graph does not put gender in the equation. During those periods, it is a traditional thing that males often go to work, while women stay home. Thus, the household income was likely to be a single-income household.

Figure 3: Employment rate since the age of 15

Sources*: Lise et al., 2014*

Moreover, figure 3 illustrates the employment rate by gender. Each line indicates the year given above. According to the graph, throughout the decades, Japanese people still stick to their traditional way of living. Women, at the age of around 25, usually get married and have a kid(s). Until they are 40, when their kid is now dependent, they go back to the workplace and work until they are around 65. Males started working at 15 and retired at 65. However, these traditional mindsets have changed nowadays. This mindset creates gender inequality. As a result, women are viewed as less necessary in the workplace than male. It is worth noting that the Japanese economy boomed during 1980. Male dominance in Japan is significantly a huge political issue. In 1985, there were around 15.48 million female workers in Japan, which is 36 percent of the Japanese economy (Cummings, 2018). Thus, the rest are male. Income inequality widens between males and women.

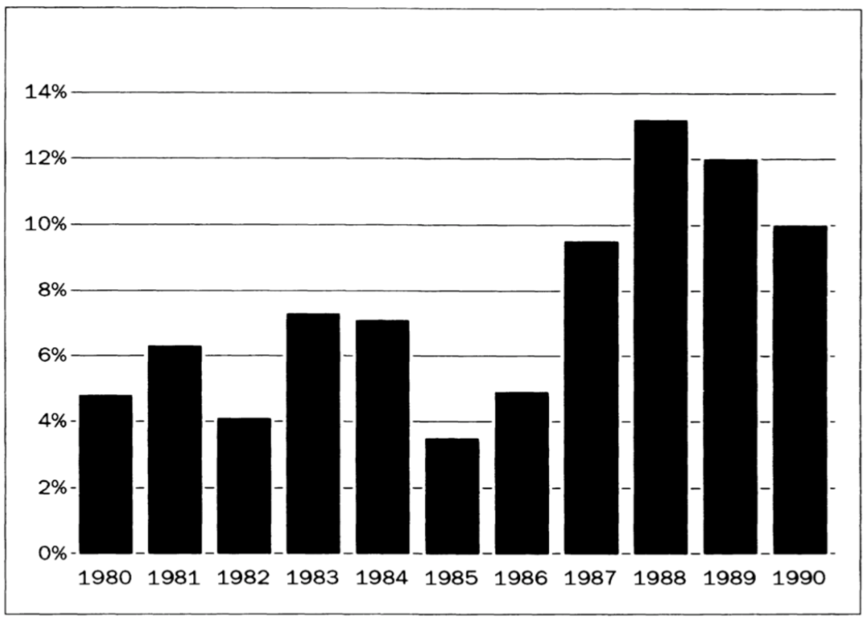
Poverty in Japan:

Another sector to take into consideration is the poverty line. During the rapid growth in Japan, economic growth is high, while the unemployment rate is low. Moreover, the income inequality rate is also lower than in other countries. However, there are still poor people. Matter of fact, the poverty rate in 1994 was 8.1% (Tachibanaki, 2006). This is considered to be quite low compared to other countries like the USA where the poverty rate in 1994 is 11.6%. However, in the second half of 1990, Japan's poverty rate increased to 15.3%, which ranked fifth in OECD. Thus, Inequality and growth have somewhat a positive correlation. As the economy rapidly increases, the poverty rate also increases. Income distribution for people in the lower percentile is not adjusted the same with those people in the higher income sector, creating income inequality which increases the poverty rate. It is worth to be noted that income inequality is just one of many other factors that affect the poverty rate. Therefore, we cannot 100 percent say that income inequality is a factor that drives the poverty rate.

Growth in Thailand:

After World War 2, Thailand is considered to be one of the poorest countries in the world and due to the high spending on the military by the Japanese, during the Japanese occupation from 1941 to 1945, Thailand faced hyperinflation. At the end of the war, the Thai government's aim wasn’t to increase the country's growth but to control the inflation rate. Thus, they succeeded in doing so, by implementing fiscal and monetary policy (Warr, 2018). In 1959, the inflation rate was stable, thus their next goal was to have economic growth. For 3 decades, Thailand has grown significantly by improving its relationship with foreign countries, which then increased its foreign direct investment(FDI). Thailand’s comparative advantage was its low-cost labor. Japan, as well as many other countries, sees this opportunity to lower their labor cost and decided to invest heavily in the Thai economy. This makes Thailand's economy even stronger. Not only did FDI increase, but also technology equipment increased. More and more technology got imported into Thailand. Thai people would also get training from foreigners, which also improved the education system in Thailand. From 1987 to 1996, some people considered Thailand the “fifth tiger”, which included Korea, Singapore, Taiwan, and Hong Kong. During this time, Thailand had an economic boom. The country’s GDP has increased by 13%. The bar chart, figure 4, below illustrates the real GDP growth in Thailand from 1980 to 1990. At this point, Thailand has become an export-oriented country. The country based itself highly on foreign countries. For instance, Japan. Japan during this time also suffered from Yen rapid appreciation. As a result, Japan changed its production from domestic to foreign, which is Thailand. Moreover, Japan was not the only country that realized that Thailand has a low labor cost. Furthermore, since the US started increasing its tariff on Japan, the country based its production in southeast Asia more.

Figure 4: Real GDP growth in Thailand



Sources: *Hussey, 1993*

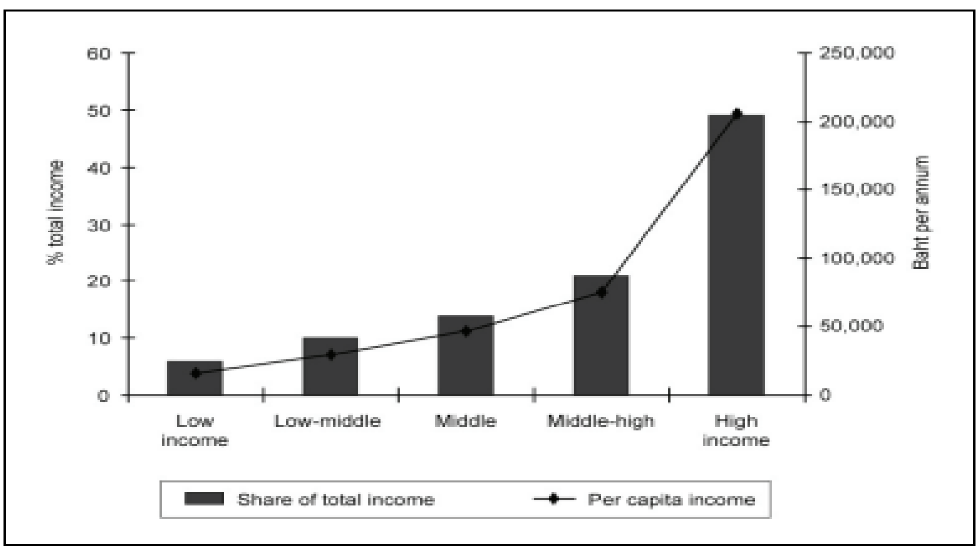
However, the rapid growth ended in 1997. The financial Asian crisis affected Thailand's economy significantly. Real GDP per person decreases from 13 percent to around 3.3 percent (Warr, 2018). The cause of the crisis was the mismanagement of exchange rates. Afterward, Thailand's economy did not fully recover but grew at a moderate rate. Not so long after, in 2007, the global financial crisis hit. Thailand got affected by a decrease in foreign direct investment(FDI) from the states. Thailand recovered from the crisis at a moderate rate. Nevertheless, the country did not recover from environmental degradation. Just like Japan, the main city in Thailand got overpopulated, which also caused the country to be faced with high levels of traffic. With the growth in the industrial sector, air pollution rose. Companies also used the Chao

Phraya River, Thailand’s largest river, as their waste disposal, which caused water pollution. On the other hand, during this economic boom, do households in Thailand receive the same welfare?

Inequality in Thailand:

Inequality in Thailand has always been visible. Matter of fact, Bangkok, the capital city of Thailand, can be visually seen. One side of the road has big buildings, while the other side has slum houses. The inequality between rural and urban areas is significant. This could be seen through the poverty, income distribution, and education system. These factors will be discussed in this section. To measure inequality, graphs will be used to help analyze. Income inequality in Thailand is considered to be one of the greatest issues the Thai government has to ever deal with. Matter of fact, Thailand is ranked as the fifth highest income inequality in the world, with the GINI index of 47.9 percent in 1992 (Ausap, 2020). Thailand faced high-income inequality during its economic growth, while the poverty rate decreased. In 1998, the average household income in Bangkok was 3.4 times higher than in the northeastern region (Motonishi, 2006). This shows the inequality between regions in Thailand. However, the poverty rate has a negative correlation with economic growth. The poverty rate seemed to decrease when the economy grew, from 33.8 percent in 1988 to 9 percent in 2008 (Kelly et al., 2011). However, does economic growth create income inequality?

Figure 5: Income distribution in Thailand by income level in 2008



Source: *NESDB, 2008*

Figure 5 illustrates the income distribution in Thailand. In 2008, households with high income would get most of the income, while the lower income group receives less.

Thus, the middle-income group receives less than the medium of the higher-income group but more than the low-income group. Moreover, many low-income groups are in the agricultural sector. This shows a shift in the economic sector, from the agrarian to the manufacturing sector. In early, 1990, the unemployment rate is low in rural areas and wages increased both in urban and rural areas. However, not long after, Thailand failed to do labor-intensive industrialization, which caused the income inequality to worse, especially between regions. Thailand has 5 regions: Bangkok, Central, Northeast, North, and South. Income inequality occurs between regions.

Table 1: Per capita income in each region

	1981	*1986*	*1988*	*1990*	*1992*	*1994*	*1996*	*1998*
Per Capita Household Income (Baht)								
Whole Kingdom	751	844	1,027	1,372	1,811	2,174	2,890	3,378
Region								
Greater Bangkok	1,422	1,829	2,251	3,257	4,691	4,975	6,879	7,806
Centre	852	954	1,082	1,457	1,817	2,358	2,954	3,500
North	700	796	919	1,242	1,420	1,789	2,362	2,736
Northeast	493	521	682	784	1,052	1,366	1,807	2,089
South	740	871	966	1,171	1,557	1,955	2,500	2,911
Areas								
Municipal Areas	1,451	1,751	1,801	2,307	3,337	3,656	4,944	
Sanitary Districts	787	980	1,129	1,451	2,011	2,370	3,502	
Villages	583	595	736	929	1,144	1,501	1,933	

Sources: *Yukio Ikemoto; Mine Uehara, 2000*

The capital city of Thailand, Bangkok, would be benefitted the most, compared to other regions. The household income in Bangkok, per capita in 1981, had almost 50 percent more than the Centre of Thailand, which ranked second with the highest per capita income (Table 1). From 1981 to 1998, household income per capita increased by around 4.5 fold in all regions. However, according to Table 1, the increase seems to be way higher in the greater Bangkok area than in any other region. This result in income inequality between the rural and urban areas. Moreover, municipal areas have a greater income per capita than villages and sanitary districts. This shows that many villages in Thailand had not received much attention, which causes income inequality. Keep in mind that the economic boom in Thailand occurs around this period. Income inequality between rural and urban areas increased as the economy grows.

Education system:

Thailand is also faced with education inequality. Not only was there a shortage of teachers, but also the school itself. Education inequality is hard to see in the Bangkok area. However, rural areas could be seen clearly. Many schools in rural areas don't have the average facility. Teachers need to work hard to make students perform well. Moreover, big schools in the city are more developed than small schools in the city. In 2012, big schools in the city improved at a rate of 21.3 percent, while the smaller schools in the city improved at only around 16.1 percent (Wittayasin, 2017). Furthermore, this education inequality affects upper-level education as well. The majority of Thais, around 1980, did not have any education. Matter of fact, they don't find the need to get an education. Only a percentage of 5 that finished secondary level education in Thailand (Barro and Lee, 1993). Moreover, people with higher degrees tend to get a higher income. This applies to Thailand as well. Household income with a secondary education degree received 1.7 times higher than household income with a primary education degree (Jeong, 1999). People with different degrees of education lead different amounts of income. As a result, income inequality occurred. Another factor to be considered is the health care system in Thailand. For decades, Thailand had faced a shortage of labor demand in the healthcare industry. There were not enough doctors or trained medical staff in the country, especially in rural areas. However, the ministry of public health saw the problem and invested more money into the medical sector. Thus, there were more trained primary staff and they were sent to rural areas. As a result, Thailand’s death rate from infectious diseases decreased (Nishiura et al., 2004).

Conclusion:

Japan’s economy is considered to be one of the most successful economies in the world. From being the poorest country to being the richest country of all time. Since World War 2, the US took over Japan. The US planned to recover the Japanese economy by reforming its old structure. This involved dissolving the zaibatsu as well as less intervention from the MOF. As a result, the market was more laissez-faire. However, after the US left Japan. Japan's big companies start taking over again. Moreover, the economy was at its fullest, in the late 1980s, and big companies with big factories started producing more products. With the overloaded amount of products, the environment is degraded. Moreover, people got badly affected by environmental degradation. Minamata, a disease caused by consuming toxic chemicals, was caused by a company called Chisso. They leaked the toxic chemicals into the river where people drink from it. The disease killed and harmed many Japanese. On the other side, the economy was doing well. However, not everyone benefited from this economy's rapid growth. Inequality in Japan also rose. Income inequality increased. As the

Japanese economy grew, the poverty rate also grew. Only the upper percentile receives the benefit. Male dominance was also huge during the economic boom. Japanese women would be expected to be housewives, while males go to work. As a result, gender inequality occurred. Another country to take into consideration is Thailand. Thailand also has become a country with potential growth. Many countries saw the low labor cost in Thailand, so they then invested heavily in Thailand. Foreign direct investment increased, which also comes with technology equipment. However, the nation couldn’t escape from the inequality. Inequality in Thailand can be seen through income distribution, poverty rate, and the education system. The gap between rich and poor, rural and urban areas, was huge, which can be seen in figure 7. What Japan and Thailand have in common is that they were once poor countries.

Moreover, Both countries are also faced with inequality. Income inequality and poverty seemed to have a positive correlation with Japanese growth. On the other hand, Thailand's growth seemed to have a negative correlation with the poverty rate, while having a positive correlation with income inequality. In conclusion, from my data analysis, During those two countries’ growth, Japan and Thailand, do have some sort of correlation with inequality, whether it is a positive or negative linkage. However, keep in mind that these are just 2 of 195 countries' growth and inequality cases.

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