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Although the Thai Rak Thai's populist policy on village fund and debt moratorium schemes had successfully gained political support from a vast majority of people, especially at grass-roots level, its goal on poverty reduction was miserably failed. See related article on page 15.

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Expanding the Number of Semi-skilled and Skilled Emigrant Workers from Southeast Asia to East Asia

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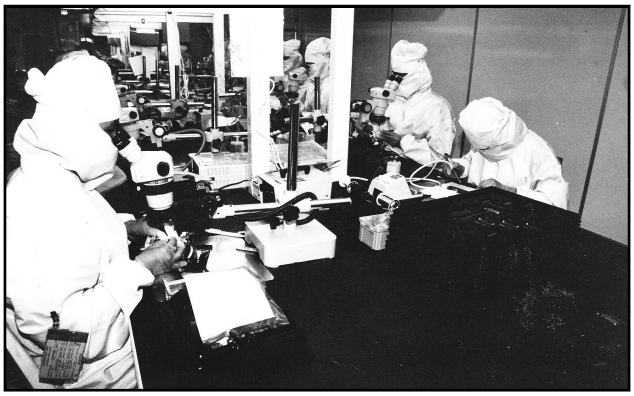
1. INTRODUCTION

Globalization links East and Southeast Asian economies not only through flows of trade, technology and capital, but also through the inter-regional flow of labor. Labor integration among the Southeast Asian and East Asian regions can be challenging owing to differences in economic, political and social situations. Unbalanced growth, a widening income gap, and border crossings between neighboring countries with strong ethic affinities contribute to a growing inter-regional labor market. Comparative advantage in wage rates is also a major driving force for labor migration between those regions. Leading exporting industries rely on cheap labor to remain competitive in their production systems. At the same time countries with rapid population and labor-force growth rates are able to supply labor to exporting countries. The imbalance between economic and social development between the labor-receiving (East Asian) and labor-sending (Southeast Asian) countries is likely to generate an increasing flow of migrants in the regional labor market.

This article is aimed at reviewing the highlights of major trends in international migration from Southeast Asian to East Asian societies (Japan, the People's Republic of China (PRC), and the Republic of China (ROC) or Taiwan), focusing on both highly-skilled workers and low-skilled workers. This paper describes the transformation of economic development and the labor market, patterns of movement of workers between Southeast Asia and East Asia, and migration policies, and provides a conclusion.



2. TRANSFORMATION OF ECONOMIC DEVELOPMENT AND THE LABOR MARKET

Differences in economic growth among the less developed countries and developed countries present gaps between richer and poorer countries. Large numbers of both low-skilled workers and highly-skilled workers from less developed Southeast Asian countries tend to move to more advanced countries. The significant gaps in 2005 among countries in the Southeast Asian region are reflected in per capita GDP: for example, in Singapore, the difference was 2.6 times greater than in Malaysia and 3.5 times more than in Thailand. The gap between per capita GDP in Singapore was more than 11 times higher than the GDP of Cambodia, the Lao People's Democratic Republic (Lao PDR) and Myanmar (Tables 1 and 2).

The income inequality among the developing and transitional economies in Southeast Asia and those in East Asia is likely to grow greater. The lack of job opportunities and low salaries in less developed countries like Thailand, the Philippines, and Indonesia serve to push the labor force elsewhere. The disparity in income may be one of many factors that explain emigration to the East Asian countries. Poverty in less developed countries and differences in wage rates force workers to migrate to exporting countries so that they can earn a better living and support their families in their home countries. Table 3 indicates the manufacturing wage indices among various countries.

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Table 1 Gross Domestic Product and Per Capita GDP of Selected Southeast Asian and East Asian Countries

	GDP[1/] (percentage)					GDP per capita[2/] (constant US dollars in 2000)			
	1995	2000	2005	2006	2007	1995	2000	2004	2005
Southeast Asia									
Cambodia	6.5	8.4	6.3	5.0	6.5	232	283	328	356
Indonesia	8.2	4.9	5.8	5.2	6.0	827	800	906	942
Lao PDR	7.0	5.8	7.3	7.3	6.6	273	326	372	396
Malaysia	9.8	8.9	5.5	5.5	5.8	3,468	3,881	4,221	4,434
Myanmar	7.2	13.7	4.5	7.0	5.5	n.a.	n.a.	n.a.	n.a.
Philippines	4.7	4.4	4.7	5.0	5.4	916	991	1,079	1,124
Singapore	8.0	9.6	3.9	6.9	4.5	19,152	22,767	23,636	25,443
Thailand	9.2	4.8	3.5	4.5	5.0	2,048	2,021	2,399	2,440
Timor-Leste	0.7	-6.9	6.6	n.a.	n.a.	n.a.	406	355	n.a.
Vietnam	9.5	6.8	7.5	7.8	7.6	305	397	500	539
East Asia									
Japan	2.0	2.4	2.0	2.7	2.1	35,304	37,409	39,195	39,592
Republic of Korea	9.2	8.5	3.8	5.0	4.3	9,164	10,890	12,743	13,210
China	10.5	8.0	9.0	10.0	10.0	603	856	1,162	1,445

Sources: 1/ IMF, World Economic Outlook Database, September 2006.
2/ World Bank, World Development Indicators, 2006.

Table 2 Population and Labor Force of Selected Southeast Asian and East Asian Countries

	Population[1/]					
	1995	2000	2005	2010	2015	2020
Southeast Asia						
Cambodia	11,368	12,744	14,071	15,530	17,066	18,580
Indonesia	195,649	209,174	222,782	235,755	246,813	255,853
Lao PDR	4,686	5,279	5,924	6,604	7,306	8,014
Malaysia	20,362	22,997	25,347	27,532	29,558	31,474
Myanmar	44,500	47,724	50,519	52,801	54,971	57,054
Philippines	68,396	75,766	83,054	90,048	96,840	103,266
Singapore	3,478	4,017	4,326	4,590	4,815	4,986
Thailand	58,336	61,438	64,233	66,785	69,064	71,044
Timor-Leste	848	722	947	1,244	1,486	1,713
Vietnam	73,163	78,671	84,238	89,718	95,029	99,928
East Asia						
Japan	125,472	127,034	128,085	128,457	127,993	126,713
Republic of Korea	45,007	46,779	47,817	48,566	49,092	49,393
China	1,219,331	1,273,979	1,315,844	1,354,533	1,392,980	1,423,939
	Labor force[2/] (age 15-64)					
	1995	2000	2005	2010	2015	2020
Southeast Asia						
Cambodia	5,084	5,410	7,994	8,267	10,297	11,394
Indonesia	86,182	98,742	108,361	110,432	128,117	136,917
Lao PDR	1,771	2,023	2,355	2,427	3,131	3,563
Malaysia	8,227	9,684	11,013	11,288	13,815	15,207
Myanmar	22,249	24,832	27,427	27,954	32,339	34,283
Philippines	27,399	30,761	37,093	38,294	49,170	54,475
Singapore	1,740	2,059	2,207	2,238	2,484	2,500
Thailand	31,501	33,586	35,715	36,136	39,071	39,781
Timor-Leste	317	256	383	n.a.	n.a.	n.a.
Vietnam	35,409	39,770	44,608	45,628	53,415	56,191
East Asia						
Japan	66,903	6,7705	66,702	66,361	61,650	59,646
Republic of Korea	21,300	22,501	24,121	24,341	25,895	26,301
China	708,783	745,715	782,782	789,652	826,250	818,466

Sources: 1/ UN Population Prospects 2004 Revision Database.
2/ ILO, Laborsta, Economically Active Population Estimates and Projection (Version 5).

Table 3 Manufacturing Wage Indices of Selected Southeast Asian and East Asian Countries

(1995=100)

	1995	2000	2001	2002	2003
Southeast Asia					
Cambodia	-	-	78.7	-	-
Indonesia	100	109.9	130.0	-	-
Lao PDR	-	-	-	-	-
Malaysia	100	118.6	129.1	-	-
Myanmar	-	-	-	-	-
Philippines	100	-	-	-	-
Singapore	100	134.4	136.7	138.8	143.0
Thailand*	100	117.1	128.2	124.6	133.2
Timor-Leste	-	-	-	-	-
Vietnam	-	-	-	-	-
East Asia					
Japan	100	103.6	105.9	106.4	106.8
Republic of Korea	100	117.3	119.8	130.6	137.3
China	100	155.3	172.2	195.4	-

Note: Cambodia base year = 1996.

Sources: ILO, Key Indicators of the Labors Market (KIM), 4th edition, Table 15.
* Labor Force Survey, various years.

Countries in Southeast Asia, such as Indonesia, Vietnam, Cambodia and Lao PDR, have seen a remarkable decline in income poverty during the past two decades based on the US$1 per day criterion. On average, many workers in Indonesia and Vietnam earn a wage of less than US$1 per day. People in Cambodia and Lao PDR and half the population of Indonesia live below the US$2 per day poverty line. People living in countries characterized by "poverty stickiness" are likely to seek better opportunities elsewhere wherever such opportunities open up.

Evidently, the Republic of Korea and China have had a remarkable economic recovery following the crisis of 1997/98 owing to accelerated economic growth in export and the revival of their labor markets. A continuation of the economic upturn in Japan, the Republic of Korea, PRC, Hong Kong (China) and ROC during the past decade has created a "pull factor" that has had a major impact on the labor markets of the region. The strong demand for unskilled and highly-skilled labor in these countries cannot be met by local nationals, a situation which leads to an increasing demand for immigrants from Southeast Asian countries. Garson (2001) estimated that the labor shortages in most OECD member countries would be most severe over the next 25 years due mainly to low rates of natural population growth, and the promotion of immigration would seem to be an effective measure to increase the labor supply and ease the labor shortages. The push and pull factors mentioned above are likely to affect the movement of labor in the region, especially between Southeast Asian and East Asian countries.

Even though developed countries have shifted from relying on a knowledge-based economy to high-level skills, they still rely on labor-intensive export industries. As a consequence, these countries still continuously experience labor shortages. Many countries have opened their doors to both highly-skilled professionals and low- or semi-skilled workers from countries within East Asia and Southeast Asia. Trends and patterns of migration in the East Asian and Southeast Asian regions are described in the next section of this paper. Reviews of the trends and patterns of both low- and highly-skilled workers from Southeast Asia emigrating to East Asia are relevant with regard to each country's laws and policies. In the final section, policy coherence between Southeast Asian and East Asian countries is discussed and recommendations are made.

3. TRENDS AND PATTERNS OF MIGRATION

3.1 Documented Workers (mainly semi-skilled)

3.1.1 Migration from Southeast Asia to East Asia (1990 to 2005)

Multilateral and bilateral trade agreements have provided opportunities for export growth, economic growth and employment creation. Currently, demand for skilled labor continues to increase in East Asian countries. Therefore, the level of employment and the wages for skilled workers have also increased, widening the wage gap between low-skilled and semi-skilled or highly-skilled workers (Table 3).

The number of legal immigrant workers who are granted permanent residence and permission to take up temporary employment under the immigration act in each country are presented in Table 4. The emigration of people from Southeast Asia to East Asia is likely to rise over the studied periods. Japan is the major destination for workers from Cambodia, Lao PDR, Myanmar and the Philippines. These countries accounted for 2,263, 2,393, 5,342 and 187,261 migrants, respectively, and their numbers continue to increase. Indonesia, Malaysia, Singapore, and Thailand are the major exporters of labor to PRC. The numbers of emigrants to China from these countries are, respectively, 88,086, 107,084, 165,666 and 92,584. Vietnamese migrants to the Republic of Korea reached a high of 12,332 in 2003. Vietnam has been promoting and implementing its labor-exporting policy very aggressively during the past few years. Since Vietnam has a very large workforce, the lack of job opportunities at home and poverty have pushed able persons to seek better opportunities elsewhere in East Asia, where job markets are plentiful for semi-skilled workers.

The trend of emigration continues to rise to the present date for Japan and PRC, but it is declining for emigrants to ROC coming from the Philippines. The major destinations for workers from Singapore are PRC and Japan, with the number of migrants being 165,666, and 2,283, respectively. As in other less developing countries of the region, the major destinations of workers from Thailand, with rising tendency, are PRC (92,584), Japan (37,703), and the Republic of Korea (4,227); however, the number going to ROC (18,665) is declining. The major destinations for workers from emerging labor-exporting countries, such as Vietnam, are Japan (2,202), ROC (13,245), and the Republic of Korea (12,332).

3.1.2 Migration from East Asia to Southeast Asia (1990 to 2005)

Labor migration from East Asia to Southeast Asia is tending to increase rather than decrease. From 1990 to 2005, the major destinations for workers from PRC, ROC and the Republic of Korea were Vietnam, Thailand and the Philippines. The main destinations of emigrants from PRC were Vietnam (574,238), Thailand (9,573) and the Philippines (1,098). The ROC emigrants to Vietnam, Thailand and the Philippines during the period studied totaled 183,650, 5,133 and 506, respectively. The numbers of workers from the Republic of Korea migrating to Vietnam, Thailand and the Philippines were 111,460, 4,790 and 1,881, respectively. The major destinations for emigrant workers from Japan are ASEAN countries in which Japan has invested. The numbers of workers emigrating to Thailand were 36,327; Singapore, 24,902; the Philippines, 12,913; Indonesia, 11,211; Malaysia, 10,347; and Vietnam, 4,207 (Table 5).

3.2 Undocumented Workers

3.2.1 Undocumented Workers in East Asia

No matter how strict law enforcement is with regard to enforcing migration policies in host countries, the number of illegal workers still persists and continues to rise. In general, the number of illegal immigrant workers in the East Asian countries varies depending upon the various socio-economic conditions, and rules and regulations of the countries of origin and destination. In 2003, the number of illegal migrants from various countries traveling to Hong Kong (China) was 16,548 (Chiu 2005). Illegal migrants to Japan were from

Table 4 Migration from Southeast Asia to East Asia (1990 to 2005)

(Persons)

	People's Republic of China (PRC)	Japan	Republic of China (ROC)	Republic of Korea
Cambodia	-	2,263	-	-
Indonesia	88,086	25,097	-	-
Lao PDR	-	2,393	-	-
Malaysia	107,084	7,910	-	-
Myanmar	-	5,342	-	-
Philippines	87,205	187,261	28,385	4,460
Singapore	165,666	2,283	-	-
Thailand	92,584	37,703	18,665	4,227
Vietnam	-	2,202	13,245	12,332

Note: Philippines to ROC and the Republic of Korea in 2003.

Sources: 1) General Statistics Office of Vietnam.
2) Judicial System and Research Department, Minister's Secretariat, Ministry of Justice, Japan.
3) Ministry of Manpower and Transmigration, Indonesia.
4) National Bureau of Statistics, China; Philippines Overseas Employment Administration (POEA) www.poea.gov.ph.
5) Table Office of Overseas Employment Administration, Department of Employment, Ministry of Industry, Thailand.

Table 5 Migration from East Asia to Southeast Asia (1990 to 2005)

(Persons)

	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
People's Republic of China (PRC)	-	-	-	-	-	-	1,098	-	9,573	574,238
Japan	101	818	11,221	436	10,347	663	12,913	24,902	36,327	4,207
Republic of China (ROC)	-	-	-	-	-	-	506	-	5,133	183,650
Republic of Korea	-	-	-	-	-	-	1,881	-	4,790	111,460

Note: From PRC, ROC and the Republic of Korea to the Philippines in 2002, and to Vietnam in 2003.

Sources: 1) Consular and Migration Affairs Department, Minister's Secretariat, Ministry of Foreign Affairs, Japan.
2) General Statistics Office of Vietnam.
3) Judicial System and Research Department, Minister's Secretariat, Ministry of Justice, Japan.
4) Ministry of Manpower and Transmigration, Indonesia.
5) National Bureau of Statistics, China; Philippines Overseas Employment Administration (POEA) www.poea.gov.ph.
6) Table Office of Overseas Employment Administration, Department of Employment, Ministry of Industry, Thailand.

the Republic of Korea (46,425), China (33,522), and the Philippines (31,428) (Igushi 2005). In 2004, the number of illegal migrants to the Republic of Korea totaled 181,499 (Park 2005).

3.2.2 Undocumented Workers in the ASEAN Region

The developing countries in ASEAN have also experienced a very similar situation to that of the East Asian countries. The region still experiences wage and income disparities. The host countries have experienced shortages in unskilled workers. A study conducted by Kanapathy (2005) showed that 1.2 million workers in Malaysia were illegal migrants, who were mainly Indonesian and other Muslims from various Muslim countries. Thailand is surrounded by poor or low-income countries such as Lao PDR, Cambodia and Myanmar. It is for this reason that the illegal migrants in Thailand are largely from these neighboring countries; such migrants exceeded 1.2 million persons in 2006 (Yongyuth 2005a; Yongyuth 2005b).

3.3 Migration among ASEAN Member Countries in 2006

ASEAN countries with economies that have a high potential to create jobs for semi- and highly-skilled workers, especially in export sectors. Since 1995 Vietnam and Cambodia shifted from demanding labor in low productivity sectors such as agriculture to higher productivity sectors such as industry and services. The greater economic expansion has created competition, greater labor-market pressures and widened the wage gap between skilled and unskilled workers. The growing cross-border mobility of labor has benefited the sending and receiving countries as well as the migrant workers. However, the large number of irregular migrant workers has raised concern about migration management (Athukorala 2004; Skeldon 2005).

Thailand is the major destination for people from Cambodia (0.23 million), Lao PDR (0.26 million) and Myanmar (1.4 million). Workers from Indonesia, the Philippines and Singapore immigrate mostly to Malaysia, their numbers totaling 1.2 million, 0.3 million and 0.09 million, respectively. The major destinations for workers from Indonesia are Malaysia and Singapore, i.e., 1.2 million and 0.1 million, respectively. Singapore is the richest country in the ASEAN region and has become the major destination for ASEAN migrant workers, 0.99 million of them. The major destinations for people from Myanmar are Thailand (1.38 million), and Malaysia (0.09 million). The major destinations for workers from Thailand are Cambodia (0.13 million), and Malaysia (0.07 million). The major destinations for workers from Vietnam are Cambodia (0.16 million), Malaysia (0.09 million), and Lao PDR (0.015 million) (see Table 6).

4. MIGRATION POLICIES

The countries in Southeast Asia and East Asia need to address growing inequalities, both within and between countries. The labor market has contributed to reducing inequalities and supporting both highly- and low-skilled workers. All countries also need to build the capacities of local firms in order to compete effectively with multinational enterprises (MNEs) and to absorb spillovers associated with foreign direct investment (FDI). Migration between Southeast Asia and East Asia has contributed to the region's economic dynamism, and it has reduced poverty. However, each country has its own migration policies depending on its economy. For example, the East Asian countries have aimed at giving preference to certain groups of immigrant workers. Thus, each of these countries has different laws and immigration policies with regard to entry requirements from Southeast Asian member countries. There is little evidence to support the notion that any policy intervention has been effective in controlling the number of migrants or in managing migration in the desired direction. Therefore, policies vary toward whether a country is sending workers and/or receiving workers.

Table 6 Migration among Selected Countries in Southeast Asia, 2006

(Thousands)

Source	Destination						
	Cambodia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Other destinations
Cambodia	-	2	7		-	232	
Indonesia	-	-	1,215	5	96	1	Gulf States, Brunei Darussalam
Lao PDR	1	-	-	-	n.a.	257	Australia, Europe, Japan, Republic of Korea, United States
Malaysia	1	-	-	-	994	3	Brunei Darussalam, Australia, United States
Myanmar	-	-	92	-	n.a.	1,382	Australia, Europe, Japan, Republic of Korea, United States
Philippines	1	-	353	-	136	3	Brunei Darussalam, Gulf States, United States, Europe
Singapore	1	-	87	-	-	2	Brunei Darussalam
Thailand	129	3	86	-	-	-	Brunei Darussalam, Taiwan (China), Japan, Israel
Vietnam	157	15	86	1	-	20	Japan, Republic of Korea

Sources: Malaysia Department of Statistics; Philippines Overseas Employment Administration (POEA); Thailand Ministry of Labor; University of Sussex; ILO Plan of Action on Labour Migration in Asia-Pacific (unpublished, Bangkok, Dec. 2005); and World Bank, http://www.worldbank.org/prospects/migrationandremittances.

Migration Policy Responses to Each Economy

Labor market reforms have become a major policy focus in both East Asian and Southeast Asian countries. In many countries, the policies focus on the fundamental principles of human rights at work, particularly on labor discrimination, child labor and forced labor. Some countries have changed their labor laws in order to stimulate economic growth and trade objectives. Labor law reform is driven by increasing diversity of working arrangements and employment conditions; and fixed term, temporary, part-time employment; and the period for training. In other words, many countries are trying to find an effective balance between flexibility, stability and security in managing migrant workers. These countries also have to take into consideration the balance between economic security, social and health security and human rights security.

• *Policies of East Asian Countries*

The East Asian economies have fully recovered from the 1997 Asian financial crisis. The countries in this region once again have become high performers. Policies are designed essentially to deal with immigrants, not workers. The policies are strongly biased toward highly-skilled laborers to fill skill niches in service occupations regarded as unwanted by native workers.

Migrant flows are basically demand-driven as the domestic workforce is shrinking as a result of fewer children being born and the existing population aging. Domestic laborers are also reluctant to work in the "3-D jobs" (dirty, dangerous and difficult). As a result, the demand for foreign workers should and will continue to grow in non-trade sectors and in large-scale industries and small- and medium-sized enterprises (SMEs).

The recent policy challenge for these East Asian countries is whether they can make their new reliance on foreign workers consistent with the priorities of national development policies and changing market conditions.

• *Policies of Southeast Asian Countries*

Unlike the East Asian countries, as development progresses, countries ultimately change from being net senders of workers to being net recipients of foreign workers, e.g., Malaysia and Thailand. These countries have experienced the presence of bottlenecks that block further economic development mainly as a result of the insufficiency of their infrastructure, their skilled and unskilled labor, and the failure of real sectors in restructuring. In contrast, the Philippines, Indonesia, Vietnam, Lao PDR and Cambodia have increased their emigration along with the improvement in prosperity (per capita) of their people. As a result, remittances form another way out of poverty, poor income distribution, and rural-urban biases (Go 2005; Nguyen 2005; Soeprobo 2005).

In ASEAN, Singapore is unique; it has a well-conceived and explicit policy on foreign labor. There is a balance between promoting economic competitiveness through foreign labor augmentation and protecting the jobs of its own citizens. Job creation in the private sector is designed for young residents and for retrenched older workers through FDI. The gap in excess demand is filled

by foreign labor (Yap 2005). Singapore has been a success story in terms of managing foreign workers at all levels.

5. CONCLUSION

In this study we provided an overview of the patterns and trends in the migration flow between Southeast Asian and East Asian countries. We also briefly reviewed the policies and programs of both the sending and the receiving countries. Even though our discussion of temporary migrant workers covers both highly-skilled and semi-skilled workers, it is quite clear that the sending countries have been increasingly integrated with the receiving countries. However, the size of the skilled migrant workforce is smaller compared with the movement of semi-skilled workers. With regard to the labor market impacts of foreign semi-skilled workers on the East Asian countries, such workers have created a lot of negative impacts for local workers. The migration policies of East Asian countries are in transition toward more open economies by introducing a work-permit system for temporary semi-skilled workers. Also, all countries are challenged by the growing problems of illegal workers and temporary-worker programs.

Therefore, if the desire is to promote more labor mobility in Asia and reap mutual benefits for all concerned, cooperation is needed in designing temporary labor policies which can minimize the adverse effects of temporary labor. Such policies would require good relationships between the sending and the receiving countries in order to ensure that hiring migrant workers is a "win-win" situation for all the countries concerned.

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How Does Democracy Shape Economic Policies in Thailand?

Adis Israngkura*

1. INTRODUCTION

Bringing the issue of democracy to the forefront is timely for Thailand, as the political events, particularly the coup d'etat that took place in September 2006, will be well recorded in Thai history. Despite the fact that there was not a single casualty of this internal political turmoil, 2006-2007 are the years that have put Thai democracy to the test. In 2006, the democratic Thaksin Shinawatra government, which controlled the majority of the lower house (and probably the majority of the upper house as well), was accused of massive corruption and was then overthrown by a military faction in a coup d'etat on September 19, 2006. During that event, the then Thai Constitution B.E. 2540 was essentially abrogated. The army-led coup initially ruled Thailand under martial law and by executive decrees. The coup leaders appointed an interim National Assembly and appointed an interim cabinet led by a Royal Privy Councilor, General Surayud Chulanont, who then restored a sense of normalcy to Thailand. In 2007, the new Constitution B.E. 2550 was promulgated and a general election is scheduled for December 23, 2007. In this general election, former Prime Minister Thaksin Shinawatra will not be permitted to enter the political race as there are a series of corruption allegations against him. Furthermore, 111 of his political friends and colleagues have also been prohibited as well from any form of political involvement during the next five years.

The general election scheduled for December 23, 2007 has already shown some improving features, but in many ways this democratic event still repeats the previous election traditions that Thailand has had for many years. Politicians still switch parties regardless of their stated political beliefs; political parties still refrain from engaging in public-choice debate, but rather stick to handout policies; and voters still cast their ballots depending on the appearance of the candidates rather than their stance on public policy issues. Questions worth asking about Thailand are: Do the Thai voters know what kind of public choice Thailand needs to make that will have an impact on the country's economic future? As future members of parliament, will these candidates know what the constituents they represent like or dislike and hence act accordingly so as to protect the interests of the voters? And without a political stance, how will these hard-working, honest, well-spoken and, more importantly, better-looking candidates be shaping economic policies once they enter the parliament or become cabinet members?

Democracy is a relatively new concept for Thailand. Compared with many Western societies where democratic lifestyles have existed for hundreds of years, democracy was introduced into Thailand much more recently. It was only in 1932 (B.E. 2475) when His Majesty King Prajadhipok (King Rama VII) agreed to give up absolute monarchy. Subsequently, the role of the monarch was reduced to a constitutional one. The first democratic constitution was promulgated in Thailand on December 10, 1932. In 1935, the country's name Siam was changed to Thailand. Given that all these political structures were introduced into Thailand only about 75 years ago a question worth asking is the extent to which democracy has determined the shape of Thai public policies. In addition to democracy, one may also ask what other institutions have played a role in shaping Thai public policies.

This article is aimed at providing an economic view of how democracy has been shaping economic policies in Thailand. In doing so section 2 will look at the economics of public policies. Section 3 provides an overview of the Thai policy market and section 4 examines the Constitution. Section 5 forms the conclusion of the paper.

2. ECONOMICS OF PUBLIC POLICIES

Economic policy is as much science as it is art. Two branches of disciplines that govern the theory of economic policy are the market failure approach and the public choice approach. The market failure approach is based on the notion that a competitive market yields efficient outcomes except under some circumstances:

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where markets fail then government intervention in some form of economic policies is warranted. The public choice approach deals much more with issues of collective goods, where a decision-making mechanism is required when a society faces a policy choice. It is often within this public choice approach where democracy, often through a representative government, is used as a mechanism for decision-making.

Economic policies under the market failure approach can be categorized into five groups. First, a do-nothing policy is used when competitive markets already yield efficient and equitable outcomes. Second, removal of distortion policies, such as a price support policy in the agricultural sector, product taxes or tariff barriers will reduce the distortion and raise welfare. Third, fixing market failures includes policies such as a Pigouvian tax for environmental pollution, anti-trust laws, the provision of public goods, supervizing State enterprises for decreasing-cost industries, establishing secure property rights for opened-access resources and correcting for information asymmetry. Fourth, stabilization policy includes monetary policy and fiscal policy. And fifth, distribution policy covers areas such as public housing, compulsory education, minimum public health-care services and progressive tax schemes.

On the other hand, economic policies that are geared toward addressing public choice issues include, for instance, investing in nuclear power plants, signing free trade agreements (FTAs), establishing the minimum drinking age, enacting a gambling law, enacting an inheritance tax or even enforcing the execution of sentence for death-roll prisoners. What these issues share in common is their lumpiness. In making a decision on these issues a society needs to make a single collective choice, for instance, a "yes" or a "no." Thus, for a democratic society, one will generally resort to the mechanism of a representative government or a parliament to yield decisions that will, hopefully, reflect what the society in general would like to see. In this regard, economists refer to the policy market as a way to obtain a government whose public policies reflect the needs of the people. Likewise, the members of parliament who are representatives of their electorates will bring to parliament the viewpoints of their electorates when promulgating legislation.

Given the above theoretical setting, the article will examine the extent to which democracy has helped to shape public policies, especially the economic policies of Thailand.

3. POLICY MARKET

A policy market is referred to as a situation where political parties put forward their policy package, political beliefs, or their stance on some controversial issues. This differentiated political stance is essential in a democratic society as it will enable the voters to choose the men or women they want to represent their views in parliament. For instance, if the establishment of a nuclear power plant is a controversial issue, then the political candidates or various political parties ought to make clear whether they will support investment in a nuclear power plant or oppose the project if they are elected. When their view on this matter is made clear, then the voters can make the right choice during the general election. Eventually, these elected candidates will be voting on this particular bill when it is put forward to the parliament for consideration. Political parties which craft the most sellable public policies will then win the most votes and will then be able to form the cabinet. This policy market concept is thus a mechanism that democratic societies use to direct their development future including economic policies.

Has a policy market been established in Thailand? Sometimes yes, but most of the time no. Currently, numerous problems beset the general elections and hence Thailand's resulting representative governments. First, the voters are not shopping around for the kind of public policy they like. Instead of insisting that the political candidates express their views on some controversial issues, Thai voters tend to look for "good" men or women who will be doing the right thing when they serve as members of parliament. Thai voters still believe that once good politicians are elected then they will be able to do the right thing when a bill is put before them. As can be observed, this attitude of electing a good man or woman is not a useful mechanism for directing the future of the country. Sending a good person to parliament will leave the future of the country uncertain. And this is what is happening in Thailand today. In addition to being a good person, other characteristics of politicians that Thai voters are looking for are what kind of policy handout the candidates have promised, are they well spoken, and lastly are they good-looking.

Second, it can also be observed that political candidates often stay away from committing themselves to some controversial issues. Candidates generally do not take sides in a political debate and will generally say things like "my policy on nuclear power plants is to do what is best for Thailand…." Although this type of statement is meaningless from the public choice viewpoint, Thai voters buy it. On economic issues some controversial public choices that need to be made for Thailand are issues related to FTAs, inheritance or property taxes, or the operation of wholesale chain suppliers, or foreign business and investment rights.

Third, many policies of Thai political parties tend to be "handout" oriented and/or the "must-do-anyway" type policies. For instance, political parties will be selling the concept of helping the poor, promoting education, improving public well-being, improving public health care and so on. These political parties will stay away from the kinds of public policies that involve hard trade-offs. Hard trade-off policies include, for instance voting for or against the US-Thai FTA or voting for or against the forthcoming inheritance tax bill.

Table 1 provides a brief summary of economic policies that Thai political parties are "selling" for the December 23, 2007 general election. It can be seen that there is only one political party actually making a policy statement on controversial issues, which is good because the voters will know what the party's beliefs are when it comes to legislative voting in parliament. For instance, the Democrat Party will vote against the current Foreign Business Act because it would like to revise it. That Party will also vote against the 30 percent capital control measure. Other than that, most of the political parties are not committed much to controversial issues and their policy statements are merely handout policies in various forms. Most parties will engage themselves in the railway system, promote business via a regional hub, and reduce taxes and utility prices. These policies are just "must-do-anyway" policies; they do not involve any hard trade-offs that we would expect.

On investment policy, Table 2 shows that only one political party is making a strong commitment on a controversial issue. That party is the Matchima Party, which makes it explicit that it would revise all 11 laws dealing with foreign investment that will adversely affect local Thai competitors. The Matchima Party will protect the interests of local Thais instead of enhancing the comparative advantage of the country. The other three parties are again making just a "must-do-anyway" policy on investment, that is, to promote trade and investment. On the appreciation of the baht, the Matchima Party again has made a strong commitment to put the baht's value at 38 baht to 1 US dollar, which would constitute about a 15 percent depreciation of the baht. The other parties are aiming for a stable baht regime that the Bank of Thailand is already pursuing (Table 3). Lastly, on the matter of oil prices, two political parties are making strong statements: the Democrat Party will cut the contributions to the National Oil Fund while the Matchima Party promises to lower the oil price by 5 baht to 25 baht per litre. The other parties all say the same thing: promote alternative energy sources, which again can be considered as a "must-do-anyway" policy (Table 4).

Therefore, it can be said in summary that the Thai policy market rarely exists. Few political parties are actually taking sides and making a strong commitment toward certain beliefs on how they will direct the Thai economy. The rest of the political parties are just selling "handout" policies, or what this article refers to as "must-do-anyway" policies. Given that the Thai policy market is weak and voters are not demanding much from their politicians on controversial issues, and that the politicians are not offering much in the way of public choices, then democracy is falling short of functioning in the kind of way that society expects it to. In other words, Thai democracy, as reflected in the way the Thai policy market is behaving, will not have much impact on the country's future economic policy and its economic development.

Table 1 Policies Espoused by Some Thai Political Parties to Drive the Thai Economy

Name of parties	Policies to drive the Thai economy
Democrat Party	1. Restore investor and consumer confidence by canceling the 30% capital control regime, reverting to the previous Foreign Business Act, and opening up the country to benefit from globalization. 2. Increase competitiveness by reducing logistical costs such as river transportation, railway extensions and mass transit. 3. Making Chiang Mai a regional export hub. 4. Reduce the oil price, cooking gas price and electricity price. 5. Extend the irrigation system to the whole country.
People Power Party	1. Implement populist policies for the grass-roots people. Make tourism the main driving force. 2. Establish Thailand as a regional medical hub. 3. Promote high-speed subway and local train systems in the provinces. 4. Expand the export of exotic Thai fruits and farm produce. 5. Promote a village loan program and the 30-baht medical care program.
Ruam Jai Thai	1. In the short term, keep inflation below 3% per annum and set government spending at no less than 2.5% of GDP. 2. Modify the tax structure in order to raise government revenue. Increase the standard allowable income tax deduction and allow greater deductions for parents of children attending school. 3. Exempt small and medium-sized enterprises earning less than 3 million baht annually from taxes for 5 years. 4. Increase competitiveness by investing in water resource management. 5. Extend railway lines and link them with road and river transportation.
Matchima Party	1. Increase the level of productivity. 2. Provide free education up to the university level. 3. Extend the existing railway systems so as to reduce the logistical costs. 4. Reduce the maximum personal income tax rate from 30% to 20%.

Source: Summarized from *Bangkok Post*, Sunday, December 2, 2007, pages 11 and 14 "Party Line."

Table 2 Policies on Investment Espoused by Some Thai Political Parties

Name of parties	Investment policies
Democrat Party	Wants to see more foreign investment in Thailand and wants to revise the Foreign Business Act.
People Power Party	Promote trade negotiations and conduct international road shows to attract foreign investment.
Ruam Jai Thai	Open Thailand to the rest of the world and negotiate for mutual gains in international trade.
Matchima Party	Revise 11 laws dealing with foreign investment that put Thailand at a disadvantage. Protect Thai industries and farmers from foreign competition.

Source: Summarized from *Bangkok Post*, Sunday, December 2, 2007, pages 11 and 14 "Party Line."

Table 3 Policies on Appreciation of the Baht Espoused by Some Thai Political Parties

Name of parties	Baht appreciation policies
Democrat Party	To create stability in the Thai currency. To let market mechanisms do their work.
Ruam Jai Thai	The baht should not strengthen too much compared with the currencies of other economies in the region.
Matchima Party	To support the baht to 38 baht to US$ 1. A stable currency rate is mandatory for fostering trade.

Source: Summarized from *Bangkok Post*, Sunday, December 2, 2007, pages 11 and 14 "Party Line."

Table 4 Policies on Oil Price Espoused by Some Thai Political Parties

Name of parties	Oil price policies
Democrat Party	Lower retail oil prices by cutting the contributions to the National Oil Fund.
People Power Party	Reduce expenditure on oil imports and rely more on alternative energy sources.
Puea Pandin Party	Focus on alternative forms of energy that are suitable for the country. They must be clean and cheap and benefit the local people. Make greater use of ethanol, biomass, bio-diesel, wind and solar power. Promote very small power plants.
Chartthai Party	Look for ways to reduce the demand for oil as well as improve logistics in order to reduce oil consumption. Promote bio-fuel and small-scale power producers.
Ruam Jai Thai	Examine the mechanisms of the petroleum industry in order to control oil prices. Promote alternative forms of energy such as ethanol.
Matchima Party	Cut gasoline prices by 5 to 25 baht per litre. Look for alternative energy sources such as bio-diesel, wind and solar energy.

Source: Summarized from *Bangkok Post*, Sunday, December 2, 2007, pages 11 and 14 "Party Line."

4. THAI CONSTITUTIONS

A country's constitution is an important part of a democratic society. A democratic society that adopts some form of representative government as a way of steering the direction of the country generally operates under a set of legal instruments, such as a constitution. A constitution provides some basic legal obligations that governments and their parliaments must not violate. The provisions stated in a constitution are considered mandatory and they apply to all individuals in the country. From an economic perspective, what a constitution does in terms of resource allocation is that it puts aside an amount of resources for some specific purposes that the society as a whole thinks is worth doing. These decisions are made by the general public and cannot be altered by any member of parliament, representative government, elected cabinet or prime minister.

The reason a constitution is essential for a democratic society may lie in the work of institutional economics, which shows that, when a representative government votes in the parliament, it will generally vote for the benefit of the majority of the people. These members of parliament are also committed to act in the interest of their electorates or certain special interest groups. Therefore, groups or a fraction of the citizenry often left out of representative government are minority groups, such as the poor, children, the elderly or citizens of the future who are not present here to cast their votes. For this reason, a constitution is therefore an essential tool for protecting the basic rights of minorities while representative government works for the interests of the majority.

A brief review of the Thai Constitution B.E. 2550 (a brand new one) shows that Thailand does provide safeguards for certain minority groups, as follows:

- Twelve years of compulsory education for children
- The poor are entitled to health-care services free of charge
- Child protection and adequate assistance for the elderly are provided
- Adequate water is provided for agriculture

Two issues concern Thai constitutions. First, they are rarely drafted by the Thai public. Since 1932 when democracy had been introduced, Thailand has gone through 12 constitutions. This translates into a rate of one constitution for every five years. It seems that when Thailand's basic law does not work out for the government, someone will try to draw up new "rules of the game" to serve their needs better.

Second, who drafts the constitution in Thailand? Three groups have had a hand in drafting the country's 12 constitutions at different times: elected legislatures, appointed legislatures and absolute executives. Of the 12 constitutions, on only two occasions were they drafted by representatives of society or by elected legislatures: in 1946 and in 1997. Four constitutions (in 1937, 1968, 1974 and 1978) were drafted by appointed legislatures. As many as six constitutions (in 1932, 1959, 1972, 1976, 1991 and 2006) were drafted by absolute executives.

Thus, it can be seen that only under a few conditions have constitutions in Thailand reflected the needs of the Thai public. Most of the country's constitutions have merely comprised a set of rules that some appointed or absolute executives, academics, technocrats, high-level civil servants or well-know businessmen have put together to be used to govern the country. It is therefore reasonable to surmise that the democratic content in Thai constitutions has been somewhat limited. Thus, the future of Thailand and hence its economic policy will continue to be indirectly driven by the Thai elite rather than the general public.

5. CONCLUSION

For many hundreds of years Thailand has functioned under a monarchy as its system of government. The country's economic development and economic policies were thus driven by the monarchy. This proved to be very beneficial owing to the foresight of monarchs such as King Mongkut (King Rama IV) and King Chulalongkorn (King Rama V). They have been among the most cited leaders of modern Thailand for having initiated many new developments for Thailand, for example the modern education system, the nationwide public health-care system, national security and so on. Democracy was introduced in Thailand only in 1932, which makes it only 75 years old today.

This article shows that, as democracy is still relatively new to Thailand, its ability to guide the country in the direction that the Thai people want is still limited. The main reasons are that the country's constitutions are not entirely written by the representatives of the Thai people but instead by the elite who think they know what is best with regard to how the rest of the country ought to be living their lives. Thai policy markets have also been weak. Thai voters do not realize that they have a say about controversial public choices; thus, politicians are not willing to take sides on controversial public policy issues. Even Thailand's National Election Commission is still promoting inaccurate concepts among the people about the election. Instead of asking the people to choose the man (or woman) they want to represent their viewpoints, the Commission currently asks Thai citizens to vote for a "good person." No matter how good these men are, they will not have a clue about what the Thai public needs. The cabinet on the other hand will not formulate the kinds of economic policies that represent the needs of Thai citizens.

Democracy takes more time to evolve than most people think. Democracy is not about picking a few good people to work in the parliament or choosing a charming Prime Minister. Democracy is about exercising one's right to make public choices. People must express their desire to see their country heading in a certain direction instead of another. Also, they must feel that they, not the elite of Thailand, have the right to provide direction for their country. Thai society must rectify the misconception (often fostered by the National Election Commission) that December 23, 2007 is the day the citizenry will pick a few good men for the job of choosing Thailand's future directions. Instead, December 23 ought to be the day when the Thai people will provide directions for the future of Thailand.

Credit Access and Poverty Reduction*

Chaiyasit Anuchitworawong**

1. INTRODUCTION

The financial crisis that occurred in 1997 triggered a sharp economic downturn in Thailand and adversely affected the country's financial system. Lessons learned about the pre-crisis structural weaknesses in the country's economic and financial make-up led policy-makers and regulators to undertake many key structural and institutional reforms in order to restore financial order and macroeconomic stability. One of the most prominent areas of change was the financial system, particularly the financial sector. However, the central bank's restructuring and tightening of controls over banks and financial institutions had some unintended repercussions on both financial and corporate sectors.

Banks which had long been major providers of funds to households and business enterprises were crippled by massive bad debts and spent much time in improving their balance sheets through recapitalization and the settlement of non-performing loans. Although remaining important, the banking sector, especially the commercial banking sector, appeared to have played a much less significant role in credit-extension activities compared with its role in the past. In other words, commercial banks became more prudent in appraising and approving credit. They also become more prudent about risk management activities, becoming reluctant to grant new loans or even to extend outstanding loans. Consequently, the resulting credit crunch in the financial and corporate sectors created spill-over effects on the real economy, especially on poor and illiquid households, and small enterprises.

It was about four years after the financial crisis when the Thai Rak Thai Party won the election of 2001 and began to reshape the Thai political landscape. Owing to the depressing private-sector investment and spending that constituted a hindrance to economic growth, the newly elected government under the Thai Rak Thai Party at that time adopted and implemented populist economic policies to boost local consumption and the production of traditional sectors, including agriculture, rural households, and small and medium-sized enterprises (SMEs). Such stimulus policies were in fact perceived to be one of the best ways to hit two birds with one stone. Although on one hand they targeted poverty at the grass-roots level by increasing income, reducing expenses and creating more opportunities for the people, on the other hand they were specially designed to gain mass public and political support from the vast majority of the people, especially at the grass-roots level.

To stimulate the grass-roots economy, the Thaksin administration initiated many populist schemes relating to the provision of welfare (e.g., the health-care system, social housing), access to finance and capital (e.g., micro-credit programs, debt reduction/debt moratorium for farmers), and other poverty-eradication programs. However, this paper focuses only on financial access-related policies by addressing two questions: (a) do the poor have better access to credit programs initiated by the government? and (b) do the poor benefit from the programs as a means of increasing their incomes.

The paper starts by providing a framework for reducing poverty and increasing the living standards of the people, and briefly describing in section 2 the financial support packages implemented in the past by Thai governments in order to tackle poverty problems. Section 3 analyzes whether the Thaksin administration's financial support programs improved access to credit for the poor and narrowed the income distribution between the rich and the poor, and also to measure economic impacts in terms of income generation. The final section summarizes the lessons learned and closes the paper with a few thoughts on the way forward.

2. DEPENDENCY ON GOVERNMENTAL FINANCIAL SUPPORT

When the credit market operates well, there is no need for government intervention. However, there are in reality several imperfections in the market. Lenders are typically reluctant to provide credit to loan applicants whose quality and type cannot be identified and assessed. In a developing credit market like that of

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Thailand, collateral is normally used by lenders to offset their risk exposure when granting loans to risky borrowers. However, not in every case do loan applicants have sufficient collateralizable wealth to meet the amount of collateral required by the lenders. As a result, credit rationing occurs and there is excess demand for credit. Credit information and collateral problems thus create the need for government intervention.

2.1 Framework for Improving the Living Condition of the People

Based on the experience of many countries, it is recognized that poor and disadvantaged people usually lack assets and thus do not have easy and adequate access to formal credit because they lack the collateral needed to secure loans. Without having alternatives, the poor who are in need of financial assistance have to rely on other means of financing from informal sources.

Practically, there are three important ways that can help to improve the living conditions of the poor (Figure 1). First, the poor can rely on State welfare programs implemented by the government. However, this requires an unviable increase in government budget and definitely exacerbates the fiscal burden in the long run if there is no effective mechanism to make welfare sustainable. For Thailand, although a comprehensive welfare State scheme is increasingly necessary, the move toward the welfare State however should be gradual because it costs a great deal of money. Second, the poor may become paid employees in organizations such as large enterprises and SMEs, and enjoy regular income and predictable work patterns. The third alternative is for them to become entrepreneurs. However, starting up a new business is not an easy task. One needs some money for making the initial investment. Moreover, financing for a business start-up is not a one-shot deal in which one just provides an initial cash investment and then waits for the business to generate revenues.

Small entrepreneurs usually encounter at least three main obstacles, including inadequate financial support, entrepreneurship, and marketing. Lack of capital and financial support is often one of the most important hurdles for business start-ups and also a cause of future business failure. As mentioned previously, the presence of credit market imperfections and information asymmetry between financial institutions and aspiring entrepreneurs in particular blocks the entrepreneurs from gaining access to credit. Financial institutions normally refrain from providing loans to risky entrepreneurs or those who do not have sufficient collateral to qualify for a loan. Consequently, the inability of such people to gain access to credit facilities affects their investment, financing, and operating decisions.

For Thailand, Menkhoff et al. (2006) suggested that Thai commercial banks still put great weight on collateral in making loan approval decisions. Specifically, the banks usually ask for collateral from small and new start-up enterprises at a higher proportion than large enterprises. A high level of collateral therefore becomes a big obstacle for very small and start-up entrepreneurs. The literature on the start-up of Thai business enterprises suggests that one's own savings and savings from friends and family usually play an important role in financing the start-up of small entrepreneurs.[1]

Although the government recently initiated support programs to facilitate credit access by the people, especially the poor, it could not ensure that the people will really benefit from the opportunities offered by the government. De Meza (2002) provided a theoretical argument, i.e., that government intervention to subsidize credit and to encourage lending to SMEs may not be the best policy, and could somehow reduce efficiency. Furthermore, according to Ammar (1993), credit programs are useful and supportive in helping the poor escape from the condition of poverty only if they are able to engage in productive economic activities and have a market for their products.

In addition to the information asymmetry problem in the credit market, new entrepreneurs usually do not have adequate business experience. They usually have low educational and skill levels. As most of them are too busy with the day-to-day operations of the business, they do not formulate a plan in advance nor think about the development of better quality products and services. Equally important, in terms of transparency, they fail to keep proper accounting records that are important for checking and monitoring activities. The lack of distributional channels for products and services is another important issue. Without the markets, the entrepreneurs will not be able to survive in the long run and certainly cannot escape from the conditions of poverty.

Therefore, by removing all these obstacles, the entrepreneurs will become better at making investment decisions under changing market conditions. The development of the grass-roots economy will contribute to the overall economy in terms of income-generation and employment opportunities. Eventually, if the mechanisms run well, they should help to alleviate poverty among the poor and contribute greatly to economic development.

2.2 Governmental Financial Support Projects

Although the inception of Thailand's First National Economic Development Plan dates back to 1961, the main emphasis of the plan was placed on economic development and infrastructure development in particular, with the aim of accelerating the country's economic growth. It was not until the Fifth National Economic and Social Development Plan that the policy of rural poverty reduction became part of the government's development agenda. With respect to financial support programs, the Thai government has implemented several different measures to tackle poverty problems (Table 1).

Figure 1 Alternatives for Improving the Living Conditions of the Poor

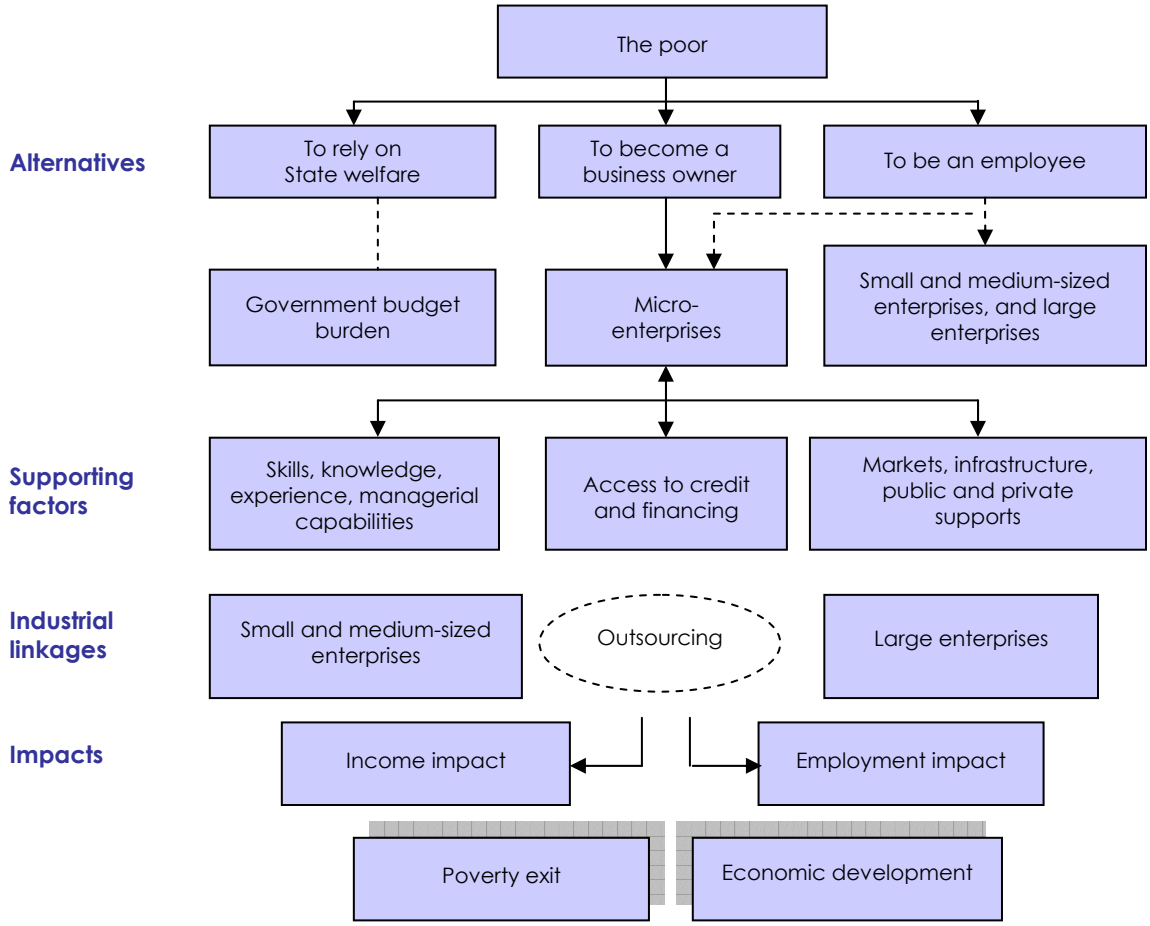

Table 1 Governmental Financial Support Programs

Year	Programs
1975	Money Distribution Program (*ngern phan*): Rural development and job-creation projects during the agricultural off-season period
1984	Rural Development Fund: Targeting villagers and activities within the villages
1992	Urban Community Development Fund: Addressing the urban poverty problem
1993	Poverty Alleviation Project: Raising income and the quality of life of the targeted poor households in more than 18,000 villages
1998	Social Investment Project: Creating job opportunities and providing social services for the unemployed and poor
1999-2000	Financial support under the "Miyazawa" scheme: Reducing the economic and social problems of the urban poor during the 1997 financial crisis
2001	Village and Urban Community Funds: Providing financial support to villages and urban communities, with the aim that the villagers will become self-reliant, have more employment opportunities, higher incomes and better social welfare
2001	Three-year debt moratorium/debt reduction for small farmers (April 1, 2001 – March 31, 2004): Solving the debt and poverty problems of small-scale farmers while offering training
2001	People's Bank Project operated by the Government Savings Bank: Expanding financial opportunities for small-scale entrepreneurs and encouraging new business development and entrepreneurship

Source: Thailand Development Research Institute. "Poverty Alleviation Programs Implemented by the Thai Government: From Past to Present." http://www.tdri.or.th/poverty. (in Thai)

The government assistance programs are different in terms of the size of budget allocation and coverage. Among many credit programs, the most prominent one is the Village and Urban Community Fund, which was initiated by the government under the sponsorship of the Thai Rak Thai Party. Under this scheme, a million baht is allocated to each village in the country as a revolving fund. Apparently, the government injected a comparatively large amount of money into the economy, at the grass-roots level in particular. Besides, the program gave wider coverage to the people in rural areas of the country. However, the populist policies initiated by the government have posed additional fiscal burdens on the country.

3. ASSESSMENT OF THE FINANCIAL SUPPORT PROGRAMS FOR POVERTY ALLEVIATION

During the time the Thaksin administration was in power there were a number of financial support programs initiated to alleviate the poverty of the Thai people. Since the private commercial banking system failed to operate well for people considered to be "risky," the Thai government decided to have its government-owned banks act as a special vehicle for financing and making available loans to support the poor and underserved population.

Based on the report of the household socio-economic survey, the overall results in Table 2 show that the village fund and debt moratorium programs were the first two schemes widely used by the people. For example, about 10.8 percent and 1.22 percent of the total population in 2004 gained access to the village fund and debt-suspension programs, respectively. This section focuses on these two widely used support programs. There are two issues to be discussed here: whether poor people actually gained access to these two financial support programs, and whether the financial opportunities offered by the government helped the people to improve their earning ability.

The government had often claimed that these support programs were designed to help reduce the poverty conditions of the underserved and poor people. To be effective, it is expected that the poor and underserved who benefit from the programs should constitute the largest portion over time, unless there are some leakages. Moreover, the programs should positively affect their livelihood (i.e., provide them with higher income). Table 2 shows that, in all the programs except for the people's bank scheme, there was an increasing percentage of the non-poor gaining benefits over time. Specifically, nearly 85 percent and 91 percent of the people who borrowed from the village fund in 2002 and 2006 respectively were non-poor, leaving only a small number of the poor who benefited from the program. Similar results are found for the debt suspension program.

Table 2 The Number and the Proportion of Thai People Who Benefit from the Governmental Financial Support Programs

Programs	2002			2004			2006		
	Non-poor	Poor	All	Non-poor	Poor	All	Non-poor	Poor	All
All	52,036,862	9,135,362	61,172,224	55,881,181	7,018,592	62,899,773	57,375,140	6,053,632	63,428,772
	(85.07)	(14.93)	(100.00)	(88.84)	(11.16)	(100.00)	(90.46)	(9.54)	(100.00)
Three-year debt moratorium*	1,014,240	202,782	1,217,022	679,162	85,826	764,988	-	-	-
	(83.34)	(16.66)	(100.00)	(88.78)	(11.22)	(100.00)	-	-	-
Other farmer assistance funds*	295,900	66,542	362,442	444,786	58,856	503,642	161,652	23,494	185,146
	(81.64)	(18.36)	(100.00)	(88.31)	(11.69)	(100.00)	(87.31)	(12.69)	(100.00)
Education loan program**	359,673	34,935	394,608	221,940	7,388	229,328	333,331	3,996	337,327
	(91.15)	(8.85)	(100.00)	(96.78)	(3.22)	(100.00)	(98.82)	(1.18)	(100.00)
People's bank**	119,496	4,733	124,229	64,299	935	65,234	230,268	18,758	249,026
	(96.19)	(3.81)	(100.00)	(98.57)	(1.43)	(100.00)	(92.47)	(7.53)	(100.00)
Village fund**	3,963,820	722,639	4,686,459	6,014,195	758,548	6,772,743	5,921,697	596,653	6,518,350
	(84.58)	(15.42)	(100.00)	(88.8)	(11.2)	(100.00)	(90.85)	(9.15)	(100.00)

Notes: The poor are those people whose consumption expenditures lie below the poverty line.
Figures in parenthesis indicate the percentage of the poor and non-poor in each program.
* The survey question relating to government benefits allowed each respondent to choose only one of the various programs.
** The survey question relating to credit facilities allowed each respondent to choose only one of the various programs.

Source: The Report of the Socio-economic Survey conducted by the National Statistical Office.

Even when we analyze the situation from another angle by comparing the ratio of the number of the poor in each program to the total number of the poor with the same ratio for the non-poor, we should find a higher ratio for the poor group to ensure that a particular program is bringing more opportunities to the poor. However, the result shows that the ratio for the poor group is smaller than the ratio for the non-poor groups as time passed. Thus, we cannot be sure that the programs are effective in reaching the poor. The design of programs could be an important obstacle. For example, based on the in-depth interviews with several members of the village fund committee, it was often found that nobody was willing to grant a loan or to make a personal guarantee on loans that poor people wanted to take out. Thus, the poor could not access the fund on equal terms as other people (TDRI 2007a).

3.1 Income Distribution

In order to analyze differences in wealth, data on per capita household income based on the Household Socio-economic Survey were used and divided into five quintiles. Inequality in income distribution is investigated by assessing the income share. The first and fifth quintiles refer to the poorest and the richest income groups respectively. Table 3 suggests that the proportion of people in the poorest income group is much higher than that of the richest group under both the village fund and debt suspension programs. Although the richest income group constitutes only a small portion, it is observed that the proportion of people that borrowed from the village fund increased somewhat, from 9.98 percent in 2002 to 11.73 percent and 11.12 percent in 2004 and 2006 respectively, while the proportion of people that received the debt suspension benefit also increased, from 7.13 percent in 2002 to 8.57 percent in 2004.

With respect to the village fund, the average monthly income increased over time for all income quintiles, with the richest persons experiencing the largest increase whereas the poorest persons found their income increased only slightly. This confirms that the poorest people might not benefit much from this program, but conversely the richest gained consistently. The income share of the wealthiest income group increased, from 50.38 percent in 2002 to 51.76 percent in 2006, while the income share of the poorest group declined, from 5.03 percent in 2002 to 4.38 percent in 2006 (Table 4).

Moreover, the average monthly income for the poorest group was just about one-tenth that of the richest group. In other words, the ratio of the mean income of the poorest group to that of the wealthiest group declined from 0.1 in 2002 to 0.08 in 2006. Similar results are observed for the debt suspension program, meaning that we still find an increase in average monthly income over time, a higher income share for the wealthiest income group, and a lower share for the poorest group (Table 5). In summary, regardless of whether it is the village fund or the debt suspension scheme, the overall results indicate that the income share of the top (richest) quintile increased at the expense of the poorer groups of people, suggesting a worsening in income distribution.

Table 3 The Proportion of People Who Benefited from the Village Fund and Debt Moratorium Programs, Classified by Income Quintile (%)

Income level	Village fund			Debt moratorium/debt reduction	
	2002	2004	2006	2002	2004
1st quintile (poorest)	22.10	21.44	23.51	26.49	23.12
2nd quintile	25.23	24.22	24.65	26.79	27.23
3rd quintile	24.05	23.74	23.21	22.72	24.55
4th quintile	18.64	18.87	17.51	16.88	16.52
5th quintile (richest)	9.98	11.73	11.12	7.13	8.57
All	100.00	100.00	100.00	100.00	100.00

Source: Author's calculations, based on the Report of the Household Socio-economic Survey conducted by the National Statistical Office.

Table 4 Average Monthly Income per Capita and Income Share Classified by Income Quintile (Village Fund)

Income level	Average monthly income (baht)			Income share (%)		
	2002	2004	2006	2002	2004	2006
1st quintile (poorest)	857	1,002	1,028	5.03	5.10	4.38
2nd quintile	1,492	1,740	2,003	8.76	8.86	8.53
3rd quintile	2,329	2,682	3,151	13.67	13.66	13.41
4th quintile	3,777	4,285	5,150	22.16	21.81	21.92
5th quintile (richest)	8,586	9,934	12,160	50.38	50.57	51.76
All	2,687	3,247	3,721	100.00	100.00	100.00
Ratio (poorest/richest)	0.10	0.10	0.08			

Source: Author's calculations, based on the Report of the Household Socio-economic Survey conducted by the National Statistical Office.

Table 5 Average Monthly Income per Capita and Income Share Classified by Income Quintile (three-year debt moratorium/debt reduction for small-scale farmers)

Income level	Average monthly income (baht)		Income share (%)	
	2002	2004	2002	2004
1st quintile (poorest)	859	1,009	5.14	4.62
2nd quintile	1,478	1,719	8.83	7.86
3rd quintile	2,362	2,697	14.12	12.33
4th quintile	3,778	4,186	22.58	19.14
5th quintile (richest)	8,255	12,258	49.34	56.05
All	2,386	3,106	100.00	100.00
Ratio (poorest/richest)	0.10	0.08		

Source: Author's calculations, based on the Report of the Household Socio-economic Survey conducted by the National Statistical Office.

3.2 Impacts on Incomes and Expenses

Using the data based on the Household Socio-economic Survey only for those households that were surveyed in 2002 and 2004, this paper takes a step further to analyze the growth rate of real incomes and expenses in various sub-groups. The data are clustered into different groups by the dimensions of time and type of support schemes, such as the people who relied solely on the village fund in 2002 and 2004, those who gained access to both the village fund and the debt moratorium programs in both years, and those who had never used any of these financial support schemes, etc. The study starts with an analysis for each individual program. However, the village fund and debt suspension programs are not mutually exclusive when used in practice, for instance a small-scale agricultural household can ask for debt suspension, and at the same time apply for village fund loan. The study is therefore followed by the investigation of income and expenditure growth by combining the two events (Table 6).

With respect to the overall borrowers from the village fund, those who borrowed money from the village fund program in both years had an average inflation-adjusted growth rate of their incomes that was higher than that of their expenses. However, in the poor income group, it happens that the real growth rate of incomes and expenses is many times higher than that of the non-poor group. Also, the poor enjoyed a rise in income at a rate higher than a rise in expenses. In the case of the debt suspension scheme, no matter whether the farmers were poor or not, those who left the program before it ended in 2004 on average experienced a larger real income growth rate compared with the growth rate in expenses. It is also noted in the rights of participants that those who leave the program and repay their debt completely within the designated period will further benefit by being rated higher so that they could move up to a higher-rated group. Somsak (2004) also shows that the farmers in the program made smaller investments than those who did not apply for debt suspension. This occurred probably because they could not apply for additional loans from the Bank for Agriculture and Agricultural Cooperatives (BAAC).

Table 6 Real Income and Expenditure Growth of the Poor and Non-poor (% per annum)

	Poor		Non-poor		All	
	Income	Expense	Income	Expense	Income	Expense
Village fund (all) :	20.93	20.89	1.95	3.40	3.55	4.89
- Records in both years	20.99	20.35	3.43	3.38	4.89	4.71
- Records in either year	22.27	22.00	0.17	3.26	1.95	4.88
Not borrow from village fund	15.05	22.52	2.41	4.19	3.47	5.77
Debt moratorium (all) :	18.39	22.17	2.15	3.89	3.44	5.38
- Records in both years	19.31	26.74	-5.18	3.51	-2.82	6.15
- Records in either year	21.20	17.08	3.57	1.69	5.46	3.28
Not apply for benefits	21.61	21.20	1.81	3.32	3.44	4.79
Village fund & moratorium – both	14.15	33.16	-7.16	4.03	-5.98	5.85
Village fund & moratorium – either	7.63	5.62	3.08	1.66	3.67	2.15
Only village fund – both years	17.98	19.96	4.59	3.61	5.70	4.89
Only debt moratorium – both years	28.88	17.92	5.54	14.50	12.69	15.67
Others	23.57	22.10	0.46	3.18	2.36	4.80
Not apply for benefits from both	15.45	23.12	2.25	4.12	3.31	5.69

Source: Author's calculations, based on the Report of the Household Socio-economic Survey conducted by the National Statistical Office (only for the same households that were surveyed in 2002 and 2004).

Furthermore, it happened that the farmers who took on multiple obligations by borrowing from the village fund inevitably had their debt obligations with the BAAC suspended for two years and they experienced a sharp decline in their real income but an increase in their total expenditures, which might be due to a careless spending behavior. However, for those who relied only on the village fund loans, without having their debt suspended, their real income increased at a relatively higher rate than the growth rate of their expenditures.

Overall, the government should be careful in implementing these financial support programs because doing so might adversely affect the effectiveness of the programs as people may gain access to several support schemes and might start borrowing money from one source to repay an existing loan. This is troublesome, especially for the programs serving people who lack financial discipline or do not know how to use money for more productive activities.

4. CONCLUSION AND RECOMMENDATIONS

Although the government has good intentions in implementing several financial support programs to reduce conditions of poverty among the people, it appears that the vast majority of the poor still could not enjoy the benefits offered by the government while the proportion of non-poor people who participated in the programs increased over time. The data also exhibit a worsening in income distribution between people in different income categories. With worsening inequality, the poverty-reducing impacts of the programs may be reduced. With regard to the impacts on incomes and expenses, the borrowers with multiple debt obligations, on average, experienced unfavorable financial conditions, i.e., negative income growth but positive expenditure growth. This suggests that the behavior toward multiple debt obligations should be carefully considered. Overall, although the governmental financial support programs may be successful in terms of meeting their implementation targets, the ultimate objective toward poverty reduction however has not yet been fulfilled. There are still some challenges of which policymakers and implementors should be aware and make some improvement to the on-going programs so that poverty reduction objectives could be achieved more effectively:

a) To widen the coverage of vulnerable groups which include the poor and the people in the low-income bracket while minimizing leakage to the non-poor.

b) To redesign the program by formulating clear guidelines and regulations about the use of loans to avoid the intentional use of loans for the wrong purposes.

c) To enhance the borrowers' capacity so that they are able to engage in more productive economic activities.

d) To develop alternatives to the formal banking system by incorporating the advantages of semi-informal and informal practices.

e) To improve the financial discipline of the poor and underserved people so that they would be able to access formal credit channels.

f) To develop effective mechanisms that make welfare sustainable instead of just emphasizing the populist policies that are not sustainable in the long term.

ENDNOTE

[1] See Paulson and Townsend (2004) and TDRI (2007b) for a survey of Thai micro-enterprises undertaken in September 2007.

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