

## **The Elusive Quest for Inclusive Growth: A Case Study of Thailand<sup>1</sup>**

**In the early stages of development, in most cases, the disparity between urban and rural areas impairs fair and equal development and economic growth.** In the 1980s, Thailand experienced this challenge. People in rural areas sought jobs in urban areas (domestic labor migration). But before the industrial boom, when the economy picked up speed, urban jobs were limited and not all incoming labor seekers could be accommodated. Also, the social safety net did not yet cover those in need, resulting in another disparity.

**However, domestic labor migration in Thailand in the 21st century has different implications.** A study shows that it energized economic growth and also contributed to inclusive growth, reducing domestic disparity. The unemployment rate has decreased and has remained at a relatively low level.

**Factors behind this change in the results of domestic labor migration include the positive growth of higher education and skilled labor, capital investment and job creation, agricultural development, and consumption.** In the first decade of the 2000s, effective demand in rural areas expanded thanks to the government's well-established buyback program for agricultural products and the Thaksin administration's poverty reduction programs in rural areas. At the same time, foreign direct investment, including from Japan, facilitated the formation of production bases along the eastern seaboard, in Bangkok's metropolitan area, in Ayutthaya Province and other regions, and created a large number of jobs in these areas. Currently, new graduates from upper secondary schools or vocational schools, or workers having received vocational training in the northeastern and northern regions, are migrating as regular workers to these regions. They transfer portions of their salaries to their families in their home towns. Although increases in the legal minimum wage increases the labor-cost-to-production ratio, it also increases workers' incomes and the amount of their remittances. As a consequence, household incomes in the northeastern and northern regions have increased, and the economic disparity between urban areas is being reduced.

**Currently, Thailand is seeking to change its domestic industrial structure, shifting from labor-intensive industries to capital-intensive industries using advanced technologies.** An increase in foreign direct investment enabled the country to upgrade production facilities and accumulate physical capital. The Thai economy since 2000 reflects the importance of not just physical capital accumulation but also human capital accumulation across the country. It has proved that the reduction of the urban-rural disparity in education will enable rural workers to find job opportunities equivalent to those in the urban labor market and eventually reduce economic disparities between urban and rural areas.

**The unemployment rate in Thailand has remained very low, which is an optimal path for equal and fair growth.** It has been announced that the Thai government will raise the legal

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minimum wage in every region this year to 300 baht per day. The effect of the increase will be monitored to ensure that it does not deviate from the value of labor in the labor market and to determine whether it can be sustained against the backdrop of the balance of supply and demand in the labor market.

**Thailand's economy in both urban and rural areas is changing dramatically.** Thailand has made efforts to increase the productivity of the agriculture sector in rural areas by mechanization. The use of agricultural machinery reduces the need for labor inputs and frees excess labor that may be employed in the formal sector. While the agricultural sector is still vital in Thailand, an increase in agricultural income will reduce the economic disparity between rural and urban areas. But it is also important for the country to attract non-agricultural ventures (e.g., manufacturing) to rural areas to create jobs in each region. An improvement in agricultural efficiency in rural areas in the northern and northeastern regions will also improve fairness by narrowing regional disparities.

A country's economic growth tends to be led by urbanization and industry, and it takes a long time to see the trickle-down effects in rural areas. It is imperative that policymakers focus on a dynamic relationship between urban and rural areas to spur economic growth and social development—a path for inclusive growth.

**Key issues for discussion:**

- What lessons can frontier countries learn from the case of Thailand, especially with regard to overcoming the disparity between urban and rural areas?
- How can policymakers sequence policy implementation with a view to achieving inclusive growth?
- In the very near future, middle-income countries in Asia will face societal aging. Access to social safety nets and the establishment of social protection have become pressing issues. How can frontier countries prepare well in advance for this imminent challenge?