

EE460: Poverty in Thailand

Bhanupong

Lecture 28

Like cancer, poverty is not a single disease.

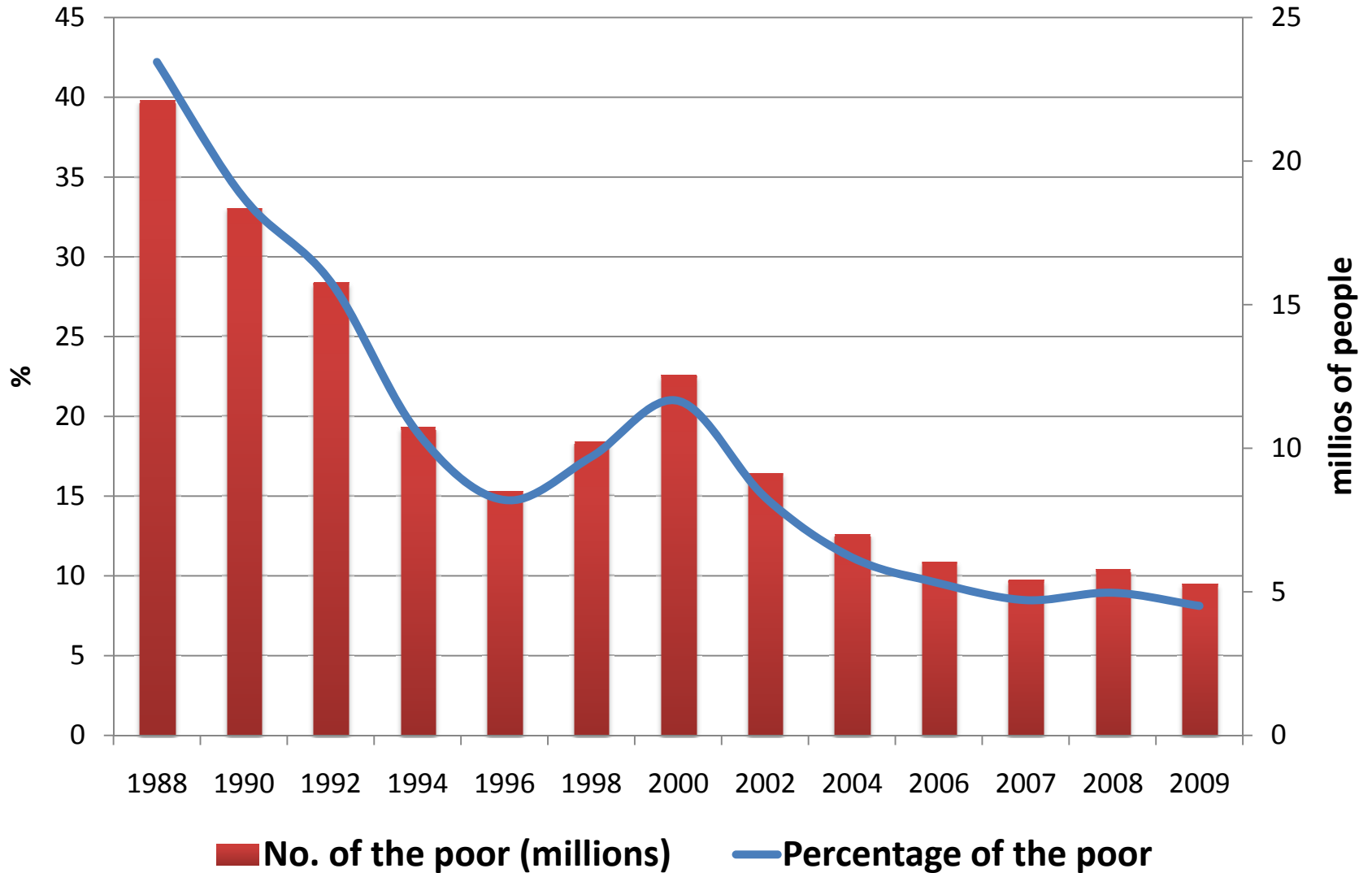
It is a scourge with many symptoms and causes.

And it is for that reason that, also like cancer, it is so difficult to eradicate.

Outline

- Growth and poverty reduction
- Employment and poverty
- Rural vs. urban poverty
- Global food crisis and the vulnerable
- Trade openness and poverty

Declining Poverty



Source: NESDB

Growth and poverty: 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 (Warr, 2000).
- The income share of the bottom 20% is correlated with the growth rate in Thailand.

Poverty incidence

	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

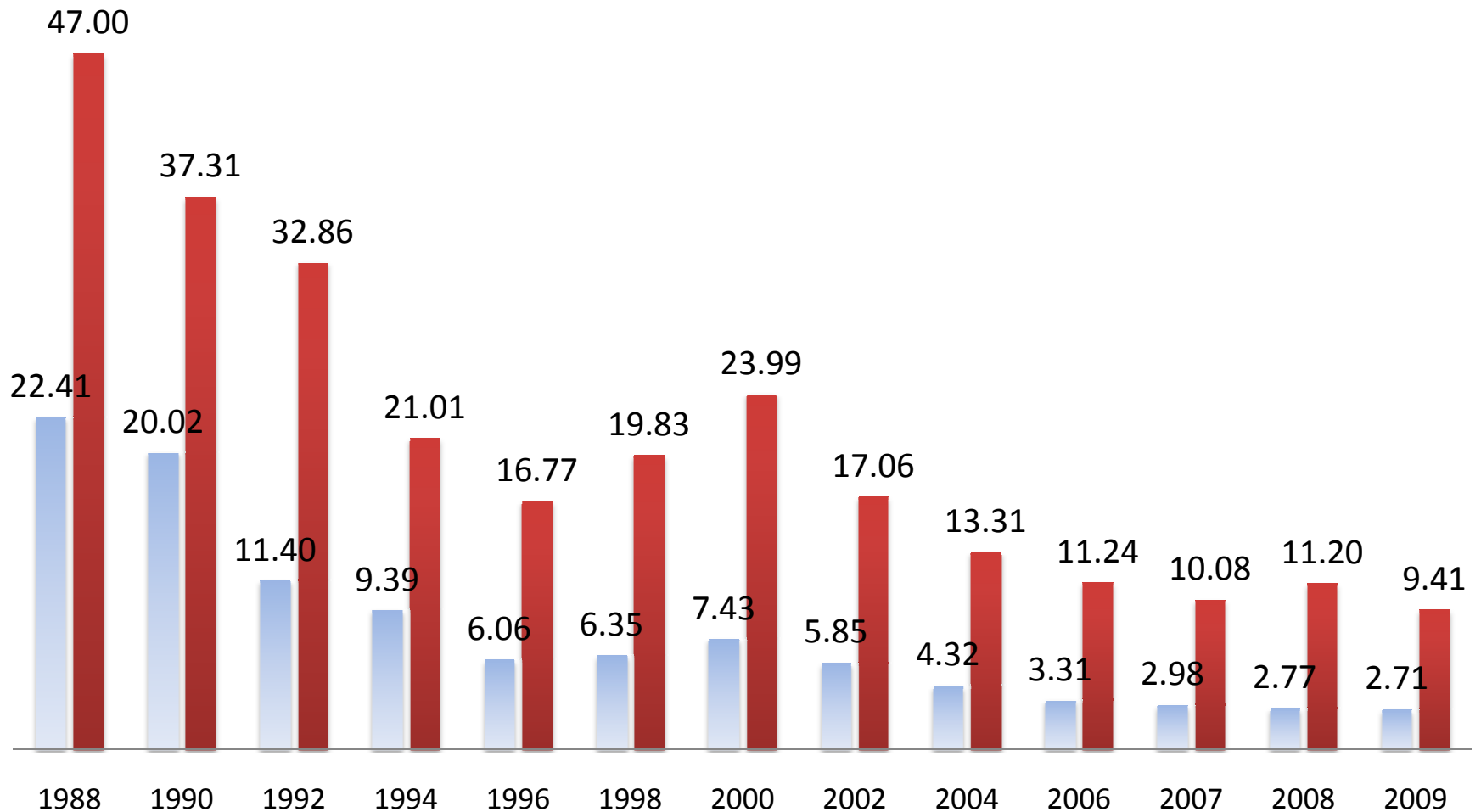
Aggregate poverty is the percentage of the total population whose income fall below poverty line (held constant over time in **real terms**).

Favorable impact of growth

- **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%.**

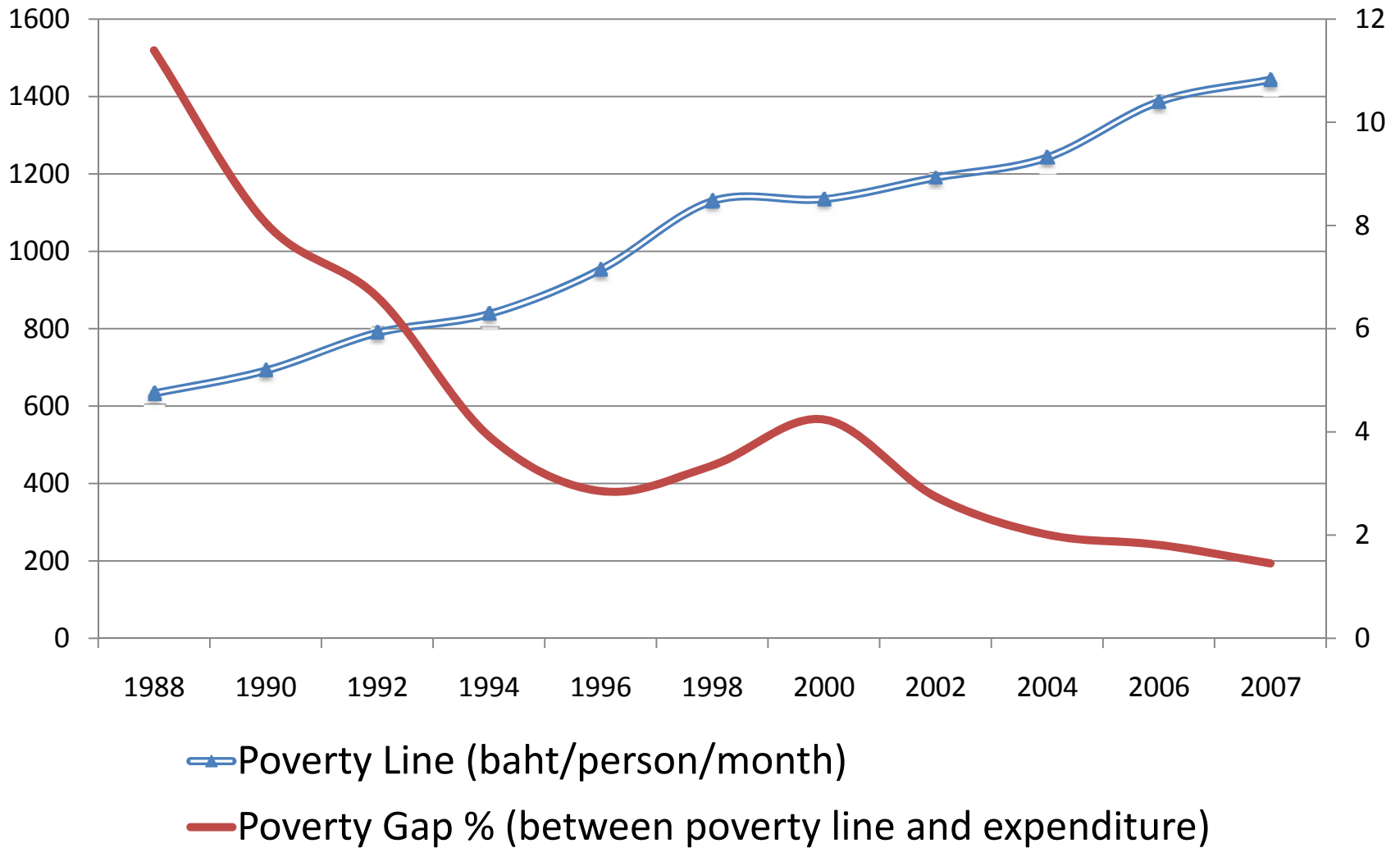
Urban vs. Rural Poverty

Urban Rural



Source: NESDB

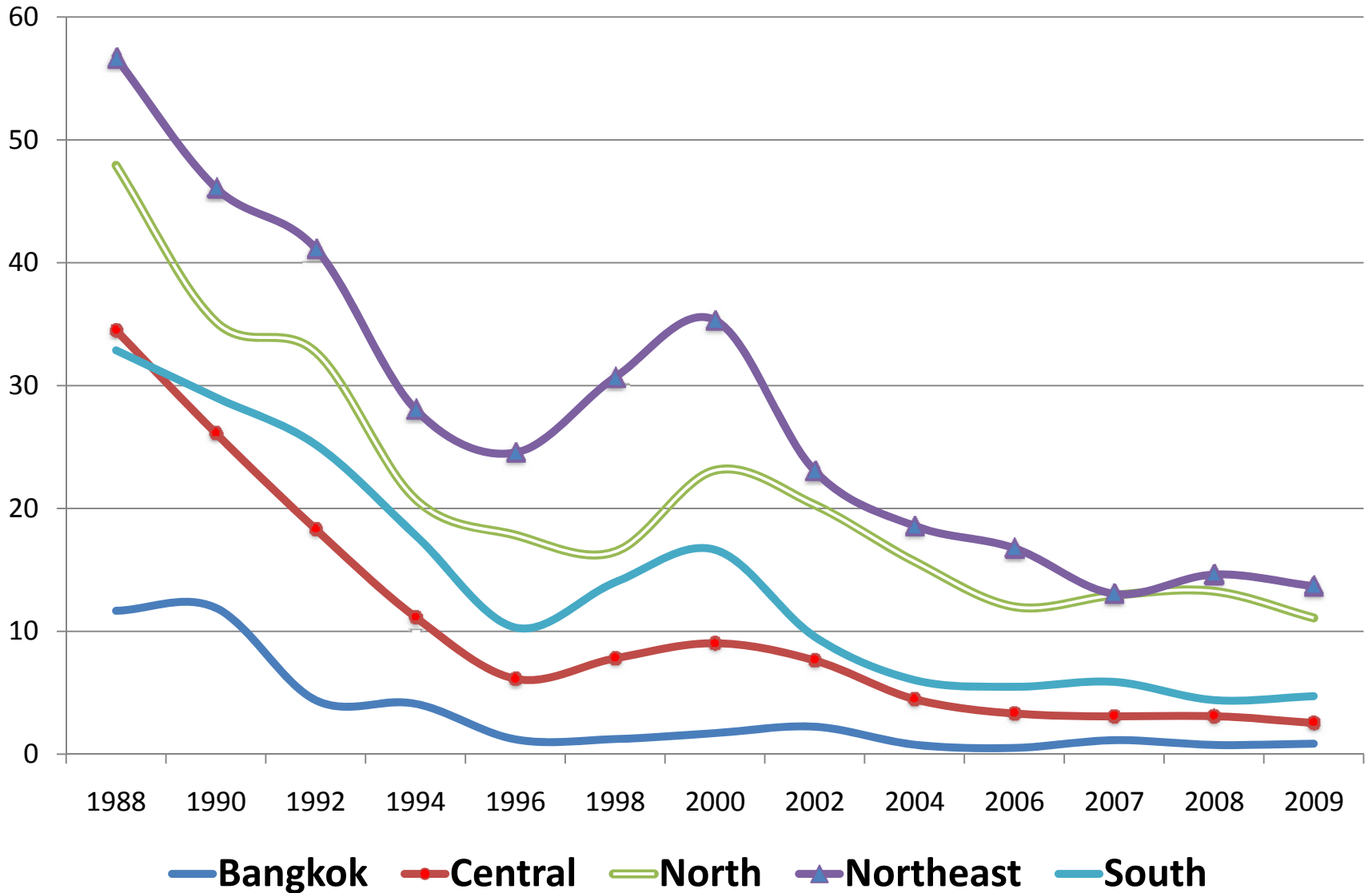
Poverty Line and Expenditure



Source: NESDB

The national poverty line was 62 cents in 1988 and 78 cents in 1999.

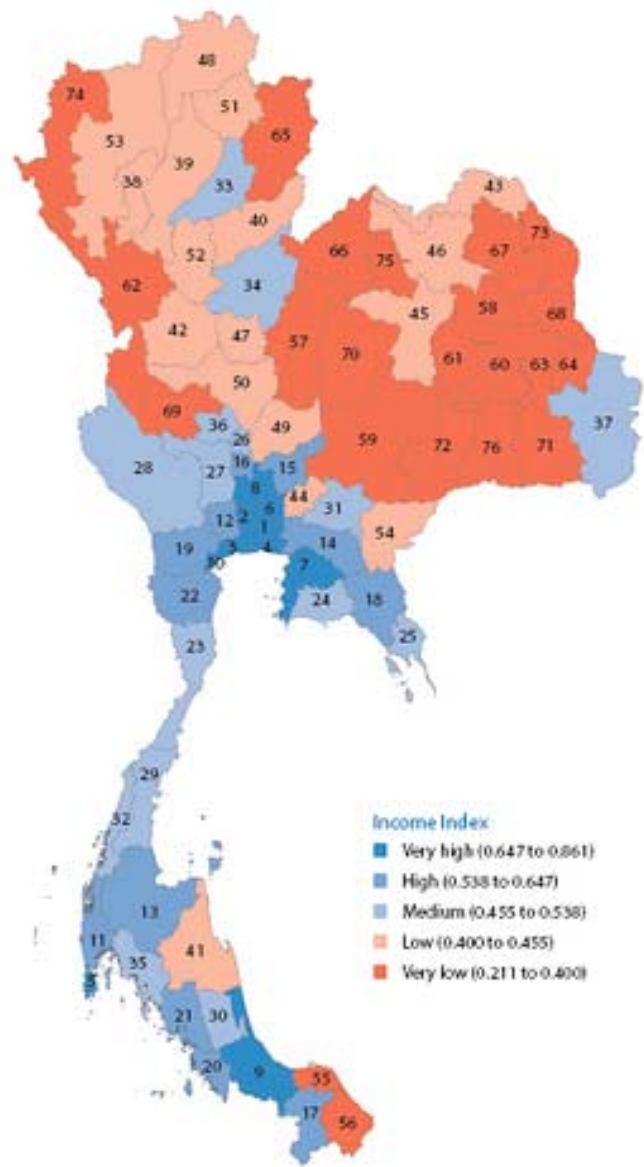
Poverty by Region



Source: NESDB

ANNEX I

Human Achievement Index



Income Index

- Very high (0.647 to 0.861)
- High (0.538 to 0.647)
- Medium (0.455 to 0.538)
- Low (0.400 to 0.455)
- Very low (0.211 to 0.400)

- Rank
- 1 Bangkok
 - 2 Northaburi
 - 3 Samut Sakhen
 - 4 Samut Prakan
 - 5 Phrayat
 - 6 Fakhm Thani
 - 7 Chon Buri
 - 8 Phis Nakhon Si Ayuthaya
 - 9 Songkhla
 - 10 Samut Songkhram
 - 11 Phangnga
 - 12 Nakhon Pathom
 - 13 Surat Thani
 - 14 Chachoengsio
 - 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 Phuthaburi
 - 31 Prachin Buri
 - 32 Rorong
 - 33 Phos
 - 34 Phitsanulok
 - 35 Krabi
 - 36 Chai Nat
 - 37 Ubon Ratchathani
 - 38 Lamphun
 - 39 Lampang
 - 40 Uttaradit
 - 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 Fattani
 - 56 Narathiwat
 - 57 Phetchabun
 - 58 Kalasin
 - 59 Nakhon Ratchasima
 - 60 Roi Et
 - 61 Maha Sarakham
 - 62 Tak
 - 63 Yasothon
 - 64 Amnat Charoen
 - 65 Nan
 - 66 Loei
 - 67 Sakon Nakhon
 - 68 Mukdahan
 - 69 Uthai Thani
 - 70 Chaiyaphum
 - 71 Si Sa Ket
 - 72 Burirum

International comparison

- Poverty headcount is very *sensitive* to the precise level of (international) poverty lines and the reliability of household surveys of income and expenditure.
- Sources of errors: exclusion of benefits people receive from publicly provided goods and services.
- For international comparison, **purchasing power parity** adjusted income figures of India and China may contain big component of guess work.
- Peter Bauer “True development means the expansion of individual choice”

Growth and poverty reduction

- Thailand, Indonesia, Malaysia, and the Philippines achieved significant reductions in poverty incidence in recent decades.
- The reduction was attributable to **aggregate** rate of growth.

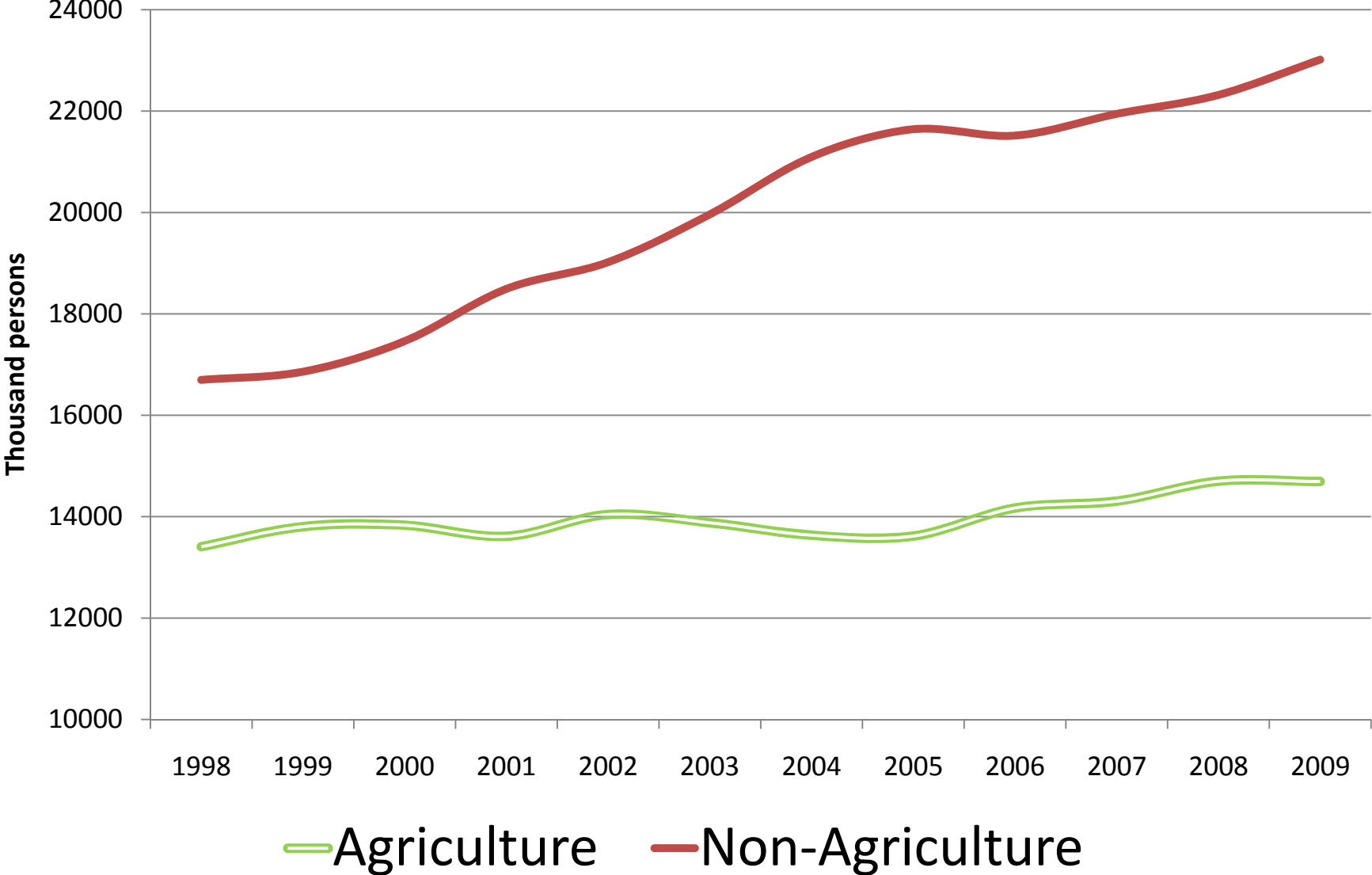
The importance of the service sector

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

Principal income sources of the poor

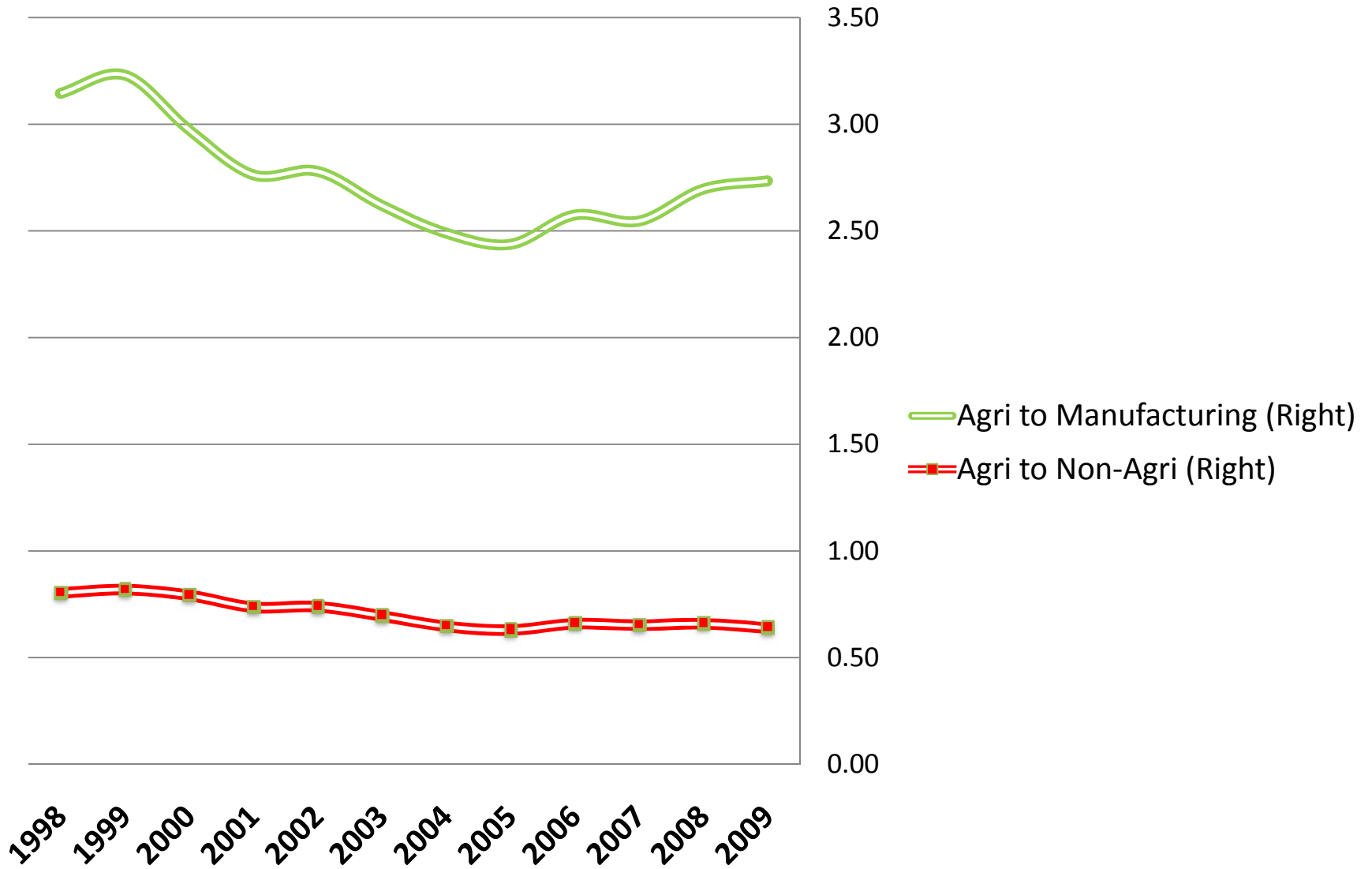
- Their own labor—largely unskilled
- Agricultural land (not as important as labor)
- Economic development that increases the demand for labor and land raises the income of the poor and consequently reduces the poverty incidence.
- ***Import substituting industrial policy*** does not advance the welfare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

Labor Employment



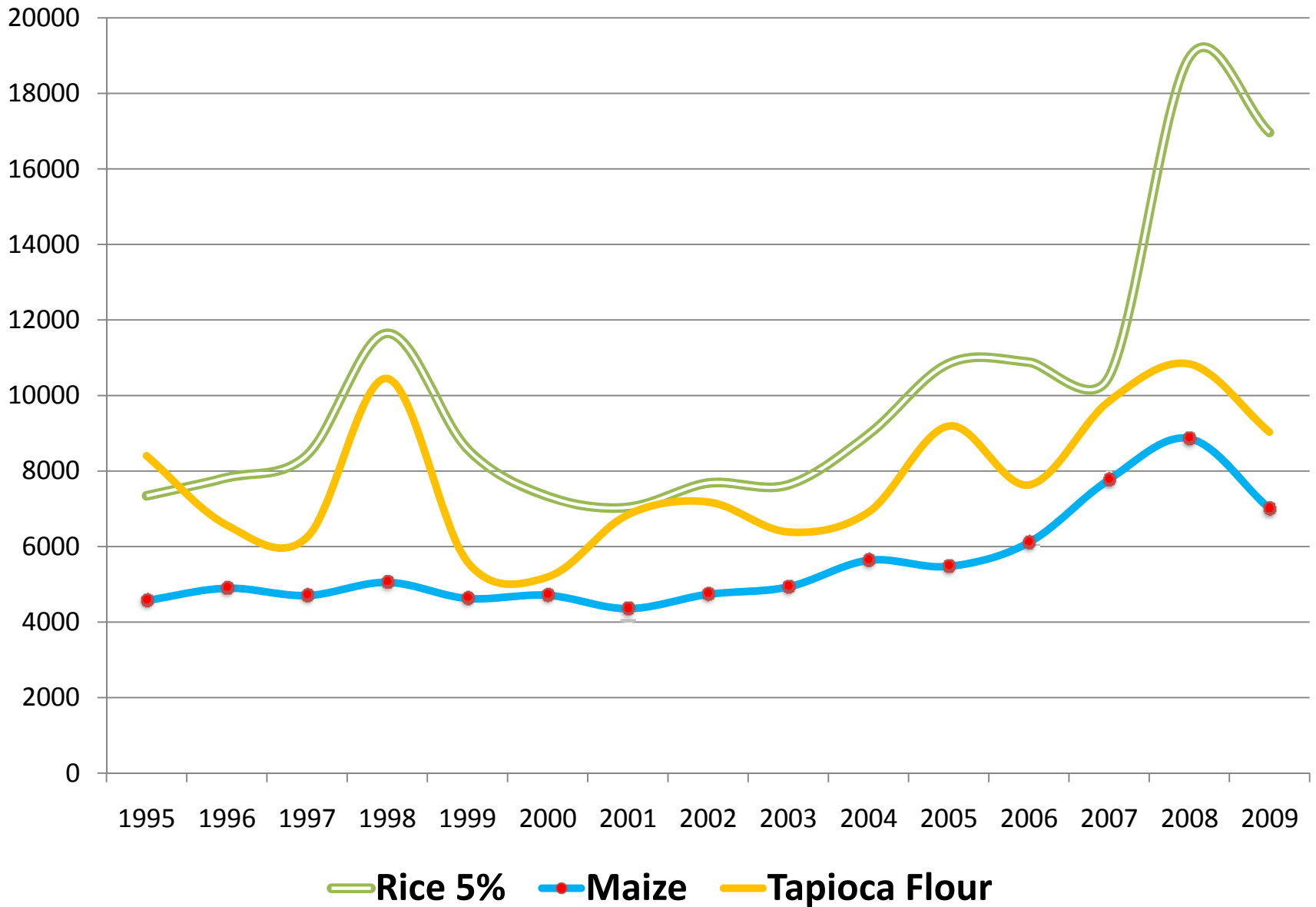
Source: BOT

Agricultural Employment relative to manufacture



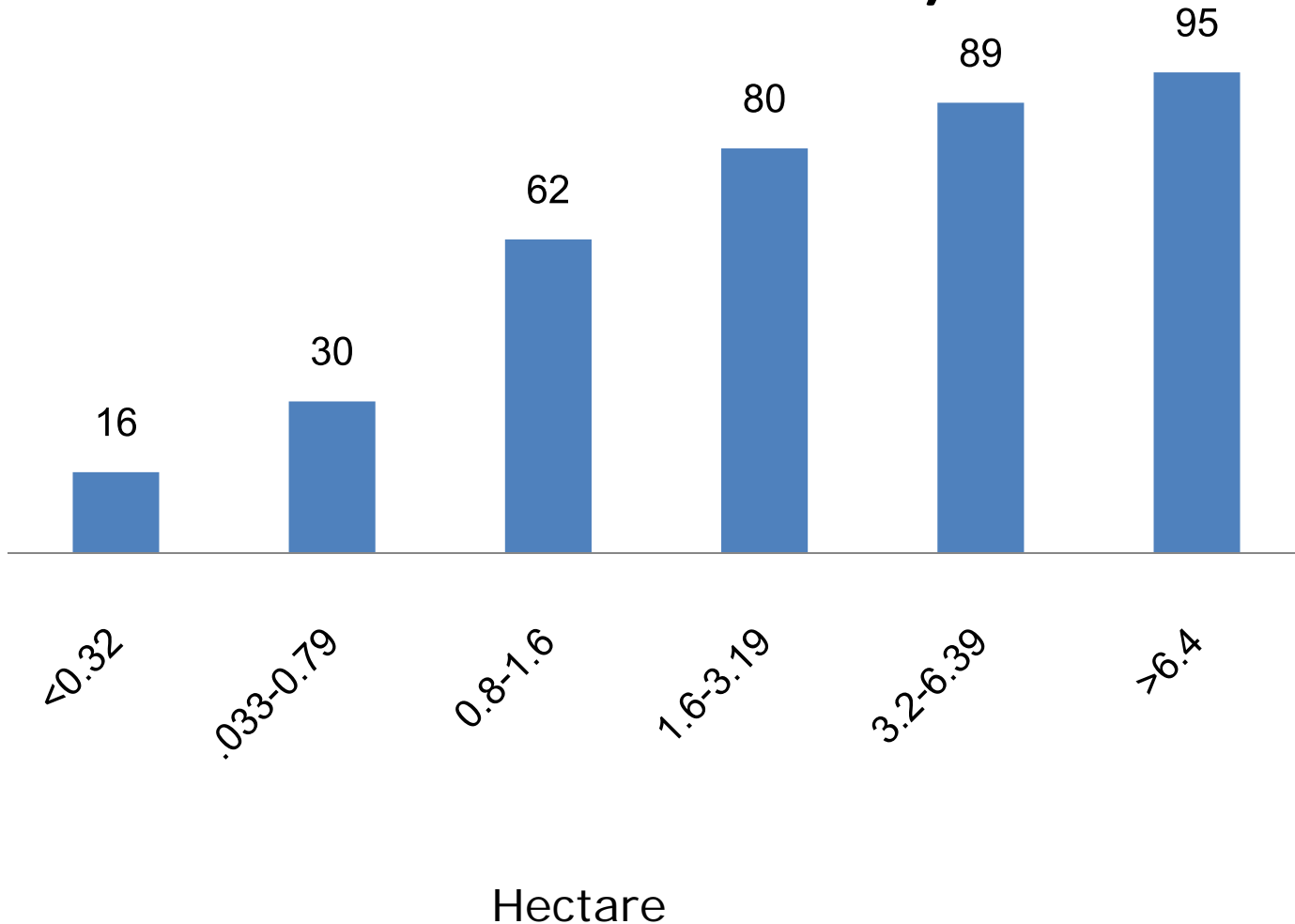
Source: BOT

Agricultural Domestic Prices

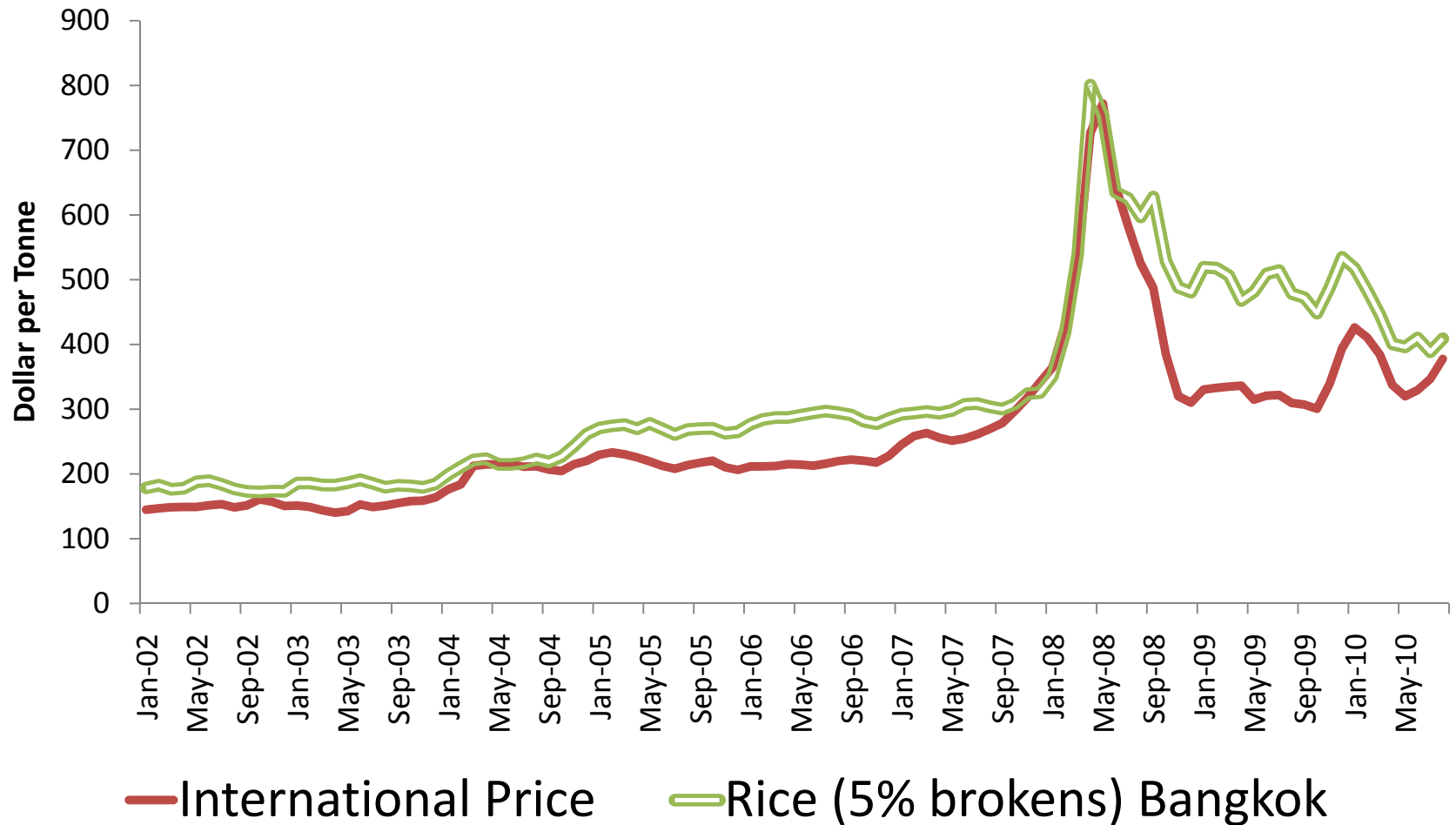


Source: BOT

Net food seller (% of total household in each farm size)



Rice prices from Jan 2002 to Aug 2010

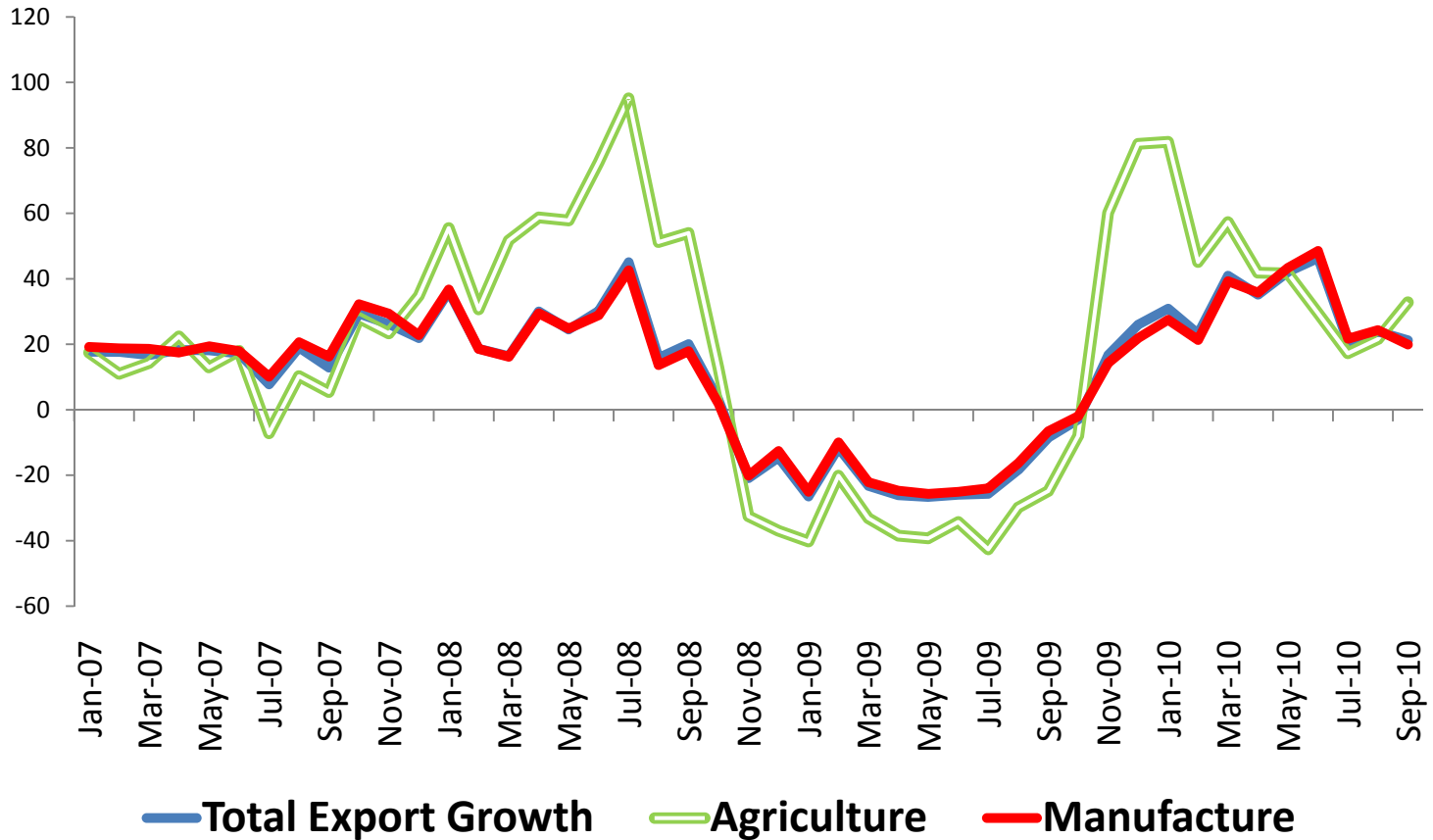


Source: Jackson Son & Co. (London) and BOT

Rich people don't just eat more than poor people, they eat differently.

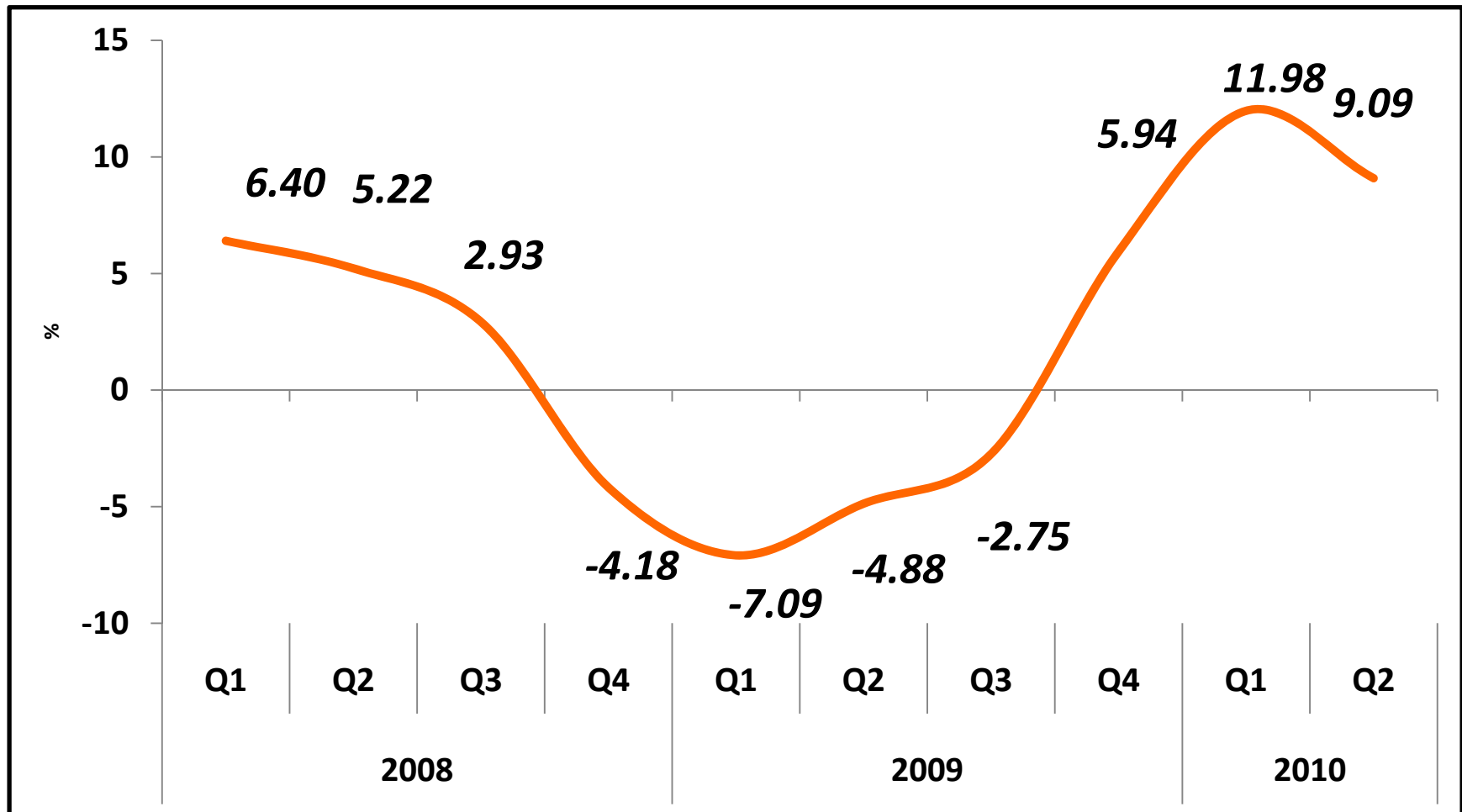
- As countries like China, India, Brazil and Russia have got richer they have begun eating more.
- ***The demand for meat in developing countries has doubled since 1980. In India it is up 40 per cent.***
- ***In China the rise is 150 per cent.***
- ***And because cattle and chickens are fed on corn – it takes 8kg of grain to produce 1kg of beef – the price of all cereals has been forced up.***

Export recovery

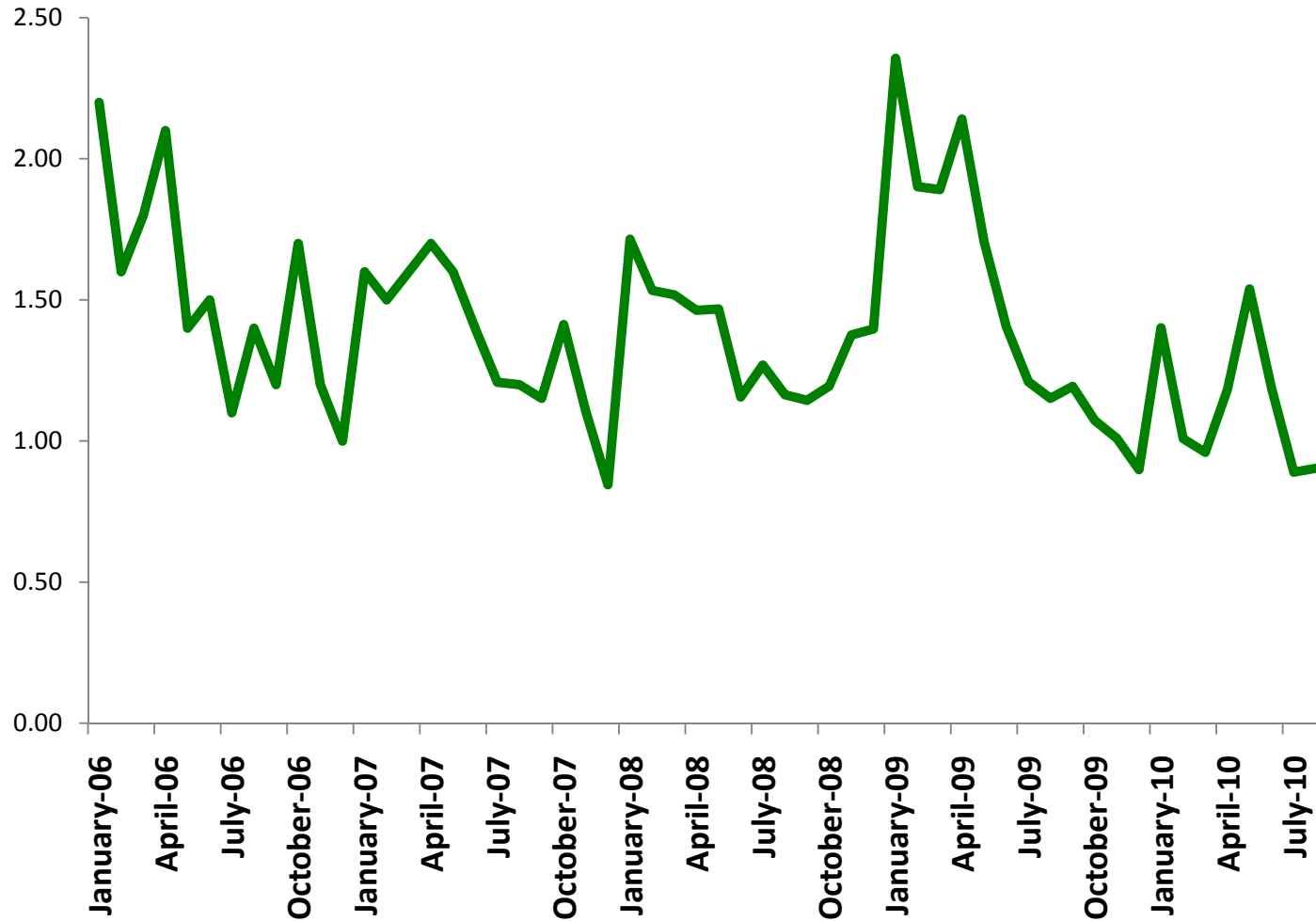


A sustainable recovery after the GFC?

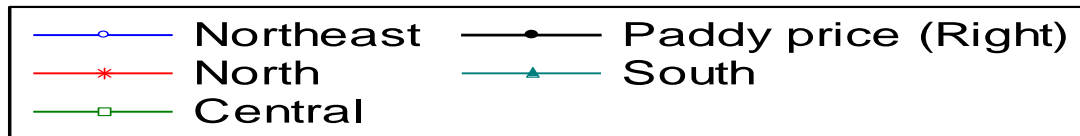
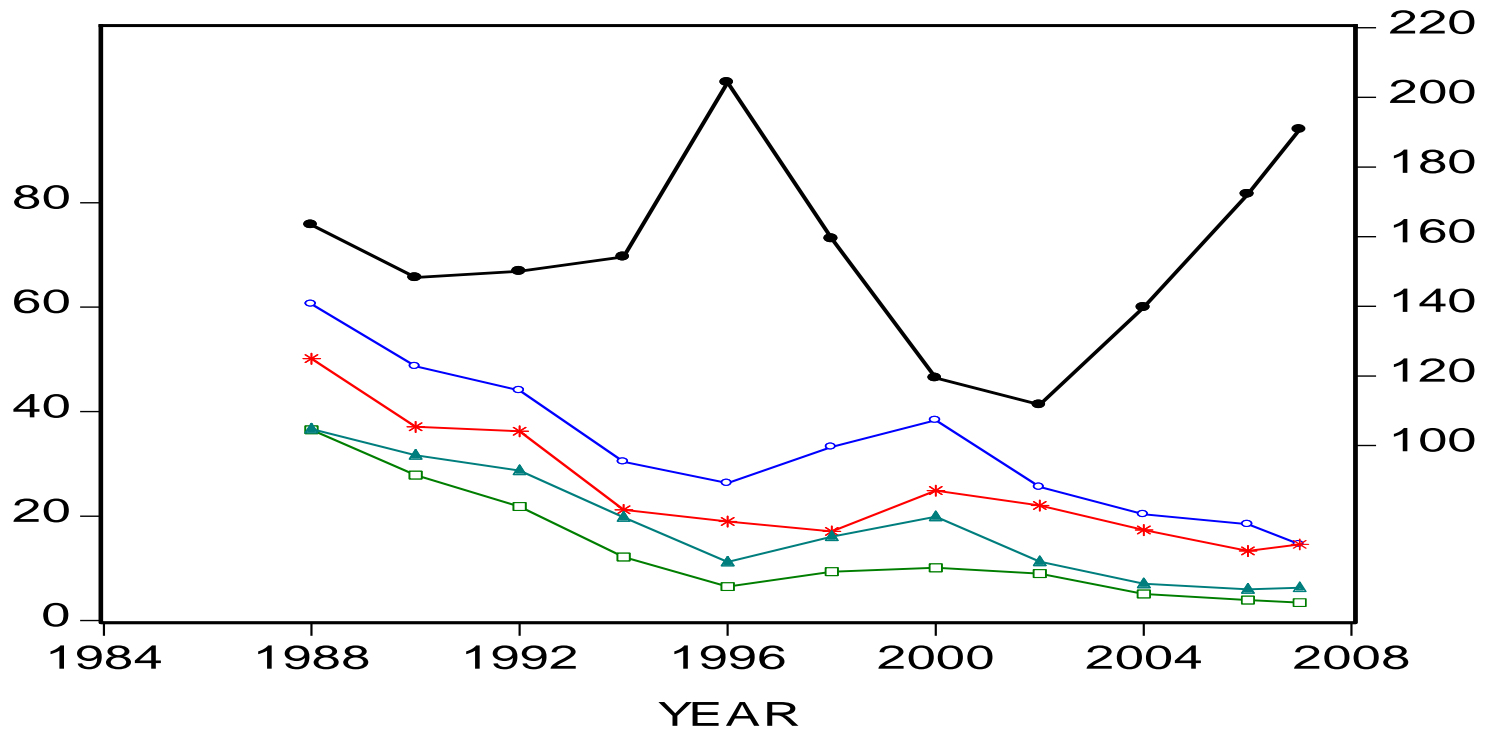
GDP growth rate



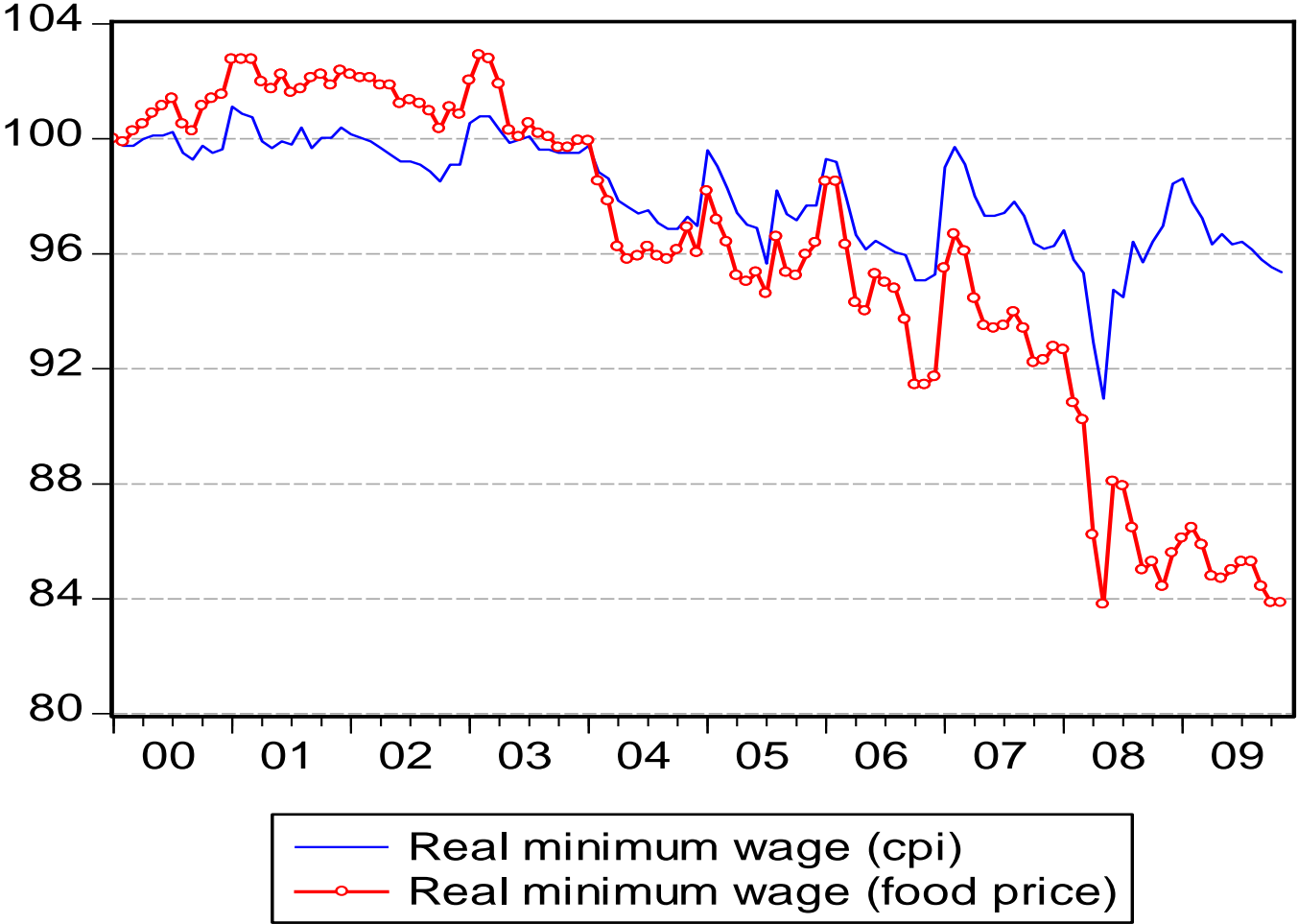
Unemployment rate



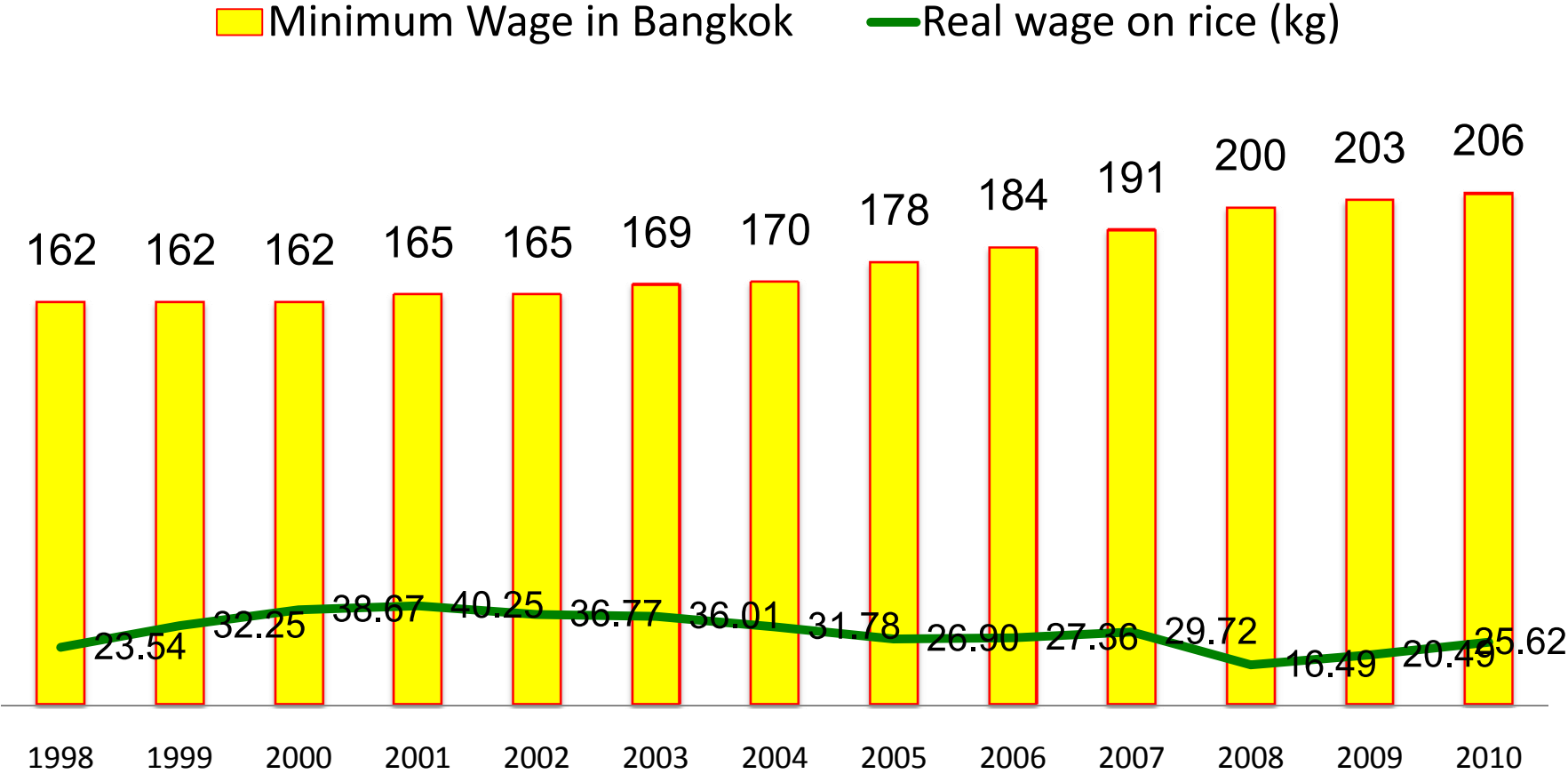
Paddy prices and poverty



Declining real wage rate of the vulnerable

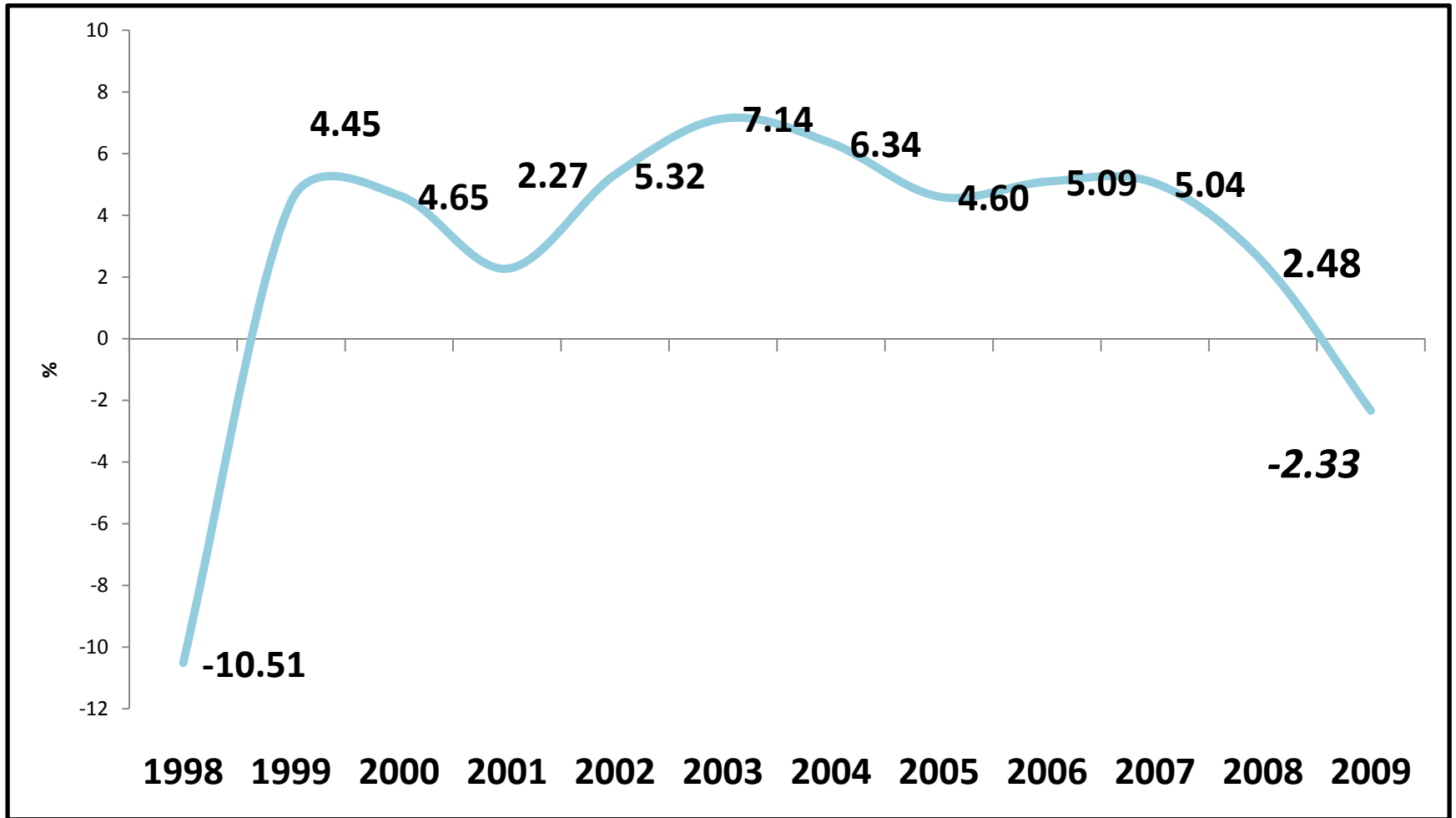


Real Wage: The amount of rice that can be bought with one day's wage



Source: BOT and OAE

From peak to trough



Neo-Liberal argument

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

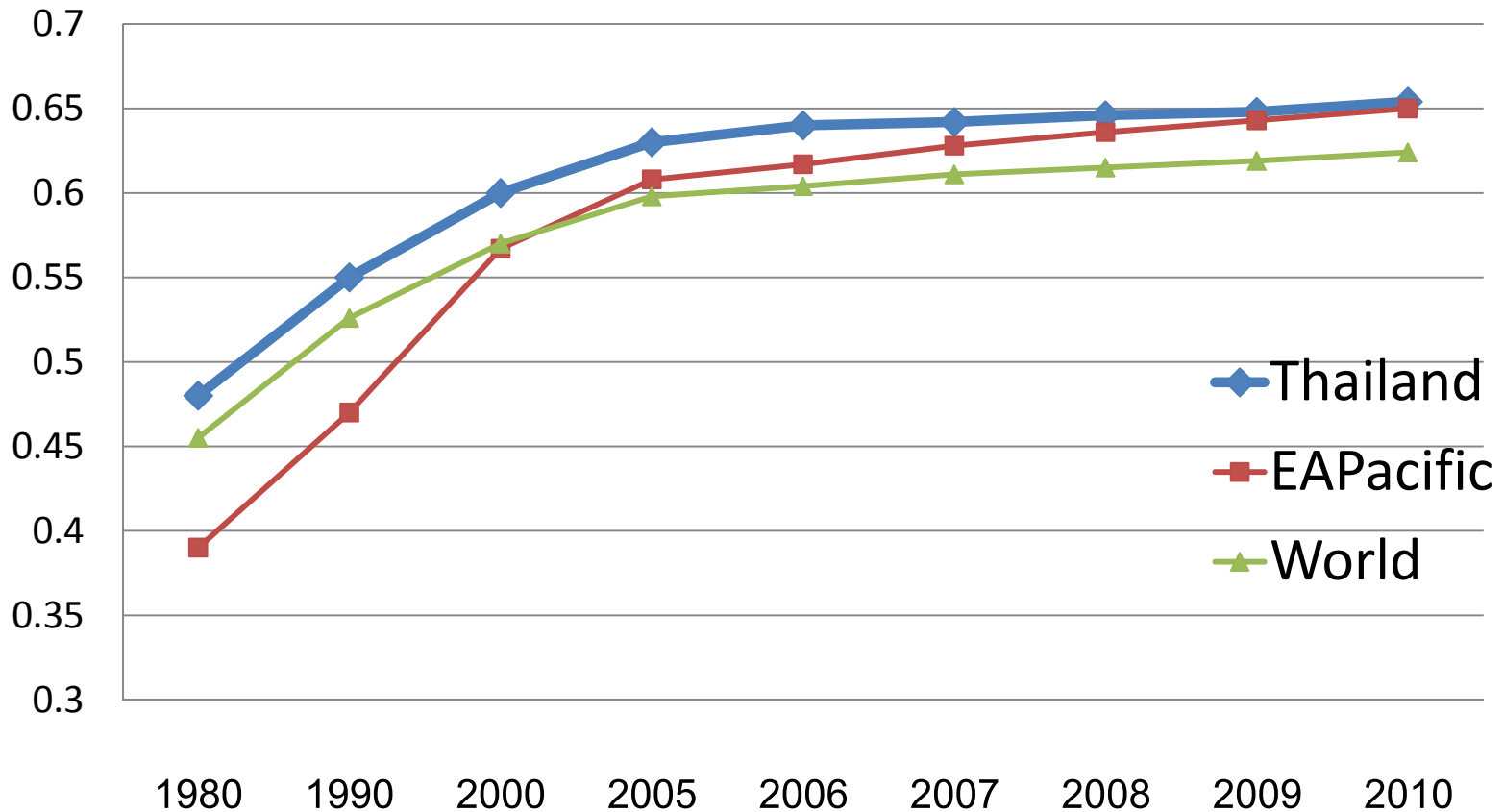
Anti-globalization view

- 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.
- 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.

The role of the government

- Public spending on education, health, welfare services can mitigate the plight of the poor.
- Public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.
- Thailand was ranked 29 by the **Human Poverty Index (HPI)** which measures the deprivation of knowledge, economic provisioning, and long and healthy life.

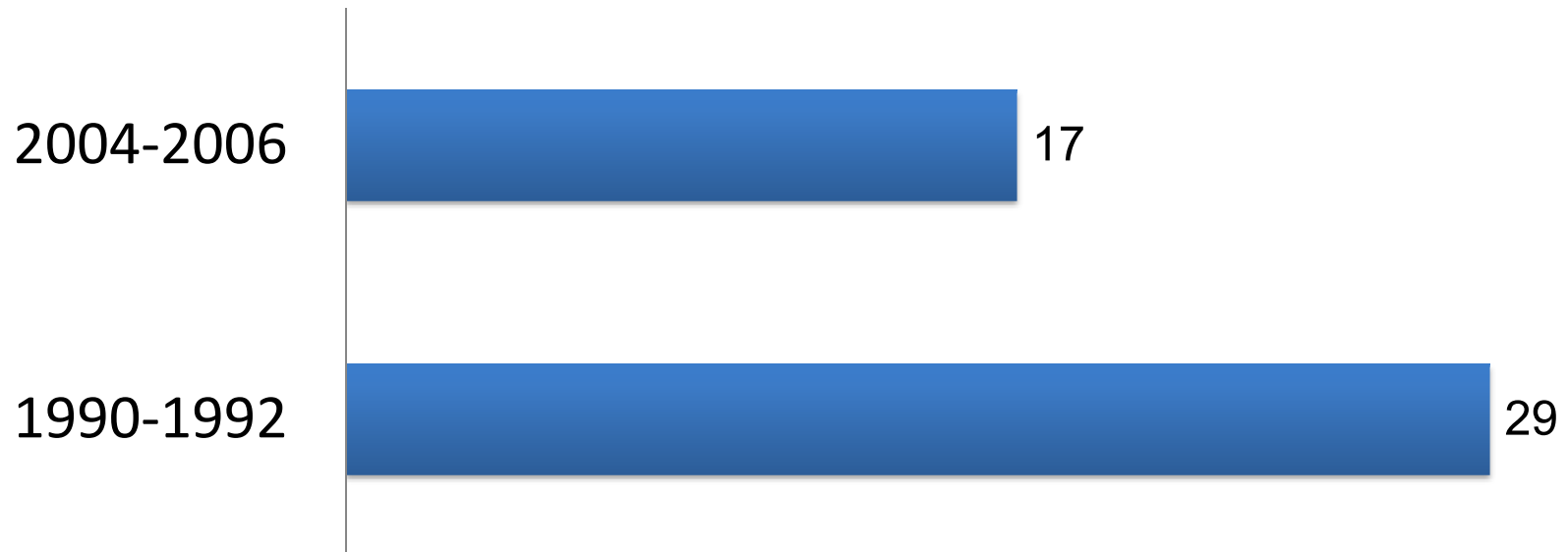
Human Development Index



GNI per capita (constant 2008 PPPUS\$: 8,000

GDP per capita (2008 PPP US\$): 8,328

Prevalence of Undernourishment (% to total population)



- 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.

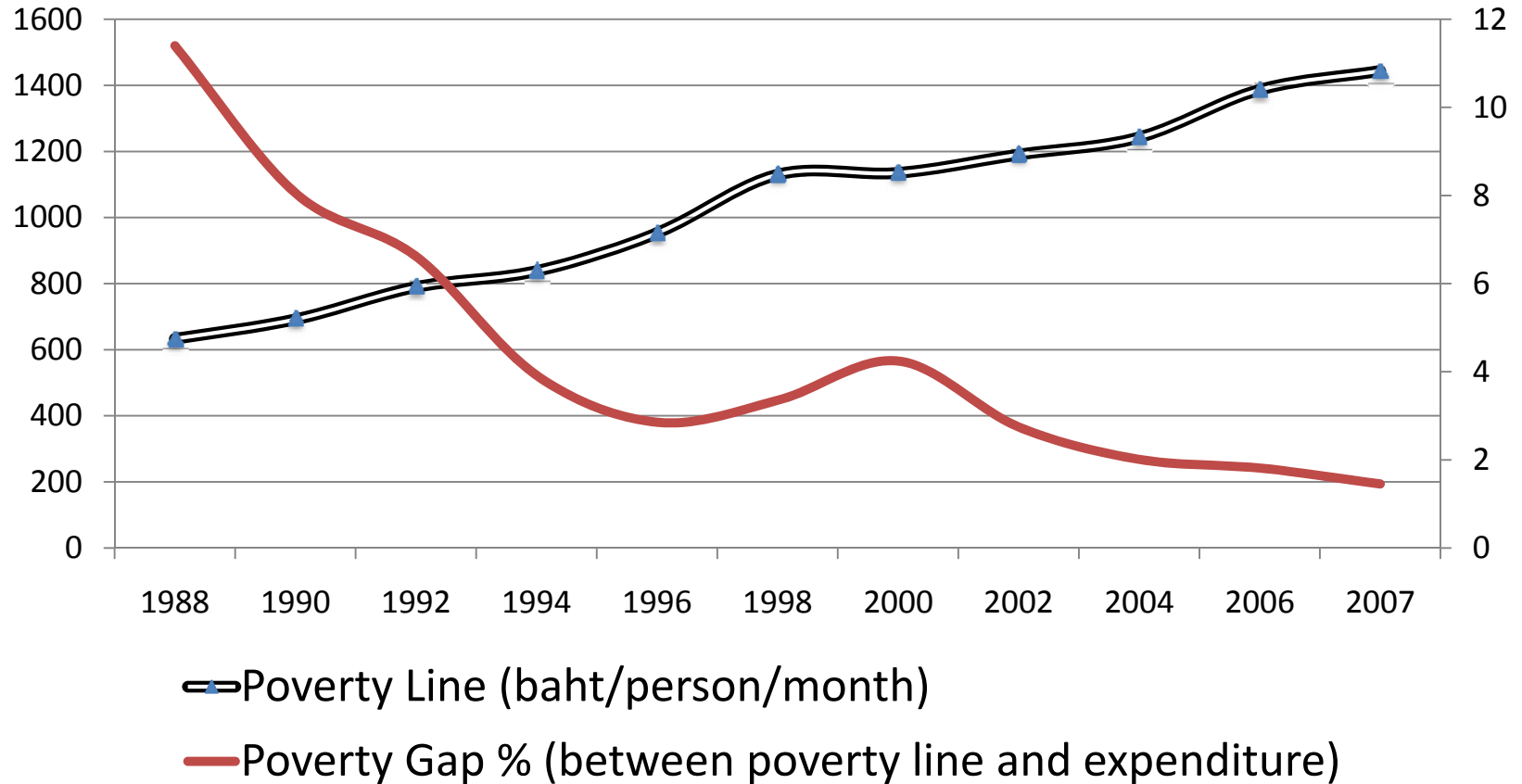
Intensity of food deprivation

(average % shortfall in minimum dietary energy requirement)

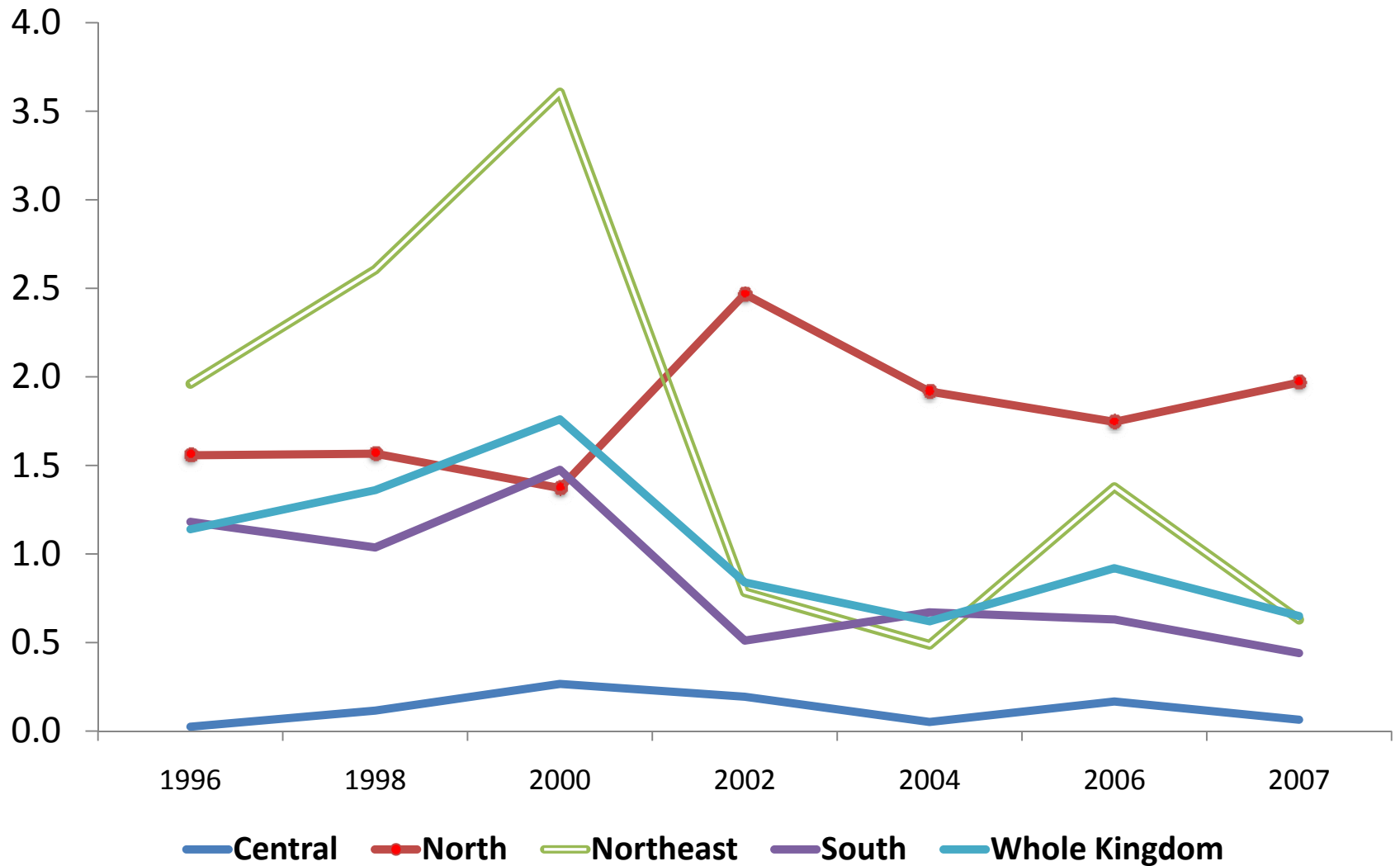


Source: UNDP

What determines poverty line?

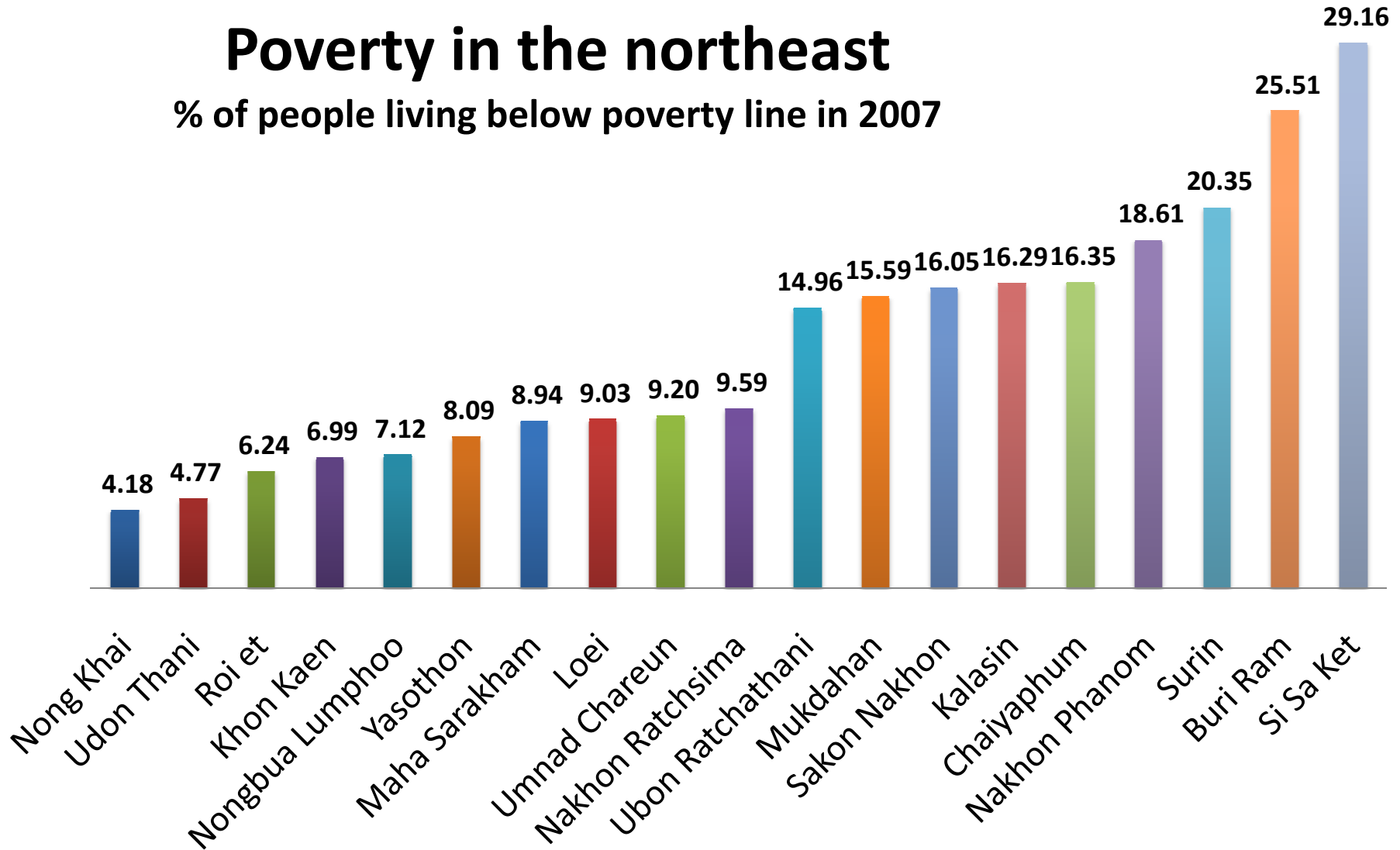


Proportion of Population that have expenditure on food less that food poverty line

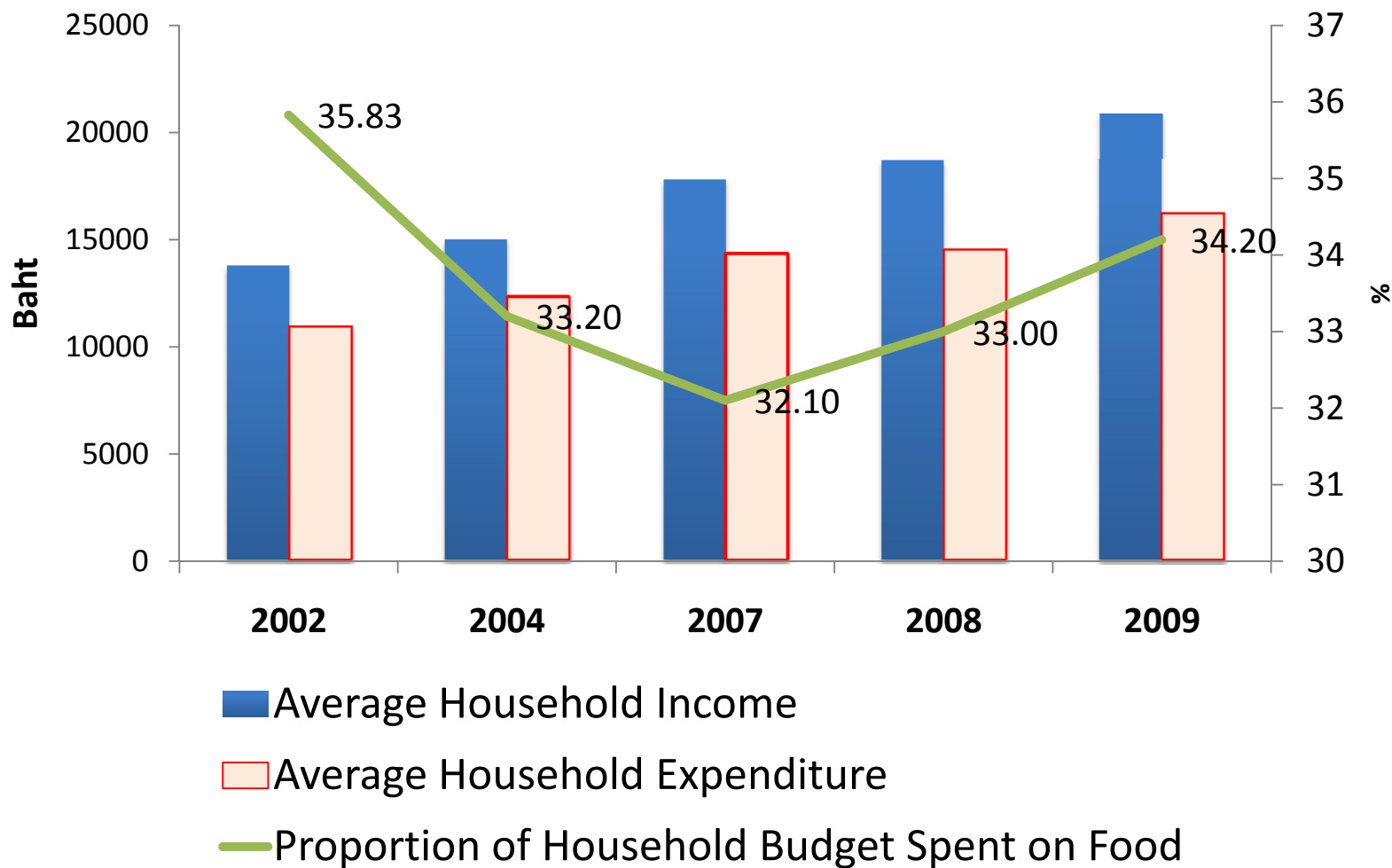


Poverty in the northeast

% of people living below poverty line in 2007

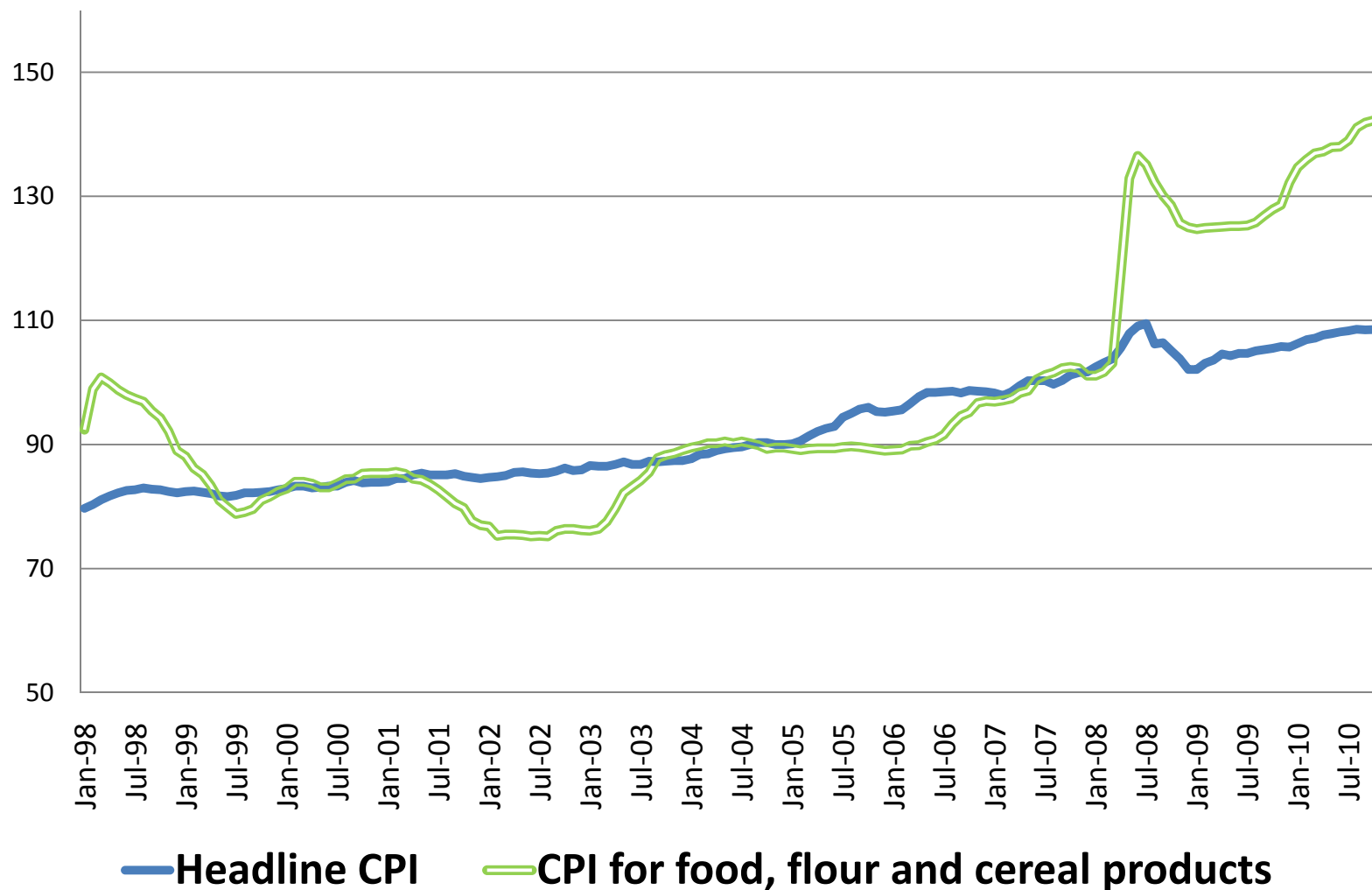


Proportion of Household Budget Spent on Food



Source: NSO

Food price index and CPI



Food prices continue to rise

- **Demand for biofuels will keep cereal prices high – making staples beyond the reach of the poorest**
- Climate change will make things worse, reducing farm production by as much as 60 per cent in parts of Africa.
- In India, rainfalls were below the normal level by 10 % in 2009 and 23 % in 2010.
- Rice export bans in China and India would signal the price hike because of the thin market.

NESDB: 2010 growth rate is 7.9%

- The NESDB expected the Thai economy's growth rate drop 0.3 per cent due to the heavy flooding in many areas of the country, but the GDP for the entire 2010 should increase 7.9 per cent, thanks to continuous expansion in exports, investment and consumption.
- This year's inflation rate should stand at 3.2 per cent while exports should expand 25.1 per cent.
- The NESDB official said the GDP for next year would likely move up 3.5 to 4.5 per cent, with an expected inflation rate of 2.5 to 3.5 per cent.
- The export value for 2011 should increase 11.7 per cent.

Global food inflation

- If the increase in food price is not permanent, farmers' misguided responses to high export prices, encouraged by ill-advised government policy, can lead to oversupply and price collapses in the future.
- All else equal, the reduction in agricultural prices would increase poverty level.

Appropriate policy response

- The government can stabilize the price rise, but it should not engage in the agricultural market as a major player, which usually leads to distorted prices, misallocation of resources, and wasteful spending.
- To help farmers in the long run, budget should instead be allocated to irrigation infrastructure, research and development to improve farm productivity.

Questions

- How did global economic crisis affect poverty in Thailand?
- How were the poor affected by the global food crisis in 2008?
- What would be the impact on poverty of the high GDP growth in 2010?