

Decentralization and Local Economic Development: Case of Northeast, Thailand

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Section I: Introduction

If we watch the political analysis news programs in Thailand these days, it is not difficult to run into two kinds of different arguments about decentralization; pro and con. The pro team of decentralization explains about the several positive effects that decentralization has generated to Thai society since the 1999 Decentralization Act was promulgated. The con team, on the other hand, argues about the problems that lie behind the decentralization and the need to reform it. The latter one also pointed out many issues from corruptions in local level, inefficiency in fiscal and personnel management, low degree of local autonomy, and etc. Those problems do exist in decentralization process. However, it is difficult to deny the advantages of decentralization too. In Thailand, there are cases reveal that devolution of fiscal resources and political powers could improve the standard living of local residents and makes local governments more responsive and innovative to theirs electorates. Although the successful cases are rare, but the survey in the recent research of Krueathep et al. (2014) informs that majority of local people feel satisfied about the public service provisions they received from the local governments more than same services that previously provided by central government agencies. Kruathep et al. (2014) also addresses that the decentralization process that took place in Thailand's administration for 15 years should be considered as 'moderately successful'.

One of the advantages of decentralization that has been debated by many scholars is the impact of decentralization on economic development. However, many works related to decentralization and economic effects

focused on the macro level (international comparison) more than the local level within one country¹. In the case of Thailand, most works about decentralization focus on the degree of autonomy, efficiency in fiscal management, capacity of subnational authorities, also with the suggestions to reform². However, there also exists a work that studied about the relationship of fiscal decentralization and macroeconomic growth in Thailand too (Krueathep, 2010). In his case study about Thailand in 2010, after employing the national-level data from year 1972 to 2008, Krueathep (2010) finds that there is no correlation between fiscal decentralization and macroeconomic growth, because the size of local governments in Thailand is too small to cause the impact; neither positive nor negative impact. This work of Krueathep gives a basic ground for studying about the relationship between the two variables of decentralization and economic growth. However, the work of Krueathep does not focus on the regional or smaller local level, which might yield the different results due to the different size. What's more, the work of Kurata & Ikemoto (2012) also studied about the decentralization and economic development in Thailand, but their work tries to compare the fiscal autonomy, fiscal capacity, and level of educational decentralization among regions in Thailand more than evaluating whether or not and to what extent that the decentralization affects regional economic development. Considering that there is no research mainly focuses on this topic in the regional level yet in Thailand, this paper intends to fill this gap by studying about the relation between decentralization and local economic development, focusing the case of Northeastern region of Thailand.

¹ For example, the works of Oates (1993), Bird (1993), and Gramlich (1993).

² Please see the works of Nagai et al. (2008), Rohitarachoon & Hossain (2012), and Suwanmala and Weist (2009).

The author of this paper, however, acknowledges about wide scope of the terms ‘decentralization’ and ‘economic development’ and realizes that it is really important to provide the definitions of these two terms. Moreover, in the following part, the paper would also address about the research question, objective and scope of the study, methodologies, along with the hypothesis. Following this introduction, the second section will provide a literature review about theories and empirical studies of decentralization. The third section of this paper will begin with the explanation about what decentralization is and how it works in Thailand. The fourth section will give a brief background of the Northeastern economy, and its change and development, along sides with the significant historical events in Thai political context. The fifth section of the paper would try to assess the impact of the decentralization on the development of Northeastern economy in an aggregated level. The conclusion section will offer some further discussion about whether or not, and to what extent, that decentralization contribute to the change and development of local economic development. The limitation will also be addressed at the last part of the paper.

Research Question

This paper aims to answer two questions:

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

Hypotheses

The paper hypothesizes that the decentralization process in Thailand does not directly promote local economic development. However, it indirectly generates the economic growth and development in local level by increasing fiscal capacity and decision-making power of local governments. Once local governments gain more fiscal resource and decision-making power, they then could initiate and implement development projects to their communities. By spending the budget in the community, it implicitly increases local employment, enhances household income, and boosts economic activities in local level. However, there are some prerequisite conditions that local governments need to acquire. They are as following;

- 1) Local governments need to be democratically directly elected
- 2) Local governments need to have autonomy and discretion to implement their own policy at least one policy (Triesman, 2007).
- 3) Local public has tools to check and examine the local government

Moreover, the paper also hypothesizes that decentralization process is not only one contribution to local economic growth in Northeast Thailand. It is the collaboration of decentralization and national economic policies since the turn of 21st century that caused change and impact on economic development in the Northeast region.

Objective of the Study

The goal of the paper is to understand the relation between the decentralization and local economic development in Northeast. Moreover,

the paper would like to find whether the decentralization process in Thailand needs any prerequisite conditions in order to promote the local economic development or not. The paper aims that the findings could contribute to the process of policy reform in Thailand, especially in the realms of local governance area.

Scope of the Study

Since the paper aims to study about the relationship between the decentralization and local economic development in Northeast, Thailand, hence the period the it will heavily focus will be the period since decentralization act is promulgated, which is from 1999 onwards. However, in order to give a clearer picture about the development in Northeast region before and after decentralization took place, then it might be useful to portray and give some background about the economic development in the region and also in Thailand prior to 21st century which is the period that decentralization causes the impact on.

Methodology

The paper would reply on three sources of data as followed:

- 1) Laws, regulations and official documents from government agencies in both central and local levels.
- 2) Journals, books, and articles related to the decentralization and economic development in Northeast region.
- 3) News from both television programs and online and offline newspapers, along with the public surveys.

This research will use the method as ‘descriptive analytical’ to unfold the relationship between the decentralization and local economic development. The economic data such as Regional GDP would also be utilized, but would not use as only key data for explanations. Due to the limitation of Thailand’s data in many aspects, from the data about infrastructures to regional literacy rate, the paper then will also employ the public survey as one mean to evaluate the impact of decentralization on local economic development.

Definitions

Decentralization:

Simply, the decentralization means the devolution of functions, resources, and decision-making power to the sub-national government. However, decentralization can be divided in three or more types. The common types of decentralization, which appear often are these following three; administrative, fiscal, and political ones. Treisman (2007) mentioned in his book that ‘administrative’ seems to be the lower form of the decentralization, mostly involved the transfer of the administrative functions but without decision-making power. ‘Fiscal’ decentralization involves the transfer of fiscal resources to sub-national government, and also the authority to collect the local taxes. The ‘political’ decentralization involves the devolution of decision-making power, which means the sub-national government has exclusive authority to make decision on at least one policy issue. Considering what occurred in Thailand, and reviewing the 1999 Decentralization Act along with the 1997 and 2007 Constitutions, hence the decentralization in Thailand can be categorized as administrative, fiscal, and

political (Nogsuan, 2015)³. However, for the purpose of the convenience of the audiences of this paper, if not stating other things, the term ‘decentralization’ means ‘administrative, fiscal, and political’ and may use interchangeably throughout the rest of the paper.

Economic Development

The term ‘economic development’ is different from the term ‘economic growth’. As the World Bank (2012) defines, the economic development involves with development in multiple areas, not only the increase in GDP or GDP per capita. It encompasses the increase in economic productivity as well as the improvement in human wellbeing; infrastructure, literacy, and health. In Amartya Sen’s *Development As Freedom* (Sen, 1999), he added political freedom and freedom of opportunity to be crucial aspects of economic development. In this paper, the term ‘economic development’ is not limited to only the increase in GDP, but also consists of improvement in human wellbeing, as well as the increase and satisfaction of public in freedom of choices.

³ Nogsuan, S. (2015, July 14th). Online interview.

Section 2: Literature Review

This paper discusses about the relationship between decentralization and economic development in Northeast region in Thailand. Therefore, it is imperative to divide the literature review into two parts. The first part considers the works that cover the historical review of Northeast, while the second part discusses about the decentralization and its impact on economic development.

Literature on History and Development of Northeast Region

The relevant literature on this part consists of work by Thai scholars and Western scholars. Somsri Chaiwanichaya's dissertation *The Thai Government's Policies to Develop the Northeast, 1951-1976* examines Thai government policies to develop Northeast from 1951 to 1976 (Somsri, 2005). She addresses that the development policies in the region were determined and shaped by social contexts during that period, such as internal politics, foreign politics, the economy and scarcity. During the 1960s to the mid-1970s, Somsri argues that the development projects that Thai government implemented were based on the national security objective, not directly for regional improvement objective. Nonetheless, the development projects changes the regional economy from subsistence-based agriculture to highly being involved with capitalism. Somsri's work offers useful background of the impacts of government's policies towards the region in the period prior to 1980s.

Charles F. Keyes's book, *Findings Their Voice: Northeastern*

Villagers and the Thai State, describe the history of Northeast (or in another name: Isan) since the formation of the region and narrates until present day that the region is the part of contemporary Thailand (Keyes, 2014). Keyes argues that the relationship between Northeasterners and Thai state since incorporation is full of repression, antagonism, and exploitation. Despite the poor natural endowment in the region, the locals learned to adapt and integrate themselves to national and global labor market. The integration with national and global labor system transforms them to become “cosmopolitan villagers”. In Keyes’s view, the northeasterners are not ignorant rural villagers anymore, but have become the Thai citizens with sophisticated understandings of rights and justice (Keyes 2014). The work of Keyes is useful because it provides an in-depth historical background of Isan and also provides the new concept of Northeastern people; “cosmopolitan villagers”, which is contrast to mainstream belief in Thai society.

Keyes’s another book *Isan: Regionalism in Northeastern Thailand* provides the distinctive characteristic of northeasterners (Keyes, 1967). He addresses that the northeastern people shares “regionalism” feeling, they identify their identity to the region more than to Thai state. This regionalism hence assisted the antagonism to exist until the late 1960s, which was the period that the book published. The book may not up-to-date, but Keyes’ regionalism concept is still valid to explain the identity of Northeastern locals and their reaction to central government’s policies until present.

Pattana Kitiarsa’s book, *Isan Becoming: Agrarian Change and the Sense of Mobile Community*, examines the change and development in Northeastern locals through their desires and ambitions: (Pattana, 2014).

Similar to Keyes, he addressed that the integration to global labor system since 1980s has transformed northeasterners to become beyond subsistent peasants. He also argued that the region has been rapidly developed since Post-Cold War period, not before, or after.

The study of Pruek Taotawin (2012) is in line with the work by Pattana. In his study “*New Isan*”: *Changing of Development in Century*, Pruek argues that the development in Northeast (or Isan) is the outcome of Thai state’s political and economic policies since incorporation (Pruek, 2012). Moreover, he analyzes the data from officials and concludes that region has been developed and transformed from subsistence economy to relied on market economy before the beginning of twenty-first century.

Chris Baker and Pasuk Phonpaichit’s book *A History of Thailand*, presents a historical background for Kingdom of Thailand (Baker and Phongpaichit, 2005). This book also sketches the evolution of Thai economy and politics, from the ancient era to the modern days. Though not specifically focuses only on Northeast’s case, this work is helpful to understand the change and development in the country. It helps giving the big picture and basic ground to understand Thailand and its dynamic populace.

In the work of Satitniramai, Mukdawijitra, and Pawakapan (2013), *Re-examining the Political Landscape of Thailand*, it presents one of the most up-to-date field researches about the political-socioeconomic changes in Thailand (Satitniramai et al., 2013). It addresses the arrival of new middle class, the new class of Thai populace that emerged from the institutional reform and economic development in two previous decades. The research

also reveals that as the decentralization took place at the turn of twenty-first century, local people tends to favor decentralization process since it brings many developments in their perspectives.

There are still many works related to the change and development in Northeast region, however, large body of works in this area mainly discuss about the period of development before 2000. The scarcity of works about Northeastern socioeconomic development in post-2000 is one of the limitations of this paper.

Literature on Decentralization and Impacts on Development

The impact of fiscal decentralization on economic development could measure in many aspects; from the rise in GDP to higher educational attainment. However, this part intends to review only the literature that measures the effect of decentralization on economic growth, macroeconomic stability, and poverty reduction.

As observed, a large body of scholars has been studying about the relationship between the fiscal autonomy and its consequences. In terms of economic growth, the study of Oates (1993) states that the fiscal decentralization could encourage economic growth. Bird (1993) and Gramlich (1993) also point out the benefit of decentralization to economic performance. Three of them address that the devolution of fiscal power to local governments enhances economic efficiency and may have a corresponding effect on economic growth. However, the effect may indirectly. As Martinez-Vazquez and McNob (2004) express the

decentralization may impact on other economic variables instead of directly affect the growth.

The traditional thought is that fiscal autonomy could bring efficiency and lead to increased social welfare (Oates, 1972). Couderc and Ventelou (2005) and Brueckner (2006) theoretically address that fiscal autonomy can generate higher labor outputs and contribute to higher steady state growth rates. Weingast (1995) also states that federalism which provides both political and fiscal autonomy to the subnational government is the key factor of the economic prosperity in eighteenth century England, nineteenth and early twentieth century US, and the China in the previous decades. In empirical work of Qiao et al. (2008), it also states a positive impact of fiscal decentralization on growth in China. The cross-section study of fifty-one developed and developing countries by Iimi (2005) supports the traditional wisdom. He finds that economic growth is greatly associated with the fiscal decentralization. The empirical study at local level by Stansel (2005) experiences the same result. It witnesses positive relationship between local decentralization and economic growth in metropolitan areas in the US.

Contrasts to the above-mentioned studies, many empirical evidences reveal the negative impact of fiscal autonomy to economy. Xie, Zou, and Davoodi (1999), Zhang and Zou (1998), Lin and Liu (2000), and Thiessen (2003) experience this negative evidence. The study from Davoodi and Zhou (1998) also states that fiscal decentralization significantly contributes to slower growth in economy. Some researches address that no correlation exists nor the impacts are not statistically significant. Woller and Phillips (1998) are unable to find the strong relationship between fiscal

decentralization and growth in their sample. While Martinez-Vazquez and McNob (2004) state that there is no direct effect of fiscal autonomy on economic growth, but the indirect effect on macroeconomic instability does exist.

The studies that evaluate the effect of fiscal decentralization on the macroeconomic stability are numerous, too. The results, as expected, also vary. Fornasari, Webb, and Zhou (2000) find that the increase in subnational government deficits and the central government expenditures might lead to the deficit in the successive period. Treisman (2000) and Rodden, Eskeland, and Litwack (2003) are unable to find the clear relationship between decentralization and inflation. Contrary to the aforementioned, Martinez-Vazquez and McNob (2004) finds the positive impact of fiscal autonomy on macroeconomic stability.

Regarding the poverty reduction, the effects of fiscal decentralization to poverty and income inequality are mixed. The work of Martinez-Vazquez (2011) suggests that the outcomes may varied, and mainly depend on the characteristics of each fiscal decentralization process. The study of Arze del Granado, Martinez-Vazquez, and McNab (2005) found that the expenditures spent on education and health service increased when fiscal decentralization was introduced. The increased budget spent on education and health service is related to the poverty alleviation, because they provide the basic necessary services. Thus, this study presents the positive relationship between the fiscal autonomy and poverty reduction.

The empirical evidence of improvement in public programs in Bangladesh, studied by Galasso and Ravallion (2001), could also best

describe the impact of decentralization. The studies of Von Braun and Grote (2002), Lindaman and Thurmaier (2002), and Sepulveda and Martinez-Vazquez (2010) are in line with the above-mentioned studies. The three works found the positive impact of decentralization on poverty when measured by the Human Development Index.

The critics of decentralization on poverty alleviation are numerous too. In many cases, the allocation of budget aimed to improve the public services may result in opposite way. The case study in Argentina by Ravallion (1998) found the decentralization generates the inequality in public spending in poor areas. West and Wong (1995) also discover that decentralization resulted in lower levels of public services in poorer areas of the PRC. Azfar and Livingston (2002) found no evidence of improved efficiency and equity of local public service delivery associated with decentralization in Uganda.

In brief, the results of decentralization on growth, macroeconomic stability, and poverty reduction are difficult to be drawn in a general conclusion. They are mixed, and varied case by case.

Section 3: Decentralization in Thailand

Thailand is a unitary state that has a long history of centralization. Since the state changes the regime from ‘absolute monarchy’ to become ‘constitutional monarchy’ in 1932, Thailand experienced long decades of Bureaucratic Polity (Riggs, 1966), which means the centralized bureaucracy held authority in administrating the state. The centralized bureaucratic system, however, had been challenged by the idea of decentralization that spreading throughout Thailand and the globe in the 90s. There were both domestic and international factors that facilitated the decentralization seed to grow in the land of strongly centralized state such as Thailand (Chardchawarn, 2010). The domestic factors involved the fast and high economic growth in the country in the late 1980s and the first half of 1990s, which led to the rise of civil society movement in the beginning of 1990s, and the public distrust of the centralized government and bureaucratic system which dramatically increased since the 1997 financial crisis (Kurata & Ikemoto, 2012). The international factors consisted of the World Bank’s attempt to promote decentralization to the developing country in the 1990s combined with the emergence of 1997 Asian Financial Crisis, which spread the distrust of the centralized government (Chardchawan, 2010). All of these factors helped leading to the structural reform in Thailand. In October 1997, the 1997 Constitution was promulgated after the long call and countless negotiations by many interest groups (Satitniramai, 2012). The 1997 Constitution was named as ‘People’s Constitution’ since provided essential tools for public to can participate in the formal political arena. One of the crucial tools was that it stated that the decentralization act should be established within two years after the promulgation of the Constitution

(Satitniramai, 2012). In 1999, therefore, the Decentralization Act had been implemented and many functions, resources, and decision-making power were transferred from the central government to local governments throughout country. In 2001, the ratio of local revenue to national revenue increased to around 20.68 per cent, compared to the previous decade in the 1990s, the time that Thailand was at its economic growth peak, which accounted only 13.8 per cent (see Table 1). It could imply that at the end of 20th century, and the beginning of 21st century, centralized Thailand has been transformed and head to the new era of decentralization, increases the power of local governments, and decrease the influence of the bureaucrats.

Decentralization: Concept

Decentralization is the complicated concept (Supasaward, 2012). It is also a dynamic concept and contains diverse meanings, objectives, and forms (Cheema & Rondinelli, 2007: 2). To simplify, decentralization involves the devolution of functions, resources, and decision-making power from central government to sub-national governments (Kumar 2006: 13; Crook and Manor 1998: 13). In general, there are three types (or forms) of decentralization. These can be seen as follows.

Table 1: The Ratio of Local to National Revenue

Fiscal Year	Percentage
1987	6.8
1992	8.2
1997	9.1
1999	13.8
2001	20.68
2002	21.88
2003	23.6
2004	21.9
2005	22.7
2006	23.1
2007	21.4
2008	25
2009	24.3
2010	24.2
2011	26.1
2012	26.8
2013	27.3

Source: Office of the Decentralization to the Local Government Organization Committee

1) **Administrative decentralization**: It seems synonymous to ‘deconcentration’ concept, which is decentralized in the operation but still centralized in the decision-making process to central government (Martinez-Vazquez, 2011). In other word, it transfers only the functions to the lower level government, but without the authority and autonomy.

2) **Fiscal decentralization:** It seems to become popular in many countries in recent decades. In this type of decentralization, the local units possess the authority to collect taxes and make a decision about the expenditures (World Bank, 2001). Fiscal decentralization normally allows local governments to manage the budget, but cannot initiate and create the new project according to the local needs. In other word, it needs to follow and do the projects that the central government suggest or order.

3) **Political decentralization:** This type of decentralization holds more decision-making power than previous two types. According to Treisman's (2007) definition, local units, which own politically decentralized power, would have exclusive authority to make decision on at least one policy issue.

In Thailand's case, it covers three types of decentralization; administrative, fiscal, and political. The central government transfers the functions, fiscal, and decision-making power to the local governments, and the local governments can collect the local taxes and initiate its own development projects to meet the local needs without the intervention from the central government.

It should be addressed that theoretically decentralization is believed that it can bring more efficiency since the local governments are closer to local residents and supposed to know the local needs and preferences and allocate and extract resources more efficiently than central government (Barrett et al., 2007: 2; Hadenius, 2003: 2). However, in reality, the decentralization in Thailand experiences the inefficiency and not fully

perfect, but it is not the purpose of this research to evaluate the imperfection of the decentralization in Thailand. This paper would discuss only the parts that related to the performances and roles of local governments that would have relationship with the local economic development.

Structure of Local Governments: Roles & Responsibilities

Since the 1999 Decentralization Act took place, the roles and responsibilities of local governments increase. To fully understand how local governments work, and what kinds of functions and services that this form of government provides, it is important to look at the structure of them.

Generally, the structure of the local governance consists of two branches: the Council and the Executive. The head of local governments belong to the Executive. Prior to the Revision of Decentralization Act in 2003, the electorates elected the Council, and then the Council selected the Executive. This structure, however, changed in 2003. Since the revised act was enacted, the electorates can now directly elect both the Council and the Executive branches (Satitniramai, 2012). What is more, in the new structure, the Executive branch and the Council can comment and give suggestions, but cannot dismiss each one. In effect, the Executive branch gains more power, stability, and legitimacy. At the same time, it has to account and response to public needs more than in the past. Furthermore, as the Executive branch does not need the approval from the Council branch in running the local development plans, thus the Executive cannot deny the accountability from the policies that it imposed (Satitniramai, 2012).

Now we know that, in local governance structure, the Executive branch (which consists of head of local government and the team) is

powerful and has to take responsibilities and accountability to the local people. But what are the functions and responsibilities that the local government has to carry and provide? In the decentralization act, it addresses that the roles and functions that the local governments have to response are as follow.

1) Infrastructure: Provision and management of traffic and transport, public works, public facilities, urban planning, building management, and etc.

2) Health and Hygiene: Provision and management of basic health services, livelihood promotion, and habitat development, etc.

3) Education: Provision and management of basic education from pre-schools to secondary schools, and etc.

4) Economic Promotion: Promote economic activities and related tasks in the community.

5) Culture and Nature: Preservation the community's traditional culture, parks, and forests, and collecting the community's garbage.

6) Security and Safety of Community: Mitigation and prevention of natural disasters, maintenance of the order and security of life and property in the community, and etc.⁴

It should be addressed that the roles and functions that transferred to local governments are quite basic but significant. These roles in the past were managed and controlled by the bureaucratic system, which, in a sense, seemed to be inefficient and ill equipped in term of management and allocation.

⁴ Summarize from the Office of the National Decentralization Committee (ONDC), cited in Nagai et al., 1997: 13.

15 Years of Decentralization and Its Success (or Failure)

Since the decentralization act has been imposed in the 1999, the decentralization took place in Thailand for 15 years. The time 15 years can be considered both short or long. However, considered the process of decentralization, which took place long before in advanced countries, 15 years of decentralization in Thailand (in 2014) could be considered as the beginning period, and may need to reform.

One key element of decentralization is to increase the share of local governments in national revenue. Since 2001, local governments throughout country receive increased fiscal resources comparing to the period prior to decentralization. However, local governments in Thailand still have limited capacity to manage and initiate the big development projects. The reason that lies behind is that the capacity to collect the local taxes is low, while the law allows not many important types of taxes for the local government to collect.

Table 2: Local Government Revenue in the FYs 1999, 2004, and 2008

Source of local revenue	FY 1999 (Preliminary million baht)	FY 2004 (Estimate million baht)	FY 2008 (Estimate million baht)
1. Locally Collected Taxes and non-tax revenues	17,516.8	25,006.8	35,223.1
2. Centrally collected taxes for local government	42,731.6	82,623.30	128,676.4
3. Shared taxes	-	41,100.00	65,000.00
4. Grants	37,499.3	91,438.0	147,840.0

Source: Modified from Charas Suwanmala and Dana Weist, “Thailand’s Decentralization: Progress and Prospects” in Shinichi Ichimura and Roy Bahl (eds.) *Decentralization Policies in Asian Development* (London: World Scientific, 2009), pp.210-211.

From the Table 2, it can be seen that there are four sources of revenues that the local governments can gain. It can be divided the four into the details as follows.

1) Locally Collected Taxes (accounts around 10 per cent with the decreasing trend)

(a) Land and Building Tax

(b) Land Development Tax

(c) Signboard Tax

(d) Slaughter and swallow nest duties

(e) Bird nest tax

(d) Tobacco/petroleum tax

(e) Locally collected non-tax revenues (Fees, Fines, Revenue from property and infrastructure services, and etc.)

2) Centrally Collected Taxes for Local Government (accounts around 35-40 percent with the decreasing trend)

(a) VAT (partial)

(b) Specific Tax

(c) Liquor Tax

(d) Excise Tax

(e) Vehicle Tax

(f) Property Registration Duties

(g) Gambling Tax

(h) Royalties for minerals

(i) Royalties for Petroleum

(j) Other

3) Shared Taxes (VAT (partial)): (accounts around 20 percent with the stable trend)

4) Grants: (accounts around 20 – 40 percent with the increasing trend)

(a) General

(b) Specific

From the information above, it can be seen that the capacity to collect local taxes of local governments is low, accounts only around 10 percent or less than that. There are two main reasons: the legal framework does not allow local government to collect the important with high volume taxes, and most of local governments in Thailand are small scale (sub-district local governments) which located in suburban or rural areas, not in highly economic areas⁵. Hence, the revenues that the local government can collect from the local residents are not high, compare to the urban areas.

Local Governments: Fiscal Capacity and Autonomy

In the works of Kurata and Ikemoto (2012), which studied about the decentralization and regional disparity in fiscal capacity in Thailand stated that the local fiscal capacity in the Northeast region is the lowest, and need to rely more on the grants from the central government. In fact, the trend of dependency on grants is increasing for all regions, from north, south, and central (Satitniramai, 2012).

⁵ The number of local governments in Thailand (or as known as “Local Administrative Organizations”) in total is 7,851, while the sub-district level local governments account around 5,667 units.

Asides from being low fiscal capacity, Kurata and Ikemoto (2012) claimed that the local governments in Northeast also has low autonomy. I would like to argue this point that, if we compare to the advanced country's standard, the autonomy of local governments in the Northeast, and other regions in Thailand, might be lower, but if we compare to the previous status before the 1999 Decentralization Act, the current local governments in Thailand gain more decision-making power than before. And by focusing on this, it means the local governments can initiate and implement many new development projects to match the community's needs, though it experienced the constraints in the fiscal resources.

Another argument I would like to make here is, the power of local government is gradually growing compared to the power of the long existed bureaucrats. During 15 years of decentralization period, the bureaucrats tried exerting influences to the local administration (Chardchawan, 2012). Their interventions are one of the obstacles that sometimes caused the local governance to step backward. But if we put the 1999 as the marked point, in the 21st century Thailand, the role of bureaucrats is relatively declining compared to the previous decades, while the role of local governments increase, not dramatically but, gradually overtime.⁶

Last but not least, the role of public participation since the 1999 Decentralization Act took place is increasing too. As mentioned before, currently the local residents can directly elect both the Executive and the

⁶ Krueathep et al. (2014) has divided the decentralization in Thailand into three phases; 1999-2001 as the golden era, 2002-2006 as the decline era of decentralization and the return of bureaucrats, and 2006-2014 (before the May 2014 Coup in Thailand) as the intervention period of bureaucrats and national politicians into local governance level. Although he points out the insertion of the bureaucrats and national politicians at local level, but the role of local governments gains more decision-making power gradually if compared to the period in 1990s. Please see more details in Krueathep et al., 2014.

Council members in the local governments. Furthermore, the 1997 Constitution and the 1999 Decentralization Act also guarantee the public participation and involvement in the local governance by stating and providing the tools for the public to recall the local governments. And during 15 years since decentralization, there are many cases of the local governments that were dismissed by the public's will⁷. This can be considered as the progressive movement in the local level, more than the national level, which there is no national politician has been recalled by the public's will yet.

In sum, since the 1999 Decentralization Act, Thai local governance has entered new period. There has been a dramatic change in local governance structure, the role of local governments increases, while the role of bureaucrats declines. Although the 15 years period could be considered as a short time for decentralization, if we consider that Thailand has more than hundred years of being centralized state. During this relatively short-15 year period, however, the decentralization process contributes to the change and development in Thailand, especially in faraway regions, which the paper would discuss in the following section.

⁷ From 1999 to 2009, there were 9 cases that the local electorates tried to dismiss the local governments that they considered had abused of power. Out of 9 cases, there were 3 successful cases that the public could achieve in dismissing the local governments. Please see more details in Satitniramai, 2012.

Section 4: Local Economic Development in Northeast

Background in 1980s and 1990s

The Northeast or Isan is the poorest region in Thailand. It has been the most backward region since incorporation into the modern Thai state in the late nineteenth century. Today, the GDP per capita in the region is still lowest, but improves dramatically also. The reason that why this paper chooses the Northeast region as a case study here is because since it is the most backward region, hence the development policy which imposed in the region may stand out and easily to assess. Moreover, during the period of 21st century, the Northeast region has change dramatically due to many factors. The obvious changes are the development in the economic condition, and also the change in perception and desire of the local people within the region. These changes occurred along with the launch of the decentralization process, which imposed throughout the country. To some extents, the decentralization and the change and development in the Northeast region might have some relations, and is useful to study more about this.

Before going to far, let me give the background and basic information about the Northeast first. Geographically speaking, Northeast situates in the Khorat Plateau, on the left bank of Mekong River, next to Laos and Cambodia's borders. It is the largest region in Kingdom of Thailand, which occupied an area of 168,854 square kilometers and contributed nearly one third of total land area. As of 2014, Northeast contains 20 provinces and 21,775,407 people (Ministry of Interior, 2014). Again, the region's populaces account for one third of the total of Thai population. In term of

election arena, Northeast takes up 12,443,324 constituencies and 12 electoral districts (Ministry of Interior, 2014), which is the largest in comparison with the rest of the other regions. Nonetheless, in terms of economic growth, as mentioned before, the Northeast is far behind from the others. The per capita income of the region is below the average per capita income of the whole kingdom. The relatively slower development compared to other regions has existed in the long history of Northeast since it was incorporated into Thai state in the late nineteenth century (Keyes, 1967). However, the situation changed in the late 1980s.

In the late 1980s to the beginning of the 1990s, Thailand had experienced the highest economic growth in the world at that period. Northeast region, which is the most backward region in the country also benefitted from this growth. However, it did not mean that the highest growth had caused and brought several development projects to the region. In contrast, the highest growth of Thai economy at that period had brought the Northeastern laborers to seek jobs and careers outside the region. The people of the Northeast migrate seasonally in the past, but just for a short period of migration. But the boom of the Thai economy facilitated the length of migration to be longer than in the previous decades. However, the big development projects rarely expanded and benefitted the region directly.

Though the economic boom period in Thailand seemed to concentrate only in Bangkok, Central, and Eastern regions, but the Northeasterners experienced spillover effects from the national development plans too. During 1980s and the mid of 1990s, there were three national development

plans launched; the Fifth (1982-1986), the Sixth (1987-1992), and the Seventh (1992 – 1996). Each plan had its main objective, and to some extent, had generated developments to the Northeast. Overall, the number of people who lived below poverty line declined sharply over two decades, the per capita incomes increased (NESDB, 2015), the enrollment rate of secondary education expanded, and the infant mortality rate fell (NSO, 2015). In the regional economic composition, there were changes in gross regional products share. In 1997, agricultural sector accounted less than 20 percent of gross regional product, while the trade and service contributed around 60 percent. Agricultural sector did not contribute largest in the gross regional product anymore (Ministry of Interior, 2013).

In conclusion, development in Northeast during 1981 to 2000 largely was the result of national development plans. The national schemes that planned in Bangkok, by the Bangkok based planners and their expatriate colleagues contributed for remarkable national and regional economic growth. The growth enhanced the standard of living, and also reduced the number of people who lived below the poverty line. Northeast region involved more in trade and service, leading to the rise in the per capita. The number of who enrolled in the secondary school increased. However, the growth generated income disparities among the Northeast urban and rural areas. Together with the development, there emerged the civil society movements and the call for public participation in the government policy-making processes. Aside from development, this seems to be a very good root to grow the decentralization seed in Thai traditional political system.

Economic Development in Northeast in the 21st Century

In the late twentieth century, there emerged two important events that consequently impacted Thailand in the following decade. First is the outbreak of the 1997 Asian Financial Crisis that caused devastation in Thailand and neighbors' economy. Second is the arrival of the 1997 Constitution, which was claimed as the "People's Constitution" (Satitniramai, 2012). It is said that the latter one was made possible because of the eruption of the former: financial crisis. The deep damage of the crisis provided no choice to politicians but to introduce the sign of hope in the name of new constitution. Unlike the predecessors, the 1997 Constitution offered new tools that would strengthen power of the prime minister, and at the same time, promote the public participation. In other word, the Constitution had changed the rules of the game. The impact of change in rules spread immensely throughout the nation. As a part of Thailand, the Northeast has been affected by the change in the rules too. The outcomes, however, seem to be profoundly dramatic in this poorest and neglected region. At the beginning of twenty-first century, the institutional reform (or the establishment of the 1997 Constitution) has formed a new foundation to Thai politics. This foundation would gradually take deeply root and become the fertile ground for many dramatic changes in the Isan in the following decade.

There are three important changes occurred in Isan in the twenty-first century. First, there emerges the "new" economic class, which has been called as "the new middle class" (Satitniramai et al., 2013). Second, the

attitudes of the local people towards the central government and the authorities have been changed. Third, the political awareness among the people, especially in the Northeast has risen. These changes combined together have transformed Isan substantially like never happened before in the past.

4.1) Economic Change: The emergence of the new middle class

The Isan economy has transformed extensively in the twenty-first century. Although the agricultural sector still accounts more than 50 percent in the labor forces, the share of agricultural products declines gradually and accounts same amounts as the industrial sector does. In contrast, the service and trade sector grows fastest and contributes for over three fifths of the gross regional product in 2013 (NESDB, 2015). In addition, the border trade between Thai and Laotian borders increases dramatically (Taotawin, 2012). Though per capita gross domestic product in the region still ranks lowest, but the growth rate of Isan economy in the second half of the 2000s performs highest. From 2007 to 2011, the economic growth in Isan reached 40 percent, against 23 percent for the whole kingdom and 17 percent for greater Bangkok⁸. However, the economic performance in 2014 was slowdown due to the overall slump that resulted from political turmoil in the previous years.

What's more? In contrast to the previous decades, the northeasterners in the twenty-first century no longer live in the subsistent

⁸ Carsten, P., & Tempahirojana, P. (2013, June 15). Thailand's boom: To the northeast, the spoils. *Reuters*. Retrieved from <http://www.reuters.com/article/2013/06/16/us-thailand-northeast-idUSBRE95F00H20130616>, last accessed May 01st, 2015.

agricultural-based economy. As mentioned earlier, though the number of people who work in the agricultural sector still accounts more than 50 percent of the labor forces, but the share of agricultural income in household income accounts less than 50 percent (see Table 3). In other word, the households in the northeast rely on the non-agricultural income (wage, salary, remittance, etc.) for more than 50 percent of total household incomes. The income from agricultural sector is not their primary source of income anymore.

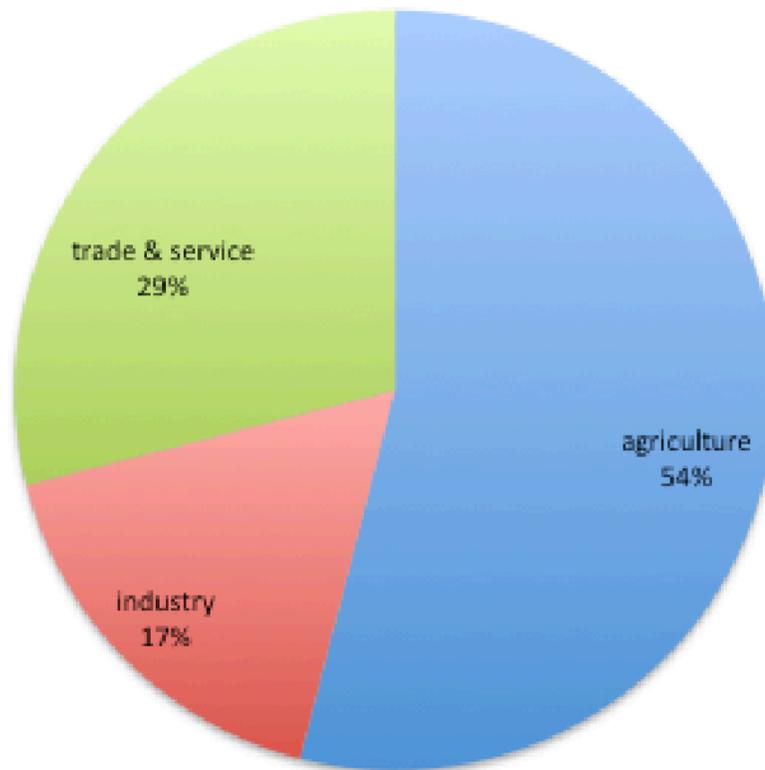
Table 3: Percentage of Total Household Incomes, 1986 – 2004

Income by region	1986	1988	1990	1992	1994	1996	1998	1999	2000	2001	2002	2004
Central												
Farm/total income	0.65	0.7	0.66	0.66	0.62	0.53	0.67	0.7	0.61	0.59	0.68	0.58
Wage/total income	0.25	0.2	0.2	0.24	0.29	0.28	0.24	0.2	0.29	0.3	0.23	0.32
North												
Farm/total income	0.62	0.61	0.64	0.53	0.49	0.54	0.5	0.47	0.48	0.47	0.54	0.49
Wage/total income	0.28	0.25	0.25	0.32	0.36	0.46	0.32	0.29	0.33	0.33	0.29	0.35
Northeast												
Farm/total income	0.66	0.53	0.55	0.52	0.37	0.65	0.44	0.37	0.36	0.42	0.38	0.38
Wage/total income	0.23	0.25	0.26	0.26	0.34	0.26	0.32	0.38	0.34	0.31	0.31	0.34
South												
Farm/total income	0.6	0.69	0.67	0.66	0.64	0.39	0.66	0.56	0.58	0.54	0.59	0.62
Wage/total income	0.29	0.22	0.25	0.25	0.27	0.33	0.25	0.33	0.31	0.34	0.31	0.26

Note: Total cash income is not included in-kind income. Part of wage income is the payment to hire agricultural worker, but cannot be separated in the survey data.

Source: Calculated from NSO, Socio-economic survey, various years. Taken from “Re-examining the Political Landscape of Thailand” (Satitniramai et al., 2013), Table 5, pp.91.

Figure 1: Percentage of Workforce by Sector in Northeastern, 2009



Source: Bank of Thailand, Northeast Office

While many of labor forces gradually involve in non-agricultural sector, but the image of the Isan people that has been repeated in the mainstream media Thailand maintains the same as the poor peasants.

Though the number of the poor in the Northeast accounts highest if compared to the others, but the poverty rate declines considerably since 1990s (see Figure 2). The number of people who live below the poverty line drops, while there emerges of the ‘new’ middle class (Satitniramai et al., 2013). The new middle class is, in fact, the lower middle class⁹. It is the phenomenon that occurred nationwide due to the economic growth, social structural change, and institutional reform in the last decade. The new middle class earns average income per person between 5,000 – 10,000 baht (around 15,000 – 30,000 yen) and accounts for 40 percent of households in Thailand (Satitniramai et al., 2013). Though the data does not indicate that how many of the northeasterners are counted in the new middle class category, but since the number of the northeastern populous that are out of the poverty incidence increases sharply, then it can be assumed that the share of the northeasterners in the new middle class populous may sizeable. This new middle class accounts as a great number of the electorates. In contrast to the long established and “old” middle class (middle and upper middle class), the new class is different in term of careers and educations. Most of people in the new middle class are in the informal economy and live without the social safety net. Therefore, the new class tends to prefer the social-welfare related policy such as the “30 baht (100 yen) Universal Healthcare”, which initiatives by the Thaksin Shinawatra administration in 2002. In other words, their social safety net increases by the policy that was the outcome of the election campaign of the political party. Hence, this causes the new middle class to favor the electoral and formal politics.

⁹ The term “lower middle class” is used by Nithi Eawsriwong in the interview with the Nation (2011): <http://www.nationmultimedia.com/2011/03/18/national/Lowermiddle-class-need-inclusion-Nithi-30151182.html>.

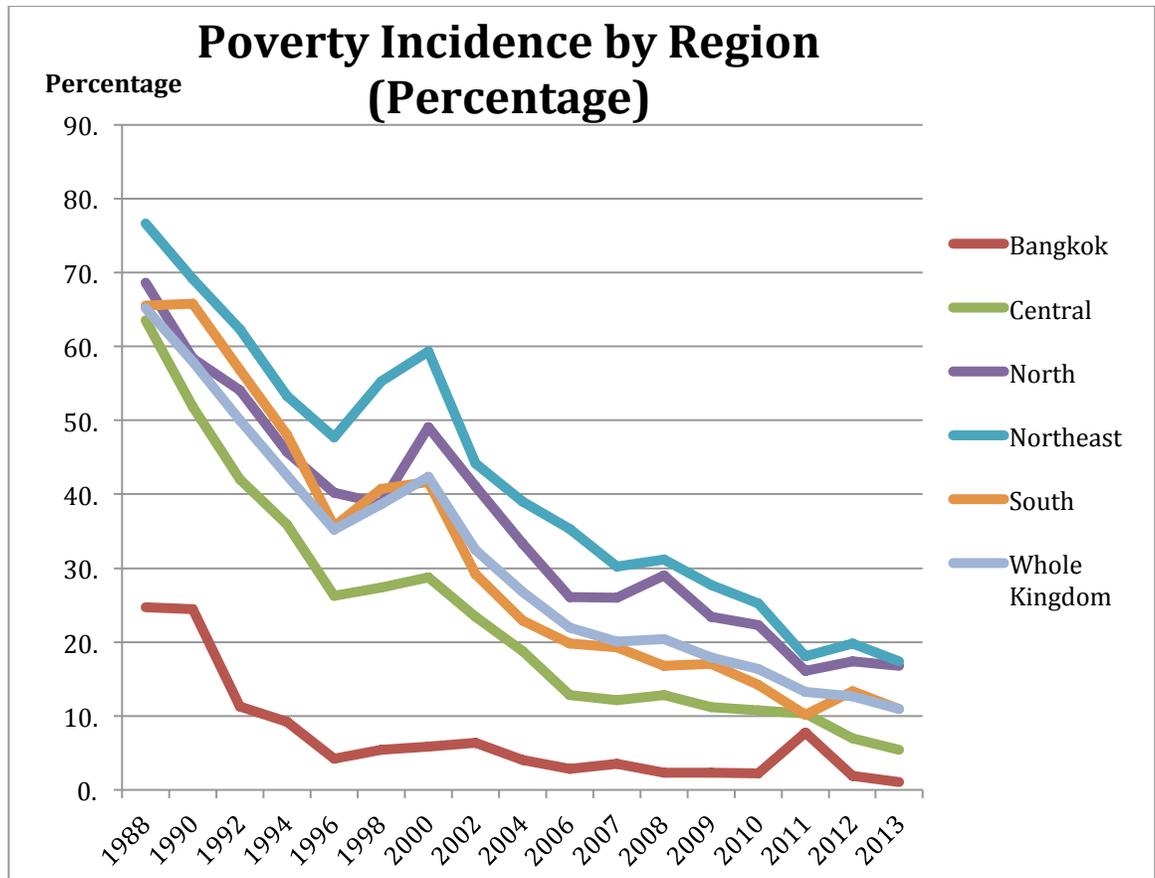


Figure 2: Poverty Incidence by Region, measured by expenditure

Source: NSO, 2015

Another economic change that occurred in Isan during the twenty-first century is that the rise of household debts among the northeastern households. In 2009, 75.2 percent of the Northeast households have debts, dramatically increases from 49.5 percent in the 1994 (NSO, 2010). Many scholars and mass medias blamed the surge of the household debts as the results from the populist policies, which are the legacy of the Thaksin administration. One of the policies that was usually blamed is the “Micro

Finance Village Fund”, that distributing the financial resources to the community and allowing the local people to access to capital loans. It is not clear if the “Village Fund” has facilitated the local residents to access the loans and caused rise in the household debts. However, contrast to what scholars and mass medias have believed, the 60.8 – 66 percent of household debts in 2004-2009 were used as the investment, not for the household expenditures (Satitniramai et al., 2013).

The increase in investment debts seems in line with the increase in local enterprises such as café, food stands, and vehicle repair shops in the Northeast. During 2001 – 2005, the number of local enterprises in the Northeast increases significantly; from 154,090 shops to 171,202. At the same time, the average number of the household labors in the region also declines; from 3.59 persons per household in 1999 to 2.87 persons per household in 2007 (Taotawin, 2012). What could we infer from the data? It may not obvious, but the decrease in household labors may reflect that people shift from the agricultural sector to another sectors such as trade and service. The increase in the local enterprises seems to get a long with the foresaid assumption.

At present the trade and service sector in Isan grows sharply and accounts third fifths of total regional GDP (Carsten, P., & Temphairrojana, P, 2013). The Isan locals gradually shift from the agricultural sector to involve more in other sectors such as industrial and trade and service. This shift causes local people to be in need of more communication and good infrastructure. The growth in economy has created the new class that comes with the “new” needs and aspirations, which needs the institution to

response to in the faster speed level.

And it is this point in time that the populist policies and decentralization can contribute to the local needs.

4.2) Political Change: Populist Policies, Decentralization, and the Rise of Local Political Awareness

Definitely, we cannot understand what happened in Isan in the twenty-first century without mentioning what happened in Thailand in the same period. The establishment of 1997 Constitution opened the new direction to Thailand. Unlike the previous constitutions, the 1997 Constitution reinforced the power of prime minister, as well as advanced the public participation. The 2001 government that was in power after the promulgation of 1997 Constitution was able to introduce many unprecedented policies, which, in the later decade, substantially impacted on socioeconomic of Thailand. These policies were claimed as populist. It was believed that the impact of populist policies generated more benefits to the grassroots than to the old establishments and the existing middle class. There were many policies that were innovated at the beginning of the 2000s under Thaksin administration, but the most important are two ongoing policies; the “30 baht (100 Yen) Universal Healthcare” and the “Micro Finance Village Fund”. The 30 baht Universal Healthcare (later renamed and restructured to be “Universal Health Coverage”) allowed all Thai citizens out of government officials and social security systems to can access to the healthcare by paying only 30 baht (around 100 year) per visit. Although the

domestic scholars and the mass medias massively criticized the policy, many Thai people, especially the grassroots, prefer it. The policy was claimed that it help reducing the household expenditures. In the same way, the Village Fund helps the people to access to micro credits. It was believed that once the household expenditures in health sector decreased while the households could access to more financial resources, the purchasing power would increase, thus multiplying economic growth. The outcome may not that spectacular as the Thaksin administration expected, but the policies generated the moderate growth after the devastated crisis in 1997. The poorest region such as the Northeast Thailand, as a consequence, gained the relatively high benefit both from the two populist policies as well as enjoyed the growth in Thai economy in the first decade of the new century.

The policies that provided the access to social welfare (such as the 30 baht Universal Healthcare) and capital (such as the Micro Finance Village Fund) gradually caused people to aware about their power as the political voters. As aforesaid sections portrays, the Northeast villagers and the grassroots were left out of the process of the policy-making process for so long in the history of Thai bureaucratic polity. In his most-cited article, “A Tale of Two Democracies: Conflicting Perceptions of Elections and Democracy in Thailand”, a Thai scholar Anek Laothamatas (1996) explained that the rural people were the basement of the election, but the decision making process would occur in the Bangkok and most of the time decided for the benefit of the urban people. Hence, the populist policies under the Thaksin administration, for the first time in history, generated the benefit to the people in the rural areas such as the many parts in the Northeast. People did enjoy of what they received and aware that what they

got were the results of the promised policies which the elected government (Thaksin administration) assured to make them possible during the election campaign in 2001. They then realized that their vote could elect the government that could bring change and development to their lives. The local people, especially in the Isan, who gained the benefits from the populist policies of the Thaksin administration, then were aware of their power in the electoral and formal politics.

The awareness has been really strong in the North and Northeast region. There are many reasons to explain why the two regions revealed the strong satisfaction towards the Thaksin administration's populist policies, but the main reason may be that these two regions are the most lack behind regions in Thailand. Thus, once the resources were distributed to the relatively poorer regions, the impacts then seemed really strong in the perception of the people in the two regions. The national policies of the Thaksin administration, in their views, not only channeled the resources, but also offered the new and better opportunity to their lives.

The awareness of their political powers was also encouraged by the fiscal decentralization process that officially took place in 2001. During the 1999 - 2001, the share of local governments' expenditures to the total expenditure of central government increased to more than 20 percent (for the ratio of local revenue to national revenue, please see Table 1; and for budget allocation to Northeast, please see Table 4). In other words, the local governments had more fiscal resources to manage the development plans in the communities. In 2003, the amendment in the related law of Decentralization Act allowed the local residents to directly vote the head of

local government (in Executive branch). In this rule, the voters thus could decide to vote or not vote for the head of local government candidates. The chief of the local government, in exchange, need to be accountable and responsible to the local voters otherwise they would lose the chances to win in the next local election. In this way, the local residents are aware of their political powers in both local and national level, and engage more in the formal politics than in the previous centuries.

Table 4: Total Budget Allocation to Northeast Local Government (million Baht)

Year	2009	2010	2011	2012	2013
Local Revenue	90,966.42	89,234.36	105,236.48	130,205.64	148,711.91

Source: Department of Local Administrative Office, Ministry of Interior

The realization of the political rights of the Isan people might partially be the result of the more access to education and technology. Like everywhere in the twenty-first century world, the local people in the northeast could easily access to the information and gained new perceptions of the modern world through new media. In addition, the migration among the Isan laborers to find the work abroad which occurred since the 1980s had expanded their horizontal knowledge about the modern world. Unlike traditional believe that widespread in the Bangkok people and among the television dramas, the Isan locals in the twenty-first century are not ignorant, passive, and lack of knowledge of the modern world anymore. In contrast,

the Isan locals more engage in the politics, and eager to learn more about the modern concept of democratic value. The Isan locals in the twenty-first century are not the ignorant peasants but are Thai citizens with sophisticated understanding of right and justice (Keyes 2014).

4.3) Pattern of Relationship Change: Silent No More¹⁰

It is believed that the relationship between Thai state and the northeasterners has changed in the twenty-first century. Isan is still relatively poor, but the largest numbers of populaces and the constituencies have caused Isan to be in the consideration of the Thai rulers. In fact, many parties have considered Isan region to be the great support base for their votes for many decades, but the Thai rulers have never taken into account the needs and aspirations of local people. However, the rise of Thaksin administration in 2001 has changed the rule of the game. In the 2001 general election, Thaksin's newly established party, Thai Rak Thai (TRT), gained huge supports from the northeastern electorates.¹¹ The same result repeated itself in the 2005 general election. The Northeasterners reelected the TRT (and its succeeding proxy parties in 2007 and 2011) because they realized the party has taken their needs and aspirations into considerations. It seems to be the first time that the local people in the neglected region become aware of their political power. This awareness has contributed to the change in the relationship between the northerners and the Thai rulers. The northeasterners in the twenty-first century are more aware of their rights, and

¹⁰ The term "Silent No More" was used as the chapter title in Charles F. Keyes's 2014 book, *Finding their voice: Northeastern villagers and the Thai state*.

¹¹ Also from the northern electorates.

would not hesitate to express their needs and aspirations in the political arenas.

The awareness of political right does not only affect the relationship between the Isan residents and the Thai rulers in the central government. It also causes change in the relationship between the local residents and their local authorities. Prior to the twenty-first century, the relationship between the local people and the authorities was vertical, not horizontal. The authorities would govern and order, and if any inefficiency occurred the local residents could not challenge or complain. In contrast, since the rule of the game has changed, the local authorities need to concern more about the public attitudes.

As has been told, the promulgation of the 1997 Constitution provided useful tools that eventually lead to the arrival of the 1999 Decentralization Act. Hence, the decentralization took place in Thailand at the turn of twenty-first century. The local governments gain more decision-making power and fiscal resources. Moreover, there has been the change in the rule in the local level. The local governments now are directly elected from the local residents.

It should be addressed that many local residents in Isan in this century shift to involve in non-agricultural sector; mainly in the local enterprises. Henceforth, the improvement in basic infrastructure and communication can be really beneficial to their trades and services. The expansion in education and the progress in health service could bring the positive impact to their lives too. Of all mentioned above are the roles and tasks that the local governments are highly responsible to.

According to the 1999 decentralization act and related laws, there are 6 specific functions that the local governments in each community need to take care of; infrastructure, education, health and hygiene service, economic promotion, culture and nature preservation, and security and safety in community (see Table 5). Since local governments are directly elected, then it is important for them to response to the local voters' needs. To serve the local residents, each local government needs to design and implement the development plans and policies that most suits the community. Undeniably, it is possible that the public may not feel satisfied about the local government's role. Indeed, the public attitudes toward the local governments can be varied due to the competency and capability of those governments.

In the public attitudes survey that published in 2014 reveals that most of local respondents in the survey, who lived in the communities for four decades and experienced the public services both from the bureaucrats (prior to 2001) and from local governments (since 2001); feel satisfied with the roles and tasks of the local governments in public service provision (Krueathep et al., 2014). In a question asking about whether the communities want the central government to take back the specific roles and tasks from the local governments or not, the majority answer is 'do not want to'. Moreover, of all the tasks under the local governments' responsibilities, the education and health services are two tasks that people feel satisfied with the most. The main reason is, the local residents feel that education and health services under the responsibility of the local governments helps lessening their household expenses. Once household expenses reduce, the local residents could accumulate more capital or use the capital for other important businesses.

Table 5: Functions and Responsibility of Local Government

Fields	Functions
1) Infrastructure	-Provide and manage local-level roads and streets -Provide and manage water supply and public sewerage
2) Education and Health service)	-Provide and manage the education in community; nursery, kindergartens, elementary, junior high, and high school -Provide and manage health and hygiene service
3) Health and Hygiene Service	-Provide and manage health and hygiene service
4) Economic Promotion	-Promote agriculture, forestry, commerce, industry, and other forms of economic activities in community
5) Culture and Nature	-Preserve community's cultures and nature and maintain community parks and forests -Garbage collection and manage the cleanness of the community
6) Order and Security	-Manage disasters, maintain the security in the community -Promote public participation

Source: Summarized from the Decentralization Act 1999

Section 5: Decentralization and Local Economic Development in Northeast Thailand

From all above changes that the paper has already portrayed in the previous sections, then here comes the question about what is the relationship between the decentralization and local economic development in Northeast Thailand. Moreover, if the decentralization would promote the local economic development, what kinds of prerequisite conditions that it need to acquire. Actually, there are many ways to evaluate the relation between the decentralization process and local economic development. In the local or regional level, many case studies that aim to study about the impact of decentralization on the local economic development would likely to use the statistical method to evaluate. In the following sub-section, this paper would analyze the data using statistical analysis (OLS) to draw the relation too. However, due to the lack of the systematic data in the regional level in Thailand, hence the statistical analysis might not yield enough thorough findings.

5.1) Decentralization and Regional Economic Growth in Isan: Statistical Analysis

In this sub-section, the paper would like to examine the relationship between the economic growth in Isan and decentralization, by employing a multiple regression analysis, utilizing time-series regional-level data during 2009-2013.

In the work of Krueathep (2010) when he examines the relationship between fiscal decentralization and macroeconomic growth in Thailand, he

employs the multiple regression model to analyze the national level time-series data during 1972 and 2008 (37 observations). He finds that there is no statistical (systematic) relationship between fiscal decentralization and Thailand's macroeconomic growth (Krueathep, 2010). In other words, it is no clear link to address whether or not the fiscal decentralization in Thailand exacerbate or support the economic growth. However, at the end of the paper, Krueathep (2010) also states that further research about case studies in another level, such as regional and local level, is needed to conduct to fulfill more understandings too. Since regional level appears in a smaller scale than in the national level, the results and findings might be different from his previous research.

In contrast to Krueathep (2010)'s thorough national dataset, in the regional level, unfortunately the paper finds that the availability of fiscal data on local government is so limited. The data from Department of Local Administration (DOLA) reveals the aggregated data about Isan's local governments revenue only from year 2009 to 2013 (5 observations). Due to the limitation in our data, the examination might not yield the comprehensive results as expected. To thoroughly examine, it may be important to employ another method also, which we would discuss this in the latter part of the paper.

Data and Statistical Analysis

Due to the limitation in accessing the relevant dataset, the paper would employ only accessible variables such as "Regional GDP" and "Revenue of Local Governments". Though imperfect, but these two data are

representing the economic development and the level of fiscal decentralization. In term of "Regional GDP", there exists the data from 1981 to 2013 (Table 6). Unfortunately, the data about "Revenue of Local Governments in Isan" exists only from year 2009 to 2013, which might be considered as insufficient to run the regression model. In term of other variables, which might contribute to the regional economic development in the Northeast, the adequate data consists only the data from "Investment" and "Population". The data about the "Education Attainment" in the Northeast region exists, but only two years: year 2002 and 2008. The data about "Regional Household Income" does exist, but represents only every two years: 1996, 1998, 2000, 2002, 2004, 2006, 2007, 2009, 2011, and 2013. The data about "Unemployment Rate in Isan" also exists, but due to the unique characteristic of Thailand's economic structure which the informal economy is very large, then "Unemployment Rate" could not adequately represent the correlation. Data for this study are compiled from multiple sources: Bank of Thailand, National Economic and Social Development Board of Thailand, National Statistical Office of Thailand, and Ministry of Education of Thailand. From all limitations mentioned above, the paper would utilize the following data, which represents in the Table 7.

Table 6. Data about Decentralization and Local Economic Development in Northeast: 2009-2013

Year	GRP (mil THB)	GRP Growth Rate %	Isan Local Revenue (mil.THB)	Ratio Isan Local to National	Population (1,000 persons)	Investment (mil.THB)
2009	692,137	6.568822133	90966.42	26.91	19,207	11,373.7
2010	732,027	5.763332883	89234.36	25.41	18,955	67,768.1
2011	785,713	7.33383296	105236.48	25.59	18,917	32,490.9
2012	846,000	7.672919363	130205.64	27.05	18,874	68,864.1
2013	871,454	3.008666941	148711.91	27.78	18,828	78,363.5

Table 7: Variables in Research

Variable	Explanation
Fiscal Decentralization	Aggregated Local Governments Revenue in Isan
Local Economic Growth	Regional GDP (nominal)
Regional Investment	Investment in Isan (nominal)
Population	Population in Isan (person)

Although the limitations, the paper employs the multiple regression analysis (OLS) and examine the relevant existing data in above table. In the first model, which examining whether and to what extent that "Decentralization", "Investment" and "Population" contribute to economic

growth in Isan, the empirical result indicate that there is a positive effect and not significant of decentralization on local economic growth ($c=1.946$; $p=0.13$), while the effect of investment and population on local economic growth are negative and also not significant ($c(\text{inves}) = -0.336$, $c(\text{pop}) = -254.879$; $p(\text{inves}) = 0.60$, $p(\text{pop}) = 0.23$).

While examining whether only decentralization variable impacts on the economic growth in Isan or not, the result finds that there is a positive effect and significant of decentralization on economic growth in Isan, with the R-squared 91.15 percent, $c = 2.773$, while $p = 0.01$.

At the same time, while testing whether the investment in Northeast from 2009-2013 contributes to local economic growth or not, the result indicates the positive effect and insignificant of investment on economic growth ($c = 1.912$; $p = 0.16$). However, due to the availability of investment and Regional GDP data which we have since 2002 to 2013, we decide to run separately examination. In contrast to the earlier evaluation, the result of the data from year 2002 to 2013 indicates that there is a positive effect and significant of investment on Isan's economic growth ($c = 3.126$; $p = 0.01$).

To examine the effect of decentralization and investment on the local economic growth, we decide to exclude the number of Isan population from the examination process. The result of the data from year 2009 to 2013 reveals that there is a positive effect, but not significant of both decentralization and investment on economic growth in Isan, with the $c(\text{decen}) = 2.418$, $c(\text{inves}) = 0.5$; and $p(\text{decen}) = 0.07$, $p(\text{inves}) = 0.51$.

While when we try the same thing with the *log data* of those three, the result is different; there is a positive effect of both decentralization and investment variables ($c(\text{logdecen}) = 0.341$, $c(\text{loginves}) = 0.032$), but only decentralization variable results in a significant way at p-value level 5% ($p(\text{logdecen}) = 0.04$, $p(\text{loginves}) = 0.24$).

From the examinations above using the statistical analysis, the results seem varied and do not suggest the results in the same direction. In some models, it could be conclude that the decentralization has no correlation at all with the growth in local economy, while in other models; we see that the correlation is highly significant. Since the lack of data that we experience, and also with the concern that the impact of decentralization (which took place after 1999 Decentralization Act) may take longer time to evaluate, then the paper should better employ another method to explain instead of using only the statistical analysis.

Relation Between Decentralization and Local Economic Development

It is mentioned before that the roles and functions that the local governments need to response and provide to the local residents are quite basic but significant. These functions and roles include; (i) Infrastructure provision; (ii) Health and Hygiene management; (iii) Educational provision; (iv) Economic promotion; (v) Culture and Nature preservation; and (vi) Security and Community safety services. From the six roles and tasks that the local governments have been transferred to, there are two responsibilities that are quite related to local economic development the most; (i)

infrastructure and (ii) economic promotion. The other four functions may generate the different outcomes depend on the location of the localities¹².

Once we decide that the roles and functions of the local governments that have potentials to generate the local economic development consist of four functions (as aforementioned), then the next tasks we have to do is to review whether or not these tasks contribute to local developments. From this point, it might be better to analyze and evaluate step-by-step using the existing data, which we have. However, due to the limitation of the existing data and documents in some aspects, such as the improvement in local infrastructures during this 15 years since decentralization, the evaluation and analysis process may be imperfect.

The Relationship Between Decentralization And Local Economic Development

Due to the lack of official data in regional level, it is indeed difficult to examine what kind of relationship that decentralization policy and local economic development have between each one. Anyway, this paper finds that the opinion survey recently conducted nationwide by Krueathep et al. (2014) is, to some extent, could suggest the helpful answer. In this survey, Krueathep et al. (2014) selected 110 local governments from all regions in a manner that could represent the whole population of local governments in Thailand proportionately. In his samples, the number of local governments from Northeast accounts for 32.7 percent of total samples, while the ratio of total local governments in Northeast accounts around 38.6 percent of total

¹² For example, if the localities locate near the tourist attraction areas such as the sea, then the role of cultural and natural preservation of the local governments would be really important to contribute to the local economic development.

local governments. It is clear that the sample size that Krueathep selected could satisfactorily represent the whole population of local governments. Therefore, employing the survey from Krueathep's 2014 research could suggest about the success or failure of local governments in term of local economic development to some extent.

This section would begin with the examination of the roles of local governments in relation to local economic development. Since the 1999 Decentralization Act was promulgated, the roles and functions that local governments need to be responsible are included 6 tasks: infrastructure provision, economic promotion, health and hygiene service, educational provision, culture and nature preservation, and security and community safety (Decentralization Act, 1999).

In these six basic yet significant roles, there are two roles that appear by tasks to be directly contributed to local economic development. Those two roles are infrastructure provision and economic promotion. The rest four roles may help improve the standard of livings in communities, but seem not directly facilitate the local economy. This is assumed from their potential tasks which given by 1999 Decentralization Act. However, in reality they may result in different and various consequences. As follows, the paper would try to examine whether the local governments succeed in executing the roles and tasks to enhance local economic growth and development or not. The first task to be examined is infrastructure provision, while the rest five tasks will follow up one by one.

Infrastructure

One of the functions that the central government transferred to the local governments is to provide infrastructure in each jurisdiction. Infrastructure provision is considered as important key to bring development, especially in the rural areas (United Nations, 2004). The improvement in infrastructure can support socio-economic development; from improved quality of living, increased per capita income, enhanced trade activities, etc. Prior to decentralization, most of infrastructure delivery projects were executed and managed by the state agencies, which sometimes delivered in ill-equipped and slow manners especially in rural areas. Since the 1999 Decentralization Act has increased the share of local to national expenditures from around less than 10 percent to more than 20 percent, the local governments therefore access to more fiscal resources. It is believed that many local governments in Thailand have largely chosen to install infrastructure projects over other social services because the local governments perceived infrastructure delivery as less complex than others. (Webster, D., & Theeratham, P. , 2004). Nevertheless, after implementing the decentralization process in country for 15 years (in 2014), the local residents give a response that they prefer the roles of local governments in delivering the infrastructure and do not want the state agencies to take back this responsibility by 61.46 percent¹³ (Krueathep et al., 2014). What's more, 66.76 percent of survey respondents answered that they have positive attitude towards local governments' new infrastructure projects. The groups

¹³ The survey which conducted nationwide asked whether the local populations agree that the state agencies could perform better than the local governments in the realm of infrastructure provision or not, the local respondents disagreed for 61.46 percent. See more details in Krueathep et al., (2014), Chapter 19: p.39.

that tend to favor the provision of infrastructure from local governments are people who live in the urban areas, while the people in rural areas feel satisfied more than 60 percent but still concern about the lower capacity of local governments in rural areas due to the smaller revenues they acquire (Krueathep et al., 2014).

Though the paper has a limitation to provide the data in the issues of improvement in local infrastructure provision (road networks improvement, household access to waterworks, electricity, telecommunication, etc.) due to the lack of available data from the related official agencies, but a relatively high satisfaction of local respondents in the survey could inform us that, during 15 years, the local governments provide a better and efficient infrastructure service to localities. Again, according to the United Nations (2004), the improvement of infrastructure provision is the important key to generate development.

Economic Promotion

Economic Promotion is one of the main roles of local governments in order to generate the economic development in the jurisdictions. Due to the legislation of decentralization act, the local governments have their own decision-making power to initiate any projects that could enhance economic activities and increase employment in the localities. Principally, the economic promotion projects in communities could be varied due to the diverse characteristics and locations of each jurisdiction, but most of local governments plans represent many similar projects: community market, career training and advising, community saving groups and funds, and also the pawnshop which operated by the local governments (Krueathep et al.,

2014: Chapter 21). In some big local governments, the projects related to investment and industry promotion may be introduced and managed, but the projects occur in some industrialized areas are rarely seen. However, the survey in 2014 reveals that 73 percent of respondents think local government's economic promotion role helped boosting local economy and increasing employment, while 61.2 of the respondents also think this role helped increasing household income and decreasing the local migration to another advanced communities, and 68.5 percent reply that the economic development in the communities is the contribution from eager and capable personnel of the local governments (Krueathep et al., 2014: chapter 17, p.14).

Overall, the local residents feel that the role of local governments in promoting local economy is moderately successful and help contributing to the localities than deteriorating.

Education Provision

Education is believed to be one of the keys of human development. In Thailand, educational system has been highly centralized for centuries, as well as many other public services. However, since the promulgation of 1999 Decentralization Act, the attempt to decentralize in education was introduced. Though the attempt was little achieved, since many related actors in this educational decentralization process tried to oppose (Krueathep et al., 2014), but in the pre-primary school level, the role of subnational government in serving the public service provisions to locality is considered successful and gain many applauses.

The survey of Krueathep et al. (2014) shows that in primary and secondary education, 47.8 percent of students choose to enroll in the school that operated and regulated by Ministry of Education, while only 15.9 percent enroll in the school that operated and managed by the local governments. However, in the pre-primary school level, 77.1 percent enroll in the Child Development Centers or Nursery Schools which run by the local governments, while 22.9 percent enroll in the institutions operated by the Ministry of Education. The survey reveals that the households prefer the local governments' education service in the pre-primary school level, but in higher level, they tend to prefer the service from Ministry of Education.

In overall level of educational services, 81.8 of households informed that the education provision from local governments helped reducing household expenditures. 84.1 percent responded that they preferred the educational service provided by their local government, and would not choose to enroll their children in another localities with higher standard schools. In the realm of satisfaction, the survey respondents feel satisfied with the educational service from local governments in a medium to higher level (Krueathep, 2014: chapter 17 page 5-6)

Though it could not directly evaluate the impact of local government's educational service on the local economy, but from the survey it could be concluded that the local residents are satisfied and find that the service from local governments generated benefits to community.

Health and Hygiene Service

The role of local government in providing the health and hygiene service in locality can be considered as highly successful. In the survey by

Krueathep (2014), 70 percent of local respondents responded that they could easily access to basic health services provided by local government.

Moreover, 60.8 percent of respondents think that local government personnel have high skills and knowledge and capable to provide good standard health services.

The same survey also reveals that the health and hygiene service provision of local government help improved and developed the standard of living in locality. Around 77.1 percent of the respondents answered that this service from local government help reducing healthcare expenditures in households, 80.2 percent thought the service facilitate households to live a better and healthy lifestyle, and 80.6 percent feel satisfied with the services that they received from the local government.

Culture and Nature Preservation

This role of local government consists of the tasks of garbage collection, preservation of parks and nature in the community, reduction of pollution, and etc. The tasks may not directly boost the local economic growth, but they are important since they involve in generating good environment in the locality that could represent the good standard of living. From the survey of Krueathep (2014), the local respondents reveal that there are only 16.5 and 8.9 percent of local governments that seriously take care of sewage management system and air pollution in the communities respectively. Nevertheless, the satisfaction level of respondents towards local government's role in culture and nature preservation is quite high. There is 62.1 to 73.5 percent of respondents feel that the local governments work really hard to preserve culture and nature within the communities.

Moreover, 73.3 percent answered that their communities become cleaner due to local governments' performance (Krueathep, 2014: chapter 17, p.17-19).

Security and Community Safety

In “Security and Community Safety” role, the local governments would take care in the business of community security, safety, and natural disaster. In this role, the respondents in Krueathep's survey (2014) feel moderately satisfied by local government's management. Around 74.4 percent of local residents trust the capacity of local governments in maintain peaceful environment and safety in communities, while 62.2 percent replied that their standard of living improved and secured by the performance of local governments.

Six Roles of Local Governments and Contribution to Local Economic Development

From the survey in 2014, we find that the local respondents feel satisfied about each role in different level. The respondents in the sample sizes mostly feel that the role of local government in infrastructure providing helps contributed to local economic growth and development, while the role in executing economic promotion could generate the development, but not highly as it should be. In contrast, the roles in educational provision and health and hygiene service contribute relatively highly in reducing household expenditures, which could imply that these two roles help enhancing household saving and implicitly contributing to local economic growth and development. The last two roles; culture & nature conservation and security & community safety; made local respondents feel satisfied, but

they are not directly contribute to local economic development. After the process of examination of six roles of local government, it suggests that although many roles do not directly help boosting local economy, but these roles of local government succeed in bringing the basic public services to communities and also improving the standard of living, which are important of local economic development.

The Relationship Between Decentralization and Local Economic Development and Prerequisite Conditions

From the above examination in each role of local governments, combined with the factors of changes and development in Northeast economy since the turn of 21st century, the paper finds that the decentralization process in Thailand does not directly promote local economic development in this poorest region. However, it indirectly generates the economic growth and development in local level by increasing fiscal capacity and decision-making power of local governments. Be effective in 2001, once the local governments throughout Thailand, also including northeast, start gaining more fiscal resources and decision-making power, they then could initiate and implement development projects to their communities. By implementing many projects related to six roles that were transferred from central government, the local governments implicitly boost local employment, enhance household income, and boost economic activities more than in the previous era. These growth and changes have not occurred by only one factor, it is the collaboration of decentralization and national economic policies since the turn of 21st century that caused this

impact in Northeast economy. With the limitation of data in regional level, it is indeed difficult to examine what factor contributes more and to what extent. Nevertheless, it can be implied that the decentralization also plays the facilitating role in boosting the growth and development in Northeast.

However, not all the decentralization could bring the development. To generate the local economic development, there are some prerequisite conditions that decentralization process and local governments need to acquire. They are as follow:

- 1) Local governments need to be democratically directly elected
- 2) Local government need to have autonomy and discretion to implement their own policy at least one policy (Triesman, 2007).
- 3) Local public has tools to check and examine the local government

Section 6: Conclusion

Put simply, decentralization is the devolution of functions, fiscal resources, and decision-making power from central to subnational governments. It means that the subnational government can access to more resources and powers to initiate and implement the development projects in locality. This cannot directly imply that it will generate the local economic development, since there are many contributing factors involved in the growth and development in local economy: economic conditions in national and international levels, spillover effect, investment rate, human capital in the region, infrastructure, transportation and communication, and etc. Due to the lack of official regional data in many aspects of economic development in the Northeast region, the paper holds a limitation to directly examine about the relationship between the decentralization and the local economy. Nonetheless, since decentralization transfers basic but significant functions from central to subnational governments, some of these functions; infrastructure, educational, and health provisions; involve in boosting local economy. Though the paper could not show the data about the improvement in infrastructure (length of good road network, numbers of households accessed to electricity and waterworks, household with internet access, and etc.) and the decrease in household expenditures, but using the nationwide survey from Krueathep's comprehensive research about decentralization in Thailand (2014) could at least show the satisfaction which local residents feel towards the subnational government's services. The satisfaction suggests about the local residents' trust on local government, and also reveals that the local residents feel that the local government's role helps improving local economy and their standard of living (Krueathep, 2014).

Acknowledging about the limited of official data in regional level of Thai local administration, the filed research and data collection in local level and across regions are recommended to conduct in the further research. Though the public survey and opinion may yield some useful results, but the systematic studies with the relevant economic development data could give a clearer picture to the relationship of decentralization and regional development more than without one.

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