EE 460: Thai Economy

Rethinking growth strategies

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Lecture 2

Five Main Themes

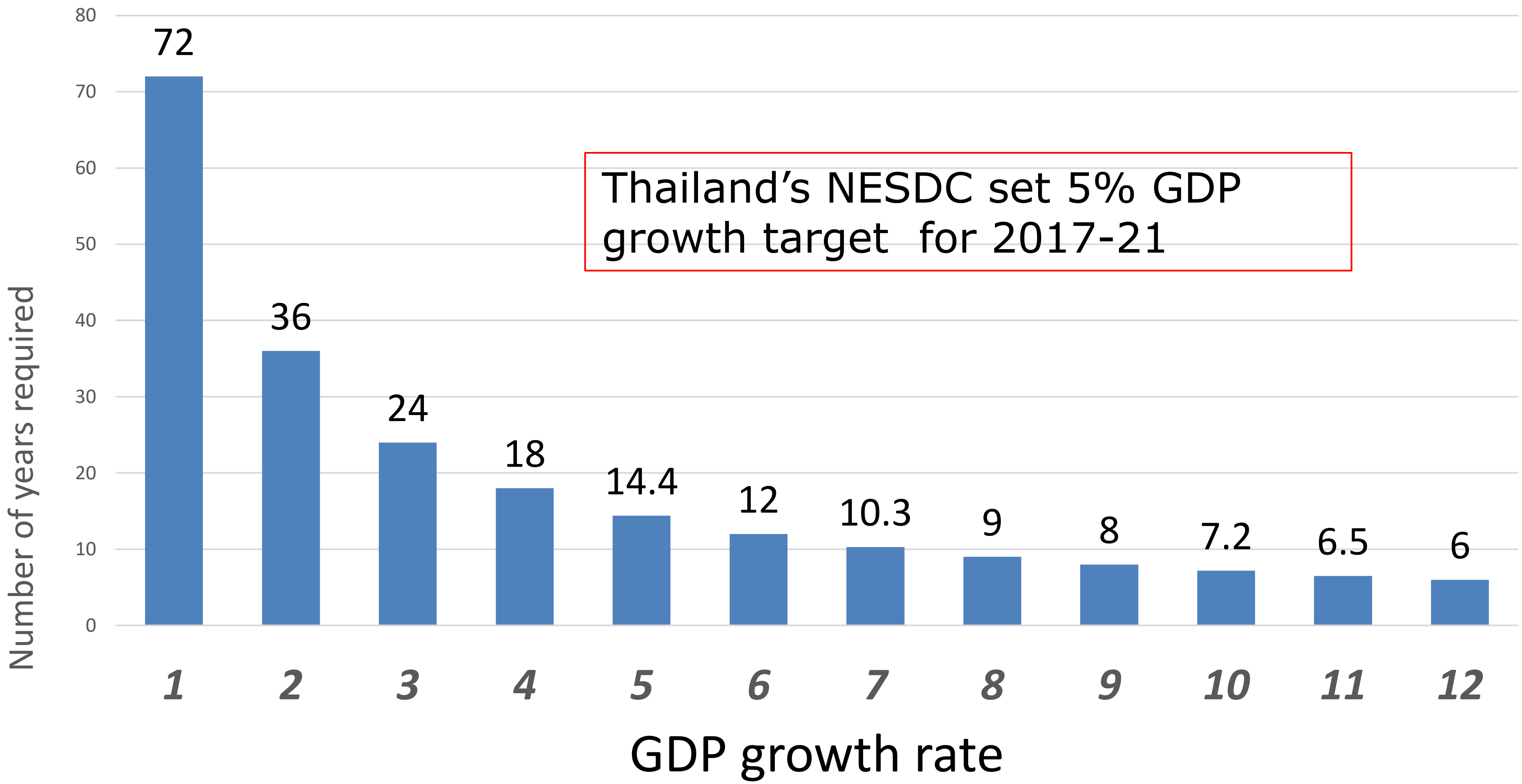
1. *Rethinking growth strategies*
2. *Early Economic Development Models*
3. Thailand’s economic development plans
4. *Sources of Happiness*
5. *Why Nations Fail*

1. Rethinking growth strategies

- Growth is a complex process of economic, social, and political transformation.
- New economic concepts were created to capture some of growth dimensions.
- Development *strategies* follow those new concepts in economic ***development theories***.

How many years would it take to *double* GDP?

The rule of 72/g



There's no such thing as an Economic Miracle

Most of the world's wealthiest and best-governed countries got there ***without*** super-rapid bursts of growth.

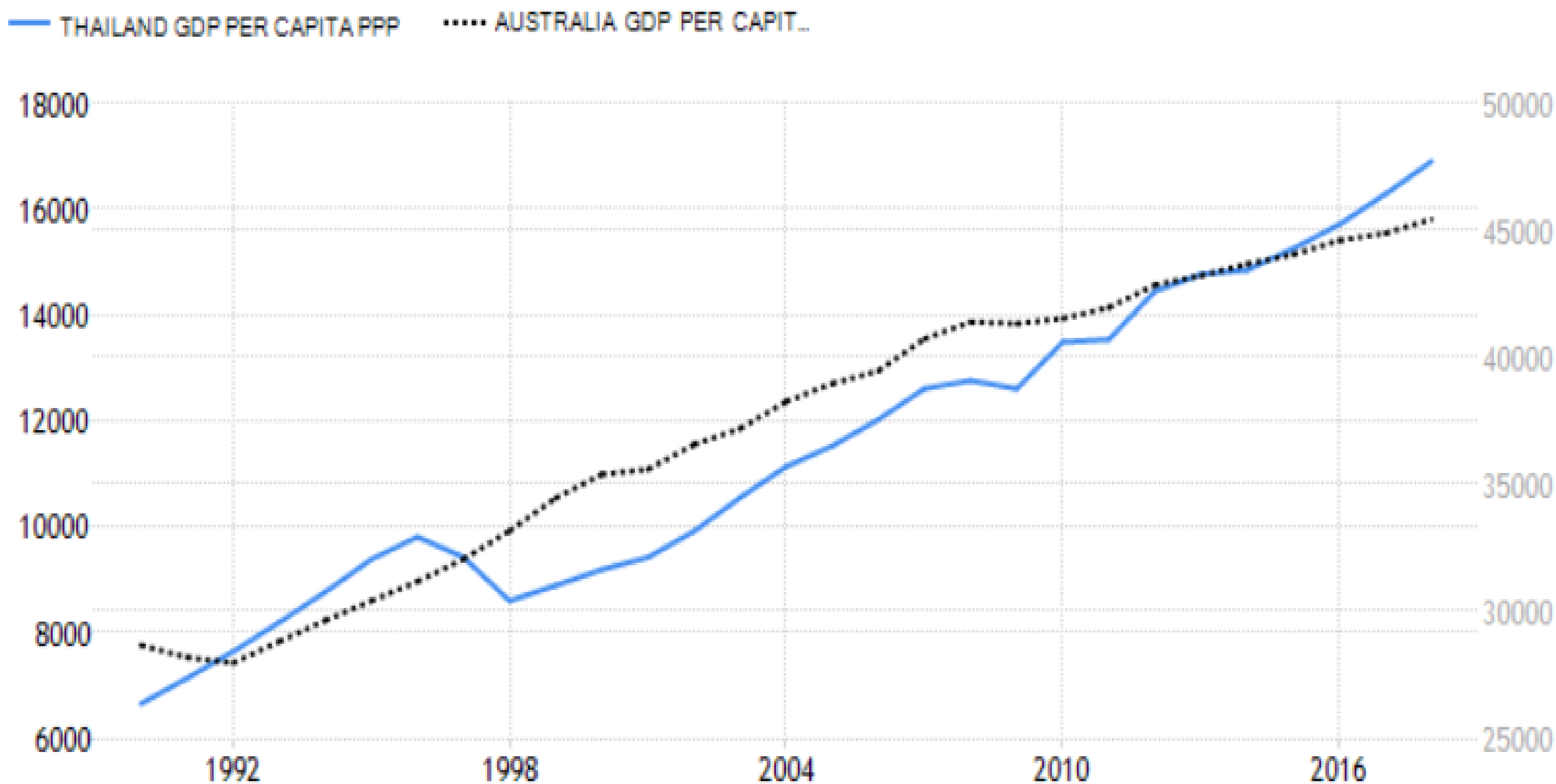
Denmark, which has a per capita income of $ 52,000 and is frequently ranked as one of the happiest countries in the world, never experienced what anyone would call an economic miracle.

Successful growers

Avoided downturns and *kept growth steady*

- Denmark’s overall economic record is gloriously boring. Per capita income grew 1.9 % per year from 1890 to 1916. Denmark had positive growth about 84 percent of the time and **no deep recessions**
- ***Australia experienced the last recession in 1991***

Avoided downturns and *kept growth steady*



The Middle Income Trap

- When will Thailand pass the threshold income level of $11,750 and become an advanced economy.
- The ‘middle-income trap’-- a situation in which countries that have attained a certain level of development find it *difficult* to make the leap required to become advanced economies.
- Asian Development Bank identifies 35 out of 52 middle-income countries - i.e., with a GDP per capita income of between $*2,000* and $*11,750* - as being in danger of falling into the middle-income trap category.

2. Early Development Theories

(1) Economic Backwardness

(2) Dual economy and the unlimited supply of labor

(3)The big push

(4)The stages of economic growth

(5) Dependency theory: Singer-Prebisch Hypothesis

(6) The flying geese

Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: Belknap Press of Harvard University Press, 1962. 456 pp.

- England, the locus of the Industrial Revolution, could advance with free market guidance along the lines of Adam Smith.
- France, beginning later, would **need greater intervention** to compensate for its limitations.
- In Germany, the key innovation would be the ***formation of large banks*** to provide access to needed capital for industrialization.
- Greater Russian **backwardness required a larger and more direct *state intervention*.**

(1) *Economic Backwardness*

- Economic backwardness must be overcome by the government intervention, which is a prerequisite for industrial growth.
- **State intervention** could, and did, compensate for the inadequate supplies of capital, skilled labor, entrepreneurship and technological capacity encountered by countries seeking to modernize.

How to deal with backwardness

(1) ***political reform and institutional innovation***, is a precondition for growth.

(2) The greater the degree of backwardness, the more intervention is required in the market economy to ***channel capital and entrepreneurial leadership*** to nascent industries. The country needs measures to reduce domestic consumption and raise savings

Gerschcenkron

The more backwardness, the more intervention is required

(3) **The more backward the country*, the less likely was the agricultural sector to provide a growing market to industry***, and the more dependent was ***industry upon growing productivity.***

4) Focus on capital goods rather than consumer goods

Apply capital-intensive rather than labor-intensive methods of production to create larger scale of production.

Arthur Lewis

(2) Dual economy and unlimited supplies of labor

- "Economic Development with ***Unlimited Supplies of Labor***." *Manchester School* 22 (May 1954): 139–191

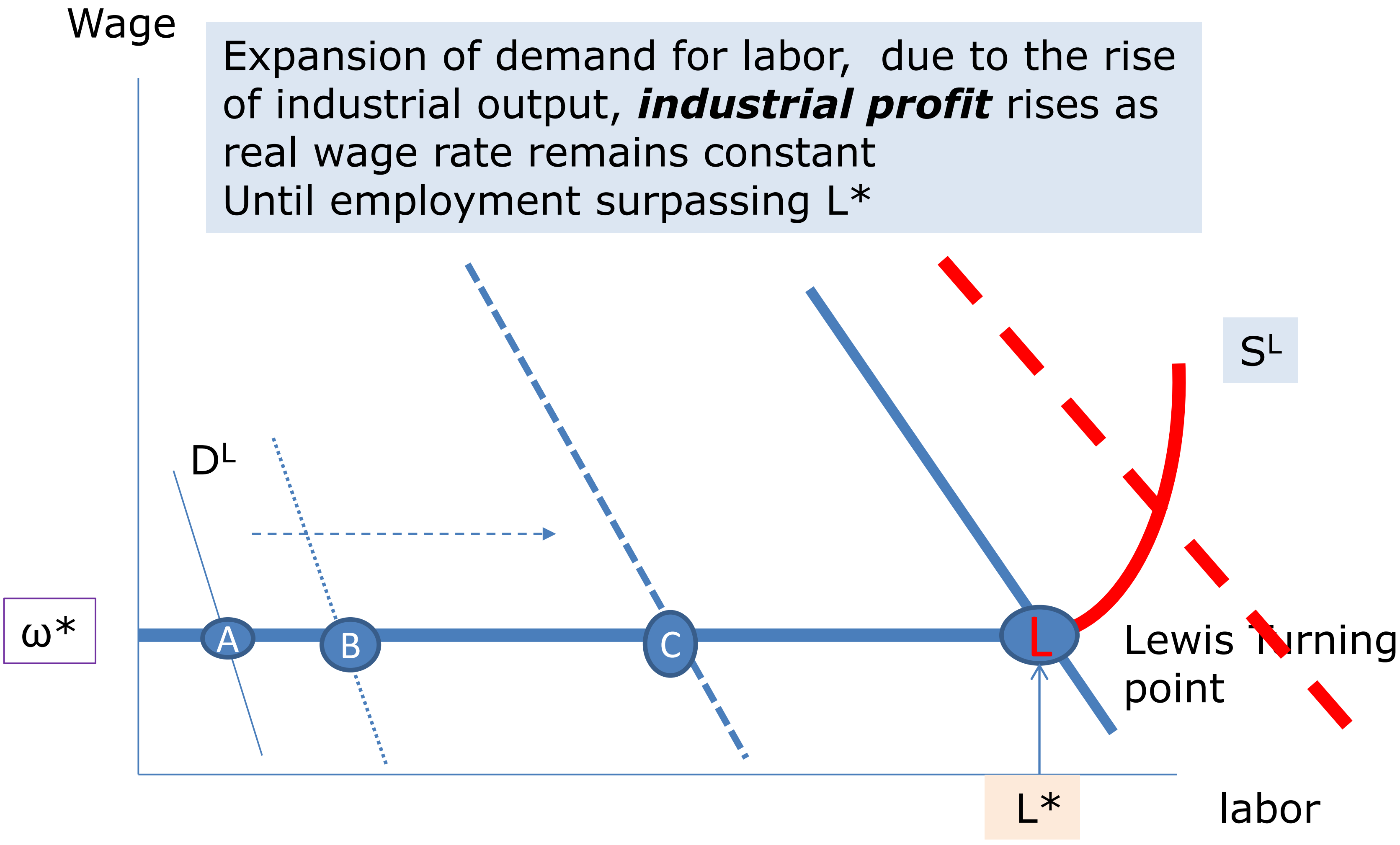
Arthur Lewis, a British citizen, was awarded the Nobel Prize in 1979 along with **Theodore Schultz** for "pioneering research into economic development ... with particular consideration of the problems of developing countries.

Lewis: 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.

Transforming agriculture to manufacturing

Expansion of demand for labor, due to the rise of industrial output, ***industrial profit*** rises as real wage rate remains constant
Until employment surpassing L*



Lewis' strategy: Transfer farm labor to manufacturing

- 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 (Cambodia) reached the Lewis turning point?*

Rosenstein-Rodan (1961)
(3) ***The Big Push Theory***

- A big push or a *comprehensive investment* package can bring economic development.
- A certain *minimum amount of resources* must be devoted for developmental programs.
- *Just like some fast ground speed is required for the aircraft to airborne,*
- Certain critical amount of resources must be allocated for development activities.

Rosenstein-Rodan (1961)
The Big Push Theory

- 'Bit by Bit' allocation cannot move an economy on the path of economic development,
- Rather a **specific amount of investment is considered necessary** for economic development.
- Establishing many mutually supporting industries, which depend upon each other, can create *economies of scale*.

(4) Dependency Theory
American Economic Review (1959)

INTERNATIONAL TRADE AND PAYMENTS IN AN ERA OF COEXISTENCE

COMMERCIAL POLICY IN THE UNDERDEVELOPED COUNTRIES

By RAÚL PREBISCH*
United Nations Economic Commission for Latin America

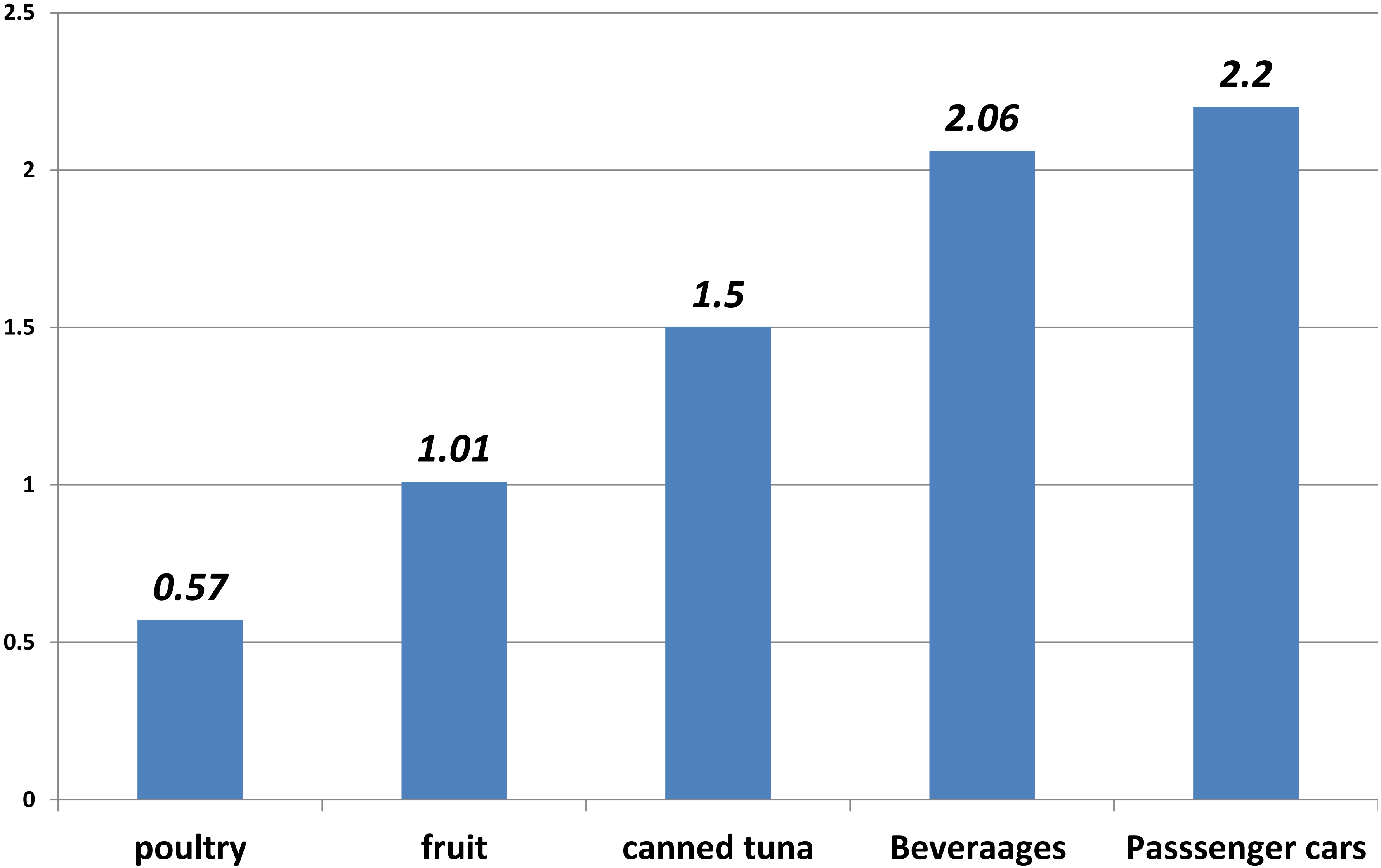
I. *Industrialization*

Historically, the spread of technical progress has been uneven, and this has contributed to the division of the world economy into industrial centers and peripheral countries engaged in primary production, with consequent differences in income growth. We are now at a transitional stage, in which this division is being gradually weakened, but it may take rather a long time to disappear. As the spread of technical progress into the periphery—limited originally to exports of primary commodities and related activities—is advancing more and more into other sectors, it brings with it the need for industrialization.

Prebisch-Singer thesis
Industrial centers vs. periphery

- The hypothesis focuses on ***terms of trade*** between primary products (raw materials and resources used in the productive process - metals, agricultural products) and manufactured goods.
- By examined data over a long period of time, Prebisch 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*.

World income elasticity of Demand for Thailand's exports (1995-2015)



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 changes and industrialization.
- Then came the idea of ***inward-looking strategy***.

(5) *The Stages of Economic Growth*.

Five stages of economic growth

1. *Traditional society*: lack of science, subsistence economy
2. *Preconditions for take-off*: surplus from agriculture, extractive industries and transportation develop
3. ***Take-off***: rise of manufacturing, rapid infrastructure development, new leaders wishing for changes

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

4. Drive to maturity

New technology and new industries, growth spread through out the country

5. High Mass Consumption

Third wave of industrial revolution, automation, and *welfare state*

Rostow, W.W. *The Stages of Economic Growth*.

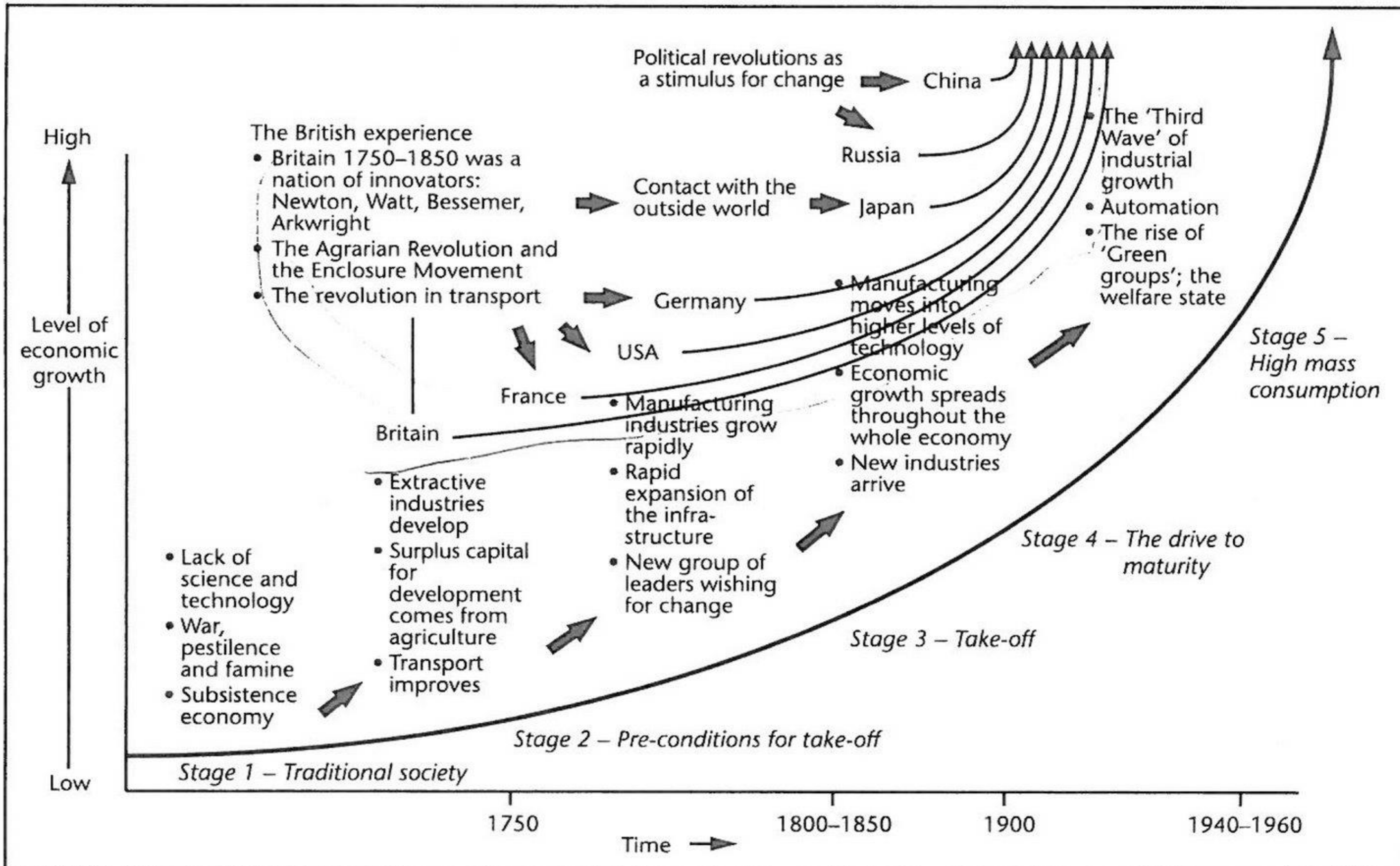


Fig. 15.3: Rostow's model of economic growth as applied to selected countries.

(6) Flying geese model

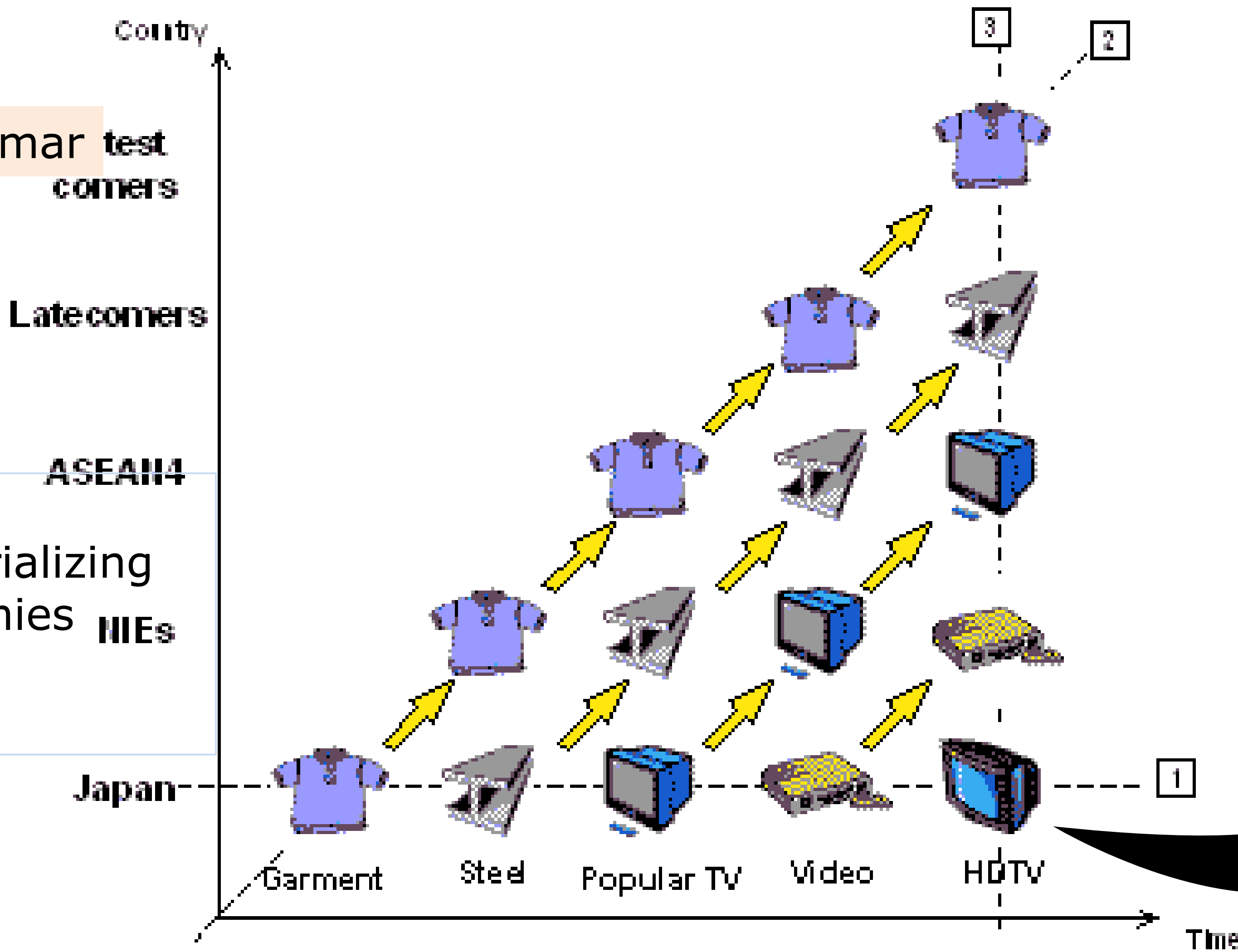
Asian nations will catch up with the West as a part of a regional hierarchy where the production of goods would ***continuously move from the more advanced countries to the less advanced ones trough FDI.***

Structural Transformation in East Asia

Myanmar

CLV

Newly Industrializing economies NIEs (NICs)



Smart phone EV

A HISTORICAL PATTERN OF ECONOMIC GROWTH IN DEVELOPING COUNTRIES

The Developing economies 1(1) 1962

Kaname Akamatsu

- Akamatsu provides a model for international division of labor in East Asia based on ***dynamic comparative advantage***.
- “The underdeveloped nations aligned successively behind the advanced industrial nations in the order of their different stages of growth in a wild-geese-flying pattern.”
- The hypothesis depicts 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.

Kaname Akamatsu

The metaphor of flying wild geese: driven by FDI

Sequential ***shifting of comparative advantage*** across economies, aided by factors such as

(1) foreign direct investment (***FDI***)

(2) structural change

(3) infrastructure development

(4) human capital accumulation, and

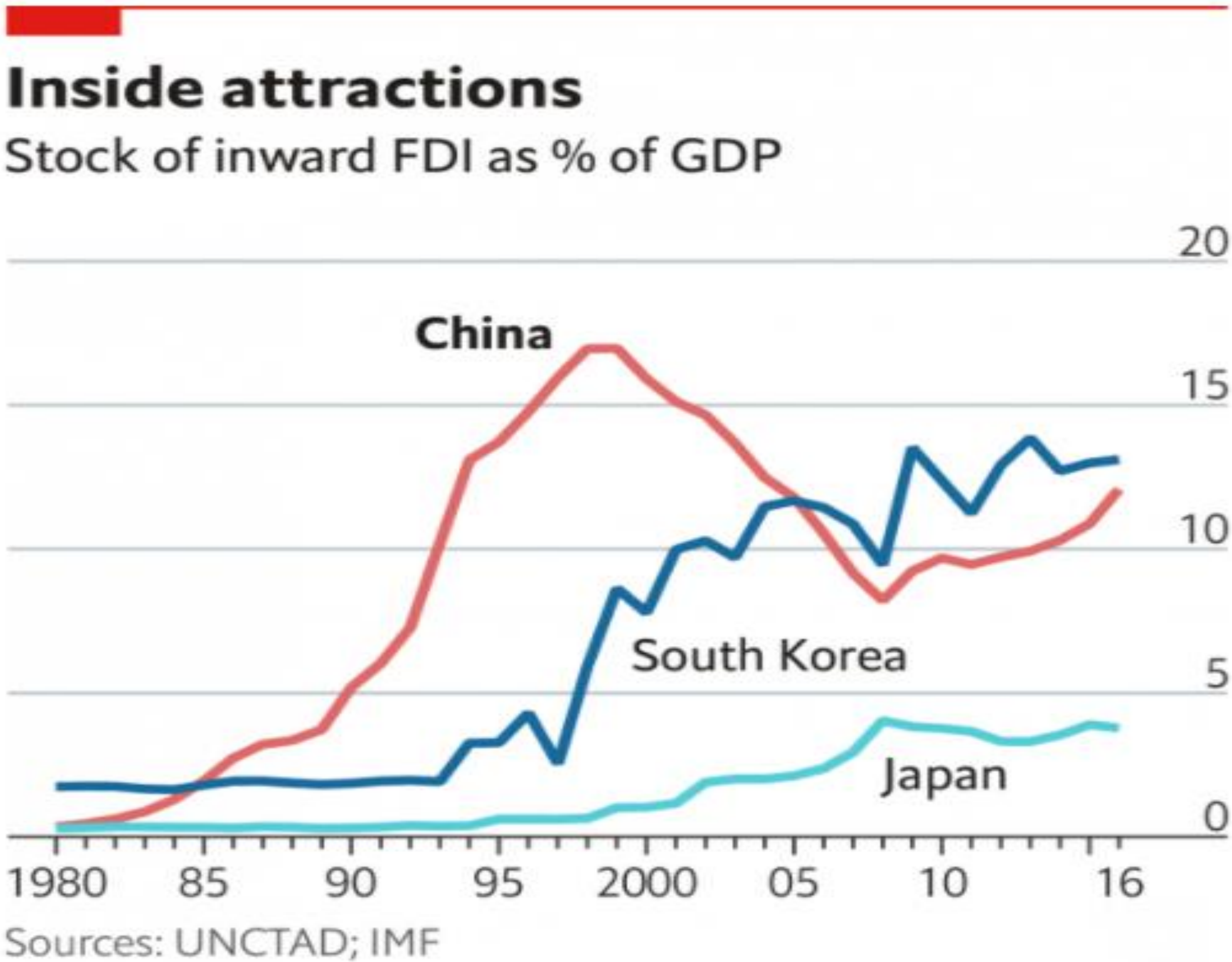
(5) industrial policy,

unleashed trade-fueled economic development.

The FDI-driven economy

"FDI-driven economy" is the phrase used by many economists, meaning that foreign direct investment is the major motive power for the economy.

To what extent can we describe Thailand as a FDI-driven economy?


Inside attractions
Stock of inward FDI as % of GDP
20
15
10
5
0
China
South Korea
Japan
1980
85
90
95
2000
05
10
16
Sources: UNCTAD; IMF

A Model of Asian Tigers

- Slow growth in the 19th century doesn't mean that the U.S. or Denmark were failures.
- It's hard for economies at or near the *technological frontier* to rapidly improve living standards, because invention is usually slower than playing ***catch-up by borrowing technologies*** from wealthier nations.

Characteristics of Asian Tigers

- **Borrowing of know-how, along with (1) export engine of growth, and rapid investments in (2) education and (3) infrastructure**
- The Asian tigers of Japan, South Korea, Taiwan, Hong Kong, Singapore and China to achieved growth rates of 8 percent to 10 percent a year in their earlier development stages.
- *Can Thailand succeed by following the Asian Tiger model?*

3. Thailand’s development plans

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***

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 in the 10th plan (2007-2011)

Sufficiency economy

Green growth

Sustainable development

The 11th National Economic and Social Development Plan (2012-2016)

- 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.

The 12th National Economic and Social Development Plan (2017-2022)

- Strengthen competitiveness
- Reduce income inequality
- Provide safety net for the ***ageing population***
- Infrastructure development and logistics
- Special economic zones
- Cooperation with neighboring countries for greater connectivity
- Development of technology and innovation by increasing ***R&D expenditures*** (Thailand 4.0 Model)

4. Sources of Happiness
Richard Layard
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.
- Giving 11.3 million Thais welfare smart cards

Sources of happiness

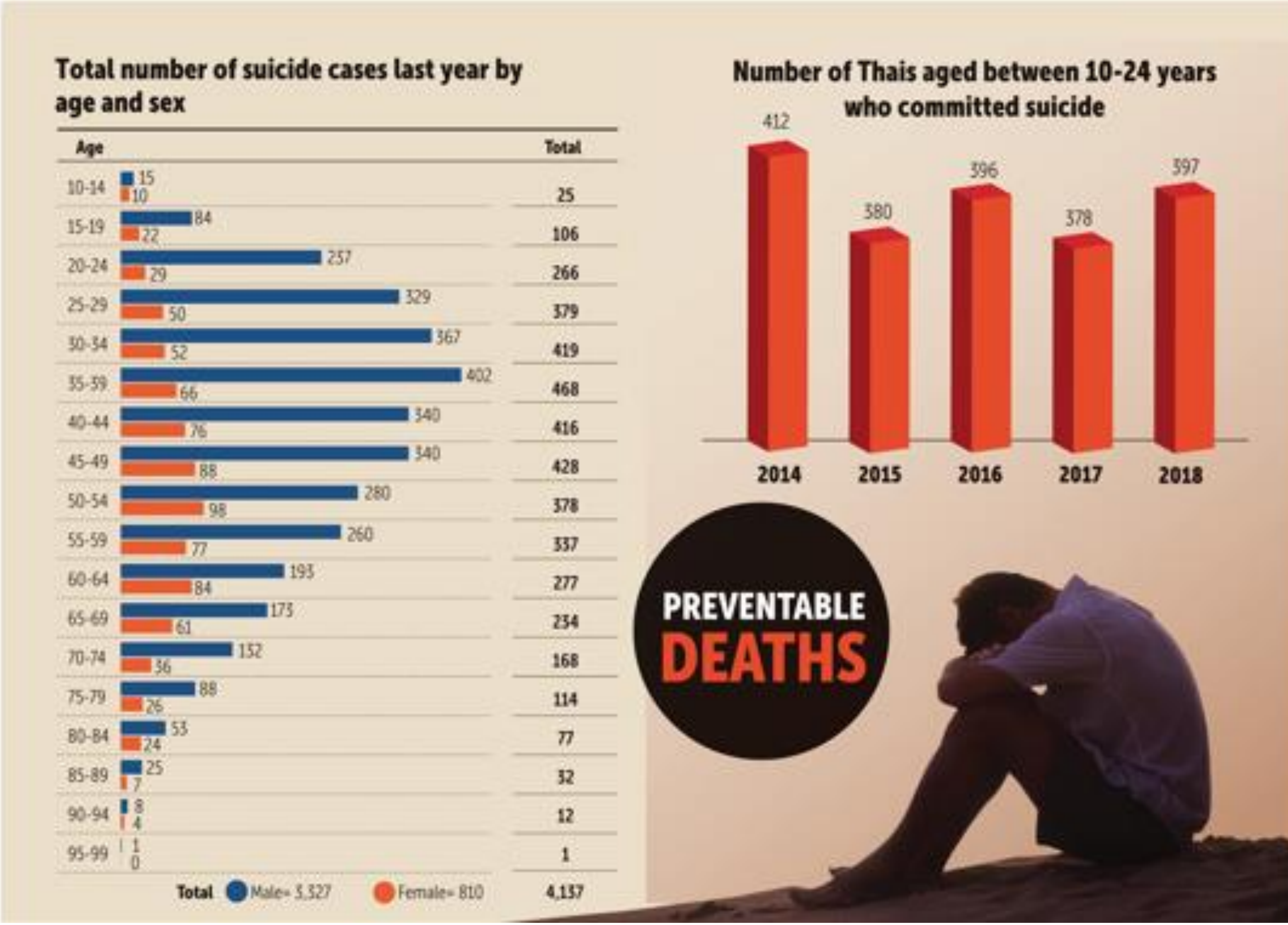
1. People who say that other people can be trusted.
2. People who belong to social organizations.
3. Low divorce rate (happy families)
4. Low unemployment rate
5. Religious belief
6. Quality of government

We are human beings: our nature

- We are programmed to seek happiness.
- Extra income increases happiness *less and less* as people get richer.
- 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.

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.


Total number of suicide cases last year by age and sex
Age
Total
10-14 15 10 25
15-19 84 22 106
20-24 237 29 266
25-29 329 50 379
30-34 367 52 419
35-39 402 66 468
40-44 340 76 416
45-49 340 88 428
50-54 280 98 378
55-59 260 77 337
60-64 193 84 277
65-69 173 61 234
70-74 132 36 168
75-79 88 26 114
80-84 53 24 77
85-89 25 7 32
90-94 8 4 12
95-99 1 0 1
Total Male= 3,327 Female= 810 4,137
Number of Thais aged between 10-24 years who committed suicide
412
380
396
378
397
2014
2015
2016
2017
2018
PREVENTABLE
DEATHS

According to the Department of Mental Health, people between 35 and 39 years have the highest rate of suicide with 11.3%, followed by 45-49 with 10.4% and 30-34/40-44 with 10.1% respectively.

The Northeast has the highest proportion of suicides with 31.2%, followed by 30.6% in the Central region, 25.4% in the North and 12.8% in the South.

The department also said that last year there were 397 suicides among adolescents or 3.03 per 100,000. Of the cases, 81.1% involved hanging, followed by 6.8% who consumed poisonous chemicals. There were three cases of jumping from buildings last year. Meanwhile, inhaling toxic fumes accounted for around four cases.

Nevertheless, the number of suicides in Thailand is regarded as "medium" by The World Health Organization (WHO), with 6.34 per 100,000 people per year, compared with a global average of 12 per 100,000.

The WHO found that the number of suicide cases has increased by 60% globally over the past 50 years.

One million people killed themselves around the world last year, while the number of attempted suicides was 20 million.

Varoth Chotpitayasunondh, spokesman for the Department of Mental Health, said the department is working hard to arrest this alarming global trend which most experts expect will only get worse.

Last year, there were 4,137 suicides in the country, 3,327 males and 810 females, an increase from the 3,934 cases recorded last year (3,175 males and 759 females).

5. 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***.
- Does it sound familiar for Thailand?

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.
- Securing property rights, an **objective system of law** (not subjective or double standards), and limited ***monopoly privileges***.

Examples of inclusive and extractive institutions

- England in the industrial revolution was an example of inclusive institutions
- The Glorious Revolution (1688): the king could exercise power only **with the consent of parliament** and made the government more responsive to a wider groups in society.
- Extractive societies of Soviet Russia and China which have experienced years of ***spectacular growth finally slowed 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

The Five Main Themes

1. Rethinking growth strategies
2. Early Economic Development Models
3. Thailand's economic development plans
4. Sources of Happiness
5. Why Nations Fail

Quiz yourself

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 highest contribution to the Thai economy. Provide evidence to support your arguments.

Quiz yourself

4. Can sufficient economy principle serve as immunization for a country under global growth slowdown?
5. Is the concept of Gross National Happiness (GNH) more superior to Gross National Product (GNP)?
6. Is there still any sign of economic backwardness in Thailand in 2019? Are we ready for Thailand 4.0 model of development? Is it a claptrap?