

# **Competitiveness, Income Distribution, and Growth in Thailand: What Does the Long-run Evidence Show?\***

**Piriya Pholphirul**

**International Economic Relations Program  
Thailand Development Research Institute**

May 2005

---

\* This report is part of the Economic and Research Department's work entitled "Long-run Growth in Asia," Asian Development Bank (ADB). The author is indebted to Miss Pawanee Bumrungsri for her excellent work as research assistant. The author alone and not TDRI or ADB is responsible for all the interpretations in this report.



## **Abstract**

The paper addresses three fundamental issues under a long-run perspective: (1) growth and productivity, (2) competitiveness, and (3) income distribution. Unit labor costs (ulcs) and unit capital cost (ukcs) are calculated as the indicators of competitiveness in Thailand. Both series explain that Thailand did not gain in competitiveness during its boom period. However, during the 1997 financial crisis, when the Baht currency depreciated, both series dropped significantly.

The paper also discusses the dynamics of labor share and capital share in national income as well as the functional distribution of income. Some major features of Thailand's long-run economy are the following: (i) increasing average wage rates, (ii) stabilizing profit rates (slightly increasing during the boom decade after having dropped sharply during the 1997 crisis), (iii) substantially increasing capital-labor ratio, (iv) decreasing capital productivity and increasing capital-output ratio, (v) increasing labor productivity, and (vi) increasing mark-up. Functional income distribution can be determined during the periods studied. The gains in labor were greater than that of capital in the Thai economy, especially during the period of crisis when profit rates dropped substantially.

The paper also documents the growth in income per capita decomposed by ranges of labor market indicators. Labor productivity is observed as the only factor contributing to per capita output. Overall, to achieve the medium to long-term growth potential projected by the National Economic and Social Development Board (NESDB), Thailand needs to improve capital productivity and increase its capital stock.

This paper is organized as follows: after the Introduction, Sections II-III construct labor's shares, capital share, and ulc series, and observe the long-run pattern of the variables. Section IV analyzes the determinants of long-run competitiveness and growth. The determinants include wage rate, profit rate, capital-output ratio, capital-labor ratio, labor productivity, and capital productivity. Section V observes the degree of functional income distribution including its long-term evolution during the last 20 years. Section VI computes the degree of mark-up, which also implies the dynamism of the monopoly power of business in the Thai economy. Section VII analyzes the sources of growth in per capita income categorized by different labor compositions. Section IX estimates the medium-term growth potential as projected by the NESDB. Section X concludes the report.