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Thailand's Economic Structure: Towards Balanced Development?**

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Towards Balanced Development:
Sectoral, Spatial and Other Dimensions**

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Session IV

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PREFACE

This report evolves from and draws upon the author's research over the last several years on the issues of macroeconomic development, structural changes, poverty and income distribution, employment and human resources development, structural changes and the environment, and dynamic development path. The report has also benefited from a brain storming meeting involving a number of TDRI staff and the following members of the TDRI Council of Trustees; Dr. Sippanondha Ketudat, Dr. Phaichitr Uathavikul, Dr. Narongchai Akrasanee, and Dr. Chaiyawat Wilbuswasdi. Many invaluable ideas came up during this meeting. All these members of the TDRI Council of Trustees and my colleagues at TDRI, who were involved in the meeting, are to be sincerely thanked. While many of the ideas that arose from the meeting have been integrated in one way or another into the report, there are many that have been left out. The main reason being that as the preparation of this report progressed, the coverage of certain topics has been reduced or left out entirely, in order that the flow of arguments in the paper can proceed in a relatively coherent fashion. For this sincere apologies are offered.

สรุปสำหรับผู้บริหาร

รายงานฉบับนี้ ได้วิเคราะห์ความสำเร็จของการพัฒนาประเทศในอดีต ตลอดจนความไม่สมดุลต่างๆที่เกิดขึ้น และเสนอแนะนโยบายการพัฒนาประเทศสู่ความสมดุลในอนาคต

ผลสำเร็จของการพัฒนาประเทศในอดีต จะเห็นได้จากอัตราการขยายตัวของเศรษฐกิจในระยะสองถึงสามทศวรรษที่ผ่านมา การลดปัญหาความยากจนและความสำเร็จในการขยายบริการขั้นพื้นฐานให้กับประชาชน เช่น การศึกษาขั้นพื้นฐานและสาธารณสุขมูลฐาน เมื่อวิเคราะห์เหตุผลเบื้องหลังความสำเร็จจะเห็นว่าขึ้นอยู่กับภาพ 3 ภาพ คือ เสถียรภาพ คุณภาพ และมิตรภาพ เสถียรภาพหมายถึงเสถียรภาพทางเศรษฐกิจ และเสถียรภาพทางการเมือง คุณภาพมาจากคุณภาพของทรัพยากรธรรมชาติ และคุณภาพของประชากร ส่วนมิตรภาพนั้น หมายถึงการปรองดองซึ่งกันและกันระหว่างคนไทยเอง และมิตรภาพระหว่างคนไทยกับคนต่างชาติ

แม้ว่าเศรษฐกิจไทยได้พัฒนามาเป็นที่น่าพอใจบนรากฐานของ เสถียรภาพ คุณภาพ และมิตรภาพ ก็ตาม แต่สิ่งที่ยังขาด คือ ดุลยภาพ มีความไม่สมดุลหลายด้านเกิดขึ้น เช่น ความไม่สมดุลระหว่างโครงสร้างของแรงงานกับโครงสร้างการผลิต ระหว่างโครงสร้างของการศึกษากับโครงสร้างการผลิต ระหว่างพื้นที่ต่างๆในประเทศ ระหว่างรายได้ของคนกลุ่มต่างๆ ที่มีความเหลื่อมล้ำมากขึ้น ระหว่างการพัฒนาทางเศรษฐกิจกับการอนุรักษ์ทรัพยากรธรรมชาติ และสิ่งแวดล้อม และความไม่สมดุลด้านอื่นๆที่เกิดขึ้นจากการเปลี่ยนแปลงของโครงสร้างของประเทศ

เพื่อที่จะทำความเข้าใจต่อความหมายของการพัฒนาประเทศที่เกิดขึ้นในอดีต และทำให้ทราบแนวทางที่พึงปรารถนาในอนาคต การวิเคราะห์จำเป็นที่จะต้องมองกระบวนการการพัฒนาในระยะยาวในเชิงพลวัต และยึดวัตถุประสงค์หลักของการพัฒนา คือการทำให้คุณภาพชีวิตของประชากรดีขึ้นได้อย่างยั่งยืน เพื่อให้วัตถุประสงค์นี้สำเร็จลงได้ การพัฒนาจะต้องทำไปพร้อมๆกันหลายๆด้าน ทั้งเศรษฐกิจ สังคม การเมือง และสิ่งแวดล้อม อย่างไรก็ตามคงเป็นไปได้

ที่จะมีความสมดุลทางด้านต่างๆตลอดเส้นทางแห่งการพัฒนา จะต้องยอมรับว่าความไม่สมดุลนั้น จะยังคงมีอยู่เป็นของธรรมดา แต่สิ่งที่สำคัญคือ ความไม่สมดุลทางด้านใดด้านหนึ่งไม่ควรมากเกินไป จนกระทั่งไม่สามารถแก้ไขได้ หรือทำให้เกิดผลเสียหายต่อการพัฒนาประเทศโดยส่วนรวม ดังนั้น สิ่งที่สำคัญคือ การป้องกันไม่ให้ความสมดุลทางด้านใดด้านหนึ่งมากเกินไปจนขีดอันตราย ซึ่งจะไปกระทบ ถึงวัตถุประสงค์หลักของการพัฒนา คือ การทำให้คุณภาพชีวิตของประชากรดีขึ้นอย่างยั่งยืน

เมื่อได้ตกลงที่จะยึดหลักของการรักษาระดับของความสมดุลไม่ให้เกินขีดอันตราย ดังนั้น แนวนโยบายต่างๆในอนาคตจึงพอที่จะสรุปได้ดังนี้

ขีดเส้นรายได้แห่งความยากจนนั้น ต้องถือว่าเป็นขีดอันตรายที่สำคัญ กล่าวคือ ถ้าคนมีรายได้ต่ำกว่าขีดนี้ ก็ยากที่จะมีโอกาสพัฒนาคุณภาพชีวิตของตนเองให้ดีขึ้นอย่างยั่งยืนได้ ดังนั้น ควรจะมีโครงการ "ขจัดความยากจนให้หมดไปจากแผ่นดินนี้ภายในปี 2000" โครงการนี้อาจจะทำได้โดยขยายระบบภาษีให้ครอบคลุมประชากรทั้งประเทศ และรัฐบาลจะให้เงินเพิ่มเติมต่อ ทุกครัวเรือนที่ในปีใดปีหนึ่งมีรายได้ต่ำกว่าขีดเส้นรายได้แห่งความยากจน เพื่อให้มีรายได้ไม่ต่ำกว่า ขีดเส้นแห่งความยากจน จำเป็นที่จะต้องใช้จ่ายเงินทั้งสิ้นประมาณ 30,000 ล้านบาทต่อปี ถ้าภาวะความยากจนอยู่ในระดับของปี 2531/2 ในเวลาเดียวกันก็จำเป็นต้องมีการประกันทางสังคม ด้านอื่นมาเสริมด้วย

สำหรับเรื่องการกระจายรายได้นั้น ก็จำเป็นต้องมองในระยะยาวเช่นกัน โดยเฉพาะ สิ่งที่สำคัญ ก็คือ โอกาสความก้าวหน้าของคนในสังคม ถ้า ณ จุดหนึ่ง คนคนหนึ่งจน แต่ในอนาคตคนคนนั้น สามารถยกระดับของตนเองขึ้นมาได้ การที่มีช่องว่างระหว่างรายได้ ณ จุดใดจุดหนึ่งเกิดขึ้นก็อาจจะไม่สำคัญมากนัก จากการวิเคราะห์ข้อมูลในช่วง 10 ปีที่ผ่านมาพบว่า ผู้ที่มีการศึกษาระดับกลางและสูงนั้น มีโอกาสทางเศรษฐกิจมากมายและสามารถยกระดับของตนเองได้มากกว่า ในทางตรงกันข้าม ผู้มีการศึกษาเพียงระดับประถมหรือต่ำกว่ามีโอกาสที่จะยกระดับ ของตนเองได้น้อยกว่ามาก ดังนั้น สำหรับผู้ที่มีการศึกษาน้อยนั้น ก็จะอยู่ได้แคในระดับล่างของ การกระจายรายได้และไม่สามารถยกระดับความเป็นอยู่ของตนเองขึ้นมาได้เมื่อเทียบกับคนกลุ่มอื่นๆ เรื่องนี้อาจจะถือว่าเป็นจุดอันตรายของสังคมไทยในอนาคตที่ไม่ไกลนัก เพราะจะก่อให้เกิด ความขัดแย้งในด้านต่างๆอย่างมากตลอดจนความไม่พอใจในระบบสังคมขึ้นมาได้ สิ่งที่ต้อง เร่งกระทำคือการยกระดับ ทักษะ ความรู้ ความสามารถของผู้ที่อยู่ในกำลังแรงงาน ที่มีการศึกษาเพียงประถมและต่ำกว่าอย่างจริงจังๆ

สำหรับความไม่สมดุลระหว่างการพัฒนาเศรษฐกิจและสิ่งแวดล้อมนั้น ควรสร้างเครื่องชี้วัดถึงคุณค่าของสิ่งแวดล้อม เพื่อที่จะให้ทราบถึงผลเสียหายของการทำลายทรัพยากรธรรมชาติและสิ่งแวดล้อมอย่างเป็นรูปธรรมเมื่อเทียบกับผลประโยชน์ทางเศรษฐกิจ เพื่อที่จะได้ทำให้เกิดความสมดุล ในการใช้ประโยชน์จากทรัพยากรธรรมชาติและสิ่งแวดล้อมมากขึ้น

ในเรื่องของมิตรภาพนั้น ต้องระวังภัยที่อาจจะเกิดขึ้นในอนาคต โดยเฉพาะปัญหาทางด้านแรงงาน และสุดท้ายต้องอย่าลืมถึงความสำคัญของเสถียรภาพทางเศรษฐกิจต่อการพัฒนาทั้งหมด โดยเฉพาะอย่างยิ่งเมื่อยึดเสถียรภาพทางเศรษฐกิจเป็นหลักสำคัญ นักการเมืองต้องทำงานมากขึ้น คิดให้นักขึ้น ว่าวิธีอะไรจึงจะแก้ไขปัญหาความไม่สมดุลต่างๆได้อย่างมีประสิทธิภาพ ไม่ใช่ว่าจะมุ่งทุ่มเงินเข้าสู่ปัญหาแต่เพียงอย่างเดียว ซึ่งส่วนใหญ่แล้วก็ได้ไม่เป็นการแก้ปัญหาที่ตรงจุดแต่อย่างใด

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Towards Balanced Development: Sectoral, Spatial And Other Dimensions

1. INTRODUCTION AND SUMMARY

This paper describes the past development successes in Thailand and highlights key underlying factors (Section 2). It then looks at signs of imbalances along various dimensions (Section 3), and develops a conceptual framework that is useful for understanding the notion of sustainable development with all its attendant imbalances (Section 4). Finally, the paper applies the conceptual framework to obtain some key policy directions for the future.

Past development successes are characterized by high growth, poverty reduction, and expansions in provisions of basic education and health to the population. The underlying factors relate to three keywords; stability, quality, friendship. Stability refers to macroeconomic and political stability. Quality refers to the quality of the natural resource base and particularly the quality of the people. Friendship refers to the friendship of Thais with Thais and that of Thais with foreigners.

With the past development successes, however, there are also numerous imbalances in Thailand. The major ones are imbalances between the employment and educational structures and sectoral composition, locational imbalances, income distribution, economic-environmental imbalances, and imbalances of transition. Given, the past development pattern and the attendant imbalances, some conceptual framework is needed for analysis. For this, a dynamic view is taken, with the ultimate objective as the sustainable improvement to the quality of life of the population. The concept of a damped oscillated development path is introduced to characterize a sustainable development path. Ultimately, there should be approximate balance between the various dimensions and sub-dimensions of development; economic, social,

political, ecological. However, imbalances during the course of development are likely to be the norm. The key is to make sure that the imbalances do not become too big and destabilizing, or get beyond the critical thresholds of imbalances.

Applying the principle of dynamic balance and the principle of avoidance of the critical thresholds of imbalances to future Thai development, some key policy directions are developed.

As the ultimate goal of development is the sustainable improvement to the quality of the population, the most important threshold is the basic needs thresholds. This indicates the level below which the struggle to survive becomes paramount, possibilities of self-improvement, self-investment, investment in the children, are minimal or non-existent. Being under the basic needs level for an extended period is incompatible with sustainable improvement to the quality of life. As the basic needs is essentially measured by the poverty line, it appears unacceptable that about 1 in 5 of the population is living under this most basic of thresholds. Thus, a scheme of eradication of poverty for all by the year 2000 is suggested.

The above scheme can be achieved by extending the coverage of the tax system to the whole population, as this is the most effective way for monitoring incomes on a mass scale. The VAT will also be extended to all sectors, including agriculture, with no exemptions. This is particularly useful for monitoring income from own account operations. In the eradication of poverty scheme, the government will guarantee every family an income that is equivalent to the poverty line income. Shortfalls from the poverty line income will be given to the families by the government. The target group for this scheme is people under the poverty line. It is not about sectors of production, not about location of households. The scheme is calculated to cost 30,000 million baht per year (2.1 percent of total household income) in 1990 (assuming the 23.7 percent poverty incidence as in 1988/9). This is not a charity scheme. Rather, the idea is that people are normally resourceful and can help themselves. To be able to do so effectively, however, they need to be free from the constant and over-riding struggle to meet basic needs. Only then can they use their resourcefulness effectively, be able to invest in themselves, in their children, so that

they can sustainably move up out of the poverty zone. Other "safety nets" schemes to supplement the eradication of poverty scheme are also needed, and also for the non-poor, such as health insurance schemes. However, many safety net type programs will have to be redefined, as the income guarantee nature of the eradication of poverty scheme means that this feature of other schemes can be eliminated.

For income distribution, the principle of dynamic balance implies that a dynamic analysis is needed. The key is to examine socioeconomic mobility. It seems that in the past Thai society allows much socioeconomic mobility. Data during the last decade, however, show that, during this dynamic phase of Thai development, those with more than primary education on up took full advantage of the opportunities. While rough, the data appear to show substantial socioeconomic mobility for this group. They presumably are the new middle class or new rich that is a very visible part of the Bangkok scene over the last several years. For those with primary education or less, however, the data shows very little prospects of socioeconomic mobility. Start at the bottom, and in all probability they will stay at the bottom for ever. This is very worrying, as then Thailand possesses the worse of both worlds; large disparities in income, and very low mobility from the bottom group. The situation appears to be close to a critical threshold of imbalance. Unless the situation is reversed soon, harmonious development in Thailand over the medium-term appears unlikely.

The key is to give those in the labor force, who have primary education or less, more skills, more knowledge, and more opportunities (the same conclusion reached at the 1991 Year-End Conference, but with even more urgency). Again, the focus is on people; not on sectors or location.

The paper finally ends by briefly discussing some other thresholds of imbalances. These are the economic-environmental threshold, the friendship threshold and the macroeconomic stability threshold.

2. KEY FACTORS UNDERLYING PAST DEVELOPMENT SUCCESSES

This section briefly describes Thailand's past development successes, and tries to identify the key underlying factors. This will be important for developing the strategy for the future, as problems may develop with some of these underlying factors that have seen Thailand through successful in the past.

2.1 Past Development Successes

Thai economic development over the past two to three decades has been highly satisfactory. While the pace of economic development was not as impressive as that in a few countries, such as the Asian NIC's, Thailand nevertheless ranks very high in terms of the pace of economic development during this period among all countries in the world. Over the last two decades, real GDP grew at a rate of over 7 percent per annum on average (Table 2.1).¹ Even during the "oil shock" periods (1970-75 and 1980-85), real GDP growth averaged over 5.5 percent per annum. And as is well known, since the mid 1980s, Thailand went into a period of unprecedented rapid growth, when double digit growth was achieved for three consecutive years (1988, 1989 and 1990). Concurrently, the rate of population growth was reduced from about 3 percent per annum between 1960 and 1970 to only about 1.7 percent per annum between 1985 and 1990. Thus, real GDP per capita grew at a rate of almost 5 percent per annum between 1970 and 1990. Starting from a per capita GDP of US\$ 195 in 1970, by 1990 this had increased to US\$ 1,434 (current prices).

Over the last several decades, there have of course been major structural changes in the economic structure. Agricultural growth averaged slightly less than 4 percent per annum between 1970 and 1990, while industrial growth was over 9 percent per annum and that for services was about 7.5 percent per annum. Thus, the country's production structure became increasingly based on industry and services. The share of agriculture in GDP declined from 27 percent in 1975 to only 12.4 percent in 1990.

1. In fact, average real GDP growth over the last three decades was also over 7 percent per annum.

Table 2.1
Past Performance Of The Thai Economy

	1970	1975	1980	1985	1990
Population (Million)	36.40	41.40	46.72	51.58	56.08
GDP Per Capita (US\$, Current Prices)	194.7	359.5	687.6	725.7	1,434.3
Average Growth	1970-75	1975-80	1980-85	1985-90	Period 1970-90
Population	2.61%	2.45%	2.00%	1.69%	2.18%
Agriculture Real GDP	3.81%	4.03%	4.92%	2.92%	3.92%
Industry Real GDP	7.34%	10.56%	5.03%	13.93%	9.16%
Services Real GDP	5.63%	8.24%	6.33%	9.74%	7.47%
Total Real GDP	5.60%	7.94%	5.65%	9.89%	7.25%
Real GDP Per Capita	2.99%	5.49%	3.65%	8.20%	4.96%
Inflation (CPI)	8.76%	8.34%	4.91%	3.89%	6.45%
Foreign Trade (Million US\$)	1970	1975	1980	1985	1990
Merchandise Export	686.0	2,176.9	6,441.0	7,073.9	22,870.8
Merchandise Import	1,269.6	3,166.1	9,269.5	9,348.1	32,651.1
Services Export	485.3	812.1	2,123.4	3,169.0	8,499.0
Services Import	195.1	509.9	1,579.7	2,606.2	6,007.6
Total Export/GDP	16.5%	20.1%	26.7%	27.4%	45.0%
Total Import/GDP	20.7%	24.7%	33.8%	31.9%	55.5%
Average Growth	1970-75	1975-80	1980-85	1985-90	Period 1970-90
Merchandise Exports	25.98%	24.23%	1.89%	26.45%	19.16%
Merchandise Imports	20.05%	23.97%	0.17%	28.42%	17.63%
Services Exports	10.85%	21.19%	8.34%	21.81%	15.39%
Services Imports	21.18%	25.38%	10.53%	18.18%	18.69%
Accumulated Ratios	1971-75	1976-80	1981-85	1986-90	Period 1970-90
Trade Deficit/GDP	5.68%	6.93%	7.18%	7.22%	7.07%
Current Account Deficit/GDP	1.76%	5.68%	5.29%	3.84%	4.38%

Sources: Nation Income Accounts of Thailand, Various Issues.
Bank of Thailand, Monthly Bulletin, Various Issues.

Even taking into account the food processing industry, which has a lot of backward linkages to agriculture, the share of agriculture plus the food processing industry to GDP declined by half, from about 30 percent in 1975 to 15 percent in 1990.

Apart from changes in the structure of production, the importance of foreign trade to the domestic economy also increased rapidly over the last two decades. The shares of export and import to GDP both increased by almost 3 folds; for export (merchandise and services), the share to GDP increased from 16.5 percent in 1970 to 45.0 percent in 1990, while the share for import rose from 20.7 percent to 55.5 percent during the same period. It can be seen from Table 2.1 that the shares of export and import to GDP increased most rapidly during the second half of the 1980s, when the boom in manufactured exports and high pace of investment spearheaded the very rapid economic growth experienced during the period. Indeed, 1985 was a turning point for Thailand's export structure. Prior to 1985, agricultural export was greater than manufactured export in value. In 1985, the value of manufactured export surpassed that of agricultural export for the first time, and since then the growth of manufactured export has been phenomenal, averaging 35.7 percent per annum between 1985 and 1990. The ratio of manufactured export to agricultural export increased from a mere .82 in 1978 to 3.6 in 1991. In fact, 1985 was also the first year in which total export earnings from services surpassed agricultural export in value. By 1991, the ratio of export earnings from services to agricultural export had increased to 1.6. Thus, in line with the changes in the structure of production, Thailand's exports are now based mostly on industry and services.

The changes in Thailand's production and export structure towards more dependence on industry and services simply reflect changes in the country's comparative advantage viz. a viz. other countries over the course of development. While Thailand still has comparative advantage in agriculture, as witnessed by the fact that we are still one of or *the* major world exporter of key agricultural commodities such as rice, cassava and rubber, our comparative advantage in semi-skilled labor intensive manufactured export had increased tremendously since the middle of the 1980s, in line with major changes in the world economic environment. In particular, the exchange rate realignment between the Japanese yen and the dollar and major

European currencies in 1986 benefited the Thai economy substantially. This, in effect, led to a substantial depreciation of the baht against the average currency of Thailand's trading partners, as the baht was tied mostly to the dollar. It also led to changes in comparative advantage between Japan and the Asian NIC's (South Korea, Taiwan, Hong Kong and Singapore), who also very much tied their currencies to the dollar, and allowed the latter to push more strongly into the export market for technologically and skilled intensive manufactured products, such as cars and sophisticated electronic consumer products. In fact, by the middle of the 1980s, the Asian NIC's were probably already near to losing their comparative advantage in domestic production of labor intensive semi-skilled manufactured products (such as basic garment products) to other economies with plentiful supply of low wage semi-skilled workers. The changes in the international economic environment in the mid-1980s simply accelerated the transition of the Asian NIC's upwards. The comparative advantage for the semi-skilled labor intensive manufactured commodities now lies with countries at a lower level of development compared to the Asian NIC's, in particular Thailand and some of the other East Asian economies, such as Malaysia, Indonesia and China. The changes in comparative advantage boosted the local production and export of semi-skilled manufactured products in this latter group of countries. In addition, Japan and the Asian NIC's, in reaction to changes in comparative advantage, have also relocated some of their medium technology production processes to these countries, thus boosting the latter's investment and growth.

In Thailand, while development over the last couple of decades and the shift in economic structure away from agriculture towards industry and services have been accompanied by imbalances along a number of dimensions (as will be discussed in the next section), the population has generally become much better off. As already indicated, real GDP per capita increased by almost 5 percent per annum between 1970 and 1990. The incidence of poverty² has also been reduced substantially from the level in the 1960s. According to the 1962/63 Socioeconomic Survey, 57 percent of Thailand's population had income below the poverty line (Table 2.2). Since then, the

2. The proportion of population with income below the poverty line. The poverty line indicates the level of income that would be sufficient to meet the basic needs of an individual, taking into account basic dietary needs, clothing, shelter etc.

incidence of poverty has shown a clear downward trend with some fluctuations, and in 1988/9 it was reduced by more than half from the 1962/3 level, reaching 23.7 percent. The decline was particularly rapid for urban areas, but even for the rural areas, poverty incidence declined by more than half between 1962/3 and 1988/9. The poverty fluctuated somewhat, in particular showing a sharp increase in 1985/6. This was because of changes in various economic conditions affecting incomes of the population. The increase in poverty in between 1980/1 and 1985/6 was due to the downward trend of the world and domestic prices of all the major crops between these years, which had a severe adverse affect on the income of Thai farmers. In addition, being the period after the second oil shock, the Thai economy was in a period of relatively slow growth, so that opportunities to supplement farm income through work in industry and services were limited.

The absolute number of people under the poverty line has also shown a slight decline, from 16.5 million in 1962/3 to 13.1 million in 1988/9. While the decline in the absolute number of people under the poverty line was not dramatic, it has to be remembered that between 1962/3 and 1988/9 the population of Thailand increased by about 26 million persons. Thus, to have been able to reduce the absolute number of people living under the poverty line during this period, when the size of population nearly doubled, was certainly some achievement. (Though it will be suggested in the last section that we should do much better.)

Apart from improvement to the general economic conditions of the population, the last two to three decades also saw vast improvement on the basic health and education fronts. Life expectancy at birth had increased from 58 to 66 for females, and from 54 to 62 for males, between 1965 and 1986. As shown in Table 2.3, this was comparable to other Asian countries at a similar stage of development as Thailand, with the exception of Sri Lanka, who, although at a lower per capita income level than Thailand, had a much higher life expectancy than Thailand. In the Asian NIC's (Hong Kong, Singapore and South Korea), life expectancies at birth were much higher than in Thailand, reflecting their more advanced stage of economic development.

Table 2.2
Poverty Trends in Thailand

	1962/3	1968/9	1975/6	1980/1	1985/6	1988/9
Percent of Population Under Poverty Line						
Whole Kingdom	57.0	39.0	30.0	23.0	29.5	23.7
Rural Areas	61.0	43.0	32.9	25.8	33.9	28.5
- Villages	n.a.	n.a.	36.2	27.3	35.8	29.4
- Sanitary Districts	n.a.	n.a.	14.8	13.5	18.6	13.2
Urban (Municipal) Areas	38.0	16.0	12.5	7.5	5.9	6.7
Population in Poverty (Millions)	16.464	13.679	12.753	10.994	15.491	13.069

Sources: NSO, Socioeconomic Surveys, various years, as analyzed in Meesook (1979), Jitsuchon (1989) and Hutaserani and Tapwong (1990).

Table 2.3
Life Expectancy At Birth (Years)
For Selected Asian Countries

	Male		Female	
	1965	1986	1965	1986
THAILAND	58	66	54	62
HONG KONG	71	79	64	73
INDIA	44	56	46	57
INDONESIA	45	58	43	55
MALAYSIA	60	71	56	67
PHILIPPINES	57	65	54	62
SINGAPORE	68	75	64	70
SOUTH KOREA	58	73	55	66
SRI LANKA	65	72	63	68

Source: IBRD, World Development Report, 1988.

Table 2.4
Adult Literacy Rates For Selected Asian Countries

	1960	1970	1980	1985
Thailand	68	79	86	91
Hong Kong	70	77 ^a	90 ^b	88
India	28 ^c	34 ^a	36 ^d	43
Indonesia	39 ^c	57 ^a	62 ^e	74
Malaysia	53 ^f	58	60	73
Philippines	72	83	75 ^b	86
Singapore	na	69	83	86
South Korea	71	88	93	na
Sri Lanka	75 ^f	78 ^a	85 ^b	87

Source: IBRD, World Tables, 1983 and World Development Report 1991.

Notes: a=1971, b=1979, c=1961, d=1981, e=1978, f=1962.

Infant mortality rates showed a similar pattern to that of life expectancy at birth, declining from 88 per 1000 live births in 1965 to 28 in 1989. There was also significant improvement in the nutritional status of preschool children. Surveys conducted by the Ministry of Public Health showed that in 1979-82, 50.8 percent of the surveyed children aged 0 to 5 suffered from some form of malnutrition. By 1986, this had fallen by half to 25.2 percent in 1986, with only 3 percent suffering medium level malnutrition (second degree), and 0.1 percent suffering severe malnutrition (third degree).

Thailand had also made substantial progress over the last two decades in the provision of basic education to the population. Expansion of primary enrollment had been sizable, and currently there is almost universal enrollment. This was a rather impressive feat considering the high rate of population growth during the 1960's and early 1970's. A rough indicator of the improvement in basic education of the

population is the adult literacy rate.³ Table 2.4 shows that the adult literacy rate in Thailand increased from 68 percent in 1960 to 91 percent in 1985. Compared to other Asian countries, the current adult literacy level is one of the best in the region, ranking just behind South Korea.

2.2 Key Underlying Factors

While singling out certain factors as being the key to past development successes will undoubtedly entail a great deal of simplification and can never hope to be complete, it can still be useful in highlighting some important underlying factors, and for judging the potential and possible problems of future development. Some of the external factors concerning the world economic environment and changing comparative advantage have already been indicated above. Here the focus will be the factors internal to Thailand. Three interrelated sets of factors will be discussed. These relate to the three keywords; stability, quality, friendship.

2.2.1 Stability

Two aspects of stability are important; macroeconomic stability and political stability. Macroeconomic stability has certainly been the hallmark of Thailand's past development history. When comparing the past macroeconomic data of Thailand with many other countries, two aspects of Thai macroeconomic development stand out very prominently. First is the minimal movement in the exchange rate between the baht and the US dollar over the past 30 to 40 years, and second is the relatively low inflation rate.

Since 1950 to the early 1980s the baht-dollar exchange rate had hardly changed. Basically, Thailand adopted the fixed exchange rate regime with almost no adjustment for over 30 years. In responses to the current account crises in the early 1980s, two devaluations were carried out in 1981 and 1984. Since the exchange rate realignments in the mid-1980s, the baht has been tied to a basket of currencies. Even

3. Although there are many difficulties in getting an accurate measure for this.

so, the US dollar accounts for about 90 percent of the weights in the basket, so that the baht is still basically pegged to the US dollar. The two devaluations in the early part of the 1980s saw the exchange rate between the baht and dollar rising to over 27 baht per dollar, and currently the rate is about 25.5 baht per dollar. However, considering that the exchange rate was about 21 baht per dollar in 1960, the changes over the past 30 years have been minimal (Table 2.5).⁴

Table 2.5
Relative Thai/US Inflation Index and Baht/\$ Exchange Rate

YEAR	Relative Thai/US Inflation Index	Exchange Rate Baht/US\$
1960	1.00	21.18
1965	1.04	20.83
1970	0.95	20.93
1975	1.10	20.38
1980	1.15	20.51
1985	1.12	27.19
1990	1.11	25.64

Source: International Monetary Fund, Year Book of International Financial Statistics, 1986, and Bank of Thailand, Monthly Bulletin and Key Economic Indicators, various issues.

Note: Relative Inflation Index indicates the ratio between Thai CPI and US CPI (Base Year 1960).

The policy of basically keeping the baht-dollar rate fairly constant over the last 30 to 40 years meant in practice that the inflation rate in Thailand is closely tied to the US inflation rate. Table 2.5 shows an index of the relative inflation rate in Thailand and the US. It is the ratio of the two countries' consumer price indices (CPI), adjusted so that each starts at a base of 100.0 in 1960. It can be seen that the index fluctuates

4. The exchange rate policy in South Korea, for example, was very different. The won-dollar exchange rate was 63 won/dollar in 1960, 310 won/dollar in 1970, 607 won/dollar in 1980 and 780 won/dollar currently. For a comparison between the development experiences of Thailand and South Korea see Sussangkarn (1988).

only slightly over the last 30 years. Starting at 1.00 in 1960, the index is 1.11 in 1990. Thus, in 30 years, the level of the Thai CPI is only 11 percent above that of the US.

Being able to maintain almost a fixed exchange rate with the US dollar over the last 30 to 40 years, and attain low inflation rates closely tied to the US rate, implied a great deal of monetary and fiscal discipline. It was not the case that Thailand had plenty of domestic resources that could be used to invest in the country's development without adversely affecting the domestic saving-investment gap, or equivalently the current account deficit.⁵ Rather, there had always been sufficient monetary and fiscal discipline to keep the problem of the saving-investment gap (current account deficit) from cumulating out of control. When problems became severe, then it became just about the main priority for policy to try to maintain macroeconomic stability.

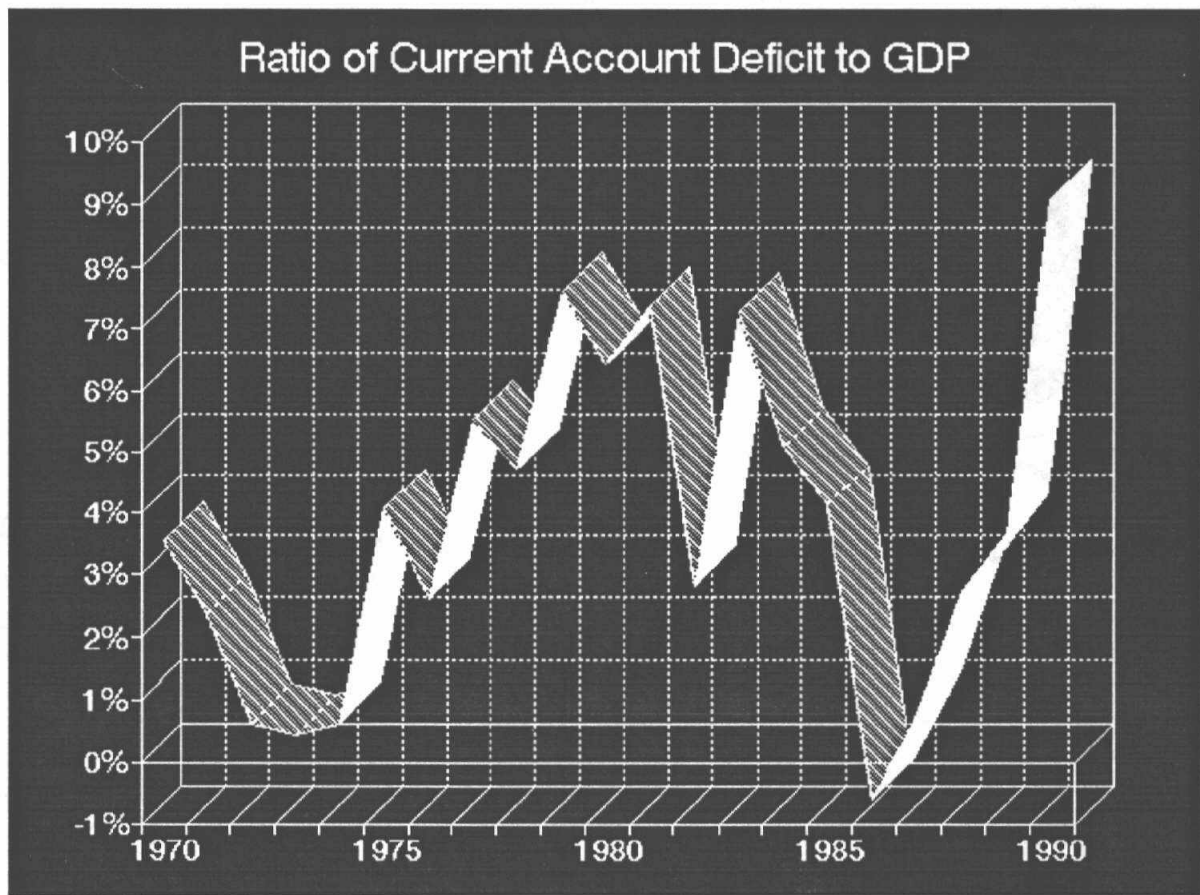
In fact, like most developing countries, Thailand's current account balance has long been in deficit because of the need to import capital goods and other primary and intermediate inputs necessary for economic development. The current account deficit was 5.2 billions baht in 1970 (3.5 percent of GDP), 12.4 billions in 1975 (4.1 percent of GDP), 42.4 billions in 1980 (6.4 percent of GDP), and 41.9 billions in 1985 (4.1 percent of GDP); see Figure 2.1. To finance the deficit, Thailand had therefore been accumulating external debt to finance its economic development. This had been at a particularly rapid pace between the mid-1970 and mid-1980. Estimates of the ratios of long-term foreign debt outstanding to GDP are 6.8 percent in 1975, 24.3 percent in 1980, and 39.1 percent in 1985.⁶

In the early to mid 1980's, the persistent current account deficits and rapidly increasing foreign debt was of major concern to the government. A number of policy reforms were carried out to restructure the economy. These covered areas such as public sector resource mobilization and control of public expenditures, tax reform to give more incentives for exporting industries relative to importing competing industries

5. Through National Income accounting identities, the domestic saving-investment gap is identical to the current account deficit.

6. This includes direct investment as part of the long-term debt. If direct investment is excluded, then the ratios are 3.7 percent in 1975, 21.4 percent in 1980, and 33.6 percent in 1985.

(reduction of agricultural export taxes, and attempts to reduce the general level of tariffs), restructuring the energy price structure, and institutional developments to improve the management capacity of the public sector. Some of the reforms were taken through the government's own initiatives, and others were part of the World Bank's two structural adjustment loans (SALs) in 1982 and 1983.⁷



The various measures taken by the government during the period after the second oil shock reflected a strong commitment on the part of the government to control the external imbalance and the associated external debt problem. Many SAL

7. For Thailand's experiences with the SAL's, see Sahasakul (1991).

like measures were taken independently of the SAL programs, and were regarded by the World Bank as the down payment for the SALs. In fact, other measures which were not part of the SAL program, but which helped the Thai economy adjust to external imbalance were also implemented, the most important of which were probably the two devaluations in 1981 and 1984. These devaluations were politically very difficult to carry out; each time the government of the day nearly fell. However, they showed the high priority attached by the authorities to the maintenance of macroeconomic stability.

With the importance attached to the maintenance of macroeconomic stability, it was not surprising that Thailand managed to emerge from the post second oil shock period without any serious macroeconomic overhang. While foreign debt increased fairly rapidly through out the early 1980s, the problem was far less serious than that faced by many countries during the time (such as countries in Latin America or the Philippines). This meant that when the world economic environment improved in the mid-1980s, together with changes in comparative advantage as indicated earlier, Thailand was in a position to fully benefit from them. It is not the maintenance of macroeconomic stability *per se* that led to the unprecedented pace of growth in the late 1980s. However, looking at the severe negative development experiences of countries which got into serious foreign debt problems during the post second oil shock period, it is clear that the maintenance of macroeconomic stability was a crucial *necessary* factor that enabled the occurrence of the rapid growth experiences in the late 1980s.

Apart from macroeconomic stability, Thailand also benefited from long periods of relative political stability. Of course, over the past three decades there were coups, and changes in governments and Prime Ministers. However, apart from some tragic episodes, the latest of which occurred in May of this year, the changes in regimes or Prime Ministers took place relatively painlessly. There was little overhang from political changes, in the sense that a situation of continual conflict between different factions struggling for power and for revenge was generally avoided. Also, changes in government hardly affected the basic development philosophy or development strategy of the country. There were no distinct differences in development philosophy (for example, socialist versus conservative) between different political factions, be they

military factions, or the various political parties. The political game was not to change the direction of the ship, but rather to become captain while the ship continues to sail on in the same general direction. Continuity in development direction was provided through bureaucrats and technocrats, who generally stay through several changes in governments.

What also contributed to the stability in development direction was that Thai governments are relatively weak. It has to balance the interests of, and generally share benefits from, so many different pressure groups, such as different industrial and trading interests, bureaucrats, technocrats, labor groups etc. After balancing all these interests, what emerges at the end will be basically similar, even if at the beginning governments may want to do things in substantially different ways from past governments.

Overall, it is the stability in development direction in spite of political changes that is important. Of course, it is not very helpful to have stability in development direction, if that direction is of little potential. Here, the fact that Thai governments have been generally weak may have been, as it turns out, a blessing. With strong governments, who can very much dictate the direction of development in detailed, there is the possibility that development may turn out to be very successful if the government happened to choose the direction that turns out to be right, or that development may turn out to be very unsuccessful, if the chosen direction is simply the wrong one. In general, with strong governments one would expect a large variance in development outcomes, from the very successful to the very unsuccessful.⁸ With a weak government, as in the Thai case, it cannot simply *choose* a development direction, as this will depend on the interplay of demands from diverse pressures groups in society. What emerges is a rather diverse economic structure, with flexibility to respond to changing market needs and world economic environment. It may not be able to attain the prolonged spectacular growth of a "strongly directed" economy, which happened to be pushed in the right direction, but it can achieve sustained satisfactory development, through various shocks in the external and internal economic

8. Comparing the development experiences of South Korea with the Philippines may illustrate this point.

environment, as has been the development experience of Thailand over the last several decades.

2.2.2 Quality

Quality relates to the quality of the natural resource base and the quality of the people. The natural resource base has been and still is the main stay of Thai agriculture. Agricultural expansion in the 1960s and 1970s was mostly through increased exploitation of land resources. Forests were converted to cultivable land, and up until the late 1970s, the land-man ratio in agriculture was actually increasing in Thailand. The abundant and quality of Thailand's natural resource base is attested to by her position in world agricultural trade, being the largest exporter of rice and cassava, and ranking high in the export of rubber, sugarcane, and aquaculture. Even though agriculture's contribution to GDP is now very small, this sector is still very important to the livelihood of the majority of the population in Thailand (see next section), and one should not forget that up until 1985 agricultural export was still larger than manufactured export, even though the share of agriculture in GDP was only 16.8 percent.

There are many aspects concerning the quality of the Thai people. The followings can be highlighted.

1. Good Basic Education
2. Highly Educated Elites
3. On-the-Job Training
4. Female Labor
5. Entrepreneurs

Good Basic Education of the Population. Section 1 (Table 2.4) has already indicated that Thailand has one of the highest literacy rate among countries of the region. In fact, a strong point of Thai development policy has been the provision of basic primary education to the population. Even in 1965, the gross primary enrollment ratio was 78 percent (82 percent for males and 74 percent for females). By 1980,

almost universal primary enrollment had been achieved. In a cross-country comparison of changes in educational provision between 1965 and 1987, Behrman and Schneider (1991) found that, after controlling for per capita income levels, Thailand did better than the average country in the expansion of primary enrollment between these two years.

The good basic education of the population has been an important factor behind Thailand's past development success. Jamison and Lau (1982) found that farmers with completed primary education were significantly more productive than those with less education in traditional agriculture, which covers the bulk of Thai agriculture. In the mid-1980s, having a large pool of relatively low income workers with good basic education to draw upon into the expanding industrial and service sectors meant that Thailand could take full advantage of changes in international comparative advantages that occurred at the time. In fact, apart from the formal educational qualifications, Thai workers appears to be highly adaptable and trainable, as many foreign companies investing in Thailand have found.

Highly Educated Group of Elites. At the top educational hierarchy, Thailand has plenty of well educated people. Partly, it is due to the relatively good quality of the Thai universities (particularly the closed public universities). But of equal importance has been the traditional desire by the Thai elites to send their children to get the best education abroad, which was substantially supplemented by the availability of various scholarships. Also, the Thais who go to study abroad mostly come back to Thailand. They form an important core of the bureaucrats, technocrats, and entrepreneurs, who had important roles in guiding the direction of the country's development. The actual formal education received abroad was probably not as important as the exposure to different societies, different ways of thinking, and different economic structures and opportunities.

Plenty of Skill Acquisition Through On-the-job Training. Another factor which contributes to the quality of the Thai workers is the extensive nature of on-the-job

training in the economy. Based on a recent study,⁹ it was found that most of the workers in occupations related to science and technology (including technicians) only had basic primary education. Their skills were mostly learnt on the job. It was found that S&T related workers made up about 10 percent of the labor force. However, fully 75 percent of these workers only had primary education or less. The skills needed for the occupations in which they were employed (mostly as technicians) are learnt on the job.

The above points to the importance of on-the-job training as a mode of human resource formation or addition in Thailand. It is one reason why the economy has performed well over the last 3 decades, in spite of past findings that Thai has a lower stock of science and technology manpower (through the formal education system) per capita compared to many other countries in the region. The experiences of countries such as Japan, Korea and Taiwan also showed that on-the-job training makes substantial contributions to the rapid growth that these countries were able to achieve.

Capability of Thai Female Labor Force. Another important human resource contribution to the past development success is the quality of the female labor force in Thailand. Thailand has very high female labor force participation rate. In 1987, of female aged 11 and above who were not attending school, 80 percent participated in the labor force. The active participation of women in the labor market is particularly important during the recent period, as one finds that most of the labor intensive semi-skilled industries which are the dynamic exporting industries are big demanders of female labor. Such industries as canned food, textile and apparel, foot wear, and electronics employ more women than men. Thus, female workers make a crucial contribution to the growth and export earnings of the country. In addition, female also predominates in the service sector, and this sector is also of key importance for foreign exchange earnings, mainly through tourism.

9. TDRI/NESDB (1989).

Quality and Diversity of Thai Entrepreneurs .

A key strength of the Thai economy is the diversity and quality of Thai entrepreneurs. First and foremost among the entrepreneurs who have been the backbone of past Thai development is the group of *Thai farmers*. That Thai farmers should be regarded as entrepreneurs stems from the fact that about 80 percent of them are "owner cultivators,"¹⁰ not necessary in the sense that they have formal titles to their land because there are still millions of farmers in so-called national forests without formal legal title, but that they are own-account workers who have to decide on what and how to produce, and generally operate their own farm enterprise. The past successes of Thai agriculture and substantial diversification that have occurred over the past several decades depended on the skills and adaptability of this group of entrepreneurs.¹¹

The base of entrepreneurs in industry and services is also very broad. Basically, Thai society has been able to harness the available entrepreneurial talents, whatever their racial, religious, or socioeconomic background (the "Friendship" factor below). The diversity of informal sector activities in Thailand is also of importance in developing entrepreneurial skills. This sector should really be regarded as "schools for entrepreneurs." Entrepreneurial skills are certainly not something that can be easily taught formally through educational institutions. It is the learning by doing that occurred in vast amounts in the informal sector in the past that has shaped many of the top entrepreneurs or entrepreneurial families in the Thailand of today. Of course, it is not likely that a high percentage of those starting out in the informal sector will end up as millionaires or billionaires of the future. However, even if the percentage is small, the large size of the informal sector ensures that a sufficiently large number of successful entrepreneurs graduate upwards. The quality and diversity of Thai entrepreneurs explains why the Thai economy is so diverse. The country has strength in agriculture, industry, and services.

10. Data from the 1980/1 Socioeconomic Survey shows that 83.3 percent of farmers tend their own land.

11. See the discussion on the "Myth of the Ignorant Peasant," in Siamwalla (1992).

2.2.3 Friendship

There are two aspects of friendship; friendship among Thais and friendship between Thais and foreigners. Friendship among Thais does not mean that all Thais like everyone else; in fact, Thais probably quarrel and fight each other on a personal basis as much as any other people. Rather it refers to the tolerant, compromising, practical, or "middle path" nature of Thai society. Basically, Thai people are generally not inclined to rigid dogmatic beliefs. Most things introduced into Thai society end up being adapted to suit the practical order of the day; be they food, styles, cultural, or religious beliefs. This flexibility enables Thai society to avoid long-lasting and damaging social conflicts. It is why the integration of different racial, religious and social groups occurs more easily here than in many other countries. It avoids the negative impact of social conflicts on the harnessing of available talents, whatever the racial, religious or social background.

Of course, there are episodes that test the very fabric of this "friendship" among Thais. The tragic events in May 1992 certainly fall into this category. However, the key test is whether such episodes can be ended without serious long-lasting damage. So far, it appears that the Thai socioeconomic structure and the Thai people are capable of doing so.

The friendship between Thais and foreigners benefits from the historical fact that Thailand had never been colonized. Thus, the negative hangovers from past imperialistic dominance are not present. It is easy for Thais to treat foreigners as equals. The adaptable and tolerant nature of Thai society also eases the integration of foreign residents and visitors into the Thai way of life and vice versa. Thus, foreigners feel comfortable being in Thailand. This helps boost the image of Thailand as a good place to do business or just to visit. In the current age of increasing internationalization, this "friendship" factor between Thais and foreigners is obvious of significant economic benefits.

3. INDICATORS OF IMBALANCES

While development over the last two to three decades in Thailand have led to major improvement in standards of living, there are nevertheless many indicators of imbalances in the pattern and current direction of development. The major problems that will be highlighted in this section concern imbalances between the employment and educational structures and sectoral composition, locational imbalance, income distribution, economic-environmental imbalances, and imbalances of transition. Most of these are well known, so they will only be briefly indicated, except where some new data shed further light on the issue.

3.1 Employment and Production Imbalance

As indicated in Section 2, the importance of agriculture in Thailand has gradually declined over the last several decades. By 1990, the share of agriculture in GDP was only 12.4 percent. The share of employment in agriculture has also declined. However, available employment figures indicate that the decline in the share of employment in agriculture has been at a much slower pace than that for the share of agriculture in value added. Table 3.1 shows the share of agricultural value added in GDP and the share of agricultural employment to total employment using data from the Labor Force Surveys (wet season). With over 60 percent of the workforce still employed in agriculture while the sector produces only 12 percent of the GDP, this imbalance is obviously a key factor in creating large income disparities.

The issue is however very controversial.¹² Comparisons with the situation in other countries indicate that the agricultural employment share in Thailand is much higher than what would be expected given the share of agriculture in GDP. There are two basic explanations, each of which gives part of the answer.

The first explanation is that the agricultural employment figures in Thailand greatly overstate the extent of agricultural employment. The basic reasons are that:

12. See the discussions in World Bank (1989), Annex 7.

first, there are a lot of seasonal variations in employment patterns in Thailand, with many agricultural workers working in non-agricultural occupations in the dry season to supplement their income, and also many workers in the urban areas return home to help with planting and harvesting during the peak agricultural season; and second, even in a given period, agriculturists may also be doing other jobs to supplement their income, eg. handicrafts. Thus, the real issue is that the numbers of those whose primary occupation is in agriculture has be adjusted by the proportion of time that they spend on non-agricultural activities through out the year.

Table 3.1
Share of Agricultural GDP (at Current Prices) and Agricultural Employment

	1971	1975	1980	1985	1990*
Share of GDP (at Current Prices)	28.20%	31.48%	25.38%	16.75%	12.41%
Share of Employment	78.90%	72.99%	70.95%	68.40%	63.50%
Ratio of Share of Employment to GDP	0.357	0.431	0.358	0.245	0.195

* Note: From 1989, the Labour Force Survey (LFS) changed the definition of the active workforce to include only those 13 years or older (as opposed to 11 years or older in earlier surveys). Thus, direct comparisons of the absolute employment figures from the LFS since 1989 with earlier years are not possible without adjustments. Broad employment shares are, however, probably less affected by the change. The shares in the table are for the wet season. Dry season shares are slightly lower.

This explanation is certainly valid. The question is how much adjustment in the share of agricultural employment will this explanation lead to. The problem is that reliable time use data are very hard to come by. The dry season Labor Force survey can be used to indicate the share in the dry season. However, the agricultural shares of employment in the dry season are still very high. For example, the 1989 Labor Force Survey Round 1, shows the share of employment in agriculture as being 57.3 percent, which is still very high given the GDP share.

A data source which can shed further light on this problem is the Socioeconomic Survey, which gives a break down of income from various sources. A serious problem, however, is that if one tries to aggregates the income data from various sources in the Socioeconomic Survey, the totals are very different from the

National Accounts figures. This is a common problem with income and expenditures surveys all over the world. Usually, expenditure data can be more reliably obtained from these surveys than income data, for the normal under-reporting and over-reporting reasons. In fact, comparisons of income data from the Socioeconomic Survey with the National Accounts figures show, not surprisingly, that the main discrepancy occurs for income from own account operations, with much lower figures from the Socioeconomic Survey than the National Accounts.

Table 3.2
Relative Sources of Income: 1988/9
Agricultural Individuals and Agricultural Households

	Individuals	Households
Agriculture		
- Non Wage	70.94%	64.39%
- Wage	8.80%	8.07%
Non-Agriculture		
- Non Wage	4.70%	7.61%
- Wage	4.55%	9.18%
Other Income	11.01%	10.74%
Total	100.00%	100.00%

Source: NSO, Socioeconomic Survey 1988/9.

Nevertheless, for what it is worth, Table 3.2 gives a break down of the share of annual income by source for agriculturists from the 1988/9 Socioeconomic Survey. Two different tabulations are given. The first column is for those individuals whose primary occupation is in agriculture, so the shares refers to incomes aggregated over these individuals. The second column refers to households whose head has primary occupation in agriculture (those classified as agricultural households). Here the total income of such households are analyzed, and shares by source are given in the second

column. Of course, agricultural households also consist of members who may be engaged primarily in non-agricultural occupations, for example, as civil servants or in industrial occupations, thus one would expect the share of agricultural income at the agricultural household level to be less than the share of agricultural incomes for only those individuals whose primary occupation is in agriculture. This turns out to be the case. However, the dependence on agricultural incomes remain high in both cases. For individuals with primary occupation in agriculture, income from agriculture (wage and non-wage) amounts to about 80 percent of total income. For agricultural households, income from agriculture amounts to 72.5 percent.

Table 3.3
Sources of Income of Agricultural Households by Quintile
from 1987 Social Accounting Matrix

	Richest 20%	2nd 20%	Middle 20%	4th 20%	Poorest 20%	All
Agriculture						
- Non-Wage	25.73%	25.01%	28.05%	30.04%	28.11%	26.88%
- Wage	21.92%	25.35%	29.92%	33.34%	33.01%	27.27%
Non-Agriculture						
- Non-Wage	26.61%	28.41%	26.15%	24.92%	27.06%	26.80%
- Wage	11.76%	12.39%	7.55%	4.10%	3.84%	9.20%
Others	13.98%	8.84%	8.33%	7.59%	7.98%	9.85%
Total Income	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Excludes Property Income

	Richest 20%	2nd 20%	Middle 20%	4th 20%	Poorest 20%	All
Agriculture						
- Non-Wage	27.92%	26.31%	29.46%	31.59%	29.76%	28.52%
- Wage	23.78%	26.66%	31.42%	35.06%	34.95%	28.94%
Non-Agriculture						
- Non-Wage	28.87%	29.89%	27.47%	26.21%	28.65%	28.44%
- Wage	12.75%	13.03%	7.93%	4.32%	4.07%	9.76%
Others	6.68%	4.11%	3.72%	2.83%	2.57%	4.34%
Total Income (Exc. Prop)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Sussangkarn et. al (1988a), Tables 5.6 and 5.7.

As indicated above, income data from the Socioeconomic Survey are normally inconsistent with aggregate National Accounts figures. One can, however, adjust data from various sources so that consistency is obtained by using the structures and shares from the data as best one can. This has to be done in constructing Social Accounting Matrices (SAMs) for the economy for use in some type of macroeconomic analyses. Table 3.3 gives the shares of income by source for agricultural households from a 1987 SAM of Thailand that the author constructed, which was used as the basis for the current macroeconomic model at TDRI and at NESDB.¹³

The Table shows the shares of income by source for agricultural households in different income quintiles for the country.¹⁴ The top part of the table shows the shares with respect to total household income. The bottom part of the table shows the shares to total income from which property income has been subtracted. The reason for the latter adjustment is that most of the property income for agricultural households are in fact imputed rent on owner occupied home, which is not something that the household can transfer to other consumption. Another point to note about this table is that the wage shares are not comparable to that in Table 3.2, because here it includes imputed wage from own account operations, while in Table 3.2 the wage share only refers to wage payment of employees, while the imputed wage for own account operations is not separated out from non-wage income. Table 3.3 shows a lower reliance of agricultural households on agricultural incomes than Table 3.2 (column 2). For agricultural households in the poorest quintile, agricultural incomes (wage and non-wage) account for 61 percent of total income or 65 percent of total income excluding property income. The ratio declines for the richer households, with the ratio of agricultural income being 48 percent of total income, and 52 percent of total income excluding property income. For the agricultural households as a group, the agricultural income accounts for 54 percent of total income or 57 percent of total income excluding property income.

From the above, it should be clear that there is no clear way to reach an adjustment factor for the share of employment in agriculture. From the ranges in

13. For a description of the SAM, See Sussangkarn et. al (1988a).

14. Thus, for example, the richest 20% refers to agricultural households who are in the group of 20% richest households of the country.

Tables 3.2 and 3.3, if one had to come up with one single adjustment factor to apply to those workers whose primary occupation is in agriculture, then a figure of about 0.7 would not be unreasonable. This is obtained by taking a rough average of the agricultural shares in column 2 of Table 3.2 and the last column of Table 3.3, $(72.5+55)/2 = 63.75$, then adjusting the agricultural share in column one of Table 3.2 (79.74) by a factor representing the ratio of the original share in column two of Table 3.2 and the adjusted share based on the average between the two tables. Thus, $79.74*(63.75/72.5) = 70.1$. Thus, for individuals with primary occupation in agriculture, agricultural incomes is estimated to account for about 70 percent of total income, hence the factor of 0.7.¹⁵

If this factor is applied to adjust for the share of employment in agriculture, then in 1990 the agricultural employment share becomes 44.45 percent, instead of the 63.5 percent shown in Table 3.1. While the figure appears more reasonable than the very high share of 63.5 percent, it is still relatively high taking into account the very small share of agriculture in GDP (12.4 percent). Thus, one can conclude that adjustments are necessary to the agricultural employment share figures, but that the adjustment will not be able to explain away all the imbalances between the production and employment structure, and that there are other factors specific to the Thai case that contribute to explaining the differences with the situation in other countries.

There appears to be two other main reasons why there is such a difference between the ratio of employment in agriculture and the share of agriculture in GDP in Thailand.¹⁶ The first is the past ready availability of forest areas which could be converted to arable land. This was the main destination for migrants from the rural areas in response to the population pressure up until about 1980. Instead of migrating to the urban areas, rural migrants would go to the forest areas (often illegally), and settled down to cultivate the land, and in effect took ownership. The main migration pattern in the 60's and 70's was rural-rural.

15. This, of course, ignores productivity differences between the agricultural and non-agricultural activities performed by these agriculturists. However, given the very rough data, it hardly seems worthwhile to make further refinements in coming up with a back-of-the-envelope adjustment figure.

16. This part is mostly from Sussangkarn (1990).

A second reason is the very high proportion of farm households who are owner cultivators in Thailand (83.3 percent in 1981). This is likely to be a factor working against large scale migration into the urban areas. It is likely that the market for the sales and purchases of land in the rural areas is thin, and thus owner cultivators who wish to sell their land and migrate to the urban areas may only get rather low prices for their land. This would increase the opportunity cost of migration. Migration from self-cultivating households would therefore be limited to a few family members such as sons or daughters, and may be circulatory in nature, rather than a wholesale movement of all the family members. A factor which would reinforce the above reason is that many of the so called "owner cultivator" in fact do not have full land titles. The migrants who went into the forest areas to open up new land were actually taking possession of the land illegally. They went into the reserved forest areas, while the authorities did not really try to enforce the law. The result is that about 30% of private land in Thailand have no formal legal documents. This will make it even more costly for a farmer to abandon the land and migrate out off the rural areas.

Up until about the end of the 1970's, it was logical that many farmers migrated to open up new agricultural land. Plenty of land were still available in the forest areas.¹⁷ Further, crop prices were high and rising. The rural-rural migration path was probably the best choice for the rural population. First, once they migrated, they end up doing the thing they know how to do well, i.e. agricultural cultivation. Second, the move also appeared to increase their asset, because it seem that they have possession of the land. The problem is that once crop prices started to decline in the first half of the 1980's, it was difficult for the farmers to move out of agriculture. Those who legally own their land may face large opportunity costs in selling their land and moving to the urban areas, due to the thin land market. Those who have no legal title to the land will get even lower prices for their land, and hence face a very high opportunity cost.

The high opportunity cost faced by the farmers were they to migrate into the urban areas leads to long lags in the adjustment of the employment structure to the production structure. However, some adjustments have been occurring, and the pace

17. Subject to non-enforcement by the authorities.

of adjustment is likely to quicken given the rapid industrialization that is taking place in Thailand at the present time.

Table 3.4
Mean Per Capita Income of Agricultural and Non-Agricultural Households
(Baht Per Month)

Year	Agriculture	Non-Agriculture	Ratio Non-Ag/Ag
1975/6	247	513	2.08
1980/1	503	1,154	2.29
1985/6	481	1,312	2.73
1988/9	615	1,571	2.55

Source: NSO, Socioeconomic Surveys, 1975/6, 1980/1, 1985/6 and 1988/9.

The outcome of the imbalance between the employment and production structure is that there are income disparities between agricultural and non-agricultural households, and that the disparity has tended to become worse over time (Table 3.4). In 1975/6 the mean per capita income of non-agricultural households was 2.08 times that of agricultural households.^{18,19} In 1988/9, the ratio rose to 2.55 times. The ratio fluctuates a little between 1980/1 and 1988/9, as crop prices were on a severe downward trend in the first part of the 1980s, so the ratio in 1985/6 appears to be much higher than the apparent trend. However, between 1975/6 and 1988/9 the worsening trend of the disparity between agricultural and non-agricultural households is clear. Against this, of course, it has to be remembered that poverty incidence declined from 30 percent in 1975/6 to 23.7 percent in 1988/9. Thus, agricultural households generally became better off during this period, but the pace of improvement was slower than that of non-agricultural households.

18. Households are classified according to the primary occupation of the head of the household.

19. Statements abound that income in non-agriculture is of a factor of 10 times that in agriculture. This is highly misleading, as it refers to value-added per head, which ignores different capital intensities between agriculture and non-agriculture, and also based on the unadjusted employment shares. Household income differences are much better indicators of the relative disparities.

3.2 Locational Imbalance

The disparity between agriculture and non-agriculture is obviously reflected in the disparity between the urban and rural areas. However, in the case of Thailand, the extreme primacy of areas around Bangkok, leads to big differences between the economic conditions in the Bangkok Metropolitan Region (BMR) and the rest of the country. Whereas the BMR contains 15.8% of the total population in 1988, it accounted for 50.1% of total GDP. Table 3.5 shows that in 1988, per capita GDP in Bangkok was more than 9 times higher than that for the Northeast, and was about 3.2 times higher than that for the Central region (the second richest region). However, some sub-regional areas are also fairly well off. For example, the Eastern Seaboard provinces of Chon Buri and Rayong (shown in Table 3.5) has a per capita GDP of 54,493 baht in 1988, which was 61.5 percent of that in the BMR.

The differences between the BMR and the rest of country has been widening between 1975 and 1985. Between 1975 and 1988, real per capita GDP increased most rapidly in the BMR compared to the other regions. This was also true for per capita household income.²⁰ In Table 3.5, the sub-regional area of the Eastern Seaboard was the only other region with real per capita GDP growth as high as the national average. The gap between the BMR and the rest of the country did not widen that rapidly between 1975 and 1985. In fact, between 1980 and 1985, the relative position of the BMR compared to the National average stayed unchanged. This was partly because of the recession in the early part of the 1980s, but also due to conscious efforts to redirect development efforts away from the BMR. However, the severe flooding that occurred in Bangkok in the early 1980s showed clearly the disaster that can arise if insufficient infrastructure investment is put into Bangkok. Given, the large gap between the BMR and the rest of the country, it is inevitable that people will continue to move to the area, so that while efforts can be made to develop other regions more rapidly, the infrastructure needs for the BMR cannot be ignored.

20. See Hutaserani and Tapwong (1990), Table 5.2.

Table 3.5
Nominal and Real Per Capita GDP By Region and Relative Real Per Capita GDP

Nominal Per Capita GDP By Region

	Kingdom	North	Northeast	Central	South	BMR	E-S Prov*
1975	7,221	5,388	3,527	8,426	5,899	18,827	14,230
1980	14,660	9,585	6,257	15,626	12,710	42,155	29,803
1985	20,231	13,108	8,284	21,934	15,176	58,595	39,911
1988	27,914	16,364	9,607	27,767	20,572	88,578	54,493
G75-80	15.2%	12.2%	12.1%	13.1%	16.6%	17.5%	15.9%
G80-85	6.7%	6.5%	5.8%	7.0%	3.6%	6.8%	6.0%
G85-88	11.3%	7.7%	5.1%	8.2%	10.7%	14.8%	10.9%
G75-88	11.0%	8.9%	8.0%	9.6%	10.1%	12.7%	10.9%

Real Per Capita GDP By Region (Deflated by CPI, 1975 Prices)

	Kingdom	North	Northeast	Central	South	BMR	E-S Prov*
1975	7,221	5,388	3,527	8,426	5,899	18,827	14,230
1980	9,210	6,271	4,113	9,789	8,221	25,557	18,671
1985	10,000	6,778	4,299	11,085	7,877	27,663	20,170
1988	12,728	7,743	4,634	12,821	9,853	38,616	25,161
G75-80	5.0%	3.1%	3.1%	3.0%	6.9%	6.3%	5.6%
G80-85	1.7%	1.6%	0.9%	2.5%	-0.9%	1.6%	1.6%
G85-88	8.4%	4.5%	2.5%	5.0%	7.7%	11.8%	7.6%
G75-88	4.5%	2.8%	2.1%	3.3%	4.0%	5.7%	4.5%

Relative Real Per Capita GDP By Region (Kingdom = 100)

	Kingdom	North	Northeast	Central	South	BMR	E-S Prov*
1975	100	75	49	117	82	261	197
1980	100	68	45	106	89	277	203
1985	100	68	43	111	79	277	202
1988	100	61	36	101	77	303	198

Source: GDP per capita from NESDB, Gross Provincial Product, 1975-88. Consumer price index from 1977-88 from Bank of Thailand, Monthly Bulletin; extend to 1975 using GDP deflators from Gross Provincial Product.

Note: The real per capita GDP growth rates for the Whole Kingdom in this table is different from that in Table 2.1 as the deflator used here is the regional CPI.

Note*: E-S Prov represents the Eastern Seaboard provinces of Chon Buri and Rayong.

Since the mid-1980s, with more infrastructure development in conjunction with the boom in export and of the economy in general, the gap between the BMR and other regions widened rapidly. Over 75 percent of manufacturing activities of the country originate from the BMR, and much of the investment growth to expand the exporting industrial and service sectors occurred in the BMR. The Eastern Seaboard area was also a major beneficiary of the recent boom, but the data available only goes up till 1988, so the more recent changes in the Eastern Seaboard region are not reflected in the Table.

3.3 Education and Production Structure Imbalance

The imbalance between the educational composition of Thailand's labor force and the production structure was extensively covered at the 1991 Chai Pattana-TDRI Year-End Conference, so only a brief discussion is given here although this issue is of utmost importance in trying to attain more balanced development for the future (see Section 5).

Basically, over the last two to three decades, Thailand under invested in the middle level of education.²¹ While almost universal primary enrollment was achieved by 1980, Thailand lags far behind other countries at a comparable level of development in secondary enrollment. This was not simply due to conscious policy choice, but was also due to the structure of the economy, with most people engaged in traditional agriculture. There is a close relationship between the economic structure and the relative enrollment ratios at various educational levels. Just as Thailand appears different to the norm in terms of the very large share of the labor force in agriculture compared to the share of agriculture in GDP, similarly Thailand is different to the norm when it comes to the secondary enrollment ratio relative to the level of development. A previous study by the author had shown that, in international comparisons, there is a close link between the share of employment in agriculture and the transition rate from primary to secondary education.²² The secondary enrollment

21. See Behrman and Schneider (1991).

22. Sussangkarn (1988).

rates in Thailand could be explained very well if the past employment and economic structure of Thailand are taken into account.

The problem is that the economic structure of the country has changed so rapidly since the mid-1980s. While it may be sufficient in the early stage of semi-skilled export-led growth that workers have only primary education and are trainable, the situation is changing very rapidly. Many medium to large scale enterprises now require workers to have at least lower secondary education. This is inevitable as production processes become more complex, and firms perceive that the basic knowledge workers should have to be fully trainable and effective is more than that provided from primary education. Thus, for those with just primary education, who still comprises over 80 percent of Thailand's workforce, the door to well paying and prosperous jobs are quickly closing.

Parents are, of course, now responding by sending more and more of their children to secondary school. However, no matter how quickly Thailand can improve the secondary enrollment ratio, changes that occur to the average educational composition of the workforce occurs after very long lags. Thus, even if 100 percent transition from grade 6 to lower secondary education can be achieved starting this year, and maintained thereafter, there will still be 70 percent of Thailand's workforce in the year 2000 who have only primary education or less.²³ Simulation analyses showed that this will probably not affect Thailand's ability to grow at around 7 to 8 percent per annum to the year 2000, as there will still be sufficient numbers of workers available with middle level of education or more who could be drawn into the modern production sectors. However, the fact that the majority of Thai workers with only primary education will have less and less access to the better paying jobs will mean that income distribution will get increasingly more unequal through out the next decade.

3.4 Income Imbalance

The various imbalances above are obviously reflected in income imbalances,

23. See Sussangkarn (1991b).

or worsening income inequality over the course of development (Table 3.6). The income shares of the richest 20 percent of households increased from 50 percent of total household income in 1975/6 to 55 percent in 1988/9, while the income share of the poorest 20 percent declined from 8 percent to 4.5 percent during the same period. The slightly improvement between 1985/6 to 1988/9 simply reflects the fact the mid-1980s was a very bad period for crop prices and agricultural incomes. The improvement should certainly not be taken as a turning point. All the various imbalances discussed earlier, particularly the educational issue, point to a continual worsening trend of income distribution over the medium term without committed and clearly directed policy interventions.²⁴

Table 3.6
Income Shares of Household Quintiles and Gini Coefficient

	1962/3	1975/6	1980/1	1985/6	1988/9
Richest 20%	49.80	49.26	51.47	55.63	55.01
Next Richest 20%	21.60	20.96	20.64	19.86	20.30
Middle 20%	12.10	14.00	13.38	12.09	12.20
Next Poorest 20%	8.60	9.73	9.10	7.87	7.98
Poorest 20%	7.90	6.05	5.41	4.55	4.51
Gini Coefficient	0.414	0.439	0.446	0.500	0.478

Source: NSO, Socioeconomic Surveys, as analyzed in Dowling (1984), Jitsuchon (1987), Hutaserani and Jitsuchon (1988) and Hutaserani and Tapwong (1990).

24. These are discussed in the last section of the paper.

3.5 Economic-Environmental Imbalances^{25,26}

The economic-environmental imbalances in Thailand, which are now well known, are in fact related to the various other imbalances discussed above. Allusion was already made to past rapid expansion of the cultivated area, which played a major role in agricultural growth, and how this related to the employment-production imbalance. The converse of the rapid expansion in cultivated area was the associated increase in rural environmental problems; including deforestation, forest encroachment, cultivation of marginal and fragile lands, soil erosion, flooding and water shortages and other natural resource related problems. Forests which covered over 50% of Thailand's total land area only 30 years ago are down to about 25%, and even less if forest degradation is also taken into account. Water resources have also been under increasing pressure because of the destruction of critical watersheds, the loss of water control, the sedimentation of reservoirs, and the wasteful use of water by various sectors.

The extensive expansion of the cultivated area into the forests clearly was not sustainable. Even on purely economic grounds, there will be less and less fertile land available. However, because of almost zero private shadow price for forest land (given lack of enforcement by the authorities), the encroachment was so serious that severe environmental problems became easily visible. Flooding and natural disaster became more frequent. While improvements along the social front, such as rapid decline in fertility and expansion of basic education, helped to reduce environmental problems associated with forest encroachments from what they would otherwise be,²⁷ the situation is still severe. The sad fact is that the problem of the millions of farmers who are living and farming in reserved forest areas is still far from being resolved.

Currently, apart from still unsolved rural economic-environmental problem,

25 This part draws mostly from Panayotou, Behrman and Sussangkarn (1991).

26. For comprehensive discussions of Thailand's environmental problems, see the research volumes presented at TDRI 1990 Year-end Conference on "Industrializing Thailand and its Impact on the Environment."

27. See discussions in Panayotou, Behrman and Sussangkarn (1991).

urban related environmental problems are also getting serious. The economic boom of the latter part of the 1980s caught the country unprepared. When the Sixth Plan (1986-1991) was being formulated, Thailand was still in an economic recession, and the expected average growth at that time was only 5 percent per annum. In actuality, the average rate of growth for the whole Sixth Plan period was more than double the expected rate. Infrastructures to support the current growth pattern are now strained to the limit. Further, with the spatial imbalances, most of industries and modern services are located in or around Bangkok, and rural-urban migration is increasing rapidly. Congestion and pollution in Bangkok are worse and worse. The spatial shift in the population and workforce is also straining the capacity of the urban management system. Hundreds of billions of baht need to be invested in urban infrastructures over the next few years to prevent Bangkok and some of the larger provincial cities from grinding to a halt.

Urban environmental problems, and particularly those of Bangkok, include air pollution arising from rising levels of industrial and auto emissions; water pollution arising from waste water from industries and households; solid waste, especially hazardous waste from hospitals, toxic waste from industries and household garbage; coastal pollution and degradation of the natural environment by haphazard tourist development; land subsidence and flood damage arising from excessive pumping of ground water; disappearing open spaces and deteriorating quality of life as a result of congestion, noise, air and water pollution.

Industrialization, urbanization, and energy consumption are closely related. Industries are attracted to urban centers, especially Bangkok and its satellite provinces, because of the availability of infrastructure and services, and the proximity to markets and ports. The rural population is attracted to the urban centers because of the availability of employment in industry and services (formal and informal). Since industry is far more energy intensive than agriculture, and urban centers more energy intensive than rural communities, industrialization and urbanization inevitably translate into higher energy demand. Moreover, the growth in incomes that results from rapid industrialization translates into demand for more living spaces and consumer durable such as private cars, refrigerators, and air conditioners, all of which

are energy intensive, and by implication pollution-intensive.

The demand for energy, including water, to support the urban related development is also creating a link back to rural environmental problems. The conflict between energy production and rural natural resources manifests itself in controversies concerning the building of dams, or dangerous fumes arising from electricity generation plants. The insufficient supply of water in many parts of the country inevitably highlights the conflict between industrial and service sector development and agricultural development.

3.6 Imbalances of Rapid Transition

Thailand is an economy in rapid transition, it is a society in rapid transition. Thus, problems abound related to the adjustment process. The infrastructure shortage problem is partly because of this, given that no one expected the rapid growth in the latter part of the 1980s back in the early-mid 1980s.

When the economy and society changes rapidly, there are bound to be tensions between old ways of doing things and the new path in which the economy and the society is moving. A good illustration, but a tragic one, may be the political events of this year. It seems clear that at the root of the problem was the thought by certain groups that the model of governance that worked well for Thailand back in the early part of the 1980s would still be appropriate for the Thailand of today. That this was a major mistake should have been clear if changes in the socioeconomic structures of the country, changes in the world political environment, and the extensive internationalization of the Thai economy was taken more carefully into account.

In the rapid transition phase, there are also tensions on the individuals, the families. The pace of migration increases, as where location is good for industry is not necessary where people who can work live. This obviously leads to social and psychological hardships, changes in the household structures, inter-family member relationships etc.. Given that people choose the path they take, one has to accept that they are willing to sacrifice these for the opportunity of something better than the past.

They may turn out to be wrong, and wished that they could stay and carry on with the old lifestyle. On the other hand, they may turn out to be right, and find new fulfilling opportunities that will enable them to lift themselves up in socioeconomic terms for the rest of their life, and for their future generations' lives. It is not for outsiders to judge. The real question is not whether they should have chosen the path they took, as some will successful while others will not be, but rather the extent to which the structure of the economy and the structure of society will have enough opportunities available to meet their dreams and aspirations. This takes one to a much more dynamic discussion of imbalances. This is the main topic of the next section.

4. CONCEPTUAL FRAMEWORK OF DYNAMIC BALANCE

The last two sections have described the past development successes in Thailand as well as the numerous dimensions of imbalances that exist. To synthesize the meaning in all that have been discussed, and lead to some clear policy visions for the future, it is of utmost importance to develop some conceptual framework through which the development process with all the attendant imbalances can be scrutinize and analyzed. Without some conceptual framework there is a danger that either one throws one's hand up in despair as there just seems to be so many problems to tackled and it is hard to see how to even begin to approach the solutions, or else one is liable to want to do "everything," with policies for all the perceived problems and imbalances with no clear priorities or direction. The latter, of course, is the natural inclination of governments. Most of the time it ends up being nothing more than a simple re-listing of the problems that exist, rather than a clear integrated approach that gets to the heart of the problem, and displays clear prioritization and policy visions.

Developing a satisfactory conceptual framework to make sense of the development process and the various imbalances is certainly not an easy task. Different individuals will inevitably have their own world-view of things. However, rather than avoid the issue, it will be attempted here as it may lead to some new useful approaches to the achievement of so-called "more balanced" development for Thailand in the future. The conceptual framework that will be discussed here is extremely

simple. However, as it turns out, it has rich applicability to a wide range of development issues, and helps in identifying the key policy directions for the future (which will be discussed in the next section).

To begin with, the ultimate goal of the development process has to be clear. To the author, the ultimate focus is on people. The goal is nothing more or less than the sustainable improvement to the quality of life of the population. The goal is not about sectors of productions *per se*, not about locational development *per se*, not about environmental improvement *per se*, and not about political development *per se*; rather these are the means through which sustainable improvement to the quality of life of the people can be attained.²⁸ Of course, there are three important keywords; i) sustainable improvement, ii) quality of life, and iii) people. These three key words then link the goal to the complex multi-dimensional nature of the development process, and hence the multi-dimensional means necessary to achieve the goal; the sectoral dimension, the spatial dimension, the socio-cultural dimension, the political dimension, the ecological dimension, and the present-future and inter-generational dimension etc.

Another important point to be clear on is that we are talking about a dynamic process, as the "sustainable improvement" part of the goal makes clear. We are not so much concerned with situations at a given point in time *per se*, but rather with the development path. Does this then mean that if we observe all kinds of major imbalances at some given point in time, then it does not really matter? The answer is clearly, no. The reason, of course, is that there are intimate links between what exists in the present and the future. Imbalances in the present may prevent achieving the sustainable improvement of the future. However, an equally important implication of the dynamic view is that not all imbalances are crucial. Some imbalances may just be short-term blips with no future significant when view in the context of a dynamic development path, and some imbalances may not be related to the goal of achieving a sustainable improvement to the quality of life of the population at all.

28. The need for a clear distinction between the goals and the means of development was suggested by Dr. Narongchai in the brain-storming meeting mentioned in the preface.

4.1 Concept of Dynamic Development Balance²⁹

Attaining the goal of sustainable improvement to the quality of life of the people does seem to imply achieving some kind of approximate balance between the various developmental dimensions and sub-dimensions related to the social, political, economic and ecological aspects. First of all, quality of life obviously does not depend on a narrow set of developmental outcomes, be they economic, social, political or ecological. In the end, development in all these dimensions and sub-dimensions within each broad dimensions are necessary. But, secondly, as indicated above, major imbalances may develop and may reach the point of retarding the development process substantially, or forestall it altogether. One can probably think of historical or present development experiences around the world that illustrate the point. However, without discussing specific country experiences, indications of types of problems associated with certain imbalances can be given.

- Mass starvation of the population is clearly not compatible with the achievement of sustainable improvement to the quality of life. It destroys the very object of the development goal.
- Development without due regard to the macroeconomic external imbalances can lead to a critical point when it becomes the *major development crisis*, over-riding almost all other objectives, and can retard the country's development by half a generation or more.
- As the economy changes from simple rural-agrarian structures to more complex urban-industrial structures, one can expect potential conflicts between various pressure groups to increase and become more difficult to manage for a number of reasons: (1) more division of

29. This part draws mostly from Sussangkarn (1991a).

labor, leading to more dependence of various pressure groups on one another and more complex inter-relationships between them, increasing the damage each can do to others; (2) more population living in high density urban areas, making differences in income and wealth more visible; improvements in telecommunication and the invasion of television into the rural areas will also have similar effects; (3) in rural-agrarian societies, most economic activities are centered around small local communities, so that externalities can be more easily internalized, and feelings of mutual interest more easily cultivated. With changes toward the urban-industrial structure, systems to effectively manage conflicts need to take account of the multiplicity of interests inherent in more complex economic structures. This will only be possible with more open political systems, which can cater to different interest groups and opinions. If the economy develops, but the political system continues to be repressed, and lacking in communication channels for identifying, discussing, and resolving different viewpoints, social conflict may get to the point where even political repression will not work, and economic development may be hampered.

- Alternatively, it is possible that political development outpaces the capacity of the social and economic structures to adjust. Thus, rapid changeover from repressed political systems with command type economies to more democratic political systems with more laissez-faire economies may run into early trouble, as the required social and work ethic for successful liberalized economic systems may be lacking. This may initially lead to disenchantment, as workers become unemployed and the

economy stagnate. If the stagnation in the economic system becomes too prolonged, then social unrest may be so great as to have serious repercussions back on the political system.

- Finally, economic growth may proceed satisfactorily, but the growth could be driven by exploitation of non-renewable or slowly renewable resources. Unless the surplus from such a growth pattern is gradually used to make the economy less and less dependent on these resources, the growth will clearly not be sustainable.

The above examples of imbalance development are merely suggested as indicative of what can happen in societies. The important point is that the essential balance is not a *static* balance in all of these dimensions and sub-dimensions. It is unlikely that any country can achieve such a balance at all points in time. It also does not seem to be essential for the sustainability of development to attain such a static balance. Thus the concept of *dynamic* balance is adopted rather than static balance.

Dynamic development balance means a situation in which imbalances in the various development dimensions can exist at a particular point in time, but that there are forces that tend to reverse the imbalances before they become self-sustaining and diverge further and further. Thus, sustainable development can exhibit oscillations (or multiple oscillations given the multi-dimensional nature of development) around situations of approximate balance among the various development dimensions, as long as the various tensions or problems that develop as a result of the imbalances do not become too de-stabilizing.

For developing countries, it is likely to be the norm that development proceeds with imbalances. As a country develops, some part of its structure will be changing relatively quickly, while others will be changing more slowly, leading to some imbalances. A smooth balanced development pattern is rather unlikely. Also, at certain points in time, some development goals will be more urgent than others.

Governments will stress some goals in the short-run, possibly to the exclusion of other goals. For example, political stability may be the key goal, or macroeconomic stability, or rapid economic development, or the preservation of traditional cultural values. Because the inter-relationships between the various dimensions of development are so complex, and a concentrated focus on some particular dimension may lead to policies that negatively affect other dimensions, it is easy for imbalances to develop.

As a society develops and becomes more advanced and mature, oscillations from one major imbalance to another may become less and less. This is because the society would have had long experiences (presumably successful) in managing the various imbalances, and one can expect sufficient pluralism in view-points leading to more balance in the importance attached to various goals of development. Also extremes of backwardness in various dimensions of development, such as poverty or political instability, which tend to lead to an exclusive focus on a narrow set of development goals, will remain to a much lower degree than in developing societies.

The sustainable progression from a developing to an advanced or mature society is therefore likely to follow what in mathematical jargon would be called a "damped" oscillation, or what can be called a *damped oscillated development path*.

This view of sustainable development can be quite useful in understanding why the concept of sustainable development can mean very different things in various societies at different stages in their development. The acceptable concept of sustainable development (in actual practice rather than in lip-service proclamation) is likely to vary a great deal between different less developed countries, because at a particular point in time each is likely to be facing different, and possibly large, imbalances, the solution to which the government may feel is indispensable to the achievement of "sustainable" development. In advanced societies, there is likely to be more convergence in what is meant by sustainable development, and is probably closer to the concept of static balance in the various dimensions of development than would be the case in developing societies. Because of damped oscillated development paths, differences in opinions between the more advanced countries and the developing countries, and among the developing countries, about the concept of sustainable

development is probably the norm.

It is, of course, not necessarily the case that the size or the number of different types of imbalances will decline monotonically with the level of development. As a country develops new types of imbalances may emerge or existing imbalances may become more important. Further, changes are occurring in all spheres of life; changes in knowledge, changes in technology, changes in cultural values, changes in the inter-relationships among countries, for example. Thus, there are continual shocks to the environment under which development occurs. Even in advanced societies, major imbalances can arise; witness for example the adjustment pain the United States is going through to cope with changes in the world economic power structure over the last several decades. However, one can say that the ultimate end point should be a high level of development, with relative balance in various important dimensions that affect the people's quality of life. Thus, in the very distant end part of the development path (which is probably still a long way off for all societies), the size of imbalances and associated oscillations should eventually decline. The notion of a damped oscillated development path can therefore be qualified as a (*not necessarily continuously*) damped oscillated development path.

What makes things more complicated is that the concept of sustainable development has to also cover the inter-relationships between different societies. For example, many serious environmental problems are global in nature. Conflicts between different countries, be they in the political, religious, or economic sphere, can also seriously affect the development prospects of each country, or even have wider global repercussions. In the end, one would also want to have a damped oscillated development path for the world as a whole.

4.2 Avoidance of Critical Thresholds

While the concept of a damped oscillated development path described above may sound a little utopian, it can lead to the key principle to achieve the ultimate objective of sustainable improvement to the quality of life of the population. The key is to avoid the *critical thresholds of imbalances*.

Basically, there is no guarantee that development will follow the pattern of a damped oscillated development. If at certain points in time, the imbalances become so large, it is possible that a de-stabilizing development path develops. Countries may become trapped in zero or even negative growth situations, or political conflict may devastate the development potential of the country, or depletion of natural resources and the environment may be so extreme that irreversible damage is imparted to the social and economic system. Here, ideas from *catastrophe theory* may be pertinent.³⁰ If imbalances become so large, it may push society above the threshold that sets the limit on the size of divergence below which development can oscillate back toward a balance between the various dimensions of development. In this case, development would be severely hampered or forestalled entirely. Thus, the key to attaining a damped oscillated development path is to contain the imbalances that are inevitable during the course of development so that they do not add up and become explosive.

Of course, while the principle of avoiding the critical thresholds of imbalances is a simple conceptual idea (all conceptual ideas are simple), it is not a simple matter to apply without a lot more work. First of all, one needs to have measures of the imbalances, and for those involving the social, political or even some ecological dimensions, measures (even qualitative measures) are sometimes very hard to come by. Secondly, even if measures can be obtained (for example, measures abound on economic imbalances), it is still not straight forward to know just how much imbalance would be consistent with a damped oscillated development path.

However, the fact that the application of the concept is not straight forward is no reason for despair. Having a principal concept to guide the search for solutions is a critical first step. Without it, one can easily become lost in a maze of the numerous imbalances. In fact, while general application of the concept will depend on in depth understandings of the complexity of the development process and how different dimensions interact with each other in the given specific circumstances of each society, some solutions emerge fairly directly from this principle of avoidance of the critical thresholds of imbalances.

30. Thom (1972), or for an introduction see Saunders (1980).

5. TOWARDS BALANCED DEVELOPMENT: KEY POLICY DIRECTIONS

In this final section, the discussions on past development successes and underlying reasons, the various indicators of imbalances, the notion of dynamic development balance and the associated principle of avoidance of critical thresholds of imbalances, are tied together to develop some key policy directions for the future. The coverage is not intended to be complete, and even the ideas presented here may evolve further in the future with more thought and research on this most complex of topics.

5.1 The Basic Threshold

Recall that the goal is to achieve a sustainable improvement to the quality of life of the population. As suggested in the last section, the key is to follow a development path that avoids the critical thresholds of imbalances. As people is the main focus, the most basic critical thresholds pertains to the basic needs of the population. Basic needs here is meant more than just survival, but rather the basic requirement in necessities that individuals need for food, shelter, clothing, bringing up children, etc. It is the level below which the struggle to survive becomes paramount, possibilities of self-improvement, self-investment, investment in the children, are minimal or non-existent. If an individual's position remains below the basic needs level for an extended period of time, the prospects for a sustained improvement in his/her quality of life are dim. Thus, the basic needs threshold is really of fundamental importance if one is serious about the development goal of sustainable improvement to the quality of life of the population.

In fact, unlike many other critical thresholds of imbalances that one may want to consider, there is a ready measure of the basic needs thresholds; the poverty line. While, one could argue about the exact level of the poverty line, and the need to take into account varying household compositions etc.,³¹ getting a measure that could be

31. See the analyses in Bauer et al. (1991) who analyzed adjustments to the poverty line through using equivalency scales, with different poverty lines for households of different compositions.

reasonably accepted by a broad range of people is certainly not beyond the capabilities of various institutions in the country. Ignoring possible refinements, if we take the current poverty line that is used by all major agencies in Thailand as a fairly good measure of the basic needs level, then (as was indicated in Table 2.3) in 1988/9 about 23.7 percent of the country's population was below this critical basic threshold level.³²

While, as was indicated in Section 2, the poverty incidence had declined substantially from the 1960s, if we take seriously the goal of sustainable improvement in the quality of life of the population, then it has to be said that it is not *acceptable* that over 1 in 5 of the population is under the threshold of basic needs. Thus, a key future policy direction should be the eradication of poverty for all.

5.1.1 Eradication of Poverty for All by the Year 2000

While this may sound like a political slogan with no possibility of being achieved, the goal is in fact not that hard to attain if one bears in mind exactly what the objective is. The year 2000 was chosen as it signifies the start of the next century, an especially important landmark. By that time Thailand's per capita GDP would have risen to about \$4,650 (or about \$3,000 in 1991 Prices), so the presence of poverty by that time will be even more unacceptable.

The objective is to eradicate poverty, i.e. guarantee that every family of this nation has an annual income at least as much as that represented by the poverty line.

32. The poverty line in 1988/9 was 4,141 baht per capita household income in rural areas, and 6,324 baht per capita household income in urban areas. Thus, with a family of husband and wife with 3 children, the household needs to have a total annual income of at least 20,705 baht in rural areas, or at least 31,620 baht in urban areas, to be above the poverty line. The original poverty lines were calculated through a World Bank project in the mid-1970s, based on the standard World Bank Approach. Quoting from Bauer et al. (1991)... "Based on this approach, a single daily minimum nutritional requirement was estimated for a "composite" Thai, using a weighted average of the daily minimum nutritional requirement for various age and sex groups recommended by the Ministry of Public Health.... The resulting minimum requirement was converted into a basket of typical food consumed by the rural and urban poor, and translated into value terms... Minimum non-food expenditures were estimated for rural and urban households by using the observed share of food and non-food expenditures among the lowest income quintile in the 1975/6 SES. Minimum food and non-food expenditures were summed." See Meesook (1979) and also World Bank (1980).

It is important not to forget this objective under discussion, otherwise one would wander unconsciously to mix up this objective with other objectives, and hence end in complete confusion. The objective is not to help farmers, or laborers, or slum dwellers, rather the target group is very specific, those whose annual household income fall below the poverty line, whatever sectors of employment they are in and where ever they live in this country.

To be able to attain **this** objective, two things are required; serious commitment by the *government*, and serious commitment by the *people*. Serious commitment by the government, of course, is very important otherwise the project will never get off the ground. Commitment by the people is equally important, because to be able to achieve this objective relatively quickly will require their cooperation. Two questions arise:- how, and how much will it cost?

How

This scheme will guarantee that every family gets at least the level of income corresponding to the poverty line. Thus, if some family's income falls below the poverty line in a given year, the government will make up the difference. So basically it is a negative income tax scheme. The main difficulty in any kind of guaranteed income scheme of this nature is to be able to identify the target group reasonably accurately. For families with annual income below the poverty line, the composition is likely to change over time. One year, income may suddenly fall below the poverty line as there is crop failure, or low prices, or the earners in the households may be laid off work, or become very ill etc., while the next year income may increase back above the poverty line again. Thus, the system needs to be able to monitor such changes. The most effective way that this could be done is to bring everyone into the tax system.

Certainly no tax system is ever free from evasions, under-reporting etc. Yet, it gives some measure of monitoring and control that people in the system ignore at their own risk. While not perfect, it is the most effective system available for monitoring incomes on a mass scale, which is something needed in this system of poverty eradication. In fact, given the guaranteed income nature of the scheme, there will be

incentives for the poorer groups to enter the tax system, because they will be guaranteed at least the poverty line income. There will of course be attempts to under report incomes, over report expenditures (for the self-employed), to report income below the poverty line when in fact this is not the case etc. However, this is to be expected. Rich people evade taxes as well. The main thing is that a percentage of the evaders gets caught and punished, and this act as some deterrent to keep mis-reporting and evasion down. As improvements to the monitoring and enforcing systems occur, one can expect less mis-reporting to occur, but even in the most advanced societies, these problems have not gone away. The fact that the system will not be fool-proof, is not the same as saying that the system cannot achieve the objective at hand.

Extending the tax system to cover everyone means that every adults should have to file their income taxes. This should not be beyond the capabilities of most Thai adults; after all, figures show a literacy rate here of over 90 percent, and Thais are certainly proud of this fact. It also means extending the Value Added Tax system (VAT) to all sectors of production and all sizes of enterprises. Thus, the whole of agriculture has to be brought into to the system, and all the small enterprises currently outside the system should be brought in. This is necessary as most of the poor families in Thailand are operators of their own enterprises, whether as farmers or otherwise. Thus, computing and monitoring their net income for tax purposes, or for the government to top up to the required poverty line level is not straight forward. The key to the VAT system as implemented here in Thailand is the "receipts," which will help greatly in income monitoring and checking.

Extending the VAT to the whole system may meet some resistant. Clearly if tax evasion on a large scale occur anywhere then it is probably in the small scale or informal sector enterprises. This is where serious commitment on the part of the people is crucial. Good public relations programs on the national objective of "poverty eradication for all" should be able to overcome the initial resistance, however. Full coverage of the VAT also have added benefits in making the tax system more uniform than the current implementation, with its numerous exemptions. This will certainly lead to better resource allocation, and promote export. The current VAT rate of 7 percent can be reduced substantially if full coverage takes place and the same amount

of revenue were to be raised. In the initial phase of extended coverage, there may be some adverse impact on price levels, as the VAT is basically a wedge between the domestic prices and world prices (with domestic prices rising to become higher than world prices), given that exports are exempted. But, after the initial shock, the benefits of better resource allocation and higher levels of export will benefit the economy as a whole.³³

Thus, the poverty eradication program can be practically carried out through an extension of the tax coverage to everyone and all sectors. The extension of the tax system also has the added benefit of a fair treatment for all. Those whose incomes are high enough to pay taxes should do so like everyone else; be they farmers, laborers, slum dwellers, business executives, or millionaires.

How Much?

The amount of money required to top up those whose income are below the poverty line to the poverty line level is neither large nor small. Table 5.1 shows calculations from the 1988/9 Socioeconomic Survey. Total household income from the Survey comes to 704,187 million baht. For those under the poverty line in that year, total income was 35,907 million baht. If the poors' income was to be increased to the poverty line level, the additional amount required will be 14,847 million baht, or about 2.1 percent of total household income for the country. The total household income from the Socioeconomic Survey understates total household income when compared to data from the National Accounts. If we use the 2.1 percent ratio of household income as being necessary to bring the poor up to the poverty line level in 1990, and also assume that the percentage of the poor remains at 23.7 percent, then the amount of money required will be about 30,000 million baht.

This is certainly not a small amount, especially considering that it is an annual flow. Nevertheless, the key point is that it will be completely effective in its objective of eradicating poverty. How much money the government is now spending in the name

33. See Sussangkarn, Jitsuchon and Devarajan (1990)

of "poverty eradication" is hard to say. One would guess that it is much more than this amount per year, and certainly many would argue that not much of that reaches the real target group. Two other factors should also be borne in mind. First, by the year 2000, poverty incidence should have been reduced through normal development to certainly less than 20 percent of the population, thus the required expenditure will be less than 2.1 percent of total household income. And second, much more importantly, the extension in the tax coverage to the entire population should increase revenue significantly, so there will be additional resources available, which may well be much more than the amount required for the poverty eradication scheme. Of course, these resources will be coming from people who are not now in the tax system, although their income level implies that they should be paying taxes for fairness with other people with the same income who are now in the tax system.³⁴

Table 5.1
Calculation of Income Needed to compensate for poverty: 1988/9

	Population	Avg.Income	Tot.Income
	million	Baht/Yr	Million
Village	39.700815	8,917	354,000
Sanitary	5.098228	14,252	72,662
Municipal	10.358548	26,792	277,525
Kingdom	55.157591	12,767	704,187

	Poor	Avg.Income	Tot.Income	Pov.Income	Short Fall
Village	10.626882	2,915	30,981	44,006	13,025
Sanitary	0.600894	3,100	1,863	2,488	625
Municipal	0.673569	4,547	3,063	4,260	1,197
Kingdom	11.901345		35,907	50,754	14,847

Source: NSO, Socioeconomic Survey 1988/9.

34. Another factor is that if the poverty line is refined to take account of such things as the demographic composition of the household as was done by Bauer et al. (1991), then the incidence of poverty may be less than the current measures. Unfortunately, Bauer et al. did not use the necessary weights in carrying out their poverty incidence analyses, so their results cannot be compared with previous analyses.

5.1.2 Provisions of Other Safety Nets

The poverty eradication scheme above is like the provision of an income safety net. That is society decides that the poverty line is the lowest level below which no one should fall. While the income safety net is very important, it cannot solve all problems of basic needs. For example, with catastrophic illnesses in the family, curative health expenditures may eat up all family savings, so just having guaranteed poverty line income is not going to help.³⁵ Even for relatively better off families, catastrophic events in the family can severely lead to negative long term economic impact. Thus, safety nets for such events are needed for everyone and not just for those under the poverty line.

An important scheme in this regard is the Social Security System. Currently, it is providing some health insurance safety net for those in the system (employees in firms with 20 workers or more, soon to be extended to firms with 10 workers or more). By 1996, the scheme will have to be expanded (according to the current law) to cover retirement benefits and child care,³⁶ and in the future (unspecified time frame) may be extended to cover unemployment benefits.

The safety net provided by the Social Security System should be eventually expanded to cover more of the population than just the employees. However, if the eradication of poverty scheme is implemented, then some re-thinking is required on the ultimate objective of the Social Security System. This is because, the income safety net will already be provided through the eradication of poverty scheme. Provision of child care assistance through the Social Security System may not be necessary, for example. If the idea is that even the poverty line income level is still not adequate for child care needs, then the implication is that the poverty line should be adjusted to take account of this (taking the demographic characteristics of the household into account, as in Bauer et al., 1991), rather than that there should be another scheme to take care

35. Sussangkarn et al. (1991) showed clearly the negative impact of health expenditures on household savings.

36. See Phananiramai (1992) for discussions of the issues involved in providing retirement benefits and child care under the Social Security System.

of it. Similarly, in terms of retirement benefits, the eradication of poverty scheme will already take care of the income safety net for everyone, including the elderly, thus, the scheme should have some other objective, in which case it has to be designed according.

Basically, if the eradication of poverty scheme comes into effect, much re-thinking and re-designing will be necessary for many safety net type social assistance projects that currently exists. If the income safety net is taken care of, then features of the income safety net in other schemes can be eliminated. This will lead to clearer objectives for each social safety net programs.

As a final point, these safety nets schemes, particularly the eradication of poverty scheme, should not be regarded as "charity" schemes. The idea is not that the nation is charitable in a condescending sense and has to give money to the poor out of pity. Rather, the idea is that people are normally resourceful and can help themselves. To be able to do so effectively, however, they need to be free from the constant and over-riding struggle to meet basic needs. Only then can they use their resourcefulness effectively, be able to invest in themselves, in their children, so that they can sustainably move up out of the poverty zone. It is not expected that those receiving the poverty subsidy from the poverty eradication scheme will continue to receive it forever. The dynamic nature of Thai society, together with appropriate policies to promote "dynamic mobility" will take care of that.

5.2 Dynamic Mobility

The discussion of the basic threshold above focuses on the need to keep people from falling below the level from which they will find it very difficult to emerge on a sustainable path of improvement to their quality of life. The main discussion was related to poverty eradication and the provision of safety nets. This part assumes that these safety nets are in place, and consider further the notion of improvement to the quality of life in a dynamic context in relation to the issue of growth and distribution of income.

Growth, especially the relative high rates of growth achieved in Thailand in the past and expected in the future, tend to lead to a general improvement in living standards. If people are concerned only with their own income growth over time then they will certainly feel satisfied. However, concerns about income inequality (as opposed to poverty) addresses the issue that relative income positions may also affect a person's sense of well being. This may be more and more the case in this information age where the media, and especially television has spread everywhere, so that people in all parts of the country know very well of the level of development and lifestyles in Bangkok. Thus, while much of a person's economic satisfaction may depend on how his/her incomes change over time, the relative income aspect presumably is also important. Therefore, one should be seriously concerned about the worsening trend of income inequality (or the relative income positions) in Thailand, as it can lead to social discontent which may lead to serious social imbalances, and can take society beyond the critical threshold of imbalances as discussed in the last section.

The first thing that one might suggest is that the measured trends in income distribution can be misleading and may not be relevant. This is not to suggest that they are so in Thailand, but that they may be so. One cannot judge without further discussions and analyses. In a dynamic context, one society may appear more unequal than another according to static measures of income inequality such as the gini coefficients or income shares by quintiles, yet in a dynamic context the more unequal society in the static sense may turn out to be more equal. This point was clearly made by Brenner (1992). To quote:

"Consider two societies. One, call it a "status" society, stays static. This means that year after year the same families are found within each twenty percent of the income share. Measures of inequality, if accurate, stay stable, and one would say that inequality in society did not change. Consider another society, where...there is much movement up and down the social ladder. This means, for example, that a family who in 1975, let us say, was at the bottom of the income distribution, is found five years later in the next quintile. Or, that a family which was at the bottom in 1975, jumps 2 or more quintiles, whereas another loses income and drops one or more quintiles. Assume, for the sake of argument, that though there is much movement across income

quintiles, the measured inequality (or Gini coefficient) is the same as in the previous status society, where there was no competition, there were no innovations, and there was no movement up and down the social ladder. In spite of the equality in statistical measures, the first type of society is more unequal than the second.³⁷ The fact that families stay within the same income ranks suggests that opportunities for advancement due to talent and risk-taking are closed in the first type of society, but they exist in the second."

This suggests that static measures of income inequality by themselves are not sufficient, one needs in particular to look at economic and social mobility, both for an individual, but also inter-generationally. If one knows, today, that one is going stay at the bottom of the pile forever, this can only lead to discontent. The discontent gets compounded considerably if one also knows, today, that one's own children will, like oneself, also stay at the bottom of the pile. Even if there is wide disparities in income at a point in time, but an individual has hope and opportunities to move up the ladder through his/her own merit, then one can expect him/her to work hard and possibly achieve life-time fulfillment. In fact, the existence of income disparities gives an incentive for hard work and risk-taking, as in entrepreneurial activities. If incomes are all equal no matter what one does, then there is simply no incentive to do anything. Of course, the worse case is that there is wide disparities in income and low or zero socioeconomic mobility.

Unfortunately, very little hard data is available concerning socioeconomic mobility, whether intra-generationally or inter-generationally. Off hand, one would expect that opportunities for socioeconomic mobility in Thailand has been quite high. In particular, countries very much on a laissez faire type economic system such as Thailand, and which has been able to achieve fairly high growth over the last several decades, can be expected to have plenty of entrepreneurial opportunities and socioeconomic mobility. Certainly, the experiences of the group of Chinese immigrants over the last several generations would seem to suggest plenty of

37. Consider this extreme example: if every family in the second type of society hovers the same amount of time in each quintile, an accurate measure of wealth inequality should reflect equality across families. But Gini coefficients will reflect permanent inequality in income.

opportunities for socioeconomic mobility.

"It seems to be the case - as in many other parts of the world - that in Thailand too penniless immigrants contributed disproportionately to the country's entrepreneurship. Chinese immigrants since the 18th century (the Hokkiens and the near destitute Teochews) became tax collectors for the Thai royalty as well as the leading merchants in early Bangkok (much like Jews in Poland, where they also started out as tax collectors for the nobility and also became leading merchants³⁸). Later waves of Chinese immigrants fled the massive crop failures and widespread starvation in 20th century China. Although these do not seem either favorable circumstances or a good start, Chinese immigrants - as immigrants in many parts of the world - worked hard, had less children (in part because of mobility), educated them, and became disproportionately represented among business leaders and top income groups. It has been estimated that 60 percent of Thailand's largest companies, and most financial institutions are controlled by Thai nationals of Chinese descent." (Brenner, 1992)

For situation in the last decade, fortunately, one can get some very illuminating pictures from Labor Force Survey tabulations. Table 5.2 gives tabulations of shares of employment by different age groups by workstatus for 1981 and 1990, for those with primary education and below, and for those with more than primary education (middle and higher education). The 1981 and 1990 surveys are about 10 years apart, so by comparing age groups 10 years apart in the two surveys (say 20-24 in 1981 and 30-34 in 1990), one can get some idea of the change in the mobility across workstatus. Of course, workstatus certainly does not correlate in any direct way with socioeconomic status.³⁹ However, the comparison of the differences in the pattern of changes between those with primary education and below, and those with more than primary education can be illuminating.

38. See Brenner (1983), chapters 1 and 5.

39. Though some would attach quite a lot of importance to the distinction between being an employee and an own-account or unpaid family worker.

Table 5.2
Mobility by Workstatus: 1981-90

Primary Education: 1981

Age Groups	Private Employee	Public Employee	Employer	Own Account	Unpaid	Own-acc + Unpaid
15-	9.6	0.1		1.4	88.8	90.2
15-19	19.0	0.5	0.0	2.7	77.7	80.4
20-24	19.6	1.3	0.5	10.7	68.0	78.7
25-29	18.3	1.8	1.2	25.9	52.9	78.8
30-34	16.4	2.8	2.3	37.5	41.0	78.5
35-39	13.1	2.8	3.0	43.4	37.8	81.2
40-44	13.6	2.8	2.7	46.8	34.0	80.8
45-49	10.5	2.6	2.7	50.9	33.3	84.2
40-49	12.1	2.7	2.7	48.9	33.6	82.5
50-59	8.6	3.3	2.6	56.2	29.2	85.4
60+	7.1	0.6	2.6	68.1	21.6	89.7

Primary Education: 1990

Age Group						
15-	16.9	0.0		2.4	80.6	83.0
15-19	25.6	0.3		3.4	70.8	74.2
20-24	26.1	0.7	0.3	11.2	61.8	73.0
25-29	25.1	1.2	0.6	24.8	48.2	73.0
30-34	23.5	1.8	1.1	38.1	35.5	73.6
35-39	18.8	2.4	1.7	44.4	32.7	77.1
40-44	16.7	2.8	2.0	48.9	29.6	78.5
45-49	14.1	3.1	1.5	49.9	31.3	81.2
40-49	15.6	2.9	1.8	49.4	30.3	79.7
50-59	12.3	3.2	2.1	53.9	28.5	82.4
60+	8.1	0.4	1.6	62.6	27.3	89.9

Table 5.2 (Continued)

Middle And Higher: 1981

Age Groups	Private Employee	Public Employee	Employer	Own Account	Unpaid	Own-acc + Unpaid
15-	0.0	0.0	0.0	0.0	0.0	0.0
15-19	24.6	5.1	0.0	3.6	66.7	70.3
20-24	33.3	23.8	0.2	5.4	37.3	42.7
25-29	34.2	38.8	1.9	8.9	16.1	25.1
30-34	30.1	42.6	4.7	13.9	8.8	22.6
35-39	25.0	43.6	6.8	17.7	6.8	24.5
40-44	21.2	45.1	7.1	20.4	6.2	26.5
45-49	23.6	50.9	7.3	14.5	3.6	18.2
40-49	22.0	47.0	7.1	18.5	5.4	23.8
50-59	16.4	54.8	6.8	19.2	2.7	21.9
60+	28.6	14.3	7.1	42.9	7.1	50.0

Middle And Higher: 1990

1990						
15-	25.0	0.0	0.0	0.0	75.0	75.0
15-19	35.5	2.2	0.2	4.4	57.7	62.1
20-24	44.8	9.3	0.4	9.5	36.0	45.5
25-29	43.1	23.4	1.3	14.8	17.4	32.2
30-34	34.1	32.3	3.6	17.1	12.8	30.0
35-39	28.5	38.6	4.7	19.1	9.1	28.2
40-44	26.1	43.5	6.3	19.0	5.1	24.1
45-49	19.1	47.2	7.0	20.1	6.5	26.6
40-49	23.0	45.1	6.6	19.5	5.8	25.2
50-59	18.1	54.9	4.9	18.8	3.5	22.2
60+	20.0	6.7	16.7	40.0	16.7	56.7

Source: NSO, Labor Force Surveys, 1981 and 1990, July-September.

Starting with those with primary education and below (first part of the Table), it can be seen that most of them are own account or unpaid family workers. This is because most of them are farmers, who operate their own land. At young ages, most of them are unpaid family workers, and as they get older the proportion of own account workers increase, and that of unpaid family workers decline. This is the normal

expected trend due to family formation, because as the individual gets older they are more likely to become head of households, and hence if they are in the family enterprise, they are likely to be the main operator of the enterprise and be classified as an own account worker rather than an unpaid family workers. At this level of aggregation, and for the issue of socioeconomic mobility it is probably not that useful to distinguish between own account and unpaid family workers, so a column is also given of the sum of own account and unpaid family workers.

If one compares the same cohort across the two years, some pattern can be seen. Take the 15-19 age group in 1981. In 1990, they become (approximately) the 25-29 age group. Comparing the workstatus structure between the two years, one can see that the main change is a decline in the share of own-acc+unpaid (from 80.4 percent to 73 percent) and mainly an increase in the share private employees (with very slight increases in the shares of public employees and employers. This is presumably to be expected since they would tend to help with the family enterprise (mainly on the farm) when young, and then move to seek jobs as employees later. However, if one examines the older age groups, one gets very similar patterns. So comparing the 20-24 age group in 1981, to the same cohort in 1990 (the 30-34 age group), a decline in the share of own-acc+unpaid with most of the increases going to private employees. For the 25-29 age group in 1981 and the 35-39 age group in 1990, the pattern is again similar, except that the increase in the share of private employee is about the same as that for the shares of public employees and employers. For the 30-34 age group in 1981 and 40-44 age group in 1990, the employment shares have fairly much stabilize, except that the share of employers decline slightly, changing to private employees. For the 35-39 age group in 1981 and 45-49 age group in 1990, the share of own-acc+unpaid is still stable. The main change now is a decline in the share of employers, with most of the increases going into private employees. For the ten year age group 40-49 in 1981 and 50-59 in 1990, the share of own-acc+unpaid is still stable, the main decline is still from employer, with the decline going almost equally to private employees and employers.

To give some meaning the above, a comparison of the changes for those with more than primary education can be made. For those with more than primary education, the change for the 15-19 age group in 1981 and 25-29 age group in 1990 is

similar to that for those with primary education, and even more dramatic. A sharp decline in the share of own-acc+unpaid, and sharp increase in private and public employee and a slight increase in employers. This is not very interesting as many of the 15-19 age group are still at school in 1981, so they could be helping out part time with the family enterprise. Once they finish their education, then they go out and get paid employment in the private and public sector. The pattern is similar for the 20-24 age group in 1981 and 30-34 age group in 1990. Here sharper increase occur for public employees, and this presumably reflect the major role of the public sector as employer for those with university degrees and vocational certificates (back in mid 1980s). However, note that the share of employers also increase quite a lot, from 0.2 percent to 3.6 percent. Once we get to the 25-29 age group in 1981 and 35-39 age group in 1990, different patterns begin to emerge. For this group, we actually see a decline in the shares of employee, both public and private, and increases in the shares of employers, and also own-acc+unpaid. For the 30-34 age group in 1981 and 40-44 age group in 1990, again the shares of own-acc+unpaid and employers increase. For this group the share of public employee also increase, with the only decline occurring for private employee. For the 35-39 age group in 1981 and 45-49 age group in 1990, again, the shares of own-acc+unpaid and employers continue to increase. Once we get to the 40-49 age group in 1981 and 50-59 age group in 1990, the shares of own-acc+unpaid and employers finally decline. There is a large increase in the share of public employee for this age group. This pattern is likely to be due to the longer working life in the public sector. Many of those in own-acc+unpaid and employer probably have retired by the mid 50s, letting their children take care of the business.

The main difference in pattern between the group of those with primary education and below and those with more than primary education concerns the shift from the own-acc+unpaid (and employer) viz. a viz. the private employee group. For those with primary education and below, the main movement is from own-acc+unpaid into private employees up to about the mid 30s and relative stability after that, although there continues to be shifts from employers to private employee as the cohort ages. For those with more than primary education, except during the young years, there is a reverse shift from private employees to own-acc+unpaid. This starts from the late 20s all the way to the early 40s.

To try to link this to socioeconomic mobility, one can think of the own-acc+unpaid category as two groups; high earning own-acc+unpaid (HEO) and low earning own-acc+unpaid (LEO). Ignoring public employee, the average socioeconomic ranking of the other workstatuses would be roughly as follows: 1) Employer and HEO as about equivalent, with possibly the employer group slightly higher; 2) private employee, and 3) LEO. The main movement of those with primary education or less in the 1980s was from LEO (mostly from agriculture) to private employee (factories, construction etc.), while that for the group with more than primary education was from private employee to employer and HEO. The patterns does not indicate much move into the HEO group for those with primary education or less. The declining share of employer starting from the early 30s indicate that even those movements were not generally successful on a long-term basis.

The 1980s in Thailand, particularly the latter part, was a time of great dynamism, and presumably full of entrepreneurial opportunities. This was fully taken advantage of by those with good educational background. The data suggests dynamic socioeconomic mobility for these people. They are now the new rich and the new "middle class," whose growth has been a very prominent feature of the recent social changes in Thailand. For those with primary education or less, there was some mobility, but a rather limited one of moving from low income own enterprises into mainly low wage employee jobs, and in these jobs they are unlikely to have much prospects for upward mobility given their limited educational background, though presumably they can earn more than staying in the low income own enterprise otherwise they would not make the shift. Even this movement can only occur up to about the early 30s, as the demand during this phase of Thailand's industrialization is generally for *young* workers. The older people will simply have to stay on in the low earning own enterprises, which are mostly in agriculture. What is making things worse is that the door to the better jobs in industries and services are gradually closing on those with just primary education. More and more, demand is not for just young workers, but young *and* educated workers.

The somewhat depressing conclusion that emerges from all this is that, yes,

Thailand has plenty of opportunities for the enterprising, the resourceful, the educated. These people has the ability to move up and up on the socioeconomic ladder. For those poorly educated masses of the population, however, data from the last decade show that their opportunities are extremely limited. They are at the bottom end of the income distribution pile, and they are likely to stay there for some time. Thus, Thailand is in the worse of situation, with widening income inequality and limited opportunities for socioeconomic mobility of the poorest groups.

From all the prior discussions, one has to conclude that Thailand is now close to a major critical threshold of imbalance, which may have wide ranging repercussions on development. Unless major improvements in economic opportunities are provided to the mass of people with low education, one cannot envisage a harmonious development path in Thailand for much longer into the future.

All this simply reinforces the key policy recommendation of the 1991 Chai Pattana-TDRI Year-End Conference:

"...there are very compelling reasons that priority be attached to accelerated non-formal education and training programs for those already in the workforce. Of course, efforts must continue in expanding the coverage of formal education, and improve quality. However, educational improvements only take impact after a long lag. In the meanwhile, those who only have primary education, and who are already in the labor force, need help. If present trends continue, they will fall further and further behind better educated groups. Income gaps will continue to widen, and development will proceed without much of their participation." (Sussangkarn, 1991b)

The only change that needs to be made in this statement based on the research in this paper is to change the phrase..."development will proceed without much of their participation," to the phrase..."future harmonious development in Thailand is unlikely without creating more opportunities for their participation and socioeconomic mobility."

In the above cited paper, the author had already proposed a scheme to invest

more than 40,000 million baht to upgrade the skills and knowledge of those currently in the workforce with only primary education to be carried out from now to the end of the decade. This will be the most effective way, highly cost effective in terms of GDP gain, and possibly the only way, to reverse the current imbalances and move it back away from the impending critical threshold. This scheme will have two major benefits. Firstly, it will quickly lead to an improvement in the country's income distribution, while without it analyses show that income distribution in Thailand will continue to deteriorate for most of the coming decade. And, secondly, based on what we have learned above, it will enhance the opportunities for socioeconomic mobility of the most disadvantaged groups in society. This will tackle the problem of the critical threshold at its very roots, by both improving income distribution and increasing socioeconomic mobility.

It should be added that, as with the eradication of poverty scheme, the major focus is on people. It is not on sectors, or on locations. The poverty problem can best be tackled by the poverty eradication scheme. The problem of income distribution and socioeconomic mobility by focusing on giving the low educated more ability to search for and take advantage of opportunities that exists in plenty during this current relatively dynamic phase of Thailand's development. Sectoral and locational policies can only succeed if the "people" policy takes priority, and hence should be regarded as supporting roles. Sectoral and locational policies without serious attention to the upgrading of the human skills are likely to be misguided. They can distort resource allocation, and worse of all, unless clearly directed, much of the resources that go into such policies are likely to benefit the more resourceful, the more dynamic, and the better connected parts of the population, who do not need any assistance in the first place.

5.3 Other Thresholds

Finally, to end the paper, some very brief remarks on other thresholds of imbalances that one should not forget.

To start off; the economic-ecological imbalance threshold. From the principle

of avoidance of critical thresholds, two things readily come to mind as regards avoiding the critical economic-ecological threshold. First, is an appropriate signaling system, and second is the notion of sustainable tradeoff. Part of an appropriate signaling system is information on the state of the environment, on how the environment is being affected during the course of development. It can be argued that one or two decades ago, there was simply not much information available, and that was part of the problem. Now this should not be a major problem. However, an important part of an appropriate signaling system is to put some values or "prices" on the natural resources and environmental assets. If these prices indicate some socially acceptable level of scarcity rent of natural resources and environmental assets at particular points in time, then apart from acting as a barometer on the state of the country's ecology as reflected by the prices, it can also lead to more sustainable "trade-offs" between the ecological aspects and other dimensions of development. The problem, for example, with the forest encroachment problem in the past was that the "price" attached the forest was basically zero. Or, the problem of water pollution in rivers and canals was that the price for the use of the waterways as dumping grounds was zero. The current policy direction to expand application of the "polluters pay" principle, or the setting of industrial standards fit directly into the establishing of an appropriate pricing system. The price polluters will have to pay should reflect the scarcity rent of the environmental assets, and the setting (and enforcing) of industrial standards will impose constraints on techniques of production, which is basically an indirect pricing policy on the cost of production.

The point is that, for most ecological dimensions, it is a problem of managing a sustainable trade-off with other developmental needs. What must be avoided are situations of irreversibility, where it becomes virtually impossible to move back onto a more balanced path. The key also is that a development path that relies on exploitation of non-renewable or slowly renewable natural resources or environmental assets must be reversible. If a country becomes trapped in a development path relying on these resources without being able to develop alternative sustainable economic development patterns based on other resources, such as people, then sooner or later, the critical threshold of economic-ecological imbalances will lead to adverse impact not just on the ecology, but also on the economic development potential of the country.

For Thailand, we have at least been fortunate that the past development pattern based on extensification of agriculture was reversible, and now the country has financial resources available to make a start in moving the economic-ecological relationships back towards a better balance.

For the other thresholds, we go back to what was discussed in Section 2; the underlying factors for past successes. These are, of course, fundamental for the achievement of sustainable improvement to the quality of life of the population. Without any growth in the economy, we are in a zero sum game, where it becomes all too easy to spend time fighting each other for a bigger piece of the pie. These are discussed here in reverse order.

First is the friendship threshold. After this year's tragic events which severely tested the friendship quality of Thai society, one should try to anticipate potential future sources of major internal conflicts that may have adverse repercussions on Thailand's development path. The seeds of these conflicts are likely to arise from the income inequality and socioeconomic mobility imbalances already discussed in detail. One source of potential conflict, in particular, needs very careful management. This involves the issue of labor relations.

If workers continue to have little prospects of socioeconomic mobility and income distribution continues to widen, it would be very surprising if labor problems does not become the major social problem in Thailand in the coming decade. If major labor unrest develops, Thailand's growth potential can be severely harmed.

First of all, it is important that the setting up of the Ministry of Labor goes through smoothly, as it appears to be doing. Psychologically, it is not appropriate for labor affairs to be under the jurisdiction of the governing (or ruling) ministry. Laborers do not need to be "governed," rather they should be considered the key partnerships of the firms they work in.

The concept of the workers being key partnerships in the firms is one which

employers will do well to adopt. If the underlying source of potential labor unrests lies with the wide inequality and limited socioeconomic mobility opportunities, then the employers can play a key role in helping to tackle this underlying problem. If workers are simply treated as cost of production, which is to be minimized, then any investment that the firm makes in workers will be limited, and this will certainly not help promote any kind of socioeconomic mobility. It will also focus the employer-employee relationship on the "wage," which is a sure avenue to labor unrest. If labor is regarded as a key resource of the firm, then there will be continual training and upgrading of workers. Of course, many large firms do precisely this. It would probably be very difficult for the firm to become big if it did not attach importance to human resource development. However, in general, too many employers still employ workers without much regard for their future. Also, some industries rely on the dexterity and hand eye coordination that only comes with young workers, so a worker's working life in the firm is known to be short. This is not an environment where much investment will be put into the workers.

Just what is an appropriate labor relation system for Thailand so that potential problems can be managed without leading to harmful labor unrests is not known. However, what is known from experiences in other countries is that, as industrialization proceeds, so do conflicts between workers and employers. There are societies that seem to have better systems of conflict management than others, so that the conflicts are continually resolved without much labor unrest and harmful effects on the growth potential. On the other hand there are also countries which seem to manage these conflicts very badly. Simply trying to copy a system which works in some country and use it here is unlikely to be the answer. Rather, this is the time when serious thought and discussions have to be given to the appropriate labor relation system for Thailand by all sides; employers, workers, and the government. Experiments or pilot projects can be carried out. There is still time to explore what the most workable model is. However, the process needs to be started seriously soon.

On quality, not much will be said as previous analyses have shown that at least in terms of growth, Thailand will still have enough workers with secondary education on up to drawn upon into the dynamic industrial and service sectors to the end of the

decade (Section 3.3). While the market for these workers may get tighter, labor market bottlenecks should not be a serious constraints to growth over the medium term. The key aspect of the quality factor is its impact on income distribution. So called "good basic educational" attainment of the labor force in the past is increasingly not good enough for the future. Thus, the prospects for those with just primary education appears bleak as already discussed.

The last threshold that will be discussed briefly is the macroeconomic stability threshold. It is not that Thailand is near to the critical level of this threshold. However, the crucial role that macroeconomic stability has played in the past development success of Thailand bears repeating time and again. While things may change quickly, and this is very controversial, Figure 2.1 in section 2 shows clearly that 1990 was a year when the ratio of the current account deficit to GDP was highest ever in Thai history. While, the ratio has declined since then, it is still at about the same level as during the immediate aftermath of the second oil-shock.

This issue is particularly important in an age full of politicians who want to do everything, to solve every problems of imbalances. With macroeconomic stability as an over-riding goal, politicians will simply have to work harder, and think harder. While Thailand is certainly not short of financial resources at the moment, a do-everything attitude on the part of the government will quickly change all that. And it is not likely that throwing resources in all directions will solve many, if any of the problems of imbalances the exist in Thailand today.

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