

Growing Apart: Zambia and Thailand

Thorvaldur Gylfason *

In the 1960s, Zambia produced more output per person than Thailand. Today, however, Thailand's income per person is six times that of Zambia. Yet Zambia has received far more foreign aid than Thailand. Why did the two countries grow so far apart in one generation? What does the modern theory of economic growth tell us about the divergence between the two countries? This article compares their growth performance with broad strokes, and concludes that the experience of Thailand offers a number of useful lessons for Zambia and several other African countries.

What does it take to lift the yoke of centuries-old poverty from poor countries and lead them to prosperity? It is hard to think of social questions that are currently more pressing than this one. Some answers have emerged in recent years, although several issues remain unclear. In this brief article, I shall attempt to relate the story in broad comparative terms by telling a tale of two countries, one in Africa, the other in Asia.

Some thirty years ago, Zambia and Thailand produced the same amount of output per person. Yet now Thailand is six times more prosperous than Zambia. The figure describes the evolution of gross domestic product (GDP) per capita in both countries 1960-2003. Zambia was better off than Thailand until the 1970s, although both countries were poor. Zambia achieved independence from Britain in 1964 and since then has stood on its own as a free and sovereign state. Thailand was never colonized. Notice that within a few years, Thailand managed to recover from the economic and financial crisis that afflicted the country 1997-98 and spread to neighboring countries and beyond.

What can explain this large growth differential between the two countries? This is an urgent question for the people of Zambia where, generally speaking, poverty is an even greater concern than it was about forty years ago, at the time of independence. The same can be said about many other countries that have grown less rapidly than expected. What went wrong? How did Thailand, within a generation or so, manage to increase national income per person six times over? – while at the same time, in Zambia, the standard of living declined by a third.

Begin with foreign trade. In 1964, Zambia's economy was much more open to trade than that of Thailand. That year, exports of goods and services from Zambia amounted to 60% of GDP, compared with 17% in Thailand. In 2003, by contrast, exports in Thailand had reached almost 70% as compared with 20% in Zambia, a striking reversal. Investment in Thailand exceeded investment in Zambia by more than a third relative to GDP during the same period, averaging 29% of GDP in Thailand compared with 21% in Zambia. How about education? Around 80% of teenagers in Thailand attend secondary schools against one in three in Zambia. The difference is even greater at university level: around one in three young Thais attend university compared with one in fifty in Zambia. Official expenditure on education in 2000 amounted to 5% of GDP in Thailand, 2% in Zambia. What can we conclude from this? The Thais have done more than the Zambians to foster foreign trade,

* The author is Professor of Economics at the University of Iceland and has worked extensively in developing countries as a lecturer and consultant. He is the author of *Principles of Economic Growth* (Oxford University Press, 1998). Address: Faculty of Economics and Business Administration, University of Iceland, 101 Reykjavík, Iceland. Tel.: +354-525-4500. Fax: +354-552-6806. Email: gylfason@hi.is

investment, and education and have accordingly reaped a higher standard of living through more rapid economic growth.

This is not all, however. Zambia was, in essence, a centrally planned economy and exercised stringent state control of economic affairs, like Tanzania, until 1991. The consequences of the resulting inefficiency are still being felt. Thailand, on the other hand, is a market economy. Nearly 40% of the Zambian labor force worked in state enterprises 1978-1991, compared with 1% in Thailand. Another 40% of the labor force work in the official administration in Zambia against 8% in Thailand. Economic management and organization in Thailand have generally been much better than in Zambia. This inference is based, among other things, on the fact that inflation has been considerably less in Thailand than in Zambia, or 5% per annum 1964-2003 in Thailand compared with Zambia's 32%. High inflation can usually be attributed to lax economic management, and both will adversely affect long-term economic growth. Zambia's foreign debt relative to GDP is now about three times that of Thailand. This is important because a heavy debt burden weakens the growth potential of the economy. Thailand has industrialized, not Zambia. The proportion of manufactured goods in Thailand's exports has increased from practically nil in 1964 to 75% in 2003, while in Zambia it rose, also from nil, to about 20% in 2000, decreasing again thereafter. This is important for economic growth because manufacturing is an important source of innovation and progress that stimulates the economy and strengthens its growth potential in the long run. From the outset, Zambia has relied heavily on copper production for export. The economy of Thailand is more diversified and diversity is good for growth.

Let us move on. The birth rate has dropped in both countries as in most other countries worldwide, but fertility has fallen less rapidly in Zambia than in Thailand. Each Zambian woman now gives birth, on average, to five children, down from seven in 1964. At the same time, births in Thailand have been reduced from an average of six per female in 1964 to less than two today. With fewer children per household, each child can now be given more and better education, health care, food, clothing, and so on. In effect, the decision to have fewer children amounts to an investment in human capital or, more specifically, an investment in the improvement of existing human capital. Other social indicators reflecting public health and life expectancy point in the same direction, and this helps as improved health and longer lives go along with more rapid economic growth. The distribution of income among rich and poor is about the same in both countries.

Which country is more corrupt? *Transparency International* in Berlin tries to assess corruption in business and government in many parts of the world and publishes corruption indices that range from one in countries with pervasive corrupt to ten in those countries where corruption is negligible. These indices admittedly do not cover all forms of corruption – for example, through nepotism and other favors – concentrating instead mainly on bribery. Overall, Thailand is cleaner than Zambia, although only by a narrow margin: Thailand's corruption index was 3.8 in 2005 compared with 2.6 in Zambia. This can be important because recent studies suggest that corruption tends to impede economic efficiency and growth.

Furthermore, democracy has been in short supply in both countries for a long time, as in so many other places in the developing world. Political scientists have compiled 'democracy indices' that cover a large number of countries. These indices take into account democratic rights, freedom of association, free elections, freedom of the press, and other related things that are then weighted together to produce an annual index for each country. The democracy index is highest in the industrial countries (10)

and lowest in – do you want to guess? – Saudi Arabia, the world’s least democratic country in our time (-10). In Thailand, the democracy index was -7 when the country was under military rule, for example, most years from 1958 to 1976, but has been 9 since 1992, as in India and Botswana. The average democracy index in Thailand 1964-2003 is 2 compared with -3 on average in Zambia. The five-point average democracy difference between the two countries is a substantial one as it spans a quarter of the scale from -10 to 10. During the last few years, Zambia’s democracy index has been measured at 1, which is an improvement on earlier figures. This is important because, among other things, democracy appears to encourage economic growth by, for example, facilitating peaceful changes of government when voters deem this necessary.

Thus it is possible to discern several clear trends on the economic growth front. Some of the major determinants of economic growth around the world – exports, investment, education, market economy, stable prices, modest debt, industrialization, diversity, slow population growth, honesty, and democracy, to name eleven factors – predict more rapid economic growth in Thailand than in Zambia. It should, therefore, come as no surprise that Zambia has grown at a much slower pace than Thailand. The difference in economic growth in the two countries is a textbook example of one of the oldest lessons in economics, and in life: ‘you reap what you sow’.

Which of the two countries has received more development aid over the years? You guessed it: Zambia. Between 1960 and 2003, unrequited foreign financial aid to Zambia amounted to 12% of GDP each year on average, compared with 1% in Thailand. Even so, there was no discernible difference in development aid to the two countries until the early 1970s. Thereafter, their ways parted. The difference stems mainly from the fact that Zambia has still not found its feet and is, therefore, considered to need continued aid. Thailand is another matter. Some years, Thailand grants more development aid than it receives, for example, in 2003.

Would Zambia have fared better with less development aid? This counterfactual question is not easily answered. There are indications that massive financial aid tends to reduce the financial self-responsibility of the recipients, particularly if there are no strings attached, that is, if the aid is not subject to express conditions regarding the growth-friendly disposal of the funds. Experience shows that a significant proportion of unconditional development aid has not found its way to the intended recipients, but has been dissipated on the way, like water leaking from a bucket while being carried from one place to another. We do not really know how much the bucket leaks; we only know that it does, considerably. For this reason, some observers favor aid in kind, the type of aid that, for example, a corrupt government cannot easily confiscate, as well as conditional aid. In the latter case, the conditions are typically designed to monitor and reward good performance, whether it is measured in terms of profits from the investment projects undertaken or in terms of concrete improvements in economic management and infrastructure. This approach means that aid tends to be given to those nations that may appear to need it less because they have responded well to previous aid. Even so, this approach sends strong signals to developing country governments about the need to perform and achieve results.

Development aid can be a mixed blessing like other comparable gifts such as, for example, oil discoveries, if not properly managed. It is hardly a coincidence that democracy is not the strong suit of many oil-producing nations, from Saudi Arabia to Iran, Russia, Nigeria, Mexico, and Venezuela. Their governments are not keen for the opposition to gain access to the oil wells, and they take measures to try to preserve their own privileged access to the oil wealth. Generous aid can have a similar effect.

This phenomenon appears likely to be part of the reason why development aid has not resulted in a greater advance in the standard of living in Zambia and many other places, particularly in Africa. It is, therefore, a matter of urgency to ensure that development aid ends up in the right hands, so that it discourages neither economic growth nor political democracy. Development aid is like dentistry: through preventive care, it needs to aim toward ultimately becoming unnecessary. This goal will not be achieved in the near future, perhaps never, yet we must head in that direction.

Thailand's rapid economic growth since 1960 is not surprising. On the contrary, a country that fosters exports, investment, and education as Thailand did can expect to grow fast. Further, Thailand's pursuit of a well-functioning market economy, price stability, modest foreign indebtedness, industrialization, economic diversification, and slower population growth helped secure this favorable outcome. The modern theory of economic growth and the experience of other countries seem to suggest that Zambia and other African countries could do the same. Why not? To grow or not to grow is in large measure a matter of choice.

