

Social Impact Assessment: Synthesis Report

Mingsarn Kaosa-ard and others

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Thailand Development Research Institute

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Preface

In 1997, Thailand was the first of the eight previously coined "Asian Miracles" to be caught unprepared in one of the World's greatest economic turmoils.

Thailand, known as the Fifth Tiger, experienced the worst crisis in both severity and extent since the great depression in the 1930s. As the effects of the crisis continue to ripple throughout the country, the economy continues to be disabled and the social and economic impacts are spreading throughout the Thai society in all forms of social difficulties, including reductions in incomes, increases in living expenses, rises in the number of unemployed, escalations in the number of school dropouts, and numerous other problems which are detrimental to the well being of both the Thai society and economy.

In response to the crisis, the Chairman of the Thailand Development and Research Institute acted on written request, by Prime Minister Chuan Leekpai to former Prime Minister Anand Panyarachun, and established a Social Working Group to determine a plan that could not only mitigate emerging social problems but would also establish an immune system for Thailand's long-term defense in times of economic turmoil. The Social Working Group and TDRI have proposed new policy concepts to the Chuan Government and have drafted a Social and Economic Plan for Rehabilitating Thai Communities. This proposed plan provides suggestions for the various components of the society in order to adopt strategies and implement activities that would strengthen communities and enable them to support those members of society who are both directly and indirectly affected by the crisis.

To monitor the social impacts of the crisis and the activities of the agencies assigned to alleviate the impacts, the Canadian International Aid Agency provided financial support for a set of reports. This synthesis report has four supporting studies, which are written in the Thai language. These studies are:

1. Rural Communities and Economic Crisis
2. Thai Women in Three Decades of Boom and Bust
3. Civil Society in Thailand
4. Three Decades of Thai NGOs

The research team would like to thank CIDA and the members of the Social Working Group for the support given to the study.

Research Team
January 2000

Research Team

Team Leader	1. Mingsarn	Kaosa-ard
Researchers	2. Chanuttha	Yusanas
	3. Jiraporn	Plangpraphan
	4. Patchaneeboon	Charoenpiew
	5. Pornpen	Wijukprasert
	6. Pitsom	Meethom
	7. Prinyarat	Leangcharoen
	8. Rawadee	Jarungrattanapong
	9. Sombut	Saae Hae
	10. Somchai	Jitsuchon
	11. Somkiet	Rungjan
	12. Thippawan	Keawmesri
	13. Ukrit	Uparasit

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Executive Summary

Social Impact Assessment of the Economic Crisis in Thailand

In 1997, Thailand was the first of the eight previously coined "Asian Miracles" to be caught unprepared in one of the World's greatest economic turmoils.

Thailand, known as the Fifth Tiger, experienced the worst crisis in both severity and extent since the great depression in the 1930s. As the effects of the crisis continue to ripple throughout the country, the economy continues to be disabled and the social and economic impacts are spreading throughout the Thai society in all forms of social difficulties, including reductions in incomes, increases in living expenses, rises in the number of unemployed, escalations in the number of school dropouts, and numerous other problems which are detrimental to the well being of both the Thai society and economy.

In response to the crisis, the Chairman of the Thailand Development and Research Institute acted on written request, by Prime Minister Chuan Leekphai to former Prime Minister Anand Panyarachun, and established a Social Working Group to determine a plan that could not only mitigate emerging social problems but would also establish an immune system for Thailand's long-term defense in times of economic turmoil. The Social Working Group and TDRI have proposed new policy concepts to the Chuan Government and have drafted a Social and Economic Plan for Rehabilitating Thai Communities. This proposed plan provides suggestions for the various components of the society in order to adopt strategies and implement activities that would strengthen communities and enable them to support those members of society who are both directly and indirectly affected by the crisis.

To monitor the social impacts of the crisis and the activities of the agencies assigned to alleviate the impacts, the Canadian International Aid Agency (CIDA) provided financial support for a set of reports.

This synthesis report includes a survey of the unemployed and has three supporting studies, which are written in the Thai language. These studies are:

1. Rural Communities and Economic Crisis
2. Thai Women in Three Decades of Boom and Bust
3. Civil Society in Thailand

The findings of this study indicate that economic growth in Thailand has led to many improvements in the standard of both, physical and social infrastructure. This has especially been the case for improvements to education and health services in rural Thailand. However, competition for natural resources has become more intense and correspondingly, so has the task of earning a living become much more difficult for many Thais. Yet, during the boom time, the number of the poor has declined drastically and the income and employment situations for women have seen a marked improvement.

This study also suggests that the impacts of the crisis on the urban unemployed are severe and there is little prospect for them to be absorbed in the rural sector. This implies a greater need for assistance and for services to help the urban unemployed. The impact of the crisis on the rural communities is uneven depending on the local labor market structure and the crops produced. For the rural communities in our sample, the problem of unemployment for seasonal workers is more pronounced than for returned migrants. This means that the 'same amount for all' distribution of the Miyazawa Fund in the rainy season to all sub-districts might be less useful than what it could otherwise have achieved.

Although it cannot be said that more globalized villages suffered more from the crisis, it is the opinion of the research team that the least globalized villages are often the poorest villages and they tend to have suffered the most. This is because the poorest villages tend to be suppliers of labor to nearby cities with few options for exporting their labor abroad. In addition, since poorer villages tend to have poor land and a lack of infrastructure, farmers in these villages tend to require dry season employment. Targeting poorer villages and providing more resources in the dry season would be an appropriate strategy for helping rural areas overcome the negative impacts of the crisis.

The economic crisis in the rural areas, as was described by the rural participants, has been a gradually downward sloping curve showing a declining trend since 1987. This depiction is notably different from the urban sector's depiction of an upward sloping curve which ended with a sudden crash or a sharp fall. The gradual trend in the rural sector is likely because of the impacts of the increasingly frequent and repeated droughts since the early 90s.

Ranking of economic impacts by the rural participants revealed that the impacts of the economic crisis are not the only major concern, and structural problems such as the lack of water and lack of land titles remain very serious concerns in many villages. This implies that the government should not only concentrate on stability problems and should look for means to solve structural problems at the same time. For example, rather than spending money on wage employment, which does not result in concrete outcomes, government expenditures could be used to improve smaller, more labor-intensive infrastructures.

In all the communities consulted, drug use and trade, especially amphetamines, has been a major concern. In some cases, local communities felt that solving this problem is beyond their community's capacity because local influential people and officials may be involved. Although the increase in the use of drugs cannot be directly linked to the crisis, the drug trade offers an easy means to earning a living in hard times.

While most of the government and donors' attentions are focused on the unemployed, home-based manufacturing, micro-enterprises or shops have been greatly affected by declines in demand, bad debts, and a lack of orders from customers, more studies are needed to probe into the nature of the problems specific to these particular groups.

The views surrounding the impact of the crisis and the solutions needed differ between government officials and the poor communities. Communities tend to have a wider and more complex definition of poverty. For example, being in debt is seen by communities as a characteristic of poverty. Loan assistance from the government thus, may not be seen as a solution to poverty and are often used for immediate

consumption needs rather than for production. Loans to the poor may need to be administered with concrete measures that enable the poor to repay the debt.

Women were not found to be more impacted than men in terms of employment and income, but women have been responsible for loan renegotiation and for the protection of children's welfare. In general, education of children is highly valued although higher-levels of education, especially vocational education, may have to be sacrificed due to the higher costs involved.

In this study, social capital has been defined as networks of individuals or communities that enable the production of goods and services for common benefits. Social capital is built up over repeated common experiences and therefore, the accumulation process takes time and is not likely to be eroded easily by a short term crisis or boom. Our limited number of case studies has not shown that social capital has been eroded except for the case of the people's irrigation, which has become weakened over the boom period because it ceased to be functional for some of the members who wanted to leave agriculture. A long-term study is further required to carefully examine the issue of the erosion of social capital.

In our discussion with NGOs, we found that the foreign donor-supported NGOs had a tendency to fare better during the crisis than NGOs that received funding from domestic sources, mainly because of baht depreciation.

The outward face of the crisis has changed relatively rapidly over time from inflation, high crop prices, and massive layoffs in 1997 and early 1998, to a fall in crop prices, and a general decline in demand and the price level in 1999. The impact of the crisis is therefore not only changing, but is also unpredictable. A continual and close monitoring of the impacts of the crisis will be necessary to bring about timely changes in policy instruments. The use of more non-government channels to allow for more flexibility and timeliness in coping with rapid changes may also be beneficial.

Although the recovery of the Thai economy seems to be in sight, the lessons learned from the crisis will be valuable for the strengthening of our social and economic immunity in the long-term.

1. Introduction

During the second half of the 1980s and the first half of the 1990s, the Thai economy transformed into what some called an Asian Economic Miracle. This miracle occurred despite a lack of sound management in two major areas: the domestic and the international financial system. Towards the fourth quarter of 1996, pressure built up by these factors began to tremble the Thai economy and culminated into an economic melt down. Significant economic events since mid-1996 include a decline in export growth, a current account deficit, capital flight, a rapid run down of the foreign exchange reserves at the central bank, the adoption of the floating exchange rate regime, acceptance of the IMF (International Monetary Fund) package, and finally government bailouts such as the FIDF (Financial Institution Development Fund) and the issuance of government bonds to finance bad debts. Hence, 1997-98 represented the turning point of the Thai economy when the economic miracle ended and hardship began.

With less resources and more social problems, public authorities are now facing a greater challenge than ever before in managing the economy. Since the depreciation of the Thai currency in July 1997, millions of Thais have become worse off financially. As the value of the Thai baht to US dollar declined, borrowers found their debts (in US currency terms) nearly doubled. Many businesses had to either downsize or shut down altogether. The general Thai public is suffering from a drastic decrease in real incomes, in the form of both, salary cuts and price increase, as well as increases in unemployment.

The economic crisis has resulted in various social impacts, all of which have gradually worked their way into the many facets of Thai livelihoods. This report aims to trace the economic and social impacts of the crisis between May 1998 and June 1999 and to summarize the budget situations after the crisis. The report has eight parts. Part 1 provides an overview of the economic situation after the crisis. Part 2 investigates the social impacts of the crisis, especially the situation in the labor markets. Part 3 presents the results of TDRI's questionnaire survey of 600 respondents who were seeking jobs in Bangkok during May-July of 1998. Part 4 summarizes the impacts of the crisis on the rural communities by examining the experiences of 10 rural villages with differing labor market profiles. Our research team visited the villages twice during July-August in 1998 and February-March in 1999. Part 5 reviews the state of Thai women during the boom and bust and the impact of the crisis on slum dwellers. Part 6 monitors the mitigation measures of the government and civil society organizations and, Part 7 looks at the prospects for economic recovery. The final section presents some policy recommendations. This report is based on a number of studies which are listed in the preface.

1.1 Overview

Following the financial crisis, which began in 1997, Thailand underwent a period of rapidly declining economic activity from decreases in both investment and consumption. The fluctuating Thai baht was a prime concern for the government. After the baht was floated on 2 July 1997, it continued to devalue against the US dollar. The value of the Thai baht fell from around 26 baht to \$US 1 at the beginning of July 1997 to a low of 58 baht to \$US 1 towards the January 1998. The value of the baht became

more stable at around 40 baht per \$US 1 towards mid-1998 and has been trading at around 37-38 baht to \$US 1 since. The tighter fiscal policy required by the IMF led the Thai government to engage in across the board budget cuts. The Thai Government reduced the 1998 budget of 982 billion baht by 200 billion baht. In 1998, the value added tax (VAT) was increased from seven to 10 percent, and the excise tax on gasoline was also raised.

Table 1.1 shows the performance of the Thai economy during 1997 and the preliminary performance for 1998. The devaluation of the Thai baht generally raised the prices of imported goods and hence the Thai economy began to experience an increase in prices after the currency depreciation. The inflation rate for 1997 was 5.5 percent and due to tight monetary control, the inflation rate for 1998 was 8.1 percent.

The economic crisis resulted in an overall negative economic growth rate of -0.4 percent in 1997. Much of the impact of the economic crisis was felt during 1998 when the overall economic growth rate dropped further from -1.3 percent in 1997 to -9.4 percent in 1998. The majority of the decline in economic activity took place in the industrial sector where the growth rate in 1998 was -12.5 percent. The growth rate in the service sector was -8.3 percent. During 1998, the agricultural sector continued to expand at a rate of 1.9 percent. Much of this expansion can be attributed to the depreciation of the baht, which made the export price of Thai agricultural products relatively more attractive in the world markets.

In terms of foreign trade accounts, following the decline in the value of the baht against the US dollar, the export value did not increase substantially. During 1997, although the value of exports expanded at 29.8 percent in baht terms, in \$US terms it corresponded to only a 3.8 percent expansion. The value of exports is expected to fall in 1998 to -6.9 percent before growing again, at a growth rate of 3.5 percent, in 1999. On the import side, the decline in the value of the Thai baht has made imported goods relatively more expensive and this has led to a 13.4 percent decrease in imports (measured in terms of \$US) in 1997 and another 33.5 percent decrease in 1998. Overall, the change in the value of the Thai baht following the economic crisis has improved both, the trade balance account and the current account. During 1997, Thailand experience a trade balance deficit of 1.7 percent of GDP, but due to decreases in imports and increase in exports, Thailand is expected to experience a trade surplus of 10.3 percent of GDP in 1998. Similarly, the current account status has improved from a deficit of 0.8 percent of GDP in 1997 to a surplus of 12.0 percent in 1998.

1.2 Public Expenditure Reductions (1998-1999)

The economic crisis has led to a decline in national income and hence a decline in the tax base. Due to the decline in expected government revenue coupled with the IMF recommendations, government spending was drastically reduced during 1998 and 1999. Table 1.2 shows the break down of government spending between 1997 and 1999 by program.

The overall government spending for the 1997 fiscal year was 984 billion baht and the intended government spending for the 1998 fiscal year was set at 982 billion baht. Due to the economic crisis, the overall government spending for 1998 was reduced by 15.7 percent or by 152 billion baht from 982 billion baht to 830 billion baht. For the 1999 fiscal year, the IMF relaxed its control over the fiscal policy and the Government altered its policy from a contractionary to a slightly expansionary budget policy. The 1999 fiscal year was thus designed for deficit financing. Owing to a drastic fall in government revenue, government spending for 1999 was budgeted to be slightly

less than the proposed budget for 1998, that is, a decrease from 830 billion baht to 825 billion baht or a 0.6 percent reduction.

Many of the 1997-98 government cuts took place in the social services area (35.0 percent cut between 1997-98 and another 4.4 percent cut between 1998-99). Along with the social services sector, other activities, which experienced substantial budget cuts during 1997-98, were energy and environment (-27.2 percent), agriculture (-25.6 percent), defense (-22.5 percent), transport (-16.1 percent), and public health (-11.4 percent).

For 1998-99, the majority of government expenditure areas continued to receive reductions to their budgets and few areas had their budgets increased. Among the areas that received budget increases, were industry and mining (7.3 percent increase) and education (0.2 percent increase). A new item, which took up a larger share of government spending, was debt servicing where spending doubled from 44.42 billion baht in 1998 to 75.20 billion baht in 1999.

In terms of government spending on specific programs in the area of social services, Table 1.3 shows that many programs underwent decreases to their budgets, some of which areas received quite drastic cuts. Specifically, social security programs experienced a budget cut from 4,146 million baht in 1997 to 1,361 million baht in 1998, but the budget was raised again to 3,921 million baht in 1999. Rural development programs experienced budget reductions in both fiscal years, from 94,501 million baht in 1997 to 54,595 million baht in 1998, and again to 50,399 million baht in 1999. Labor welfare administration and development had its budget increased continuously from 3,503 million baht in 1997 to 4,403 million baht in 1998 and again to 7,992 million baht in 1999. The above indicators may show that much of the effort to reduce negative social impacts might be biased against rural development in favor of labor welfare administration.

Table 1.1 Economic Forecasts of Major Economic Indicators

Economic Sectors	1997	1998 (preliminary)
Average exchange rate (US\$1)	31.37	41.37
Real GDP growth rate		
Agriculture	-0.1	-0.4
Industries	-0.5	-12.5
Services	-2.1	-8.3
Total	-1.3	-9.4
CPI		
Growth rate	5.5	8.1
Average index (1994 = 100)	118.2	127.8
Total investment (change)	-23.0	-30.6
Merchandise export		
Value (US\$ billion)	57.05	52.72
Percentage change	4.8	-7.6
Merchandise import		
Value (US\$ billion)	59.75	40.56
Percentage change	-15.7	-32.1
Trade balance		
Value (US\$ billion)	-2.70	12.16
Current account balance		
Value (US\$ billion)	-1.28	14.29

Source: National Economic and Social Development Board

Table 1.2 Classification of Government Expenditure Programs

Unit: million baht

Program	1997	1998				1999	Estimate for 2000	% Change		
		Proposed	Budget Cut	Revised	% Cut			FY 1997/98	FY 1998/99	FY 1999/2000
Total	984,000.0	982,000.0	152,000.0	830,000.0	15.6	825,000.0	860,000.0	-15.7	-0.6	4.2
Agriculture	83,964.3	76,184.9	13,709.2	62,475.7	18.0	61,375.6	67,068.1	-25.6	-1.8	9.3
Industry and Mining	3,005.5	3,694.6	705.1	2,989.5	19.1	3,206.4	3,659.0	-0.5	7.3	14.1
Communications and Transport	95,939.5	111,777.8	31,307.1	80,470.7	28.0	64,890.4	60,165.6	-16.1	-19.4	-7.3
Commerce and Tourism	6,935.5	7,084.7	709.8	6,374.9	10.0	4,783.2	5,490.9	-8.1	-25.0	14.8
Science, Technology, energy and Environment	19,514.5	20,734.7	6,531.6	14,203.1	31.5	12,624.1	15,227.0	-27.2	-11.1	20.6
Education	216,278.5	227,390.3	19,115.5	208,274.8	8.4	208,616.1	222,416.1	-3.7	0.2	6.6
Public Health	75,023.0	75,568.7	9,113.5	66,455.2	12.1	62,467.4	65,744.0	-11.4	-6.0	5.2
Social Services	158,696.4	135,305.8	32,223.6	103,082.2	23.8	98,501.5	92,994.6	-35.0	-4.4	-5.6
Defense	119,429.3	115,862.1	23,296.5	92,565.6	20.1	89,349.7	88,690.5	-22.5	-3.5	-0.7
Internal Security	44,278.1	50,866.7	6,991.5	48,875.2	13.7	44,554.6	50,006.3	-0.9	1.5	12.2
General Administration	114,139.0	112,435.3	7,624.1	104,811.2	6.8	99,429.4	109,531.3	-8.2	-5.1	10.2
Debt Servicing	46,796.4	45,094.4	672.5	44,421.9	1.5	75,201.6	79,006.6	-5.1	69.3	5.1

Source: Bureau of the Budget, Thailand's Budget in Brief 1998-1999, and 2000 (in Thai)

Table 1.3 Social Services Spending by Program from 1997-2000

Unit: million baht

Sector/Sub-sector/Program	Expenditure			Estimate 2000	Percent change		
	1997	1998	1999		FY 1997/98	FY 1998/99	FY 1999/00
Social Services	148,454.2	103,082.2	98,501.5	92,994.6	-30.6	-4.4	-5.6
<i>Social and Public Welfare:</i>	7,862.3	4,817.4	7,436.2	13,018.3	-38.7	54.4	75.1
Social and Public Welfare Administration	337.1	306.9	317.7	302.8	-9.0	3.5	-4.7
Social and Public Welfare	3,378.4	3,149.5	3,196.8	4,106.6	-6.8	1.5	28.5
Social Security	4,146.8	1,361.0	3,921.7	8,608.9	-67.2	188.1	119.5
<i>Social Services and Development:</i>	95,377.5	55,437.9	50,925.4	43,060.6	-41.9	-8.1	-15.4
Rural Development	94,501.6	54,595.1	50,399.0	42,507.8	-42.2	-7.7	-15.7
Land Resettlement Development and Occupation Promotion	875.9	842.8	526.4	552.8	-3.8	-37.5	5.0
<i>Special Target Group Development:</i>	7,159.0	7,847.8	10,864.5	6,774.0	9.6	38.4	-37.7
Child and Youth Development	1,686.9	1,625.4	1,353.0	1,437.3	-3.6	-16.8	6.2
Women Development	134.5	97.5	47.2	60.7	-27.5	-51.6	28.6
Hill Tribes Development	341.4	336.7	340.0	350.0	-1.4	1.0	2.9
Labor Welfare Administration and Development	3,503.2	4,403.8	7,992.2	4,598.4	25.7	81.5	-42.5
Accelerated Development for the Five Southern-most Provinces	1,024.1	1,057.7	797.2	-	3.3	-24.6	-100.0

Table 1.3 (Continued)

Unit: million baht

Sector/Sub-sector/Program	Expenditure			Estimate 2000	Percent change		
	1997	1998	1999		FY 1997/98	FY 1998/99	FY 1999/00
AIDS Prevention and Suppression	468.9	326.7	334.9	327.6	-30.3	2.5	-2.2
<i>Urban and Environment Development and Basic Services:</i>							
Urban Development	38,055.4	34,979.1	29,275.4	30,141.7	-8.1	-16.3	3.0
	21,687.4	20,568.7	19,624.3	20,209.1	-5.2	-4.6	3.0
City Planning and Public Utilities	11,262.2	8,757.3	7,860.0	7,828.0	-22.2	-10.2	-0.4
Sports and Recreation Promotion	5,105.8	282.6	233.7	346.2	-94.5	-17.3	48.1
Sport Promotion and Development		5,370.5	1,557.4	1,758.4	-	-71.0	12.9

Source: Bureau of the Budget

2. Social Impacts of the Crisis

Much more is understood about the economic impacts of the crisis than the social impacts. This can be attributed to the relative unavailability of data on social variables due to sporadic collection, and the differing methods used among researchers to measure the impacts of the current financial crisis. This section reviews some of the past studies and attempts to resolve the differences in findings.

There are two approaches to measuring social impacts. The first approach is to compare the well being of groups of individuals or households, where well-being can be defined in a variety of ways. The second approach is to analyze the labor market responses to the crisis. This way, it is possible to identify the crisis-related labor market outcomes pertaining to various groups of individuals, such as farmers versus non-farmers, wage earners versus employers, males versus females, and so on. Both approaches have been adopted in Thailand, utilizing two series of nation-wide surveys, namely, the Socio-Economic Surveys (SESSs) and the Labor Force Surveys (LFSs).

2.1 Changes in Well-Being

One of the most basic methods to measure the impacts of the crisis is to see how some indicators of individuals' welfare changed after the crisis from the pre-crisis levels. Typically, comparisons of average per capita real income, poverty incidences, and employment and education opportunities are made over time. The data in Table 2.1 presents the results of two of these such studies; one is by Isara Santisart (1999) and the other by the NESDB (1999). These studies compare Socio-Economic Survey data on real per capita income of households surveyed in the first two quarters of 1996 and 1998, as well as, the calculated poverty incidence. Figures under heading 1996H1 and 1998H1 were calculated from survey data in the first two quarters out of the total four quarters. As the Table shows, the conclusions regarding the impact of the crisis are strikingly different between these two studies. While the NESDB's study pointed to a deterioration of well-being as evidenced by a reduction in real per capita income and an increase in poverty incidence between 1996 and 1998, Isara's (1999) results are the opposite for both measures of well-being. The NESDB estimates a decline of real income in the order of two percent between 1996 and 1998, while Isara's study indicates an increase in real income by 3.3 percent.

The opposite findings in changes of per capita real income are the result of the studies' usages of different price indices. The departure of the two indices stems from the fact that the NESDB used spatial price indices, which differ between regions and areas. Since rural areas generally experienced higher inflation rates between 1996 and 1998 (the annual inflation rate for rural areas was 9.4 percent compared to 6.8 percent for the whole kingdom) and the rural population accounts for more than seventy percent of the combined urban and rural total population area, the NESDB's average price index indicated greater inflation than the official price index (from the Ministry of Commerce) which was employed in the study by Isara (1999).

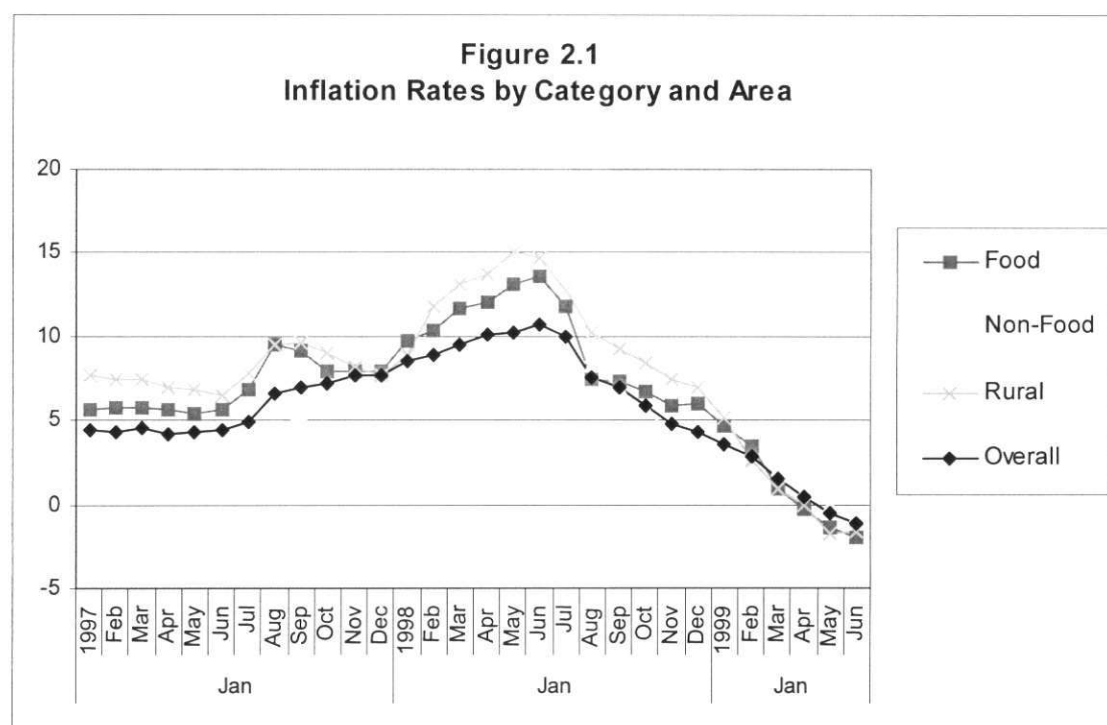
The use of disparate inflation rates can also partially serve to explain the difference between the two studies' poverty incidence indicators, as poverty lines must be adjusted using price changes. However, this only partially explains the difference because the increase in the average poverty line of the NESDB study is larger (25 percent against Isara's

13 percent) than would correspond to the use of a higher inflation rate. The remaining divergence could be from either changes in consumption patterns or changes in the area's demographic structure over the two-year period¹. Since there is not a compelling reason to believe that the actual demographic changes were significant over the course of the two years, the explanation must lie in changes of consumption patterns. Table 2.2 indicates that the share of food expenditures increased across all households, regardless of income levels, with the poorer households' food consumption shares increasing more than the richer households. The adjustment of consumption in this fashion is consistent with what is expected during a period of sharp decline in household income. Since food prices went up more than non-food prices, the poorer households experienced a greater increase in their food expenditure share and thus, underwent a relatively greater drop in their standard of living. The combined effect of these two divergences results in the additional increase in poverty incidences, as was reported by the NESDB.

The situation described above, refers to the period from 1996 to the two quarters of the 1998 SES survey (which was conducted from February 1998 to October 1998). However, even more interesting would be the data on how well-being changed after October 1998, especially in light of the aforementioned slight recovery of macroeconomic conditions. Unfortunately, the last two quarters of the 1998 SES has not yet been made available². Yet, if GDP growth is used as a proxy for data on well-being, the positive growth of both the agricultural and non-agricultural sectors' production, since the last quarter of 1998 and the first quarter of 1999, (see Table 7.1) tend to imply a general improvement in the Thai standard of living. Moreover, commodity prices have shifted downward from their previous highs in early 1998, and this resulted in a steady reduction in the prices of food (see Figure 2.1). Using the available data, the declines in both the prices of non-food consumption items and the rural price index suggest that the Thai well-being in general might see an improvement during the first half of 1999.

¹ The details of NESDB's methodology for calculating poverty lines can be found in Kakwani and Krongkaew (1998).

² The Labor Force Survey of 1999 round one is already available, but it is not appropriate for the income study because while it is an accurate measure of wage incomes, the quality of data on other sources of income (farm and non-farm) is more dubious.



Source: Bank of Thailand

2.2 Labor Market Adjustments to the Crisis

What is absent in a comparison of well-being is the mechanism by which the crisis exerted its impacts on individuals. An examination of labor market adjustments to the crisis can reveal this mechanism. Table 2.3 contains some of the key features of the Thai labor market, which have been collected from various Labor Force Surveys. Due to the strong seasonality associated with the cycle of agricultural production, the comparisons of the surveyed data should only be made between the surveys conducted in the same period of each year. The two rounds of surveys presented in Table 2.3 correspond to the dry and wet seasons, where the surveys were conducted in February and August, respectively. The labor market during the dry season is typically less tight than during the wet season when farming activities are high. The two rounds of surveys in 1997 are generally regarded as the precursor conditions of the crisis³.

The effect of the crisis on employment can be assessed in terms of various scopes. The crisis clearly had an adverse impact on overall employment, raising the number of unemployed in 1998 from 1997 by 800,000 persons between the wet seasons and by 700,000 between the dry seasons. From the dry season of 1998 to the dry season of 1999, there were 200,000 more people added to the number of unemployed. Upon further investigation, it is possible to deduce that the employment effect of the crisis was slightly unequal between the formal and informal workers⁴. For the wet seasons, the shares of informal employment were nearly the same (around 73.2 percent of total employment). This

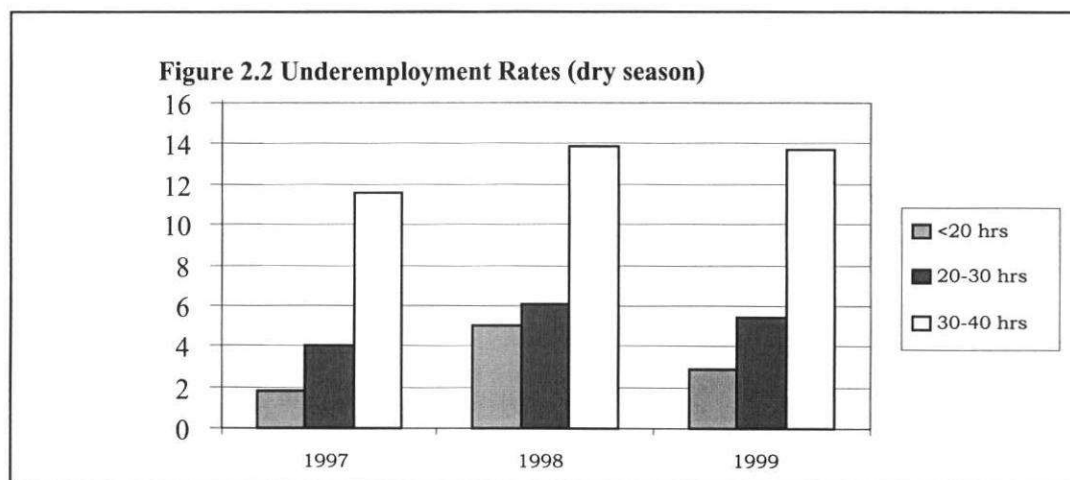
³ Although the wet season survey of 1997 was conducted one month after the floating of baht in July 1997, the time was too early for the crisis to have full consequences.

⁴ The formal workers include government and state enterprise employees, private employees of establishment larger than 10 persons or those of professions deemed to be more appropriately classified as formal workers (e.g. doctors, lawyers). The remaining employed persons are all classified as informal workers.

implies that both groups of laborers suffered equally from the crisis as far as the employment prospects are concerned. However, for the dry seasons the share of informal employment dropped by almost two percent in 1998 compared to 1997, and these workers thus lost their jobs relatively more than did those in the formal sector.

However, the unemployment figures only tell one part of the story. Other adjustments to the crisis either took place in the form of changes in labor force participation rates or in reductions to the average hours worked. The labor force participation rate fell by approximately one percent after the crisis, for both the wet and dry seasons. If the participation rates had stayed the same as the pre-crisis levels, there would have been 450,000 (dry season) or 500,000 (wet season) more people in the labor force in 1998. Evidence⁵ suggests that these people either stayed in school (primarily for males) or became housewives (primarily for females). The 1999 situation saw a slight improvement as participation rates increased marginally.

The labor market reflection of the improvement in production since late 1998 can be seen most clearly in the underemployment rate. Defined as the fraction of those employed who worked less than 20 hours, those who worked between 20 and 30 hours, and those who worked between 30 and 40 hours per week, the underemployment rates for the 1999 dry season (Figure 2.2) dropped from the 1998 level by 2.1, 0.6, and 0.2 percent, respectively⁶ (Table 2.3). The improvement is thus more evident amongst the most severely underemployed, namely, those who worked less than 20 hours per week. The underemployment rate defined in this way is thus the most informative index of the Thai labor market conditions.



Source: Labor force Survey, National Statistics Office

Evidence of wage rates seem to present conflicting views. After unexpected surges in 1998, both the dry season average real wages and the nominal wages tumbled in 1999.

How can one make a coherent interpretation of the above seemingly conflicting findings of the labor market condition in 1999 compared to the 1998 condition? One way is to devise some sort of "labor service provision" index, which could be used to measure the amount of labor services the whole economy is using in the production process. The devised

⁵ Kittiprapas (1999).

⁶ The reduction between 1997 and 1998 wet season of the fraction of those worked less than 30 hours per work is particularly misleading. The high underemployment rate in 1997 wet season was due to the El Nino effect, which resulted in unusually low level of rainfall.

index could serve to incorporate, all in one place, the entire range of labor market adjustments: through changes in unemployment rates; changes in underemployment rates; and even changes in labor force participation rates. One such index could be the average hours worked per week of those in the labor force and the other index could be the average hours worked per week of the working-age population. The first index is a multiplicative product of: (a) average hours worked per week of the employed; and (b) one minus the unemployment rate. The second index is obtained by multiplying the first index with the labor force participation rate. The calculated values of the two indices are shown in Table 2.4.

It is clear that the rise in the open unemployment rate in 1999 was more than offset by the fall in the underemployment rate. Increased labor force participation reinforced the indication of a higher demand for labor. The increase in labor demand is consistent with the increase in capacity utilization, and the growth of manufacturing production and GDP mentioned in the last section. Indeed, the higher open unemployment rate can be explained away. Perceiving the better employment prospects, more of the working-age population outside of the labor force (which consists of those who had excluded themselves from the labor force due to the crisis, as well as, the new entrants), began to enter the labor force looking for jobs. This is evident by the increase in the labor force participation rates. However, because finding jobs took time, some people remained unemployed and the open unemployment rate increased. The fact that workers remained in the labor force and were more tolerant of remaining unemployed indicates their optimism about the future employment prospects⁷. If this scenario of the labor market were true, then the rise in the open unemployment would be temporary, and would steadily drop as the macroeconomic conditions improved.

The decline in the wage rates between 1998 and 1999, despite the above contention that labor demand had increased, is likely a result of sample selection problems. During the economic contraction, workers with low wages were more likely to be laid off or to have their hours of work reduced. The opposite was true during the recovery. In other words, the observed average, hourly wages behaved counter-cyclically. The large standard deviation of both the real and nominal wage rates during the 1998 dry season confirms this view.

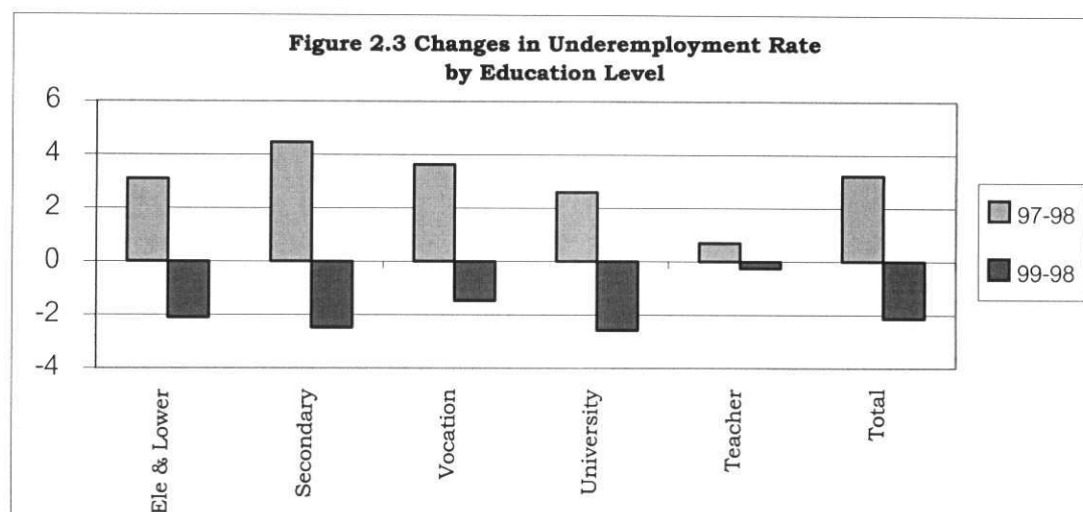
2.3 Impacts of the Crisis on the Educated Unemployed

It is sometimes argued that the current financial crisis has affected people living in urban areas and those with higher levels of education more than it has affected the rural, less educated workers. However, this is not always true as far as employment prospects are concerned.

Figure 2.3 illustrates differences in changes in underemployment rates by level of education. This is the labor market variable most sensitive to the up and down turns in macroeconomic conditions for the dry seasons of 1997 to 1999. Between 1997 and 1998, the most severe period of falling labor demand, workers with secondary education levels experienced the highest increase in underemployment rates. The rate of increase in underemployment changed in relation to education levels, namely, the higher the education the workers had, the less likely they were to be subject to a reduction in working hours. The university-trained employees' underemployment rate increased slightly less than the average, but they saw the highest reduction in underemployment when the economy began to pick up

⁷ A different interpretation is possible. The rising labor force participation rate could imply that some out-of-labor-force people had run out of the savings they had used to cushion the impacts of the crisis and hence, had to start looking for jobs. This interpretation is less plausible given the improvement in macroeconomic conditions during this time.

between 1998 and 1999. In fact, their 1999 underemployment rate had already recovered to the 1997 level. Among all the educated groups, the employment prospects of teachers were the least sensitive to upswings and downswings in the labor market conditions.



Source: Labor force Survey, National Statistics Office

A careful investigation of various indicators reveals that the social impacts of the current economic crisis moved more or less in unison with the changing labor market conditions, which in turn were guided by movements in macroeconomic conditions. There are two implications from this finding: first, is that the Thai labor market is quite flexible and reflexive, and second, is that the macroeconomic conditions and macroeconomic management are quite crucial in determining the welfare of ordinary people.

Table 2.1 Changes in Real Income and Poverty Incidence

	<i>Isara Sarntisart</i>			<i>NESDB</i>	
	1996	1996H1	1998H1	1996	1998H1
Per Capita Real Income	2,376	2,273	2,455	3,830	3,753
- Growth, 1996 to 1998H1			3.3		-2.0
Poverty Incidence	5.7	5.8	5.0	11.4	12.9
- Urban Areas	4.0	3.9	3.6		
- Municipal Areas				1.6	1.5
- Sanitary District				5.8	7.2
- Rural (Village) Areas	6.4	6.6	5.6	14.9	17.2
Implied Increase in Average Poverty Line (1996 to 1998H1)			13.1%		25.1%

Source: Isara Sarntisart (1999) and NESDB (1999)

Table 2.2 Changes in Food Expenditure

	1996	1998	% Change
Food Expenditure (baht per person per year)			
Income Quintile 1 (poorest)	4,400	5,964	35.6
Income Quintile 2	5,133	6,650	29.6
Income Quintile 3	6,166	7,614	23.5
Income Quintile 4	8,016	9,608	19.9
Income Quintile 5 (richest)	11,166	13,317	19.3
Share of Food Expenditure (%)			
Income Quintile 1 (poorest)	48.0	53.6	
Income Quintile 2	45.1	50.4	
Income Quintile 3	43.2	46.9	
Income Quintile 4	39.5	41.6	
Income Quintile 5 (richest)	32.3	32.8	
CPI (Food)	117.7	137.9	17.2
CPI (Non-Food)	108.0	121.2	12.2

Source: Calculated by TDRI

Table 2.3 Labor Market Outcomes, Pre- and Post-Crisis

	1997 wet season	1998 wet season	1997 dry season	1998 dry season	1999 dry season
Number of unemployed (thousand)	290	1,098	660	1,353	1,569
Unemployment Rate	0.88	3.41	2.19	4.61	5.24
Ratio of Informal Employment	73.19	73.21	68.09	66.36	66.61
Labor Force Participation Rate	71.90	70.84	69.25	68.55	68.91
Underemployment Rate					
- < 20 hrs/week	2.2	2.9	1.8	5.0	2.9
- between 20 and 30 hrs/week	7.1	4.0	4.0	6.0	5.4
- between 30 and 40 hrs/week	10.3	11.7	11.6	13.9	13.7
Average Weekly Worked hours	50.2	51.0	51.2	48.4	49.7
Real Hourly Wage (baht)	33.0	25.7	26.6	28.7	26.3
Standard Deviation	43.5	34.4	31.0	36.8	31.5
Nominal Hourly Wage (baht)	39.7	36.7	30.7	36.3	34.2
Standard Deviation	52.0	44.4	35.7	46.1	40.7

Source: Labor Force Surveys

Table 2.4 Indications of Labor Service Provision

	1997 wet season	1998 wet season	1997 dry season	1998 dry season	1999 dry season
Average Hours (Labor Force)	49.8	49.3	50.1	46.2	47.1
Growth rates (%)		-1.0		-7.8	2.0
Average Hours (Working Age Pop)	36.4	36.1	34.1	30.6	31.4
Growth rates (%)		-1.0		-10.2	2.4

Source: Labor Force Surveys

3. *The Impact of Thailand's Economic Crisis on Urban Workers*

During May and July of 1998, TDRI investigated the impacts of the economic crisis on urban employment. A questionnaire was designed to survey those people who were looking for jobs at government-run job centers. Out of a total 600 persons surveyed, 23 people (3.8 percent) were new graduates, 355 persons (61.5 percent) were jobless, 47 people (8.1 percent) had unstable jobs, 48 persons (8.3 percent) were helping family businesses without earning a salary, 74 persons (12.8 percent) had only part time jobs, and 53 people (8.8 percent) had full-time employment but felt that their jobs were insecure.

In the following analysis, new graduates and those who still had full-time jobs were excluded. The experience of the 524 respondents who were laid off or had part time jobs are summarized in the following sections.

3.1 *Characteristics of Respondents*

3.1.1 *Education*

About 39 percent of the people who were interviewed and had experienced a wage reduction, had at least an undergraduate degree (38.5 percent). About 32 percent had graduated from a professional school, 19 percent had graduated from middle or high school, and 10 percent had only elementary level education or lower. The education level of the sample tends to be higher than the national profile. However, the pattern is consistent with the pattern of job seekers which also existed before the crisis. This implies that the lower strata of workers and the unemployed may not reach or aim to reach government job centers in their job seeking process.

3.1.2 *Age*

Of those sampled, 56 percent were between 25 and 34 years old, 21 percent were between 15 and 24 years old, 18 percent were between 35 and 44 years old, and four percent were between 45 and 60 years old.

3.1.3 *Occupation*

The former occupations of those surveyed included clerks and administrators (39 percent), technicians and laborers (24 percent), tradespeople (nine percent), professionals and academics (seven percent), and workers from either the service sector (five percent), transportation sector (five percent), or the agricultural sector (one percent).

3.1.4 *Hometown*

Respondents were originally from various parts of the country. About 34 percent were from Bangkok and the surrounding area, 26 percent were from the Northeast, 19 percent were from Central Thailand, 11 percent were from the North, and 10 percent were from the South of Thailand.

3.2 Findings

- All those who were unemployed and seeking jobs were willing to accept a salary that was lower than what their highest salary had been in the past (Table 3.1). Of those who had recently experienced a wage reduction, most indicated they would also accept a lower salary compared to their last salary. Exceptions were with those who were younger (15 to 24 years old) and those who were working in the agricultural sector. The younger group wanted the same level of income whereas those who worked in the agricultural sector expected a higher income compared to their current or last pay.
- On average, respondents would accept a reduction of up to 62 percent compared to what their highest salary had been in the past. Women tended to accept a greater wage reduction. Moreover, those who had graduated from college or who were older were more likely to accept a wage reduction than those with a lower level of education or those who were from the younger generation. The unemployed who had worked in the construction industry were most willing to accept a wage reduction. This was followed by those in the commerce sector, manufacturing sector, and the service sector, respectively.
- About 23 percent of the unemployed were in debt. Male unemployed (28 percent) tended to have a higher proportion of debt than the unemployed female group (17 percent).
- Fifty-eight percent of those surveyed had been laid off (Table 3.2, column 2 plus column 3), and of these, 68 percent of their employers had remained in business.
- Only 32 percent of the people surveyed who had been laid off received full compensation (Table 3.2); 13 percent received only a proportion of compensation, and 56 percent did not receive any compensation. For the unemployed whose employers went bankrupt, only 44 percent received full compensation. In another study conducted by the Arom Phong-pha-ngan Foundation, which specializes in assisting urban workers, the proportion of those who were not compensated was around 66 percent and one-third of those who received full compensation had to organize mob protests or take the matter to court (Bundit, 1998).
- Fifty-three percent had been looking for work for less than three months (Table 3.3), and 26 percent of the job seekers surveyed had been unemployed for more than six months. In our sample, the proportion of the unemployed that had been looking for jobs for more than six months (26 percent) was considerably larger than the eight percent of 172 unemployed workers seeking jobs for more than six months, which was recorded in a survey conducted one year earlier by the Arom Phong-pha-ngan Foundation (Bundit 1998).
- Fifty-six percent of the unemployed surveyed depended on their savings during their period of unemployment, whereas 41 percent depended on support from their families (Table 3.4).
- Forty-one percent of the unemployed felt that there would not be job opportunities in their hometown. These respondents were from in the North (23 percent), Central (35 percent), Northeast (30 percent), or the South (12 percent) of Thailand (Table 3.5).
- Thirty-three percent of the unemployed planned to be self employed; eight percent planned to continue their studies or gain more training. About nine percent planned to go back to their hometown, two percent planned to go and work in a foreign country, and the rest continued to look for work. Despite the fact that 60 percent of the laid off had possibilities to go home, only nine percent planned to do so (Table 3.6).

- In order to live within their means, 69 percent of respondents reduced their consumption of luxury goods, 61 percent reduced their spending on entertainment, 27 percent reduced the quality and quantity of their food, 22 percent sold or pawned their personal belongings or jewelry, 12 percent reduced the quality of the goods they consumed, and four percent spent less. However, 11 percent of the respondents did not adjust their spending at all (Table 3.7).
- To solve their unemployment problem, 92 percent tried to find work, three percent of the unemployed helped with their family's business or found some trivial work to earn an income (11 percent), and 16 percent continued with their studies or had more training. However, five percent of the unemployed respondents did not do anything at all to improve their situation (Table 3.8).
- The economic crisis necessitated a reduction in education expenditure for the children of the unemployed and a few had to leave primary and secondary school (Table 3.9).
- Remittances to parents were reduced by as much as 90 percent (Table 3.10) for both male and female remitters.
- The unemployed's access of to information about government assistance and services ranged from 27 to 66 percent but few respondents actually used the services (Table 3.11). Another survey of 103 households of the chronically poor in four provinces (Khon Kaen, Roi Et, Si Saket and Sakon Nakhon) also revealed that 90 percent of the laid off did not seek assistance from government agencies (Phithaksit *et al.* 1998).
- Sixty-two percent of the respondents wanted the government to find or create jobs for them and 35 percent wanted more training. To support their living, 34 percent wanted funding, 11 percent wanted the government to increase services and welfare for the unemployed, and eight percent did not want any help from the government (Table 3.12).

Table 3.1 Previous and Expected Salary of the Unemployed (Classified by Sex, Education, and Economic Sector)

	Sample size	Salary (baht / month)			Percent of expected income compared to	
		Previous		Expected from new job	Last salary	Highest
		Recent month	Highest			
Sex	519	11,238	14,030	8,657	77.03	61.70
Male	297	12,007	14,789	8,845	73.66	59.81
Female	223	10,209	13,009	8,409	82.37	64.64
Education	519	11,238	14,030	8,657	77.03	61.70
Primary or lower	49	6,774	8,683	5,443	80.35	62.69
Secondary	98	7,374	9,011	6,697	90.82	74.32
Vocational	169	10,673	13,569	7,914	74.15	58.32
University or higher	201	14,739	18,159	11,067	75.08	60.94
Unknown	2	5,850	7,250	6,000	102.56	82.76
Age	519	11,238	14,030	8,657	77.03	61.70
15-24	109	6,721	9,140	6,772	100.76	74.09
25-34	289	11,338	14,093	9,085	80.14	64.47
35-44	96	14,488	17,571	8,741	60.33	49.75
45-60	22	18,545	23,529	11,935	64.36	50.73
Unknown	3	8,167	8,167	7,833	95.92	95.92
Sectors	516	11,238	14,030	8,657	77.03	61.70
Agriculture	6	4,900	8,867	6,500	132.65	73.31
Manufacturing	171	11,963	14,431	8,938	74.72	61.94
Construction	75	12,812	16,371	8,784	68.56	53.65
Commerce	143	11,377	14,696	8,959	78.74	60.96
Transportation	16	6,075	7,338	5,861	96.48	79.88
Services	108	9,904	12,164	8,362	84.43	68.74
Unknown	3	8,000	9,667	5,000	62.50	51.72

Source: TDRI survey, September 1998

Table 3.2 Reasons for Being Laid-off and Levels of Compensation

	Reason				
	1	2	3	4	Total
Number of respondents	83	208	95	137	523
Percent	15.87	39.77	18.16	26.20	100.00
Compensation					
No compensation (%)		31.53	45.05		
Partial compensation (%)		12.81	10.99		
Full compensation (%)		55.67	43.96		

Source: Same as Table 3.1

Remarks: 1 = Voluntary resignation owing to salary and welfare cuts

2 = Dismissed by on-going enterprises

3 = Employers went bankrupt

4 = Job insecurity/contract expiry

Table 3.3 Job-seeking Duration

Period	Months	Persons	%
Average number of months			
less than or equal to 3 months	1.50	317	60.73
more than 3 but less than 6 months	4.89	98	18.77
more than 6 but less than 12 months	9.27	97	18.58
more than 1 year but less than 2 years	16.70	10	1.92
Total or average	3.87	522	100.00
Average period of unemployment			
less than or equal to 3 months	1.54	279	53.45
more than 3 but less than 6 months	4.94	108	20.69
more than 6 but less than 12 months	9.16	121	23.18
more than 1 year but less than 2 years	16.93	14	2.68
Total or average	4.42	522	100.00

Source: Same as Table 3.1

Table 3.4 Current Sources of Income of the Unemployed

Source of income	Persons	Percent
<u>1. Single source</u>		
- savings	160	56.34
- incomes of other family members	115	40.49
- loans	2	0.70
- others	7	2.46
Total	284	100.00
<u>2. Two sources or more</u>		
- savings and household income	58	82.86
- savings and loan	3	4.29
- savings and others	2	2.86
- income of family members and loans	5	7.14
- income of family members and others	2	2.86
- loans and others	-	-
Total	70	100.00

Source: Same as Table 3.1

Table 3.5 Possibility to Return to Work in Hometown or Rural Villages

Region	Possibility to return to work in hometown				
	Yes		No		Total persons
	persons	%	persons	%	
Central	32	24.24	32	35.16	64
North	15	11.36	21	23.08	36
Northeastern	60	45.45	27	29.67	87
South	25	18.94	11	12.09	36
Total	132	59.2	91	40.8	223

Source: Same as Table 3.1

Table 3.6 Future Plans of the Unemployed

	Plan (percent)							Samples Sizes
	1	2	3	4	5	6	Total	
BMR	24.37	28.57	35.30	8.40	1.68	1.68	100.00	120
Central	17.90	20.90	44.78	8.96	1.49	5.97	100.00	67
North	26.32	23.68	31.58	7.89	0.00	10.53	100.00	38
Northeast	16.48	35.17	24.18	6.59	1.10	16.48	100.00	91
South	17.95	20.51	30.77	12.82	0.00	17.95	100.00	39
Total	20.86	27.32	33.24	8.45	1.12	9.01	100.00	355

Source: Same as Table 3.1

Remark: Future plans

1. No plan
2. Keep searching for jobs
3. Self-employment
4. Higher studies
5. Working abroad
6. Go back to hometown

Table 3.7 Expenses Adjustment

	Persons	Percent
No change	60	11.45
Less recreation	319	60.88
Less luxuries goods	362	69.08
Lower quality of consumer goods	66	12.60
Less quantity and quality of food	144	27.48
Pawned assets or sales	114	21.76
Economy of water/electricity/phone uses	20	3.82

Source: Same as Table 3.1

Table 3.8 Strategies of the Unemployed

	Persons	Percent
None	16	4.51
Try to find work	326	91.80
Help family's business	10	2.81
Take small jobs	39	11.00
Study or training	55	15.50
Depending on parents or relatives	17	4.80

Source: Same as Table 3.1

Table 3.9 Children's Education Problems

	Solution to children's problem on education (% of unemployed)				
	Primary	Lower second	Higher second.	Vocational	Under-graduates
No problems	43.66	21.05	27.27	42.86	46.15
Less daily expenses	19.72	52.63	54.55	14.29	38.46
Less education expenses	28.17	47.37	45.45	14.29	23.08
Move to provincial school	5.63	5.26	0.00	0.00	0.00
Move to public school	14.08	5.26	9.09	0.00	0.00
No expense for next semester	9.86	21.05	0.00	14.29	7.69
Out of school	2.82	21.05	0.00	0.00	0.00
Relying on relatives	5.63	0.00	18.18	0.00	7.69
Total (persons)	71	19	11	7	13

Source: Same as Table 3.1

Note: more than 1 answer is possible

Table 3.10 Changes in Remittances

	Persons	Remittances (baht / year)		%
		Employed	Unemployed	
Sex				
Male	66	18,302	1,657	-90.95
Female	32	18,141	1,953	-89.23
Total	98	18,249	1,753	-90.39
Region				
Central	28	17,754	1,357	-92.36
North	11	19,500	3,621	-81.43
Northeast	50	18,326	1,400	-92.36
South	9	17,833	2,667	-85.05
Total	98	18,249	1,753	-90.39

Source: Same as Table 3.1

Table 3.11 Social Welfare

Type of government Welfare	Heard of		Assistance received	
	persons	percent	persons	percent
Distribution of food and necessities	346	66.03	9	1.72
Hot line	273	52.10	8	1.53
Radio programs	236	45.04	12	2.29
Health welfare	176	33.59	11	2.10
Health card	312	59.54	41	7.82
Loans for going overseas	178	33.97	1	0.19
Loans for skill upgrading	185	35.31	1	0.19
Loans for BMR families	177	33.78	0	0.00
Promotion of small industries project	141	26.91	0	0.00
3-6 months training	245	46.76	8	1.53
Short-term training	207	39.50	4	0.76

Source: Same as Table 3.1

Table 3.12 Need for Government Assistance

Items	Persons	Percent
None	40	7.63
Training	182	34.73
New job	323	61.64
More welfare	59	11.26
Support for living expenses	176	33.59
Improvement of economic situation	20	3.82

Source: Same as Table 3.1

4. The Impact of Thailand's Economic Crisis on Rural Communities

This part consists of two sections. The first deals with the overall assessment of the impact of the financial crisis on rural communities. The second section reports on the in-depth village surveys conducted by TDRI.

The purpose of this study is not to measure the scale of the impact of the crisis on the rural sector, as this is better done through a large-scale survey such as the SES and the labor force surveys. Distinct from most other studies that monitor the impact of the crisis using snap shot interviews and focus group meetings; this study attempts to look at the perceived trend of economic changes that had occurred in the villages prior to the financial crisis so that the impact of the financial crisis can be isolated from other long-term trends.

The study aims to look into the perceived severity and the ranking of the economic and social problems and intends to probe into the different impacts depending on the various labor market situations in each village. For this purpose, 10 villages have been selected for the study. Eight of these 10 villages have had previous surveys of the labor market, conducted by TDRI in 1991. The ninth village selected from the Central part of Thailand, has a previously published anthropological study of a similar nature to the labor market surveys, and is from a similar period. The only village that has no prior study on its labor market is from the South. However, this village was included such that at least one Southern community could be included in the study. Through the participatory rural appraisal technique, attempts were made in all the villages studied to collect data related to changes in the standard of living over the last decade.

In this section, the term 'the financial crisis' must be distinguished from 'the economic crisis'. As will become increasingly apparent in the following sections, the economic downturn had occurred in almost all of the villages surveyed prior to the financial crisis that preceded the economic crisis in the urban sector.

4.1 Overall Assessments

The information for this section has been largely obtained from the studies conducted by the Development Evaluation Division of the NESDB in collaboration with Professor Nanak Kakwani. The data for the studies are taken from the nation-wide socio-economic surveys between 1988 and 1998.

4.1.1 The impact of the boom on rural income, poverty and income distribution

The economic boom over the last decade significantly reduced the number of people living below poverty line (Table 4.1) from 17.9 million in 1988 to 6.8 million in 1996, as well as, doubled the average real incomes of Thais (Table 4.2) (NESDB, 1999). By 1996, the average real income (Table 4.2) was over five times greater than the poverty line income⁸.

⁸ Poverty line income for 1996 was 728 baht/person/month (NESDB, 1999b).

However, the rise in the standard of living or real income had demonstrated a declining trend even before the floating of the baht in 1997. This trend can also be seen in the regional changes of the percentage of the poor (Table 4.3).

The increase in the standard of living was much greater in the rural areas (7.6 percent) than in the municipal areas (3.2 percent) and in the sanitary districts (5.2 percent), the latter two being considered the urban areas in Thailand. The economic boom thus benefited rural Thais and the disparity of income between the urban and the rural areas was reduced. Growth in average income was particularly strong in the Northeast, the region considered as the poorest and the most populous in Thailand (NESDB, 1998). This has led to a substantial reduction in the number of the poor.

Income inequality as measured by the Gini Index improved very slowly in the last decade (Table 4.4) and even worsened when the 1998 situation is compared to the 1988 situation.

4.1.2 The impact of the financial crisis

After the floating of the baht, the reversal in the trend of the standard of living became more obvious. The level of real income in 1998 was two percent lower than in 1996. The crisis index, which measures the difference between the standard of living that could have been achieved without the financial crisis but was forgone because of the crisis, indicates a greater impact on the rural than the urban areas, and shows a worsening trend from the first quarter to the third quarter of 1998 (NESDB, 1998). The fall in real income was attributable to the decline in real income per hour and, to a lesser extent, the decline in the number of hours worked per week. However, it should be noted that the SES data used by the NESDB did not include income in kind and agricultural produce used for household consumption.

The NESDB study reported that the impact of the crisis was greatest in the South, followed by the Central region, and the Northeast. Surprisingly, it indicated that during the crisis period, the number of the poor in the North actually declined by 15 percent. A small reduction in the number of the poor was also observed in Bangkok and vicinity.

When the poor are further classified according to the level of their income, the ultra poor (those earning an income below 80 percent of the official poverty line income) were found to be most severely affected compared to the marginal poor (earning 80 to 100 percent of poverty line income) and the almost poor (earning between 100 and 120 percent of poverty line income). The financial meltdown led to a slight improvement in the distribution of income as is reflected by the Gini Coefficient, which increased from 47.7 in 1997 to 48.1 in 1998 (Table 4.4).

The impact of the depreciation of the baht on the prices of agricultural commodities and hence, on the incomes of agricultural households was complicated by unusual changes in the prices of some commodities as well as the El Nino phenomenon. El Nino led to a relatively low level of rainfall in the second half of 1997 and a long and especially dry season in the first half of 1998. The year of 1998 saw drastic increases in the prices of corn following a 19 percent increase in the Chicago price of corn (Nipon, 1999). Rubber prices did not increase from the currency depreciation because of significant declines in the value of the Malaysian and the Indonesian rupiah, both of which countries are important world suppliers. Other products such as rice, tapioca, and sugar benefited from an increase in export prices, but the latter two commodities suffered from a decrease in production because of droughts. Shrimp gained, in terms of value of exports, but suffered from a decline in demand following the Asian recession. Poultry on the other hand, gained in both export value and production

quantity. Therefore, even within the agricultural sector, the impacts on farmers tended to be uneven, depending on the crops grown and whether the farms were affected by the droughts.

The nation-wide socio-economic survey (SES) contains data which facilitates further probing into the coping strategies of households, through examinations of the adjustments in consumption expenditures. Farm households tended (or could afford) to decrease food expenditures more than non-farm households (Nipon, 1999). Consumption on luxuries such as entertainment, alcohol, and beverages were cut, but surprisingly, not by as much as the cuts to medical expenditures.

4.2 In-Depth Village Study

The in-depth village study aims to provide information on the process of change within the villages and to examine how and if the crisis has affected this process of change. For some villages, where illegal activities or activities not highly regarded as socially acceptable practices were recorded, the real name of the village has been suppressed. Basic information about the location, distance to urban centers, infrastructural status, and other general characteristics of the villages are given in Tables 4.5, 4.6, and 4.7.

4.2.1 Labor market profile of the sample villages

The labor market or employment profile of each village was determined largely by the availability of land and irrigation infrastructure (Tables 4.6 and 4.7). If a village is well endowed with both then irrigated rice tends to be the dominating pattern of production and source of employment. In non-irrigated villages where land is relatively scarce, the labor force tends to be relatively mobile and the employment profile is relatively well diversified. Year-round migration to cities tends to be a possible option for all the villages, but permanent or year round migration is much greater in the villages where the ratio of arable land to population or the land to person ratio is low. For those families, which own land in villages where land to person ratio is relatively high, members tend to remain in agriculture and seek non-farm, dry season employment to supplement their farm income. The labor market profile in each of the sampled villages is briefly described below.

Yang Mani is a sample village, which is relatively close to Bangkok, only 130 km away, with a routine public transport system to Bangkok. It benefited from the early construction of its irrigation infrastructure, but it has the lowest land to person ratio (0.45 *rai* per head) of the sample. Both of these factors have influenced the number of year-round out-migrants. More than one-half of the population of the village has migrated to work in Bangkok and vicinity. In addition, some members that migrated overseas had saved enough money to start a number of micro-enterprises, producing artificial flowers and fruits. The dominant employment sources of the village are irrigated agriculture and home-based manufacturing enterprises.

Thung Yao is a village located adjacent to the Lamphun Industrial Estate. It has high population pressure on land (2.87 *rai* per head), which is typical of most Northern villages. Although the older generations of the communities are still engaged in agriculture, most of the members of the younger generations have chosen to work in the adjacent industrial estate and tobacco factories. The village is also well known for its conservation of a community forest, which is an extra source of livelihood and recreation. Thung Yao is the village with the highest average household income of the sample. Its major sources of employment are paddy production, longan orchards, and industrial employment. In the harvest season, the village needs to import labor from adjacent villages.

Ban Laem is a Muslim coastal fishing village with 145 households. The major occupations in the village are artisanal fisheries, growing para-rubber, and tapping rubber latex. About 50 people from the village, mostly female, work in a frozen seafood factory and in small enterprises, which are conveniently located about 20 km from the village. Although the village is relatively distant from Bangkok, it has very good road access. About six people have moved to work in Bangkok and five more have moved to other provinces. About 20 to 30 members of the village work as coolies in big fishing boats located in other provinces, but as these people return home more than once a year, they are not considered permanent out migrants.

Ban Lad is a village in Central Thailand that also had early access to irrigation. Although the land to person ratio in the village is relatively favorable (3.84 *rai* per head; owing to a skewed land distribution where a few families own almost one-half of the paddy land in the village), about one-quarter of the village population or about half of the work force have moved to seek employment in urban areas. The remaining population almost completely specializes in irrigated and relatively mechanized rice production. Although the village is close to Bangkok, access is not exceptionally convenient, as the road is not paved.

Ban Thung Na is a rain-fed agricultural village producing corn, tapioca roots, and sugar cane, all of which are export products. Its land to person ratio is relatively favorable (7.76 *rai* per head). The village has year round employment opportunities such as silk rearing and weaving. During the peak harvest season, labor needs to be imported from other villages to help with the harvest.

Phon Sawan is a small village of 45 households in the Northeast of Thailand. The dominant pattern of production in Phon Sawan is gem cutting and rain-fed agriculture. Integrated farming was a major pattern of production until 1993, after which lingering droughts almost completely wiped out integrated farming and as a result, farmers have come to rely mainly on the hiring out of labor to sustain their incomes.

Ruang Chai is a village, which is about 35 km from the major Province of Udon Thani in the Northeastern part of Thailand. The population pressure on the land is very high and the land to person ratio is two *rai* per head. The village specializes in the provision of labor services and has a very diversified labor market. It is engaged mainly in the hiring out of labor to countries such as Taiwan, Israel, and Singapore. Of a total work force of 530 people, almost 10 percent work overseas. Another 10 percent, consisting mostly of young people, have migrated to work permanently in Bangkok and other cities. About five percent of the work force are skilled construction workers who often move around with construction sites. Most of the remaining labor force hire out labor seasonally or as opportunities arise, such as, for harvesting tapioca roots in nearby provinces, sugar cane harvesting in Phetchaburi, picking limes in Chachoengsao, or peddling and hawking honey for local investors.

Sai Kham, located only 26.5 km from Chiang Rai, is a well-known tourist town in the Upper Northern part of Thailand. Therefore, it has a fairly diversified employment structure in sectors such as, rice and commercial field crops, fisheries, urban employment in construction, trades, and services. Like other typical Northern villages, the population pressure is high and is exacerbated by an in-migration of Northeasterners who migrate to farm in its uplands. The village has about 50 permanent out migrants, out of which 20 are prostitutes. Two members of the village have migrated to work in Singapore. Sai Kham is the only village in the sample that experienced a land boom.

Sak Luang is a village situated right in the middle of a national park. Although the village has a small irrigation system, only a few families in the village have access to irrigation water. Thus, the village could be more appropriately described as dependent on rain-fed agriculture. Widespread commercialization of its rain-fed agriculture started only five years

ago. Before the 1990s, the village had been living on the harvest of forest products, as well as, subsistence rain-fed agriculture. In the 1990s, the Royal Forest Department began to enforce strict controls over timber harvesting in national parks. This forced many young people to out-migrate and to look for jobs outside of the village. Before the crisis, on average, one young man of every three families and one young woman of every five families out-migrated in search for jobs.

Nong Song Hong is the poorest and least developed village in this sample. Although land is relatively abundant (21.84 *rai* per head), only one-third of the arable land (3,156 *rai*) belongs to the people of Nong Song Hong. The village has poor soils and poor quality of roads. Moreover, a number of farmers have sold their land to new settlers and to the municipality for (unsanitary) landfill sites. Since land is abundant and there are many landless farmers, farm employment is an important source of work in the village and 40 percent of the villagers make a living mainly by the hiring out of labor. This also implies that seasonal employment is an important source of livelihood for farmers in this village. The village has no health office, nor public telephone.

4.2.2 Globalization

The 10 villages in the study are ranked according to their level of globalization and the results are presented in Table 4.8. Globalization is defined as the level of access to the outside world, as measured through the production and export of goods and services, levels of education, and ease of communication. To conduct the study, a scoring system was devised in which, for the production of agricultural products: a zero score represents subsistence production, i.e. production solely for home consumption; a score of 1 represents commercialized production of non-exportables; and a score of 2 represents the village's engagement in both, the production and sales of exportables. For the labor market: a score of 2 indicates that the village has exported labor overseas; and a score of 1 indicates the village as exported labor to urban areas; and where the sale of labor is seasonal and is restricted to farm services, no score is gained. In terms of education, villages having more than five members with tertiary education score 2; while villages having at least one to five members with tertiary education receive a score of 1. For telephone access: villages score a 1 if there is access to public phones; and 2 represents access to both public and private phones including mobile phones. It should be noted that village distances from Bangkok were not used as a determinant of globalization, nor was access to television media, since all of the villages in the sample have electricity and each has a large number of televisions.

By calculating the total globalization score, it is possible to classify the villages into three categories: a high level of globalization, which includes Thung Yao, Yang Mani, and Ban Laem; a medium level of globalization, which includes Thung Na, Sai Kham, and Ruang Chai; and a low level of globalization, which includes the remaining Villages of Ban Lad, Phon Sawan, Sak Luang, and Nong Song Hong. An interesting outcome of this study will be to determine whether the more globalized villages are more or less affected by the financial crisis, especially since the crisis is global in nature.

4.2.3 The economic crest

It would be difficult to apprehend the impacts of the crisis without understanding what had happened during the boom. The boom years were between 1987 and the first half of 1997. This period saw substantial improvements to and expansions of infrastructure in all of the villages in the survey (Table 4.6). As one farmer in a Northern village remarked, "life is now more convenient but making a living is much harder."

The most striking change is the shift from subsistence to commercial modes of production, and this trend is even more evident in the villages with higher levels of globalization. This notable shift in modes of production is matched by the shift from consumption of home-produced foods to market-purchased foods. Small utility trucks, which used to roam rural villages, have now become mini-mobile supermarkets. Many farm families have begun to sell their labor for cash and to use the cash to buy vegetables rather than growing them in their backyards. Rural families have come to depend even more on non-agricultural income. The period also coincided with dwindling natural resources, which was the result of both, unfavorable weather and prior over-extraction.

During the economic boom, one-half of the villages surveyed experienced surges in land speculation. In Sai Kham, land sales increased substantially and the windfall incomes were often spent on building new houses. This led to booming construction industries in many of the villages. Land sale incomes also boosted consumption expenditure. Land speculation tended to occur in villages with good transportation access, although land speculation was so widespread that even poor villages with low-levels of infrastructure experienced some land sales. In Ban Laem, a few fishermen sold untitled land in the mangroves to investors, who then transformed the land into shrimp farms, which at the time was a booming business. Even in the poorest village of Nong Song Hong, village land was sold during the boom and some of the sold land is still currently left unused.

Rapid growth of the urban and industrial sectors attracted labor from the lower wage, agricultural sector and drove up agricultural wages. As a result, there was rapid technological change in the agricultural sector during the boom; first in the irrigated sector, and later in the commercialized rain-fed sector. While two-wheel tractors had been prevalent before the 90s, the 90s saw widespread use of mechanized harvesters and threshers. In Ban Lad, farmers shifted from broadcasting to transplanting rice, a more labor-intensive technique, in order to maximize production when the irrigation system was made available in the 70s. However, in the 80s, many reverted to broadcasting and when local rice mills changed pricing methods in favor of quality and moisture, the hiring of labor became a popular practice. The hiring of labor, instead of exchanged labor, enabled more timely management of the paddy in order to achieve better quality and productivity in rice production. Therefore, the traditional labor exchange system gave way to the hired labor system. Increasing agricultural wages nurtured the spread of labor saving innovations and pre-germinated, direct seeding techniques in the 80s. In the 90s, competition with the labor market from the booming urban and industrial sectors led to steady increases in the agricultural wages and thus, increased the use of hired harvesters and threshers. Before the financial crisis, the process of mechanization in agricultural production, especially in the irrigated areas, was already advanced. In deepwater areas, mechanization was also increasing. A recent study of the central region's flood plain, which also includes one of our villages, namely, Yang Mani, confirmed that mechanized harvesters are used in 72 percent of the areas, where deep-water traditional rice varieties were sown (Molle *et al.*, 1999). Another study reports that by 1998, a shift from transplanted to pre-germinated, direct seeding techniques was completed in the Central region wherever was possible (Isvilanonda, forthcoming 2000).

One of the greatest benefits which occurred during the boom years, irrespective of the villages studied, was improvements to health and educational services, and especially notable was the expansion of free secondary education for the rural population. When asked to describe the quality of social infrastructure, most groups participating in the discussion drew an upward sloping curve showing their acknowledgement of the improvements to health and education services over the last decade. In the Village of Phon Sawan, enrollment in secondary education increased from 10 percent in 1989 to 100 percent for boys and 75 percent for girls by 1998. In Nong Song Hong, the poorest village in the sample, there was no enrollment in lower secondary school in 1987, but in 1997, enrollment rose to 58.3

percent, and further to 66.7 percent in 1998. In the Village of Thung Na, the same enrollment ratio was 25 percent in 1989 and rose to 97 percent in 1995. This trend is consistent with the nation-wide statistics, which revealed that the enrollment in lower secondary school rose from 39 percent in 1992-93 to 68 percent in 1997-98 (Amara and Brimble, 1999).

Improved public investment in education during the boom time opened the educational opportunities for girls, through the establishment of schools in the sub-districts. This was a particularly important development for rural girls because the central constraint to higher education was often the distance of the village from the nearest secondary school. Many girls could not afford to leave the village and pursue studies in the district centers if their families did not have relatives in town. Traditionally, rural boys have had better opportunities to further their education outside of their home village because they could be ordained and sent to temples in the cities. In this way, their education has often been subsidized by the urban communities. The same option is not available for girls. Consequently, girls had to seek employment, and in one of the villages surveyed, some girls became prostitutes to earn an income. In recent years, better employment opportunities owing to the economic boom in the cities, as well as, better communication of information on the dangers of the HIV virus, has virtually stopped the flow of young women entering prostitution.

Apart from educational opportunities, the government has also supported lunch and free milk programs for poor students. While in practice, the food is shared among all students, free lunches have turned out to be an important incentive for children from poor families to attend school every day. Student loans were also made available and thus, provided opportunities for children to continue with higher education levels. By the 1990s, education had reportedly become highly valued by rural youths because an education could give them the opportunity to leave agricultural production.

Also during this period, rural communities obtained better health services and welfare benefits. The elderly people in the rural areas began to receive monthly benefits. However, our field research team found that the benefits did not always accrue to the most appropriate persons, and even when the appropriate persons were selected, the amount was not always accrued in full.

4.2.4 The economic crisis: a crash?

As the bulk of the labor force in rural Thailand is still very much involved in agricultural production and part of their livelihood depends on food from nature, water availability is the most important factor in determining the level of incomes and livelihoods in rural communities. The economic crisis that hit the rural population had begun much earlier than 1997 and was caused by: (i) a preceding drought in 1993; and (ii) the downturn in the real estate sector, which occurred a few years before the crash. Villages supplying labor to the construction industry felt the pinch first in 1995-1996 when at first, wages were reduced and later, the employers stopped paying completely. In fact, for most of the rural villages in the study, the crisis was not a sudden crash following the floating of the baht, as was the experience of the urban dwellers.

Most villages interviewed were hit by repeated or continuous droughts in 1993, which then peaked with the arrival of El Nino. Villages that suffered from droughts subsequent to 1993 experienced a declining trend in livelihoods. In Phon Sawan, the integrated farming system, which relied on water as the key input, collapsed following drought of 1993. The drought was the worst in 1997 with the arrival of El Nino. The drought not only reduced agricultural incomes but also adversely affected the natural environment, upon which many rural inhabitants' livelihoods relied. Food and other harvests from nature, which were

gathered from either forests or natural water bodies, became meager due to environmental degradation and increased competition for resources. When asked to express their perceived changes in livelihoods by drawing a graph, most villagers participating in the discussion agreed to a gradual downward sloping trend without a kink or sharp fall between 1997 and 1999.

For those who did not experience droughts, the crash of the Thai currency was a big boom to the export of agricultural products. Thus, rice, maize, and tapioca growers in the villages surveyed, reaped the highest prices in the last five to 10 years.

Villagers participating in the discussion with the research team were asked what they felt to be the most severe economic and social problems of the village⁹. Since the participants were mostly farmers, the greatest economic problem for them was the increased cost of production, especially in the price of fertilizers and agro-chemicals, which almost doubled between 1997 and 1999. Inflation affected all of the communities studied, and the items most affected were pharmaceuticals and rice, the latter's price rising in 1977 and falling in the subsequent years. Price data from the Ministry of Commerce also confirmed that the rates of price increases for many consumption items were the highest for rice between 1996 and 1998. The price index for rice rose from 100 in 1996 to 173 nation-wide in 1998, and the rate of increase in the rural areas was 63 percent. Among the rural areas, the rate of increase was the highest near Bangkok (97 percent) and in the Northeast (73 percent). Medical expenses also increased, not only because of a change in prices, but also because the local public hospitals cut back the distribution of free medical supplies, as well as, the quantity of drugs distributed.

Returned unemployed workers were not considered to be the most important economic problem of the rural communities visited. Reduced incomes and employment opportunities in the dry season were considered to be more important and severe economic problems (see more below).

In almost all of the rural villages surveyed, wages declined due to a decrease in the demand for seasonal, non-farm labor. This was especially the case where the construction industry activity had declined. Although in some villages, households tended to use family labor as much as possible, to substitute for hired labor, this has not been the case for Sak Luang, where land frontiers can yet be further expanded. Nation-wide, the daily real wage of the agricultural sector declined from 82 baht in 1997 to 72 baht in 1998 (Nipon, 1999).

The economic crisis has not had an adverse effect on lower secondary education due to government support for lower secondary schools in the sub-districts. However, education beyond the lower secondary level has been affected. The fear of having insufficient income to pay for children's schooling is often cited as a problem by the women's group. Some families have moved their children from the schools located in towns to schools near the village in order to reduce the cost of education.

Structural problems were also quoted as important problems. The structural problems that ranked as most significant were lack of water, lack of land titles, and competition for land. In other studies, that focus on only poverty stricken villages in the Central, Northeast, and

⁹ It should be noted that the villagers were not led by the question of what the economic impacts were. Caution was made such that the word 'economic crisis' was not mentioned first by the research team. The severity of the problem was expressed by means of a free scoring system. Therefore, readers should not compare scores across villages. The results are presented in Table 4.9.

South of Thailand, the lack of land and water for agriculture are ranked as high as unemployment problems (Anchana, 1999; Wattana *et al.*, 1999 and Sureeratana *et al.*, 1999).

Both men and women's groups that participated in the study's discussion cited the problem of the increased use of drugs as an important social problem. The use of amphetamines has been cited by all villages as one of the most serious social problems. The drug has been spreading in rural communities for some time. For older generations, amphetamines were initially used to enable long working hours. In Sak Luang, men used the drug when they went out to harvest mushrooms in the forest because they wanted to work as many hours as possible to attain the maximum harvest from each trip. In recent years, the drug has been increasingly used by teenagers for pure pleasure. The crisis has reinforced the drug trade because it is an easy and "safe" way to earn money.

In the first survey in late 1998, small enterprises such as small grocery stores and small workshops were heavily impacted by the crisis in the rural communities visited. Many of the small enterprises that had provided sales on credit had to close down their businesses. This finding is supported by the nation-wide statistics, which indicate that the employment of rural entrepreneurs, own account workers, and workers in family businesses declined 21 percent compared to the fall in employment of the non-farm rural sector of 19 percent.

4.2.5 Unemployment and returned migrants

Contrary to the belief that a large number of the unemployed have returned to the rural areas, this study has found that only a small percentage of out-migrants actually returned to their rural home permanently. During the first survey in the rainy season of 1998, the unemployment impact was not yet obvious. Although a number of the villages had a large number of members working in the cities, in all of the villages surveyed only one or two permanent migrants had returned home. However, since May and July are the rainy season months, most of the labor force of each village was absorbed in agriculture at the time of the survey.

Laid-off workers tended to return home for a short rest but many returned to the cities because of a lack of land and employment opportunities in the rural areas. They also had become more accustomed to earning regular cash incomes. Some had worked for more than ten years in the city and found it difficult to readjust to rural life. Farm mechanization also replaced much of the demand for labor even during the peak season.

During the PRA survey, between February and March of 1999, the unemployment impact became much more obvious. The villagers were asked to help count the number of out-migrants who had become unemployed and had returned home, and the results are presented in Table 4.10. In Table 4.10, row 3 indicates the laid off workers who returned to the village, and row 4 indicates that few remained in the village as the majority went back to cities looking for jobs. While the number of out-migrants, as percentage of the total work force, is large and averages 18 percent (row 7), the percentage of these unemployed that returned home compared to the village work force (row 8) is small, ranging from 0 to 4.48 percent of the work force or averaging 1.37 percent. The percentage of returned migrants that resettled in the village and were absorbed in rural employment was even smaller averaging 0.83 percent (row 10).

In Phon Sawan, where 25 workers migrated to cities, and in Ban Laem, where six have out migrated to Bangkok, there have not been any who have returned home as a result the economic crisis. In Sak Luang, where 96 workers out-migrated to work, only two returned, and they were absorbed in agricultural production. In Sai Kham, where 50 people have out-migrated to work in urban areas, including 20 women who work as prostitutes, 10

women returned home but this was not because of the crisis. Rather, it was because they had completely paid their debts to the brothels or the traders. Two male returnees reported to have resigned voluntarily. In Ban Laem, one returnee out of six out migrants came back to work for the family, tapping para-rubber and fishing. In Nong Song Hong, the poorest village, only one out of 14 out-migrants returned home.

Of the 10 villages surveyed, Ban Lad has been affected the most by the economic crisis. Nearly one-half of its labor force (200 persons) out-migrated to work, mainly in Bangkok, and only about 20 migrants returned home. This is approximately 10 percent of the migrated workforce and they were mostly young persons and unmarried people. However, after a few weeks, most of the returnees went back to Bangkok in search of work and only seven members remained in the village. Most of those who remained started self-employed enterprises, such as selling ice cream, producing fishing baits, or growing mushrooms.

Sak Luang is the second most affected village in terms of returned permanent migrants. Almost 20 percent of the out-migrants, (15 out of 96 people) returned home after the financial crisis, but 13 of these remained home for only a short while then decided to go back to the cities in search of work. Only two remained in the village and they were absorbed by the labor required to farm the expanding land frontier.

Reduced demand for seasonal employment was seen as a much more significant employment impact and the greatest severity was observed in the poorest village of the 10 surveyed. In Nong Song Hong, of the 116 men who usually sought seasonal employment, 80 were unemployed at the time of the survey. This is 5.28 percent of the village work force (row 12) and about 69 percent of all the seasonally employed workers in the village (row 13).

4.2.6 Globalization and economic crisis

At the national level, the globalization of the financial sector given the weakness of the local institutions is seen as a major culprit of the crisis. At the village level, the commercialization and globalization of rural communities has always been considered by many non-government organizations (NGOs) as the cause of increased debts, poverty, and the inability to become self-reliant.

There are a number of means by which rural villages are linked to the globalization process, such as through producing agricultural and manufacturing exportables and by supplying labor to the domestic market in cities or overseas. Villages are globalized through the higher education of their members, increased access to telecommunication networks, and most commonly, through television.

The impact of the economic crisis is uneven in rural areas and seems to depend on the structure of globalization rather than the degree of globalization. In general, it cannot be said that the more globalized the village, the greater the negative impact of the crisis. In other words, there is no clear pattern. This is largely because the floating of the baht has augmented incomes from farm exportables and labor exported overseas. During 1997-1998, the farm incomes of villages such as Sai Kham, Sak Luang, and Thung Na, that were involved in producing agricultural exports and did not encounter droughts, fared better than in preceding years because the devaluation of the baht improved the price of exports. In Ruang Chai, where the export of labor was a source of employment, the depreciation of the Thai baht also increased the earnings of the migrants.

As was pointed out earlier, it is interesting to derive which village levels of globalization were most affected by the crisis. Intriguingly, rather than determined by the strata of high, medium, or low levels of globalization, the villages most affected by the crisis were those where the employment structure and the local labor market were most directly linked with the urban sector. These villages include Ban Lad, Yang Mani, and Nong Song Hong. Yang Mani, one of the most globalized villages depended extensively on imported inputs for their production of artificial flowers and fruits, as well as, on urban demand for output sales. The least globalized village, Nong Song Hong, was engaged in only the export of labor to domestic markets and therefore, was impacted relatively more severely.

In 1997-98, the impact on poor families in rural communities tended to be less severe than in the cities because rural communities could produce food and could rely on nature and the environment for food, as well as, on social networks. However, some of the social impacts such as, family quarrels, group co-operation and help or assistance were also very unpredictable and tended to increase in some villages and decrease in others during times of crisis.

4.2.7 Erosion of social capital

Economic crisis is thought to impact social capital in both positive and negative manners. An extreme example of negative social capital is the situation of violence in Indonesia. In Thailand, the following impression has been recorded:

"In Thailand, community trust was breaking down with increased competition for survival, growing frustration and psychological stress. Stealing among neighbors was on the rise and people felt increasingly unsafe in their own homes. The social cohesion and stability which have long characterized rural and urban poor communities appear to be on the decline" (Racelis, 1998).

The above description is a relatively pervasive view about the social situation in Thailand even during the boom, and the proposition has never been tested empirically. In fact, this type of description or complaint is probably quite common in any modern society where people tend to have strong, but sometimes romanticized, views about the good old days of reciprocity and collective action.

Collective actions are often taken as synonymous with social capital. However, collective action may be short-lived. In Thailand, three major types of village networks can be observed - production networks, savings networks, and environment networks. In the first two instances, networks are formed to achieve certain scale economies, such as to secure sufficient inputs for production and to benefit from information exchange. The first two types of networks are generally formed for private profits, although in some successful cases occurring mostly in the south of Thailand, portions of the proceeds were allocated for charity and for public services. The last type of network is mainly formed for regulating environmental externalities.

In this study, social capital is defined as a network of individuals and communities, which is built out of trust and tends to produce economic and social welfare values. In Thailand, social capital is strong and is generally related to religion and temples. These two assemblages have been able to draw upon co-operation in both cash and kind from the communities to produce local public goods and to assist to the poor and the needy. Savings groups have been formed around a temple's faith to boost capital for the benefits of local communities (Prinyarat, 1999). Another clear example of social capital is the people's irrigation system, which has survived a thousand years and is being maintained by many communities in the North. Exchange of labor among families in the communities during

transplanting or harvesting time is another example of social capital. In our study, social capital is defined to involve a network of trust and we do not consider an increase in crime to be an erosion of social capital although we do consider it a manifestation of increasingly escalating social problems.

Two of the 10 communities surveyed have relatively strong social capital. One community in the North established and currently still maintains a community forest. For this community, non-timber forest products have been an important source of food and income for the community in times of crisis. Another community in the South (Pitsom, 1999) has set up an oyster conservation project, the income from which is used for communal purposes. During the crisis, such social capital becomes an even more important means for sustaining the standard of living of a community. Therefore, the incentive for maintaining social capital is enhanced.

Most rural communities in our sample reported reduced donations to local temples, especially from community members that have migrated to work in the cities. Yet nationwide, a revered monk (Luang Ta Maha Bua) from the Northeast of Thailand has been able to harness many hundreds of million baht of donations, in the form of cash and gold from Buddhist Thais, and has converted this fund into gold to give to the Central Bank to boost the Nation's reserves.

Our study of community organization and community networks revealed that social capital is built up over time and through repeated experiences of the advantages gained from co-operation and disadvantages experienced from a lack of co-operation. These experiences are important in determining the sustainability of social capital. A well-organized network is not likely to be affected if the crisis is short in duration compared to the length and breadth of the experience of the network. In addition, increased competition for natural resources and economic hardship over time could actually serve to strengthen social capital. In Nan, a Northern province, a watershed conservation network is expanding to guard local resources and to reduce externalities (Pitsom, 1999). As the boundaries of villages expand, each village feels that its livelihood is affected by the activities of residents in other villages. For example, the uncontrolled burning of a field in one village could cause forest fires and lead to damages to other villages. The use of chemicals in one village may also affect the water quality in another. Therefore, in Nan, a network in the same catchment has been formed and rules and regulations were set up to minimize externalities among villages (Mingsarn, 2000). This social capital was not affected by the economic crisis, and returned migrants were informed and warned about the penalties of breaking the communal rules.

Social capital therefore, also serves to reinforce village objectives. Our study of one community organization's attempt to improve their standard of living by organizing a local rice mill indicates that social capital was functional in maintaining the niche market of chemical-free rice (Prinyarat, 1999). The network assured the mutual understanding and trust among the members that they were to abide by non-chemical use rules.

It is difficult to say whether social capital will be eroded or strengthened subsequent to the crisis. Our impression is that if the crisis is not prolonged then the existing social capital will likely be left intact. Since social capital is built up over a reasonably long period through the repeated experiences of the community, it is unlikely to be demolished by one stroke of crisis. However, social capital can be eroded if it ceases to be functional. For instance, during boom time, the people's irrigation system near urban centers had difficulty maintaining its members simply because young people were leaving the agricultural production sector for jobs in the cities. However, in other more remote areas, the people's irrigation system still functioned efficiently. In fact, in our study it has been found that even social capital that has been eroded due to neglect has been brought back into practice. For example, labor exchange practices have been re-adopted to save in labor costs, although it has been

generally restricted among relatives. However, when demand improves in the future, especially for better quality output, it is likely that the hiring of labor will again replace labor exchange practices.

4.2.8 Coping strategies

Similar to urban families, diverse means have been used in rural areas to cope with the economic crisis. The most common coping strategy is to reduce consumption expenditures on items such as, meat, sweets, clothing, and entertainment. Another common strategy is to switch to lower quality consumer products and lower-cost services, notably, in the realm of medical and school expenditures. For example, many families moved their children from private to government schools and no longer sought medical services in a private clinic or at private hospitals.

For alcoholic beverages and cigarettes, it is not clear whether total consumption was reduced. Farmers indicated that they bought smaller lots, for example, beverages in glasses rather than by the bottle, or bought a few cigarettes at a time rather than purchasing a whole package.

Unlike urban families, rural households have more opportunities to increase their home-produced food supplies, for example, by increasing or starting the production of rice or vegetables for home consumption. In one village, farmers collected bamboo seeds to supplement rice production. For villages living close to the forests, the extraction of timber and forest products for food and cash became a means of survival. Some members of villages located close to forests actually moved into the forests to grow more food, and households in the Northeast reported that borrowing rice from relatives also became a survival option. Finally, for those owing large debts during the time of the crisis, the sale of household jewelry, cattle, and land were a means of last resort.

Schooling is valued by all parents and keeping children in secondary school was reported to be a priority. The enrollment in secondary education is maintained because the costs are relatively small as a result of the expansion of educational facilities into the rural areas. However, parents indicated that higher education might have to be by-passed if the situation did not improve in the near future. This is confirmed by the national statistics that indicate a greater dropout rate for vocational education (Table 4.11).

Rural communities have also used cultural means to combat the economic crisis. As was indicated earlier, labor exchanges for transplanting and harvesting rice has returned because of a lack of cash, although because of mechanization, current labor exchange practices are still not as prevalent as they had been in the past.

Table 4.1 Incidence of Poverty

Period	Percentage of poor	Poverty gap ratio	Severity of poverty index	Number of poor in millions
1988	32.6	10.4	4.6	17.9
1990	27.2	8	3.3	15.3
1992	23.2	6.8	2.8	13.5
1994	16.3	4.3	1.7	9.7
1996	11.4	2.8	1.1	6.8
1998	12.9	3.2	1.2	7.9
Percentage change				
1988 to 1990	-16.6	-23.1	-28.3	-14.5
1990 to 1992	-14.7	-15.0	-15.2	-11.8
1992 to 1994	-29.7	-36.8	-39.3	-28.1
1994 to 1996	-30.1	-34.9	-35.3	-29.9
1996 to 1998	13.2	14.3	9.1	16.2
Crisis index	19.7	22.5	16.5	22.3
Expected value	10.8	2.6	1.0	6.4

Source: Socioeconomic surveys, NSO, processed by Development Evaluation Division, NESDB

Table 4.2 Average Standard of Living: Whole Kingdom

Period	Per capita real income (baht/month)	Per capita welfare (%)
1988	1,997	212
1990	2,449	254
1992	2,911	295
1994	3,407	344
1996	3,830	386
1998	3,753	370
Percentage change		
1988 to 1990	22.6	19.9
1990 to 1992	18.9	16.2
1992 to 1994	17.0	16.5
1994 to 1996	12.4	12.2
1996 to 1998	-2.0	-4.2
Crisis index	-6.2	-7.9
Expected value	4,000	401

Source: Socioeconomic surveys, NSO, processed by Development Evaluation Division, NESDB

Table 4.3 Percentage of Poor by Region

Period	Central	Northern	Northeast	Southern	Bangkok & vicinity
1988	26.6	32.0	48.4	32.5	6.1
1990	22.3	23.2	43.1	27.6	3.5
1992	13.3	22.6	39.9	19.7	1.9
1994	9.2	13.2	28.6	17.3	0.9
1996	6.3	11.2	19.4	11.5	0.6
1998	7.7	9.0	23.2	14.8	0.6
Percentage change					
1998 to 1990	-16.2	-27.5	-11.0	-15.1	-42.6
1990 to 1992	-40.4	-2.6	-7.4	-28.6	-45.7
1992 to 1994	-30.8	-41.6	-28.3	-12.2	-52.6
1994 to 1996	-31.5	-15.2	-32.2	-33.5	-33.3
1996 to 1998	22.2	-19.6	19.6	28.7	0
Crisis index	32.2	-15.1	25.5	36.3	-2.4
Expected value	5.8	10.6	18.5	10.9	0.6

Source: Socioeconomic surveys, NSO, processed by Development Evaluation Division, NESDB

Table 4.4 Inequality of per Capita Welfare in Thailand

Period	Gini index	Share of welfare				
		Quintile	Quintile	Quintile	Quintile	Quintile
		1	2	3	4	5
1988	48.1	5.2	9.0	13.4	21.1	51.2
1990	48.1	4.9	8.4	12.7	19.9	54.1
1992	49.9	4.5	7.9	12.2	19.8	55.6
1994	48.6	4.6	8.3	12.7	20.3	54.1
1996	47.7	4.8	8.5	12.9	20.5	53.3
1998	48.1	4.8	8.4	12.7	20.2	53.9
Percentage Change in inequality and quintile shares						
1998 to 1990	0.0	-5.7	-6.4	-5.9	-5.8	5.7
1990 to 1992	3.7	-8.1	-5.7	-3.8	-0.8	2.8
1992 to 1994	-2.6	2.0	4.4	4.7	2.6	-2.8
1994 to 1996	-1.8	3.3	2.1	1.4	1.2	-1.3
1996 to 1998	0.8	-0.0	-0.5	-1.6	-1.7	1.1
Crisis index	0.8	0.5	-0.2	-1.4	-1.5	0.8
Expected value	47.7	4.7	8.4	12.9	20.5	53.5

Source: Socioeconomic surveys, NSO, processed by Development Evaluation Division, NESDB

Table 4.5 Location of Sampled Villages

Region	Province	Village	Major pattern of employment	Distance from Bangkok (km)
Central	Ang Thong	Ban Lad	Irrigated agriculture	130
	Lopburi	Yang Mani	Irrigated agriculture Home-based non-farm	180
Lower North	Uthai Thani	Thung Na	Rain-fed agriculture Silk weaving	200
	Nakhon Sawan	Nong Song Hong	Rain-fed agriculture Hiring out labor	250
Northeast	Khon Kaen	Phon Sawan	Rain-fed agriculture Gem cutting, Garment sewing	513
	Udon Thani	Ruang Chai	Rain-fed agriculture Export of labor overseas	575
North	Lamphun	Sak Luang	Rain-fed agriculture Forest products	600
		Thung Yao	Irrigated agriculture Industrial workers	680
	Chiang Rai	Sai Kham	Rain-fed agriculture Urban service sector	700
South	Trang	Ban Laem	Rubber Production Artisanal fisheries Marine culture	954

Source: USAID village survey reports 1990

Table 4.6 Infrastructural Status

	Thung Yao	Ban Laem	Yang Mani	Ruang Chai	Thung Na	Sai Kham	Banlad	Phon Sawan	Sak Luang	Nong Song Hong
1. Distance from Bangkok (km)	680	945	180	575	200	700	130	513	600	250
2. Irrigation System (year)	1974	-	1954	-	1989	1999	1958	-	-	-
3. Reservoir	-	-	1954	-	-	1997	-	1977	1986	-
4. Water Supply	1984	1992	1995	1994	1997	-	1993	1996	1987	-
5. Electricity	1981	1986	1981	1985	1986	-	1972	1986	1992	1990
6. Telephone	1996	1999	1996	-	-	-	1994	-	1997	-

Source: TDRI Village Survey 1999

Table 4.7 Population, Land, and Labor Market Characteristics

	Thung Yao	Ban Laem	Yang Mani 1/	Ruang Chai	Thung Na 2/	Sai Kham	Ban Lad	Phon Sawan	Sak Luang	Nong Song Hong
1. Agricultural land (rai)	3,000	2,342	454	1,617	3,200	1,785	3,230	849	3,800	9,764
2. Community forests (rai)	33	-	-	-	110	60	-	-	100	-
3. Number of households	281	145	199	168	121	216	163	41	160	114
4. Total population*(persons)	1,044	726	989	809	412	1,404	840	265	649	447
5. Ag. land-population ratio	2.87	3.23	0.45	2.00	7.76	1.27	3.84	3.2	5.85	21.84
6. Labor force (persons)	733	485	879	530	252	975	446	176	463	313
7. Year-round out-migrants	13	6	521	96	20	50	200	25	96	14

*Number of registered persons

Sources: 1. NRD 1996

2. TDRI/PRA Survey 1999

Table 4.8 Globalization

	Thung Yao	Ban Laem	Yang Mani	Ruang Chai	Thung Na	Sai Kham	Ban Lad	Phon Sawan	Sak Luang	Nong Song Hong
1. Main farm products	2	2	2	2	2	2	2	2	2	2
2. Second products	2	2	0	2	2	1	0	2	0	2
3. Non farm products	1	0	2	1	1	1	1	1	0	0
4. Labor market	1	1	1	2	1	2	1	1	1	1
5. Education	2	2	2	1	1	1	2	1	1	0
6. Telephone	2	2	2	1	0	1	1	0	1	0
Total	10	10	9	9	8	8	7	7	5	5

Source: TDRI/PRA Survey 1999

Table 4.9 Perceived Severity of Major Economic and Social Problems by all Groups from TDRI's PRA Survey in 1999

	Thung Yao	Ban Laem	Yang Mani	Ruang Chai	Thung Na	Sai Kham	Ban Lad	Phon Sawan	Sak Luang	Nong Song Hong
1. Increased cost of production	100	-	100	200	100	-	100	-	100	80
2. Reduced income/wages/sales	-	100	70	100	100	-	-	-	-	50
3. Payments for school	-	50	-	-	50	-	-	90	-	-
4. Increased cost of living	100	70	-	200	-	95	70	100	100	80
5. Reduced seasonal employment	70	28	50	120	90	60	-	80	70	70
6. Returned unemployed problem	50	2	-	-	40	-	30	-	50	-
7. Increased debts	80	40	90	150	-	70	-	-	80	-
8. Reduced remittances	-	-	-	-	-	-	40	-	-	-
9. Increased medical service cost	-	30	-	-	-	-	-	-	-	-
10. Reduced crop prices	-	-	-	70	-	97	-	80	-	-
11. Increased crimes	-	-	-	40	40	-	10	-	-	-
12. No land tiles/lack of land	100	-	-	-	-	100	-	-	-	-
13. Water shortages	-	-	-	-	-	100	-	100	-	-
14. Road infrastructure	-	-	-	-	-	80	-	-	-	-
15. Drugs	-	-	-	-	45	100	2	-	-	-
16. Gambling	-	-	-	-	-	50	-	-	-	-
17. Reduced ag. productivity	95	-	-	-	-	-	-	-	-	-

Source: TDRI/PRA Survey 1999

Table 4.10 Labor Force and Employment Structure in the Sample Villages (1999)

	Thung Yao	Ban Laem	Yang Mani	Ruang Chai	Thung Na	Sai Kham	Ban Lad	Phon Sawan	Sak Luang	Nong Song Hong	Average
1. Labor force in village	733	485	879	530	252	975	446	176	463	313	525
2. Year round out-migrants	13	6	521	96	20	50	200	25	96	14	104
3. Laid off and returned migrants	3	0	7	10	5	0	20	1	15	1	6
4. Laid off and/or returned migrants absorbed in the village labor market	3	1	6	8	5	12*	7	0	2	1	5
5. Seasonal workers	60	30	n.a.	50	0	20	50	30	14	116	41
6. Unemployed seasonal workers	60	0	n.a	20	0	20	10	10	0	80	22
7. Year-round out-migrants as percentage of work force (2/1)	1.77	1.24	59.27	18.11	7.94	5.13	44.84	14.20	20.73	4.47	17.77
8. Laid off year-round out migrant as percentage of village labor force (3/1)	0.41	0.00	0.80	1.89	1.98	0.00	4.48	0.57	3.24	0.32	1.37
9. Laid off/returned migrants as percentage of year round out migrants (3/2)	23.08	0.00	1.34	10.42	25.00	0.00	10.00	4.00	15.63	7.14	9.66
10. Laid off /returned migrants as percentage of village labor force (4/1)	0.41	0.21	0.68	1.51	1.98	1.23	1.57	0.00	0.43	0.32	0.83

Table 4.10 (continued)

	Thung Yao	Ban Laem	Yang Mani	Ruang Chai	Thung Na	Sai Kham	Ban Lad	Phon Sawan	Sak Luang	Nong Song Hong	Average
11. Seasonal workers as percentage of work force (5/1)	8.19	6.19	n.a.	9.43	0.00	2.05	11.21	17.0	3.02	37.06	10.47
12. Unemployed seasonal workers as percentage of labor force (6/1)	8.19	0.00	n.a.	3.77	0.00	2.05	2.24	5.68	0.00	25.56	5.28
13. Unemployed seasonal workers as percentage of all seasonal workers (6/5)	100.0	0.00	n.a.	40.00	0.00	100.0	20.00	33.33	0.00	68.97	45.29

* Returned migrants were not laid off; two resigned willingly. Ten were women in the entertainment industry who had fully paid their debts to the brothel owners.

Source: PRA Survey 1999

Table 4.11 Percentage of Dropouts

Education level	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Primary	3.60	2.96	4.69	4.93	5.70	6.15	2.95	2.60	2.70
Lower Secondary	5.52	4.36	4.84	5.01	4.84	4.74	3.03	3.49	4.18
Upper Secondary	5.23	4.82	4.51	4.18	4.25	5.05	3.22	3.04	3.04
Vocational	8.83	8.84	9.82	10.00	11.22	9.18	10.48	9.39	16.07

Source: The National Education Commission

5. Impacts on Disadvantaged Groups

5.1 Slum Dwellers

Other TDRI studies commissioned by the World Bank on poverty stricken communities in the urban areas suggest that the economic downturn was felt in urban areas earlier than 1997. Studies indicate that around 1996, one year before the collapse of the financial sector in Bangkok, many members of the communities that worked in the construction sector were laid-off (Anchana *et al.*, 1999 and Wattana *et al.*, 1999). These PRA studies tend to indicate immense social problems and economic hardships. For example, there were reports of children having to leave school or children in the same family having to go to school on alternate days to save money, or families begging for food from neighbors in order to survive. In Bangkok slums, more than one, and in some cases, all the members of a family were reported to be unemployed.

In all three communities studied, drugs were considered the most important problem. In these communities, unemployment was ranked as the second most severe problem after drugs and debts. In the survey conducted in the Khlong Teuy Slum in Bangkok, a free-scoring method was used to determine community responses to the survey team's questions. The results of the survey were: drug problems were given a score of 324 to indicate the severity of the problem in the community; gambling scored 140; debts scored 127; and unemployment 114. In another slum community in Kao Seng, Songkhla Province, unemployment was ranked second by the poor women and fourth by the poor men (Wattana *et al.*, 1999). In one community, threats related to drug gangsters were also implied. Similar to rural communities, these urban communities also cited structural problems, such as a lack of electricity and unsanitary environments, as problems that were equally as important as the economic crisis.

Debts are also seen as an important problem. According to the poor communities, debts for better off people were incurred mainly to increase production; whereas debts for the poor were accumulated to sustain daily consumption and maintain ongoing education. Therefore, for the poor, these debts cannot be repaid in the short-run without improvements to income-earning opportunities. As a result, in one community, many families had to move away in order escape the debtors and this forced many children to leave their schooling.

5.2 Women in Boom and Bust

Traditionally, women's participation in the labor force has been more flexible and seasonal (i.e. more readily switching between agriculture to other sectors). Between 1983 and 1992, an increase in the demand for labor during the economic boom reduced the difference between the number of female workers during the wet and the dry seasons (Figure 5.1). This was predominately the result of more women moving permanently into the manufacturing sector and other non-agricultural sectors. The 1990s saw an actual decline in the number of women in the agricultural sector partly because they have been made redundant by mechanization, and also due to declining farm sizes, as well as, the more attractive wages available from employment in the urban, non-farm sector. During the period between 1992 and 1998, total employment

grew faster for men (at one percent) than for women (at 0.4 percent) (NESDB, 1998). While the female unemployment rate has been higher than the men's has, the difference between the two has been gradually declining.

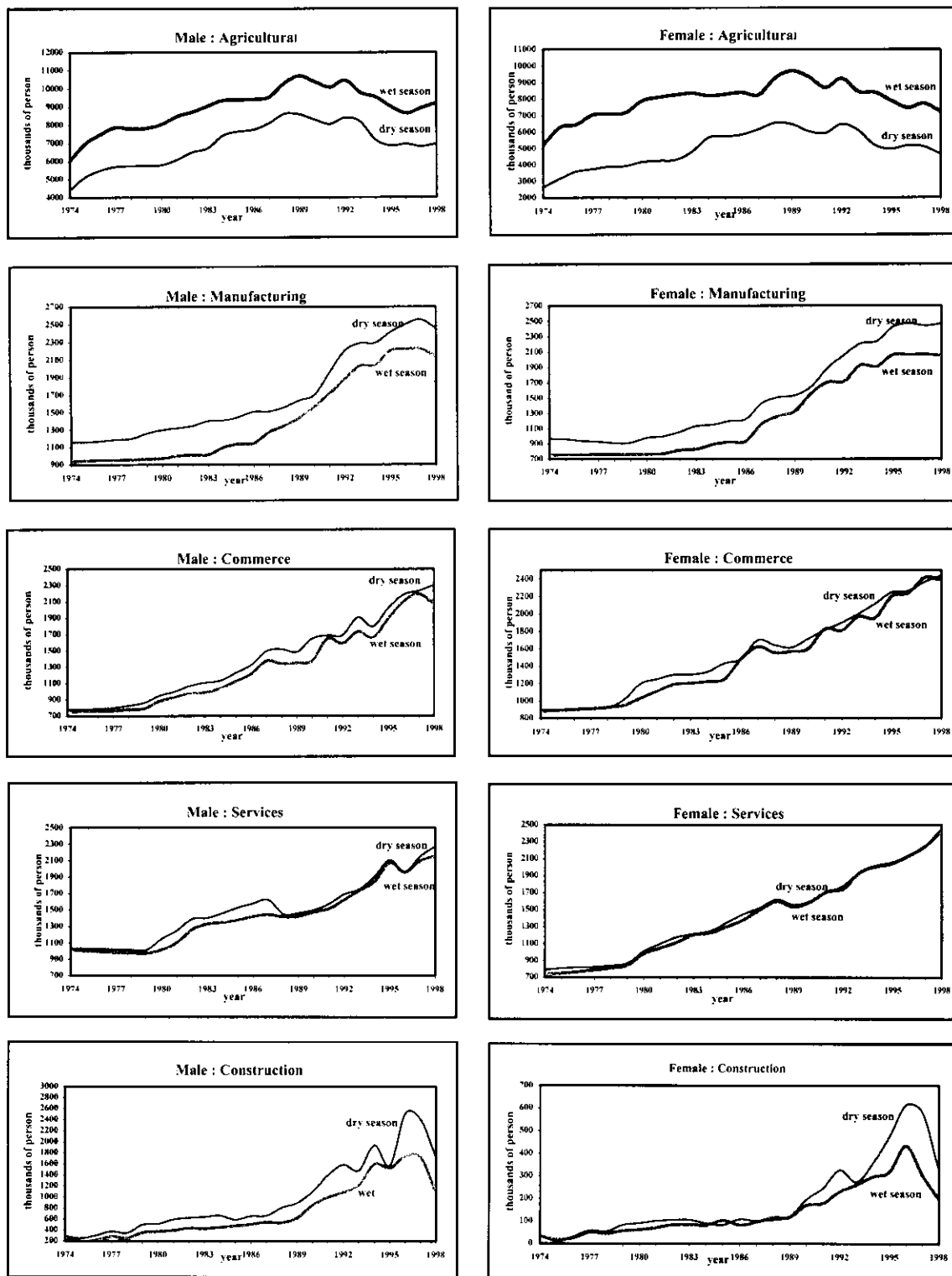
During the crisis, female workers have given way to male workers and the withdrawal of female workers was most evident in the agricultural and trade sectors. Thus, the employment of men in these two sectors has actually increased (Figure 5.1). In the manufacturing sector, the employment impact of the crisis has tended to be more severe for males than for female.

Based on the labor force surveys, the NESDB concluded that unemployment and underemployment following the crisis were greater for men than for women (NESDB, 1998). The crisis also reduced the gap or the difference in earnings between males and females by 5.5 percent. In 1992, male workers earned, on average, 35 percent more than their female counterparts did. By 1998, this difference had been reduced to 22 percent. A long-term study (Mingsarn and Thippawan, 2000) covering the last three decades also showed a similar trend of narrowing income gaps between men and women with similar numbers of years of formal education. An NESDB study (1998) further confirmed that, not only the income gaps, but also the productivity gaps between men and women in the labor force are narrowing. Thus, the NESDB results contradict a widely held speculation that women tend to be affected more (measured in terms of employment and real income) by the crisis.

Statistics on employment and income may not reveal a full picture of the social impacts. In a participatory study of the poverty stricken communities, which was conducted for the World Bank, women's groups quoted that increased family tension, increased responsibility, and increased workloads were new problems in making ends meet. According to these women's groups, women took on the responsibility of renegotiating loans to save face for the men. In addition, since women had no other means of releasing tension, it frequently led to verbal and physical fights, which were often started by the women themselves. Reportedly, the husbands could release tension or at least forget their misery temporarily by drinking. It is noteworthy that in the participatory discussions about the impacts of the crisis, the women's groups in the ten rural villages studied, mentioned increased quarrels in families as one of the impacts of the crisis, as well as, increased theft and gambling. However, among the men's groups, while gambling and theft were mentioned as social impacts of the crisis, family tension was not mentioned.

The women interviewed were much more concerned about their children and the educational opportunities of children in times of crisis. Other indicators of the impacts of the crisis on women are the increases in low birth weights (newborns who weigh below 2,500 grams) and the increase in the death rate of women after child delivery (Suwit, 1999). Women in the rural communities also reported to eat less purchased food, especially sweets, and women in poor communities reported to eat less food in general, in order to leave more food for the children. Moreover, the better-off women in the poverty-stricken communities reported to have access to outside institutions, for example government agencies and NGOs, while the poorest women reported that they tended to rely more on relatives, friend's relatives, and friends.

Figure 5.1 Female and Male Employment, 1973-1998



Source: Mingsarn and Thippawan, 2000

6. Monitoring Mitigation Activities of Government Agencies and Civil Societies

Two types of government activities have been undertaken to alleviate the impacts of the economic crisis: tax cuts and increases in government spending in order to stimulate economic activities, mitigate unemployment impacts, and sustain social programs. This section monitors and evaluates the measures undertaken by the government, the private sector, and the civil society organizations to mitigate the social impacts of the economic crisis.

6.1 Unemployment Mitigation Policy

On December 9, 1997, the Cabinet appointed the National Committee on Unemployment Mitigation Policy (NCUMP), chaired by the Prime Minister, to formulate policies and programs for unemployment mitigation. NCUMP announced seven mitigation measures as follows:

- 1) *Thais-Help-Thais*. The program provides assistance in the form of the sale of low-priced essential goods, small loans for starting new occupations, and supports for marketing.
- 2) *Rural Employment Enhancement*. A budget of 2,000 million baht was allocated to local governments (Tambon Councils and Tambon Administration Organizations) to expand employment opportunities in rural areas; emphasizing the use of labor-intensive methods of production and construction.
- 3) *Foreign Labor Management*. Under this program, attempts have been made to solve the problem of illegal foreign migrants and to restrict the use of legal foreign migrants.
- 4) *Export of Thai Labor to Foreign Countries*. The program aims to expand the foreign job opportunities for Thai workers.
- 5) *Employment Promotion in the Industrial Sector*. This program aims to improve the efficiency of enterprises and the skills of workers, as well as, to promote export industries as a means of achieving international competitiveness.
- 6) *New Theory for Agriculture*. This program focuses on the dissemination of His Majesty the King's idea of rehabilitating agriculture and working towards a sufficiency economy.
- 7) *Guiding Lights for New Entrants to the Labor Market*. New entrants to the labor force is the target of this program which provides information on potential sources of employment, employment alternatives, and information necessary for starting own-account businesses.

A Sub-committee for each program was appointed to oversee each measure. By the end of 1998, NCUMP claimed to have provided access to assistance for 6.5 million beneficiaries, out of which, 1.33 million benefited directly from permanent and temporary employment opportunities, while 750,000 persons benefited from the training activities.

In 1999, NCUMP added two other measures. These involved rural employment generation during crisis times and the generation of temporary employment for educated workers. By May 1999, NCUMP generated 1.58 million jobs (NCUM, 1999). The program has reportedly benefited 1.7 million people. The employment generation budget totaled 119.3 billion baht out of which 53.47 billion baht was from local budgets and 61.33 billion baht was to be supported by foreign sources.

6.2 Mitigating Social Impacts and Building Long-term Capacities

The current crisis has been an important lesson for Thailand. It has forced the nation to reflect upon its past approaches to development. Thus far, the turmoil has highlighted how Thai society has neglected to construct an 'immune system' for battling negative impacts in times of crises (i.e. the strengthening of family institutions and communities, which are undoubtedly the roots of Thai society). A strong basic component in any society is the ability to determine the use of resources in appropriate ways, which are suitable to the country's own economic and social standing and environment.

In relation to this notion, on 15 December 1997, the Chuan Government put forth a request to the Chairman of Thailand Development Research Institute (TDRI) to devise a plan that could not only mitigate emerging social problems, but could also establish a type of immune system for the long-term. In response to this request, the Chairman of the Thailand Development Research Institute, Mr. Anan Panyarachun, set up a social working group to draft a Social and Economic Plan for Rehabilitating Communities. This social working group would be able to provide suggestions to the various groups in Thai society about possible strategies, implementations, and activities that would strengthen communities and enable them to support those members of society who were directly and indirectly affected by the crisis. The Plan is not only intended to apply merely to State agencies and projects, but also to every sector of society, especially Civil Society Organizations (CSOs)¹⁰ and the private sector, at local and national levels, to participate alongside the State.

The Social Working Group emphasized its belief that the usual economic management strategies would be insufficient for addressing severe social impacts. A new approach, which harnesses tripartite partnerships and community participation, needs to be adopted to achieve sustainable development in the long-term. An eleven-point approach has been proposed to the government. The approach is as follows:

1. *People Oriented Development.* Opportunities for local communities need to be provided to determine: the directions for development; project selection and implementation; own-management of local resources, as well as, to determine the fees (wages and wage levels) for providing those social services.

¹⁰ *Civil Society Organizations are groups of civil societies who work together for the public interest on non-profit activities. These include villages, temple groups, educational establishments, associations, and NGOs.*

2. *Encourage a Sufficiency Economy.* This is a risk-minimizing option suggested by HM King Bhumibol and for the agriculture sector, it is sometimes referred to as The New Theory.
3. *To Reduce Undue Procedures and Redtape in the Registration of CSOs and to Direct Fiscal Policies toward the Strengthening of CSOs.* This would include CSOs, such as, non-profit temple groups, foundations, and organizations that provide public social services. In this approach, laws, policies, regulations, and tax incentives should be adjusted to encourage the participation of CSOs, thereby giving them access to government budgets and ensuring their accountability. Their transparency would entitle them to VAT and income tax exemptions.
4. *To Transfer Certain Government Responsibilities to CSOs and NGOs.* The responsibility transfer might include, for example, the management of public parks, nurseries of the Royal Forest Department and of the Department of Main Roads, and irrigation canals.
5. *To Assign Importance to the Informal Economy.* Since this sector provides for those impacted by the economic crisis, extra payments (economic rents) involved in these operations, such as front-end fees of motorcycle taxis and rental fees of street stalls in public spaces (e.g. under expressways), should be eliminated or reduced. The government must find a system to manage the informal economy without burdening or compromising the public.
6. *To Adjust the Role of the State in Communities.* The Government's services should be more flexible and should reflect local social and economic needs. For example, the provision of education should not be limited to government schools, since the family, community, local factories, radio and televisions, and temples can be additional learning sources which allow for uninterrupted education. There should be avenues to connect the educational curriculum and the qualifications within the system to those without current access to education. Education must be flexible in order to be widely accessible. Moreover, it must be at a low cost and suitable to local conditions and requirements. Another suggested change in the State's management of local communities is with respect to irrigation and agricultural provisions, where it has been proposed that communities should have the customer's right to select service providers.
7. *For the Bank of Agriculture and Co-operatives and the Savings Bank to Become People's Banks.* Innovations in savings and borrowing should be tailored to the projects selected by Civil Society and a Sufficiency Economy.
8. *To Use the Government Media as a Medium.* The exchange of information between people, schools, temples, and CSOs can be facilitated using already existing government media. In addition, it could act as an accessible and convenient means for the public to monitor the government's work.
9. *To Encourage the Spirit of Innovation in Communities.* Promote innovative activities that do not require mega-investments or projects. Examples of this might include, exploring possibilities of river transport, bio- and solar energy.
10. *To Restructure the Government System.* This would de-emphasize central and sectoral management and focus on partnerships and joint management strategies as a replacement for monopolistic management by the State.

11. *To Outline Strategies for Privatization of State Enterprises.* This would include ownership options for ordinary citizens and CSOs.

The Plan was submitted to the Thai Government in May of 1998. Projects and activities were also suggested which could be undertaken by civil societies, businesses, and government agencies (Tables 6.1 - 6.4). The plan has received good support from government agencies, the private sector, and CSOs. The good response stems from the fact that the plan is not claimed to be the output of the working group but is a result of discussions with development practitioners and is a compilation of exemplary and possible Thai practices. Some of the points suggested are already being adopted or are being considered by some government agencies and CSOs. The acceptance of the plan by the Prime Minister has reinforced the confidence of government agencies, which tend to be more receptive to innovation, especially in relation to ideas that involve outsourcing. This has also given more confidence to those agencies that were already rethinking the methods for managing the informal sector, such as using non-government channels or participation of non-government agencies, and were also already initiating changes to development practices. Members of the Social Working Group themselves also tend to be in good positions to implement the ideas and activities suggested by the Plan.

Most of the 11 points suggested have been adopted or experimented with in some way. For example, 'People-oriented Development' has been the concept propelled by the National Economic and Social Development Board, but is now also practiced by the Ministry of Interior and by the Social Development Fund (see below). The King's 'New Theory' is being translated into practice by the Ministry of Agriculture and Cooperatives and by other rural development agencies. The Office of the Civil Service Commission has been considering outsourcing of some activities to local governments and NGOs. In addition, the Bangkok Metropolitan Authority has started to look for new ways of accommodating (rather than eliminating) the informal sector. The Government Savings Bank (GSB) has also experimented with a concept of a 'People's Bank' in Om Koi, a remote district in Chiang Mai. Here, local communities have been given a chance to learn to manage a small sub-branch of the GSB with the ultimate aim of complete ownership, management, and operation by the local community. Finally, television Channel 11 has provided more airtime for community communication matters.

Many of the activities suggested in the Plan had already been implemented by CSOs, the private sector, and some government agencies before the formulation of the Plan. The inclusion of these activities in the Plan has enable dissemination to a wider audience. The last columns of Tables 6.1-6.4 monitor the adoption of the suggested activities. The column is blank if there are not any known activities in the category. However, it should be noted that given the available resources and time required for a comprehensive monitoring program, our monitoring activities were not exhaustive and were undertaken on a limited scale.

6.3 Social Investment Fund

The Social Investment Fund is a mechanism that was created by a World Bank Loan to help alleviate the social impacts of the crisis. It was also created to develop grassroots community capacity for the management of resources in order to strengthen long-run community self-reliance. The Social Investment Fund is operated under the Government Savings Bank and the Fund, operating independent of government administration, is earmarked for community organizations. It was approved by the Cabinet in May of 1998 and has been receiving applications from community organizations since September of 1998. Of the total of \$USD 120 million allocated to the

Fund, \$USD 6.8 million was disbursed by 30 June 1999. About 550 projects with 19,000 beneficiaries have been supported by the Fund and as is depicted in Tables 6.1 - 6.4, the activities of the sub-projects very much support the Plan designed for the Social and Economic Rehabilitation of Communities.

6.4 *Income Distribution Impacts of the Fiscal Package for Economic Stimulation*

On 20 March 1999, the Ministry of Finance issued a package of fiscal measures to stimulate the economy. These measures included, a cut in the value added tax (VAT), a reduction of an equivalent amount in personal income taxes and excise taxes, and an increase in government spending from a Japanese Loan known as the Miyazawa fund. The Miyazawa Fund totals 53,000 million baht, out of which, 26,000 million baht was allocated for alleviating the social impacts of the crisis.

Four possible measures to stimulate the economy were compared to obtain an insight into the social impacts that could have resulted from the above measures. Thus, the results are able to provide some policy guidance to the government (TDRI/MEP, 1999) on the trends of the social impacts resulting from these measures. These measures include: a) a reduction in value added tax in April 1999 from 10 to seven percent; b) a reduction in personal income tax for the first 50,000 baht; c) the reduction of the excise tax on industrial oil and LPG; and d) an increase in government spending equal to the reduction in the tax revenue. The impact of the above four measures is presented in Tables 6.5 and 6.6. It is assumed in the TDRI study that the reduction in government revenues from the combined cuts in personal income tax, value added tax, and the excise tax are equal to the increase in the level of government spending.

An important finding of the study is that the most effective measures for stimulating GDP growth need not also be the most effective measures in increasing household incomes. In terms of increasing real household incomes, the reduction in income tax was the most effective measure, followed by the reduction in the VAT. The increase in government spending had the least impact on the real incomes of the households. However, to increase real GDP, the most effective measures, which by comparison were less effective in increasing household incomes, were those that increased government spending and reduced the excise taxes. For income distribution, the reduction of indirect taxes such as the VAT and the excise tax tended to improve income distribution since poorer people tended to shoulder greater tax burdens relative to their respective incomes. Also indicated from the study, increased government spending might actually widen income distribution gaps. It is important that these implications are well understood so the correct instruments or the most appropriate mix of instruments is used to achieve the twin objectives of growth and equality.

Table 6.1 Projects to Mitigate the Effects of the Economic Crisis on Rural Communities

Project	Activities	Suggested for	Implemented by
Homeward Bound	➤ Encourage migration to rural areas by providing start up funds or leased land	➤ BMA The Community Development Dept.	
Food for Work	➤ Joint activity with local temples to employ people to do renovation work for the community in exchange for food	➤ Temples CSOs Private companies DOLA	➤ CSO/SIP (Eggs in exchange for dry solid waste)
Credit for Health	➤ Community work by patients' families for medicine	➤ Local health centers Private clinics Temples CSOs	➤ Government hospitals
	➤ Health card for the unemployed	➤ Dept. of Public Welfare Pre school centers	➤ MOP
Child Welfare	➤ Budget for food supplements for poor pre-school children	➤ The Community Development Dept. Dept. of Public Welfare Pre school centers	➤ Dept. of Public Welfare, Ministry of Labor, Preschool centers
	➤ Scholarship Fund		➤ Ministry of Finance MOE Private firms CSOs
	➤ Funding for primary school children's lunches and milk		➤ BMA Ministry of Education (MOE)
	➤ Childcare activities by the unemployed		➤ MOLSW/Miyazawa
Local Infrastructure Development	➤ Employ locals in providing upgrading and maintaining local infrastructure	➤ The Community Development Dept. CSOs	➤ CSOs/SIP Local governments through the Miyazawa Fund
Environment Improvement	➤ Fishery Resources Conservation	➤ Local authorities Temples CSOs	➤ CSOs/SIP
	➤ Mangrove Conservation		
	➤ Community forest		
	➤ Water shed conservation.		
	➤ Care of beach and corals.		➤ RFD/Miyazawa Fund
Rehabilitating Tourism and Cultural Sites	➤ Upgrading and renovation of cultural and tourism sites.	➤ Fine Arts Department TAT Ministry of Labor CSOs	➤ CSOs/SIP
	➤ Development of local tourism sites		➤ CSOs/SIP
Welfare for the Aged	➤ Increased welfare subsidy of 100 baht per month for the elderly	➤ Not suggested in the Plan	➤ DPW/Miyazawa Fund
	➤ Old-aged health center	➤ DPW	➤ CSOs/SIP

Table 6.2 Projects to Mitigate the Effects of the Economic Crisis on Urban Communities

Project	Activities	Suggested for	Implemented by
Radio Programs	➤ Music programs interspersed with employment and stress relief advice.	➤ State radio stations Educational establishments	➤ NCUMP
Hotline	➤ <i>Depression counseling.</i>	➤ CSOs	➤ Ministry of Public Health
Consolation Center	➤ Volunteers giving advice and comfort using public spaces such as parks, libraries ➤ Open school libraries and playgrounds to the public after school hours.	➤ BMA/Local authorities Temples CSOs Educational establishments Libraries	
Financial Assistance	➤ Mortgage renegotiation to allow for a reduction or suspension of payments to prevent foreclosures. ➤ Labor for debt swaps ➤ Loans for school fee	➤ Financial Institutions ➤ State and private educational establishments	➤ The Government Housing Bank ➤ BAAC ➤ Ministry of Finance and Private school's MOE
Food for Work	➤ Joint activity with local temples to employ people to do renovation work for the community in exchange for food	➤ Temples CSOs Private sector DOLA	
Credit for Health	➤ Community work by patients' families in return or health care and medicine	➤ Local health centers Private clinics Temples CSOs	➤ Government hospitals
Young Volunteers	➤ For new graduates to work in rural communities ➤ For new graduates to work in government agencies	➤ CSOs The Community Development Dept. ➤ Dept. of Public Welfare Pre school centers Urban slum development centers	➤ Various agencies, Miyazawa Fund ➤ Miyazawa Fund/ Government agencies
Child Welfare	➤ Budget for food supplements for pre-school children in private organizations that charge less than 800 baht per month. ➤ Funding for primary school children's lunches ➤ Childcare activities and support provided by the unemployed.	➤ Dept. of Public Welfare Pre school centers Urban slum development centers ➤ Dept. of Labor Protection and Welfare CSOs Private companies	➤ Dept. of Public Welfare ➤ MOE BMA ➤ MOLSW
Center for Skilled Workers	➤ To coordinate employment opportunities for tradespeople, e.g., carpenters, painters ➤ Buying and selling of used electrical goods.	➤ CSOs BMA TAO (Tambon Administrative Organization)	➤ Temple

Project	Activities	Suggested for	Implemented by
Rehabilitating Tourism and Cultural Sites	➤ Upgrading and renovation of cultural and tourism sites.	➤ Fine Arts Department TAT Ministry of Labor	➤ CSOs/SIP
Skills Share	➤ Workshops for those with work experience to transfer knowledge and skills to those without.	➤ CSOs BMA TAO (Tambon Administrative Organization)	

Table 6.3 Projects to Strengthen Civil Society and the Economies of Rural Communities

Project	Activities	Suggested for	Implemented by
Agri-based Community Enterprise	➤ Activities to produce and market environmentally friendly agricultural products (including quality control)	➤ CSOs BAAC Private companies RFD Dept. of Main Roads Irrigation Dept.	➤ CSOs/SIP Private Company
	➤ Tree plantations, nursery maintenance		➤ The Thai Army
	➤ Management of irrigation canals		➤ CSOs/SIP
Community Industrial Enterprise	➤ To encourage the use of potential and existing resources in the community to raise incomes through home or community-based production	➤ Industrial Promotion Dept. The Community Development Dept. CSOs Private companies	➤ GOs, CSOs/SIP
	➤ Food, herbal medicines, perfume production		➤ GOs/CSOs
	➤ Traditional handicraft production		➤ GOs/CSOs
	➤ Non-polluting and environmentally saving industries		
	➤ Sub contracting community members in certain parts of the production process, e.g., parts assembling		➤ CSOs The Thai Army BMA for school Uniform
	➤ Sale of renewable energy such as bio and solar energy		➤ Private companies
Community Tourism Enterprise	➤ Tourist information center and advice in each Tambon	➤ TAT DOLA CSOs	➤ CSOs/SIP
	➤ Local folk museum		
	➤ Art and culture center		
	➤ Market for local delicacies		
Community Services Business	➤ Savings schemes	➤ Government Savings Bank DOLA CSOs Private companies	➤ CSOs/SIP
	➤ Petrol stations		➤ Private Company
	➤ Shops/central market		➤ CSOs/SIP
	➤ Local central commodity market		➤ CSOs/SIP
Community Clinic	➤ Traditional medicine practices	➤ State and private hospitals Villagers	➤ MOPH CSOS/ SIP
Educational Ashram	➤ A forum for information exchange between and among old and young villagers and academics	➤ Dept. of Non-formal Education CSOs	➤ Mass
Youth TAOs	➤ Encourage youths to participate and assist in the work of TAOs by delegating to them tasks and responsibilities, and	➤ TAOs CSOs	➤ CSOs

Project	Activities	Suggested for	Implemented by
Youth TAOs	➤ Encourage youths to participate and assist in the work of TAOs by delegating to them tasks and responsibilities, and including them in meetings. TAO officials should also participate in Youth TAOs' meetings.	➤ TAOs CSOs	➤ CSOs
Mini CSOs	➤ Activities to build and strengthen youth CSOs	➤ CSOs	➤ CSOs
Natural Leaders	➤ Strengthen those with natural leadership abilities through training and advice from people with experience so they can guide communities which lack leadership.	➤ TAOs CSOs	➤ CSOs

Table 6.4 Projects to Strengthen Civil Society and the Economies of Urban Communities

Project	Activities	Suggested for	Implemented by
Neighborhood Forum	➤ Create people's committees to analyze the needs and problems specific to the community and coordinate with the government authorities.	➤ CSOs	➤ CSOs/SIP
Lane (soi) Beautification	➤ Encourage soi residents to take care of the area where they live, i.e., hiring soi residents who are in need of employment to clean and improve the soi.	➤ BMA Municipality CSOs Private companies	➤ BMA
Community Business	➤ Savings scheme ➤ Production of ready to eat foods ➤ Subcontract the manufacturing sector.	➤ Saving Bank CSOs Private companies	➤ CSOs
Recycling Center	➤ A recycling network for collecting bottles and paper. Collection undertaken by local three wheeled Tuk Tuk vehicles and rickshaws.	➤ CSOs BMA Pollution Control Dept.	
Training Courses	➤ Youth tour guides. ➤ Small enterprises business management ➤ Franchising ➤ Auditing ➤ Computer business applications ➤ Export management. ➤ Skills in electronics, plumbing, painting, mechanics, etc.	➤ TAT Educational Establishments RFD CSOs Alumni Students Association	➤ Prachinburi Province MOLSW CSOs University Bureau
People's Markets	➤ Use of vacant areas, e.g., under expressways as public space for market stalls. Only maintenance fees charged and selection based on a lottery system.	➤ BMA Municipality Temples	➤ BMA CSOs
Mini CSOs	➤ Activities to build and strengthen youth CSOs	➤ CSOs	➤ CSOs

**Table 6.5 Change in Disposable Income (Real) under Different Measures
(at 1998 prices)**

	Income change (million baht)			
	VAT	Income Tax	Excise Tax	Increased Government Spending
Richest	48,245	79,428	39,927	29,478
Next 20%	17,220	14,995	13,990	9,522
Next 20%	10,555	7,671	8,562	5,056
Next 20%	6,716	4,792	5,688	2,885
Poorest 20%	3,685	2,539	2,918	1,573
Total	86,420	109,425	71,085	48,513
Change				
Richest	1.73	2.84	1.43	1.06
Next 20%	1.75	1.53	1.42	0.97
Next 20%	1.82	1.32	1.47	0.87
Next 20%	1.84	1.32	1.56	0.79
Poorest 20%	1.84	1.27	1.46	0.79
Total	1.76	2.22	1.44	0.99

Source: TDRI/MEP 1999

Table 6.6 Change in Household Income as a Percentage of Income in 1998

(%)

	Share of income in 1998	Income Tax	Income Tax	Excise Tax	Increased Government Spending
Richest 40%	77.19	75.75	86.29	75.85	80.39
Poorest 60%	22.81	24.25	13.71	24.15	19.61
Total	100.00	100.00	100.00	100.00	100.00

Source: TDRI/MEP, 1999.

7. The Prospect of Economic Recovery

It is now almost a consensus that Thai economy has reached the bottom of the current financial crisis. The remaining question is whether, or when, any kind of serious recovery will begin¹¹. A thorough examination of the possible scenarios in this respect must be made before any attempt to carry out a reasonable economic projection can be formulated.

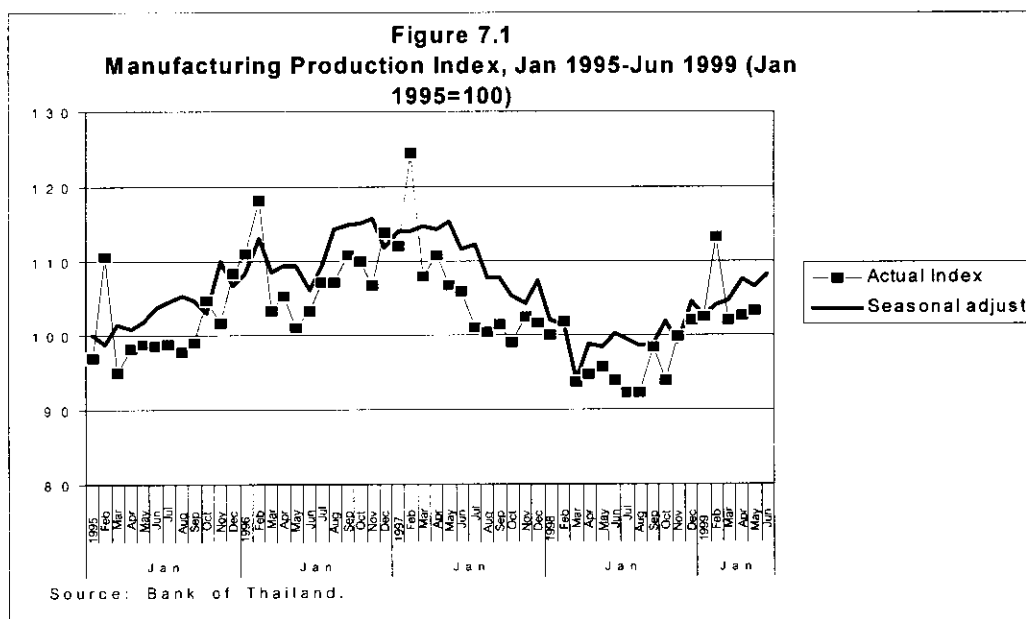
Perhaps the strongest reason for optimism about recovery is the macroeconomic stability achieved during the past year. This has greatly reduced uncertainty in the economy from the level during the turbulent time immediately following the onset of the crisis. However, macroeconomic stability is not sufficient, for the moment at least, for consumers and investors to regain confidence and resume spending. The operation of the private sector has been severely damaged due to sharp decreases in asset values and insufficient cash flows resulting from the twin crises in the real and banking sectors. Keynesian-type policies have been viewed as the only way out for the crippled economy. The Thai Government, with the approval of the IMF, has reversed its initially tight fiscal policy to an increasingly more expansionary one and since the beginning of 1999, apart from allowing a higher public deficit, as a percentage of GDP, the government has also initiated a series of stimulation measures aimed at promoting private consumption and investment.

Thailand has seen a marked improvement in its current account position, which amounted to slightly more than \$USD one billion surplus per month since the last quarter of 1997. The stimulus policy is particularly timely for encouraging a siphoning from the accumulated net national savings over investment in order to fuel the recovery. The effectiveness of the government measures in playing a leading role in stimulating aggregate demand is therefore important. The government itself is optimistic, as the official forecast of the 1999 GDP growth rate has now been raised, from one percent just a few months ago, to the current estimate of three to four percent.

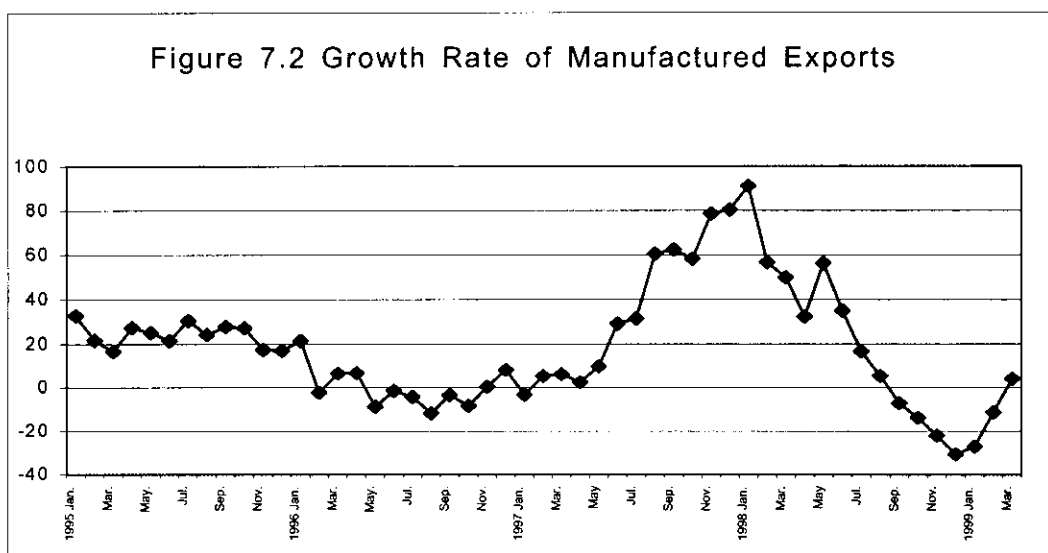
The official forecast is mainly supported by the assumption that since some of the major economic indicators have seen steady improvement thus far, they will continue this course of steady improvement into the near future. The direct evidence comes from the data indicating the recommencement of production growth. Table 7.1 shows that real GDP began to grow again in the first quarter of 1999, after dwindling over the preceding seven consecutive quarters. In fact, since the last quarter of 1998, agricultural production began to register an impressive growth of 4.51 percent. Manufacturing production also saw marked improvement, as is evident by the increases in the actual and the seasonally adjusted manufacturing production index (Figure 7.1). As well, the rising capacity utilization rate confirmed the resumption of growth.

Most recently, the figure for electricity use, in July 1999, shows a growth of 5.6 percent over the year, which amounts to the highest electricity use ever. Given past predictive power of electricity use figures in projecting economic growth, it is possible to deduce that manufacturing production is likely to maintain its newly established upside pace.

¹¹ That is, which scenario best describes the crisis---the U-shaped or the L-shaped?



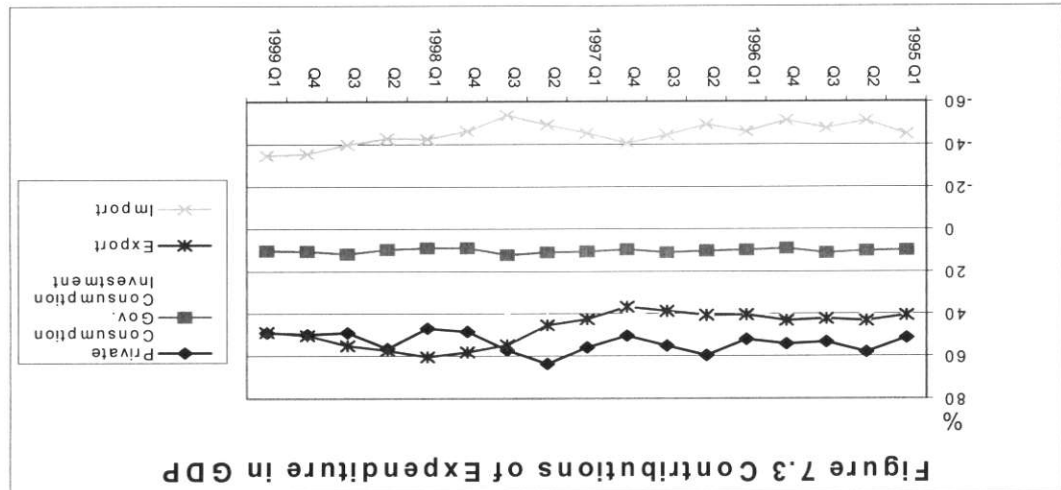
However, the critical question is how permanent this recent surge in production will be. In other words, what is the probability that the high growth expectation will revert to the previously low-levels of economic expectations, which had become so prevalent over the past two years? One way to examine such probability is to look into the prospects for Thai exports, the slump of which since the middle of 1996 was an important precursor of the crisis in 1997. As is clear from Figure 7.2, the revenue from manufactured exports ceased to expand around the last quarter of 1998, with a negative growth rate as high as 30 percent in January of 1999. One possible reason for the decline in manufactured exports is the weakening of the Yen in the second half of 1998, as well as, the ongoing slump in many of the regional economies.



Source: Bank of Thailand

One of the positive influences which might serve to indicate future improvements to the export situation for 1999 and beyond, is the revival of key regional economies, especially that of Japan and South Korea. On the other hand, possible negative indicators would include the bursting of the United States asset bubble, which could have a far-reaching impact on the global economy. The rapid deterioration of China's economic situation, which could lead to a devaluation of its currency, poses another threat. The Chinese devaluation could further add to the overall level of uncertainty, given that its effect is largely unpredictable and depends on the reaction of the market.

If exports cannot be counted on to stimulate the growth of the economy, it is not very clear which component of aggregate demand would act as the principal engine of growth. Government expenditure, apart from the psychological effect, has been too small to play the role, and has accounted for only approximately one-tenth of the total expenditure (see Figure 7.3). Spending on investment is not likely to pick up either, as the sudden drop of aggregate demand from the crisis has left many industries with huge unused capacities. It is reasonable to predict only a small, if at all, increase in investment expenditure in the foreseeable future.¹²



Source: National Economic and Social Development Board

The remaining source of growth is therefore private consumption. Judging from its share of GDP, Figure 7.3 shows that private consumption has not yet played the leading role in taking the economy to the recovery path. Its relatively constant share (adjusted for seasonal effects) of GDP reveals its passive role, namely, that it grew and shrank at more or less the same pace as the overall GDP. Nevertheless, there are indications that an economic recovery is possible in the not too distant future. This can be derived given that, first, the downward adjustment of interest rates, since around the beginning of the last quarter of 1998, seems to be having a favorable impact on consumption. In Figure 7.3, private consumption has registered positive growth since the fourth quarter of 1998 and has accelerated further in the first quarter of 1999. Second, stable economic conditions as well as government stimulation measures have been effective in encouraging people to spend more.

¹² In fact, the July figure of investment index still showed a decline in investment, although with a lower rate of decrease.

The biggest risk in the Thai economy comes from the high and persistent level of non-performing loans (NPLs). The NPL ratios of the commercial banks and finance companies have climbed steadily since the onset of the crisis, and have demonstrated no signs of decline, even when the real economy began to show signs of a reversal. The troublesome non-performing loans are clearly responsible for the banks' inability and unwillingness to lend more credit. The total credit of the commercial bank system actually dwindled by 7.5 percent and 2.1 percent in the fourth quarter of 1998 and the first quarter of 1999, respectively, over the same period one year before.

Whether the problem of NPLs should be seen as a major obstacle to medium-term growth hinges on the upcoming performance of aggregate demand. Strong growth in aggregate demand, either from an increase in export or from domestic consumption, will reduce the NPL ratio. However, this would not occur immediately as there would be time lags, because debtors will tend to wait to repay debts only after they are more confident in the future income prospects. The speed with which the NPLs decline will be largely determined by the revival pace of the real estate sector, in which the NPLs are most rampant. However, judging by the enormous real estate overvaluation prior to the crisis, it is unlikely that the sector's NPLs will decline anytime soon.

Table 7.1 Indicators of Production Activities

	1997				1998				1999	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP Growth Rate	1.27	-0.59	-2.00	-3.56	-7.97	-12.3	-12.5	-4.97	0.85	
Agriculture	0.28	0.99	-0.36	-0.93	-2.95	-6.19	-0.08	4.51	1.19	
Non-agriculture	1.38	-0.72	-2.13	-3.94	-8.48	-12.8	-13.6	-6.40	0.81	
Manufacturing	116.8	108.5	102.5	101.0	101.1	94.7	92.8	97.3	105.9	
Production Index										
Capacity Utilization Rate	70.1	68.3	63.5	57.8	52.3	51.8	51.0	53.5	56.4	57.6

Source: National Economic and Social Development Board

Table 7.2 Growth Rates of Expenditures on GDP

	1997				1998				1999
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private Consumption	4.5	1.0	-2.2	-3.0	-3.3	-3.4	-3.9	1.9	4.2
Government Expenditure	5.2	1.3	3.8	-6.9	-3.3	-3.8	8.7	16.6	15.7
Investment	-14.6	-17.8	-14.2	-33.0	-17.4	-23.3	-21.4	-11.0	-2.0
Exports	2.1	5.6	33.1	59.7	64.1	38.0	13.1	-14.3	-19.5
Less: Imports	-4.7	-5.6	13.9	14.9	8.6	-4.8	-16.3	-23.6	-18.5
Expenditure on GDP	-2.7	-5.4	-5.8	1.1	15.4	9.2	12.3	-0.9	-0.2

Source: National Economic and Social Development Board

Table 7.3 NPLs and Commercial Bank Credit and Deposits

	1998				1999	Q2
	Q1	Q2	Q3	Q4	Q1	
NPLs % (Commercial Banks)	25.3	31.0	37.9	42.9	46.2	46.6
NPLs % (Finance Companies)	43.8	52.6	60.4	70.2	65.5	67.4
Banks' Credit Growth, %	13.3	13.4	1.6	-7.5	-2.1	
Banks' Deposit Growth, %	17.7	15.4	12.0	8.9	6.4	

Source: Bank of Thailand

8. The Economic Forecast for 1999-2001

Although the uncertainty in the economy has recently been on the decline, the discussion in the last section calls for caution in economic forecasting for Thailand over the course of the next two to three years. Table 8.1 presents macroeconomic projections for 1999 to 2001 based on the most plausible economic scenarios at the moment. Thailand is likely to attain modest economic growth rates at around 2.4 to 2.5 percent this and next year, and might even increase to a slightly higher growth rate of 3.7 percent in 2001. These modest growth rates, as compared to the average growth rates of almost 10 percent during 1988-1995, are expected because of the correspondingly modest increases expected in investment and the demand for exports. The baht value of exports is anticipated to decrease in 1999 due to the strengthening of baht from the average of 41 baht/US\$ in 1998. On the investment side, excess capacity in the non-traded sector continues to dampen demand for new investment, whereby, curbing the growth of investment to less than five percent per annum until the year 2001.

From 1999 onward, and for the first time since the breaking of the crisis, imports are expected to grow at a slightly faster rate than exports. Consequently, surpluses in the trade and current account balances will gradually be reduced, but since the economy will continue to collect more foreign reserves, the country's debt burden will gradually continue to be trimmed down. Additionally, inflation rates are predicted to be relatively low, mainly due to moderate increase in aggregate demand.

In summary, economic recovery is likely to be slightly slower than has been predicted by the Thai Government. To achieve the official economic growth forecast of three to four percent for 1999, both the external and domestic environment must be favorable in terms of expenditure. The principal onus for economic revival falls on the steadily growing export revenue, which has tended to be the most reliable source of growth in the past. Thai exports depend largely on the real effective exchange rate (defined either as trade-weighted, inflation-adjusted exchange rate, or as the relative price of non-tradable goods to tradable goods); hence, realignments of the major regional currencies will affect the export performance and hence economic recovery¹³. In addition, the downside risk, which involves the strength of the United States economy, needs close attention, especially given the currently precarious state of the US economy. On the other hand, all the factors mentioned above could move in very favorable directions, and Thailand could experience even higher growth rates than have been predicted. However, given the current conditions, this scenario is rather unlikely to occur in the near future.

¹³ At the time of writing (September, 1999), the Japanese Yen had been significantly strong against all other major currencies. This could have a significant positive impact on Thai exports.

Table 8.1 Macroeconomic Projections (1999-2001)

	1999	2000	2001
Average Exchange Rate (per US\$)	38	38	38
Economic Growth (Real GDP %)	2.5	2.4	3.7
Agriculture	1.8	2.0	1.9
Industries	3.8	2.9	5.2
Services	1.6	2.0	2.9
Inflation Rate	1.1	2.3	2.4
Investment Growth (real)	4.5	3.1	4.9
Merchandise Export (billion baht)	2,069.4	2,177.9	2,292.4
% increase	-5.3	5.2	5.3
Merchandise Export (billion US\$)	54.5	57.3	60.3
% increase	3.2	5.2	5.3
Merchandise Import (billion baht)	1,673.7	1,774.8	1,887.4
% increase	-0.9	6.0	6.3
Merchandise Import (billion US\$)	44.1	46.7	49.7
% increase	8.0	5.9	6.3
Trade Balance (billion baht)	395.6	403.1	405.0
As % of GDP	7.9	7.8	7.4
In billion US\$	10.4	10.6	10.7
Current Account (billion baht)	461.5	475.4	481.5
As % of GDP	9.3	9.2	8.8
In billion US\$	12.2	12.5	12.7

Source: Thailand Development Research Institute

9. Conclusions and Recommendations

The findings of this study indicate that economic growth in Thailand has led to many improvements in the standard of both, physical and social infrastructure. This has especially been the case for improvements to education and health services in rural Thailand. However, competition for natural resources has become more intense and correspondingly, so has the task of earning a living become much more difficult for many Thais. Yet, during the boom time, the number of the poor has declined drastically and the income and employment situations for women have seen a marked improvement.

This study also suggests that the impacts of the crisis on the urban unemployed are severe and there is little prospect for them to be absorbed in the rural sector. This implies a greater need for assistance and for services to help the urban unemployed. The impact of the crisis on the rural communities is uneven depending on the local labor market structure and the crops produced. For the rural communities in our sample, the problem of unemployment for seasonal workers is more pronounced than for returned migrants. This means that the 'same amount for all' distribution of the Miyazawa Fund in the rainy season to all sub-districts might be less useful than what it could otherwise have achieved.

Although it cannot be said that more globalized villages suffered more from the crisis, it is the opinion of the research team that the least globalized villages are often the poorest villages and they tend to have suffered the most. This is because the poorest villages tend to be suppliers of labor to nearby cities with few options for exporting their labor abroad. In addition, since poorer villages tend to have poor land and a lack of infrastructure, farmers in these villages tend to require dry season employment. Targeting poorer villages and providing more resources in the dry season would be an appropriate strategy for helping rural areas overcome the negative impacts of the crisis.

The economic crisis in the rural areas, as was described by the rural participants, has been a gradually downward sloping curve showing a declining trend since 1987. This depiction is notably different from the urban sector's depiction of an upward sloping curve which ended with a sudden crash or a sharp fall. The gradual trend in the rural sector is likely because of the impacts of the increasingly frequent and repeated droughts since the early 90s.

Ranking of economic impacts by the rural participants revealed that the impacts of the economic crisis are not the only major concern, and structural problems such as the lack of water and lack of land titles remain very serious concerns in many villages. This implies that the government should not only concentrate on stability problems and should look for means to solve structural problems at the same time. For example, rather than spending money on wage employment, which does not result in concrete outcomes, government expenditures could be used to improve smaller, more labor-intensive infrastructures.

In all the communities consulted, drug use and trade, especially amphetamines, has been a major concern. In some cases, local communities felt that solving this problem is beyond their community's capacity because local influential people and officials may be involved. Although the increase in the use of drugs cannot be directly linked to the crisis, the drug trade offers an easy means to earning a living in hard times.

While most of the government and donors' attentions are focused on the unemployed, home-based manufacturing, micro-enterprises or shops have been greatly affected by declines in demand, bad debts, and a lack of orders from customers, more studies are needed to probe into the nature of the problems specific to these particular groups.

The views surrounding the impact of the crisis and the solutions needed differ between government officials and the poor communities. Communities tend to have a wider and more complex definition of poverty. For example, being in debt is seen by communities as a characteristic of poverty. Loan assistance from the government thus, may not be seen as a solution to poverty and are often used for immediate consumption needs rather than for production. Loans to the poor may need to be administered with concrete measures that enable the poor to repay the debt.

Women were not found to be more impacted than men in terms of employment and income, but women have been responsible for loan renegotiation and for the protection of children's welfare. In general, education of children is highly valued although higher-levels of education, especially vocational education, may have to be sacrificed due to the higher costs involved.

In this study, social capital has been defined as networks of individuals or communities that enable the production of goods and services for common benefits. Social capital is built up over repeated common experiences and therefore, the accumulation process takes time and is not likely to be eroded easily by a short term crisis or boom. Our limited number of case studies has not shown that social capital has been eroded except for the case of the people's irrigation, which has become weakened over the boom period because it ceased to be functional for some of the members who wanted to leave agriculture. A long-term study is further required to carefully examine the issue of the erosion of social capital.

In our discussion with NGOs, we found that the foreign donor-supported NGOs had a tendency to fare better during the crisis than NGOs that received funding from domestic sources, mainly because of baht depreciation.

The outward face of the crisis has changed relatively rapidly over time from inflation, high crop prices, and massive layoffs in 1997 and early 1998, to a fall in crop prices, and a general decline in demand and the price level in 1999. The impact of the crisis is therefore not only changing, but is also unpredictable. A continual and close monitoring of the impacts of the crisis will be necessary to bring about timely changes in policy instruments. The use of more non-government channels to allow for more flexibility and timeliness in coping with rapid changes may also be beneficial.

Although the recovery of the Thai economy seems to be in sight, the lessons learned from the crisis will be valuable for the strengthening of our social and economic immunity in the long-term.

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