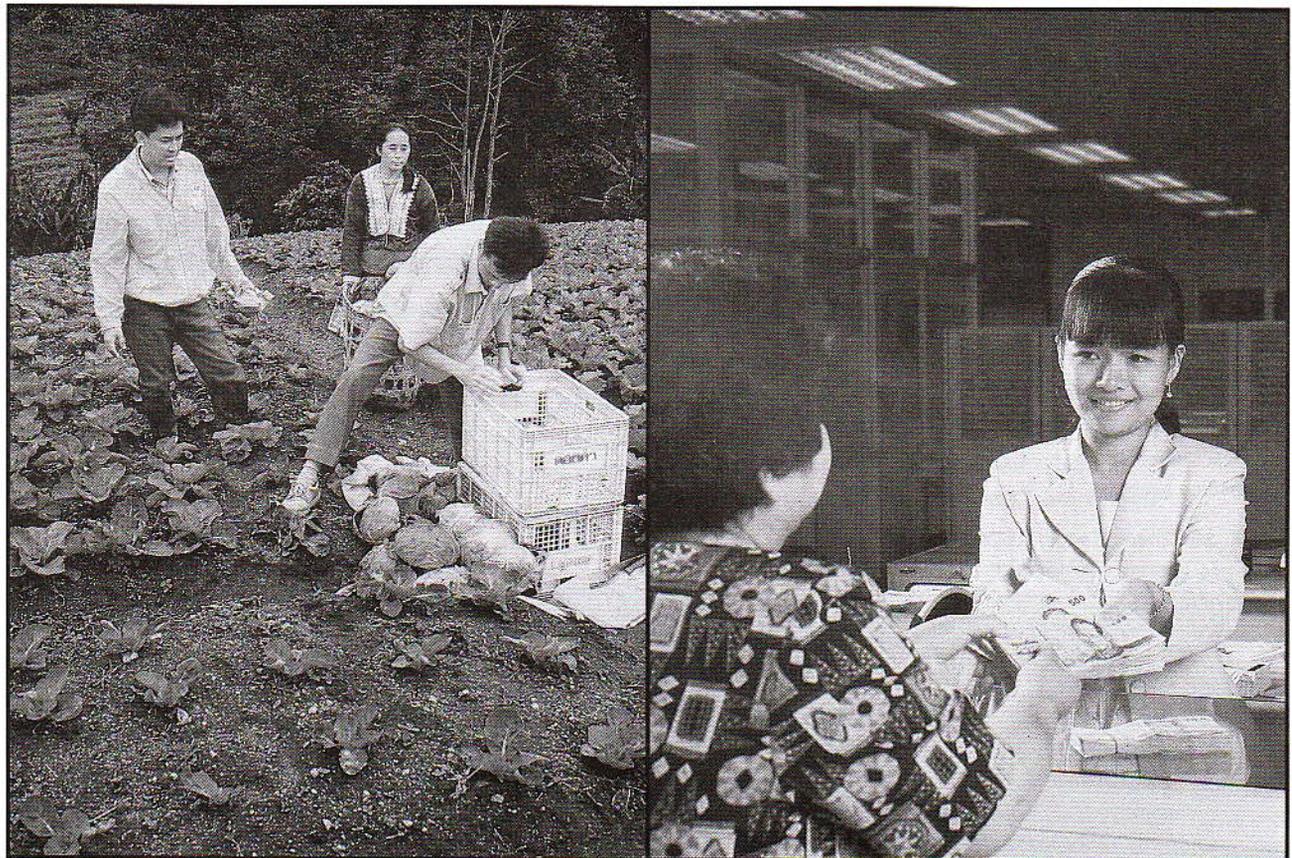


TDRI

Quarterly
Review

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The Sufficiency Economy is a philosophy in guiding one's life at both micro and macro levels, and thus can be applied to all economic sectors. (See related articles on pages 3 and 6).

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Opening Speech: The 1999 Year-end Conference “Sufficiency Economy”*

By

H.E. Mr. Anand Panyarachun**

This is a translation of speech given at the Opening Session of the 1999 Year-end Conference on “Sufficiency Economy,” co-organized by the Chai Pattana Foundation, the National Research Council of Thailand, the National Institute of Development Administration, the Office of the National Economic and Social Development Board, and the Thailand Development Research Institute, at the Ambassador City, Jomtien, Chonburi, December 18-19, 1999.

Distinguished Conference Participants,

As chairman of the Council of Trustees of the Thailand Development Research Institute and on behalf of the Conference organizers, I am pleased to welcome all distinguished participants to the 1999 Year-end Conference.

There are three aspects that make the Year-end Conference this year a unique event—the occasion for the Conference, the organizers of the Conference, and the topic of the Conference.

First of all, the Year-end Conference this year is being held as part of the celebrations on the auspicious occasion of His Majesty the King's 72nd Birthday Anniversary. The Conference organizers feel greatly honored to be a part of these celebrations. His Majesty the King never ceases to provide guidance and strength to his nation. He has graciously devoted himself to the country's development, as well as crisis resolutions at times of political crises, natural disasters, and social crises, such as poverty, poor quality of life and well-being, to name but a few. The philosophy of the “Sufficiency Economy” is His Majesty's recent guidance, bestowed amidst the hard-hit economic crisis as an alternative direction for Thai people to carefully examine, learn from, and apply for the country's future development. For this auspicious occasion of His

Majesty's 72nd Birthday Anniversary, may I, on behalf of all of us who are present here today, wish His Majesty a long life, good health and lasting prosperity.

The second aspect that makes the Year-end Conference this year special is its organizers. As in previous years, Her Royal Highness Princess Maha Chakri Sirindhorn, chairperson of the Chai Pattana Foundation, has graciously accepted the TDRI's invitation for the Chai Pattana Foundation to co-organize the Conference. Moreover, three other significant institutions have cooperated in the organization of the event. They are, the National Research Council of Thailand, the National Institute of Development Administration, or NIDA, and the Office of the National Economic and Social Development Board, or NESDB.

The third special feature of the Year-end Conference this year lies in the topic itself. During the year, the Conference organizers embarked on efforts to examine the philosophy of the Sufficiency Economy and to seek appropriate conceptual and application frameworks for it. The National Research Council of Thailand organized two discussion forums on the topic of “His Majesty's Sufficiency Economy: Economists' Perspectives” in which representatives from the TDRI, NIDA and the NESDB participated.

The NIDA has conducted research on the Sufficiency Economy as a follow-up to its study on His Majesty's New Theory. Likewise, the NESDB has started to examine the most appropriate ways to incorporate the philosophy into the national development plan. The Conference organizers agree that the creation of a common and accurate understanding of the philosophy is important. No less important are the clarity of the conceptual frameworks of the philosophy and the appropriate application of the philosophy for future development directions. To achieve these, it was agreed that a large-scale conference on the topic should be held.

* The speech was translated by Ms. Ryratana Suwanraks, TDRI editor, except on the part of the statement of the philosophy of the Sufficiency Economy.

** H.E. Mr. Anand Panyarachun is Chairman of TDRI Council of Trustees and Board of Directors.

To ensure accuracy in the interpretation of the philosophy of the Sufficiency Economy, representatives of the co-organizing institutions and experts in economic and other fields had a number of meetings with H.E. Privy Councilor Dr. Chaovana Na Sylvanta, whose kind contribution needs to be noted here. The working group drafted an interpretation of the philosophy of the Sufficiency Economy. Subsequently, His Majesty's clarification was sought, and royal consent to disseminate the statement of the philosophy was requested. His Majesty graciously made modifications to the statement and granted royal consent for general dissemination of the statement of the philosophy of the Sufficiency Economy. The statement is as follows:

"Sufficiency Economy is a philosophy that stresses the middle path as the overriding principle for appropriate conduct by the populace at all levels. This applies to conduct at the level of the individual, families, and communities, as well as to the choice of a balanced development strategy for the nation so as to modernize in line with the forces of globalization while shielding against inevitable shocks and excesses that arise. Sufficiency means moderation and due consideration in all modes of conduct, as well as the need for sufficient protection from internal and external shocks. To achieve this, the application of knowledge with prudence is essential. In particular, great care is needed in the utilization of untested theories and methodologies for planning and implementation. At the same time, it is essential to strengthen the moral fiber of the nation, so that everyone, particularly political and public officials, technocrats, businessmen and financiers, adheres first and foremost to the principles of honesty and integrity. In addition, a balanced approach combining patience, perseverance, diligence, wisdom and prudence is indispensable to cope appropriately with critical challenges arising from extensive and rapid socioeconomic, environmental, and cultural changes occurring as a result of globalization."

A careful reflection on the philosophy will lead to one's understanding of its profoundness. In fact, His Majesty first bestowed the concept of the Sufficiency Economy in his royal speech 25 years ago, except that he did not use the term "Sufficiency Economy." In my own personal view, I think His Majesty chooses the word "Sufficiency" with an addition of the word "Economy" to fit the context of the economic crisis in which his royal speech was given. The economic crisis, and the preceding signs of the country's economic instability, has its roots in dispositions and behaviors of insufficiency, discontentment, and most important of all, lack of moderation.

In the year 1974, Thailand was at her political crossroads. In addition, the country suffered unequal income distribution. His Majesty stressed in his royal speech that others might say Thailand was out-dated or lacked modern facilities, but let them, as long as we led a sufficient life with enough to eat and enough to live on. All along, His Majesty has tested his royal theories and projects for the sake of a sufficient life for his people. It is worth noting that His Majesty often uses words in relation to the concept of sufficiency, such as "enough to eat and enough to live on" and "sufficiency." In his royal speech about the Sufficiency Economy given on the occasion of His Majesty's birthday in 1998, His Majesty added the word "moderation." His Majesty's mentioning of these concepts carries profound connotations. Sufficiency leads to contentment. Contentment leads to moderation. Moderation leads to one's conscience to give. Giving leads to sharing and assistance. Subsequently, peace, strength and efficiency will be planted in a community. Ultimately, stability and sustainability will be attained.

His Majesty first mentioned the New Theory in his royal speech given in 1994, and bestowed the philosophy of the Sufficiency Economy three years later. Many people tend to relate the philosophy only to the agricultural sector. In fact, the Sufficiency Economy is a guiding philosophy in leading one's life at both micro and macro levels, and thus can be applied to all economic sectors, such as the industrial sector, the financial sector and others. The philosophy of the Sufficiency Economy stresses existence and conduct that are based on moderation, the middle path and sound decision-making. It aims for strength, stability and sustainability that are attained through readiness to adjust oneself appropriately and timeously should uncertainties and external volatilities occur. Such timely and appropriate adjustments can be achieved only through prudence, well-versed knowledge, cooperation, honesty and perseverance, and the ability to use these traits in examining one's choices and evaluating and managing one's risks.

Once we can get a grip of these fundamentals of the philosophy of the Sufficiency Economy, we will understand that the philosophy can be applied as the development strategy in all sectors. In the social sector, the philosophy of the Sufficiency Economy can also be applied. Income distribution that balances sufficiency between those who have more and those who have less, power distribution that promotes families and societies to become strong, sustainable, consistent, mindful and rational in their decisions—these are all desirable frameworks for the country's development. Whether in a social or economic context, if "sufficiency" is a core from which moderation develops, adjustments for the future will be smooth. Every step on the way will be based on prudence and care.

One important point is worth our attention here. Although we know the philosophy by the name of the "Sufficiency Economy," the very crucial element of the philosophy does not lie in the economic system, but in

the "way of life," the way of life of the Thai people that cuts across all social segments, ranging from individuals, families, communities and the country. I think we are too accustomed to the process of searching outside of ourselves when we want to find out what goes wrong. A ready example is a superficial understanding of the concept of karma. More often than not, we hear people blame whatever goes wrong on karma. In such cases, karma is treated as an external factor that has nothing to do with us. But what actually is karma? In Buddhism, karma is action. Whose action? Individual actions of each and every one of us, personally. I think we must change this attitude of seeking for causes of problems from the outside. Before blaming or seeking assistance from others, we must look at ourselves and make peace with our own understanding that everything that happens lies with us. That is why we have to rely on ourselves.

His Majesty once said don't breathe by others' noses and don't learn to stand on others' legs. Another step further than not standing on others' legs is to learn to stand on our own feet. We must create a system whereby each and every one of us learns and realizes that whenever a problem occurs, we must rely on ourselves and take the consequences of the risks we choose by ourselves. Apart from not relying on others, we must also form an attitude of not following others excessively. It is not right to blindly emulate others. Just because others have invested in some projects, one should not make a similar investment without careful consideration. This applies to all levels, both at the individual level and at the macro level of the entire system. We should pause a little; ask ourselves and decide things from our own strengths and weaknesses. As Phra Thammakitak, or P.A. Payutto wrote in the book "Way Out From the Economic System that Dominates the Thai Society" in 1989, an understanding of economics is attained through dharma. Dharma here does not refer to ethics or morality, but truth as presented in the natural course of things. The philosophy of the Sufficiency Economy reflects the natural truth that we need to thoroughly reflect upon. It is the elements of the natural truth that we need to analyze,

in order to find a way out from the economic crisis and in order to lead our lives differently from the way we used to. I quote Phra Thammakitak to present to you how the philosophy of the Sufficiency Economy is a philosophy that reflects on truth. It is based on such values as mindfulness, prudence, moderation, the middle path and wisdom. It is the path that His Majesty has taken and tested in numerous royal projects until he sees that it is truly practical. Once we get to understand these fundamentals, it is our challenge, each and every one of us, to seek appropriate frameworks and tools for the best applications of the philosophy in the modern and globalized environment.

Finally, let me briefly state the ultimate goal of the philosophy of the Sufficiency Economy. If the Sufficiency Economy is the theme, practices such as the New Theory are tools. The ultimate goal lies in sustainable development. This kind of sustainability derives from awareness and understanding that resources in a society are limited and that we do not have unlimited input to use as much as we may wish to. It is the kind of sustainability that grows from an understanding that input and output need to be balanced. For these reasons, we must use our input and manage our output with wisdom, mindfulness, prudence, moderation and sufficiency.

That is all I would like to leave with you. I am certain that this Conference will serve as a fruitful and constructive forum where we will attempt to reach a thorough understanding of the meaning of the philosophy of the Sufficiency Economy. In that process, we should also try to reach both an understanding within our individual self and an understanding with one another. I urge you to reflect on applications of the philosophy for future development directions in different aspects so that our country will move ahead with stability and sustainability in the millennium to come.

Let me now declare the 1999 Year-end Conference open.

Thank you.



Summary of Discussion:
The 1999 TDRI Year-end Conference
“Sufficiency Economy”

Jointly Organized by

*The Chai Pattana Foundation
 The National Research Council of Thailand
 The National Institute of Development Administration
 The Office of the National Economic and Social Development Board
 The Thailand Development Research Institute*

*December 18-19, 1999
 Ambassador City Jomtien, Chon Buri*

Ryratana Suwanraks*

“Sufficiency Economy” is a philosophy that stresses the middle path as the overriding principle for appropriate conduct by the populace at all levels. This applies to conduct at the level of the individual, families, and communities, as well as to the choice of a balanced development strategy for the nation so as to modernize in line with the forces of globalization while shielding against inevitable shocks and excesses that arise. “Sufficiency” means moderation and due consideration in all modes of conduct, as well as the need for sufficient protection from internal and external shocks. To achieve this, the application of knowledge with prudence is essential. In particular, great care is needed in the utilization of untested theories and methodologies for planning and implementation. At the same time, it is essential to strengthen the moral fiber of the nation, so that everyone, particularly political and public officials, technocrats, businessmen and financiers, adheres first and foremost to the principles of honesty and integrity. In addition, a balanced approach combining patience, perseverance, diligence, wisdom and prudence is indispensable to cope appropriately with critical challenges arising from extensive and rapid socioeconomic, environmental and cultural changes occurring as a result of globalization.¹

His Majesty bestowed the philosophy of the Sufficiency Economy to the nation on December 4, 1997 in his royal speech given on the occasion of his birthday. It was five months after the floating of the baht and at the time when the country was almost lost in the economic crisis. Clearly, the philosophy is meant as guidance to another conceptual approach to development that, like the old route, aims for prosperity, but this time, with equity, stability and sustainability.

Many organizations and groups have made efforts to reach the understanding of the meaning and application of the Sufficiency Economy. The 1999 Year-end Conference targeted nothing less. The event was a joint effort of five co-organizing institutions, the mandate

of each involves research and policy directions: the Chai Pattana Foundation, the National Research Council of Thailand, the National Institute of Development Administration, the Office of the National Economic and Social Development Board (NESDB), and the Thailand Development Research Institute. The Conference's objective was to provide an open forum where views and experiences could be exchanged, and where a coherent and appropriate framework for understanding the meaning and application of the Sufficiency Economy could be attained.

Such a framework of understanding will lead to appropriate incorporation of the Sufficiency Economy into future national development plans. One point should

* Ms. Ryratana Suwanraks is TDRI Editor.

Chaired by NESDB
Chairman Dr. Sippanondha
Ketudat (center), the
morning plenary session of
the first day presented
framework for the afternoon
discussion. Panelists from
left: Khunying Nongyao
Chaiseri, Member, the
National Research Council
of Thailand, NIDA's School
of Development Economics
Dean Dr. Wisarn
Pupphavesa, TDRI Presi-
dent Dr. Chalongsob
Sussangkarn, and NESDB
Secretary-General
Mr. Sansern Wongcha-um.



be made clear from the outset: The Conference did not aim to provide a conclusion or absolute answers as to how one should apply the philosophy. Such action plans need to come from brainstorming and discussion of a wider range of people encompassing different social sectors and groups. Moreover, implementation by different groups should be flexible enough depending on their individual environment and conditions.

SUFFICIENCY ECONOMY: CONCEPTUALIZATION²

The most often asked question about the Sufficiency Economy concerns whether it opposes globalization and liberalization. Although the philosophy of the Sufficiency Economy stresses self-reliance, it by no means favors self-sufficiency and isolationism. Self-reliance here refers to the ability to assess strengths and weaknesses with wisdom and knowledge, and to foster appropriate tools to immunize the country and society against internal and external volatility. The Sufficiency Economy emphasizes the middle path which can be achieved only through moderation, rationality, prudence, wisdom and proper and honest use of knowledge. It encourages harmonious and constructive participation in globalization and liberalization to optimally utilize appropriate knowledge and resources and benefit from them. At the same time, the Sufficiency Economy guides the country and society to assess and correct factors hindering appropriate development; these hindrances can be in the form of national policies, ways of life, ways of thinking, or even values in society.

Optimal behavior links the Sufficiency Economy to mainstream economics. In mainstream economics, human behavior is an effort to reach the optimum. In this regard, the Sufficiency Economy seeks to find appropriate behaviors for optimal benefits, taking into account limitations, risks, uncertainties and volatility. To understand the Sufficiency Economy, one needs to

differentiate between optimal benefit and maximum benefit, as behaviors that aim for maximum benefits are only a starting point of non-sufficiency. The Sufficiency Economy takes into consideration market uncertainties in mainstream economics, and seeks patterns of decisions and behaviors that are based on prudence and a wise examination of the risks and uncertainties that are involved.

The Sufficiency Economy does not oppose the creation of wealth and growth. Growth and wealth are among development objectives of any society. However, growth is not the only contribution to economic development, nor is wealth the only provision of security. The ultimate goal of the Sufficiency Economy is sustainable development, and to reach sustainability, it is important that all citizens have equal opportunities and freedom despite their individual shortcomings. Equal opportunity to good education and health will lead to the ability to make optimal use of open doors in life. Citizens also need an equal opportunity to own land and other production capital, as well as to make a living within a fair and transparent environment.

In this regard, it is clear how the Sufficiency Economy transcends the economic sphere. The Sufficiency Economy embraces a holistic approach to development and takes into account political freedom and stability, economic development, social capital, cultural values and traditions, ethics, attitudes and the environment. Application of the Sufficiency Economy needs proper understanding and supporting attitudes, for instance, self-reliance and not seeking causes of problems from the outside but from one's own strengths and weaknesses. The Sufficiency Economy accords the Thai way of life and encourages the revitalization of the moral and ethical fabric of Thai society. It respects compassion, good will, mutual assistance in society, and outweighing social benefits to individual benefits.

The Sufficiency Economy is a fundamental guidance of conduct and decision-making at all levels in all sectors. It contains dynamism in line with the

development of society. It encompasses at least five major components:

- Integrity
- Moderation and the middle path
- Prudence achieved via mindfulness and wisdom
- Rationality that will lead to patience and perseverance
- Balance and sustainability.

THAILAND'S DEVELOPMENT AND TRAITS OF NON-SUFFICIENCY

Thailand has achieved many desirable goals in the course of its development that have provided for the well-being of many Thai people. However, an assessment of Thailand's past development reveals imbalance and inflexibility in many ways. More often than not, developmental achievements are visible in the form of quantity rather than quality. While Thailand has made great progress in reducing poverty, the distribution of income is still very uneven. Basic infrastructure has expanded nationwide, but the distribution is not balanced and the quality is uneven. The country has also developed at the expense of depleting natural resources and degraded the environment. The country's forest area decreased from approximately 53 percent in 1961 to less than 25 percent in 1997.

Thailand's development has resulted in better health and education of a large number of citizens; however, the quality does not match the quantity. Distribution of services is uneven and does not cover all targeted areas. At the same time, ethics, morals and disciplines have weakened. It is clear that administration and institutions, be it the political sector, the public sector, private businesses, communities or families, do not have the necessary tools to guard against internal and external volatility. While the present Constitution concretely encourages political reform and public sector reform and decentralization of power to local commu-

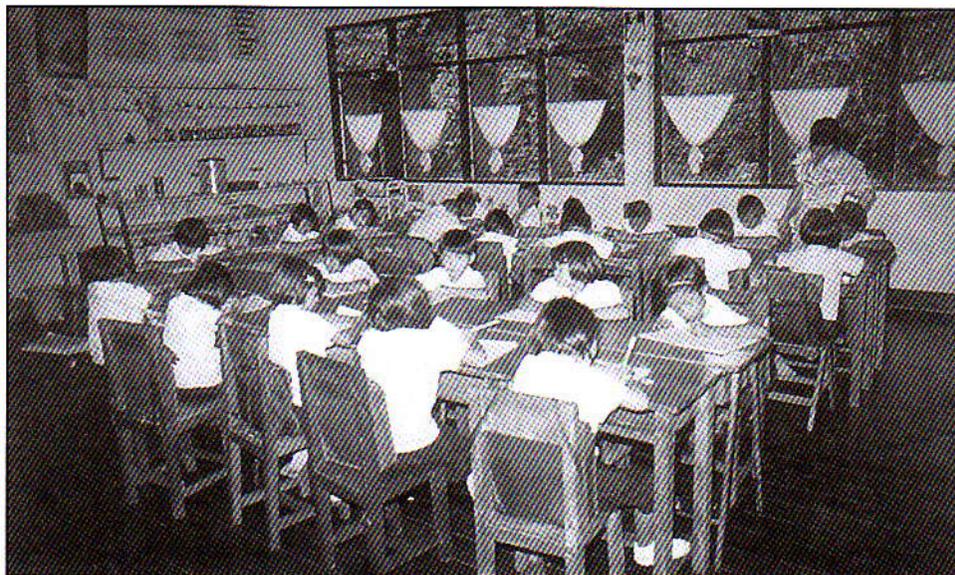
nities and administration are underway, tangible progress needs constant support and refinement. The economic crisis has shown shortcomings in the private sector, particularly in terms of a lack of good corporate governance. Concrete channels to empower local communities and the civil society are being implemented, but individual families remain weak and reveal patterns of lavish spending and over-consumption.³

Implementation is needed to foster balance in many areas of development; for instance, the production structure, land and income; quantity and quality of education, information and analysis of information; knowledge and integrity; roles of the public, private and people sectors; and balance between politics, economics, society and the environment.⁴

NON-SUFFICIENT BEHAVIOR PRIOR TO THE CRISIS

Apart from imbalanced development, considerable pre-crisis non-sufficient behavior is believed to have significantly contributed to one of the country's worst economic stumbles. The decline in the household saving rate in less than a decade from approximately 14 percent in 1988 to approximately 5 percent in 1996 shows patterns of over-consumption. Inefficient investment was also evident. The total factor productivity growth increased from -1.27 during the period of 1981-1985 to 3.98 during the period of 1985-1990, and sharply dived to -3.07 during the period of 1991-1995. Private businesses resorted to debt rather than equity to finance investment. Private debt was massive: The ratio of foreign debt to investment sharply increased from approximately 0.4 in 1988 to 1.2 in 1995. A sharp increase in the ratio of short-term to long-term private debt was also witnessed. Excessive competition in international trade also led to a situation where aggregate benefits for all traders decreased. High quantity of similar exports induced pressure on prices. Competition to attract foreign investment led to unfair and distorted

Thailand's development has resulted in better education of a large number of citizens, but the quality does not match quantity.



industrial promotion and a situation where benefits fell into the hands of transnational companies rather than home countries. There was fierce competition in the region to become a financial center, which apparently led to policy implementation with less careful risk assessment.

At the macro level, macroeconomic policy did not provide appropriate immunization against external volatility. The country lacked mechanisms to balance risks from volatility from financial liberalization with the potential benefits liberalization offered. The pegged foreign exchange rate policy at the time of financial liberalization increased the risks for the overall system. The country lacked the necessary information for indicators and early warning signs. Imprudent management of foreign reserves also exacerbated the situation.⁵

GROUP DISCUSSION

After the morning plenary session, the 453 Conference participants, from the public sector, the private sector, universities, international organizations and the people's sector, divided into seven groups. Two groups examined the meaning of the Sufficiency Economy from the economic and social perspectives. The five other groups discussed the application of the Sufficiency Economy in different development aspects and sectors, namely, moderation and rationality in economic decision-making, agricultural and rural development, industrial and service development, production structure and international trade, and financial and capital market development. The results of the group discussions are as follows:

GROUP 1: Understanding the Philosophy of the Sufficiency Economy from the Economic Perspective

The group analyzed the conceptualization of the Sufficiency Economy within an economic framework. The group felt that mainstream economics can explain the Sufficiency Economy to a certain level. However, a thorough understanding of it from the economic perspective needs to surpass certain conventional boundaries. Another interpretation is that the Sufficiency Economy is not a theory, but a philosophy.

1. Sufficiency Economy as Explicable by Mainstream Economics

The mainstream economics can explain the Sufficiency Economy in three ways.

- **Imbalance of Information**

The quality of information one possesses determines one's ability to make investment choices and create wealth and income. As information determines opportunities, imbalance of information can explain

uneven opportunities in the market and hence income disparity. There is a need for the state, presumably the player with sufficient information, to provide accurate and timely information to those in need so as to create opportunities for them. Moreover, imbalance of information could be a factor of non-sufficiency behavior of some groups of people. Mechanisms are thus needed to provide them with balanced information in the future.

- **Balance Between Competition and Basic Security**

Two sets of economic concepts are in the picture here. The first is competition for highest efficiency, and the other is provision of basic security. Efforts in mainstream economics to achieve an equilibrium between the two make mainstream economics an explicable framework for the Sufficiency Economy.

- **Risk Management**

Risk management in mainstream economics is a feasible explanation of the Sufficiency Economy. On the assumption that individuals need to manage and guard against incurring risks, risk management is a benchmark for each individual's "sufficient" level. As the risk premium of individuals varies, the level of "sufficient" conduct of each varies. In other words, individuals are assumed to act according to their own boundaries of "sufficiency."

2. Sufficiency Economy as Beyond Economics

The Sufficiency Economy is conceptualized as beyond economics as it takes into account other non-economic variables. First of all, it encompasses social factors and values in its approach to understand economic behavior. Moreover, it is not possible to adopt the Sufficiency Economy approach without taking into account the normative aspects of the people, institutions or events involved. The Sufficiency Economy approach also takes into consideration dimensions of institutions. For instance, explanation of the Sufficiency Economy on the matter of pre-crisis financial liberalization and the subsequent financial crisis is complete only with due examination of surrounding policies. The interpretation that the Sufficiency Economy is beyond economics takes on the dynamism of mainstream economics in that it adds to the development of economic theories. Moreover, to understand the Sufficiency Economy, complexity and diversity on the level of "sufficiency" needs to be taken into account.

3. Sufficiency Economy as a Philosophy, Not a Theory

Another interpretation from the group is that the Sufficiency Economy is not a theory. It does not explain behavior, but provides guidance for behavior based on decades of experience and actual practice. Within the framework of this interpretation, questions were raised as

to whether the Sufficiency Economy is a different way of doing things or a basic framework of recommendations to which one should preferably adhere to in one's normal behavior. The latter was agreed upon. It was also agreed that the Sufficiency Economy does not deny changes from globalization, but provides a core philosophy for needed tools in order to develop the country with immunity in line with global trends.

GROUP 2: Understanding the Philosophy of the Sufficiency Economy from the Social Perspective

The group did not use a framework of social science theories to conceptualize the Sufficiency Economy. Rather, it sought to understand the meaning of the Sufficiency Economy and identified significant factors in society that attribute to and nurture the state of "sufficiency" as interpreted in the Sufficiency Economy approach.

To the group, the Sufficiency Economy is a holistic approach to the understanding of society. It transcends the economic field and the boundaries of different fields altogether and covers social as well as spiritual dimensions. A sufficiency society is a society with equity. The gap between the rich and the poor, the haves and the haves-not can rightfully exist, but it must not be too wide as to disintegrate the fabric of the society. The Sufficiency Economy values traditions, culture, the Thai way of life, and local wisdom. People in and across communities care for one another and live in harmony with one another. Local wisdom is appropriately utilized. A sufficiency society is a society with vision. It invests sustainably for the future and lives in tune with the environment. The Sufficiency Economy is both ends and means. As ends, it provides balance and moderation. As means, it serves as a core philosophy to create sustainability. The Sufficiency Economy is thus an ideology as well as a technique in leading one's life.

The following are recommended directions for the creation of a sufficiency society.

1. Promotion of Factors Supportive of the Sufficiency Economy

- *Internal Factors* refer to resources within each individual, such as spiritual and moral enrichment and incubation of wisdom, that lead to inner immunization. Leaders should adhere to conduct and values in line with the Sufficiency Economy, and such leaders should be promoted as role models. At the same time, the Sufficiency Economy values should be instilled in the youth. In the course of this learning process, the population in general will naturally learn and absorb desirable Sufficiency Economy values.

- *External Factors* refer to mechanisms and institutions, particularly legal frameworks, that facilitate the conduct and practice of the Sufficiency Economy.

2. Education Reform

The educational system should promote awareness and understanding of the Sufficiency Economy as well as the way of life in line with the Sufficiency Economy. More importantly, education should not only lead to knowledge, but to the creation of wisdom to make use of knowledge. The educational system should enrich individuals' learning processes and serve as an effective means to a good quality of life and quality of society. Education should enable individuals and communities to share such good qualities with others. Encouragement of this kind of education in local communities will lead to the sharing of knowledge and nurturing of wisdom consistent with local needs.

3. Development of Background Knowledge for the Sufficiency Economy

Concrete implementation of the Sufficiency Economy requires the development of background knowledge in various fields. Connectivity among disciplines is necessary.

4. Social Movement

Background knowledge and educational reform discussed above will lead to social understanding and consensual need. However, application of the Sufficiency Economy at the macro policy level requires political channels and appropriate social movement.

5. Promotion of a Strong Community and Functional Civil Society

Local community is an important social level in putting the Sustainable Economy to practice. The strengthening of communities and civil society is thus important. The capacity of communities to lead themselves via their own initiatives along the path of the Sufficiency Economy must be promoted. Community master plans, e.g., at the level of tambon or province, should be developed. To this end, support from the state in forms of financial and other resources are necessary.

The group supported the incorporation of the philosophy of the Sufficiency Economy in the Ninth National Economic and Social Development Plan. The Ninth Plan should encompass necessary reforms in different areas, such as the value system, education, community economics, macroeconomics, public sector, politics and administration, the legal system and the media.

GROUP 3: Moderation and Reasonability in Economic Decision-Making: The Sufficiency Economy Perspective

The economic crisis clearly shows the lack of moderation and reasonability in Thai economy, visible in

forms of over-consumption, lavish spending, over-investment, decline of household savings, and increases in individual and corporate debt. Two preference relations—habit formation and “catching up with the Joneses”—can be used to explain pre-crisis non-moderate behaviors. In the case of habit formation, utility derived from present consumption depends on the level of past consumption. As for “catching up with the Joneses,” utility derived from one’s consumption depends on others’ or the social average consumption. These preference relations imply that one tends to be more risk averse at times of steady economic growth. With regards to irrational economic decision-making, the “herding” and speculative behavior in the emulation of investment projects without careful judgement of risks and returns was evident (Somchai 1999).

The group conceptualized a moderate and rational economic decision as having at least five components: Self-reliance, utility, moderation, the middle path and accurate information. A moderate and rational decision is made with efforts to be self-reliant as much as possible while striking a balance between the need to be self-reliant and the need to depend on others. Utility in moderate and rational decision-making encompasses both utility of individuals and of society based on morals and ethics. Moderation and the middle path serve as guidance to appropriate self-reliance and utility. Last but not least, a decision risks being non-moderate and irrational without accurate and timely information.

Evidently, information critical to sound decision-making was lacking prior to the crisis, e.g., the quarterly GDP, land prices, unoccupied housing units, labor productivity, inventory, borrowers’ credit information and non-performing loans. Other factors have intensified the ineffectiveness of information usage in Thailand, e.g., the lack of coordination between agencies in management and sharing of information, institutional factors such as laws and regulations, insufficient financial and human resources in data collection and processing, lack of information sharing between the public and private sectors at all levels, and lack of effective dissemination of information. An efficient system of information gathering, analysis and dissemination not only provides an effective background for decision-making and development of warning signs, but also enables the public to monitor the government’s performance (NESDB 1999a).

The group recommended the following directions in the promotion of moderation and rationality in decision-making at all levels.

1. Individual and Family Level

Individuals and families must respect laws and regulations. They should be disciplined in their spending and feel accountable to the next generation, such as in the area of environment protection. They should be ethical and moral and promote such traits to family members.

2. Community Level

Members of a community need to unite and enhance their ability in adjustment to external changes. They should have good judgement in assessment of risks and development of appropriate immunization for their community.

3. Governmental Level

The Sufficiency Economy should be set as a national agenda with clear concrete strategies. Moreover, the government should promote on-going study as well as human resources development supportive of the promotion of the Sufficiency Economy. Development of accurate and timely information, equity of access to information, and indicators to monitor the level of “sufficiency” are also necessary.

GROUP 4: Bringing the Sufficiency Economy into Practice: Agricultural and Rural Development

The goal of agricultural and rural development in the Sufficiency Economy perspective is sustainable development at both the community and household levels. It does not aim solely at sustained income, but also good quality of life, good health, warm family, strong community, respect for human dignity, and social and political fulfillment.

1. Commercial Agriculture and the Sufficiency Economy

Commercial agriculture does not contradict the philosophy of the Sufficiency Economy as long as it is in balance with market demand and existing resources, adopts appropriate agricultural tools, and protects the environment. Weaknesses in past commercial agriculture derive from high risks in comparison to return, a trend of decreasing comparative prices, volatility in production and prices, encroached environment—forest, water and soil, inappropriate use of chemicals that has led to pollution, and over-use of foreign money. State regulators have partly caused these weaknesses via inappropriate price intervention programs, promotion schemes with inappropriate directions and tools, and inability to manage water and natural resources.⁶

The group agreed that commercial agriculture in appropriate locations practiced along the lines of the philosophy of the Sufficiency Economy will regulate the country’s income earnings and imports of needed goods. Private companies that promote international competitiveness of commercial agricultural goods should thus receive needed support, provided that they do not take advantage of society or others. In the long run, farmers of commercial agriculture should become stronger and adopt a similar position and role in the development of commercial agriculture as large-scale private companies.

2. *The New Theory and the Sufficiency Economy*

The New Theory does not contradict liberalization or commercial agriculture, but serves as an alternative, particularly for farmers in remote rain-fed areas where benefits from the market economy are not available. Farmers and rural communities in remote areas are less capable of engaging in risk management schemes due to the lack of market diversity and opportunities. Transaction costs are high, and so are interest rates as a result of the high cost of information on borrowers.

The New Theory is also relevant to Thailand considering past national policies that have been biased against the agricultural sector. Maintaining a strong foreign exchange rate affected the price of agricultural exports, while many agricultural policies have transferred economic rent from agriculture to urban consumers and agricultural factories. Past development direction promoted the industrial and service sectors. Land expansion was encouraged as a tool to increase agricultural output, leading to ecological imbalance. The government also failed to develop instruments for agricultural price stability (Adis 1999).

Caution is needed in implementation of the New Theory, however. The New Theory will reduce costs and risks of farmers only if it is practiced in appropriate localities and with the readiness and understanding of farmers. There is a danger of indiscriminatory promotion of the New Theory in infeasible areas or in areas with farmers who are over-qualified (Viroj 1999 and Chanika 1999).

3. *Other Sustainable Agriculture and the Sufficiency Economy*

All sustainable agricultural systems are in line with the philosophy of the Sufficiency Economy, in terms of food security, environmental protection, enhancement of learning processes, and promotion of a solid society. Within sustainable agricultural systems, expansion of networks to all three phases of the New Theory is feasible (For understanding of the three phases of the New Theory, see Chanika 1999).

4. *Assessment of Past Implementation of the New Theory*

Although the support of government agencies in the implementation and promotion of the New Theory has yielded desirable results in certain areas, the following reservations remain.

1. Accurate understanding of the New Theory has not reached all levels, particularly the local level.
2. Expansion of the New Theory should be based on long-term sustainability rather than quantity. Decisions based on quantity will lead to illusions in policy setting.

3. Implementation of the New Theory must not cater to the needs of public officials or politicians, but to the real needs of farmers.
4. Farmers must not be forced to apply the New Theory. Learning processes and enhancement of local wisdom need to be promoted so that farmers have the confidence in their own choices of agricultural patterns.

Like Group 2, the group encouraged the incorporation of the Sufficiency Economy into the Ninth Plan. The group also believed that the Plan should promote all forms of sustainable agriculture. The NESDB should receive necessary cooperation from all parties in this regard and should set clear strategic implementation plans. The NESDB should also play a significant role in budget allocation to the plans and in the evaluation of the budget spending of involved agencies. In any case, there is no need to wait for the Ninth Plan to apply the Sufficiency Economy and the New Theory. In addition, the group suggested that promotion of networks of farmers, foundations, civil society organizations and private businesses will help alleviate the burden of government agencies. These networks will result in networks of learning and information sharing, production methods, and market orientation. In any case, coordinating support from public agencies as well as sufficient and transparent budget spending are crucial.

GROUP 5: *Bringing the Sufficiency Economy into Practice: Industrial and Services Development*

The group took into account external and internal factors, such as trade liberalization, the role of the private sector and natural resources and the environment in determining appropriate ways for a holistic approach to industrial and service development.

1. *Non-Sufficiency and Imbalanced Aspects of Past Development*

• *Society*

Past development has led to a society that is too receptive of external influences without due screening. The liberalization policy was implemented without sufficient institutional preparation. The country lacked appropriate warning systems, immunity and mechanisms to adjust itself in time of crisis, thereby reducing the survival chances of many industries. Moreover, a number of social capitals have been weakened, such as ethics, compassion, the environment and the Thai way of life. The quality of people and labor has declined. Income has been unevenly distributed.

• *Infrastructure*

Infrastructure projects have weaknesses in that they are not cost-effective. Many are inappropriate for

targeted users who should benefit, such as the elevated train system that does not cater to the elderly. Many investment projects reinforce non-sufficiency values, such as road and highway construction that supports an extravagant value of owning cars, rather than focusing on mass transit systems.

- **Industrial Structure and Development**

Ironically, it was the policies of investors' countries that determined development directions in the Thai industrial sector. Thailand, as a result, has had no real power in setting its industrial development strategies. The country also lacks a holistic approach in industrial and production structural planning, and does not develop long-term planning (30, 50 or 100 years), as many other nations do. This has led to a piece-meal style of industrial and service sector development where existing jigsaws do not match.

Implementation of import-substitution industrialization has led to government protection of certain industries, resulting in unfair competition and a shift of the burden onto consumers due to high prices. Implementation of export-oriented industrialization has caused over-investment despite the country's inability to guide the trend of the world market. Moreover, the industrial sector tends to purchase ready-made technology rather than develop its own designs or production technology. No backward integration is practiced. The lack of research and development in science and technology has led to inadequate locally-produced parts, resulting in higher import contents. In addition, local institutions that produce high-level engineers tend to focus on administrative and managerial skills rather than on design and industrial and production development. This results in a lack of expertise in the development of production lines.

In the past, a large number of small and medium enterprises (SMEs) served as shock absorbers of external volatility. However, biased industrial policies in favor of large-scale industries have penalized and discouraged Thai SMEs. This is viewed as one reason for the strong negative effects on the industrial sector and the country prior to and during the economic crisis (For analysis on the Thai industrialization and the Sufficiency Economy, see Nipon 1999).

2. *Development Strategies in the Sufficiency Economy Perspective*

Development of the industrial and service sector in line with the philosophy of the Sufficiency Economy accords the global trend of liberalization and globalization, with a specific focus on balance, optimal benefits, immunization and ability to assess weaknesses and strengths and act accordingly with wisdom and prudence.

- **Economic Policies**

Thailand should adopt a policy of optimal openness in which appropriate regulation of capital flows

and an appropriate foreign exchange rate level are achieved. The private sector should practice optimal competition as excessive and irrational competition will only lead to loss for all. The public and private sectors are also encouraged to determine practical development and competition strategies, to concentrate on organizational development, and to coordinate in the development of government's support that is necessary yet insufficient. Development of effective warning signs and indicators of corporate performance as well as national performance is also encouraged.

- **Targeted SMEs**

Promotion of SMEs is viewed as an alternative for a risk management strategy in the Thai economy. The group conceptualized SMEs as both tools in the application of the Sufficiency Economy for the entire industrial and service sectors, and as potential users of the philosophy for the sake of their own development and risk management. In the former case, SMEs are shock absorbers of external volatility; they can enhance productivity and competitiveness, thus strengthening communities and the local economy. In the latter case, appropriate SMEs are encouraged to adopt the philosophy of the Sufficiency Economy in order to survive the risks of the liberalized and globalized economic system (Santi et al. 1999).

The group agreed that the product champion policy should be lifted as it distorts price and market mechanisms. There is also a need to strike a balance between promotion of appropriate SMEs while not picking or supporting only winning SMEs. Indiscriminate promotion of SMEs will send a wrong signal and create moral hazard. Such a signal will also lead to excessive SMEs and subsequent unproductive competition among them. Conversely, support and encouragement should be given to SMEs that serve as linkages in the industrial structure and to SMEs that are technologically self-reliant and commercially viable. It is also suggested that a benchmark of the level of sufficiency in the Sufficiency Economy perspective be determined for different industries at all levels, i.e., community, national and international levels. This will help determine appropriate capital and needed support and promotion. In addition, SMEs should extend lines or sizes of investment only if they have sufficient capabilities and capital. Those that lack comparative advantage and competitive edge should downsize or terminate without unnecessary intervention.

In the world of globalized trade and non-tariff barriers, it is important for Thailand to be exporters with responsibility to society, labor, the environment and its trading partners. Thailand also needs to develop a pattern of relationship with transnational corporations that potentially leads to sustainability, for instance, in areas of technology transfer and promotion of local staff to the highest position of the companies.

- ***Strengthening of Institutions via Good Corporate Governance***

Independent institutions should be empowered as checks and balances between employers and employees, between majority and minority shareholders, and between borrowers and creditors. The selection process of directors of private sector institutions, such as the Federation of Thai Industries, should also allow more representatives from SMEs. In addition, there is a need to establish independent regulators to monitor the performance of boards of directors and auditing practices of private and public organizations, as well as to guard against insider trading (Also see Duenden 1999).

- ***Human Resources Development***

Human resources development should take into account both the ethical and practical side of development and skill enhancement. The new generation should be encouraged to value careful and cost-effective use of national resources. Rational decision-making must be promoted. At the same time, the educational system should fill the gaps of needed labor, particularly the skilled labor and technical labor required by SMEs.

All in all, there is a need to lay out a framework of “sufficiency” of industries at different levels. Small industries should be able to survive with their limitations and should have relevant networks. Medium industries should be promoted to seek their own networks. Large industries should adopt a balanced level of investment, practice good corporate governance, and not take advantage of small industries and consumers.

GROUP 6: Bringing the Sufficiency Economy into Practice: Production Structure and International Trade

The Sufficiency Economy is in accordance with at least two trade theories. First, according to the comparative advantage concept of the traditional trade theory, a nation should produce goods of relatively lower cost and higher efficiency under their best knowledge and practices. Secondly, the concept of the “home market effect” of the new trade theory states a tendency of countries to export products for which they have relatively large domestic markets in order to achieve benefits from the economy of scale. The two concepts aim at risk reduction for the highest return at the optimal level. Similarly, the Sufficiency Economy stresses moderation and rational decision-making with proper immunity against internal and external volatility (Nattapong et al. 1999).

The group participants recognized benefits from international trades to the country and agreed on the importance and relevance of the Sufficiency Economy to production structure and international trade. At least two past trade strategies were found to contradict the philosophy of the Sufficiency Economy and the benefits that

should follow. First, tariff protection of selected industries, and second, the promotion of capital intensive, technologically dependent and large-scale industries with artificial comparative advantages, e.g., petrochemicals and steel, have distorted balance of the economy.

While opening to trade has benefited the country in its development and growth, negative effects of external volatility need careful assessment and management. Fluctuating prices in the world market, particularly those of primary goods, is one of the risks. The floating foreign exchange rate also poses risks in production planning. Moreover, the foreign exchange rate does not move in accordance with the comparative advantages of different countries and the trade markets but rather depends on factors in the financial and capital markets. Rapid technological change affects comparative advantages and shortens the product cycle. Intense trade competition, e.g., from e-commerce and the entrance of new trading countries with labor-intensive products of lower cost, have a negative effect on Thailand. Rapidly changing trading rules, e.g., consideration for the environment and human rights, forces the country into rapid adjustment. In addition, biased national policies in favor of certain large industries have led to non-sufficient investment and a shift of economic rent from small enterprises to large-scale industries.

The group suggested the following as directions to immunize the country against risks from international trade.

1. Diversification

The country needs diversity and refinement in both its production and market penetration. Industries should develop according to their individual comparative advantages, while trade negotiations for open markets in industrial countries are necessary. The country should encourage foreign direct investment as it is less volatile than other types of foreign investment. Development of SMEs, e-commerce and supply chains is encouraged.

2. Dynamism in Technological Capability

This aspect is very important due to the shortening of product cycles and the shift of comparative advantages from labor-intensive products to knowledge-based products. The public sector needs to rapidly and seriously promote strength in technological capabilities while developing linkages of technological development between the public and the private sectors. The technological capability of private businesses and industries needs to be promoted. In this regard, reverse engineering and creative imitation are viable solutions. In addition, Thai industries need to develop linkages with foreign direct investors for technology transfer. It is equally important to create a body of knowledge for technological capability of people at all levels to enhance their flexibility to change.

3. *Production Restructuring*

The production structure needs to be restructured for more balance. The group discussed directions to determine an appropriate production structure and stressed that development of all production sectors is needed. Production sectors must systematically link, and there is a need for dynamism in utilization of production factors appropriate at different times (See NESDB 1999b).

4. *Measures for Fair and Even Distribution of Benefits*

Intervening measures for fair and even distribution of benefits need to be set and implemented, e.g., creation of trade ethics, eradication of monopolies at all levels, termination of rent seeking resulting from public policies, entrance of small enterprises to capital and financial markets, and the use of fiscal tools in benefit distribution.

5. *Trade Negotiation, Safety Nets and Concern for the Environment*

GROUP 7: Bringing the Sufficiency Economy into Practice: International Financial and Capital Market Volatilities

Development of the financial and capital markets in the Sufficiency Economy perspective primarily lies in the need to foster the country's immunization against external volatility. The recent economic crisis clearly shows that rapid expansion of the financial and capital markets has led to high volatility and high risks in the economic system. The group agreed that there is a need to seek immunization mechanisms in line with the philosophy of the Sufficiency Economy.

One important concept of the Sufficiency Economy is self-reliance. To develop immunization in the financial and capital markets, therefore, basic consideration should be given to how the country could foster inner strength to best co-exist with external volatility. In this regard, the group agreed on mobilization of domestic savings at all levels. Clearly, the higher the level of domestic savings, the lower level of dependence on external capital. No less important is the development of efficient and diversified capital markets with sufficient instruments and sufficient understanding of the public toward the instruments. Domestic investors should understand existing financial instruments in order to make wise choices, while borrowers should have appropriate mechanisms to tap long-term domestic savings. At the same time, strong financial institutions should be able to manage external volatility to the level that it is not harmful to the organizations and the overall system. Strength of financial institutions can be instilled through promotion

of good governance and ethics among financial executives. Strong financial institutions should distribute needed credit to local communities and small investors with relevant potential, not only to strong investors and existing winners.

Appropriate financial strategies and foreign exchange rate are important factors in the process of immunizing the country against external volatility. Past policies, e.g., the liberalization of exchange controls or external balance sheets while keeping the pegged exchange rate, have increased risks in the system and contributed to the economic crisis (Pakorn and Yos 1999). New conditions of the financial market, the floating of foreign exchange rate, have led to a need for a new effective financial policy. A flexible foreign exchange rate and inflation targeting serve as a viable option in line with the perspective of the Sufficiency Economy.

Inflation targeting specifies the forecast of inflation with the objective to balance the actual with targeted inflation. It emphasizes economic growth with no inflationary pressure (Bank of Thailand, Monetary Policy Group 1999). With a clear financial policy objective, inflation targeting should lead to transparency in financial policy decision-making, which in the past was mostly done among a small number of policy makers. In the past, the public also did not have information on the national financial policy, particularly its rationale and principle. With a clear objective, accountability can be determined. Clarity, predictability, transparency and accountability will lead to credibility of the country's financial policy.

The framework of inflation targeting is consistent with the philosophy of the Sufficiency Economy in that it induces moderation and rationality. With regards to moderation, inflation targeting will help prevent the economy from overheating, thus reducing the chances of excessive speculation, over-spending, over-investment, depletion of natural resources, and inefficiency and unsustainability of the business sector. Inefficient production and management tend to induce unnecessary investment expansion, while inflation targeting is a constraint against such expansion. Accordingly, the business sector needs to enhance efficiency of resource utilization both in production and management. On the part of rationality, inflation targeting is a system where objectives and directions for implementation are clear, transparent and open to monitoring mechanisms.

Effective implementation of inflation targeting requires prudence and care, as stipulated in the philosophy of the Sufficiency Economy with regards to the introduction of untested theories. Practiced in many countries, yet a new approach in Thailand, inflation targeting needs proper discussion and clear understanding from all parties involved. Coordinating policy directions of related government agencies are necessary. Moreover, the monetary policy needs independence from fiscal policies. In addition, the country needs a strong system of financial institutions.

The group agreed that appropriate immunization tools, such as mobilization of domestic savings and inflation targeting, require time for actual implementation. In the short run, the country needs some protection tools that can be used in emergency situations, such as capital control mechanisms. However, it is extremely important that protection mechanisms are not used indiscriminately and do not replace immunization strategies. In addition, due to the size of external volatility, domestic immunization may prove insufficient. Regional cooperation should be taken into account in such areas as exchange of information and warning indicators, cooperation in foreign exchange policy, and regional long-term capital mobilization.

The Road Ahead

The co-organizing institutions of the 1999 Year-end Conference view the event as an initial stage of fruitful discussion for a coordinating framework of the understanding of the Sufficiency Economy. Brainstorming forums with a similar objective are needed at all levels and in all social sectors in order to reach a concrete understanding and application of the philosophy in all dimensions, catering as much as possible to diverse contexts of different groups and sectors. The Sufficiency Economy serves as a core philosophy that harmonizes development plans and strategies as well as conduct at all levels with the ultimate goal of sustainable development. The NESDB will incorporate the Sufficiency Economy as the main thrust of the Ninth Plan, and will organize forums on the philosophy in all provinces in preparation for the Plan. There is clearly a need that all parties cooperate to create momentum of the understanding and application of the Sufficiency Economy.

The Sufficiency Economy may be viewed as a means, an end, or a development process. But the fundamental approach to the Sufficiency Economy is the holistic adaptation of attitude, behavior, and way of life at both the micro and macro levels. For concrete realization, application of the philosophy needs due consideration, prudence, determination and patience. Indiscriminate, superficial and forceful application of the philosophy without proper and adequate understanding or sincerity will only prove futile.⁷

ENDNOTES

- ¹ Unofficial translation of the statement of the philosophy of the Sufficiency Economy. For background of the statement, see the Opening Speech of the Conference, page 4.
- ² Also see the Opening Speech of the Conference on page 3.
- ³ Sansern Wongcha-um, NESDB Secretary-General, Presentation during the morning session of December 18, 1999, the 1999 Year-end Conference.

- ⁴ Chalongphob Sussangkarn, TDRI President, Presentation during the morning session of December 18, 1999, the 1999 Year-end Conference.
- ⁵ Chalongphob Sussangkarn, TDRI President, Presentation during the morning session of December 18, 1999, the 1999 Year-end Conference.
- ⁶ Wisarn Pupphavesa, Dean, School of Development Economics, NIDA, Presentation during the morning session of December 18, 1999, the 1999 Year-end Conference.
- ⁷ Khunying Nongyao Chaiseri, Member, National Research Council of Thailand, Presentation during the morning session of December 18, 1999, the 1999 Year-end Conference.

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Alternative Approach to Poverty Measurement: An Experiment with Thai Data

Somchai Jitsuchon *

This short article discusses an experiment with an alternative approach to the measurement of poverty incidence, using household survey data for Thailand. The resulting incidence is presented in the latest, 1999, TDRI Information Kit.

1. INTRODUCTION AND RATIONALE

The TDRI has traditionally calculated poverty incidence for Thailand using the method originally developed by the World Bank in the late 1970s.¹ The approach has increasingly been questioned, both for academic reasons and for practical reasons, especially when there are implications for poverty alleviation programs. For academic reasons, the approach ignores several fundamental changes of factors constituting the calculation of poverty incidence, most notably changes in consumption patterns (which reflect changes in living standards over the 30-years since the calculation of the original poverty lines) and the associated prices. To a lesser extent there are demographic changes between and within Thai households. For practical reasons, the rapid reduction of poverty incidence obtained from the World Bank approach implies a poverty level that is unrealistically too low from a policy point of view.²

The National Economic and Social Development Board (NESDB) has attempted to correct the weakness of the World Bank method and has issued a new calculation of poverty incidence which employs several recommendations proposed in Kakwani and Medhi (1998).³ The revised incidence is significantly higher than that obtained with the World Bank method. The most important factor contributing to the differences is the NESDB's much higher food cost to maintain minimum nutritional requirements.⁴

The need for an improved measurement of poverty also prevails at the international level. In 1992, the United States Congress appointed a panel of experts (hereafter referred to as the Panel⁵) to study and recommend new ways to measure poverty.

The approach adopted in this article is based on Kakwani and Medhi (1998), with additional adjustments based on suggestions made by the Panel.

2. ALTERNATIVE POVERTY MEASUREMENT: CONCEPTUAL BASIS

It is probably more sensible to view the concept behind the alternative poverty measurement by comparing it to the existing methods. For presentation purposes, let us categorize the existing methods into two schools: those strictly adhering to the original World Bank method, and the method following the recent amendments suggested by Kakwani and Medhi (1998). Somchai and Tiensawang (1999) recount the details of, and comparison between, the two methods.

In summary, Kakwani and Medhi (1998) made the following adjustments to the World Bank method.

1. Slight upward adjustment, on average, of calorie requirements for the Thai population.
2. Heavily upward adjustment of average food costs, resulting from the use of a new consumption basket for the "poor" and new "spatial price indices."
3. A different way of weighting the household samples from the Socio-Economic Surveys from those more widely used.
4. The adoption of a fixed quantity share of food consumption⁶ in total expenditure, both temporally and inter-temporally, for households on the poverty line.

This article takes the first two suggestions. In fact, we use Kakwani and Medhi's data on calorie requirements, the consumption basket and the spatial price indices in our calculations. The weighting of the samples is the one used internally by the TDRI.

The most notable departure from the method used by Kakwani and Medhi (1998) is the determination of

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the food expenditure ratio. Our method goes beyond addressing the question of how to determine the food ratio, but rather to the question of what constitutes "basic need" expenditures. Kakwani and Medhi (1998) did not challenge the World Bank approach that assumes that investigating food sufficiency is adequate to address the wellbeing of the poor. This approach has shortfalls and there is much room for improvement, as suggested by the Panel.

The Panel made two suggestions regarding minimum expenditures. First, it recommended the addition of information on expenditure on other basic need items, other than foods, in the calculation of poverty lines. These basic need items are clothing and shelter (including utilities). After arriving at a minimum expenditure for the basic need items, a small allowance for expenditure on other needs is added, which results in the new poverty lines.⁷ Second, the Panel suggested the use of actual expenditure information on basic needs rather than imposing a time-invariant consumption basket. This has the advantage of allowing households to adjust their consumption patterns in response to changing social and economic environments.⁸

Our calculation adopts these two suggestions and applies them to Thailand's data. However, there are three empirical problems.

First is the problem related to medical expenses. The Panel does not include medical expenses as a basic need expenditure. This is perhaps because a substantial portion of families in the U.S. have medical insurance coverage. For out-of-pocket medical expenses, the Panel suggests they be deducted from the family income rather than be included in the basic expenditure. In Thailand, however, households with medical insurance are exceptions rather than the norm; some precautionary savings are thus put aside for medical expenses,⁹ which then can be counted as valid expenditure once spent. This article will compare the poverty incidence when medical expenses are treated as part of basic need expenditure and when they are deducted from the household income.

The second problem arises from the use of actual expenditure on basic need items. The question is, "whose expenditure will be used?" The Panel suggests using the actual expenditure of a "reference family," defined as a family of two adults and two children. This article does not adopt this practice for the reason that Thailand's population structure is steadily evolving and is thus less stable than in the United States, making it more difficult to pin down a reference family based on age structure. Instead, the World Bank's method of using the expenditure information of households classified by income level is adopted. While the World Bank uses the poorest one-fifth of households, we examine and compare the two possibilities of using both the poorest and the next-to-poorest one-fifth.

The final problem is the question of the amount of allowance for additional "necessary expenditure." If the allowance is measured in terms of percentage to expenditure on basic needs, the question is then the choice of a "multiplier." The poverty line is the product of this multiplier and the actual basic need expenditure. We will experiment with three values; 1.0, 1.1 and 1.2. This means the additional 0, 10 and 20 percent is added to the reference family's expenditure on basic needs.

3. THE CALCULATION OF NEW POVERTY INCIDENCES

Before moving to the poverty incidences calculated with the method described in the previous section, let us examine the structure of Thai household expenditure on basic need items. Table 1 shows the proportions out of total consumption expenditure of expenditures on food, clothing and footwear, shelter and utilities and medical and medical services, of households belonging to the first two quintiles sorted by income in ascending order (the poorest and the next-to-poorest classes) from 1992 to 1998.

Table 1 Shares of Basic Need Expenditure (percent)

Expenditure	1992	1994	1996	1998
First Quintile Households				
Food & Beverage	55.4	55.3	52.0	56.1
Clothing & Footwear	6.5	5.6	5.2	3.2
Shelter & Utilities	17.6	19.1	20.2	21.3
Medical and Medical Services	3.7	3.3	3.2	2.3
Total Basic Needs	83.2	83.4	80.6	82.9
Second Quintile Households				
Food & Beverage	52.9	51.6	50.1	52.1
Clothing & Footwear	6.5	5.8	5.0	3.3
Shelter & Utilities	19.0	20.2	20.5	23.0
Medical and Medical Services	3.5	3.2	3.2	2.3
Total Basic Needs	81.9	80.9	78.9	80.7

Source: Calculated from Socio-Economic Surveys, National Statistics Office.

The table shows that low-income households spent most of their expenditure on these four basic need items. The differences between the two groups, in terms of expenditure shares, were not stark as the poorest households spent merely around two percent more of their total expenditures on basic need items.

The structure of basic need expenditure is similar between the two household groups. As expected, food and beverage commanded the lion's share of the basic need expenditure. The next important expenditure belonged to shelter and utilities, and then clothing and footwear. Expenses on medical and medical services were the lowest categories. Comparing the two household groups, the richer the households, the lower the

share of food and beverage (the familiar Engel's Law), and the higher the share of shelter and utilities.

The 1992-1998 poverty incidence based on the concept discussed in the previous section is reported in Table 2 and Table 3. Table 2 corresponds to the case where the first quintile households represent the reference family, and Table 3 corresponds to the case where the second quintile households represent the reference family. In each Table, the incidences are calculated for the different treatment of medical expenses, as well as for the different choice of multiplier.

As the Tables show, the differences arising from the different treatment of medical expense are not significant. In fact, the incidences are even equal for some experiments.

Table 2 Implied Food Share and Poverty Incidence: Average Household of First Income Quintile as Reference Family (percent)

	1992	1994	1996	1998
Multiplier = 1				
Food Share	66.5	66.4	64.6	68.4
Poverty Incidence ^{1/}	21.6	14.9	10.8	11.5
Poverty Incidence ^{2/}	21.9	15.3	11.4	11.8
Multiplier = 1.1				
Food Share	60.5	60.3	58.7	62.2
Poverty Incidence ^{1/}	25.9	18.7	13.4	14.0
Poverty Incidence ^{2/}	25.9	18.7	13.9	14.2
Multiplier = 1.2				
Food Share	55.4	55.3	53.8	57.0
Poverty Incidence ^{1/}	29.8	22.0	16.5	16.7
Poverty Incidence ^{2/}	29.7	22.2	16.8	16.9

Note: ^{1/} indicates the case where medical expenses are included in the basic need expenditure where ^{2/} indicates the case when they are deducted from household income.

Source: Calculated from Socio-Economic Surveys, National Statistics Office.

Table 3 Implied Food Share and Poverty Incidence: Average Household of Second Income Quintile as Reference Family (percent)

	1992	1994	1996	1998
Multiplier = 1				
Food Share	64.6	63.8	63.6	65.7
Poverty Incidence ^{1/}	22.2	16.6	11.4	12.5
Poverty Incidence ^{2/}	22.7	16.8	12.0	12.7
Multiplier = 1.1				
Food Share	58.7	58.0	57.8	59.7
Poverty Incidence ^{1/}	26.5	20.3	14.3	15.3
Poverty Incidence ^{2/}	26.6	20.7	14.5	15.3
Multiplier = 1.2				
Food Share	53.8	53.2	53.0	54.7
Poverty Incidence ^{1/}	30.4	23.8	17.4	18.2
Poverty Incidence ^{2/}	30.3	24.1	17.5	18.1

Note: ^{1/} indicates the case where medical expenses are included in the basic need expenditure where ^{2/} indicates the case when they are deducted from household income.

Source: Calculated from Socio-Economic Surveys, National Statistics Office.

The choice of multiplier does cause significant differences. For each 10 percent additional allowance (when the multipliers increase from 1.0 to 1.1 and from 1.1 to 1.2), the increases in calculated poverty incidences ranged from around 4 percent in 1992 to 2.5-2.9 percent in 1998. The declines in the influence of different multipliers over time—which is apparent when comparing figures from 1992 to 1994, 1996 and 1998—is an interesting finding and needs explanation. No explicit investigation is attempted here.

The poverty incidence is also sensitive to the choice of reference family, namely, incidences in Table 2 differ clearly from those in Table 3. The incidence is higher when the second income quintile households are used as the reference family, naturally because these households spend a higher portion of their total expenditure on basic need items than the poorest households do. The differences in incidence range from around half a percentage point to a full two percentage points.

4. RECOMMENDED METHOD

The sensitivity analysis regarding the influence of three empirical decisions in the previous sections provides us the guideline for the recommendation of the poverty measurement.

Since the influence of different treatments of medical expense is small, it is recommended that medical expenses be included as one of the basic need expenditures. We also recommend a multiplier of 1.1, which is, in our view, more appropriate than an either lower or higher allowance. Not allowing for an additional amount might be inconsistent with the fact that a substantial portion of poor households have in-kind income that can be consumed directly but does not appear as expenditure. On the other hand, allowing too high an allowance could pose some problems. As already shown, the four basic need items already make up around 80 percent of total expenditure by the poorest 40 percent of households. A 20 percent upward adjustment for other “necessary expenditures” would result in a “minimum expenditure” that is higher than the total expenditure.

Finally, we recommend using the first quintile households as reference families for the main reason that using their expenditure data will take us closer to the concept of measuring “absolute poverty,” whereas using data from the second quintile households would be more consistent with measuring “relative poverty.” Given Thailand’s level of development as well as her persistent troubles with income distribution, the concern for relative poverty hardly arises.

5. ADDITIONAL REMARKS

The distinct aspects of this alternative measurement of poverty are (a) the widening of the definition of minimum expenditures that put households with these

amounts of expenditure on the poverty lines and (b) the use of actual basic expenditure data rather than the so-called “expert” fixed amount or fixed share. Although hardly free from contention, the first aspect seems desirable. The latter aspect, perhaps, invites more objections, possibly from those taking the view that the measured poverty should reflect the absolute position of the poor. Using the actual expenditure by “reference families” to construct poverty lines fails to capture the absolute poverty because the consumption patterns of these families, by definition, tend to evolve with those of society. The approach is thus more suitable to the measurement of relative poverty. This is a valid point. However, we feel that the benefits of using actual expenditure data outweigh this shortfall for two reasons.

First, the shortfall need not really be a shortfall. In other words, the concept of relative poverty does indeed have welfare implications that have been well recognized by a number of economists.¹⁰ Second, fixing the quantity of food consumption over time and places underestimates the households’ ability to adjust their consumption patterns in response to changes in income and prices. Behrman (1988) finds that income elasticity of nutrition consumption among poor and ultra poor households in many economies was considerably low, implying that the so-called minimum food basket used in the determination of poverty lines can possibly be adjusted to other lower-cost baskets without seriously compromising the nutrition intake. The effectiveness of coping mechanisms adopted by low-income households is probably best illustrated by the less-than-expected social impacts of the current Asian financial crisis.

ENDNOTES

- ¹ See Oey (1979) and World Bank (1980).
- ² As Dr. Medhi Krongkaew recently pointed out during an academic seminar, the World Bank method practically implied a nonexistence of a poverty problem within the Bangkok area; an implication very few researchers can accept.
- ³ See NESDB (1999).
- ⁴ See Somchai and Tiensawang (1999) for detailed decomposition of factors responsible for the differences in poverty incidence calculated from the two methods.
- ⁵ Panel on Poverty and Family Assistance Concepts, Information Needs, and Measurement Methods, under the Congress’s Commission on Behavioral and Social Sciences and Education. The study is published by Citro and Michael (1995), with the full text provided at the web site <http://www.census.gov/hhes/poverty/povmeas/toc.html>.
- ⁶ The ratio is fixed at 60 percent.

- ⁷ The Panel's suggestion is summarized as follows.
 "...the poverty measure should have the following characteristics:
 The poverty threshold should represent a budget for food, clothing, shelter (including utilities), and a small additional amount to allow for other needs (e.g., household supplies, personal care, non-work-related transportation).
 A threshold for a reference family should be developed using *actual* consumer expenditure data and *updated annually* to reflect changes in expenditures on food, clothing, and shelter over the previous 3 years."
- ⁸ The ability of households, even the very poor ones, in adjusting consumption patterns without much effect on their wellbeing, is well recognized. See, for example, Behrman (1988) for general cases and Reyer (1999) for the coping mechanisms of Philippines' poor during the economic crisis.
- ⁹ The high saving rate among Thais, and some other growing developing countries, can in fact be partly explained by the relative scarcity of insurance activities. See Somchai and Saito (1995) for theoretical justification of this point.
- ¹⁰ For example, Sen (1992) and Smith (1776).

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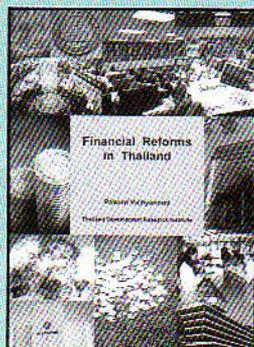
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**Financial Reforms in Thailand**

by Pakorn Vichyanond

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The 1997 financial crisis in Thailand was largely due to mismanagement of financial liberalization. Policy consistency and readiness of financial institutions as well as their regulators prove to be extremely essential or prerequisites before any change is to be introduced. After the crisis, the authorities were fairly successful in segregating viable financial institutions from unviable ones, improving supervision, upgrading asset classification and provisioning, encouraging mergers and acquisitions, allowing more foreign participation, and recapitalization. In addition, prudent macroeconomic policy was undertaken despite the economic downturn and social outcry. All these efforts resulted in greater foreign investors' confidence and exchange rate stability. Nevertheless, to cope

well with future dynamism in global financial markets, better regulations and supervision are equally important and needed as development of financial institutions' human resources and good corporate governance. In addition, local capital markets as well as private business corporations, especially the SME, should not be neglected.



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