

Decentralization and Local Economic Development

Case of Northeast (Thailand)

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Research Questions

- 1)What is (are) the relation (s) between the decentralization and the local economic development in Northeast, Thailand?
- 2)Does decentralization need prerequisite conditions in order to promote local economic development? If yes, what are those basically needed conditions?

Outline

- Why Decentralization and Local Economic Development in Northeast Thailand?
- Scope of the Study
- Definition
- Literature Review
- Decentralization in Thailand
- Local Economic Development in Northeast
- Relations / Conditions
- Conclusion/ Limitation / Further Research

WHY

- Decentralization & Local Economic Development
 - Rare studies about the relation of these two in Thailand
- Northeast region
 - The most backward region since incorporation in the late 19th century
 - Many state's development programs launched in the region in the 60s-80s, but the consequences could not compare to the major improvement which appeared in the period after 2001 (decentralization period)

Scope of Study

- Prior to Decentralization: 80s and 90s
- Post Decentralization: 2000 onwards
- Northeast region and Thailand

Definitions

- Decentralization in Thailand
 - Type: Fiscal and Political Decentralization
 - Devolution of functions, fiscal resource, and decision-making power
 - Democratically elected local government
- Economic Development
 - Growth in economic activities along with the improvement in human wellbeing and access to freedom of choices (Sen, 1999)

Methodology

- **Decentralization**
 - Assess the laws related to decentralization and the roles and capacity of local governments
 - Address the functions and roles of local governments that potentially facilitate/ contribute economic growth and improvement in human wellbeing
- **Local Economic Development Data**
- **Public Survey / Opinion / Satisfaction**

Variables (1)

- **Functions & Roles that potentially facilitate economic development**
 - Infrastructure Management & Provisions (dominant / direct)
 - Economic Promotion (dominant / direct)

 - Educational Provisions (implicit / indirect)
 - Social Service and Health & Hygiene (implicit / indirect)

 - Culture & Environment (depend on the locations)
 - Security & Community Safety (depend on the locations)

Variables (2)

- **Local Economic Variables**

- Regional GDP per capita
- Poverty Rate

- **Unused Variables**

- Employment rate (large informal economy / low employment rate)
- Mortality rate (role of health provision by local government is small)
- Investment rate in region (no systematic data)
- Educational attainments/ Years in school

Hypotheses (1)

- Decentralization not always generate the local economic development, but with the sound conditions it can encourage and generate the local economic development
- Prerequisite conditions
 - Local government: democratically directly elected
 - Local government: autonomy and discretion to implement its own policy at least one policy
 - Low level of corruption / high level of transparency
 - Local public: tools to check and examine the local government
- ❖ Not necessary, but preferred: Fiscal capacity

Hypotheses (2)

- Since 2001, local governments acquire more fiscal resource (by law) and functions & responsibilities (by law), then the local governments use resources to launch development programs (mostly infrastructures building and pre-school service provisions)
- Spending of development programs circulate within the community (hiring local laborers, buying local materials, etc.)
- Indirectly affect the local economy (increase purchasing power, increase household income, encourage spending in localities)

Literature Review (1)

- Relation of Decentralization and Economic Development
 - Positive impact (Oates, 1993; Bird, 1993; Gramlich, 1993; Weingast, 1995)
 - Negative impact (Zhang and Zhou, 1998; Xie, Zou, and Davoodi, 1999; Lin and Liu, 2000)
 - No correlation (Treisman, 2000)
- In Thailand: Lack of studies on
 - Relations with economic development
 - Electoral system in the local level

Literature Review (2)

- Economic Development in Northeast
 - Thai states implemented development programs in Northeast in 60s-80s (Cold War) due to the fear of Communist expansion (Keyes, 2014)
 - Infrastructure projects brought the development in the region (Taotawin, 2012), but created the migration pattern to highly industrialized areas in BKK and Central region
 - After 2000, increased small entrepreneurs in rural and suburban Northeast (Keyes, 2014; Taotawin, 2012)
 - Highly economic growth in the region (Reuters, 2013)

Decentralization in Thailand

- Highly Centralized Thailand: Bureaucratic Polity (Riggs, 1966)
- Factors of changes in 90s: Domestic & International
- 1997 (People's) Constitution, 1999 Decentralization Act, 2001 Begin Fiscal Transfer
- Decentralization: Increase the power to the local governments, decrease the influences and roles of bureaucrats

Decentralization in Thailand

- Prior to Decentralization: 80s & 90s > appointed Bureaucrats controlled with inefficient management
- Post Decentralization: 2000s > elected local government with close link to the local residents, local public with the tools to check & examine & dismiss the local government (existed cases)

Decentralization in Thailand

- Three Phases (Krueathep et al., 2014)
 - >1997-2001: Golden Age of Decentralization
 - >2002-2006: Re-centralization/ Return of (reformed) Bureaucrats (Thaksin premiership)
 - >2006-2014 (before Coup): Bureaucrats and National Politicians Intervention / No clear direction of decentralization policy
- What Happened in Thailand (Nogsuan, 2015, interview)
 - >Transfer of fiscal, functions, responsibilities, and decision-making powers to “elected” local government (Kumar, 2006; Crook and Manor, 1998)
 - >Reality: Not Fully Fiscally & Politically Autonomous

Local Governments in Thailand

- Total 7,853 local governments nationwide
- Various size: 50,000 households to 500 households
- In northeast: 2,967 local governments with many small size of local governments (and some big size)
- **Functions: Basic Significant Responsibilities**
 - >Infrastructure (Road, Electricity, Waterworks, Internet, etc.)
 - >Social Service & Health and Hygiene (Garbage Collection, etc.)
 - >Education (Nursery, Kindergarten, Primary to High School)
 - >Culture and Environment
 - >Economic Promotion
 - >Security & Safety: Prevent and Control Pandemic/ Natural Disaster in jurisdiction

15 Years of Decentralization in Thailand (1)

- ✓ Democratically directly elected local government (s)? : Yes
- ✓ Local government: autonomy and discretion to implement its own policy at least one policy? : Yes (initiated many development projects)
- ✓ Local public: tools to check and examine the local government (called for dismiss: 9 cases, successfully dismissed 3 cases)

X: Local fiscal capacity: Lowest in Isan (Kurata & Ikemoto, 2012)

X: Low level of corruption>>> maintain high (from 2001-2009: sued 7,452 cases, persons involved 13,686 persons)
(Satitniramai, 2012)

15 Years of Decentralization in Thailand (2)

- Moderately successful (Krueathep et al., 2014)
- Local Governments face resource (fiscal) constraints, have overload functions & responsibilities, and are limited by legal framework to be fully autonomous
- Lack of Capacity in some functions
- Improve standard of living in the localities (esp. rural areas), (Krueathep et al., 2014)
- People feel they can access to more quality education, more accessible primary healthcare services, wider social services, improved quality of local infrastructures, and more programs to help reducing household expenditures and enhance family income (Krueathep et al., 2014)

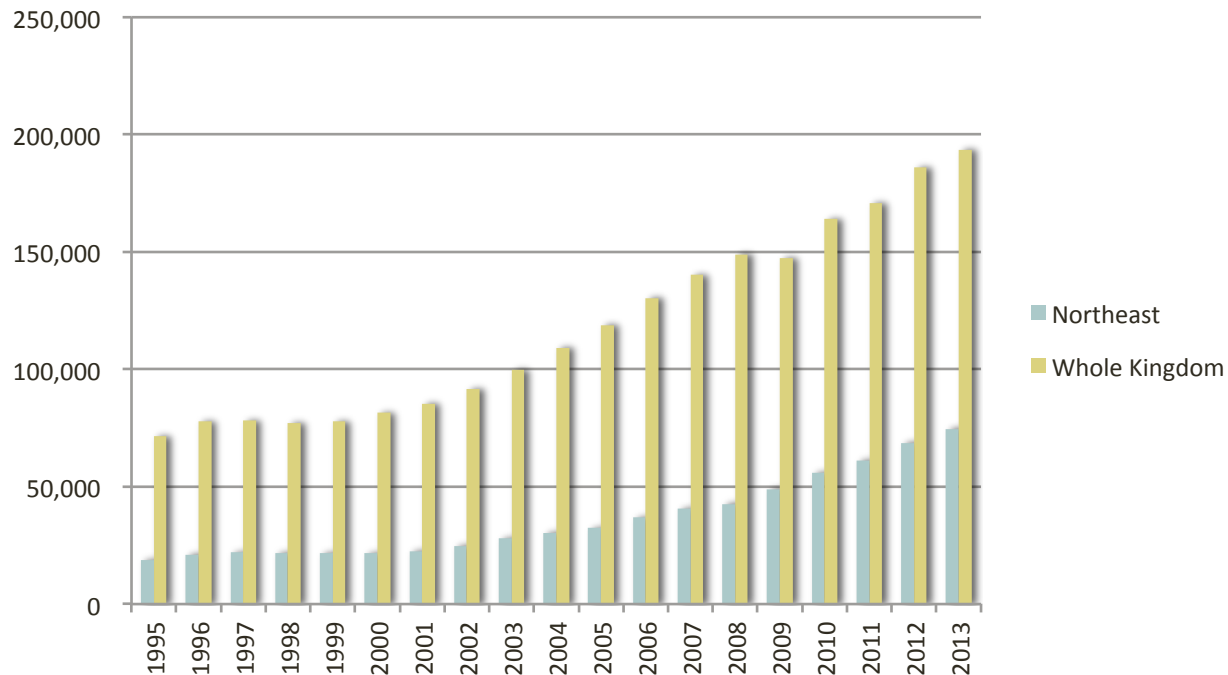
Ongoing Challenges & Problems

- Capacity Problem: small scale local governments (municipalities & sub-district) gain higher tasks & responsibilities, lesser budget/ revenue share (Krueathep et al., 2014).

Local Economic Development: Northeast

Economic Development in Isan since 2001

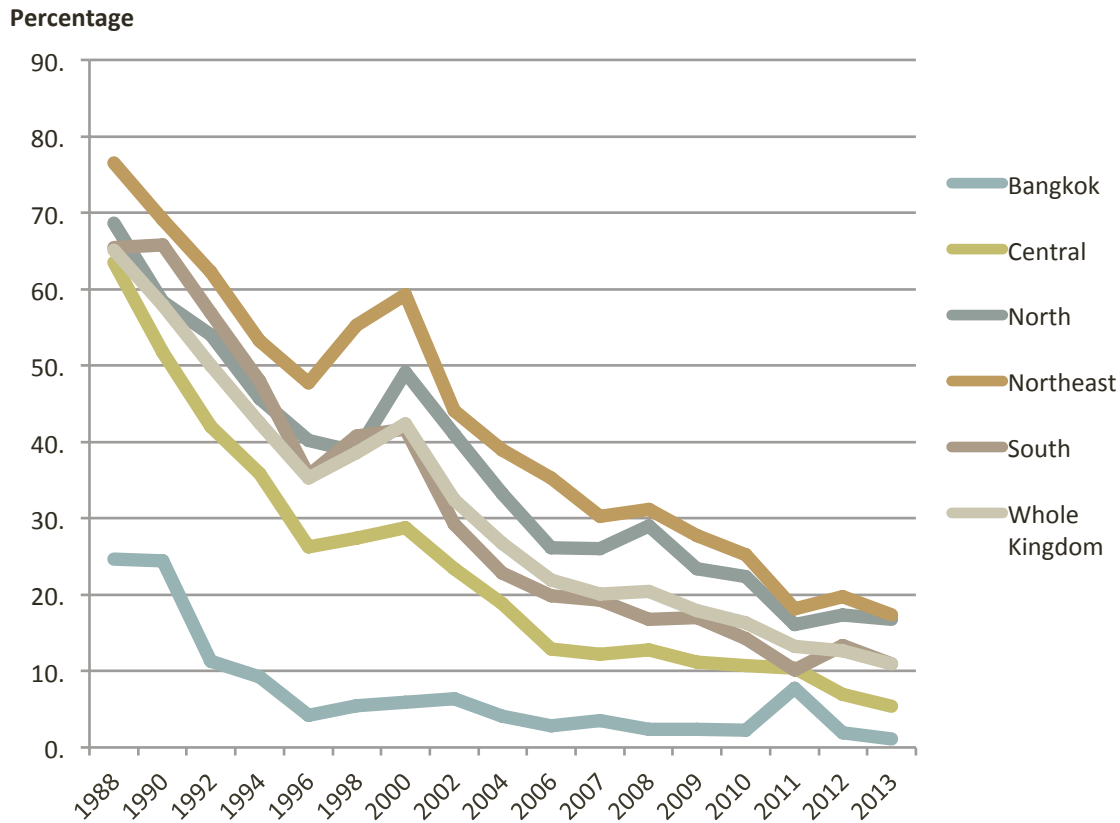
Per capita Income (mil. THB)



Source: NESDB

Economic Development in Isan since 2001

Poverty Incidence by Region (Percentage)



Source: NSO

Economic Development in Isan and Thailand

- Since 2000, economic recovery and GDP growth in Thailand was gradually growing (prior to political turmoil in 2008 onwards)

>In Northeast: 2007-2011

- Regional economic growth reaches 40% (Whole Kingdom 23%, BKK 17%); (Reuters, 2013)
- Household income rises 40% (biggest jump of any Thai regions); (Reuters, 2013)
- Regional GDP per capita rises annually (NESDB, 2013)

Factors of Local Economic Development in Isan

- National Economic Policies (Populism) in the first half of 2000s
- Fiscal and Political Decentralization

Decentralization on Local Economic Development in Isan

- 1/local government still has decision-making power. Though the specific grant is rising, and the rate of local tax collection is declining, but the local government can decide to launch or implement the projects in the community
- 2/Though the local government does not aim to develop the local economy, but the roles that involve the infrastructure building (mostly the road), circulate the spending in the community and related area, which will encourage the local economic development.
- 3/the local government are directly elected
- 4/local public has tools to check, examine, and dismiss the local government, though a scholar (Satitniramai, 2012) mentioned that the transaction cost for the public is a bit high to do that, but during the 15 years of decentralization, there existed the cases that public sued and successfully dismissed the local governments, while in the national level (national politicians and national political sphere), there is still no case of the public dismiss the politicians/ senates.
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- This can be implied that the involvement in the local politics is higher than in the national level.

Relations / Conditions

- Though local governments in Isan have lowest fiscal capacity
 - But the local governments can generate economic growth in the communities via various programs, esp. infrastructure buildings
 - Decentralization not always generate the local economic development, but these conditions allow the local governments in Isan to encourage and generate the local economic development
- ✓ Democratically directly elected local government
 - ✓ Local government: autonomy and discretion to implement its own policy at least one policy
 - ✓ Local public: tools to check and examine the local government (called for dismiss: 9 cases, successfully dismissed 3 cases)
- X: Low level of corruption>>> maintain high (from 2001-2009: sued 7,452 cases, persons involved 13,686 persons) (Satitniramai, 2012)

Conclusion

- Decentralization is not the only factor that contribute to the local economic development in Isan since 2000s
- It collaborates with the national economic policies
- The relation between the decentralization and local economic development is
 - Decentralization not always generate the local economic development, but with the sound conditions it can encourage and generate the local economic development
 - Prerequisite conditions: Local government: democratically directly elected
 - Local government: autonomy and discretion to implement its own policy at least one policy
 - Low level of corruption / high level of transparency
 - Local public: tools to check and examine the local government
- ❖ Not necessary, but preferred: Fiscal capacity

Limitations / Further studies

- Limitation to access to sufficient data
- Need to collect more data from micro level and aggregate together to get the convincing big picture
- Further studies: Collect the data in a small province with small size of economy

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