

Summary of Papers Presented at the 2008 TDRI Year-end Conference on “Sustaining Long-term Growth”*

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Tackling poverty and raising the quality of life of the people are Thailand's ultimate development goals. The Thailand Development Research Institute (TDRI) has been working continuously on various aspects related to these issues. For example, in 2007, TDRI organized the Year-end Conference on “Tackling Poverty: Liberalism, Populism, or the Welfare State.” An interesting conclusion from that conference was that, regardless of how poverty is tackled, a large fiscal budget would be required for implementing the task. If Thailand would like to become a welfare state like those belonging to the Organisation for Economic Co-operation and Development (OECD), it would need to allocate a budget of at least 440,000 million baht a year. As tackling poverty and raising the quality of life of its citizens are indeed expensive goals, sustaining long-term economic growth is necessary to ensure the availability of the financial resources required.

Thailand now faces a number of problems that undermine its future growth potential. The list includes an uncertain and volatile global economy, declining competitiveness of local industries, insufficient investment in human resources, inadequate infrastructure, deteriorating natural resources and ineffective economic institutions that impose high transaction costs on the country's economic and social systems. In keeping with the current global economic turmoil that is forcing many countries to re-evaluate their development policy, TDRI, in cooperation with the Chaipattana Foundation and the Office of the National Economic and Social Development Board (NESDB), organized the 2008 Year-end Conference on “Sustaining Long-term Growth” at the Ambassador City Hotel, Jomtien, Chon Buri, November 29-30, 2008. The main goal of the conference was to address fundamental economic problems that the country needs to tackle in order to ensure the sustainability of its economic growth in the long run.



FORMAT AND THEMES OF THE CONFERENCE

In the morning session of Saturday, November 29, the conference started with opening remarks by Mr. Kosit Panpiemras, TDRI Chairman of the Council of Trustees and the Board of Directors. This was followed by panel discussions on “Sustaining Long-term Growth” and on “What Governments Should Do and Not Do to Deal with the Global Financial Crisis.”

For the afternoon session, the conference was split into two group sessions: “Enhancing Competitiveness of Thai Industries for Sustainable Growth” and “How Can Thailand Cope with the Volatility of Global Energy Prices and Global Warming?” In the morning of Sunday, November 30, the conference was again split into two group sessions: “Human Capital and Sustainable Growth” and “Economic Institutions for Sustainable Economic Development.”

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The group sessions were divided up as follows:

1. Enhancing Competitiveness of Thai Industries for Sustainable Growth
2. How Can Thailand Cope with the Volatility of Global Energy Prices and Global Warming?
3. Human Capital and Sustainable Growth
4. Economic Institutions for Sustainable Economic Development.

PARTICIPANTS

The conference attracted about 500 participants from the public and private sectors, academia, including university students, and representatives of the general public, and the media.

Group 1

ENHANCING COMPETITIVENESS OF THAI INDUSTRIES FOR SUSTAINABLE GROWTH

The competitiveness of Thai industries is one of the key factors that promote sustainable growth. This theme explored the overall picture of Thai industries' competitiveness in comparison with that of other countries, and addressed relevant policy issues for enhancing competitiveness. These included infrastructure development, the role of financial and capital markets, and total factor productivity growth (TFPG). Six papers were discussed in this group.

1. The Competitiveness of Thailand: Economic Analysis from Competitiveness Reports

The competitiveness of nations was a topic receiving growing attention among businesspersons and policy makers worldwide. The paper drew on national competitiveness statistics published in the Global Competitiveness Reports of the World Economic Forum (WEF) and the World Competitiveness Yearbooks of the International Institute for Management Development (IMD). The data were used to evaluate the overall competitiveness of Thailand against the rest of the world and especially major countries in Asia. Subcomponents of the national competitiveness statistics were also used to evaluate Thailand's important strengths and weaknesses.

In terms of overall competitiveness, WEF ranked Thailand 34th out of 134 countries in 2008 and IMD ranked it 27th out of 55 countries in the same year. In view of those rankings, Thailand's competitive position was found to be at the middle tier among developed and emerging countries. However, when compared with a broader group of countries, Thailand's competitiveness position was in the top tier.

In relying on the subcomponents of the national competitiveness statistics, the paper identified the country's various strengths and weaknesses. The strengths of Thailand were its large market size, strong labor market conditions and good infrastructure system, while its weaknesses included its poor health-related factors, its level of technological readiness and that of its institutions. The current level of Thailand's national competitiveness could be promoted by: (1) improving institutions by applying the sufficiency economy philosophy; (2) constructing only necessary physical infrastructure and maintaining the existing physical infrastructure; (3) enhancing the physical infrastructure that was conducive to innovation and for promoting innovation readiness; (4) overcoming severe health-related problems, especially those related to the human immunodeficiency virus (HIV), malaria and tuberculosis; and (5) promoting the quality, reliability, and safety of Thai exports.

2. Enhancing Thai Industries' Competitiveness in the World of Globalization

For some decades, Thailand had been actively participating in multilateral trade negotiations. However, those negotiations had come to a halt, and many countries, including Thailand, had shifted their strategies toward bilateral and regional trade agreements instead. Thailand had entered into various bilateral agreements with Japan, China, India and Australia, and those were expected to bring about many advantages. However, the paper found that Thailand had not fully utilized the advantages of those agreements due to problems and limitations with different structures of duty rates and definitions of the rule of origin. That situation resulted in complicated and cost-adding procedures, distorted resource allocation, and introduced disadvantages for small entrepreneurs. In order for Thailand to utilize the benefits offered by those agreements and raise its competitiveness, the paper argued that the country should harmonize all custom duty structures into one structure, improve the infrastructure and the efficiency of services in public agencies, encourage good governance practices, support good competition policies, protect property rights, and promote information and communication technology (ICT) as well as innovation.

3. Economic Management for Competitiveness

Good economic management must follow the principles of development, as suggested by Amartya Sen. All individual and economic agents must be granted equal economic opportunities, political freedom, security protection, and social facilities, and they must operate under transparent management. The paper discussed economic management in three areas: macroeconomic management, risk management at the macro and micro levels, and the guarantee of equal economic opportunities.

With regard to macroeconomic management, it argued that both fiscal and monetary policies must share the objective of maintaining economic stability. Fiscal policy must adhere to transparency and discipline in both spending and revenue collection. Monetary policy must meet new challenges under an inflation-targeting framework; those challenges included exchange rate management, how to deal with supply-side inflation, and asset price inflation.

Because risk management had become increasingly important in the modern economic world, there must be sensible risk management at both the macro and micro levels. Only a couple of macro measures were discussed under that group: the strengthening of financial institutions in risk handling and the promotion of savings among big savers as well as those at risk of savings insufficiently. At the micro level, the paper found that it was urgent for the government to build institutional capability in identifying those eligible for assistance at a time of negative economic shocks and in mobilizing such assistance effectively. Without such institutional capability, risk mitigation measures would fail to reach the truly needy. Special attention must be given to the chronically poor and permanently vulnerable groups, such as the poor elderly, the disabled, and orphaned children.

The paper stated that equal economic opportunities were among the best guarantees for attaining sustainable growth through several channels. The first channel was through better allocation of human resources in realizing the potential of many more people. Better equality also would enable the government to collect more income and then spend it in building up economic and social infrastructure for further growth. On the social and political fronts, equality would help in reducing social conflicts and political abnormalities, such as the one Thailand was currently facing, which hindered economic development. Measures must be taken to reduce the injustice that came with inequality, not the inequality itself. Redistribution through fiscal policy was the best measure in economic management, but it must be accompanied by social and political measures, such as the promotion of broad participation in economic development and grass-roots democracy.

4. The Development of Infrastructure for Enhancing Thai Industries' Competitiveness

Because infrastructure was a fundamental factor for a country's economic development, the paper argued that good and sufficient infrastructure would enhance Thailand's competitiveness. In order to promote the country as a regional hub for production and logistics, the following were recommended for further infrastructure development. Thailand should (1) promote public transport and multimodal logistics; (2) improve and connect infrastructure between Thailand and neighboring countries (through mechanisms such as the east-west economic corridor, north-south economic

corridor, and southern corridor); (3) use renewable and alternative sources of energy instead of fossil fuel; (4) focus on demand-side rather than supply-side management (such as promoting energy-saving campaigns, improving the railway system and logistics, and supporting "green" industries); (5) encourage public-private partnerships in infrastructure investment in order to reduce the financial burden on the government and increase efficiency in management; (6) develop the business model of State-owned enterprises in order to increase management efficiency; (7) promote community participation by organizing public hearings to solicit ideas and comments for further infrastructure plans; (8) improve rules and regulations, and ensure that the management of the infrastructure system was in line with the rules and regulations of the free trade agreements to which Thailand was committed; and (9) support research and development (R&D) in developing the infrastructure system.

5. The Role of Financial and Capital Markets in Improving the Competitiveness of Thai Industries

The paper stated that financial and capital markets were important factors for improving the competitiveness of Thai industries. Their role in enhancing competitiveness included the following: such markets should (1) be a major mechanism in allocating the limited resources needed for developmental projects; (2) diversify risk in the economy and develop new financial tools which would help the public and private sectors to manage their risks more effectively; (3) improve the efficiency of government measures, especially monetary policy; (4) reduce the operational and fund-raising costs of the public and private sectors; and (5) enhance the practice of good governance.

The paper provided a number of guidelines to improve the efficiency of the financial system and bring about sustainable growth in Thailand: (1) costs incurred by adhering to rules and regulations should be reduced; (2) costs arising from existing non-performing loans should also be reduced; (3) competition among financial institutions should be encouraged by expanding the scope and types of financial activities; (4) easier access to micro finance should be provided; (5) those aspects of the financial system related to risk management should be restructured; (6) the credit bureau system should also be restructured to provide credible and sufficient information to banks before they approve loans and when considering risk management plans; (7) financial laws should be revised; (8) a savings system should be developed; and (9) the technological infrastructure should be improved in order to serve the establishment of electronic banking services.

For the capital market, the paper recognized the need to improve various items of the fundamental infrastructure in order to serve the needs of investors and fund raisers. It recommended that (1) the Stock

Exchange of Thailand (SET) be demutualized; (2) the capital market be liberalized and the financial activities of securities and asset management companies be expanded; (3) the regulatory system be reformed in order to facilitate the development of the capital market; (4) the tax system be improved to help develop the capital market; (5) laws that were obstacles to the operation of the capital market be revised; (6) the number of listed companies be increased; (7) the fixed income market be reformed; (8) the investor base for both individuals and institutions be expanded; (9) the rights and benefits of investors be protected; (10) new financial products be developed; and (11) venture capital, private equity, securitization, and necessary infrastructure, including an accounting system, good governance, and technology, also be developed.

6. Total Factor Productivity Growth of Thai Manufacturing Firms

Several factors contributed to a country's economic development, such as labor, capital and TFPG, according to the paper. In order to improve the competitiveness of Thai manufacturing firms, it was necessary to study which factors contributed to economic development. In overview, it was found that value-added output, which grew by 1.84 percent in 2003, was the result of three factors: capital growth (1.4%), TFPG (0.44%), and skilled labor growth (0.0024%). That finding was also in line with other studies which concluded that the growth of value-added output of Thai manufacturing firms resulted from capital growth and TFPG. In terms of manufacturing types, the productivity growth of 15 out of 22 types of manufacturing resulted from TFPG. Therefore, it was very important to improve TFPG in order to develop the competitiveness of Thai manufacturing firms.

Group 2

HOW CAN THAILAND COPE WITH THE VOLATILITY OF GLOBAL ENERGY PRICES AND GLOBAL WARMING?

Thailand had always relied on imported energy, according to the paper. Past trends showed that the domestic demand for energy would continue to climb incessantly, especially in the industrial and transport sectors. From an economic perspective, the country's dependence on imported energy posed an external risk factor to the stability of the domestic economy owing to the volatility of global energy prices. From an environmental perspective, energy consumption led to air pollution, which exacerbated the problem of global warming, which had become serious. In order to cope with such economic and environmental problems, all stakeholders and government authorities needed to cooperate in order to formulate appropriate and sustainable strategies.

Examined under that theme were issues concerning the development of alternative energy sources in line with the country's agricultural sector, as well as policy needs to address global warming issues, and Thailand's emissions of greenhouse gases (GHGs). Three papers were discussed under the group.

1. Alternative Energy and Policy on Reducing Global Warming

The main cause of the greenhouse effect or global warming was the use of fossil fuel as the major energy source for industrial development during the past two centuries. There were several ways to reduce carbon dioxide emissions which cause global warming, such as the use of nuclear fission, carbon dioxide capture and sequestration, hydrogen economy, energy efficiency, and renewable energy (including wind and solar energy, and biofuel). However, all those ways, except for energy efficiency, involved higher costs than the use of fossil fuel. Therefore, the paper recommended that energy efficiency should be promoted.

The energy plan for the next 50-100 years might be considered to be a plan for a very distant future, but it was still important for the government to develop an insightful vision for a long-term energy plan. Currently, the energy policy of developed countries focused on climate change, renewable energy, and energy efficiency. Thailand's policy had emphasized energy security: the government was concerned only about the impacts of energy prices on the economy and the cost of living. However, as energy prices had become more volatile, Thailand's energy policy also needed to be concerned about renewable energy and energy efficiency. Moreover, it needed to make a projection of energy consumption for the next 10 years and beyond.

The paper noted that Thailand's energy sector emitted the most GHG, accounting for 56 percent of all GHGs. It also projected that, under conditions in which the population kept growing, when GDP had reached 5 percent and there was no appropriate energy plan in place, GHG emissions from the energy sector would increase from 170 million tons per year currently to 234 million tons in 2011. Therefore, if Thailand increased the use of renewable energy in energy transformation industries, transport, and manufacturing from 0.5 percent to 8 percent of all energy used in 2011, as planned by the Ministry of Energy, GHG emissions would drop by about 16 percent.

The paper noted, in sum, that the most effective and the lowest cost strategy for reducing energy consumption and GHGs would be to reduce energy demand and promote energy efficiency at the end user stage. In 2012, the Kyoto Protocol would come to an end and there would be a new round of discussion soon after that to reinforce once again the commitment of all parties to reduce GHG emissions. That might also include revising the list of countries that would be required to comply with the Protocol, and Thailand

could possibly be included on the list as it had been emitting increasing amounts of GHGs in the past several years. Therefore, the paper stated that all stakeholders, both public and private agencies as well as the general public and communities, needed to cooperate in helping to reduce GHG emissions.

2. Situation and Strategy of Biofuel Development in Thailand

Biofuel was a renewable source of energy which could replace fossil fuel and help in reducing GHG emissions. Biofuel was used mainly in two sectors: transport, and energy transformation industries.

Two biofuels that were used in the transport sector were ethanol and biodiesel. With regard to ethanol, Thailand was competitive in terms of raw materials, such as sugar cane and cassava. With such abundant raw materials, Thailand could produce almost 10 million liters of ethanol per day, which corresponded to 50 percent of current benzene consumption. However, there was a problem with regard to the price structure for ethanol, as many licensed entrepreneurs could not set up plants and start operations. The benefits derived from the added value of molasses, which was used for producing ethanol, were not yet considered in the benefit apportionment system between sugar plant owners and sugar cane farmers. Accordingly, farmers would not benefit directly from increasing ethanol production. As for biodiesel, the paper noted that there was no problem with its price and production, but its competitiveness in terms of raw materials needed to be considered. Because the raw material for producing biodiesel was palm oil, palm plantations would have to be expanded if the government wanted to switch to the use of biodiesel as an energy source. There was concern that rice fields, forests and buffer zones would be replaced by palm plantations.

The paper found that, in energy transformation industries, most of the generators that used renewable energy to generate electricity in 2008, used biomass, solar energy, and biogas. Furthermore, it found that 80 percent of the biomass comprised bagasse and rice husks. Although the number of generators using renewable sources of energy had grown rapidly, the Ministry of Energy still overlooked those promising businesses and focused instead on nuclear fission.

The strategy for adopting the use of biofuel could be classified into three levels: national development strategy, policy and policy mechanism, and policy research.

In terms of the national development strategy, there were three strategies: (1) to reduce GHG emissions; (2) to reduce imported energy; and (3) to cope with the volatility of the global economy.

In respect of policy and the policy mechanisms, the following steps were recommended: (1) set up a core

center to coordinate the policies of all related agencies; (2) launch campaigns to encourage all sectors to participate in developing biofuel; (3) establish goals and policy mechanisms which were based on policy research; (4) reduce the monopoly on the energy market, especially that for biofuel; (5) strengthen the agricultural sector by establishing a fair structure for biofuel prices; and (6) mitigate the negative impacts on the environment and encourage communities to manage conflicts by themselves.

With regard to policy research, six guidelines were suggested: (1) set up an R&D system; (2) systematically collect and develop a knowledge base on biomass and its quality; (3) try to reduce the cost of biofuel by using R&D advances; (4) conduct R&D on the logistics system to produce an increasing supply of biofuel; (5) develop a knowledge base on the mutual benefits offered by biofuel development in order to set up an appropriate pricing system; (6) develop a knowledge base on biofuel based on local wisdom and explore an appropriate model for biofuel investment in local communities; and (7) improve the techniques and technologies for bio-energy plant production.

3. Rights and Responsibilities of Thailand Regarding Greenhouse Gas Emissions

A recent study showed that implementation of the production-based accounting rule, which adopted the "polluter pays" principle described in the Kyoto Protocol, caused the problem of carbon leakage. That was because some countries listed in Annex B of the Protocol tried to avoid paying by moving their production bases to non-Annex B countries that did not have to abide by that rule, which was a problem called "carbon offshoring." Furthermore, that rule caused other problems. For instance, it ignored GHGs emitted as a result of international transport and trading, and reduced the competitiveness of Annex B countries. The latter problem also led to another problem in that Annex B countries compensated their losses in competitiveness by setting up a new trade barrier to products from non-Annex B countries, a process called "border carbon adjustment."

Therefore, the use of firm ownership-based and consumption-based accounting was proposed instead. The first method would force investor countries to be responsible for their GHG emissions and thus solve the problem of carbon offshoring; however, it was recognized that it would be very difficult to acquire information on ownership as such investors normally used nominees to own the firm on their behalf. Unlike in the first method, consumption-based accounting would be the most appropriate principle for various reasons. For example, consumers who were the real polluters would pay the cost, which would solve the problems of both carbon leakage and carbon offshoring.

Group 3 HUMAN CAPITAL AND SUSTAINABLE GROWTH

Human capital was both fundamental to and the goal of sustainable economic development. On one hand, the country needed to provide good-quality basic education in order to facilitate the accumulation of skills required for employment. With sufficient basic education, workers could expect a reasonable income and be able to enhance their own productivity. On the other, the country needed to raise the quality of life of its people by providing social safety nets, such as affordable health services, unemployment insurance and pension plans for the elderly. Under that theme were discussed the economic returns from building human capital through education and the provision of various forms of social security that would raise the quality of life of workers and citizens. Six papers were presented under the group.

1. An Overview of the Quality of Labor in Thailand

In order to assess the quality of Thai labor, many criteria must be considered, such as knowledge, skills, attributes, productivity, and development. Overall, most Thai workers were educated at a low level (lower than high school) and their language and ICT skills were low. Sometimes, there were shortages in skilled labor. In terms of attributes, though there was no clear conclusion, problems existed such as a lack of good attitudes, enthusiasm, responsibility, discipline, and creativity. In sum, the quality of Thai labor was considered moderate.

To improve the quality of Thai labor, the following were proposed: (1) development of labor, including improvement of the quality of teachers and educational institutions, developing the necessary skills for workers at every level, both in public and private agencies, and enhancing their quality of life and health; (2) human resources development; (3) technology development; (4) investment adjustment, such as relocation and outsourcing; (5) labor management by promoting the private sector for making improvements in the quality of labor; and (6) adjustment of labor and population policies consisting of policies on incentives, alien workers, and circular migration.

2. Human Capital and the Economic Return from Education

In Thailand, the economic return on investing in education had proven worthwhile. Highly educated workers were better rewarded than low-skilled workers. In terms of individuals, the private rates of return from education ranged from 11 to 12.4 percent. During the past decade, that trend remained unchanged and, on average, the economic return from female workers was higher than that from male workers. In terms of social returns from education, the result was questionable as no

research in that field had been conducted in Thailand. However, if research results from abroad were examined, one interesting observation showed that the positive impacts that contributed to social benefits from education were relatively small. Thus, the social rates of return were almost the same as private ones. The average private rates of return in several countries ranged between 7 and 12 percent. The following were recommended as guidelines for investing in education.

(1) Basic education – The government had invested quite a large amount of resources in basic education, but its quality was still low because of inefficient management. The resources for education had not been effectively mobilized and there was an urgent need to use the budgets more efficiently. The quality of education did not reach the required standards, with the effect that students faced problems when they pursued higher education, a situation that also reduced the returns from education.

(2) Vocational education – The main problem with vocational education was that relatively few students were interested in that type of education, which resulted in a shortage of semi-skilled laborers. The reason was that the private rate of return from higher education was considerably higher than that from vocational education.

(3) Higher education (university degree) – The private rate of return from higher education was very high and it was believed that the social benefit was also high. Therefore, the government should create incentives for students to seek higher education. However, the government currently spent quite a large budget on higher education, so it might consider reducing that budget and letting students pay part of the cost. Another problem found in higher education was that universities could not produce graduates that served the needs of the Thai market. The government should urgently encourage universities to produce graduates in fields that lacked personnel with expertise and reduce the number of students in those areas with low market demand. The last problem was that promoting higher education would widen the income gap even further; the students who could access higher-level education were mainly from the privileged classes in society.

(4) Resource mobilization for education according to the National Education Act 1999 (revised in 2002) had not been fully implemented. For basic education, as the social benefits were higher than individual benefits, society should be responsible for the cost of education through the utilization of taxes for that purpose. In higher education, students should be responsible for covering some of the costs because individual benefits were quite high. However, the cost of tertiary education was high and it was a fact that society also benefited from it. Tax revenues should therefore be used for paying part of those costs, while the rest of the funds required should be provided by the university students themselves. It was recommended that, because

that resource allocation strategy was very interesting, it should be considered for implementation.

3. Competency of Labor and Competitiveness of Thai Industries

Thai industry was currently facing aggressive competition owing to the major economic, political, and social changes that were taking shape around the world. Major factors that would determine its strength in competing amid those changes were its technology, its human resources and their capabilities. Building such strength would require cooperation from all parties in the public, private, and educational sectors, thus paving the way for Thailand's further industrial development as well as that of its human resources, which would contribute to the country's development as a whole.

The most competitive industries in Thailand were those related to food and tourism. At the same time, however, many industries were not as competitive as they had been previously owing to their inability to effectively develop their human resources.

In developing the capability and competitiveness of the country's industries, technology development was a major determinant of the industries' success in terms of their four stages of development, namely acquisition, application, adaptation, and innovation. Overall, Thailand's core industries were competent in terms of the procurement of technology. However, an urgent need was the ability to understand and transfer that technology, as well as the ability to acquire it. With regard to technology application, another vital need was for development in the usage and management of machinery and the ability to transfer technology alone or with the help of outside parties. Besides, in adapting technology, development was needed in adapting and changing production methods and machinery, as well as products themselves. Finally, commercial innovation and new product patents were needed.

In terms of the capabilities of industrial workers, assessing the whole value chain of Thailand's industries revealed a shortage in both job categories and positions in value chains. Overall, the most common job categories found in value chains included those related to sales and marketing, R&D, and quality assurance. Apart from those aspects, some industries faced problems in designing products, such as those in the machinery, ceramic, and wooden furniture industry groups.

With regard to the strategies needed for the development of industrial technology and the capabilities of industrial workers, cooperation was required from the education sector and its participants: the Ministry of Education, universities, and vocational schools. Besides those, some strategies called for the cooperation of the public sector at the ministerial level as well as that of the private sector.

4. Social Capital and Human Capital Development

The principle of social capital was recognized by many international development organizations as a key factor in bringing about sustainable economic development. In the Thai context, social capital was considered to be important in creating a decent way of life, helping in the development of the country and in particular improving the quality of services and production processes in the economic sector. In addition, social capital contributed to lessening violence and to solving problems when economic and social conflicts arose.

As defined by NESDB, social capital referred to the social networks of individuals, institutions, cultural identities, and local wisdom, which was drawn from collective thinking and action based upon trust, positive relationships, and good culture. An assessment of social capital in Thailand at both the micro and macro levels had been made. At the micro level, the paper evaluated social capital by considering human capital, since humans were the main players who had a role to play in developing organizations and the country. The assessment revealed that Thailand had a moderate level of social capital; the strength of its social capital was that people tended to participate in social networks. Most Thais were kind, hospitable, lived together in harmony, participated in community development, joined activities for the public interest, and were public minded. However, a weakness of Thai social capital was that Thais tended not to be disciplined and to not follow rules and regulations. Moreover, they overspent, were materialistic, loved only fun and easy activities, and gave importance to nepotism and the patronage system. At the same time, there was a tendency for social conflict to increase. At the macro level, the assessment considered environmental factors that influenced the development of human resources, such as social institutions, cultural identity, and local wisdom. According to the assessment, social institutions in Thailand, including family, religion, educational institutions, private firms, and the media, had become weaker, which lessened the accumulation of human capital. Further, there were many factors that would have impacts on human and social capital, such as the advancement of technology and telecommunication, the relocation of labor, the post-knowledge base era, and urbanization. Therefore, two issues were currently challenging Thailand in the development of human and social capital.

First, there was a need for increasing social productivity, which could be achieved in the following ways: (1) establishing core values by combining social capital, human capital and local wisdom; (2) enhancing human capital by encouraging Thais to develop five types of public mindedness: a disciplined mind, a synthesizing mind, a creative mind, a respectful mind,

and an ethical mind; (3) strengthening the role of the family, community, religious institutions, and the media in developing human and social capital; and (4) supporting community networks throughout the country and encouraging communities to identify their market position based upon their own capital.

Second, there was a need to improve environmental factors in order to strengthen human capital so that people could eventually serve the needs of the market. Some rules, regulations, and bad aspects of the culture, such as the patronage system, were obstacles to the development of human and social capital; therefore, it was necessary to change them.

5. Health and Human Capital

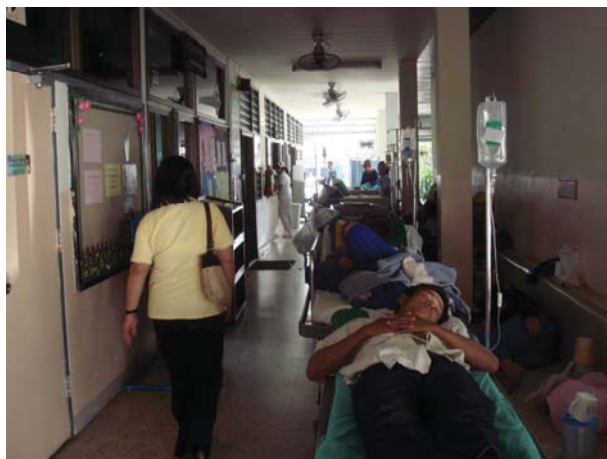
Investing in healthcare services was considered a means of enhancing human capital. However, a good health system was not only the means but also the ultimate goal of enhancing human capital. Healthcare services should therefore not be aimed at being successful in terms of cost containment or cost effectiveness, but rather at enabling people to attain good health and a good quality of life, which was a desirable entity in itself.

If good health was considered as a desirable entity in itself, the following myths or fallacy traps could be avoided:

(1) *The main goal of healthcare services was to contain costs at low levels.* It could be argued that, although keeping costs low was desirable, that should not be the main goal of healthcare services; otherwise, problems concerning quality would arise as would problems limiting access to such services.

(2) *As the rate of healthcare expenditure was growing faster than the growth rate of economic, healthcare coverage for all would create a financial burden for the government and thus lead to financial instability for the country.* It could be argued that several developing countries currently spent little for healthcare services as they lacked both human and financial resources. Therefore they could not provide good universal healthcare services. However, when a country had become developed and its financial status was better, the government and people would be likely to invest more in healthcare services.

(3) *A high expenditure on healthcare services would seriously affect a country's competitiveness.* It could be argued that a country's competitiveness depended on various factors. High expenditure on healthcare services, of course, could increase labor costs, but labor costs were not a decisive factor in terms of competitiveness. Many countries had higher labor costs than Thailand, but could still compete very well in the global economy. Moreover, high investments in healthcare services might increase productivity as workers would have better health.



(4) *Most people believed that the real cost of healthcare services was significantly higher than what the government was expending. Thus, they believed that the government should not spend more on healthcare as that would increase its financial burden and lead to financial instability or fiscal failure.* It could be argued that the tendency was to consider only the limit or ceiling of government expenditures, and to overlook the fact that the government had power over people and could collect taxes to cover its expenditures. Thus, although limited budgets posed a problem for certain governments at various periods, that problem could not be an absolute limitation lasting as long as the society existed. Nonetheless, it was not that easy for the government to increase taxes in order to invest more in healthcare services because most people might not be willing to pay higher taxes and they also did not believe in the quality of the healthcare services. Some people thus preferred to save their money for private healthcare services. In sum, if Thailand would like to become a social democratic state or social welfare state like many in Europe, citizens would have to come to a consensus on paying higher taxes to enable the improvement of public healthcare services.

6. Decent Work

According to the International Labour Organisation (ILO), “decent work” could be defined as work which summed up the aspirations of people in their working lives – their aspirations for opportunity and income; rights, voice and recognition; family stability and personal development; and fairness and gender equality. ILO had set up four guidelines for country members to promote decent work: (1) promote and realize standards and fundamental principles and rights at work; (2) create greater opportunities for women and men to secure decent employment and income; (3) enhance the coverage and effectiveness of social protection for everyone; and (4) strengthen tripartism and social dialogue.

The economic achievements of the past decades had assisted in the development of the labor market. Although the market mechanism had produced decent work for a number of Thai workers, there were still people employed in non-decent jobs and those who could not gain access to decent work. The following were obstacles to the promotion of decent work in Thailand:

(1) Thailand did not follow international labor standards as it had not ratified three conventions: the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); the Right to Organise and Collective Bargaining Convention, 1949 (No. 98); and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111).

(2) Thailand did not promote freedom of association, the right to collective bargaining, and tripartite consultation, perhaps because employers and employer groups had stronger bargaining power with the government.

(3) The child labor problem. Following enforcement of the Labour Protection Act 1998, which prevented employers from hiring children under 15 years of age to work, and the National Education Act 1999, which extended compulsory education from six to nine years (students would finish their compulsory education at the age of 14-15 years), the number of child labor incidents decreased. The two acts were aimed at protecting children of any nationality living in Thailand. In practice, however, the child labor laws were not enforced effectively with regard to children from neighboring countries.

(4) Discrimination against alien workers. Although the Labour Protection Act 1998 did not allow any form of discrimination because of sex, age, religion and nationality, discrimination was practiced against alien workers, especially unregistered ones.

(5) Ineffective enforcement of the minimum wage. Although Thailand had passed laws on minimum wages starting in 1972, a survey undertaken in 2007 found that about 3 million workers in the private sector (or 20% of all workers in the private sector) were paid less than the minimum wages required by law. Moreover, the Labour Protection Act 1998 exempted employers from complying with minimum wage requirements for seasonal workers in the agricultural sector and for freelancers. That exemption also contradicted the ILO convention on discrimination.

(6) Unfair remuneration. The adjustment of minimum wages was not in line with the inflation rate so that real minimum wages actually decreased. Moreover, the income gap between workers with different levels of education had become wider.

(7) Time for family. In the third quarter of 2007, it was found that most unskilled workers in the private sector worked for more than 48 hours a week so that they had less time to spend with their families.

(8) Insufficient social protection. Many workers still did not receive sufficient social protection. In 2006,

it was found that only 8.5 million workers out of 10.3 million in the private sector were registered for social insurance. Most of the unregistered workers were in small firms that employed fewer than 10 workers, freelancers, and subcontractors.

Group 4 ECONOMIC INSTITUTIONS FOR SUSTAINABLE ECONOMIC DEVELOPMENT

Economic institutions referred to rules and regulations governing an economic system which included laws, regulations of private enterprises, and norms. Such rules and regulations ensured the proper behavior of economic agents. For example, effective rules and regulations could motivate people to cooperate rather than take advantage of one another. Therefore, the quality of economic institutions had a direct impact on sustainability and economic development. A clear, transparent, and effective economic institution would reduce the transaction costs in an economic system and facilitate cooperation among agents. That theme looked at key economic institutions that had a major influence on broad economic activities, in particular policy coordination among government agencies, the effectiveness of the legal system and the implementation of rules by regulatory agencies. Four papers were discussed under the group.

1. The Thai Government and Thailand's Uneven Economic Development

Thailand's loss of comparative advantage in labor-intensive manufactured goods was reflected in the 1997 financial crisis and had become increasingly visible in the past few years. Therefore, Thailand needed to improve its productivity and competitiveness if it was to avoid being stuck in a middle-income level trap, as had happened for several decades in many Latin American countries. The emphasis was on the need for progress in skills and knowledge, areas in which Thailand had continued to decline relative to competitors such as China, and Vietnam. It had also failed in the creation of technologically competent indigenous final producers and suppliers. Put differently, Thailand had not done well at upgrading – at moving into higher value-added products, at high levels of efficiency, with local inputs. Indeed, Thailand conformed to what had been labeled as “technology-less industrialization.”

Puzzlingly, Thailand was facing those problems even though two sets of conditions – rising labor costs and access to foreign technology – should facilitate the growth of such capacities. When other East Asian countries, such as South Korea, experienced increases in real wages and losses of comparative advantage in simple, labor-intensive activities, they invested heavily in public education and other forms of human resources

development. At a similar stage of growth, Thailand had not made such investments, nor had Thailand's participation in global value chains resulted in the expansion of local capacities. A recent joint study by NESDB and the World Bank had concluded that foreign investment in Thailand had "transferred amazingly little tacit knowledge and technology through vertical or horizontal spillovers." Another puzzle about Thailand was that it had succeeded brilliantly in transforming itself from a quasi-mono-crop economy to a world leader in products ranging from rice to rubber, sugar, prawns, tourism, automobile assembly, and garments.

The question of why Thailand had been able to diversify so well but had lagged behind in upgrading its economy could possibly be explained as follows. First, upgrading posed different and more difficult challenges than those required for diversification. It involved the ongoing process of "mutual discovery" and "strategic collaboration" on the part of the government and private actors. Second, overcoming the challenges of upgrading required significant institutional capacities in areas such as monitoring and consultation. Finally, such capacities could not simply develop as the natural response to changing market conditions. They required the response of political pressures on leaders and opportunities for leaders to act.

Therefore, it was believed that Thailand's future economic growth would stem from an assessment of those pressures and opportunities. In the past, problems such as market slumps, foreign exchange shortages, external security threats, and popular pressures prompted Thai leaders to undertake institutional reforms. Today, however, three sets of factors made such a constructive response less likely than in the past: (1) the changes required for upgrading were in many ways more difficult than those involved in identifying and promoting new sectors; (2) the capacity of Thai leaders to promote such reforms was not forthcoming owing to the country's fragmented politics; and (3) the willingness of Thai leaders to expend political capital in undertaking reforms was limited because pressures on them to do so were only moderate as well as fragmented. In sum, the failure of the Thai industrialization process to upgrade itself mattered because that failure might well pose economic and political constraints on Thailand's future development.

In that regard, four economic concerns were noted. First, research had demonstrated that sectoral diversification constituted the key force for national growth up to a certain income level, past which growth occurred through greater concentration, involving domestic linkages and agglomerations. Second, a combination of reliance on foreign technology without local linkages and low innovation in agriculture promoted capital-intensive manufacturing and failed to absorb rural populations. Third, the persistence of low productivity in agriculture and weak labor absorption in industry contributed to inequality which in turn discouraged growth. Finally, the lack of a "dense set of

input-output linkage between sectors" limited the expansion of domestic demand and thus increased vulnerability to export volatility.

2. Thai Laws and Economic Efficiency: A Case Study of the Criminal System

The Thai criminal system faced many problems in its structure, direction, cooperation among agencies, and delayed processes. That was partly due to the problems in human resources management and the incentive system. Therefore, it was proposed to apply economic methods to analyze the criminal system to come up with recommendations for its further revision from a new perspective. Problems in the Thai criminal system included the following:

(1) The law and justice systems in Thailand relied too much on the criminal process to settle disputes. Therefore, most claimants chose to file a lawsuit in the criminal court, although in many cases that was not necessary. Such a situation occurred also because the criminal process employed public resources, such as police and prosecutor, so that the claimant would pay less than if filing a lawsuit with the civil court; accordingly, the public sector had to bear excessive financial burdens. It was found that, in cases where the claimant chose to follow a criminal process, the public sector had to expend an average of 144,947 baht per case, which was 22 times the cost of a civil process (average 6,576 baht per case).

(2) Fines were exceedingly low, so that they had become ineffective as a preventive measure. That situation had occurred because the fines were not adjusted according to the inflation rate and the probability that the police could arrest the wrongdoer.

(3) The court tended to use jail punishment as it considered that to be an effective deterrent. However, jailing the wrongdoer placed a high cost on the public sector.

As seen above, the Thai justice system was too widely expanded and it used a large amount of resources. For instance, the total expenditure for the justice system in 2003 was over 64 billion baht, which accounted for 1.26 percent of GDP. The proportion was higher than that of developed countries, except the United States of America. Despite the high expenditure, however, the court could not serve all cases. The number of overdue cases was likely to increase every year. Already that number was considerable: 116,075 overdue cases in 2006. The number of prisoners that year was 210,395, or 339 prisoners per 100,000 population, a rate also higher than that of developed countries, with the exception of the United States.

In order to solve the aforementioned problems in the Thai justice system, the following measures were recommended: (1) the Law Reform Commission, which was set up by the good will of the Constitution 2007, and other related agencies should consider reducing unnecessary criminal penalties, such as individual cases

which did not cause damage to the society, such as libel cases; (2) fines should be adjusted appropriately by considering the level of inflation (utilizing the consumer price index for the purpose) and the probability that police could arrest the criminals; and (3) alternative ways of dispute settlement should be found in order to reduce the number of cases entering the justice system, such as settling disputes at the prosecutor stage, or through case diversion, delaying lawsuits, and behavior control.

3. Should We Be Concerned about Our Regulatory System for the Provision of Public Utilities?

In 1991, the Thai government adopted a policy of promoting the role of the private sector in the provision of public utilities by granting concessions and through joint ventures between the public and private sectors. That resulted in an expansion of public utility provision, especially in telecommunications. Moreover, State-owned enterprises had become more commercially oriented, which resulted in revision of some rules and regulations of the regulatory system in order to protect the public interest.

With regard to the regulatory system, when the State-owned enterprise was the sole operator in the public utility market, there was no formal regulatory system in place, except supervision by senior government officers who had been appointed by the government to participate on the board of directors of the enterprise. However, most of those officers lacked expertise in such fields, and they did not have exceptional technical and operational knowledge, such as how to set up service standards and interconnections, or how to calculate service costs. Therefore, in practice the State-owned enterprise regulated itself, with the exception that it could not establish service prices as that was a sensitive issue which needed Cabinet approval.

Since the State-owned enterprise had a better understanding of that business, when the private providers started their operation, the government let the State-owned enterprise supervise them, a situation that resulted in a lack of qualified personnel and insufficient knowledge base among civil servants. However, the regulatory regime faced problems when the State-owned enterprise became more commercially oriented. Senior government officers were considered to be impartial and in favor of the State-owned enterprise's interest. Moreover, the enterprise, as simultaneous provider and regulator, faced the issue of conflict of interest. That problem dragged out without any solution because it was difficult to design an effective regulatory system and there was no incentive to improve the system such as through the initiation of an infrastructure mega project. Thailand's regulatory bodies were not set up according to the political will of the government, but for other reasons. For instance, the regulatory commission on

broadcasting, television, and telecommunications was set up according to the Constitution 1997 and the regulatory commission on energy was set up by an unelected energy minister.

Currently, the lack of qualified personnel and knowledge base had become major obstacles to further development of the regulatory system in Thailand. Legal experts with exceptional technical and operational knowledge were needed along with economists who understood the rules and regulations of the regulatory system and had operational knowledge.

According to an assessment of the efficiency of the regulatory commissions on telecommunication in eight Asian countries (Bangladesh, India, Indonesia, Maldives, Pakistan, Philippines, Sri Lanka, and Thailand), it was found that Thailand ranked third, with a score of 2.8 out of 5, although the regulatory commission in Thailand had been in operation for four years.

Despite the fact that the lack of qualified personnel and knowledge base was a severe problem for the Thai regulatory body, a considerable amount of time would be needed to solve the problem. Therefore, in the short term, it was recommended that it was necessary to reform the existing regulatory system in order to reduce or prevent problems from arising related to conflicts of interest. In terms of the regulatory structure, the following were suggested.

(1) Appointments of senior government officers who had conflicts of interest, to sit in the board of directors of State-owned enterprises should be revised as well as the appointment of enterprise executives to sit on many executive boards of their subsidiaries.

(2) A regulatory body should be set up for some State-owned enterprises which currently had no regulator in place, such as the waterworks authority and State Railways of Thailand.

(3) In the case of State-owned enterprises which were currently performing as regulators in practice, such as the Transport Company Limited and the Bangkok Mass Transit Authority, there was a need to transfer its regulatory responsibility and personnel responsible for quality and standards control to the regulatory bodies that would be set up in the future.

(4) Concessions needed to be revised according to the establishment of new regulatory bodies in order to promote transparency in the system.

In terms of the operating quality of the regulatory agencies, the following could be recommended: (1) the nomination process of regulatory commissions should be reformed, such as nominating qualified persons having no conflicts of interest and ensuring transparency in the nomination process; (2) the regulatory framework and process should be transparent and accountable; (3) rules and regulations should be based on the results of research; and (4) the performance of the regulatory bodies should be assessed by an independent academic institution acknowledged for its expertise by the public.

4. The Development of Financial Markets for Sustaining Long-term Growth: The Case Study of Information Disclosure in the Capital Market

In the era of globalization, financial markets were an indispensable factor for economic development. Therefore, to sustain long-term growth, financial markets must be developed. However, the financial crisis which had erupted in the United States starting in mid-2006 had clearly shown that a lack of transparency in those markets could lead to disaster. That situation made clear the importance of the quality of information in the capital markets; it was at the heart of sustainable economic development.

The study explored information disclosure in Thailand's capital market by comparing information disclosed on 27 stocks, which were on a turnover list for 12 weeks during the period 2005-2007 on the SetSmart website (www.setsmart.com) and the Kaohoon website (www.kaohoon.com). The SetSmart website was being operated by SET, while the Kaohoon website was run by a newspaper which was very popular among individual investors. The following observations were made in the study.

(1) Most listed companies ignored the SET guideline on information disclosure for listed companies, especially when their stocks presented irregular price movements.

(2) The proportion of dates on which some stocks were presenting irregular trading movements but disclosing no information on both websites was quite high for some listed companies, especially securities firms, a situation which brought up the question of whether SET used a double standard with regard to the guideline.

(3) Stock news that was reported during the period of irregular trading movements (from T-3 to T+1) on the Kaohoon website accounted for over 54 percent of all its stock news, while that of the SetSmart website accounted for only 31 percent. That situation indicated that SET might overlook the supervision of some stocks.

(4) Some stock news that was reported on the Kaohoon website was quite serious and could obviously affect the stock price. Although a listed company was required to report to SET, it did not do so or it reported only when the irregular trading period had already ceased a long time previously.

In sum, the study showed that there were still some problems related to information disclosure in Thailand's stock market and those problems needed to be investigated urgently. They included the quality of information, unequal access to information, and information asymmetry.

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