

Alleviation of Rural Poverty in Thailand

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Bangkok

December 1989

Submitted to

**Asian Regional Team for Employment Promotion
International Labour Organisation**

PREFACE

Financial support for this project was granted by the Asian Regional Team for Employment Promotion (ARTEP), the International Labour Organisation. Dr. Chalongphob Sussangkarn, the project supervisor, provides best guidance for the entire paper. Most data and information were collected by Miss Worawan Chandowwit, Miss Jittima Khuptanon, and Miss Saovarin Sairangsri. Miss Chandowwit also wrote some parts of the first manuscript. Any views expressed here need not necessarily correspond to those held by ARTEP or TDRI.

SCOPE OF THE PAPER

This paper's major objective is to examine the status and development of rural poverty in Thailand and to identify the factors that affect or determine the poverty level. Particular emphasis is placed on policy factors rather than on uncontrollable or external factors. Data and findings from previous studies have been collected and, if necessary, reinterpreted. The conclusion is still the responsibility of the authors.

The paper is divided into seven chapters. The first chapter provides environmental and economic background information about Thailand. This information is particularly useful when a comparison between countries is to be made, since it will enable the readers to separate the contributions of each country's initial conditions in explaining its economic successes or failures and their consequent impact on poverty. Chapter 2 briefly discusses the fundamental problems Thailand is currently facing which are the structural imbalances in some areas. Also included in this chapter are the dynamics of poverty incidence in Thailand—overall and rural poverty in particular—and the characteristics of Thai poor. Chapters 3 to 6 are all concerned with the examinations of both macro-type and specific policies affecting the poverty level. The policies in question include those specifically aimed at alleviating poverty and those not explicitly addressing this issue but having significant implications upon it. The national plans are first discussed in chapter 3. Chapter 4 deals with government interventions in agricultural sector, while three macro-type policies—namely, industrial policies, exchange rate policies, and tax policies—are summarized in chapter 5. More specific policies directly attacking the poverty problem are discussed in chapter 6. These include agricultural land reform policy, rural credit policy, and public employment program. Chapter 7 contains the concluding remarks about the mechanisms that affect the rural poverty in Thailand and addresses some lessons possibly drawn from Thailand's case.

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CHAPTER 1

ENVIRONMENTAL AND ECONOMIC BACKGROUND OF THAILAND

1.1 Geographical Characteristics^{1/}

Thailand is a nation in monsoon Asia consisting of about 51.4 million hectares (about the size of Spain) and comprising four major regions: North, Northeast, Central and South. These four regions have considerably different geographical and climactic conditions, which consequently lead to a wide variety of economic activities in each region. The mountains and valleys in the Northern Region were once the main suppliers of forest products; however, due to the rapid expansion of land encroachment, the present cultivation is now dominated by rice, tobacco, maize, soybeans, fruit, and vegetables.

The Northeast Region, which accounts for about one-third of the country's area (the same size as the North), is a sandstone plateau. It is the most unfortunate region because of two factors: low rainfall--the mountains in the region's south and west block the rains from the southwesterly monsoon--and the fact that the region's sandy soil cannot retain sufficient water for regionwide agricultural production. Thus, field crops (cassava, maize, sorghum and glutinous rice) are the major products of this region.

The Central Region has the most favorable conditions for agriculture because of good rainfall and because it has the best irrigation system in the country. Reinforced by fertile soil, various kinds of agricultural production are available. The major product is rice; others are fruit, livestock, and fish. Upland crops--such as sugarcane, maize, and cassava--are also prevalent.

¹ Most of the information in this section is taken from Siamwalla and Setboonsarng [1987].

Thailand's Southern Region is quite distinctive from its other regions. The South's characteristics of peninsular stripe and equatorial climate make it the country's rainiest region and thus most appropriate to tree crop production (rubber, oil palm, and coconut) and marine fisheries.

In addition to having relatively suitable land for agricultural production, Thailand is also endowed with several mineral resources. Because it lies within the metallogenic belt of Southeast Asia, Thailand is presently able to produce about 40 mineral deposits.^{2/} The most important mining product is tin, which is mined both onshore and offshore in the peninsular South. Other ores include zinc, fluorite, gypsum, lead, barite, and tungsten. Although their importance is gradually decreasing, export earnings from these mineral resources still account for a considerable sum.

1.2 Economic and Social Performance

Economic Structure

Thailand has been basically an agricultural economy. Until only recently, the agricultural sector had the largest share in both production value and export earnings. The right location and relatively favorable climate already mentioned provide a strong base for crop diversification, which has brought about stability for both production and export earnings. The construction of many infrastructure facilities since the early stage of nationally planned economic development (which started about 1961, the beginning year of the first Economic and Social Development Plan), especially regarding transportation and irrigation systems, particularly benefited the agricultural sector [Slamwala and Setboonsarng: 1987, p.29]. However, The benefits are not equally distributed among the Thai people. For example, irrigation is supplied far more heavily in the more affluent

² Thailand Development Research Institute, Thailand Natural Resources Profile, page 6.

Central Region than in all other regions.^{3/} Better irrigation in the Central Region, accompanied by more attention from the government in terms of agricultural research and extension^{4/} have permitted this region to adopt a higher level of agricultural technology (such as multiple cropping) and to diversify its output to cover a broader crop range. Despite the fact that the distribution pattern of irrigation facilities is largely subject to physical constraints (mostly the availability of exploitable water resources, which is more abundant in the Central Plain), it has in fact added further inequality to the distribution of income between regions.

In the past, the agricultural sector's satisfactory growth was motivated by the country's increasing openness to the international market. An increasingly larger proportion of agricultural output has been being exported. For some products, almost all production is for export. Cassava is a good example; in 1985 domestic consumption amounted to only 5 percent of production. Thus, agricultural production is gradually developing from traditionally-produced to more commercial purposes.

On the supply side, expansion in cultivated areas has been made possible through rapid land expansion, usually by encroaching upon former forest areas.^{5/} The other factor is the large excess supply of agricultural labor force, which rapidly increased due primarily to the sector's high population growth rate.

The Thai market's openness to international access has not only brought about rapid expansion in agriculture but has also induced rapid growth in the manufacturing sector. In fact, the

³ T. Panayotou, Food Policy Analysis in Thailand, p 42-43.

⁴ Most agricultural research has been directed to develop rice breeds for irrigated areas while only little has been done for rainfed rice.

⁵ Before the end of 1970s, the ratio of man/land had decreased slightly, indicating that the land expansion was even faster than the population growth in the rural areas, see more detail in Chapter 7.

nonagricultural sector has benefited more from trade than the agricultural sector has. Thailand's transformation toward nonagricultural activities started in the early 1960s, when the country began to adopt a more systematic economic planning. An increasing amount of resources have been diverted from traditional agricultural activities to non-agricultural activities. Not only is the foreign exchange earned by agricultural export used to finance industrialization, but also many government policies and instruments favor the industrial sector at the expense of exploiting agriculture. This point will be examined in detail in chapters 4 and 5.

Economic Growth

Over the past three decades, Thailand's economic growth rate has been relatively high, around 6.6 percent per annum between 1952 and 1988 (table 1.1). Combined with success in family planning (which has reduced the population growth rate significantly), this has led to a satisfactory

Year	Agric.	Manuf.	Oth. Ind.	Service	Total
1952-55	4.6	9.2	9.6	7.5	6.6
1956-60	4.1	3.5	11.5	2.3	3.6
1961-65	4.7	11.0	12.2	7.2	7.0
1966-70	3.0	13.6	12.4	12.2	9.4
1971-75	3.8	10.3	1.2	5.6	5.6
1976-80	4.0	9.8	12.5	8.2	7.9
1981-85	4.9	4.6	6.0	6.3	5.6
1986-88	2.2	11.9	7.6	8.4	7.9
1988	8.6	12.4	13.6	10.7	11.0
1952-70	4.1	9.2	11.5	7.2	6.6
1971-88	3.9	8.8	6.6	7.0	6.6

Source : 1952-69 from National Income of Thailand, various issues.
1970-88 from NESDB, National Income of Thailand, new series

increase in real per capita income, which showed an average annual growth rate of 3.8 percent during 1970-1986 [Jitsuchon and Sussangkarn: 1989, 7]. Currently, Thailand's per capita GDP is around one thousand US dollars.

As already mentioned, although the agricultural sector has long accounted for the largest share of GDP^{6/} (28.3 percent in 1970), its share has been declining continually and it was only 16.9 percent in 1988. Manufacturing is now the second largest sector, accounting for 23.0 percent of GDP in 1988, rising from a share of 15.5 percent in 1970 (Table 1.2).

Year	Agric.	Manuf.	Oth.Ind.	Service	Total
1952-55	40.2	10.9	4.3	44.6	100.0
1956-60	40.2	10.7	5.2	43.9	100.0
1961-65	39.0	12.1	7.1	41.8	100.0
1966-70	32.9	14.3	9.1	43.7	100.0
1971-75	25.6	18.5	8.3	47.5	100.0
1976-80	22.5	21.4	8.7	47.4	100.0
1981-85	20.0	21.4	9.1	49.4	100.0
1986-88	18.2	22.1	9.1	50.6	100.0
1988	16.9	23.0	9.2	50.9	100.0

Source: NESDB, National Income of Thailand, new series
1970-1988

External Balance

Like most developing countries, Thailand's current account balance has long been in deficit because of its need to import capital goods and other primary and intermediate inputs that are necessary for economic development. Its current account deficit was 5.2 billion baht in 1970; 12.4 billion baht in 1975; 42.4 billion baht in 1980, and 41.9 billion baht in 1985 [Jitsuchon and

⁶ In terms of one digit classification of sectors of production.

Sussangkarn 1989]. This deficit trend was reversed in 1986, due to oil price decreases and currency realignments, and Thailand's current account balance registered a surplus of around 6.5 billion baht for that year. Since 1986, however, the current account has reverted to being in deficit again, although the level appears to be manageable.

Social Development

Various dimensions of social development have taken place during the course of Thailand's economic development. One of the most important developments has been in the success of family planning. Thailand has experienced a rapid decline in population growth, which was facilitated by the rapid acceptance of family planning by Thais in both rural and urban areas. The annual population growth rate had declined from a peak of around 3 percent per annum in the early 1960s to 1.45 percent in 1985 (Table 1.3), and it is expected to approach the replacement level by the end of the century.

Provisions for health services and education are also fairly successful. Many indicators of health status show strong improvement: the crude death rate declined from 9.0 percent in 1957 to 4.5 percent in 1984; life expectancy at birth increased from 58 to 66 per thousand for females, and from 54 to 62 per thousand for males during 1965-1986. Other indicators also look much better such as the malnutrition ratio in children and the infant mortality rate are also markedly improved.

In 1985 primary education enrollment was almost universal; the gross enrollment ratio was around 97 percent, compared to only 78 percent in 1965. However, the enrollment ratios for education higher than primary level are still quite low, although they have been increasing quite rapidly over the last two to three decades. This is the remaining problem toward which the

**Table 1.3 Population Increase Rate (1957-1984)
(per Thousand)**

Year	Crude Birth Rate	Death Rate	Natural Increase
1957	31.90	9.00	22.90
1958	31.60	8.30	23.30
1959	33.50	8.00	25.50
1960	34.70	8.40	26.30
1961	33.70	7.80	25.90
1962	35.00	7.90	27.10
1963	35.70	8.20	27.50
1964	38.10	7.90	30.20
1965	36.60	7.10	29.50
1966	35.00	7.60	27.40
1967	35.00	7.20	27.80
1968	36.60	7.10	29.50
1969	33.60	7.20	26.40
1970	33.10	6.50	26.60
1971	34.30	6.40	27.90
1972	32.50	6.80	25.70
1973	31.00	6.40	24.60
1974	30.60	6.40	24.20
1975	28.40	5.90	22.50
1976	27.20	5.50	21.70
1977	24.60	5.40	19.20
1978	23.10	5.40	17.70
1979	23.30	5.20	18.10
1980	23.20	5.30	17.90
1981	22.40	5.00	17.40
1982	22.20	5.10	17.10
1983	21.30	5.10	16.20
1984	19.00	4.50	14.50

Source: Division of Health Statistics, "Public Health Statistics A.D. 1984", 1984.

government should render more efforts to resolve. The issue will be discussed in more detail in the next chapter.

The overall picture given so far appears to be positive. Thailand is endowed with a wide variety of resource bases, and it is able to utilize these resources to maintain a healthy economy, as well as to stimulate high economic growth. Social development has also been fairly impressive, although some areas, such as the education structure, still need further improvements. The dynamic of growth is clearly accelerated by the country's increasing openness to the world market, which in turn occasionally causes some economic fluctuations and instabilities.

CHAPTER 2
STRUCTURAL IMBALANCES AND
POVERTY INCIDENCE IN THAILAND

2.1 Structural Imbalances

If one is concerned only with economic growth, the policies that Thailand has so far adopted seem to be fully justified. However, along with this satisfactory overall economic growth, there exist imbalances in some social and economic fronts. The most crucial imbalances appear in three areas. The first is the imbalance between production and employment structures. While the nonagricultural GDP has been growing more impressively compared to the agricultural GDP, the employment structure has not adjusted accordingly. Table 2.1 shows that in 1986 about two-thirds of Thai people were employed in the agricultural sector, which is only a slight decrease from 73 percent ten years ago (1975). Over the same period, the agriculture's GDP share fell far more sharply—from 31.5 percent to 16.7 percent. Thus, the gap of per capita GDP between the two sectors was widened, namely, the ratio of per capita income in the nonagricultural sector to that of the agricultural sector almost doubled during 1975-1986.

The fact that people did not enter the higher-valued nonagricultural sector is an interesting phenomenon that requires careful explanation. Sussangkarn [1989] states that the low rate of rural-to-urban migration prior to the 1980s was responsible for this lag in employment adjustment. In the past, conversion of forest areas into arable land was easy, because large forest areas were still available and the authorities did not strongly enforce the restrictions against illegally obtained land. Migration to urban areas—and thus to nonagriculture activities—was not encouraged as long as alternative rural-to-rural migration was easy with the cost low.

Table 2.1 GDP and Employment by sector			
YEAR	1975	1980	1986
GDP (MILLIONS OF BAHT)	298,816	684,930	1,098,362
AGRICULTURE	94,063	173,806	183,037
NON-AGRICULTURE	204,753	511,124	915,325
Share			
AGRICULTURE	31.48%	25.38%	16.66%
NON-AGRICULTURE	68.52%	74.62%	83.34%
EMPLOYMENT (MILLIONS)	18.182	22.681	26.672
AGRICULTURE	13.270	16.092	17.803
NON-AGRICULTURE	4.912	6.589	8.870
Share			
AGRICULTURE	72.99%	70.95%	66.75%
NON-AGRICULTURE	27.01%	29.05%	33.25%
PER CAPITA GDP (BAHT/MONTH)	1,369.6	2,516.6	3,431.7
AGRICULTURE	590.7	900.1	856.8
NON-AGRICULTURE	3,474.0	6,464.7	8,599.9
RATIO NON-AG/AG	5.88	7.18	10.04
Source: NESDB, National Income of Thailand, and NSO, Labour Force Surveys, various issues.			

Table 2.2 Mean per capita income of Agricultural and non-agricultural Households (baht per month)			
YEAR	AGRIC	NON-AGRIC	RATIO NON-AG/AG
1975/6	247	513	2.08
1981	503	1,154	2.29
1986	481	1,312	2.73
Source: NSO, Socioeconomic Surveys, 1975/6, 1981 and 1986.			

The poor performance of employment adjustment created hardship for those living in the agricultural sector in the early 1980s. Forest encroachment became much more difficult than in the past. When most major crop prices began to fall in 1980-1981, per capita agricultural income dropped dramatically even in the nominal term (Table 2.2). Real income dropped even more because of high inflation carried over from the late 1970s. The next section of this report will show that the incidence of poverty worsened during this period.

Locational imbalance is the second front in which serious problems occur. Both economic activities and population are concentrated in and around the Bangkok Metropolitan Region (BMR). In 1985 about 45 percent of GDP—mostly nonagricultural—was generated in the BMR, although it contained only about 15 percent of the country's total population (Table 2.3). Bangkok is about twenty times larger than Chiang Mai, the country's second largest city. Per capita income in the BMR was more than seven times higher than it was in the Northeast—the poorest region—and was 2.8 times higher than it was in the second richest Central Region [Sussangkarn: 1989, 14].

The third contributing factor is educational imbalance. There are two issues concerning this area. The first one is the overall low enrollment rate in secondary education. The second is the locational disparity of the enrollment pattern. Almost every Thai has attained at least a primary education (grade 4), simply because it is compulsory.^{1/} However, after finishing primary school those poor students who must help their families' work (farm or nonfarm) or who must seek informal jobs will leave school. Findings from labor market's studies explain that this pattern is due

¹ Presently, the compulsory education is extended to the lower secondary level (grade 6); however, since it was enforced so recently, its effect on the educational structure has been minimal.

Table 2.3 Gross Domestic Product (at current market price) by Region (1985, million baht)						
	KINGDOM	N-EAST	NORTH	SOUTH	CENTRAL	BANGKOK
AGRICULTURE	178,533	41,721	42,302	33,462	50,221	10,827
INDUSTRY	316,697	20,611	24,295	15,367	54,694	201,730
SERVICES	546,124	83,365	68,799	49,126	83,209	261,625
TOTAL GDP	1,041,354	145,697	135,395	97,955	188,123	474,182
PER CAPITA GDP(BHT)	20,148	8,083	13,304	14,737	21,395	58,963
POPULATION (MIL)	51.684	18.025	10.177	6.647	8.793	8.042
REGIONAL SHARES						
	KINGDOM	N-EAST	NORTH	SOUTH	CENTRAL	BANGKOK
AGRICULTURE	100.00%	23.37%	23.69%	18.74%	28.13%	6.06%
INDUSTRY	100.00%	6.51%	7.67%	4.85%	17.27%	63.70%
SERVICES	100.00%	15.26%	12.60%	9.00%	15.24%	47.91%
TOTAL GDP	100.00%	13.99%	13.00%	9.41%	18.07%	45.54%
POPULATION	100.00%	34.88%	19.69%	12.86%	17.01%	15.56%
Source: NESDB, GDP by Province, 1985						
* Bangkok here includes the Bangkok Metropolitan Area and the 5 surrounding provinces						

to the fact that the opportunity cost of studying above primary level outweighs the expected rate of return--which is very low because the secondary level curriculum is commonly designed to prepare students for university (see, for example, HRS/TDRI 1989). The gross enrollment rate at the secondary level is, therefore, less than half of the primary level and, more importantly, is one of the lowest ratios among the countries in the region (see HRS/TDRI 1989 for more details). The pattern of education is also unequal between urban and rural areas, and between Bangkok and other regions. The secondary enrollment rate in Bangkok is much higher than the national average--about 80-90 percent--while in many of the poorer rural areas it is below 10 percent.

These three imbalances provide the necessary explanations for the widening income disparities Thailand has experienced during most of its course of economic development. This worsening trend is indicated by Table 2.4, which displays the income share earned by five groups of people classified by their income level. The Table clearly shows that the income gap between the richer and the poorer of Thai society has been widening. The richest 20 percent of the population earned less than 50 percent of the total household income in 1962 and 1975; but in 1985 their share increased to about 55.6 percent. On the other hand, the poorest 20 percent of the population shared a drastically decreasing portion of total household income—from 8 percent in 1962 to only 4.5 percent in 1985. Obviously, people at the bottom class are the ones with the least access

Table 2.4 Income Share by Quintile Group of Population (%)				
Quintile	1962	1975	1980	1985
1-st	49.83	49.26	51.47	55.63
1-st Decile	(na.)	(33.40)	(35.44)	(39.15)
2-nd Decile	(na.)	(15.86)	(16.04)	(16.48)
2-nd	21.56	20.96	20.64	19.86
3-rd	12.09	14.00	13.38	12.09
4-th	8.60	9.73	9.10	7.87
5-th	8.00	6.05	5.41	4.55
9-th Decile	(na.)	(3.62)	(3.28)	(2.75)
10-th Decile	(na.)	(2.43)	(2.13)	(1.80)
Total share	100.00	100.00	100.00	100.00
Gini Coefficient	-	0.426	0.453	0.500
Sources: 1962 from Jitsuchon[1987: table 6.3] The remaining years from Hutasenari and Jitsuchon [1988: table 2.2]				

to the benefits from the growth of the Thai economy. Another fact worth noting is that since 1975, the top richest 10 percent are the only group whose income share has increased most remarkably—from 33.4 percent in 1975 to 39.15 percent in 1985.

2.2 Nationwide Poverty Incidence

On the contrary, however, it is also accepted that there is a positive trend toward poverty alleviation alongside the trend of worsening income distribution. The coexistence of an improving poverty incidence and an enlarging income inequality is not unusual in a country experiencing a long period of high economic growth. It only means that everyone has become better off, though at different rates of increase. In other words, the growth pattern favors those who are already rich more than it benefits the poorer. The poverty incidence is expressed in Table 2.5. The measure of poverty is the simple head-count indicator that calculates the proportion of people having an income below a cut-off level (the poverty line) to the total population. Figures for 1962 to 1985 are obtained from actual data, while those for 1988 are from a simulation by the model THAM-2 at TDRI.^{2/} In actual figures, the percentage of poor people decreased rapidly--from more than 57 percent in 1962, to 39 percent in 1968, to 30 percent in 1975, 23 percent in 1980, and 29.5 percent in 1985. It is obvious that the poverty problem tended to become less and less serious compared with the past, with the exception of the period between 1980-85, during which the incidence of poverty increased.

Table 2.5 also shows that source of the country's worsening poverty incidence during 1980-85 was solely the increase in rural poverty; urban poverty did not show any deterioration. Two factors caused the worsening poverty in rural areas. First, the worldwide recession in the early 1980s had limited the country's economic growth. Second, a mild but steady collapse of most major crop prices--especially paddy--since the early 1980s affected farmers' income, whose proportion in the poor society is the largest.

² THAM-2 is abbreviation for the Thailand Agricultural Model phase 2. It is an applied general equilibrium model designed to capture impacts of exogenous disturbances, such as crop price fluctuations, on the performances of Thai agricultural sector. The model is thus appropriate for estimating poverty incidence since most Thai poor are farmers and their income is very sensitive to crop prices.

Table 2.5 Poverty Incidence between 1962 and 1985 (% of people whose income is below Poverty Line)						
	1962	1968	1975	1980	1985	1988
Whole Kingdom	> 57.0	39.0	30.0	23.0	29.5	25.2
Rural Areas	> 61.0	43.0	32.9	25.8	33.9	29.0
Villages	n.a.	n.a.	36.2	27.3	35.8	30.6
Sanitary districts	n.a.	n.a.	14.8	13.5	18.6	15.3
Urban (Municipal Areas)	< 38.0	16.0	12.5	7.5	5.9	4.8
Sources : Hutaserani and Jitsuchon[1988], table 1.1 and 1.15 Note : The 1962 survey included sanitary districts in the urban category. Thus it is impossible to calculate poverty incidence in the same manner as in other years.						

As already mentioned, there are no deviation in the urban poverty during the entire period between 1962 to 1985. In 1962 urban poverty was more than 38 percent and has since then uninterruptedly declined, reaching only around 6 percent in 1985. This implies that not only are most urbanites relatively free from the adverse impact of crop price fluctuations, but that they also were able to increase their standard of living during the economic slump.

The above evidence indicates that although the general trend of poverty incidence in Thailand has tended to become better during the past three decades, the rates of improvement are not equal between the incidence of poverty in urban and rural areas. Thus, the problem of poverty become focused more and more on the rural poverty.

The most recent situation of the incidence of poverty--the 1988--is also provided in Table 2.5. The estimated figures show that after 1986 the situation becomes recovered significantly. Although there are no official data concerning poverty, its improvement is undoubted. There are three reasons for this belief:

1. Both external and domestic prices for major crops have surged since late 1987. For example, the domestic paddy price jumped from around 3000-3500 baht per ton in early 1987 to as high as more than 5000 baht per ton in early 1989. The higher price has motivated an expansion of crop production during the crop year 1988/89 which has certainly enhanced the farmers' income .
2. Not only price improvement, but also the agricultural outputs were substantially raised during 1987-88, due largely to the recovery from the two droughts experienced in 1986-87.
3. The export "boom", which has been taking place since 1986 and which is continuing strongly up to the present time, has raised the average national income. Moreover, because most of Thailand's export goods are labor intensive and some use inputs from agricultural products, it is reasonable to assume a spillover mechanism that benefits the country's poor.^{3/}

The overall trend of poverty incidence up to the present time is thus an impressive one. With the exception of the period between 1980-85, the proportion of poor to total population significantly decreased.

2.3 Characteristics of Thailand's Poor

Almost all Thailand's poor are concentrated in one particular group. The group is characterized by: (1) engaging in agricultural production, (2) living in rural areas, and (3) having a low education level. These characteristics support the existence of structural imbalances discussed in the section 2.1. Detailed characteristics of the poor are given in Table 2.6. According to the table,

³ The hyperincrease in land prices recently observed is another source of income to farmers who are lucky enough to own land.

Table 2.6 Characteristics of Thai Poor (percentage distribution by groups)			
	1975	1980	1985
OCCUPATION OF HOUSEHOLD HEAD			
professional & technician	7.08	0.10	0.05
executives	0.34	1.01	0.01
clerical workers	0.21	0.09	0.04
sales workers	2.45	2.07	1.80
services workers	0.44	0.80	0.49
agriculturists	81.56	80.44	78.02
laborers	5.13	7.45	8.35
inactive	2.80	8.04	11.25
SECTOR OF PRODUCTION			
inactive	1.85	2.82	3.53
agriculture	82.96	82.52	80.95
nonagriculture	15.19	14.66	15.52
LOCATION			
Rural Areas	94.13	95.14	96.84
- villages	87.63	89.53	91.24
- sanitary districts	6.50	5.62	5.60
Urban Areas	5.87	4.86	3.16
EDUCATION OF HEAD			
no formal education		18.97	16.76
elementary		79.82	80.82
secondary		0.97	1.40
vocational & technical		0.05	0.09
bachelor degree		0.00	0.19
higher than bachelor degree		0.00	0.00
unknown education		0.20	0.74
TOTAL	100.00	100.00	100.00
Sources: Hutaserani and Jitsuchon [1988, table 2.17]			

about 80 percent of the poor live in households that are either headed by agriculturists or live in households whose major part of income come from agricultural activities. A slightly higher percentage of poor—about 87-91 percent—lived in villages, which are the least developed areas. Classification by education level is even more relevant for distinguishing the poor from the non-poor. Almost all poor have not been educated beyond the elementary level. Only about 1-2 percent of poor have gone to secondary school or other higher education. This reflects the existence of the educational imbalance—that the education system in Thailand has proved to be an ineffective impetus by which the poor can raise their standard of living.

Another poor group consists of those working as unskilled laborers. Although the group size is quite small in relative to those in agricultural sector (about one-tenth or less), its importance is growing. In 1975 labor poor accounted for 5.13 percent of the total poor, but ten years later increased to about 8.35 percent. This reflects the fact that because of an increasing land scarcity, larger flows of rural-to-urban migration were taking place. Commonly, the first jobs these immigrants seek in the cities are as laborers. The types of work given to them usually require few skills, since most of them just come from farms and possess no skills in non-farm production techniques. They therefore earn a very low income and join the poor segment of Thai society.

Because almost all poor live in rural areas and because the proportion of rural poor has increased, all the other characteristics of the country's poor presented in table 2.6 are applicable to the rural poor as well. In addition, among the rural poor themselves, only a few were found in sanitary district areas—about 5-6 percent of the total poor. The largest proportion lives in villages and is increasing, while the share of sanitary district poor lessened during 1975-80 and stagnated during 1980-85.

CHAPTER 3
GOVERNMENT POLICIES TOWARD RURAL POVERTY:
THE NATIONAL PLANS

The downward trend of poverty incidence discussed so far requires a certain set of explanations. Normally, the influences could come from actions taken by the government on various occasions. Or they could develop independent of government policies--such as, the variations in external markets and the domestic response to these disturbances, or the socio-economic changes developed since the past three decades. In this and the following chapters, the mechanisms by which the welfare of the poor was affected will be examined, with an emphasis on government's participating role in those mechanisms.

The role of government policies will be reviewed in three broad categories: First, in this chapter the series of national economic and social development plans will be briefly mentioned, and their relevance and awareness to the living conditions of the rural poor will be explored. The next chapter discusses three major macroeconomic policies--industrial policies, exchange rate policies, and tax policies. All appear to have a strong impact on Thailand's poor. Finally, more specific measures that were specifically announced to battle poverty are discussed in detail in chapter 6.

3.1 The National Economic and Social Development Plans

No matter actually or ostensibly, since 1961 economic development in Thailand has been under the guidance of a series of national plans, known as the National Economic and Social Development Plans (NESDP). Each plan covers a period of five years (except the First Plan, which

was a six-year plan covering 1961 to 1966). Currently, Thailand is under the Sixth Plan, which will end in 1991 fiscal year.

Before proceeding to a discussion of these Plans, it might be useful to briefly mention the socio-economic and political conditions that existed in the period before the introduction of the Plans. The creation of idea that Thailand required national guidance for economic and social development was a consequence of five important changes in the society, namely:^{1/}

1. **The abandonment of a nationalistic ideology**, which had dominated Thai politics and hence economic management since the end of the Second World War--especially after the 1947 coup d'etat. Several inefficient public enterprises were established during this time in order to nationalize economic activities and place them within the government's control. However, as these enterprises ran into trouble, there were increasing movements toward more lax policies. These were mirrored in the promulgation of a new Industrial Promotion Act in 1960. The act was aimed at promoting both domestic and foreign investments and apparently broke down the nationalistic mind-set.

2. **The unification of exchange rates** was undertaken in 1955 to replace the multiple exchange rate system. Beneficiaries of this exchange rate unification included particularly the rice exporters, who formerly paid huge amounts of money via differences between officially buying and selling rates of foreign exchanges.

3. **The abolishment of Rice Office** in 1956 gave more flexibility to private rice exporters to manipulate their trade, which was formerly monopolized by the Rice Office. This abolishment

¹ R. Thanapornpan and N. Puapongsakorn, "Thai Economy: on the Route of Peace and Social Justice," in Thai Economy: on the Path of Peace and Social Justice, Essays in honor of Dr. Peuy Ungphakorn's 72th birthday, edited by R. thanapornpan and N. Puapongsakorn, 1988.

together with the exchange rate reform had overwhelming effects in boosting Thailand's international trade.

4. Major reform of the bureaucratic system was initiated during the late 1950s to the early 1960s. Several new, and increasingly important, government offices were established. These included the Bureau of Budget (BOB) in 1959, The Board of Investment (BOI) in 1959, Office of the National Education Commission in 1959 and the National Economic and Social Development Board (NESDB) in 1960.

5. Settlement of monetary and fiscal discipline was initiated by a growing group of government officials educated from abroad, who saw the necessity of such disciplines. The results were more efficient management in both the monetary and fiscal regime.

These changes were basically structural ones. Their primary purpose was to give foreigners easier access to the Thai economy. Consequently, the designing of the national plans undertaken afterward is based on outward-looking and growth-oriented strategies, provided that economic stability is maintained. The initiatives and major points of each plan are as follows:

The First Plan (1961-1966). The main objective of the first plan was to prepare the infrastructures necessary for long-term development. Special emphasis was given to the constructions of a national road system, energy provision (electricity in particular), and other public utilities such as irrigation.

The Second Plan (1967-1971). This plan was a continuation of the first plan. It expanded target areas of the infrastructure preparation to cover remote and rural areas, in order to enhance effectiveness of the schemes. For example, the road system constructed during the first plan was

found to need more subsidiary roads that would connect all parts of the country. Rural development was also first realized in this plan, and the "Accelerated Rural Development Program" was initiated.

The Third Plan (1972-1976). Because of worldwide instability resulting from the first oil crisis and the devaluation of US dollar, the objective of this plan was directed toward creating more economic stability. More attention was also paid to the social aspects of development. The widening income gap between the rich and the poor was apparently mentioned. An important contribution of this plan was the initiation of family planning, which has proved to be very successful. The natural rate of increase for population declined from 2.8 percent in 1971 to 2.17 percent at the end of the plan period, 1976 (see chapter 1 and table 1.3). The rate also continue to decline further to only about 1.5 percent in 1984. This substantially contributes to the improvement of people's living standard and alleviation of the poverty problem.

The Fourth Plan (1977-1981). Lower-than-target economic growth rates during the Third Plan period had prompted the government to stimulate higher growth. In the early days of the plan, large-scale investments—both public and private—were encouraged. The major target sector was particularly the industrial sector. Unfortunately, there was the second oil crisis in 1979, which was followed by a long period of world economic slump and high inflation rates during 1979-81. The inflation was imported. Matters became even worse, as external debts were accumulated rapidly, reaching a critical position during 1985-86. The government's budget also deteriorated, bringing about the budget crisis during 1980-82. All these factors created one of the greatest period of instability in the Thai economy.

The Fifth Plan (1982-1986). The period during this plan can be characterized as "stability-cum-adjustment". Stabilization became the major objective of the plan, arising from the government's desire to cope with the economic instability caused by two oil shocks in the 1970s. A

"zero-growth" fiscal policy was introduced to solve both the trade and budget deficit problems. Creations of external debts were limited and controlled. In the meantime, export promotion strategy--after tentatively during the 1970s--was fully adopted and has since become a norm in Thailand's economic development.

The Sixth Plan (1987-1991). The structural adjustment strategy has been very successful since the end of the Fifth Plan. Reinforced by the recovery of both agricultural outputs and prices, the economy has been able to attain very high growth rates since 1987, which saw an 8.4 percent growth rate, followed by an even higher rate of 11 percent in 1988. The inflation rate was also satisfactorily low--about 2.5 percent and 3.8 percent in 1987 and 1988 respectively. The healthy economic prospects and the absence of major threats in the world economy have together enabled the government to pay more attention to fundamental and long-term development issues, such as the problem of income distribution and poverty alleviation, human resource development, and the preparation of additional infrastructures to ensure sustainable future growth.

3.2 The Plans and the Poor

Although the primary step in designing each plan is first to take the macroeconomic situations into account, the implications for the poor are always sizable.

First, the macroeconomic policies themselves have a great impact on the poor. Some infrastructures and public facilities--such as the transportation and irrigation systems initiated during the First and the Second Plans--have so far helped to expand agricultural outputs. Improved transportation has significantly transformed agricultural production from traditional and subsistent cropping to more commercialization, primarily induced by export demand. The most outstanding case is that of cassava growing. Historically, cassava was rarely grown in Thailand. However, when

encouraged by export demand, which was made possible through expansion of the road system, cassava is now generally grown in the Northeast (the poorest region), and almost the total output is exported. Evidently, the good performance of Thai food exports owes undeniably to what the government has done through the Plans.

On the other hand, the plans have also resulted in adverse impacts on the poor. The industrial protection adopted by most plans--either import-substitution or export-promotion--have drawn resources from the agricultural sector to subsidize the protected industries.^{2/}

The second way in which the plans influence the poor is more straightforward. Since the inception of the First Plan, the rural poor have been given various forms of helps and subsidies:

- During the First and the Second Plans, the "Accelerated Rural Development Program" was in operation. The programs, however, were ineffective because their coverage was quite limited and was based on a "take-it-for-grant" basis.
- The "Rural Job Creation Program" was launched during the Third Plan period (1975) and continues in the present. The program's basic idea is to augment the rural population's income during dry seasons by generating additional jobs. Although the locational distribution of the budget is not properly managed, it has been found that once the program has entered an area (usually the district) it is quite successful in reaching the right target group--the rural poor. Details about these programs are found in chapter 6.
- In the Sixth Plan, another project is being initiated, aimed at helping the poor to meet their basic needs.

² Details about macroeconomic policies and the poor are discussed in chapter 5.

It is difficult to quantify the full impact of all the National Economic and Social Development Plans upon the Thai poor. Although all plans realized the importance of poverty alleviation, they usually focused on more direct instruments and measures. Unfortunately, the examinations of these direct measures (which will be taken in chapters 6) indicate that they are always subject to flaws and are often not targeted. On the other hand, the implications of macroeconomic policies upon the poor are inadvertently ignored, or intentionally ignored, in many cases. Given the importance of the design of macroeconomic policies, there appears to be no firm mechanism that assures full recognition and systematic assessment of their impact upon the poor.

CHAPTER 4

GOVERNMENT INTERVENTIONS IN AGRICULTURE

It is evident that the majority of Thai poor are involved in agriculture or have some kind of link to agriculture. Thus, any factors or policies affecting the agricultural sector do affect the incidence of poverty.

The government of Thailand has actively pursued a number of interventions in the agricultural sector, especially regarding the agricultural market. In this chapter the government's interventions in agriculture will be discussed. The implementations, motivations, and the strength of their interventions will be examined.

4.1 Agricultural Interventions

Government intervention in agricultural prices and trade has a long history. The strongest measures were concerning rice, whose importance stems from its dominant role in both domestic consumption and export. Rice interventions were most strongly enforced through export restrictions, which took various forms (usually complicated) and met with varying objectives.

The Complicated Forms of Trade Restrictions on Rice.^{1/}

The first restriction on rice trade was under the guise of the multiple exchange rate system adopted during the postwar period, 1947-1955. Rice exporters were to receive 35 baht to one British pound, compared to the rate of 55-60 baht to one British pound in the free market for foreign

¹ For rice, intervention in the domestic market was much less than in foreign trade and was thus neglected in most analyses.

exchange [Siamwalla and Setboonsamg: 1987, 39]. Thus, the implicit export tax was extremely high. This multiple exchange rate was abolished, however, in 1955.

During the same time, another form of export tax—the rice export premium—was introduced, and since then has become the most important rice tax. Premiums were collected as license fees to exporters, it is therefore one kind of specific tax. The premium rates occasionally changed but the trend was clearly downward beginning in the late 1970s, and the premium was completely removed in early 1986. Usually, export quotas were also binding with the premiums, giving the licensed exporters some quota rents.

Other forms of rice export restrictions include export duties, rice reserve requirements, and minimum export price:

- Beginning in 1952, export duties were levied as an *ad valorem* tax at a relatively fixed 5 percent.
- The rice reserve requirement was initially implemented to support the consumer subsidy program during the days of expensive domestic rice. According to the measure, rice exporters were required to sell cheaply to the government a certain proportion of their licensed exports. The government then sold this reserved rice to consumers at a lower-than-market price. Differences between forced prices and the market prices were thus an implicit tax on rice exports. However, as the wastefulness of the program became more realized, its objective as the consumer subsidy diminished and it was kept only as an export tax device. It was finally abolished in 1982.
- The third measure was the minimum export price. This was not an export tax or tax equivalent. The measure's sole objective was to cartelize Thai rice exporters and thus to prevent a price-cut war among them.

Paddy Price Support Program

Intervention on the domestic price of paddy has also been regularly adopted and is still done today. In fact, this policy has more public awareness than do trade restrictions. It employs what might be termed the microeconomic approach to guarantee the minimum price of paddy. Various government agencies, occasionally subject to change, have been responsible for intervening in the paddy market when its price falls below the guaranteed level. Nevertheless, its operations are confronted with many problems. The important problems are: lack of continuity in both method and the organization in charge; inadequate personnel and money; and no clear understanding about how the market actually works. *The results are low effectiveness as well as the creation of economic rents to those sellers fortunate enough to sell paddy to the government at a higher-than-market price.*^{2/} In general, it can be said that although the program is quite visible to the public and in the media, its real impact on both the paddy market and the price of paddy has seldom been more than minimal.

Government Interventions in Other Crops

Most major crops besides rice have been subject to intervention, although with different level of intensity and for different purposes. Generally, interference with these crops was not as strong as those on rice. Government policies with regard to specific crops will be reviewed here:

Sugar Cane. Government intervention in the sugar industry and sugar cane is perhaps the most complicated [Siarnwalla and Setboonsarng: 1988, 7]. *Sugar cane is the only major crop*

² These economic rents were not received fully by farmers growing paddy. It was estimated that 54 percent of the generated economic rent in 1983 was shared by rice millers and exporters; 27 percent for government officials and political parties; 6 percent for farm leaders; and 13 percent for the farmers themselves [Pinthong 1984].

gaining subsidies, while others are more or less taxed. This protection has driven up the domestic price of sugar and sugar cane so that it is higher than the corresponding world price (with the exception of the period between 1974-79, when world prices jumped dramatically). Price differences are due to the government's constant attempts to cartelize the domestic market. Both sugar millers and sugar cane growers are well organized and are thus able to bargain with the government and with each other.

Maize. Intervention in maize was relatively straightforward. There was only export quota during 1961-1981, which was imposed in order to fulfill the long-term contract with Japan the Thai government made during that period. Since December 1981, maize has been traded freely.

Rubber. There are two types of export taxes on rubber--export tariffs and cess. Although not broadly realized, the implicit tax rates on rubber have been very high, sometimes as high as those on rice.

4.2 Policy Motivations and the Impact of Interventions

The complex set of policies mentioned so far has its own set of underlying motivations, which in turn determine the way in which each policy and instrument was implemented. Some important motivations will be briefly discussed below.

Collecting revenue

In earlier times, the primary purpose of interventions was to increase government revenue. For example, between 1947-53, profits from multiple exchange rates plus rice premiums contributed about one quarter of the total government revenue. Consequently, the total tax burden caused by these two measures was as high as 58 percent of the domestic wholesale price, or 33 percent of the

f.o.b. price [Siamwalla and Setboonsarng: 1987, 39-40]. The government's dependency upon revenue from agricultural export taxes--resulted from the simple fact that tax bases on nonagricultural products were quite rare and small at that time. Therefore, rice premium rates were maintained at very high rate throughout the entire period from the 1950s to the early 1970s.

As the production of other crops as well as manufacturing rapidly expanded, the rice premium gradually lost its importance as source of revenue for the government.

Stabilizing domestic prices

Decision-making agencies often claimed that most explicit export taxes create more stability for domestic prices. The claims were justified, in fact. Evidence of the long-term trend of real domestic rice prices vis--vis the real border prices indicate that while the former were remarkably stable over 1960-84, the latter expressed a downward trend of 1.1 percent per annum [Siamwalla and Setboonsarng: 1987, 58].^{3/} The anti-fluctuating nature of the interventions can thus be assumed.

Establishing monopolistic price against foreign consumers

The government believes that Thai rice exporters have some monopolistic power on the world rice market. Export taxes and restrictions can therefore push up world rice prices, and the *burden from the intervention will be partly borne by foreign consumers*. More direct measures were also adopted-- for example, cartelizing rice exports through price determination by large exporters in cooperation with government officials.

³ Both trends, however, are subject to some short-term fluctuations.

Subsidizing domestic consumers

Low agricultural prices caused by the interventions certainly benefit domestic consumers, which was the government's intention. In addition, price support program was attempted as well in various occasions. The targeted group, however, was the urbanites.

4.3 Magnitude of Agricultural Interventions

Table 4.1 shows the total effective export tax rates imposed on four major crops during 1960-1984. They are "total" in the sense that all tax and nontax (computed to tax equivalence) interventions are summed together. The general formula is:

$$\text{Effective Tax Rate} = \frac{\% (\text{Domestic price} - \text{Border price})}{\text{Border Price}}$$

It is clear from the calculated tax burden in table 4.1 that during 1960-84, intervention in rice gradually, but significantly, declined; slightly weakened, but with high fluctuation for Sugarcane; completely removed for maize; and was rather stable for rubber. As intervention was the heaviest on rice and as rice farmers constitute the major group of agricultural labors, the overall burden on agriculture has become much less than it was in the past.

The more relaxed policy of the agricultural interventions is most aptly reflected by the rice premium trend. This is evident in Figure 4.1, which graphs the export burdens imposed on rice trade during 1960-1984. The overall burden used to be as high as 40-60 percent before the mid-1970s--with the rice premium constituting the major part of burden--but it rapidly declined afterward.

Table 4.1 Total Effective Export tax Rates on Thai major crops (1960-1984)
(As percent of corresponding border prices)

Year	Rice		Sugarcane	Maize	Rubber
	Case 1*	Case 2*			
1960	43.15	33.13	n.a	n.a	12.88
1961	42.29	33.47	n.a	n.a	14.26
1962	38.86	28.59	194.01	n.a	13.25
1963	41.87	31.95	22.76	n.a	14.38
1964	45.53	37.14	0.45	n.a	13.05
1965	44.40	36.01	127.20	n.a	13.77
1966	35.14	26.41	45.96	n.a	13.11
1967	40.40	28.92	9.58	5.15	11.78
1968	48.88	35.59	42.11	5.15	10.04
1969	38.57	25.81	11.04	1.56	16.26
1970	32.10	18.29	23.82	2.68	13.03
1971	35.19	25.83	2.16	3.58	10.58
1972	34.14	26.82	-22.01	-6.22	11.01
1973	56.48	40.44	-29.32	9.71	17.12
1974	63.04	47.55	-62.24	2.58	18.88
1975	46.36	31.76	-55.78	6.50	16.61
1976	21.21	15.76	-20.78	3.27	20.83
1977	26.41	21.99	-2.56	-0.33	22.28
1978	40.29	31.63	34.91	2.29	22.75
1979	29.04	23.92	39.21	4.61	24.49
1980	30.94	26.11	-2.82	5.45	26.11
1981	30.60	25.73	-10.17	8.73	18.90
1982	13.72	11.55	36.09	-0.00	13.12
1983	9.70	8.05	51.58	-0.00	17.95
1984	7.21	6.11	53.10	-0.00	15.07

Note: * Thai rice exports are regarded as price-taker (small country assumption) in case 1, but have some monopolistic power in case 2. World price is thus affected by the interventions in case 2.

Sources: Ammar Siamwalla [1987]
tables 2.3 (Rice), 3.1 (Sugar), 3.4 (Maize), and 3.6 (Rubber)

Effective Burden of Rice Export (1960-84)

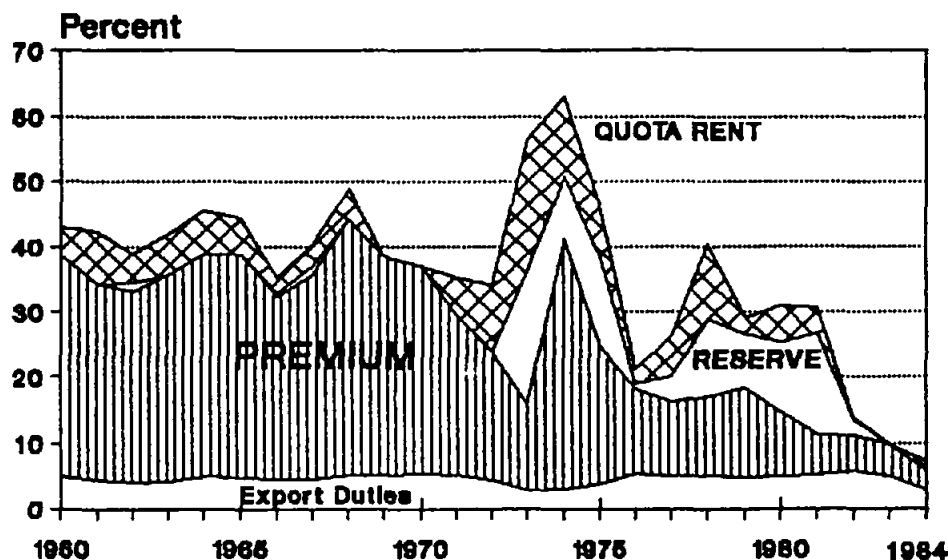


Figure 4.1

Certainly, less intervention of agricultural trade brings improvement to the agricultural sector in terms of higher domestic prices. Thus, it is quite important to know the underlying reasons and motivations leading to this policy trend. There appear to be four important factors influencing the government's decision:

First, the democratic sentiment that influenced many parts of Thai society during the early 1970s gave rise to an attitude that might be termed "sympathy for farmers." Students, university professors, the media, and some farmer leaders themselves called for more justice regarding

farmers' status. The tax burden, especially that emerged from rice premium, was attacked for its adverse impact on farmers, and it became more widely criticized and publicly debated by political activists.

Second, export orientation gained more and more emphasis beginning with the Third Plan (1972-1976). As a result, export restrictions had to be removed or reduced, including those in agricultural trade.

Third, as already mentioned in the previous section, the government's dependency on revenue from tariffs--especially from export taxes and tariffs--has substantially decreased. Consequently, *reducing trade restrictions would not cause severe fiscal strain and hence did not face serious resistance.*

Fourth, the continuous decline of major crop prices (the rice price in particular) during the first half of 1980s has forced the government to resolve the problem. Measures to foster the domestic price of these crops had to be taken, and the reduction of export restrictions was one of them.

The impact of more liberal agricultural trade policies upon rural poverty is certainly great, because the earlier tax rates were very high. The burden borne by farmers was extremely high,^{4/} and the removal of these interventions could enhance rural income by significant amount. Accompaniment with the high economic growth Thailand has experienced for a long time, the poverty incidence has improved during most of the period since the 1950s. However, attention

⁴ Data from table 4.1 and figures 4.1 indicate that out of every 100 baht taxed by the government on rice exports, about 67-75 baht was transformed to the domestic price in terms of price reductions and the rest 25-33 baht was borne by foreign consumers [see also Siamwalla and Setboonsarng: 1988, 7]. Due to the fact that revenue accrued from the rice burden was very high during the 1950s to the 1970s, as well as the low bargaining power of domestic farmers compared to the domestic rice traders and exporters, the received price at the farm gate was therefore greatly suppressed.

should still be given to improving the performance of the agricultural sector, because it is still vulnerable to the plight of poverty. This is evidenced by the increasing numbers of poor during 1981 and 1986 (as shown in chapter 2) when drops in the price of rice and other crops took place.

CHAPTER 5

THE IMPACT OF SOME MACROECONOMIC POLICIES ON THE RURAL POOR

Basically, macroeconomic policies influence three important functioning of the economy—allocation of resources, economic stability, and redistribution of income. In a free market economy, these influences are normally transmitted via price mechanisms. Changes in relative prices are often made by a certain set of macroeconomic policies. Their impact on the rural poor is therefore obvious, although it is quite normal that they are not publicly realized. Fiscal policies, for example, affect the allocation of resources directly; the government draws resources from the economy through tax collections and redistributes back through government consumption and investment.

Many studies have explored the impact of macroeconomic policies in Thailand. They are directed toward various aspects, some focus on the policy affecting poverty incidence and some do not. The reviews in this chapter cover three important groups of macroeconomic policies: industrial policies, exchange rate policies, and tax policies.

5.1 Industrial Policies

In line with many other developing countries, Thailand has been trying to industrialize its economy. The recorded period of industrial promotion began with the enactment of the Investment Promotion Act of 1960. Through this act, the country's industrial promotion has been guided by the Board of Investment (BOI). During its rudimentary stage, like most developing countries in the 1960s, BOI chose to follow import-substitution strategies. Protecting domestic producers through import tariff walls were the first measures initiated. Subsequently, tax and nontax privileges such as income tax holidays were adopted. Other policy measures involved imports control, exports and

financial assistance through the Bank of Thailand (BOT), the Industrial Finance Corporation of Thailand (IFCT) and other government agencies. This policy doctrine dominated the period of the First and Second Plans (1961-71). During this period, some measures to encourage exports, such as tax rebates and tax refunds, were also used, but they proved to be ineffective.^{1/}

Since the beginning of the Third Plan in 1972 export promotions have been given more and more attention. This was reinforced by two revisions of the Investment Promotion Act in 1972 and 1977. According to the revised acts, some eligible activities were required to export all or part of total sales. More incentives were given to the exporting industries, including exemption of export duties and business taxes. In addition, 5 percent of the income increase accrued from exports during the previous year was allowed to be deducted from the corporate taxable income.

However, it was not until the 1980s that the promotions became noticeably successful. The necessity of macroeconomic stabilization policies during the late 1970s and early 1980s, accompanied by recession in the world market, hindered Thai exports. However, as the world economic situation improved and a series of baht depreciations was announced, export volumes rapidly increase.

Nevertheless, the industrial policies—especially those manipulated through BOI—were criticized for their bias against agriculture [Siamwalla: 1987, 140]. Big industries were favored over the agro-processing industries, which are usually small or medium in size.^{2/} Other flaws and inefficiencies of the promotion have also been criticized.

First, although the BOI included employment generation among the established criteria determining a firm's eligibility for the promotion, the BOI itself found that this goal was not

¹ J. Ajanant and other, Trade and Industrialization of Thailand, 1986, p.89.

successfully met. A survey conducted by BOI in 1980-82 indicated that the employment contribution of 733 promoted firms was 215,627-- equivalent to only 0.9 percent of the total labor force or 9.4 percent of the total manufacturing labor force.^{3/} In contrast, capital uses have been encouraged through tariff exemptions on imported machinery, equipment, and raw material.

Second, some studies found that the static cost-benefit comparison of the promotion appears to be unjustified. For example, in 1982 only the foregone revenue from tax exemptions accounted for about 3,000 million baht, while the value added generated by all promoted industries was about 35,000 million baht.^{4/}

Third, promoted firms tend to be concentrated within Bangkok and its surrounding provinces, thus benefiting the residents in this area through both forward and backward economic linkages. Table 5.1. shows the locational distribution of firms being promoted by BOI during the period 1960-85. About two-thirds of these firms are located in the Bangkok Metropolitan Region (BMR: Bangkok and the five surrounding provinces). When the Central Region--whose people have a better living standard than those in other regions--was included, the figure rose to more than 80 percent. This would add more inequality to the locational distribution of industries already in existence. Since locational imbalance is one of the major sources of income inequality in Thailand [Jitsuchon: 1987, and Hutaserani and Jitsuchon: 1988], the implementation of industrial policies could significantly influence, either positively or negatively, the situation of income distribution directly, and rural poverty incidence indirectly.

² Some large-scale plants in the sugar, vegetable oil, and animal feed industries were also promoted.

³ All 1,032 promoted firms in 1982 would contribute more, but still not much.

⁴ The value added was calculated based on 4.3 percent of 1982 nominal GDP, which is adjusted upward proportionately from 3.1 percent GDP contribution of 733 surveyed samples, taking into account that total promoted firms were 1,053 in the same year.

Table 5.1 Locational Distribution of firms promoted by BOI during 1960-85.	
Bangkok	27.9%
Bangkok and surrounding*	66.4%
Central	17.1%
North	5.5%
Northeast	2.7%
South	8.3%
* surrounding provinces consist of Samut Prakarn, Samut Sakorn, Nonthaburi and Patumtani. Source: Board of Investment [1985]	

Theoretically, industrial protection is economically justifiable from a dynamic point of view. Misallocation of resource accrued by the protection might be justified if it leads to the survival of protected industries and allow them to gain comparative advantage over competitors abroad. In Thailand's case and with the issue of rural poverty involved, two points could be made:

First, the BOI and its export promotion strategies can claim the export boom Thailand is experiencing nowadays is partly due to their contributions; though there is no exact measurement of these contributions. It is argued that one important role of the BOI is in its guidance for both private investors and bureaucrats. In other words, promotions schemes pushed forward by BOI provide clear investment direction to investors, and stimulate cooperation from the involved government officials. This BOI-generated thrust of export promotion helps the country taking up the improvement of the world trade since the mid-1980s. Thailand's export boom could then occur more easily and more rapidly. Siamwalla [1987,139] refers to this type of BOI's contribution as:

The importance of BOI lies not so much in the granting of promotional privileges...., but in its role as a forum where private businesses can legitimately submit requests to the government for these privileges. The government, in a sense, becomes involved in the private sector decisions; having been involved, it also has become responsible for the survival of these enterprises. BOI's importance for the analyst lies

therefore, not so much in the privileges that it grants, but as an indicator of the thrust of government policies ^{5/}

Second, the resource used to finance the promoted (protected) industries has been gradually diverting from the agricultural to the nonagricultural sector. This is due to the fact that export earnings from manufacturing are increasing more rapidly than those from agriculture, and they now constitute the major earnings. In addition, as already pointed out in chapter 4, government revenues collected from agricultural intervention have shrunk down substantially. The burden of subsidizing industrial protection that has been borne by the agricultural sector is therefore decreasing from the levels of the 1960s and 1970s, leading to a reduction of its adverse impacts on farmers, and hence the poor.

5.2 Exchange Rate Policies

Policies on exchange rates are not totally independent from the agricultural and industrial policies already considered. This is especially true in Thailand's case where both agriculture and industry (manufacturing in particular) are subject to export-orientation policies, which are increasing the country's dependency on the world market.

After the abolishment of the multiple exchange rate system adopted between 1947-55, Thailand's currency was under gold standard system for about two decades and a half. Its ability to maintain a fixed nominal exchange rate of the baht against the US dollar for such a long time reflects the conservative nature of Thai monetary policies. Although Thailand left the gold standard in 1978, it still strictly tied the baht with the dollar until 1981. The exchange rate (baht/dollar) during 1978-81 was almost the same as the rate during the gold standard regime—around 21 baht per dollar. But,

⁵ Remember that bureaucratic politics is very important in Thailand. Thus, great convenience can be obtained if cooperation from bureaucrats is strong.

as the dollar appreciated sharply between 1979-85, three depreciations of the baht were necessarily undertaken, because the country had experienced an severe international reserve shortage stemming partly from the overvaluation of the baht. These baht depreciations occurred twice in 1981 and once in 1984. More importantly, the last depreciation in 1984 was more than a simple, though large^{6/}, devaluation against the dollar. It was also a transformation to the managed fixed exchange rate system, known as the "basket" system: the baht has since been tied to a basket of major trade partners' currencies. The present exchange rate system thus provides more flexibility of the baht's value in responding to changes in trade patterns and the realignment of world exchange rates.

Though the nominal exchange rate has been stable for most of the period since the postwar time, the real rate has not been equally stable. Table 5.2 and Figure 5.1 display the comparisons between the nominal rate and the two versions of "real" exchange rates. The first version of the real exchange rate is obtained by adjusting the nominal rate by the difference between Thai and US. consumer price index (CPI).^{7/} The second version is a Divisia index of real exchange rates vis--vis Thailand's trading partners (see details in Siamwalla and Setboonsamg: 1987, 141-142]. It can be seen that both real exchange rates did fluctuate, especially after the first oil crisis in 1973.

Using the second version of real exchange rate, the real value of the baht significantly depreciated between 1969-1972, as the Thai CPI lagged somewhat behind the inflation rates in most industrial countries. Since late 1970s, the real baht depreciated again as a consequence of the

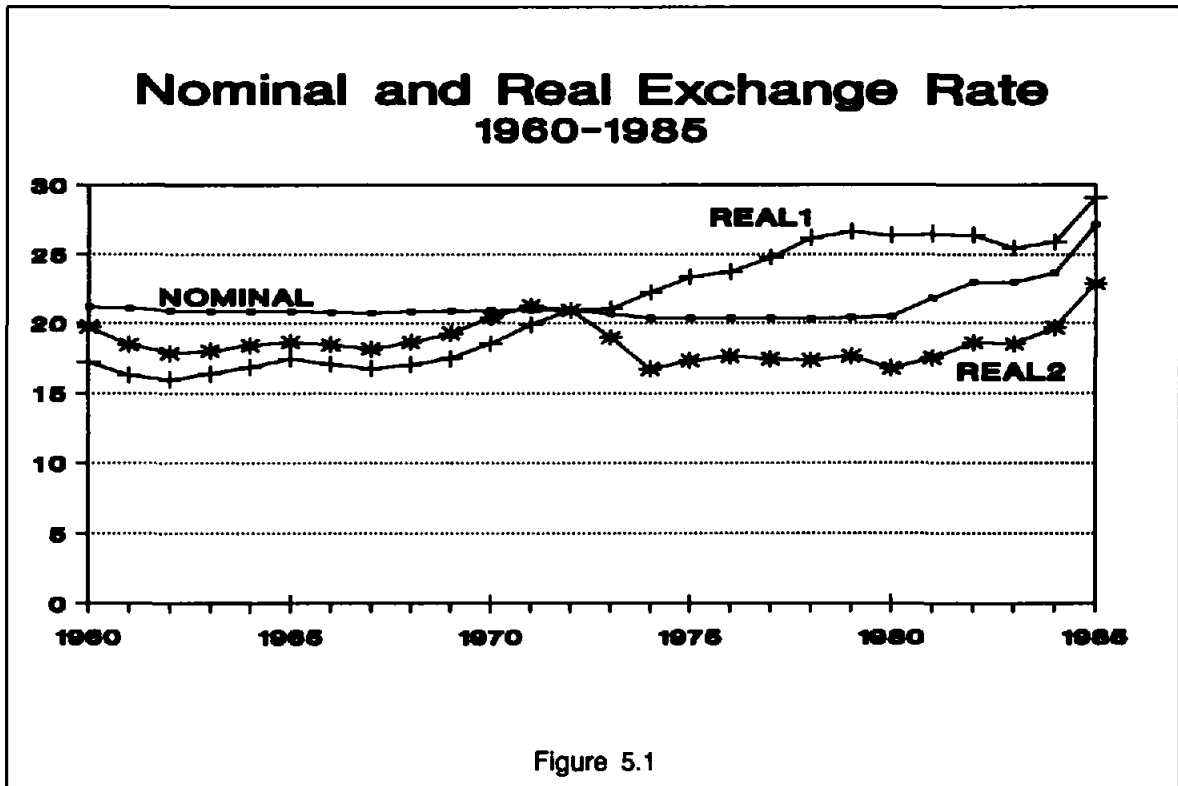
⁶ The percentage depreciated was 14.9 percent in 1984, compared to 1.1 percent and 8.7 percent in May and July 1981, respectively.

⁷ Real rate = (Nominal Rate)*(US. CPI/Thai CPI). Both CPIs were normalized in 1972 so that the two lines in Figure 5.1 pass through the 1972 nominal exchange rate.

Table 5.2 Nominal and Real Exchange Rate (Baht/Dollar)
1960-1985

Year	Nominal	Real Rate Version 1	Real Rate Version 2
1960	21.18	17.24	19.73
1961	21.06	16.28	18.46
1962	20.88	15.95	17.85
1963	20.84	16.39	18.03
1964	20.84	16.86	18.41
1965	20.83	17.46	18.66
1966	20.80	17.08	18.47
1967	20.75	16.79	18.16
1968	20.82	17.06	18.65
1969	20.90	17.48	19.27
1970	20.93	18.55	20.46
1971	20.93	19.91	21.25
1972	20.93	20.93	20.93
1973	20.65	21.03	18.99
1974	20.38	22.25	16.73
1975	20.38	23.36	17.34
1976	20.40	23.74	17.64
1977	20.40	24.79	17.46
1978	20.34	26.22	17.35
1979	20.42	26.67	17.65
1980	20.48	26.40	16.78
1981	21.82	26.48	17.52
1982	23.00	26.44	18.62
1983	23.00	25.48	18.53
1984	23.64	25.91	19.69
1985	27.16	29.09	22.89

Note: Real Rate Version 1 = Nominal Rate*US.CPI/Thai CPI
Real Rate Version 2 = Divisia Index of Exchange Rate
Sources : Unpublished Data from the Agriculture and Rural
Development Program, TDRI



falling dollar in the late 1970s. When the dollar began to rise during 1979-85, three nominal devaluations of the baht took place and thus prevented its real value from increasing.

Given the structure of the Thai economy, the implications of the exchange rate policies described above for the Thai agricultural sector-- and hence the rural poor-- can be examined. To maintain the overvalued official rate of the baht during most of the period before 1981 meant that a substantial amount of domestic resource was necessary to supply this overvaluation. Normally, the resource had been drawn from the agricultural sector, whose export earnings were used to finance the cheap foreign exchange policy. Implicit subsidies of the industrial sector and urban consumers-- both were the major importers-- were thus obvious. This conforms with government policies of agricultural intervention and industrial promotion which has already been considered.

The real depreciation of the exchange rate that has taken place since the late 1970s offers a structural remedy. Although their initiations were directed toward resolving the crisis of foreign exchange reserves and external debts, their impact on structural change was significant. Since then, the exporting sectors have been less taxed or even gained subsidies. The beneficiary of these depreciations is not just the agricultural sector, but the manufacturing sector as well, since the latter has increasingly become the major source of Thai exports.

5.3 Tax Policies

Some aspects of export/import tariff and domestic tax policies have already been mentioned in sections 4.1 and 4.2, when their impositions deal mainly with interventions in agricultural market (section 4.1) or when they are used as selective policies in favor of industrialization (section 4.2). In this section the impact of the overall tax policies will be examined. Emphasis will be made upon the distributional implications of Thailand's tax system.

Structure and the structural change of the tax revenue is presented in Table 5.3, which covers the fiscal years during the period of 1961 to 1987 (fiscal year being October of the previous calendar year to September of the current calendar year). The table shows that although the share of direct tax revenues (income and corporate income tax) continuously increases over the last three decades from about 10 percent to 20 percent of the total government revenue, it has still been much lower than the indirect tax share.

More often than not, the indirect tax is blamed for its regressive nature: more tax (proportionately) is imposed on the poorer than on the richer. On the other hand, direct tax structure is usually progressive. Consequently, any government relying heavily on income from

Table 5.3 Structure of Tax Revenue (Fiscal Year 1961-1987)						
Type of Tax	Average Between					
	1961-5	66-70	71-75	76-80	81-85	86-87
1. Income Taxes	10.2	11.8	14.7	19.1	22.8	21.9
Personal	6.2	6.7	7.2	8.4	11.5	11.7
Corporate	4.0	5.1	7.5	10.7	11.3	10.2
2. Indirect Taxes	89.9	88.2	85.3	80.9	77.2	78.1
General Sales Tax	18.6	21.5	22.7	22.5	21.7	19.3
Specific Sales Tax	13.9	17.5	21.3	25.1	27.1	30.9
Customs Duties	48.1	40.7	32.8	27.3	23.0	21.0
Fees and Permits	3.1	2.3	1.7	1.0	1.8	3.3
Others	6.2	6.2	6.8	5.0	3.7	3.6
3. Total Tax	100.0	100.0	100.0	100.0	100.0	100.0
Source: Sussangkarn and other [1988, 12].						

indirect taxes is alleged to add additional inequality to the distribution of income and therefore to hurt the society's poor. Some partial studies do advocate this opinion^{8/}. However, a recent study undertaken by the Thailand Development Research Institute [Sussangkarn, Tinakorn, and Chongpeeraplen: 1988] analyzed the distributional implication of various kinds of tax in a general equilibrium context, which is more appropriate as far as studies on income distribution are concerned^{9/}. The results are somewhat contrary to those of the previous studies. They state:

⁸ See, for example, IBRD, "Thailand: Toward a Development Strategy of full Participation." A World Bank country paper, 1980; M.Krongkaew, "The income Redistribution Effects of Taxes and Public Expenditure in Thailand: An Intertemporal Study." Ph.D. Dissertation, Michigan State University, 1975; and P.Likitkitsomboon, "Taxation and Income Distribution in Thailand: A Case Study for 1981." M.A.Thesis, Thammasat University, 1985.

⁹ Advantages of general equilibrium model and methodological details can be found in Sussangkarn and others [1988, chapter 5].

Basically, the analyses showed that most of the taxes in Thailand are progressive in nature. Obviously income taxes are progressive. But so are corporation taxes, business taxes, and sales taxes.^{10/}

and

For the whole tax system, it would not be too inaccurate to say that all indirect taxes taken together are fairly neutral (mainly because of the possible regressiveness of the import duties), while the direct taxes are progressive.^{11/}

The explanations supporting these results are provided for each tax category. For details of these explanations--which are too lengthy and beyond scope of this paper--readers are referred to Sussangkarn and others [1988, 115-140].

The above conclusions certainly do not put an end to the argument about the distributional impact of tax systems. Further studies have to be done in order to add clearer evidence to the issue. The general equilibrium model approach apparently sounds better in tackling the problem but more detailed disaggregations are probably necessary.

¹⁰ Sussangkarn and others, *ibid.*, p 59.

¹¹ Sussangkarn and others, *ibid.*, p 59.

CHAPTER 6

DIRECT POLICIES FOR RURAL POVERTY ALLEVIATION

A number of policies that were explicitly directed to help farmers and others working in the agricultural sector have been adopted by Thai government. Three of these policies will be reviewed in this chapter: agricultural land reform, rural agricultural credit policies, and public employment programs.

6.1 Agricultural Land Reform

Along with a rapid increase in cultivated areas due to land expansion, two basic problems with respect to agricultural land have arisen: (a) Insecure land ownership, and (b) increasing tenancy [Panayotou 1985: 48]. Both problems are serious because they reduce the farmers' incentive to invest and discourage the development of credit market, since land titles are usually the best collaterals (see next section for details of rural credit markets).

In Thailand, land security has always been very troublesome. Encroachment upon the former forest areas has caused property right in large areas of land remain ambiguous. Up until the late 1970s, population pressure in rural areas had pushed people into the forest areas, where they settled down to cultivate the land and, in effect, established ownership. The ownership, however, was illegal. Thus, the ratio of legally owned land compared to total agricultural land was generally low. Table 6.1 shows that this ratio was only 60 percent in 1975. Further, it appears to be difficult to increase this ratio, because of the complexity of land titling procedures, and because most of the remaining untitled lands are the in reserved forest areas.

Table 6.1 Land Titles Classified by Region, 1975				
Region	NS3	Title deeds	Total	% to total Agric. Land
Northeast	4,377	169	4,546	49
North	2,714	601	3,315	63
Central	1,634	2,259	3,893	83
South	1,363	75	1,438	54
Total	10,088	3,104	13,192	60
Source : Panayotou [1985: table 24, 49].				

The tenancy problem is less serious, but it tends to gradually increase. Data in table 6.2 indicate that only 11.8 percent of agricultural lands in 1975/76 were rented. Nonetheless, the same figure for 1962/63 was much less--around 3.8 percent. If one looks at the regional distribution, one finds that the tenancy rate was highest in the Central Region and lowest in the North, Northeast, and South. However, all three regions had experienced very high growth in the tenancy rate. During the thirteen years between 1962-75, the proportion of rented land to total land increased 5.3 times in the North, 9 times in the Northeast, and 10.3 times in the South.

Table 6.2 Rented Land as a Percentage of Total Land in Holdings				
Region	1962/3 (1)	1971/72 (2)	1975/76 (3)	(3)/(1)
Northeast	0.3	3.9	2.7	9.0
North	2.7	18.9	14.2	5.3
Central Plain	14.7	34.8	38.3	2.6
East	12.7	27.1	29.1	2.3
West	6.6	23.6	24.7	3.7
South	0.3	4.2	3.1	10.3
Whole Kingdom	3.8	12.7	11.8	3.1
Source : Panayotou [1985: table 26, p.49].				

There are two main reasons for increasing tenancy. Farmers had to rent land either because they never had land or because of accumulated debts. In the past, those who never had land could pursue land encroachment as an alternative. But as the forest areas being scarcer, they became increasingly dependent on rented land.

Being aware of the increasing seriousness of both problems, the government established the Agricultural Land Reform Office (ALRO) in 1975. The explicit objectives of the office were:^{1/}

1. To enable farmers to have their own land for cultivation
2. To increase agricultural productivity
3. To reduce the income gap between the rural and urban population

The ALRO's works deal basically with the encroached public forest land.^{2/}

However, the accomplishment of the ALRO were far from successful. Between 1977-1980, only about 13 percent of targeted land areas were actually reformed. About the same proportion was accomplished for farm households who received land titles from the scheme. The major obstacles facing land reform policies have been lack of proper information and lack of funds. The budget allocated for the reform was very small, around 200-400 million baht annually during 1978-1981 [Panayotou: 1985, 50].

On the whole, land reform policies in Thailand have not been very successful. The main nation-level problem lies in the management of the encroached reserved forest areas. The government has always been reluctant to issue titles to those occupying the land, because issuance

¹ Panayotou [1985, 50].

² Originally, the ALRO was concerned with three types of land: crown land, public land, and private land. However, because of the difficulties in redistribution of private land, the ALRO shifted to the former forest areas.

could encourage further deforestation, which is increasingly unacceptable from a social point of view. On the contrary, the government's refusal to issue land titles has discouraged the optimal use of land due to the low level of land development and agricultural investment. The most acceptable solution to this dilemma has not yet been found.

6.2 Rural Agricultural Credit Policies

Realizing the importance of credit accessibility among the rural farmers, the Thai government has been implementing various policies that were aimed to improve rural credit market. Availability and cost (i.e. the interest rate) of rural credit are its major concerns. In order to evaluate the performance of government policies, the characteristics of the rural credit market in Thailand will first be discussed.

Ordinarily, the rural credit market constitutes two distinctive, but not independent, sectors: the formal and informal markets. On the supply side (the lender side), the main factor distinguishing these two types of lenders is in the organizational structure. Those in the formal sector tend to be more bureaucratic and better organized, while informal lenders tend to be individuals or husband-and-wife teams [Siamwalla: 1989]. The formal lenders are also different from the informal lenders that they usually received some subsidies, while no subsidies—explicit or implicit—are given to the informal lenders. Based on this definition, Thailand has had a formal credit market since 1866 through the operation of pawn shops. The informal credit market's existence, however, goes back to the use of money as the medium of exchange [Siamwalla: 1989].

There are three major organizations engaged in formal lending in the Thai rural sector: the commercial banks, the Bank of Agriculture and Agricultural Cooperatives (BAAC), and cooperatives.

The Agricultural Credit Market Prior to 1975

The Thai government's first attempt to foster formal rural credit was by encouraging farmers to set up "credit cooperatives", through which the government could provide loans. The problem with this institutional framework was its high default rate. Thus, in 1966 the government established a specialized financial institution to provide loans to agricultural households--the Bank of Agriculture and Agricultural Cooperatives (BAAC). The BAAC was not only responsible for providing loans to the cooperatives; it was also responsible for loan to the farmers directly. Between 1966 and 1974, the BAAC grew at a moderate rate, and it succeeded in establishing branches in 58 of Thailand's 71 provinces by 1974.

Before 1975 the commercial banks played a very small role in the provision of credit to the countryside (table 6.3). Essentially, most banks collected money throughout the whole kingdom and lent almost entirely to urban, nonagricultural businesses. Lending to farmers was always deemed to be too risky. As a consequence, rural households had to depend largely on the informal market, whose interest rates were very high.

The Radical Change of 1975

BAAC's operation appeared to be fairly successful when judged by its growth rate but because it had started with very little funds, its contribution to the entire rural credit market was far from satisfactory. In 1975, the government, through the Bank of Thailand (BOT), decided to take another important step. The governor of BOT "morally persuaded" all the commercial banks to lend to farm households an amount equal to at least a certain proportion^{3/} of its total stock of loans and

³ The ratio was 5 percent in the first year, but gradually increased to 13 percent nowadays (2 percent of which is designated for the agribusiness).

Table 6.3 Agricultural Credit lent by Commercial Banks (Million Baht)						
Year	Total Credit	to farmers	to Agri-business	Agricultural Bond	Deposite at BAAC	Bot Target
1971	145.0	145.0	-	-	0.0	0.0
1972	164.0	164.0	-	-	0.0	0.0
1973	185.0	185.0	-	-	0.0	0.0
1974	242.0	242.0	-	-	0.0	0.0
1975	3,904.4	2,233.6	-	-	1,670.8	4,333.3
1976	6,971.5	3,810.9	-	-	3,160.6	6,139.0
1977	10,419.8	5,891.8	-	-	4,528.0	9,647.0
1978	19,993.4	8,099.5	6,382.5	-	5,511.4	14,387.0
1979	24,055.9	9,970.0	7,755.8	-	6,330.1	20,472.0
1980	29,745.6	11,553.1	9,962.2	1,230.0	7,000.3	22,701.2
1981	33,528.3	14,562.3	9,932.1	1,230.0	7,803.9	27,949.2
1982	40,348.1	20,140.4	10,706.4	1,096.1	8,405.2	33,438.0
1983	51,594.1	28,613.2	13,409.9	765.0	8,806.0	41,753.5
1984	63,911.4	35,915.4	17,804.9	656.6	9,534.5	52,402.9
1985	72,054.0	37,726.7	23,642.1	-	10,685.2	63,604.8

Sources: 1971-74 from Nitjathaworn[1989: table 42, p.278]

1975-85 from Satsanguan[1989: table 13, p.90]

advances outstanding (starting with the second year of the persuasion, this was changed to outstanding deposits). The BAAC, in the meantime, was also ordered to make more credit available to the rural areas. This was a sudden change, and Siamwalla says:

Thus, both the commercial banks and the BAAC found themselves suddenly having to push out a vast amount of new loans to farmers. The commercial banks, particularly the smaller ones were unable to meet the lending requirements set out by the Bank of Thailand⁴

Most commercial banks chose to take the alternative way allowed by the Bank of Thailand, by depositing the short-falling amount below the target to the BAAC⁵. This is the major--and perhaps the only-- explanation for the BAAC's rapid expansion since 1975 (table 6.4).

Through this policy, the commercial banks themselves began lending more directly to the agricultural sector after 1975 (table 6.3). The agro-credit of commercial banks increased significantly from 4.2 to 23.3 percent in total agricultural gross product during the period of 1975 to 1984. Thus, the agricultural credit policy completely transformed the Thailand's rural credit system.

The Linkage between Formal and Informal Credit Market

The instruments employed by the government so far were aimed at affecting the informal credit market in two ways-- (1) to reduce the size of the informal market by expanding the formal market, and, (2) to lower the interest rates charged by informal lenders. The achievements of the rural credit policy will therefore be assessed through these objectives.

⁴ Siamwalla, op.cit., page 3.

⁵ Moral suasion is very effective in Thailand because the Bank of Thailand holds the sole authority in granting new bank branches.

Year	Total Credit (1)	Other Sources (2)	Deposits from Commercial Bank (3)	(3)/(1) (%)
1967	381.4	381.4	0.0	0.0
1972	1,736.8	1,736.8	0.0	0.0
1974	2,650.7	2,650.7	0.0	0.0
1975	4,556.1	2,885.3	1,670.8	36.7
1976	6,554.6	3,394.0	3,160.6	48.2
1977	8,280.2	3,752.2	4,528.0	54.7
1978	10,207.8	4,696.4	5,511.4	54.0
1979	11,698.6	5,368.5	6,330.1	54.1
1980	13,448.3	6,448.0	7,000.3	52.1
1981	15,208.3	7,404.4	7,803.9	51.3
1982	17,013.7	8,608.5	8,405.2	49.4
1983	18,271.4	9,465.4	8,806.0	48.2
1984	21,078.9	11,544.4	9,534.5	45.2
1985	23,308.8	12,623.6	10,685.2	45.8

Sources: 1967-74 from Mingmaneeakin [1989:table 5,p.43]
1975-85 from Satsanguan [1989:table 13,p.90]

Various studies assert that the informal market share has declined in every region of Thailand [Slamwalla: 1989, 197-198]. In the whole kingdom, for example, the share of informal credit decreased from 95 percent in 1962/63 to 50 percent in 1978. The largest contributor to the formal market expansion is the BAAC. The BAAC has devised a "new" technology of credit administration, which force the borrowers to form a small group in which members must share the responsibility for incurred debts.^{6/} This enables poorer farmers to obtain credit that was formerly available only from informal sources. The BAAC's success is based on its provision of an important segment of the credit market-- the short-term working capital loans.

⁶ Actually, this is not a "new" technology. However, the BAAC has imposed additional restrictions that make the system work better: e.g., it required that all members of the group must reside in the same village and that each group must have some reputable and credible members.

However, as Siamwalla pointed out, this does not necessarily result in the decreasing absolute value of informal credit; the informal lenders continued to thrive. Many poor farmers kept on borrowing from the informal sector, because either they were left out by the formal credit system (the BAAC has been reluctant to expand its clientele to cover the poorer farmers or the riskier areas); or because they had established a relationship with informal lenders that could not be replaced by any formal institutions. There is a patronage system that exists between the borrowers and lenders: some lenders supply inputs of production and buy back the output during harvest time. In addition, borrowers who do not have any collateral (and hence do not have access to the formal credit) turn to the informal lenders, who have sufficient information about them to ensure the repayment. Thus, information acts as another type of collateral. The importance of information is reinforced by the fact that most informal borrowers report that they have always dealt with only one lender. Changing lenders is difficult because the borrower has not established a personal relationship with other lenders, who therefore lack enough information about them and feel lending to them is too risky.

Because the cost of acquiring information and enforcing informal credit contracts is very high, informal interest rates throughout the country are also very high. The high interest rates reflect two parts of lender's cost--the opportunity cost of funds and the transaction cost. The latter cost appears to dominate the former. This is the reason why the government's injection of vast amount of money to reduce the opportunity cost of fund has had little impact on the interest rates charged by informal lenders. Table 6.5 indicates that informal interest rates were still very high in 1984, nine years after the transformation of the rural credit system in 1975. The average rate was about 30-45

Table 6.5 Informal Interest Rates for Agriculture in 1984 (percentage per year)

REGION	SOURCE OF INFORMAL CREDIT			
	trader	relative	neighbour	others
North	42.8	24.1	52.7	59.0
Northeast	56.7	n.a.	60.0	n.a.
Central	23.8	24.0	18.0	n.a.
East	72.0	34.0	25.7	n.a.
West	27.0	33.7	32.4	14.5
Average	44.5	28.9	37.8	36.8

Note: Average interest rates are computed by simple arithmetic mean of the available rates across regions
Source : Prasarn Trairatworakun, Some Point of Views in the Rate of Return of Informal Credit Markets, p.18

percent per year^{7/} while the formal interest rate was barely more than 13 percent per year. The resistance of these high rates-- which actually represent some economic rent (information rent in this case) and unavoidably attract other potential moneylenders-- clearly implies some barrier to entry into this industry. The major barrier is the initial transaction cost that new lenders have to invest in order to obtain information about each borrower. The cost consists of both financial cost and the time involved in the effort. It is estimated that it takes about seven years for an individual lender to establish his credit worthiness. Once the relationship has been established and a large investment has been spent, the moneylender is able to collect the rent.

Thus, the government's credit policies are satisfactory only in certain aspects. They are successful in providing more funds to farmers in the middle- to high-income classes and, particularly regarding short-term loans. Nevertheless, they are unable to replace the entire informal market.

⁷ Siamwalla has cited an even higher rate of, except for the central plain region, 5 to 7 percent per month.

Also, the interest rates charged informally continue to be very high, indicating that the amount of new credit provided is not competing via price mechanism with informal credit.

Another most critical problem is that neither the formal nor the informal market is providing any credit to the poorest rural people. As previously shown in the early chapters, the group of poorest farmers constitutes the core of poverty, and their prospects are so bad that no one will lend them any money. Siamwalla concludes:

The poorest households are generally free of debt simply because no one will lend to them. The next poorest will borrow entirely from the informal sector. Those with middling income will look to the BAAC as their primary source of credit, or supplementary, as the need arises, with loans from the informal sector. The richest household obtain credit from commercial banks.^{8/}

Table 6.6 shows that households that reported a need for credit but cannot borrow were worse off in all aspects (total income, income per head, wealth, and land holdings) than all other household groups. These poorest households should become the primary target group for credit expansion if the government is to improve their living standard.

6.3 Public Employment Programs

In comparison, public employment programs and other similar programs have more direct impact toward alleviating the poverty, and are employed in many developing countries. In Thailand, the first program of this kind was initiated in 1975. According to the government, the program has two major objectives:

1. To provide employment during the dry season to rural people that would help them to earn additional income to be invested in their fields for the next planting season.

⁸ Siamwalla [1989, p 10]

Table 6.6 Average Household Income, Assets and Land Holdings Classified by Borrowing Behavior							unit: baht
Borrowing Behavior	Total income	Net Income per head	Net Farm Income	Off-farm income	Wealth owned	Total land (rai)	
All households	35,271	3,812	3,169	15,690	151,405	21.8	
Need Borrowings	37,253	3,617	4,254	14,794	155,809	24.3	
-from formal sector only	45,558	4,141	6,235	14,762	188,809	35.9	
-from informal sector only	30,626	3,171	2,666	14,271	126,754	16.4	
-from both sectors	47,673	4,413	6,392	16,957	204,702	33.7	
-cannot borrow	25,016	2,583	3,463	12,610	116,927	11.6	
Do not want credit	32,400	4,094	1,597	16,989	145,022	18.2	

Note: Data from only one Province, i.e., Nakornrachaseema
Source: Yuavares Tubpun [Siamwalla edit. 1989] Rural Credit Market in Thailand, p. 150

2. To promote local participation in the program's operation (through the establishment of district council), in order to create a more democratic environment in rural areas.

Because the problem of seasonal unemployment had been long realized before the program's initiation, the program's second objective appeared to be more relevant than the first one at the moment. The new, more democratic government focused on preventing the expansion of the rapidly growing Communist Party of Thailand. Resources needed to be transferred to the countryside, which was most vulnerable to communist ideology.^{9/} In the later years, however, the employment objective has gained more importance and is now more important than the political objective.

Project Implementation

The program's first name was the "Rural Development and Job Generation Project," which operated from early May to the end of July 1975. The jobs created by the program provided immediate employment for agricultural workers in road construction, water supply provision, constructing the villages' electric power lines, and other projects. The budget for each district was approximately 480,000 baht (20,000 dollars) or 2,500 million baht (about 1,000 million dollars) nationwide. Details of each subproject were set by the district council, with some participation by the villagers.

A similar project took place in 1976. The project's name was changed to the "District Development Project," and the fund amount was increased to 3,500 million baht.

⁹ Note that the transformation of credit market discussed in the previous subsection also took place at the same time, in 1975.

Problems such as improper and inadequate timing (three months in rainy season) and inappropriate operational structuring were experienced during the first two years of the program. Some jobs could not be finished in time, and some were cancelled. Moreover, few rural people understood the functions and procedures of the district council. Thus, in its early stage, the program served as the political showcase of the government.

The employment program resumed in 1980. While it was renamed the "Rural Job Creations Project" (Table 6.7), its objective was still the same.^{10/} Having Learned from past administrative mistakes, the government has added more conditions on the program, including:

1. Except in 1980, the period of the project's implementation is fixed at the first half of each year, which is the dry season in Thailand. Hence, the objective of employment promotion can be more possibly achieved.
2. Since 1980, it has been required that the district council spend at least 70 percent of its total budget for employment purposes. The remaining 30 percent is provided for other expenditures such as machinery.^{11/}
3. All projects must not carry over the next year's budget; they must be finished within one fiscal year.
4. The projects must not duplicate other government projects.

¹⁰ One exception occurred in 1978 with the initiation of a project called "Immediate Economic Relief from Natural Calamities," which was principally aimed at mitigating damages caused by that year's drought.

¹¹ However, this requirement has often been violated. In the later years more and more money was spent to buy machineries and other hardwares.

Year	Project Name	Budget (million baht)	Duration
1975	Rural Development and Job Generating Project	2,500	May 3-July 31
1976	District Development Project	3,500	May 1-July 31
1978	Immediate Economic Relief from Natural calamities	1,600	Jan 20-June 30
1980	Rural Job Creation	3,500	May 1- Aug 31
1981	Rural Job Creation	3,500	Jan 1-June 30
1982	Rural Job Creation	2,000	Jan 1-June 30
1983	Rural Job Creation	2,000	Jan 1-June 30
1984	Rural Job Creation	2,000	Jan 1-June 30
1985	Rural Job Creation	2,000	Jan 1-June 30
1986	Rural Job Creation	2,000	Jan 1-June 30
1987	Rural Job Creation	2,000	
1988	Rural Job Creation	2,000	

SOURCE: Office of the Prime Minister, Evaluation of Rural Job Creation Project in 1986, August 1986, p.3.

In 1981, clearer guidelines were established about the jobs to be created. Three job categories were set--water supplying, infrastructure construction, and others^{12/}. The proportion was set at a ratio of 50:30:20, respectively.

The Program's Contribution to Rural Income

The public employment program operated quite well if it is evaluated on the basis of its beneficiaries. Most evaluations conclude that the participants in the programs were normally the poorer in the districts. For example, about 60.2 percent of the income augmented by the program in 1982-83 went to people with incomes lower than the district average. A more recent survey in 1986 also gained positive impression from most interviewees--both participants and

¹² The "others" category includes those jobs that help to increase agricultural output and productivity.

nonparticipants--toward the program's contributions. From the interviewees' point of view, the contributions are in the generation of more job opportunities and in augmenting income. Some interviewees thought that the program induce more participation by rural people in rural development.

However, there are two remaining problems. The first concerns the program's size. As indicated in table 6.7, the allotted budget decreased from 3,500 million baht in 1980 to 2,000 million baht during the following years. More importantly, the number of participants also declined--from about 3.5 million in 1980 to 1.6 million in the later years.

Table 6.8 Average Additional Income Received from the Employment Programs (baht per head)				
Region	Years of Evaluation			
	1980	1982-83	1984	1985
North	707	930	n.a.	996
Northeast	775	1,015	1,088	870
Central	1,124	1,075	1,678	2,196
South	1,153	1,182	1,976	1,481
Whole Kingdom	900	1,050	1,581	1,390
Source : Office of the Prime Minister, <u>Analysis and Evaluation of Rural Job Creation Project 1980-85</u> , p.82				

The second problem concerns the distribution across regions. Table 6.8 shows the average income earned by those participating in the program. The table indicates an obviously unequal distribution by region. People in the relatively more affluent Southern and Central Regions appear to benefit more from the program than those in the poorer Northeastern and Northern Regions.

The Program's Impact on Rural Migration

One potential contribution of the program is its impact on the rural seasonal migration. During dry season, rural people usually migrate to other villages or cities seeking short-term jobs. The employment programs offer the alternatives to migration. During the programs' early days, it is found that the jobs offered during the dry season could considerably reduce the amount of out-migration. However, as people learned that the jobs created were always of short duration^{13/} and the program's size decreased, the impact of the program on their decision to migrate lessened.

An econometric study about the characteristics of the program's participants supports these arguments [HRS,TDR]: 1986, 114-117]:

The basic conclusion is that within a particular village the program seems to be reaching the right people, i.e., those without other works, and those families with little seasonal migration. On the other hand, in terms of the pattern across villages, the situation needs to be improved. The program should be more targeted towards the backward villages, with little seasonal migration^{14/}

The utilizability of most of the infrastructure constructed under the program has also come under question. It is generally found that these constructions are not very useful to the areas in which they were constructed because (1) they are usually not durable and (2) their construction is not well planned.

The general conclusion is that the program as a whole needs further improvement to strengthen its effectiveness. Even though it can provide some additional incomes to rural people, without improvements, the opportunity cost of doing so--from the social point of view-- might be too high.

¹³ The average length of the programs seldom exceeded more than one month.

¹⁴ Human Resource and Social Development Program, TDR, The Human Resources Management, 1986, p. 116-117.

CHAPTER 7
CONCLUDING REMARKS ABOUT THAILAND'S EXPERIENCE OF POVERTY ALLEVIATION
AND SOME LESSONS FOR OTHER ECONOMIES

As far as the poverty problem is concerned, Thailand has a relatively good record compared with some other developing countries. Evidence shows that since the early 1960s, the proportion of poor to the total population has been declining (with the exception of the early 1980s). This trend of an improving poverty incidence coincides with the impressive growth of the economy. Thus, questions concerning the relationship between these two occurrences should be addressed. Is economic growth a sufficient explanation of declining poverty? If so, what pattern of growth would be most appropriate for enabling the country to help the poor? Conversely, it could be possible that other factors have been lessening poverty and that they are also significant vehicles for high economic growth rates. In this chapter, some tentative proposals surrounding these issues will be discussed. The contributions of government policies to the overall process--which were separately discussed in the previous chapters--will also be summarized.

7.1 The Engines of Growth and the Poverty

Thailand's achievement in maintaining a steady and high economic growth rate since the end of the Second World War has been attributed to agricultural expansion in the early period and to the success of manufacturing in the later. The agricultural production in Thailand grew quite impressively in the past. It exceeded overall growth during 1956-60 (see Table 1.1), thereby helping to raise the rural poor's income, which is strongly linked with agricultural activities. Thus, agricultural growth is a key factor in explanation of poverty improvement.

Due to the large amount of surplus labor available in rural farms (see chapter 2, section 2.1), the source of the rapid growth of agricultural production can be attributed to either (1) land expansion or (2) increasing land yield. Evidence suggests that land expansion was the best solution for farmers wanting to increase their output. Figure 7.1 and Table 7.1 show the comparison between land use and yield during the period of 1961-1985. Land yield fluctuated during 1960s and has been slightly declining since the beginning of the 1970s. On the other hand, land use has shown a rising trend during the same period. Agricultural land expanded even faster than did the increases of population and labor, which caused the agricultural land-labor ratio to rise. After 1977 land use rose only slightly, and the land-labor ratio started to fall down.

The major cause of the rapid expansion of agricultural land during the 1960s and 1970s was due to the ease of obtaining new land, usually in areas that used to be forestry-- which account for around 20 percent of the country's total area. Although encroachment into forestry areas was

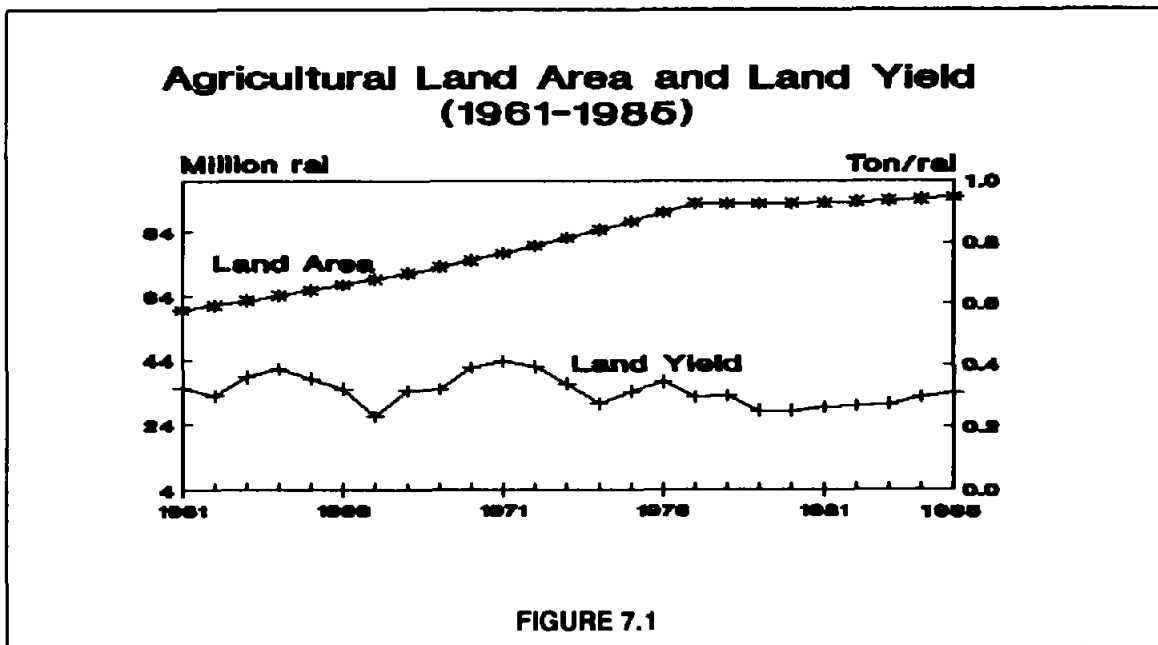


Table 7.1 Agricultural Land and Land Yield (1961-85)			
Year	Agriculture Land (mil.rai) ^a	Land/Labor (rai) ^a	Land Yield (ton/rai) ^b
1961	59.70	5.73	0.32
1962	61.14	5.80	0.30
1963	62.64	5.88	0.36
1964	64.21	5.96	0.39
1965	65.86	6.04	0.36
1966	67.59	6.12	0.32
1967	69.39	6.21	0.23
1968	71.29	6.30	0.32
1969	73.27	6.40	0.32
1970	75.34	6.41	0.39
1971	77.52	6.43	0.41
1972	79.80	6.45	0.39
1973	82.19	6.47	0.34
1974	84.69	6.49	0.27
1975	87.31	6.52	0.31
1976	90.07	6.55	0.34
1977	92.96	6.59	0.30
1978	92.87	6.41	0.30
1979	92.87	6.24	0.25
1980	92.97	6.08	0.25
1981	93.15	5.93	0.26
1982	93.43	5.79	0.27
1983	93.81	5.66	0.27
1984	94.30	5.54	0.30
1985	94.90	5.43	0.31

^a 1 rai = 0.16 square kilometer.
^b Output is measured at 1972 price.
Note: Land areas and output data are for 20 major crops, covering about 80 percent of total crop production.
Source: Database at the Agriculture and Rural Development Program, Thailand Development Research Institute.

illegal, enforcement of involved laws were not active enough to prevent the encroachment. In addition, there has been a general recognition of property right over the occupied land, both from Thai society and from government agencies as well^{1/}.

Drawing from the analyses in the previous chapters and considering the relevance of land expansion, tentative propositions about the mechanisms that determined changes in the poverty can be made as follows:

1. Thai agriculture has apparently benefited from the country's increasing openness to the world market (Chapter 1). Government expenditures on infrastructure facilities such as irrigation system and roadways in the early days of centrally planned development played a significant role in facilitating and boosting agricultural production (Chapter 3). Transformation from subsistent to commercial cultivation, diversification of crops, and shifting from single- to multiple-cropping patterns have all dramatically improved farmers' income.

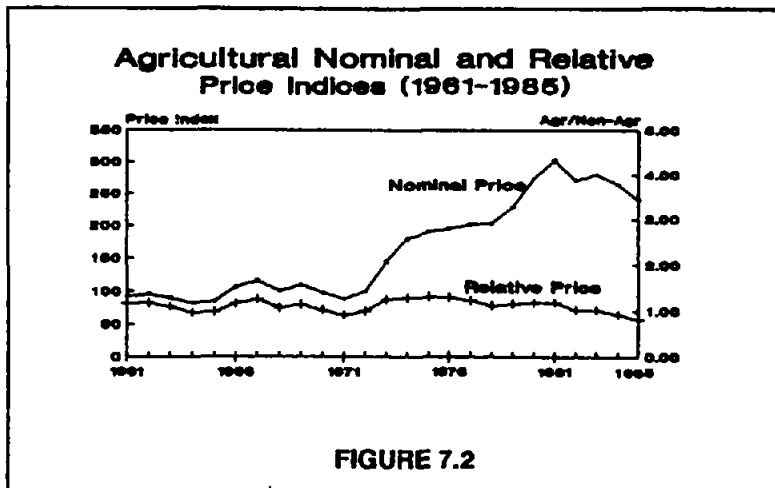
2. The government's unwillingness to effectively block forestry areas from encroachment has provided rural people with abundant and fertile land to meet increasing demands for land stemming from population pressure and export demand of crop. Without the opportunity to open new land, many more Thai farmers would have been forced into the severe plight of poverty.

These two favorable conditions can aptly explain the reduction in poverty that occurred until the end of the 1970s despite the imposition of heavy taxes on several major crops.

A worsening of the poverty incidence between the period of 1980-1985 also reflects the importance of both agricultural export performance and of land availability. As forestry areas

¹ For example, the Department of Forestry has issued a Certificate of Cultivation for those former forestry areas that have been invaded and cleared. Some property taxes are also collected from these lands, making the land holders believe that their ownerships are certified by the government.

became scarcer and decreased to a level that appeared to be publicly unacceptable, the expansion of agricultural land was forced to continue at a much slower pace (Table 7.1). At the meantime, the world prices of most major crops fell drastically during 1981-85, which depressed domestic prices even though the government continuously reduced the tax burden. Table 7.2 and Figure 7.2 show the movement of the domestic price index of major crops and its relative price to the price index of



nonagriculture. The major crops' absolute price index began to fall in 1981 and never increased through 1985. This resulted in a rapid increase of poverty during the period of

1980-85. Note that this period of worsening poverty coincided with low economic growth rates (Table 1.1). The relationship between economic growth and poverty is thus very close.

7.2 The Relevance of Government Policies

Evidently, government policies have a significant impact—both positive and negative—upon the incidence of poverty. The promotion of exports, especially the agricultural exports, and the intentional allowance of land encroachment were the two major sources of agricultural expansion during 1960s and 1970s. As previously discussed in the last subsection, they have been good contributions by the government.

Table 7.2 Nominal and Relative Crop Price Indexes (1961-85)			
Year	Crop Price ^a (Pcrop)	Non-Agric Price (Pna)	Pcrop/Pna
1961	92.19	79.89	1.15
1962	95.84	82.32	1.16
1963	90.00	82.71	1.09
1964	82.33	86.03	0.96
1965	85.20	86.85	0.98
1966	106.98	91.61	1.17
1967	116.48	92.61	1.26
1968	100.79	93.58	1.08
1969	109.85	95.69	1.15
1970	98.07	95.88	1.02
1971	88.63	97.44	0.91
1972	100.00	100.00	1.00
1973	145.09	115.66	1.25
1974	179.12	140.34	1.28
1975	190.23	144.77	1.31
1976	195.13	149.99	1.30
1977	201.36	164.36	1.23
1978	202.67	180.75	1.12
1979	228.49	199.11	1.15
1980	274.08	232.24	1.18
1981	302.53	256.15	1.18
1982	270.94	267.74	1.01
1983	280.23	275.27	1.02
1984	264.72	286.78	0.92
1985	240.07	297.49	0.81

Note: ^aCrop price index is a divisia index of 20 major crops.

Source: TDRI, *Dynamics of Thai Agriculture, 1961-1985*.
Table 2.1.

However, agriculture was heavily taxed through various kinds of export restrictions. Resources drawn from this sector not only facilitated the current needs of the government; they were also used to subsidize industrial development explicitly and implicitly. Explicit subsidies were accomplished through the industrial promotion schemes manipulated by the Board of Investment (BOI). Implicit subsidies took various forms, such as exchange rate overvaluation and low domestic food price policies.

As the structural adjustment led by export promotion policies began to succeed, the government's intervention in agricultural trade began to subside. Prudent policies in response to a fluctuating external environment in the early 1980s also unintentionally benefited food exports. Tight fiscal policies and exchange rate devaluations had mitigate the crop price erosions' unfavorable impact upon the poor agricultural sector. Had not the adjustments taken place, the poverty incidence would have increased far more than it actually did during 1980-1985. Currently, the tax and trade management structures are so favorable to agricultural exports that they actually gain some subsidies.

On the other hand, several specific policies that the government directs toward helping the rural poor appear to be vary in terms of their effectiveness. Their general problems are limited funds and selective implementations. Land reform policies were proved to be insignificant in most areas. The public employment programme succeeded in reaching the right target group (the rural poorest) in designated villages but it was unable to attain fair distribution across villages. Rural credit policies fare better in expanding the size of the formal credit market, but fail to reduce the informal market's high interest rates and, more importantly, fail to serve the poorest potential borrowers.

Regarding Thailand's impressive performance in alleviating poverty, another important factor is the success in human resource development. A successful family planning program has dramatically reduced population pressure--both in urban and rural areas. Rapid and thorough expansion of health services and education markedly help to improve the quality of life. All these developments have made significant impact--though largely intangible--upon poverty improvement.

7.3 Some Lessons

Apart from the country's resource base and its cultural background, the remaining contributions to the mitigation of poverty in Thailand pertain to the overall management of the economy, from which some lessons can hopefully be drawn. Following are some excerpts.

First, Thailand is successful in utilizing its abundant resource base. Major agricultural production is diversified and covers many crops other than rice. The gained stability from diversification has made the management of agriculture much easier both economically and politically.

Second, openings to international markets have so far proved to be quite beneficial. Both agriculture and manufacturing have gained considerably from trade. Export promotion strategies are strongly and continuously pursued.

Third, macroeconomic policies have been shown to make quick and timely responses to many world shocks. Strict and disciplinary macroeconomic management has enabled the Thai economy to recover faster than many other economies with the same level of development.

Fourth, when required, the Thai government gradually lowered its interventions in agriculture and eventually removed them. In fact, some marginal subsidy is now given to food exports.

Although there are basic differences between the Thai economy and the economies of other under developed economies (such as Bangladesh and Nepal), some of the implications suggested by Thailand's experiences should be useful to them.

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