

Poverty in Thailand

Mr. Bhanupong

Lecture 27

**Like cancer, poverty is not a single disease.
It is a scourge with many symptoms and causes.
And it is for that reason that, also like cancer, it is so difficult to eradicate.**

Outline

- **Framework of inclusive growth indicators (Asian Development Bank)**
- **Growth and poverty reduction**
- **Employment and poverty**
- **Rural vs. urban poverty**
- **Global food crisis and the vulnerable**
- **Education, poverty, and politics**

Debt and Minimum Wages

- In April 2016, UTCC conducted a survey on workers who earn less than 15,000 baht per month (1,212 respondents)
- The average debt per household was 119,062 baht, the highest level in eight years.
- ***Loans from unorganized (informal) markets*** represented 60% of debt.
- The debt incurred mainly by daily expenses, vehicles, and residential property purchases.
- The study recommends daily wage to make them afloat is 356 baht.
- On January 1, 2017, the daily minimum wage will be raised from 300 baht to 305-310 baht across the country.
- The minimum wage is supposed to provide a living wage for a family with two children.

Poverty incidence: 1962-1990

	Aggregate poverty	Rural poverty	Urban poverty
1962	57.0	61.0	38.0
1975	31.4	36.2	12.5
1990	17.0	20.5	5.3

Aggregate poverty is the percentage of the total population whose income fall below poverty line (held constant over time in **real terms**).

The poverty picture looks different upon thresholds set by the Asian Development Bank (ADB). The latest study by the ADB on poverty in Asia set the poverty line at **\$1.25** based on purchasing power parity. **The World Bank's poverty threshold is \$2 a day**. The threshold of poverty is higher for the World Bank.

After twenty years of Thailand's economic development: Growth rate of income per capita slowed down (1990-2010)

Annualized growth rate of GDP per capita income	1990-95 7.7	2005- 2010 2.8
Annualized growth rate of average per capita income (2005 PPP\$)	1990-1999	1999-2009
Total	3.4	2.9
Lowest quintile (bottom 20%)	3.7	3.8
Highest quintile (top 20%)	2.9	2.3

The gap between the rich and the poor narrowed down during This period.

Source: ADB Inclusive Growth Indicators

Minimum Daily Wage

THAILAND MINIMUM DAILY WAGE



SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF THAILAND

But income poverty is just a part of the whole story

All these numbers seem to differ but have one thing in common. They are all based on monetary measures, revealing income or expenditure poverty.

Why does this matter?

The figures only tell part of the story. They do not reflect other forms of poverty and the many overlapping disadvantages experienced by the poor, such as:

Malnutrition, poor sanitation, lack of electricity or limited access to schooling, let alone qualitative aspects such as empowerment and participation.

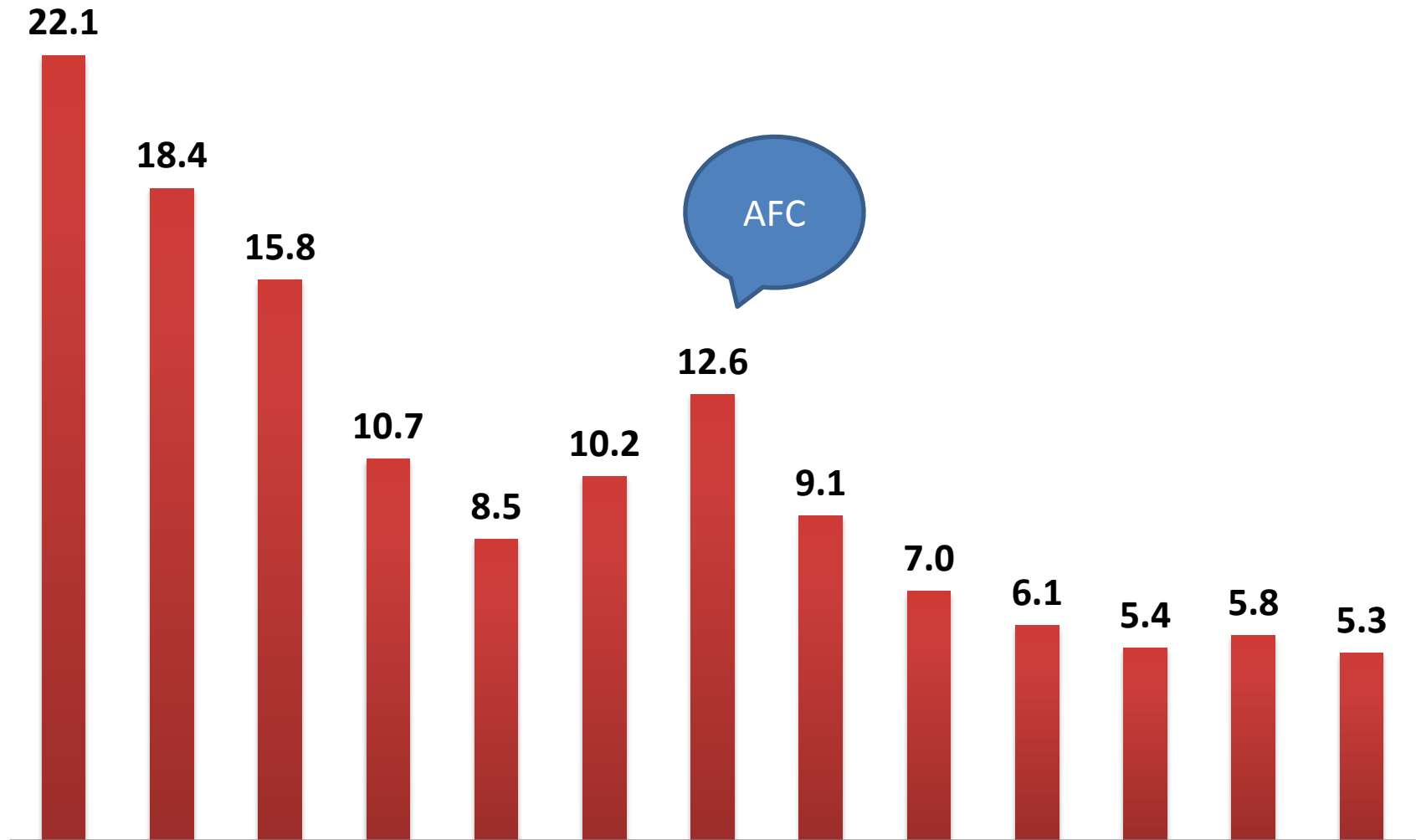
Growth and poverty reduction: A positive correlation

- Large reductions in absolute poverty incidence in Thailand, Indonesia, Malaysia, and the Philippines over the period from 1960s to 1999 were related to high rate of economic growth (Peter Warr, 2000).
- In Thailand, the income share of the bottom 20% is correlated with the GDP growth.
- ***Hence, growth is good for the poor.***

Favorable impact of growth: poverty alleviation

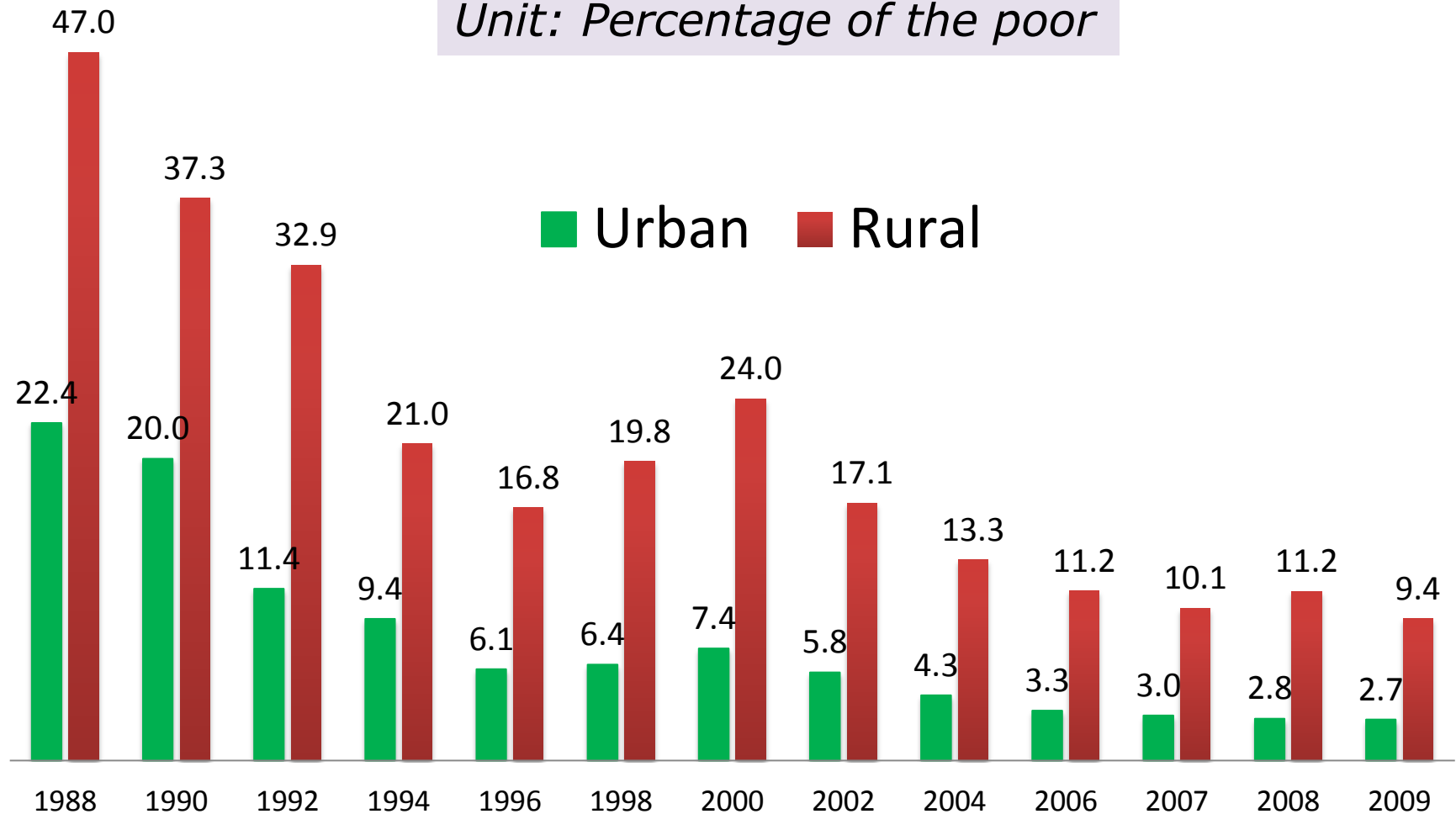
- High growth years were followed by a drastic reduction of the number of the poor.
- The percentage of the poor, i.e. people who live below poverty declined from 32 % in 1988 to 11% in 1996.
- ***When growth rate fell below the trend growth path*** in 1982 and 1986, poverty alleviation in subsequent years was not as effective as during the boom years.
- During the financial crisis in 1998, the percentage of the poor rose to 13%.

Declining number of the poor 1988-2011 (million)



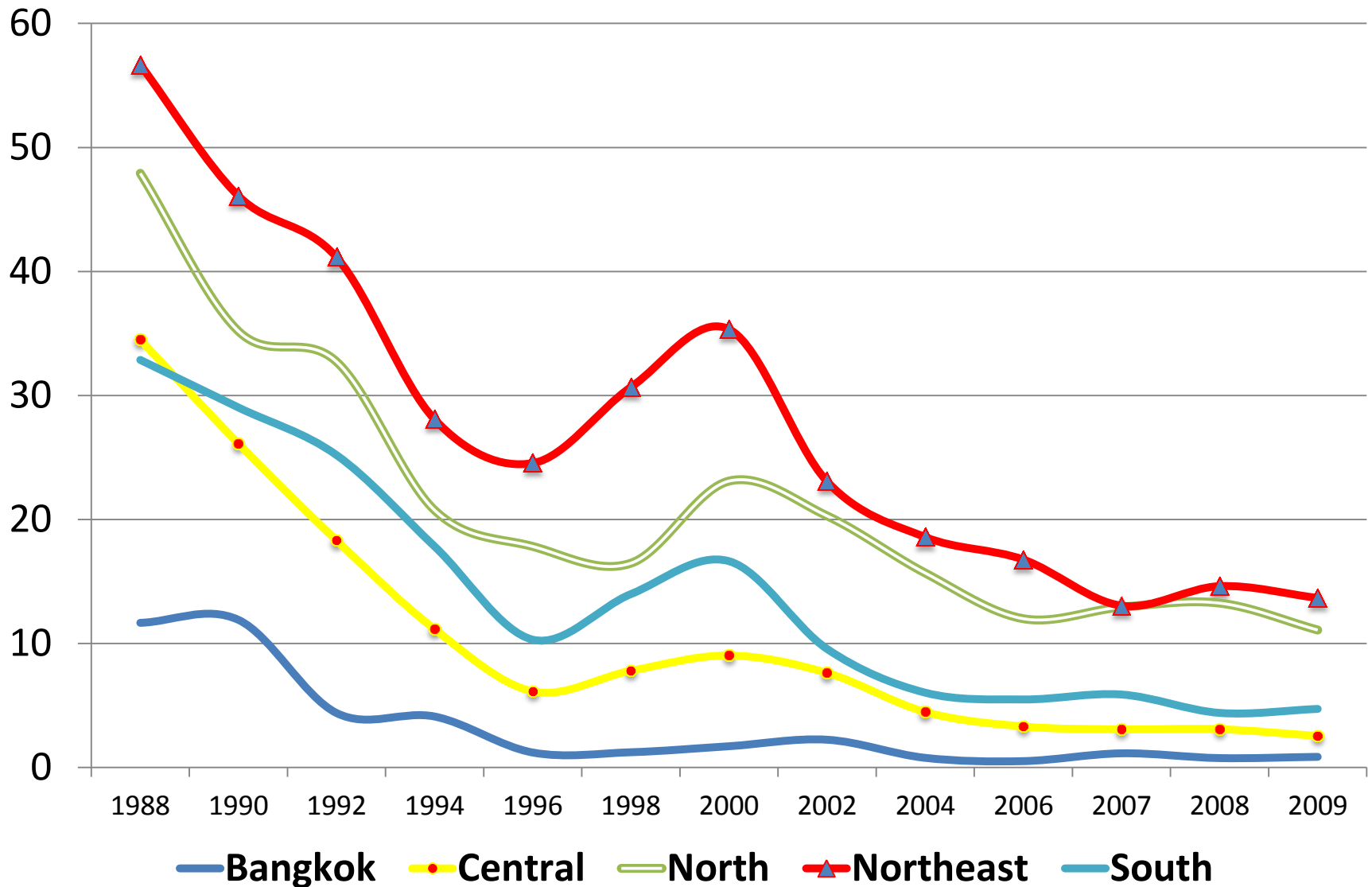
Source: NESDB

Poverty by residence:
Urban vs. Rural Poverty
Unit: Percentage of the poor



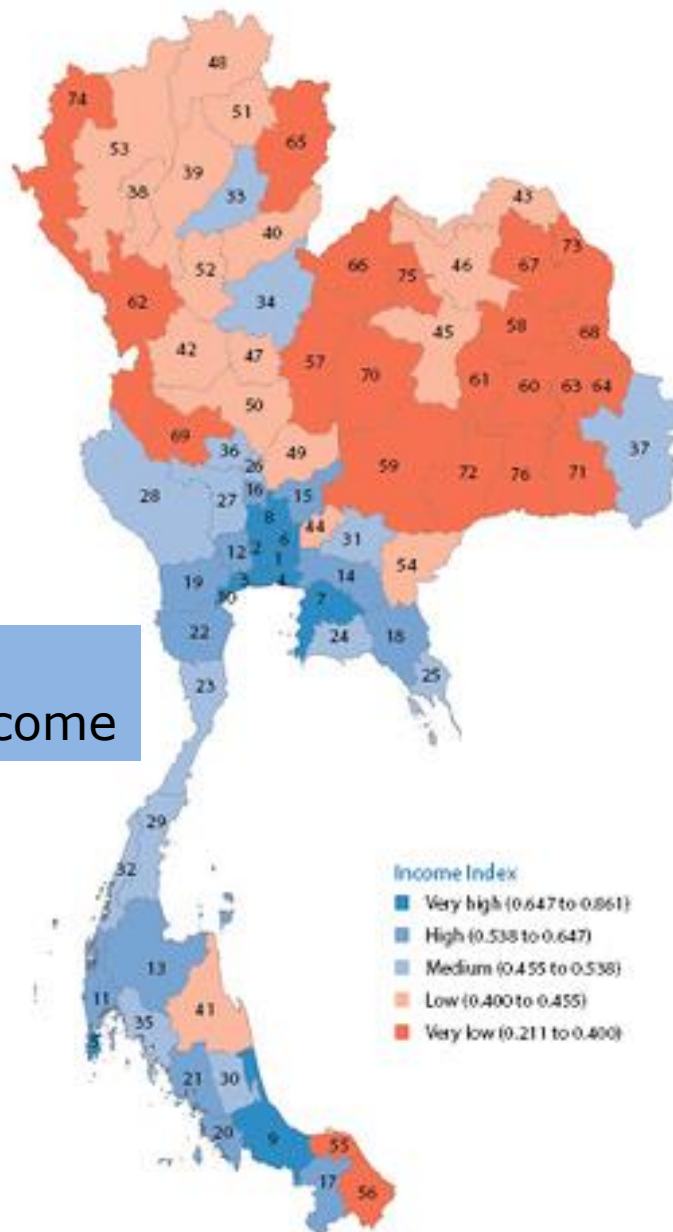
Source: NESDB

Poverty by Region (% of the poor)



Source: NESDB

Dark blue
Very high income

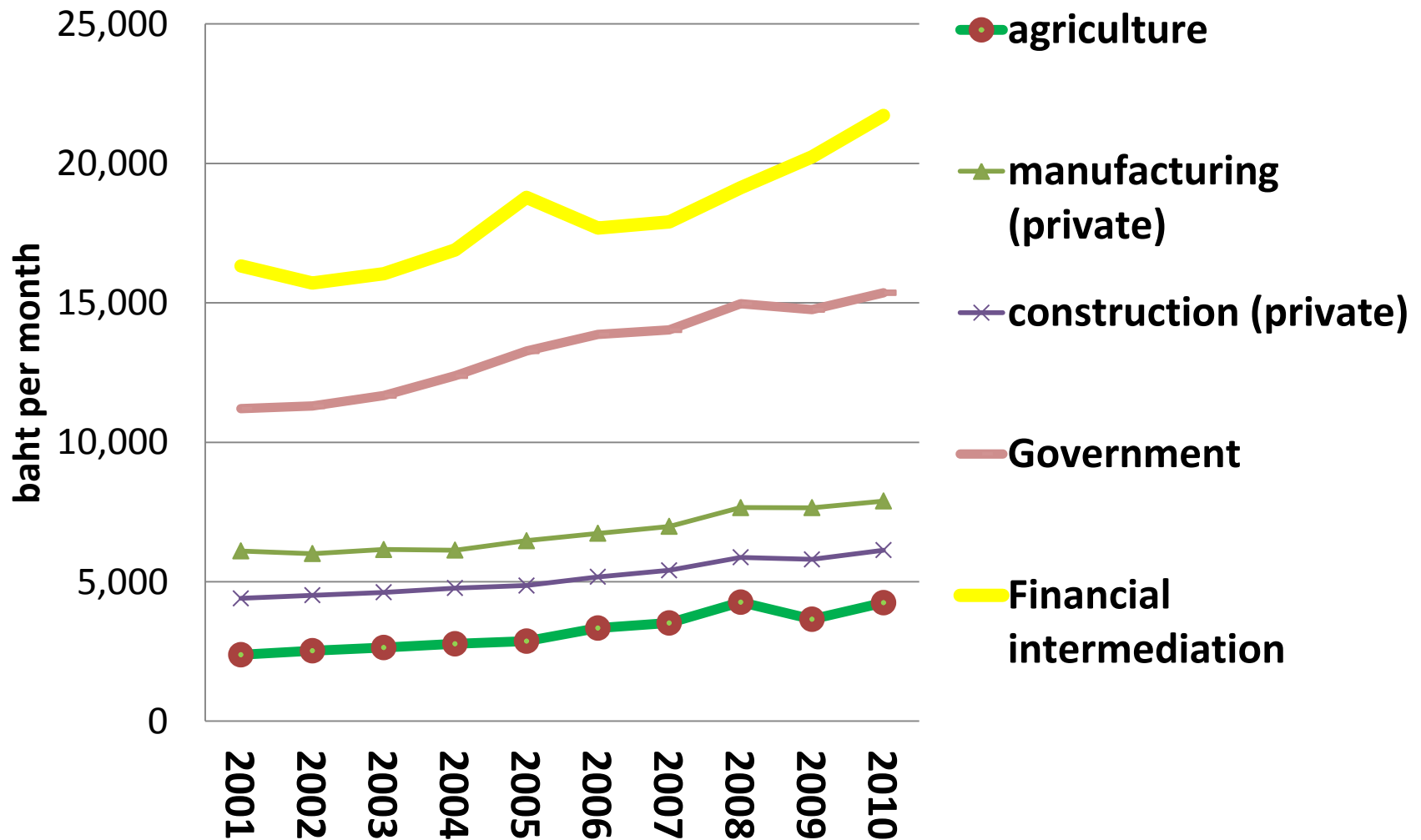


Rank

- 1 Bangkok
- 2 Northburi
- 3 Samut Sakhon
- 4 Samut Prakan
- 5 Phuket
- 6 Pathum Thani
- 7 Chon Buri
- 8 Phra Nakhon Si Ayutthaya
- 9 Songkhro
- 10 Samut Songkhro
- 11 Phangnga
- 12 Nakhon Pathom
- 13 Surat Thani
- 14 Chachoengsao
- 15 Saraburi
- 16 Ang Thong
- 17 Yala
- 18 Chanthaburi
- 19 Ratchaburi
- 20 Satun
- 21 Trang
- 22 Phetchaburi
- 23 Prachuap Khiri Khan
- 24 Rayong
- 25 Trat
- 26 Sing Buri
- 27 Suphan Buri
- 28 Kancharaburi
- 29 Chumphon
- 30 Phatthalung
- 31 Prachin Buri
- 32 Ranong
- 33 Phrae
- 34 Phitsanulok
- 35 Krabi
- 36 Chai Nat
- 37 Ubon Ratchathani
- 38 Lamphun
- 39 Lampang
- 40 Utharadit
- 41 Nakhon Si Thammarat
- 42 Kamphaeng Phet
- 43 Nong Khai
- 44 Nakhon Nayok
- 45 Khon Kaen
- 46 Udon Thani
- 47 Phichit
- 48 Chiang Rai
- 49 Lop Buri
- 50 Nakhon Sawan
- 51 Phayao
- 52 Sukhothai
- 53 Chiang Mai
- 54 Sa Kaeo
- 55 Pattani
- 56 Narathiwat
- 57 Phraechaburi
- 58 Kalasin
- 59 Nakhon Ratchasima
- 60 Roi Et
- 61 Maha Sarakham
- 62 Tak
- 63 Yasothon
- 64 Amnat Charoen
- 65 Nakhon
- 66 Loei
- 67 Sakon Nakhon
- 68 Mahasarakham
- 69 Uthai Thani
- 70 Chaiyaphum
- 71 Si Sa Ket
- 72 Buriram

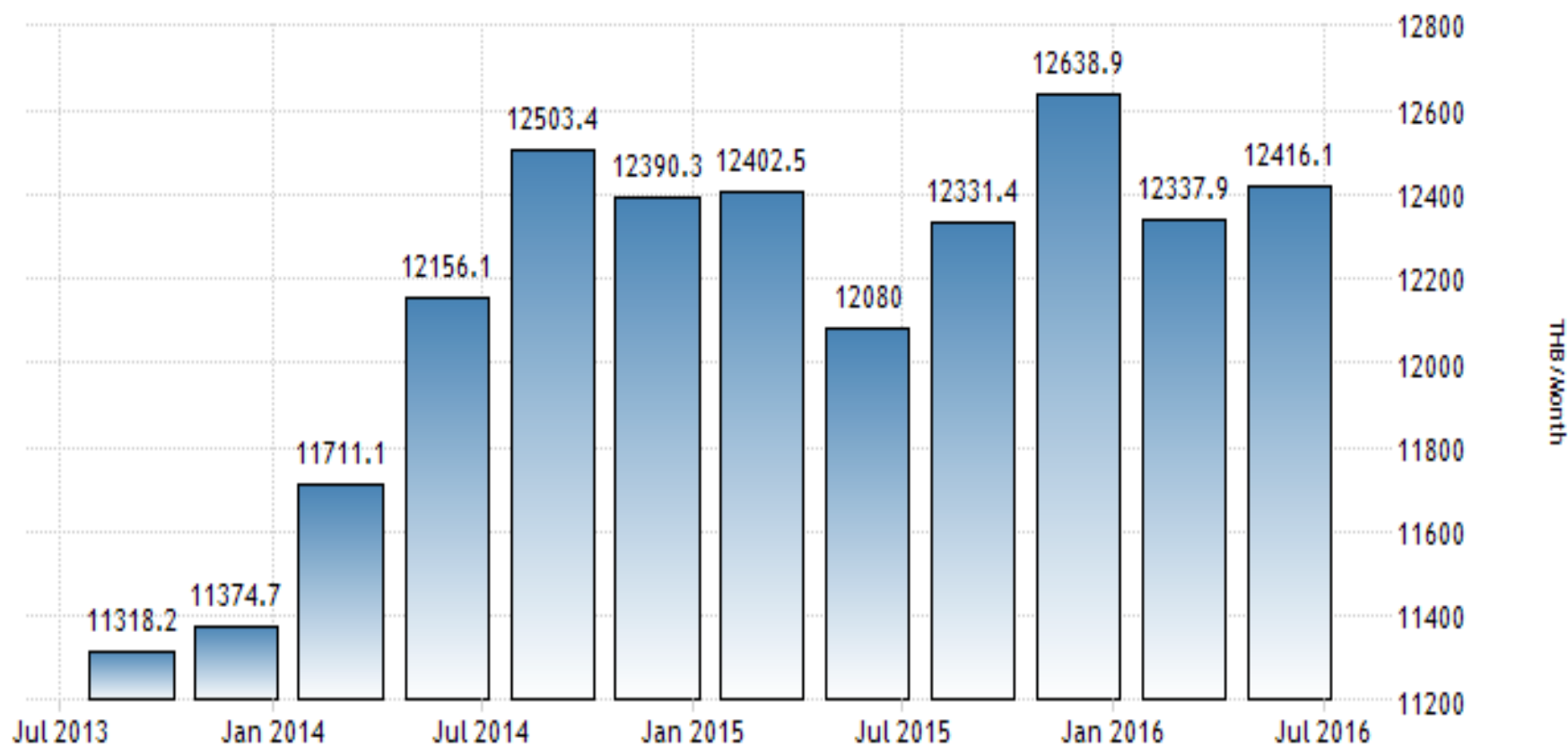
Dark orange:
Very Low income

Limited upward mobility: From low to high income (productivity)



Monthly wages in manufacturing

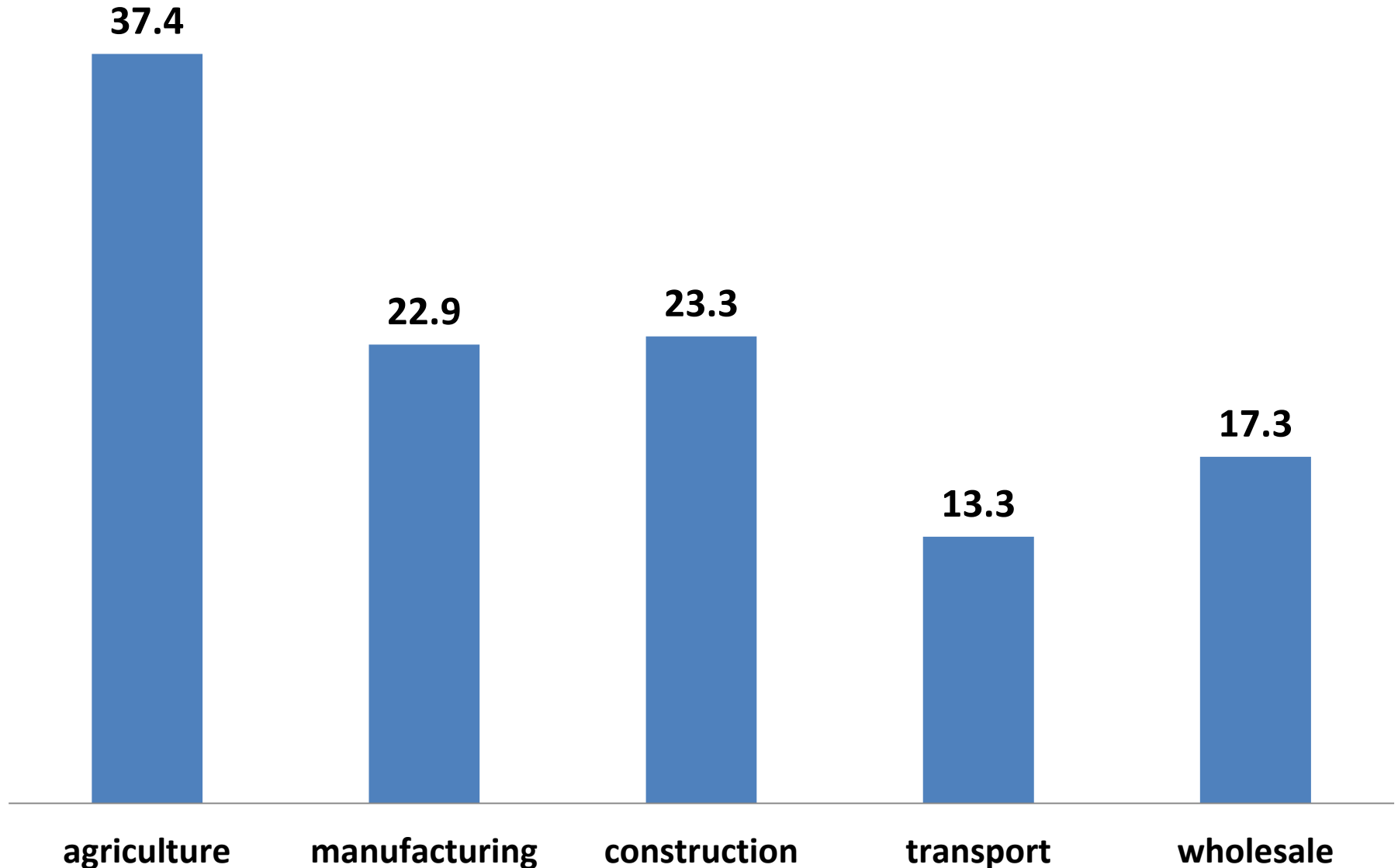
THAILAND AVERAGE MONTHLY WAGES IN MANUFACTURING



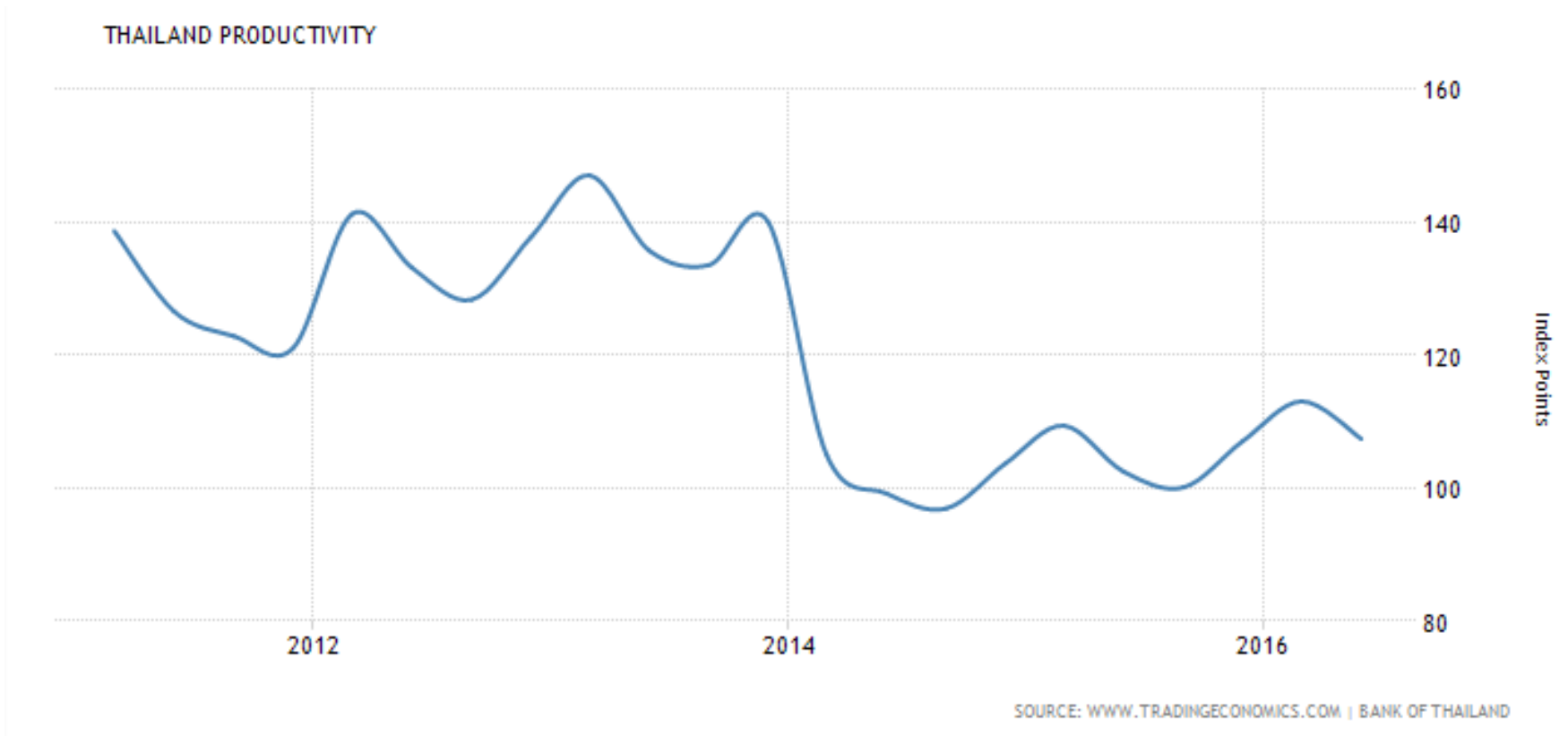
SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL STATISTICAL OFFICE OF THAILAND

Underemployment by sector (2011)

percentage of those who worked *fewer* than 34 hours a week



Productivity in Thailand decreased to 107.43 Index Points in the second quarter of 2016 from 113.08 Index Points in the first quarter of 2016.



Productivity in Thailand averaged 116.94 Index Points from 2001 until 2016, reaching an all time high of 147.10 Index Points in the first quarter of 2013 and a record low of 92.90 Index Points in the third quarter of 2014.

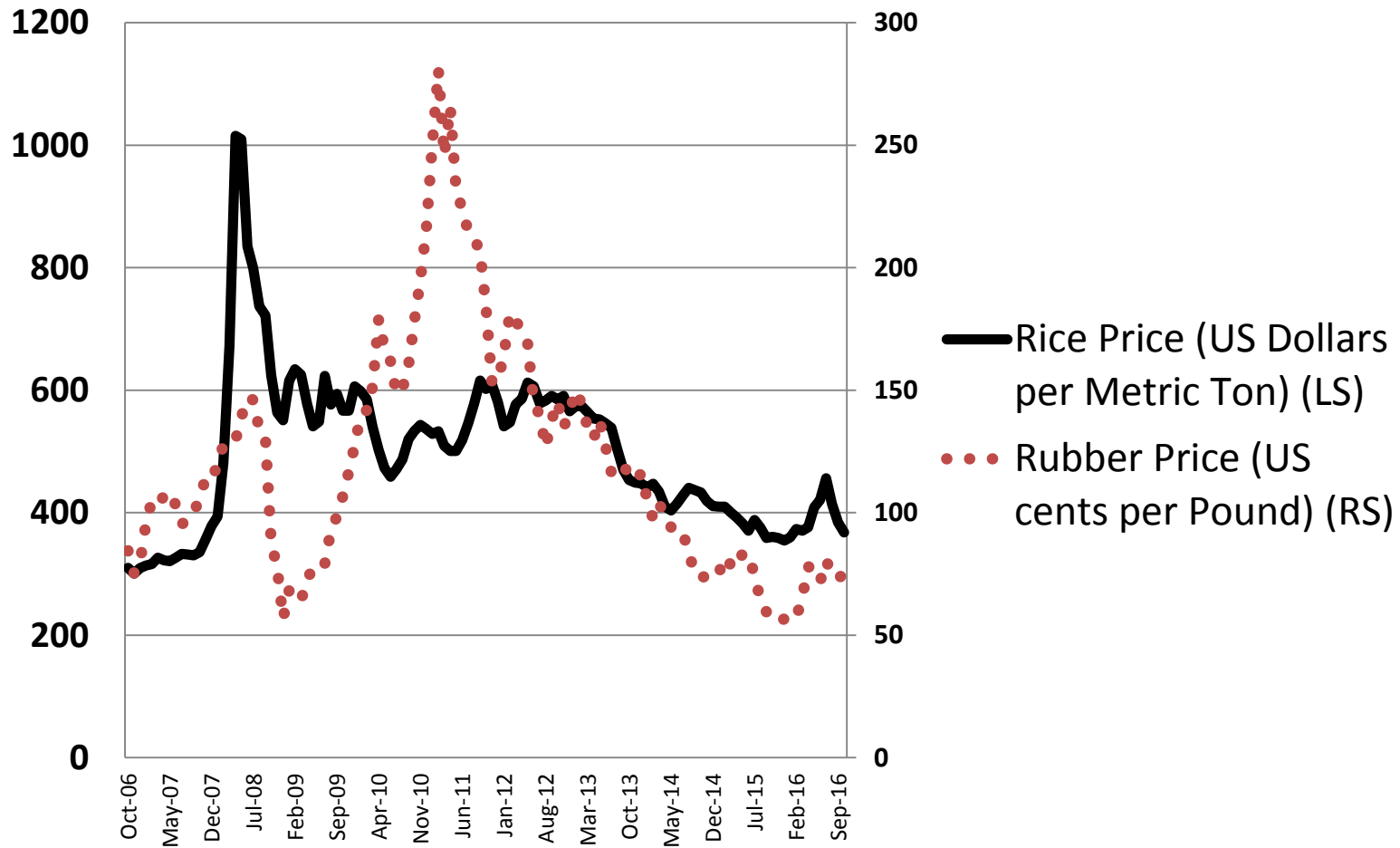
The importance of the service sector: poverty reduction effect

- Poverty reduction was strongly related to growth **of agriculture and services**, but not to the growth of manufacture.
- Growth of ***services*** has made a larger contribution to poverty reduction ***than*** growth of agriculture, because growth of services has made the overall growth much larger.

Principal sources of income for the poor

- The poor earn income from their own assets (i.e. their labor, which are largely unskilled)
- Agricultural land (not as important as labor)
- Economic development that increases the ***demand for labor*** and land raises the income of the poor and consequently reduces the poverty incidence.
- ***Import substituting industrial policy*** does not advance the welfare of the poor since it does not significantly increase the demand for the principal resource which they own—unskilled labor.

Declining commodity prices



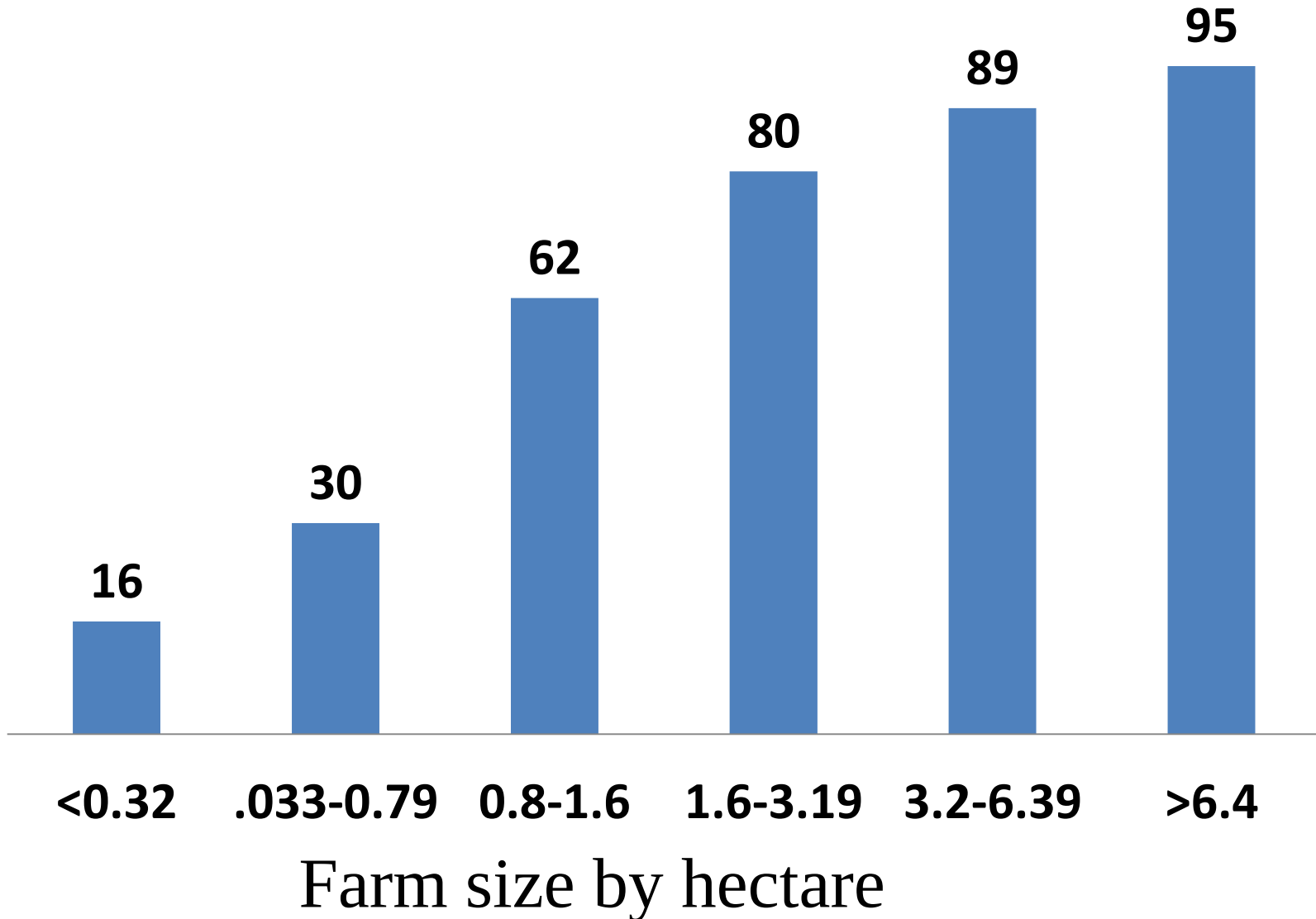
Spend more on inputs, but earn less from selling farm produces

- All input costs — water, fertilizer, seeds, machines, labor and fuel — have gone up, while prices obtained for the final produce have not risen commensurately.
- Withdrawal of subsidies by public authorities has further aggravated the burden. This has made small holdings unviable.

Large vs. small farmers

- The crisis affects the small and marginal farmer, and less severely, the medium one.
- **Large farmers are thriving during the food crisis.**
- Income inequality does exist in rural areas where farm sizes are not evenly distributed.

Thailand's net food sellers (% of total household in each farm size)



Why large land-holders do well while the smaller ones fail?

- Big farmers have a large area under cultivation, yielding more marketable surplus and they can bargain for more remunerative prices for their produce.
- Small holders have low production (due to less area) and, thereby, less marketable surplus.
- Their transactions costs (i.e., transporting grains to markets, lacking storage barns) are also very high.
- Large farmers also have access to credit, extension, technology, which the small holders do not.

Inclusive Growth

- Economic growth must generate employment, reduce poverty, and mitigate inequality.
- Virtuous cycle of growth can reduce poverty through increasing employment with rising productivity.
- Growth may not impact the poor due to segmented labor markets and labor immobility.

Neo-Liberal View on Growth

- **World poverty and income inequality fell over the past two decades** due to rising density of economic integration across national borders (One of the deep determinants of economic development).
- Over the past 20 years, the number of people living on less than \$1 a day has fallen by 200 million.
- With 38% of the world's population, China and India *shape* the world trends in poverty and inequality.

Anti-globalization view:

A counter argument for trade

- World poverty and inequality have been **rising** not falling due to force unleashed by globalization.
- There is **no** systematic relationship between openness and poverty reduction (True, false, or uncertain in the case of Thailand?).
- If so why have Vietnam and Myanmar opened their economies?

Anti-globalization view:

The role of visible hand and government intervention

- To promote equality, market rules in favor of the rich should be lessened, **more non-market influence** on resource allocation to counter the tendency of free market should come into public and political attention.
- More visible hands, less invisible foot.
- Thaksin's 30 baht health care program
- PCOC (500 baht per head for the poor) and a lot more to come as new year gifts in 2017.

A.K. Sen

- Amartya Sen in his famous book, Development as Freedom (2000), asserts that poverty must be seen “as a deprivation of basic capabilities, rather than merely as low income”.

Poverty represents more than a low standard of living; the national poverty line does not capture the other vital and **multiple dimensions of necessities** required by the poor.

The role of the Thai government

- Since public spending on education, health, welfare services can mitigate the plight of the poor,
- Thailand's public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.
- Human Development Index indicates the quality improvement of human resources

Human Development Index (HDI)

- The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone.
- The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes.
- These contrasts can stimulate debate about government policy priorities.

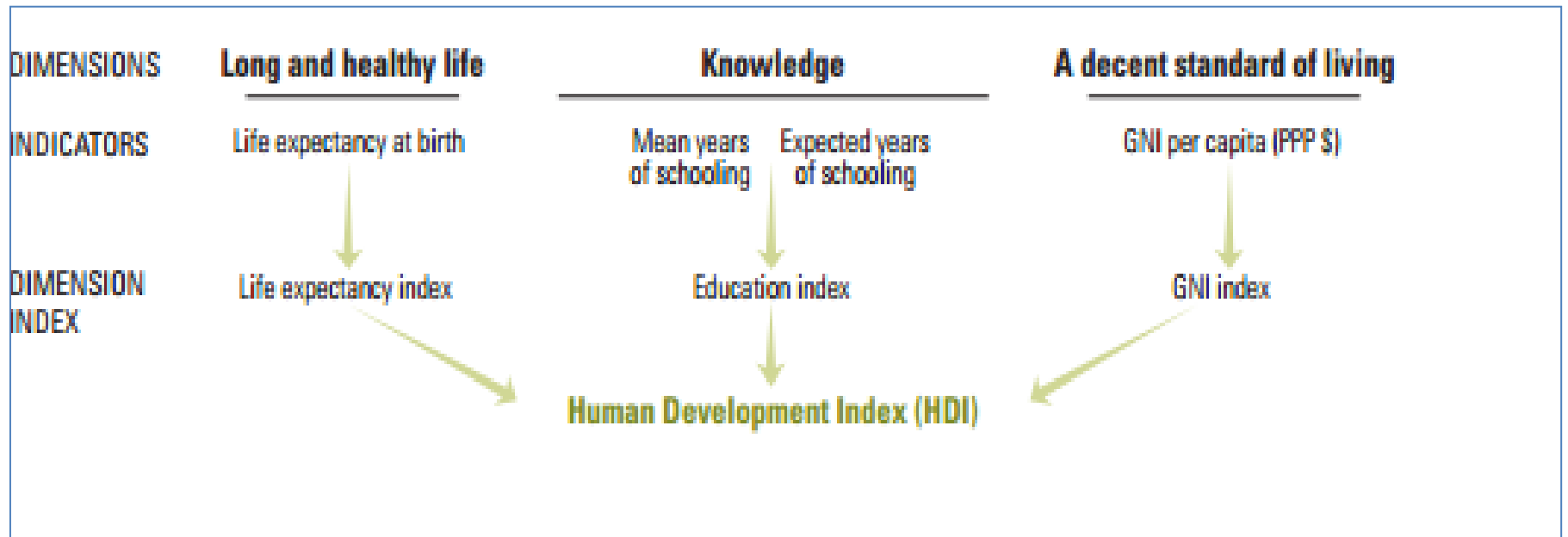
Human Development Index (HDI)

- The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.
- The HDI is the geometric mean of normalized indices for each of the three dimensions.

Human Development Index (HDI)

- The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age.
- The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI.

Human Development Index



The scores for the three HDI dimension indices are aggregated into a composite index using geometric mean.

HDI In Comparison

		Human Development Index (HDI)	Life expectancy at birth	Expected years of schooling	Mean years of schooling	Gross national income (GNI) per capita
HDI rank	Country	Value	(years)	(years)	(years)	(2011 PPP \$)
		2014	2014	2014	2014	2014
62	Malaysia	0.779	74.7	12.7	10.0	22,762
93	Thailand	0.726	74.4	13.5	7.3	13,323
1	Norway	0.944	81.6	17.5	12.6	64,992
5	Netherlands	0.922	81.6	17.9	11.9	45,435
11	Singapore	0.912	83.0	15.4	10.6	76,628

Average years of Thailand's total schooling in 1990: 5 years
This is absolutely shocking!

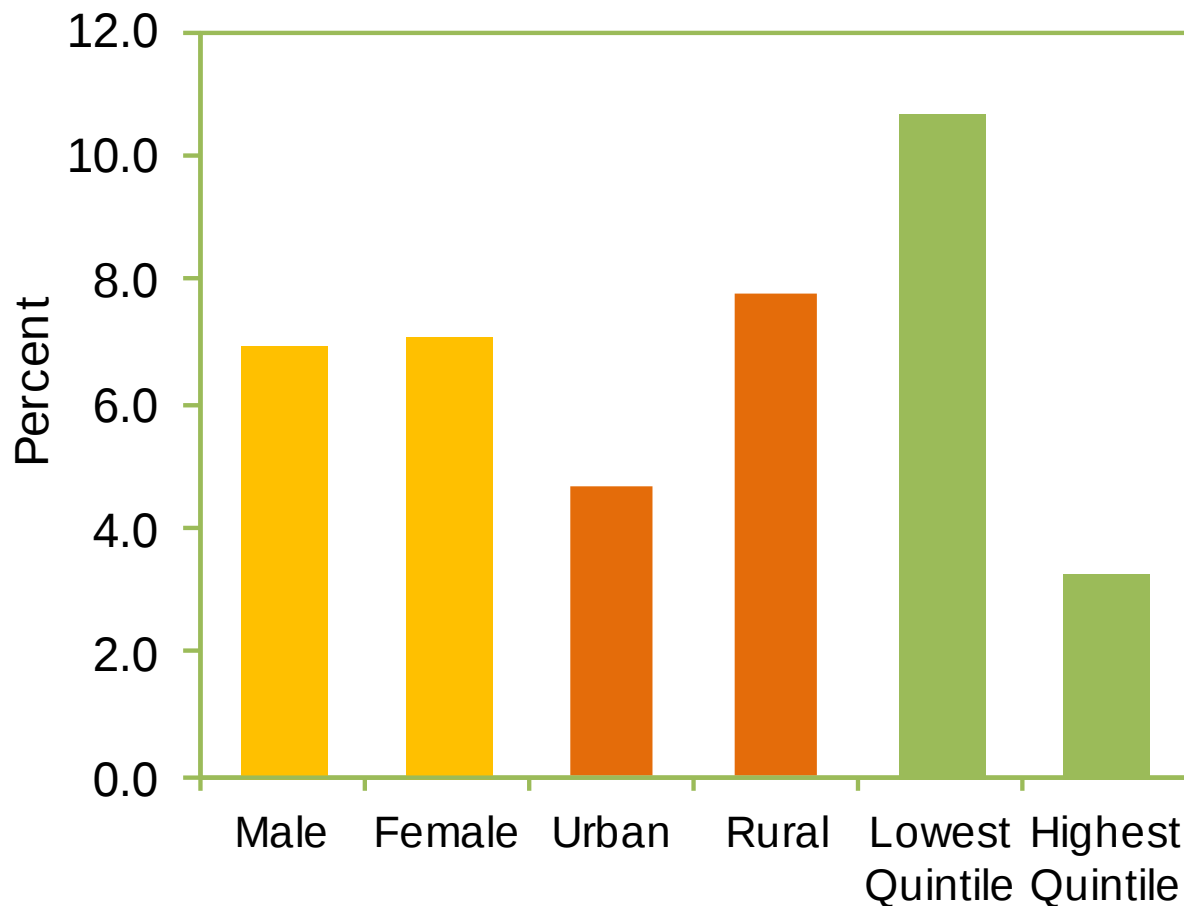
	1990	2009
Youth (Aged 15–24)	7.2	10.6
Male	7.0	9.8
Female	7.5	11.4
Adults (Aged 25 and over)	4.6	6.6
Male	5.0	6.9
Female	4.1	6.2

(Too late to re-tool)?

(low cognitive ability for
Those who are now 55 years old plus)

The first five years of our lives are extremely important for our future

Children under five – Underweight, 2006

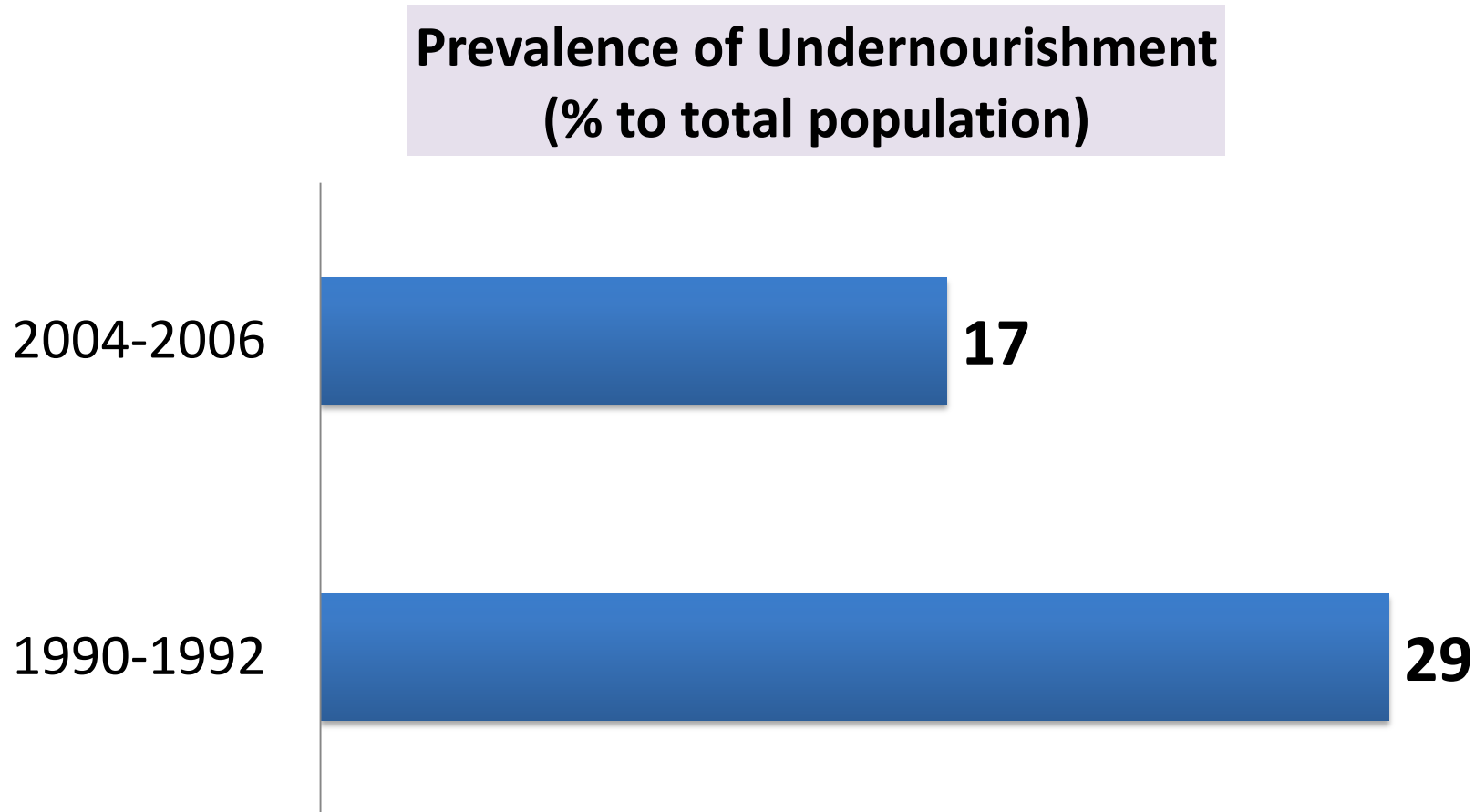


The stark contrast
Between the rich
And the poor, between
Urban and rural area
Not much of gender
inequality though.

Undernourishment rebounded

- Undernourishment fell across the world throughout the 1980s and early 1990s.
- But then in 1995 things went into reverse.
- Today there are more hungry children, women and men than at any time since 1970.
- Last year 46 million extra people fell below the UN poverty benchmark of having less than \$1.25 to live on every day.
- But that is not the case of Thailand.

The degree of undernourishment in Thailand has declined since the last three decades, due to rising income level



As the degree of undernourishment intensifies, so too the decline in cognitive ability of the population.

Cognitive abilities

- **Cognitive abilities** are **brain-based** skills we need to carry out any task from the simplest to the most complex.
- Cognitive skills have more to do with the **mechanisms of how we learn, remember, problem-solve, and pay attention** *rather than* with any actual knowledge.



Non-cognitive abilities

- Non-cognitive abilities include:
- A set of attitudes, willpower, behaviors, and strategies that are thought to underpin success in school and at work, such as motivation, perseverance, and self-control.

Why do tall people earn more (wage premium) than short people?

- Studies extending back to the middle of the last century attribute the wage premium to non-cognitive abilities (a set of attitudes, behaviors, and strategies that are thought to underpin success in school and at work, such as motivation, perseverance, and self-control).
- Taller workers receive a substantial ***wage premium***.
- More recent research argues that cognitive abilities explain the height-wage relationship.

Height as a Proxy for Cognitive and Non-Cognitive Ability

[Andreas Schick](#), [Richard H. Steckel](#)

NBER Working Paper No. 16570

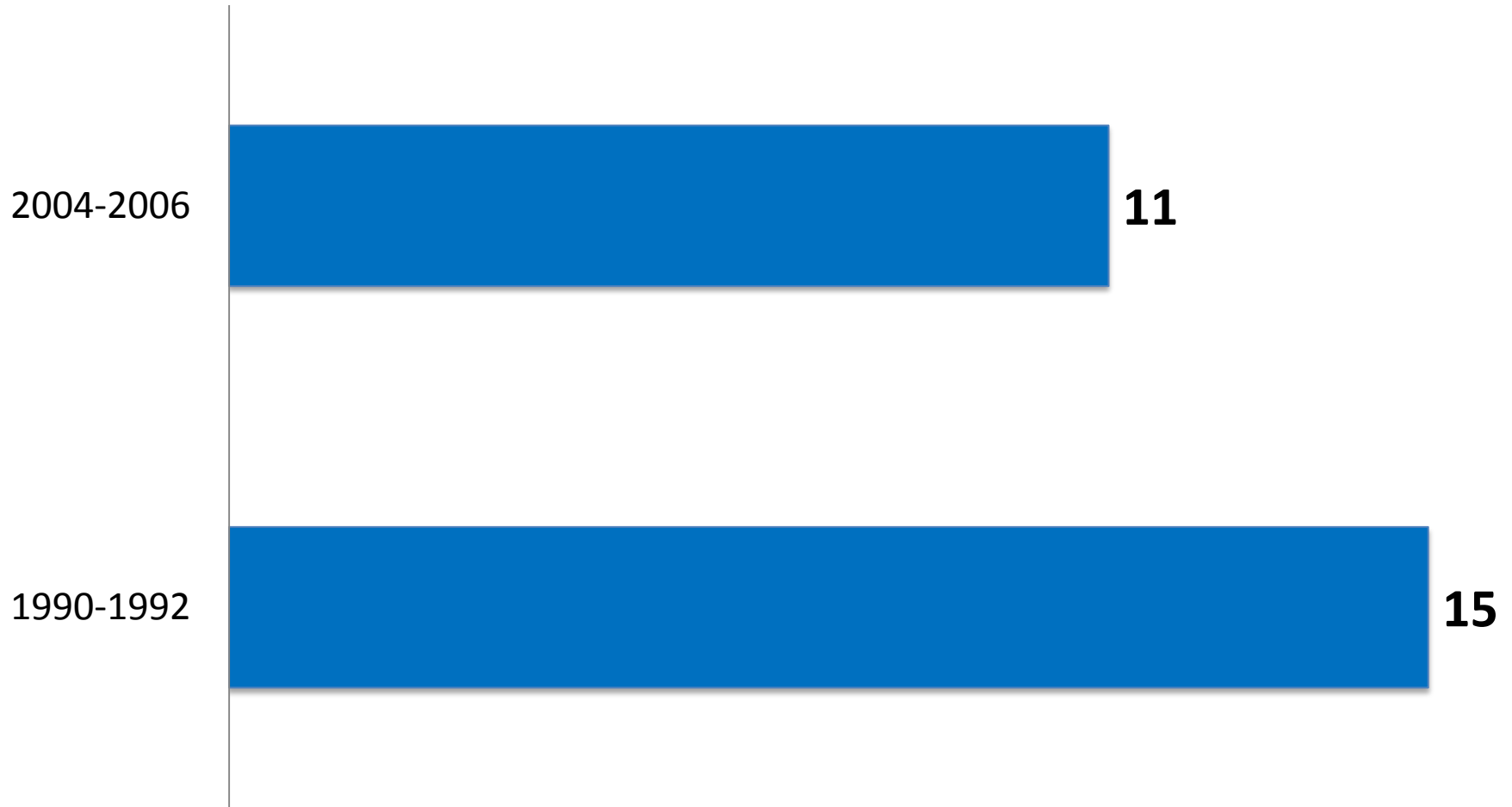
Issued in December 2010

- Their work reconciles the competing views by recognizing that net **nutrition** is a major determinant of adult height.
- Nutrition is integral to our cognitive and non-cognitive development.

If you are tall, most likely your cognitive and non-cognitive ability will also be high, and so will your salary

- Using data from Britain's National Childhood Development Study (NCDS), they show that taller children have higher average ***cognitive and non-cognitive*** test scores, and that each aptitude accounts for a substantial and roughly equal portion of the stature premium.
- Together these abilities explain why taller people have higher wages.

**Intensity of food deprivation
(average % shortfall in minimum dietary energy
requirement)**

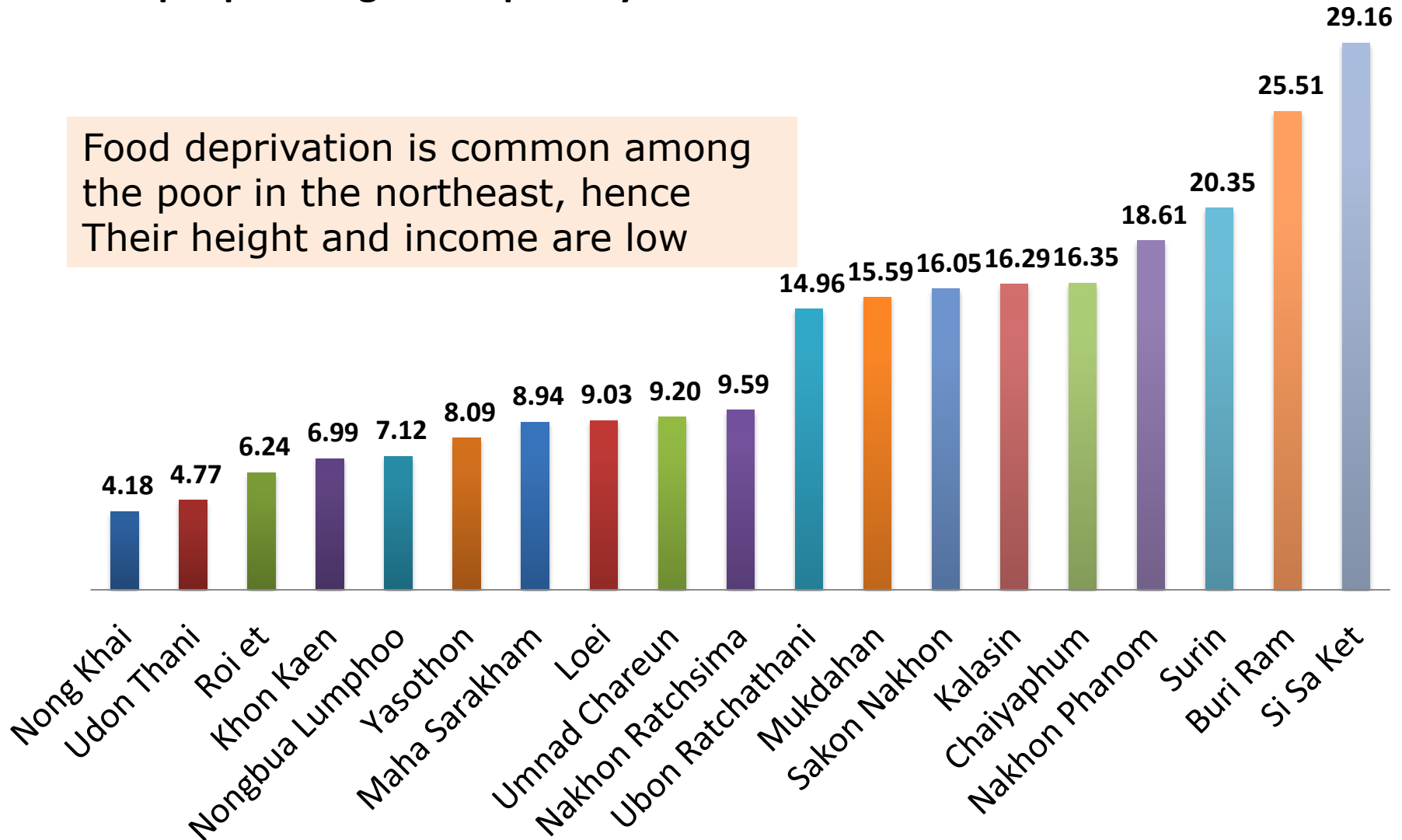


Source: UNDP

Poverty in the northeast

% of people living below poverty line in 2007

Food deprivation is common among the poor in the northeast, hence Their height and income are low



Review Questions

- How did global economic crisis *affect* poverty in Thailand?
- How were the poor affected by the current commodity price collapses?
- What were be the impact of the growth slowdown in 2014-2016 on poverty in Thailand?