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TACKLING THAILAND'S MIDDLE-INCOME TRAP BY ENTREPRENEUR SOCIETY

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ABSTRACT

The middle-income trap occurs in emerging industrialized countries around the world. Thailand faces the same problem as other countries in Asia. The middle-income trap was a topic discussed after World War II. The situation of the Thai economy echoed the situation of other Asian and Latin American countries after decolonization. Several proposals have been made on how to boost the economy to avoid the middle-income trap. It is crucial to explore the experience from advanced economies and adjust that experience to the Thai context. This article explores the concepts of the middle-income trap and studies the development of the Thai industry policy after it shifted from dependence on the agricultural sector to the industry and services sectors. The article includes the concepts of the middle-income trap, Thailand's economic policy, the entrepreneur society, the solution to avoid the middle-income trap, and moving up the income ladder and tackles Thailand's middle-income trap. Many papers focused only on education and training to overcome the middle-income trap. However, this article proposed three solutions for boosting Thailand's domestic economy to overcome a middle-income trap. These include strengthening research and development through strengthening the research and development through education, supporting entrepreneurs, and stimulating domestic demand.

Keywords: Entrepreneur society; middle-income trap; domestic demand

1. INTRODUCTION

Thailand's economic growth has declined since the 1998 Asian Financial Crisis damaged the economy. Currently, Thailand and other countries have to struggle with the COVID-19 pandemic. This situation has made a significant impact on the international trade and tourism sector. The phenomenon of stagnation and declining economic growth is called the middle-income trap, which was significantly debated all around the world after World War II. The situation of the Thai economy echoed to the situation of other Asian and Latin American countries after decolonization. From 1952 to 2011, Thailand enjoyed an average economic growth rate of 6.2 percent per annum in real terms and was recognized as one of the most successful economies after World War II.

It is essential to understand why Thailand, as country rich in resources but with low-wage labor, cannot overcome the middle-income trap. Only a few countries have escaped this phenomenon, such as South Korea and Taiwan. From the high-income countries model, technology and innovation play an essential role in overcoming the middle-income trap. Thai policymakers need to understand better the Thai economic situation to determine the factors and escape the middle-income trap through effective policymaking. There are many solutions proposed to evade this phenomenon. However, each country has its own context within which the appropriate solutions to solve this problem can be applied. In this article, three options are proposed with Thailand's economic context.

In the experience of developed countries, Japan accelerated its industry development through technology absorption from Western countries after World War II. The critical achievement is that Japan was accepted as a member of the Organization for Economic Cooperation and Development in 1964. Two oil crisis shocks happened after that. First, during the oil shock in 1973, the consumer price index (CPI) sharply increased. It affected the industry so much because petroleum is the most important part of the production process. Second, the CPI was still stable during the oil shock in 1978 because of the shift to the energy and resource-saving industry. Energy and resource-saving measures brought more substantial export competitiveness among other countries. Japan notably achieved recognized economic development success in the 1990s.

As shown in Figure 1, Japan, Singapore, and South Korea were successful in raising their per capita income steadily during the period 1950–2008, leaving behind other countries that had a similar income in 1950 (Jitsuchon, 2012). Thailand and Malaysia's per capita gross domestic product (GDP) have increased but in slower pace compared to Japan, Singapore, and South Korea.

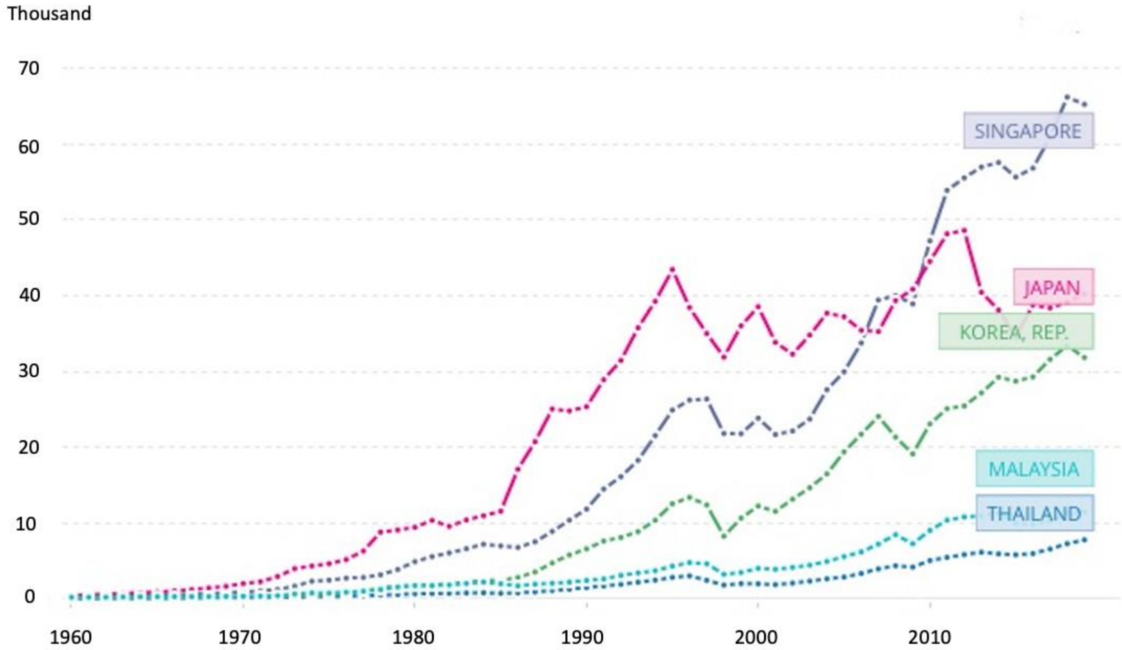

Figure 1: Per Capita Gross Domestic Product (GDP) of Selected Countries
Source: World Bank (2021)

This paper explains Thailand's economic experiences which led to the middle-income trap and proposes how to best develop and join the group of high-income countries. Moreover, some key characteristics of high-income countries allow their economy to develop from a middle-income country. Based on the World Bank's definition of the middle-income trap, Thailand cannot overcome a middle-income trap. However, Thailand can transform itself into an entrepreneur society rather than depending on low-wage labor to attract foreign direct investment, which is currently the case in CLMV countries.

This article is divided into four parts. First, the concept of middle-income trap is introduced in various definitions. Second, Thailand's economic policies are covered: import substation industrialization (ISI), export-oriented industrialization (EOI), and the 11th National Economic and Social Development Plan. Third, it presents a proposal for Thailand to address the middle-income trap with the three solutions. The last section is the conclusion.

2. CONCEPT OF MIDDLE-INCOME TRAP

There are many definitions of the middle-income trap used to describe the situation of middle-income countries facing stagnant economic growth. The middle-income trap was first introduced by Garret (2004) in his work on the effects on globalization on middle-income economies. He talked about "globalization's missing middle." In his words, "the challenge for the middle-income world is to find ways to "tech up" and enter the global knowledge economy, so as to escape the trap of having to dumb down to compete in standardized manufacturing and, increasingly, standardized services." He suggested that developed countries should moderate free trade and capital account liberalization. This section will introduce several definitions of the middle-income trap and categorize them into two types.

First, Gill and Kharas (2015) defined the middle-income trap as economies that were being "squeezed between the low-wage poor-country competitors that dominate in mature industries and the rich-country innovators that dominate in industries undergoing rapid technological change."

Second, the World Bank defined the middle-income trap as a low-income country that crosses a gross national income of $995 to lower-middle-income status. A country crossing $3,945 is classified as upper-middle-income and those crossing $12,195 are in the high-income group (World Bank, 2008).

Third, Kenichi Ohno (2009) defined a middle-income country as a low-income country that characterizes severe economic mismanagement from political and economic crisis. The focus is on the lack of industrial upgrading in the economy. It refers to countries stuck in the second stage in industrial development, struggling to move to the next stage because of failure to upgrade their human capital. He also claimed that these countries, such as Vietnam, have to rely heavily on domestic resources, primary product export, agriculture, and foreign assistance. In Thailand's case, it depended heavily on foreign direct investment. Furthermore, Thailand has experienced almost constant political turmoil until now. With the Thai government's discontinuity, economic plans have also changed along with the government's various principles.

Fourth, Spence (2011) employed empirical data to define middle-income trap as a country reaching per capita income levels above 2005 PPP $10,000 since 1975. As a result, there is a clustering of countries with income levels between $5,000 and $10,000.

Fifth, Felipe (2012) identified two middle-income bands: one with a range of $2,000 to $7,500 and the other with a range of $7,500 to $11,500 [1990 PPPs]. If a country stays in the first range longer than 28 years or longer than 14 years in the second range, it is classified as stuck in a middle-income trap.

Finally, Phongpaichit and Benyaapikul (2013) proposed that the middle-income trap occurs when low growth in the middle-income countries creates difficulties in competing with other low-wage countries as well as high-skilled countries since it causes a slowdown in economy growth. This definition is quite similar to Kharas and Kohli (2011)'s definition.

The definitions of the middle-income trap vary from different perspectives. These differences could be categorized into two categories: a per capita income perspective definition and a slowdown in economic growth perspective definition. The World Bank (2008), Spence (2011), and Felipe (2012) applied a per capita income as criteria in defining the level income of countries, whereas Garrett (2004), Gill and Kharas (2015), Ohno (2009), and Phongpaichit and Benyaapikul (2013) applied a descriptive approach to defining the middle-income trap mainly focusing on slowdown in economic growth perspective. Phongpaichit and Benyaapikul (2013) argued that the middle-income trap definitions based on gross national product do have a drawback, as crossing the upper-middle-income level does not mean the well-being of citizens. In Thailand's case, some areas such as Bangkok and the surrounding provinces earn income until they achieved a middle-income level, but some do not.

To conclude, Thailand is unable to overcome the middle-income trap when adopting a per capita income perspective definition. However, when applying the slowdown in economic growth definition, Thailand can develop itself through the solutions proposed in the Avoiding the Middle-Income Trap and Moving Up the Income Ladder sections.

3. THAILAND ECONOMIC POLICY: FROM THE PAST THROUGH THE PRESENT

The advent of modernization started the agrarian change in the Thai society after signing the 1855 Bowring Treaty in King Rama III's reign. Thailand's industry policy became a crucial factor in developing the country. Industrialization can be considered a vital factor in economic development. It leads to the process of moving from labor-intensive to high-technology industries. Although developed countries like Japan began with heavy industries like steel, coal, and petroleum for infrastructure development in the early 1900s, Thailand did not start industrial promotion due to their ISI policy during the 1950s to 1960s. Conversely, the trade deficit was affected because Thailand had to import the material and machines to launch the substitution industry.

In 1958, ISI was the central policy at the beginning of the Thai industry development plan. ISI policy included reducing taxes on machine imports which caused Thai entrepreneurs to avoid investing in technology development. The imported machinery was used in the industrial sector because of its cheap cost until the EOI became a vital economic force for Thailand's development since the 1970s.

Phongpaichit and Baker (1995) argued that from the early 1970s to the mid-1980s, the urban economy's growth slowed under the impact of the weakening of agriculture growth, US patronage withdrawal due to the ending of the Vietnam War, and the inherent limitations of the import substitution strategy. A transition to EOI was then advocated by economic technocrats. They concluded that the industrial sector had become more diversified than before and the industrial structure began to deepen.

However, Doner et al. (2005) proposed that the South Korea and Taiwan struggled with the external threats and were unable to rely on the natural resources so there is an emergence of institutional arrangement: "developmental states" which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation. Kohli (1999) argued that Japanese colonialism created new "state structures" and "patterns of state-class relations" that helped postcolonial ruling elites build South Korea's high-growth economy. In contrast to the dominance of domestic investment in Taiwan and South Korea, Thailand heavily relies on foreign capital. These countries have a strong bureaucratic capacity to deal with the threats. Jitsuchon (2012) argued that the old model Thailand continues to depend on is the same model of industrial development that lifted it out of poverty—cheap labor, and low innovation, with technological acquisition mainly through technology importation does not work anymore. In addition, Thailand failed to create consistency and continuity in its industrial policies (Kanchoochat and Intarakumnerd, 2014), and power struggles between political and business elites resulted in a very exclusive growth (Kanchoochat et al., 2021).

3.1 Import substitution industrialization

ISI policy reduced foreign dependency by increasing production within the country. As indicated in the Third National Economic and Social Development Plan, ISI policies had been accommodated since 1960 to develop the country with the goal of transforming it into an industrial country. This policy did not work well at the beginning because Thailand had to import capital goods such as machines and other technologies which led to a growing trade deficit later.

Phongpaichit and Baker (1995) argued that in the Sarit regime, the economy was driven by two factors: the expansion of cash crop exportation (cassava and corn) and assistance from foreign countries in the form of aid and investment. At that time, the central government planned to transfer excess gains from expanding the agrarian economy into the capital city Bangkok. Thailand also took advantage of agricultural prices, which were moving upward at the time. The policy brought benefits primarily to only a small group of elites. Later, the government had to change the plan because the infant industry's protection resulted in undeveloped industry that was not internationally competitive.

Conversely, Taiwan's ISI occurred through an institutional arrangement that, while involving government support for a small oligopoly, laid the groundwork for further institutional development as constraints on ruling elites tightened (Amsden, 1989). By the condition of "systemic vulnerability," both Taiwan and South Korea struggled with external threats, so the states turned to full-fledged export promotion. Shifting the policy from ISI to export promotion necessitated institutional capacity which is different from Thailand's experience.

3.2 Export-oriented industrialization

EOI is an economic policy aiming to boost economic growth by exporting goods with which the country has a comparative advantage. Thailand had to compete at the international level. Before the early 1970s, Western universities developed theories of export-oriented growth characterized by low trade barriers and undistorted factor markets controlled by a strong government. After that, Thai technocrats brought these concepts back to Thailand, but the Thai government and businessmen paid little attention. At that time, Thailand's primary export continued to be bustling.

The export industry was first promoted under the Third Economic and Social Development Plan (1972-1976), during the era of Field Marshal Thanom Kittikachorn as the prime minister. In 1972, the investment promotion law was revised to include some export promotional measures, including tax incentives and import tariff reductions. The adoption of an export promotion strategy is still being pursued until the present day. It can be said now that Thailand's economic growth has depended too much on export industries since the export-oriented policy was promoted.

The Fourth Economic and Social Development Plan was launched in 1976 and was intensively pro-export. The introduction of EOI was further promoted after 1985. The Board of Investment (BOI) has played a vital role since 1985 in foreign direct investment promotion. Phongpaichit and Baker (1995) argued that at the beginning of the import institution industry's transformation to an export-oriented industry, there were many obstacles, such as some institutions in the policy process opposed to it. The Finance Ministry was quite satisfied with the high value of the Thai baht. The military favored that the weapon prices were reduced through the rising of Thai baht, and many entrepreneurs opposed the change because they did not want to compete at the international level. During the first oil crisis, the Thai government offered aid to boost the internal demand by investing in infrastructure. Later in 1970, the Eastern Seaboard Scheme was launched to develop Rayong and Chonburi's area to develop a complex chemical industry and seaport. In 1997, the government passed a new Promotion of Investment Act, which increased the incentives for FDI. Japanese investment then soared in Thailand. The government also tried creating a friendly foreign direct investment environment, such as reducing import tariffs, tariff-free zones, and BOI zone. These attracted foreign enterprises to invest in Thailand.

The main reason why Thailand's policy shifted after using ISI policy for about two decades was because of the balance of trade deficit from machinery and crude oil importation. EOI policy was applied to reduce the trade deficit by using the country's labor-intensive industry's advantages. Thailand's industrial sector had not invested much in technology development as had other developed countries. Today, Thai exports are strong in machinery parts manufacturing that offshored from many countries. However, Thailand's machinery parts companies are struggling to create their own brand.

After the first oil crisis, Thailand discovered it depended on imported oil too much to run its industries. Therefore, when the crude oil price in the world market climbed, Thailand was negatively affected by the increasing price. As discussed earlier, the failure of industrialization policy and inconsistency of industrial policies caused Thailand to get stuck in the middle-income trap. It will not be easy for Thailand to follow developed countries' industrial policy, but there are many strategies that can be applied in the Thai context.

3.3 The eleventh national economic and social development plan

National Economic and Social Development Board has released the National Economic and Social Development Plan every five years since 1961. The First to Seventh National Economic and Social Development Plans concentrated on economic growth, but from the eighth plan onward, they have emphasized human-centered development. On the ninth plan, it focused on the King's philosophy of Sufficiency Economy. Sustainability was focused on more than economic growth alone.

The principle of the Eleventh National Economic and Social Development Plan was to achieve a happy society with equality, fairness, and resilience. This plan did not emphasize industrial development or any rapid transition to a high-income country along with globalization and modernization.

Thai economic policies now shift to "creative economy" through the Eleventh National Economic and Social Development Plan. The next goal after joining the ASEAN Economic Community (AEC) is to be the center of the AEC.

4. THE ENTREPRENEUR SOCIETY

Entrepreneurship studies only focused on entrepreneur in the industrial sector rather than in the agricultural sector. Schumpeter (1939) was the first to focus on entrepreneurship, rethinking of ways countries can be improved through it and identified the general characteristics of an entrepreneur without differentiating between urban and rural.

In Thailand, the concept of an entrepreneur society was initiated from the research project on "Changes in Thai 'Rural' Society: Democracy on the Move" by Attachak Sattayanurak (2017), Chiang Mai University. The research proposed to re-landscape the meaning of farmers in which Thai farmers have transformed themselves into entrepreneurs. The farmers not only facilitated rice production but also engaged in non-farming activities. In addition, Walker (2012) presented a concept of "middle-income farmer" that Thai rural farmers usually pursue on- and off-farm job. Furthermore, Thai farmers had integrated the profession to produce rice. Sattayanurak (2017) proposed that the rural society transformed from "an agrarian society of peasants," by which Thai society is typically understood, to "a rural entrepreneur society." Typically, an "entrepreneur" refers to person in the industrial or service sector rather than people in the agricultural sector. Therefore, the government usually launches the policy to support farmers rather than entrepreneurs in the agricultural sector. For example, a person who does not produce rice might employ their labor and machines to provide a fertilizer service to others growing rice. The line between farmer and entrepreneur is increasingly blurred. The government's role is essential in supporting rural entrepreneurs who are in and around the rural agricultural sector, but it is necessary to understand current characteristics of Thai farmers. Prayuth Chan-o-Cha's government has launched several policies, such as "Farming 4.0" or "Smart Farming," to improve the productivity of the agricultural sector. However, these policies have not yet succeeded due to the misconception of the peasant society. Many policies were produced to gain vote from the farmers without the feasibility implemented in the policy.

5. AVOIDING THE MIDDLE-INCOME TRAP AND MOVING UP THE INCOME LADDER

Joseph Schumpeter identified innovation as "a critical dimension of economic change" (Pol and Carroll, 2006). It is well known that Schumpeter's ideas on innovation and entrepreneurship popularized his works. He argued that entrepreneurial activities can change the innovation and technological base of countries. His ideas showed how entrepreneurs, for instance, can raise innovation, such as witnessed with digital and mobile phone technologies. In the recent past, Nokia was an early leader in the market. As technology developed every day, it began to fade as Samsung and Apple took larger portions of the smartphone market. Now, Chinese brands such as Huawei, Xiaomi, Meizu, and Oppo are competing well on the mobile phone market.

In Schumpeter's capitalism perspective, "entrepreneurs' innovative entry was the disruptive force that sustained economic growth, even as it destroyed the value of established companies and laborers that enjoyed some degree of monopoly power derived from previous technological, organizational, regulatory, and economic paradigms" (Sidak and Teece, 2009).

There are various perspectives on the argument about avoiding the middle-income trap. Innovation is only one factor to consider. Oizumi (2013) is primarily concerned with political instability, as it has had significant impact on Thai economic policies such as strengthening international competitiveness, liberalization trade, and developing infrastructure. He also claimed that if Thailand wants to solve its economic problems, political stability is a prerequisite and then suggested that further integration and enhancement of Japanese corporations' production bases in Thailand is an essential key for evading the middle-income trap. Thawornkaiwong et al. (2011) proposed that infrastructure development is a key to overcome middle-income trap, for instance, specialized high-technology hub, strategic infrastructure investment, and creating new industrial hubs.

After a long period of Thailand's economic development, the highest rate of GDP per capita in the country is Rayong Province. As of 2018, GDP per capita in Rayong Province was 1,067,449 baht per annum (33,358 US dollars per annum). The GDP per capita in Bangkok and the surroundings eight provinces exceeds 10,000 US dollars, but the other 44 provinces are less than 3,000 US dollars. We can see from the figures that Bangkok and the surrounding eight provinces are in high-income level and the other 44 provinces are in low-income level. Additionally, these figures show the gap between the rich and the poor in Thailand. Income disparity is a significant problem the government has tried to solve for a long time but has become more severe today than ever. The Thai government launched new policies to solve this issue by expanding microfinancing, promoting "One Tambon One Product" (OTOP), the 30 baht medical care scheme, and increasing the minimum wage. Increasing the minimum wage without increasing labor productivity is another reason why Thailand is in a middle-income trap. Due to the increased minimum wage, many foreign direct industries moved to cheap labor countries like CLMV countries, Cambodia, Laos, Myanmar, and Vietnam.

In the political economy perspective, Charoenloet (2015) argued that the lack of research and technology development meant that employers have progressively turned to subcontracting work to casual homeworkers to competing in low value-added exercises. Thus, poor research and development shaped the path of low road and low-wage development which did not contribute to income upgrade causing Thailand to be trapped as a middle-income country (Gordon, 1996). The 300 baht minimum-wage scheme in Yingluck's government era made a considerable impact on labor-intensive industries, such as the garment industry. Therefore, outsourcing is a method for reducing labor costs through minimum-wage legislation to reduce cost for the competition in the world market.

6. TACKLING THAILAND'S MIDDLE-INCOME TRAP

Although there are many studies that proposed solutions to overcome the middle-income trap, these proposals mainly focused on the national level, especially with the top-down approach. In this section, three options are proposed to address the middle-income trap: strengthening research and development through education, supporting entrepreneurs, and stimulating domestic demand.

6.1 Strengthening research and development through education

From the ideas of Joseph Schumpeter (1939), we can accept that economies changed through innovation. In South Korea, Samsung Electronics can compete with the Western market because of its commitment to innovations and new technologies. Therefore, it is necessary to promote and upgrade the technologies as Charoenloet (2015) has proposed.

One of the key struggles to economic development is the lack of necessary skills. Along with technology upgrading, the educational system is the key. Damooei and Tavakoli (2006) argued that the Thai economy should continue depending on imported foreign technology to accelerate its economic growth. The best way to strengthen research and development in Thailand is education. Education is more than just schooling, it is learning. We need to reform the educational system with learning appropriate to the knowledge needed for daily life in a modern economy.

6.2 Supporting entrepreneurs

The Thai government has focused their policies too much on supporting business entrepreneurs, especially foreign entrepreneurs. However, there are new proposed methods for evading the middle-income trap by supporting an entrepreneur society. Due to the 300 baht minimum-wage scheme, many people moved out of the formal sector to the informal sector. Flea markets are emerging in most local communities in Thailand, but they do not count in the GDP.

The objective of a creative economy was proposed in the Ninth National Economic and Social Development Plan. A creative economy includes not only the new innovation but also the cultural tourism and maximizing local traditions. The government can support entrepreneurs by creating cooperation between researchers and local entrepreneurs. For example, a cooperation between Silpakorn University and the Tourism Authority of Thailand has been created to stimulate the economy in Phetchaburi Province. Artists from the Faculty of Decorative Arts have designed textiles inspired from the Mahathat Temple design in Phetchaburi Province. By encouraging such cooperation, this effort is boosting tourism in Phetchaburi Province.

For other examples, in the rice farming society, the production of rice should not be for subsistence anymore. It is more complicated than in the past. The rice farmers are the rice field managers and should be considered as entrepreneurs. Profit is the objective of managing the paddy field. In the green market, we see many brands of organic rice. There is the emergence of the community's rice mill in each area. The local government can also support local entrepreneurs by providing the infrastructure to serve them.

6.3 Stimulating domestic demand

Although it is hard to stimulate demand within the country, we have to learn more about the domestic market, if it is to be successful. We can develop products to compete on a global scale. The government can stimulate domestic consumption by supporting domestic tourism and local products. The OTOP program was introduced in Thailand during Thaksin's government. This idea was first initiated in Oita prefecture, Japan. This idea's principle is to produce a local product from local materials, but it became distorted in Thailand and proved unsustainable. Moreover, it was not very supportive in the marketing of local products. The packaging was also old-fashioned, and it was not attracting customers. This issue is also connected to innovation. Thai brands should develop themselves in marketing, packaging, and quality to attract domestic demand.

From experience during the COVID-19 outbreak, the Thai government focused more on domestic demand. The We Travel Together project was launched as a policy to stimulate domestic tourism, especially hotels and services.

7. CONCLUSION

The middle-income trap has various definitions with different perspectives. The definitions can be separated into two categories: GDP per capita aspect and slowdown phenomenon aspect. Although Thailand is not likely overcome a middle-income trap based on the World Bank's definition of middle-income trap, recent research shows Thailand to be transforming itself into an entrepreneur society. The Thai government should shift the economic policy from depending on low-wage labor to attract foreign direct investment to boosting domestic demand, funding in research and development through education, and supporting entrepreneur society. Schumpeter (1939)'s concepts of innovation and entrepreneurship are the key to developing from an upper-middle-income trap country to a high-income country. In conclusion, many solutions are proposed to address the middle-income trap, but the successful one has to acknowledge the social and political context before determining economic policy.

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