

EE460: 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.**

News Analysis: American growth

- America's economy is producing so many jobs—1.5m in the last six months—that even its labour-force participation rate, long in the doldrums, is rising again.
- The economy ought to be growing strongly, too.
- But the consensus forecast for today's announcement of first-quarter GDP growth is just **0.7%** annualised, down from an already underwhelming 1.4% in the final three months of 2015.

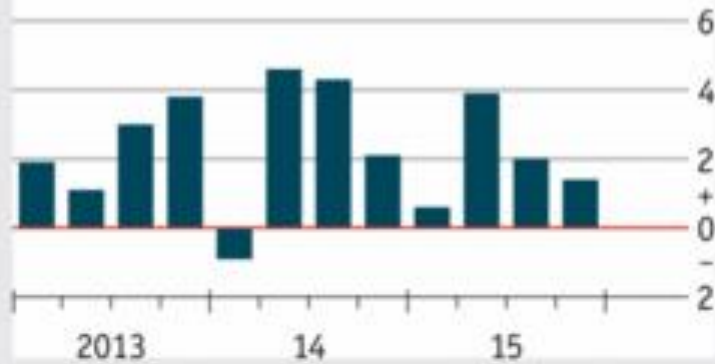
Hire and higher



United States

GDP

% change on previous quarter, annualised



Non-farm payroll employment

Change on previous month, '000



Sources: BEA; Department of Labour

Flat GDP growth (0.7%)
with rising Employment: A puzzle

Low labor productivity growth
Is the reason

Held in reserve: American growth is a puzzle

- First-quarter growth has consistently disappointed in recent years, so economists are mostly calm.
- But the **combination of soaring employment numbers and flat growth is a puzzle.**
- Those trying to predict when the Federal Reserve will next raise interest rates should focus on jobs, despite the central bank's recent bout of dovishness (rate-setters declined to signal an imminent rate rise at yesterday's meeting).
- America's growth is being held down by **measly productivity increases**; the Fed, which steers spending in the economy, can do little to change that.

Japan's central bank has surprised the market again.

- **Japanese** shares fell and the yen jumped after the central bank unexpectedly kept interest rates on hold, dashing hopes of further monetary stimulus to counter persistent deflation.
- The Bank of Japan also cut its growth forecasts.
- The strong yen and the commodity-price slump are making the 2% inflation target ever harder to reach.

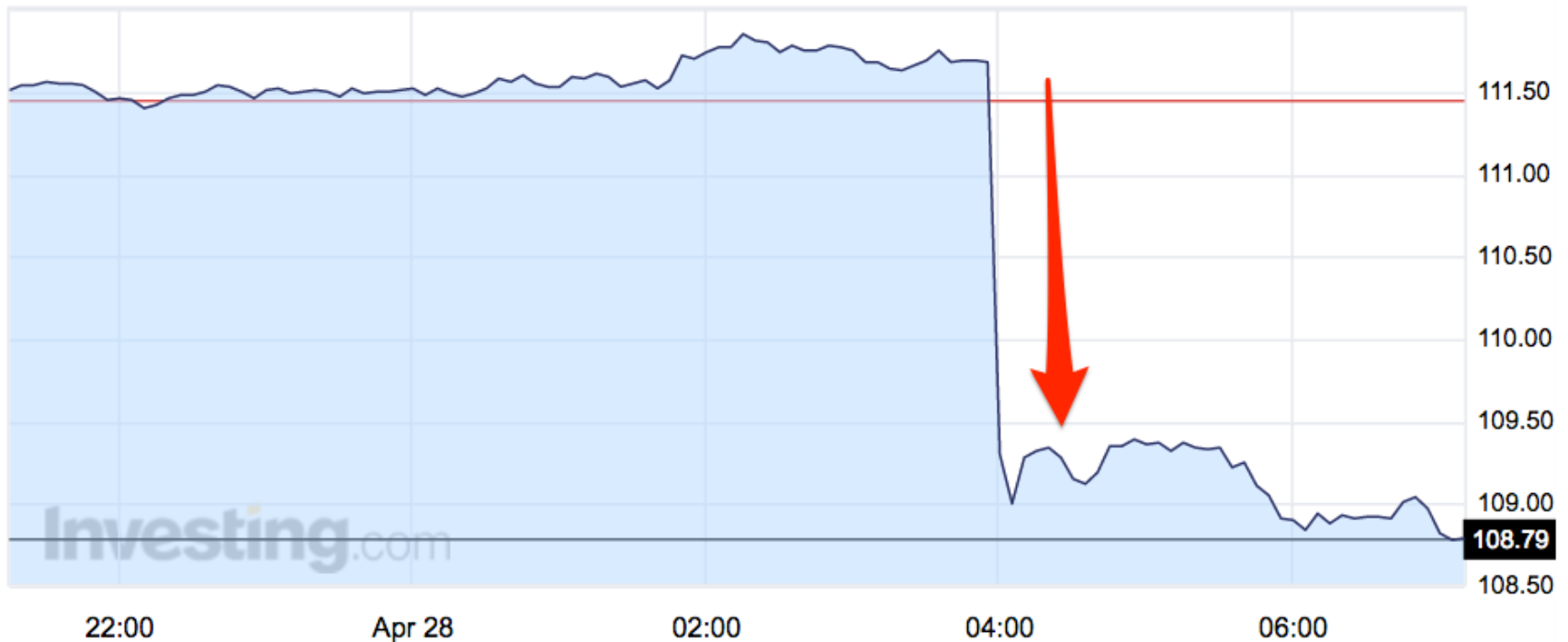
Markets fell immediately. The Nikkei dropped 3.61%.

Nikkei 225 ▼ 16,666.05 -624.44 (-3.61%)



Meanwhile the yen strengthened more than 2% against the dollar, a big move in such a short time. The yen hit 108.79 to the dollar, down from more than 111.

USD/JPY ▼ **108.79** -2.66 (-2.39%)



The Economist Espresso

April 29, 2016

- The authorities in **Thailand** charged eight people with sedition and computer crimes as part of a crackdown ahead of a constitutional referendum in August, in which the country's military rulers hope to entrench their hold on power by creating an unelected senate.
- At least 25 people have been arrested this week for their public protests and social-media posts.

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**

BKK Post this morning

April 29, 2016

- UTCC conducted a survey on workers who earn less than 15,000 baht per month (1, 212 respondents)
- The average debt per household is 119,062 baht, the highest level in eight years.
- Unorganized loans represented 60% of debt.
- The debt incurred mainly by daily expenses, vehicles, and residential purchases.
- The study recommends daily wage to make them afloat is 356 baht.

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**).

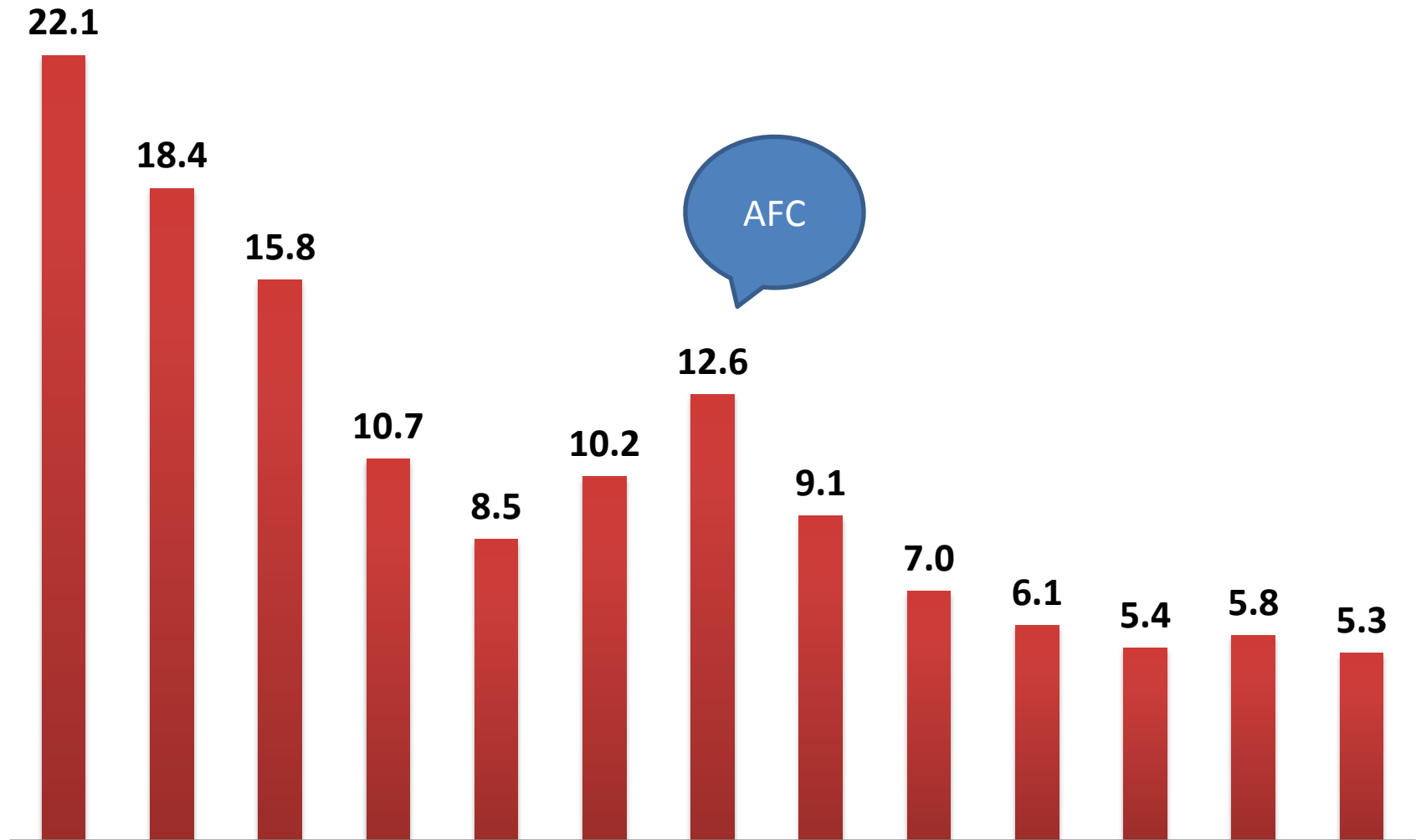
After twenty years of Thailand's economic development:
Slowing down growth of income per capita (1990-2010)
 Top (highest quintile) and bottom 20% (lowest quintile)

Annualized growth rate of GDP per capita at PPP (constant 2005 PPP\$)	1990-95	2005- 2010
Annualized growth rate of average per capita income (2005 PPP\$)	1990-1999	1999-2009
Total	3.4	2.9
Lowest quintile	3.7	3.8
Highest quintile	2.9	2.3

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

Source: ADB Inclusive Growth Indicators

Declining number of the poor 1988-2011 (million)



Source: NESDB

Poverty lines are differently drawn by ADB and World Bank

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 in Indonesia at **\$1.25** based on purchasing power parity.

The World Bank's poverty threshold is \$2 a day.

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.

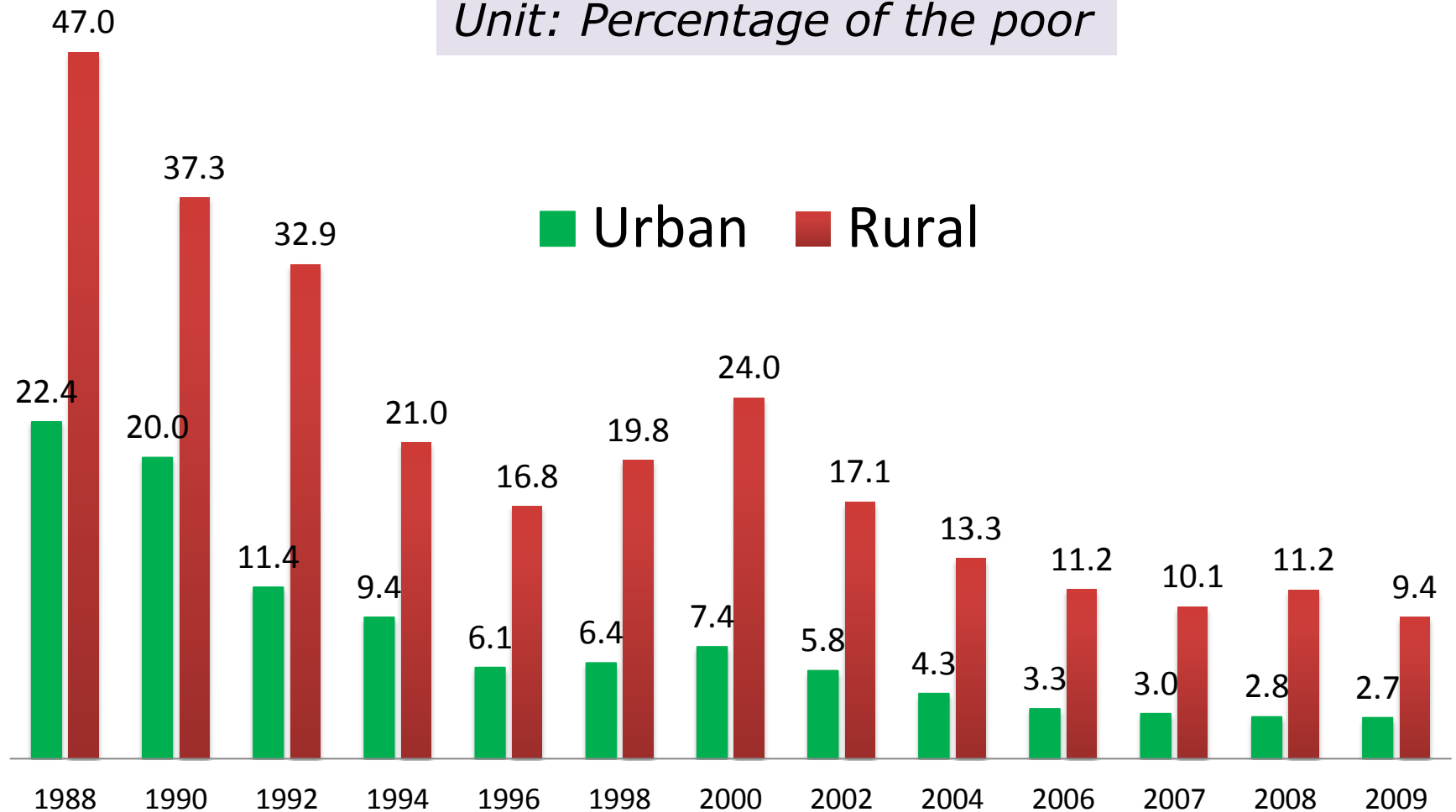
Growth and poverty reduction: A positive correlation

- 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

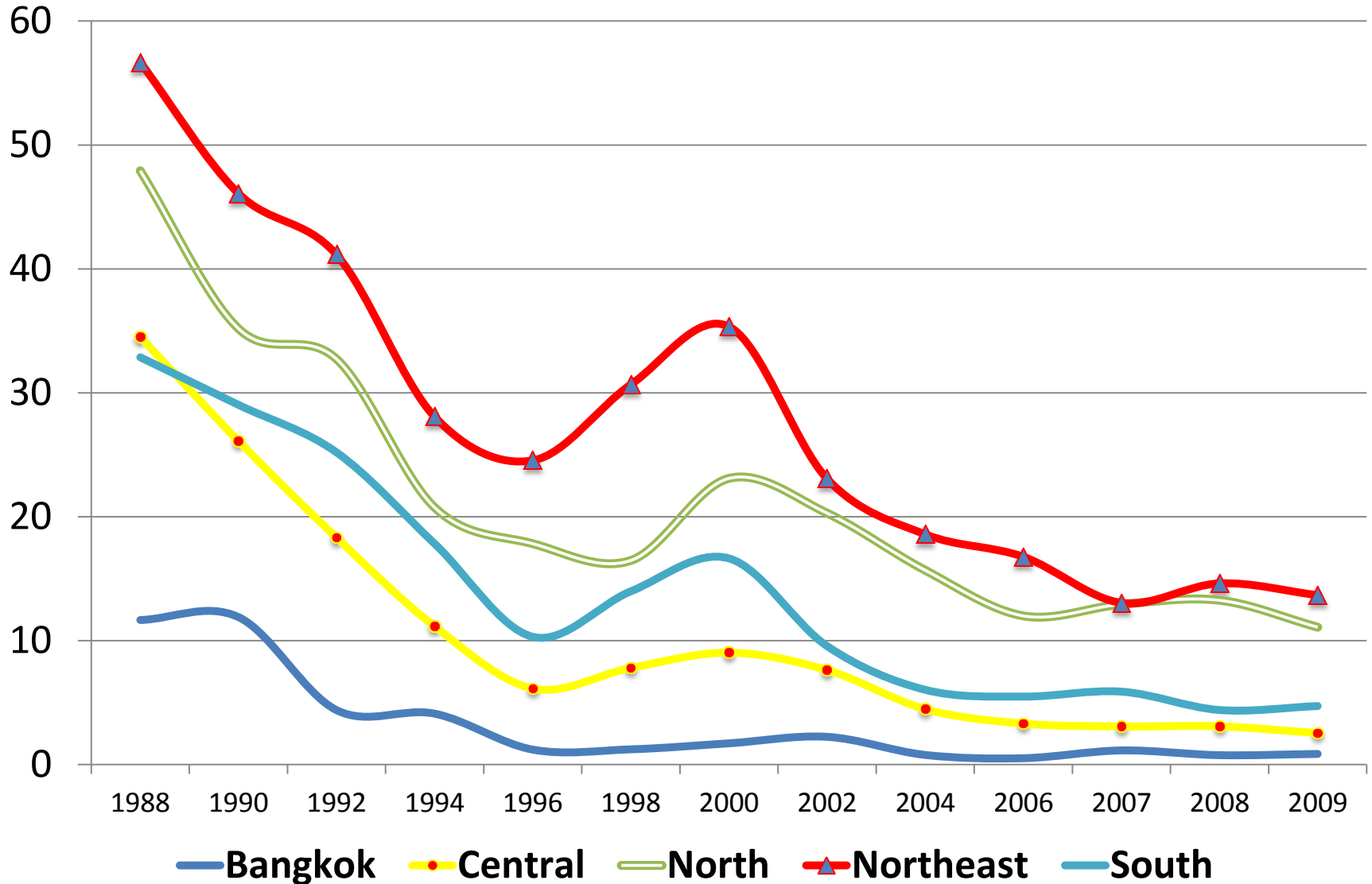
- High growth years were followed by a drastic reduction of the number of the poor.
- The percentage of the poor, i.e. people who live below poverty declined from 32 % in 1988 to 11% in 1996.
- ***When growth rate fell below the trend growth path*** in 1982 and 1986, poverty alleviation in subsequent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

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

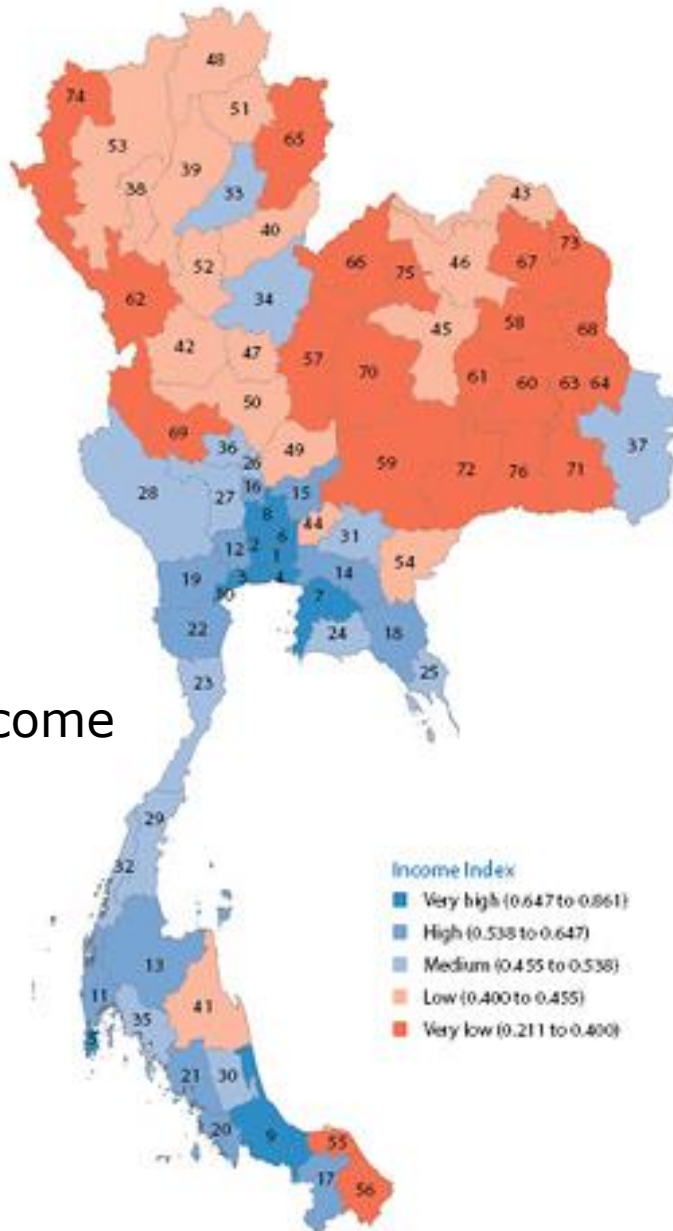


Source: NESDB

Poverty by Region (% of the poor)



Source: NESDB

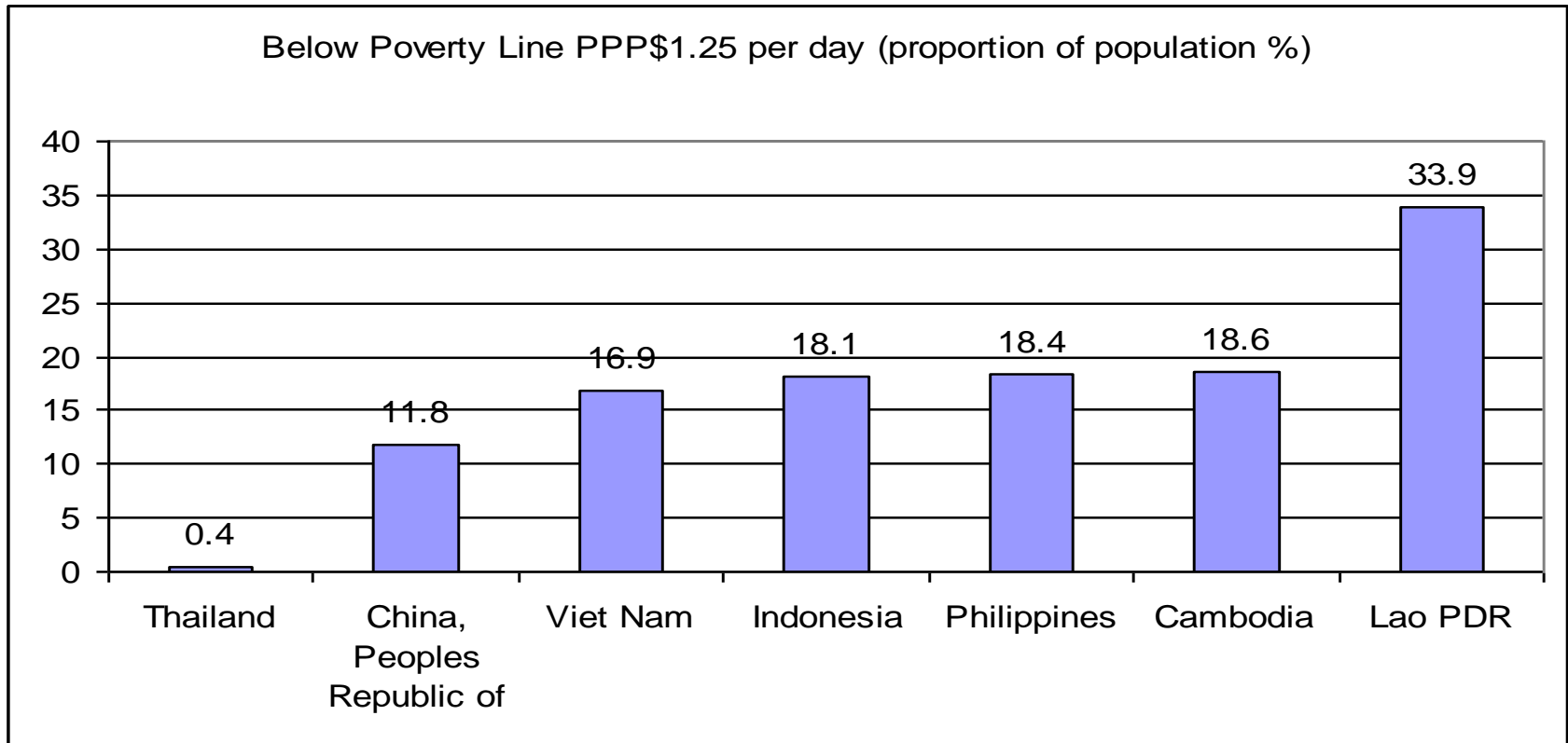


- Rank
- 1 Bangkok
 - 2 Northburi
 - 3 Samut Sakhon
 - 4 Samut Prakan
 - 5 Phuket
 - 6 Pathum Thani
 - 7 Chon Buri
 - 8 Phra Nakhon Si Ayutthaya
 - 9 Songkhro
 - 10 Samut Songkhram
 - 11 Phangnga
 - 12 Nakhon Pathom
 - 13 Surat Thani
 - 14 Chachoengsio
 - 15 Saraburi
 - 16 Ang Thong
 - 17 Yala
 - 18 Chanthaburi
 - 19 Ratchaburi
 - 20 Satun
 - 21 Trang
 - 22 Phichaburi
 - 23 Prachaap 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 Udon 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 Pattani
 - 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 Chalyapthum
 - 71 Si Sa Ket
 - 72 Burirum

Dark orange
Very Low income

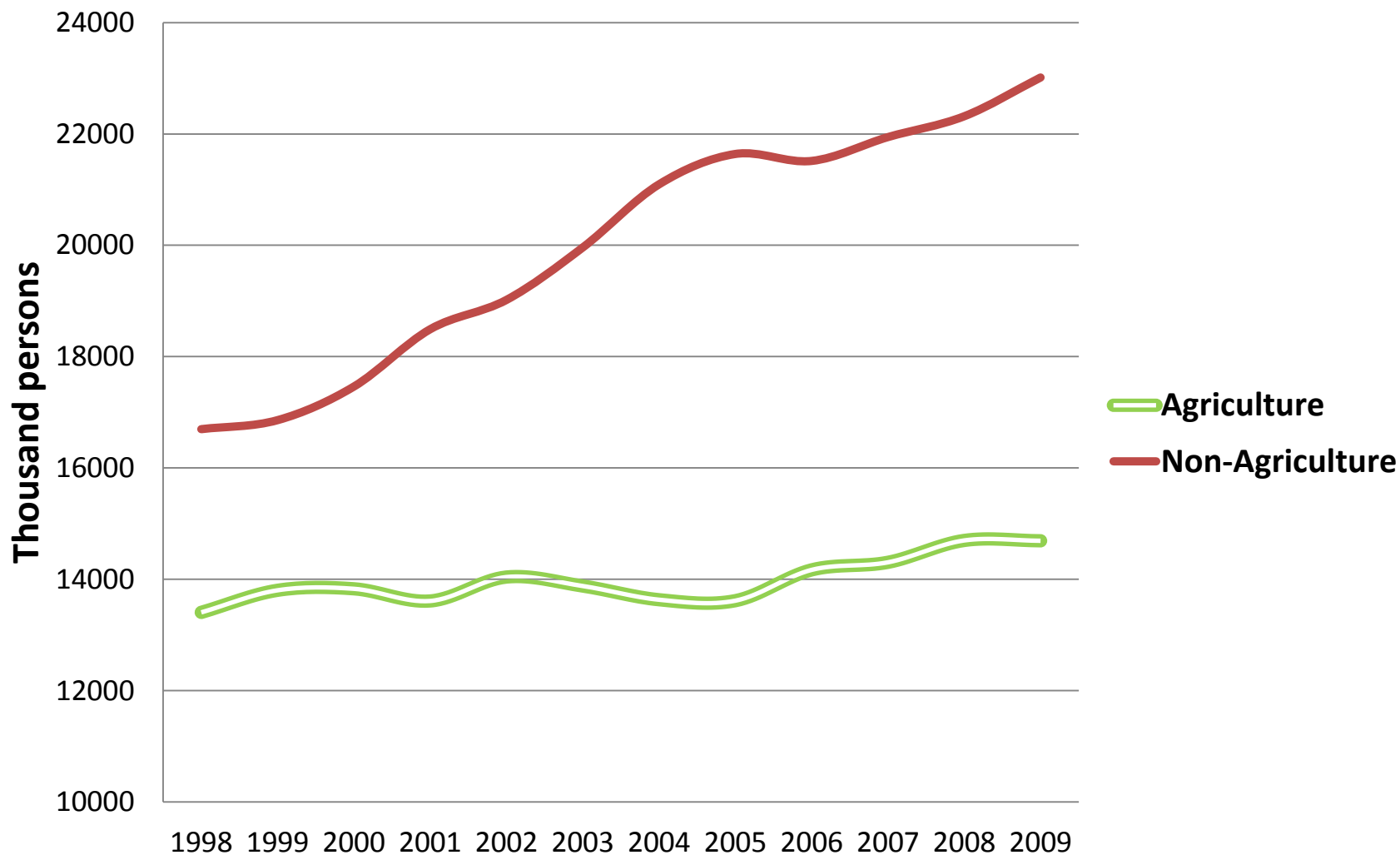
Dark blue
Very high income

Inclusive vs. exclusive growth

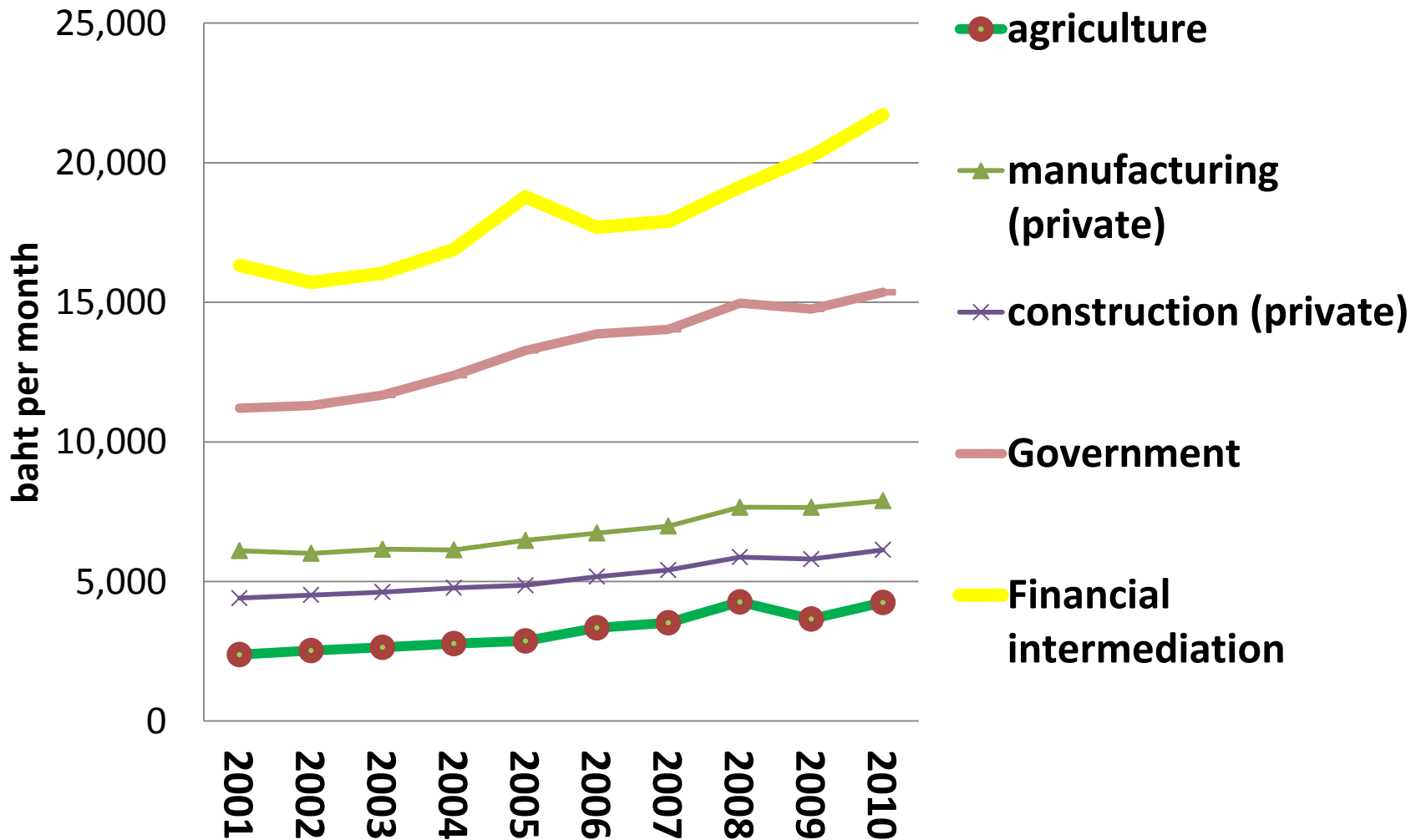


ADB poverty line: \$1.25 per day

Thailand's employment-generating sector: non-agriculture

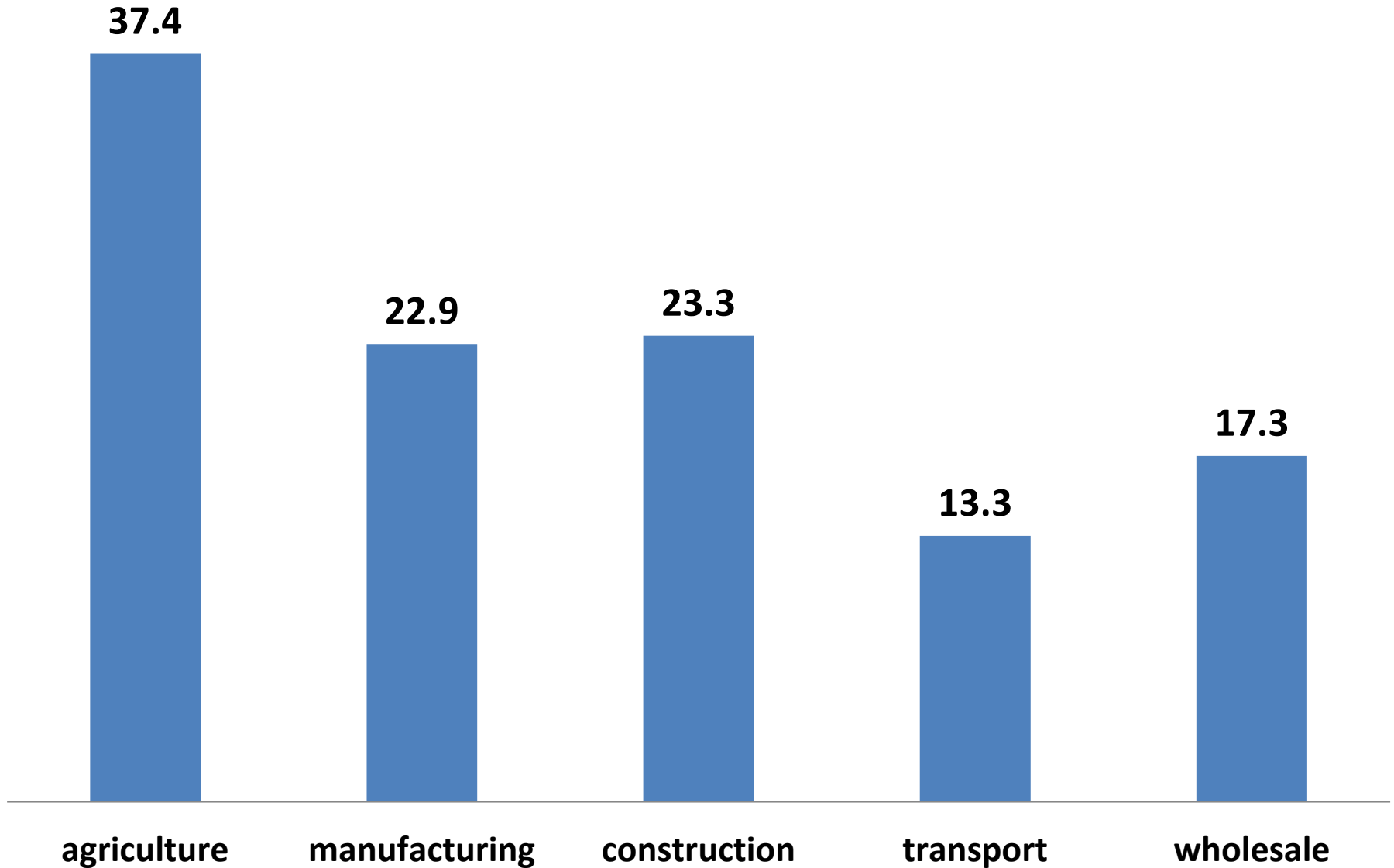


Limited upward mobility: From low to high income (productivity)



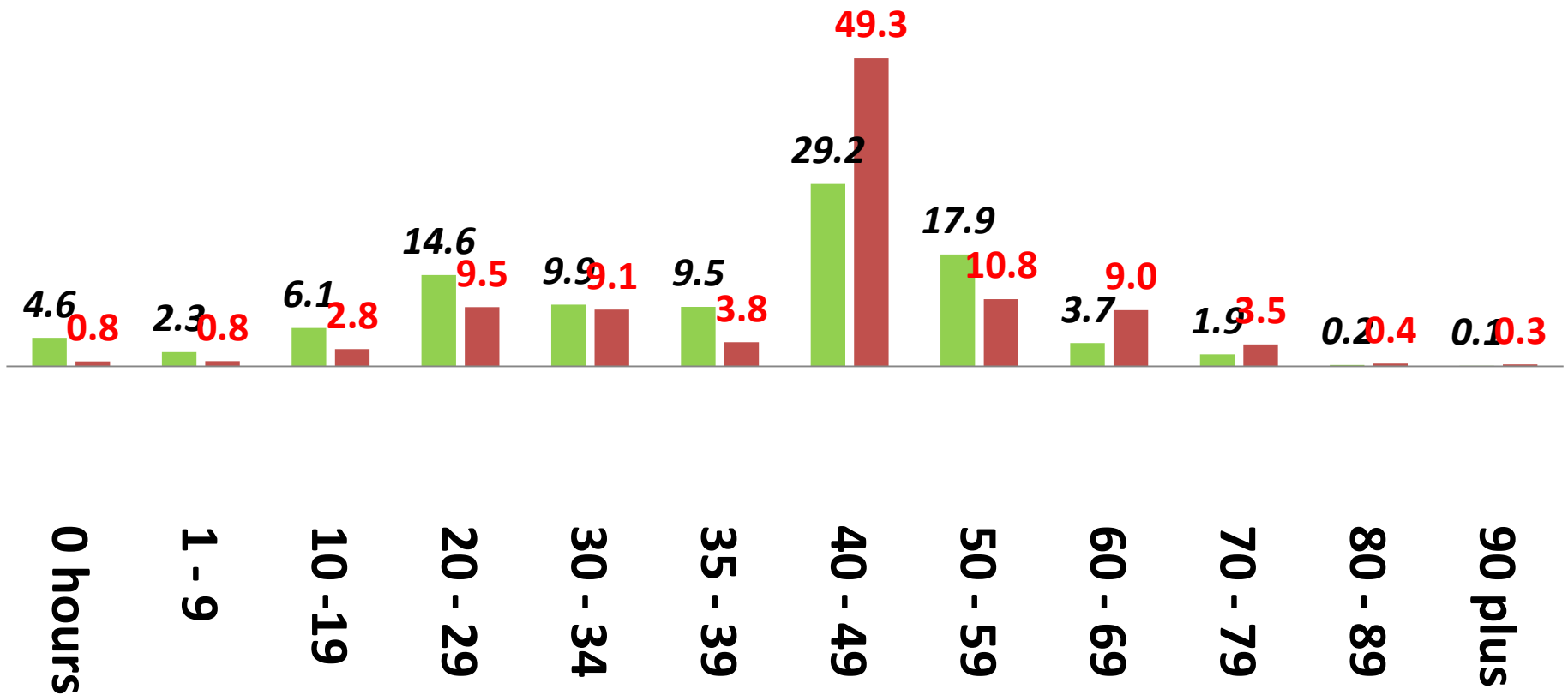
Underemployment by sector (2011)

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



Employed person by hours per week in 2011 (percent)

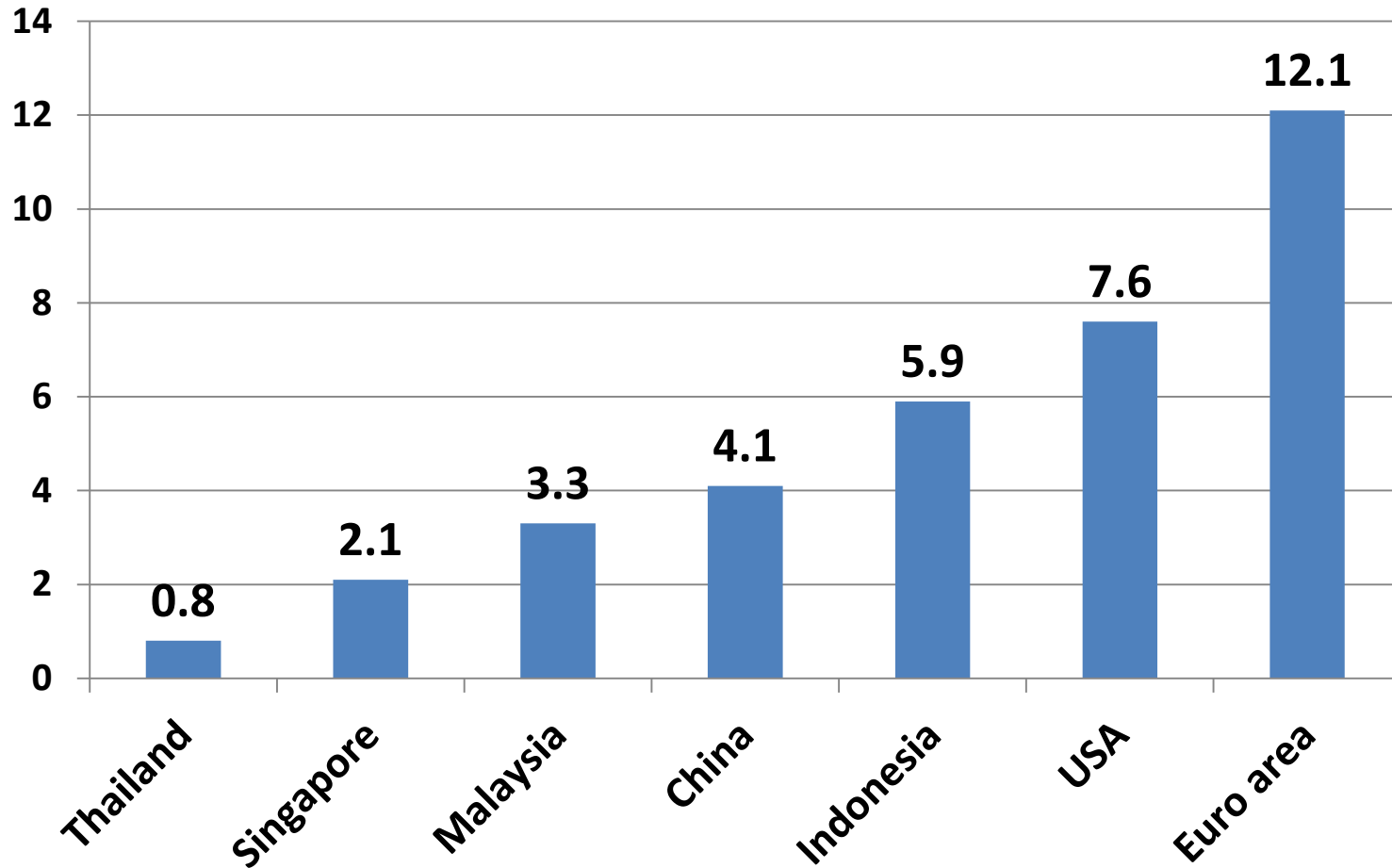
■ agriculture ■ manufacturing



Unemployment and rate of change in real wage rate



Comparative Unemployment Rate in 2013



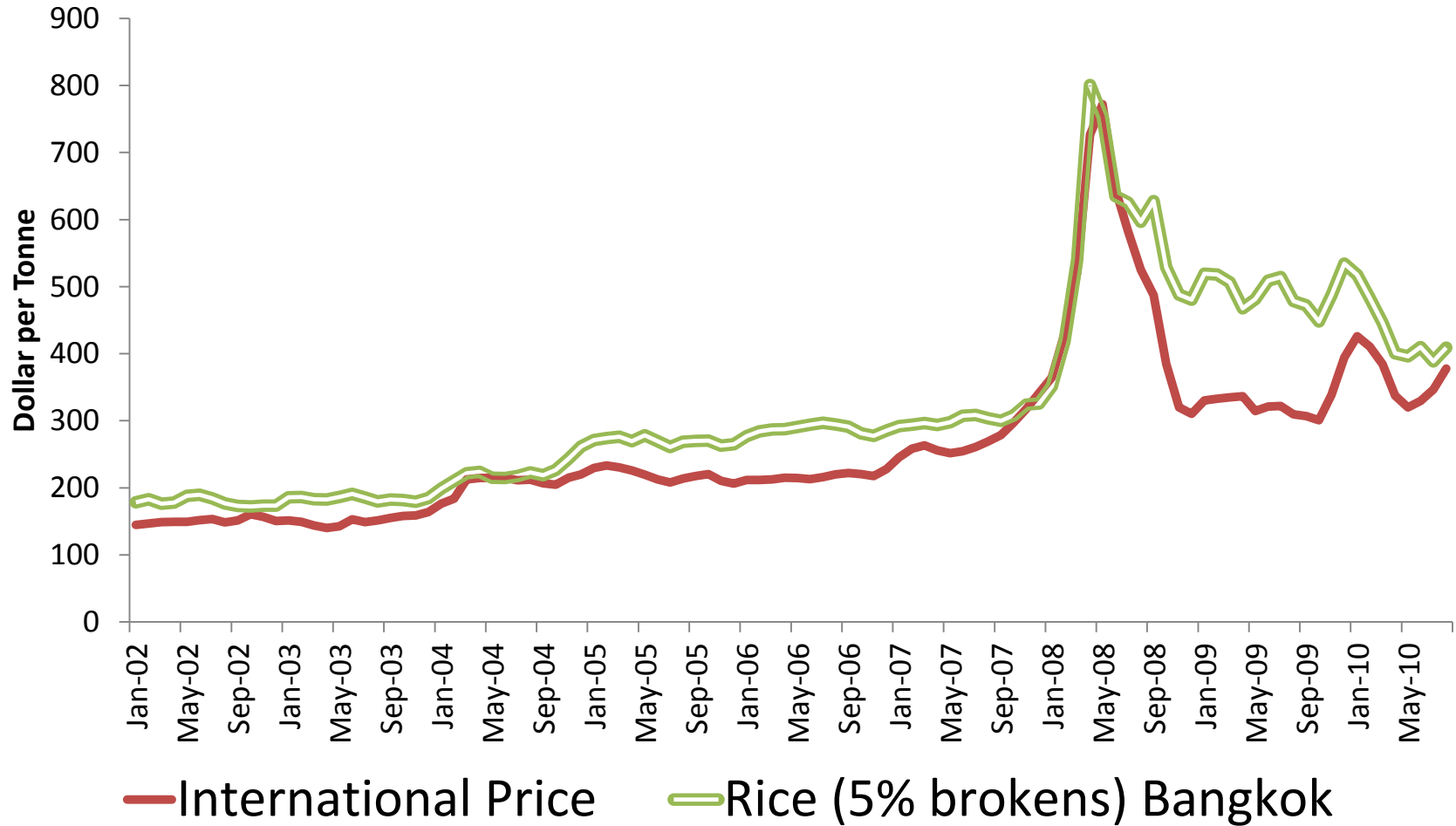
The importance of the service sector: employment effect

- 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

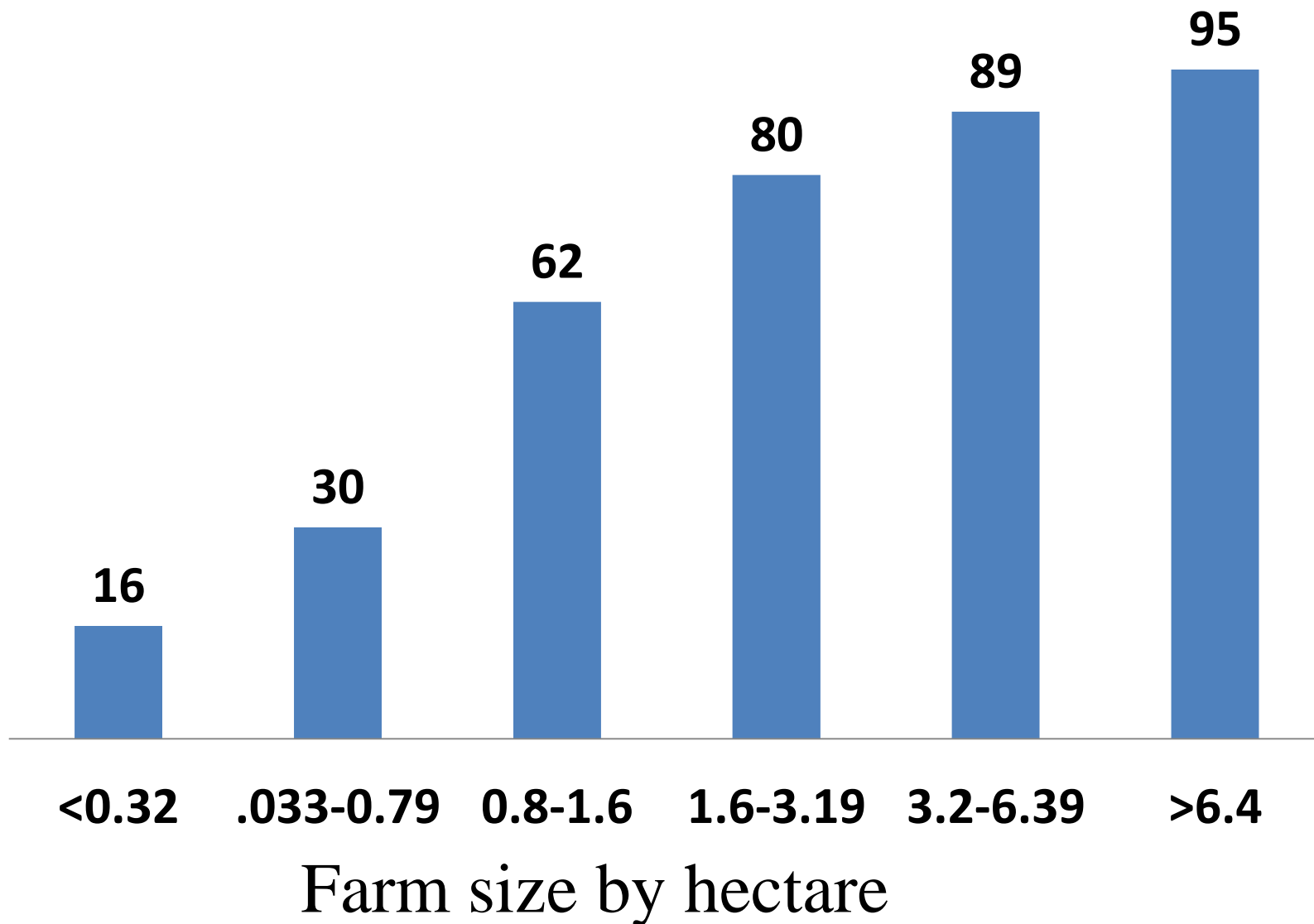
- The poor earn income from their own assets (i.e. their labor, which are largely unskilled)
- Agricultural land (not as important as labor)
- Economic development that increases the demand for labor and land raises the income of the poor and consequently reduces the poverty incidence.
- *Import substituting 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.

Rice prices from Jan 2002 to Aug 2010



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

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



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.

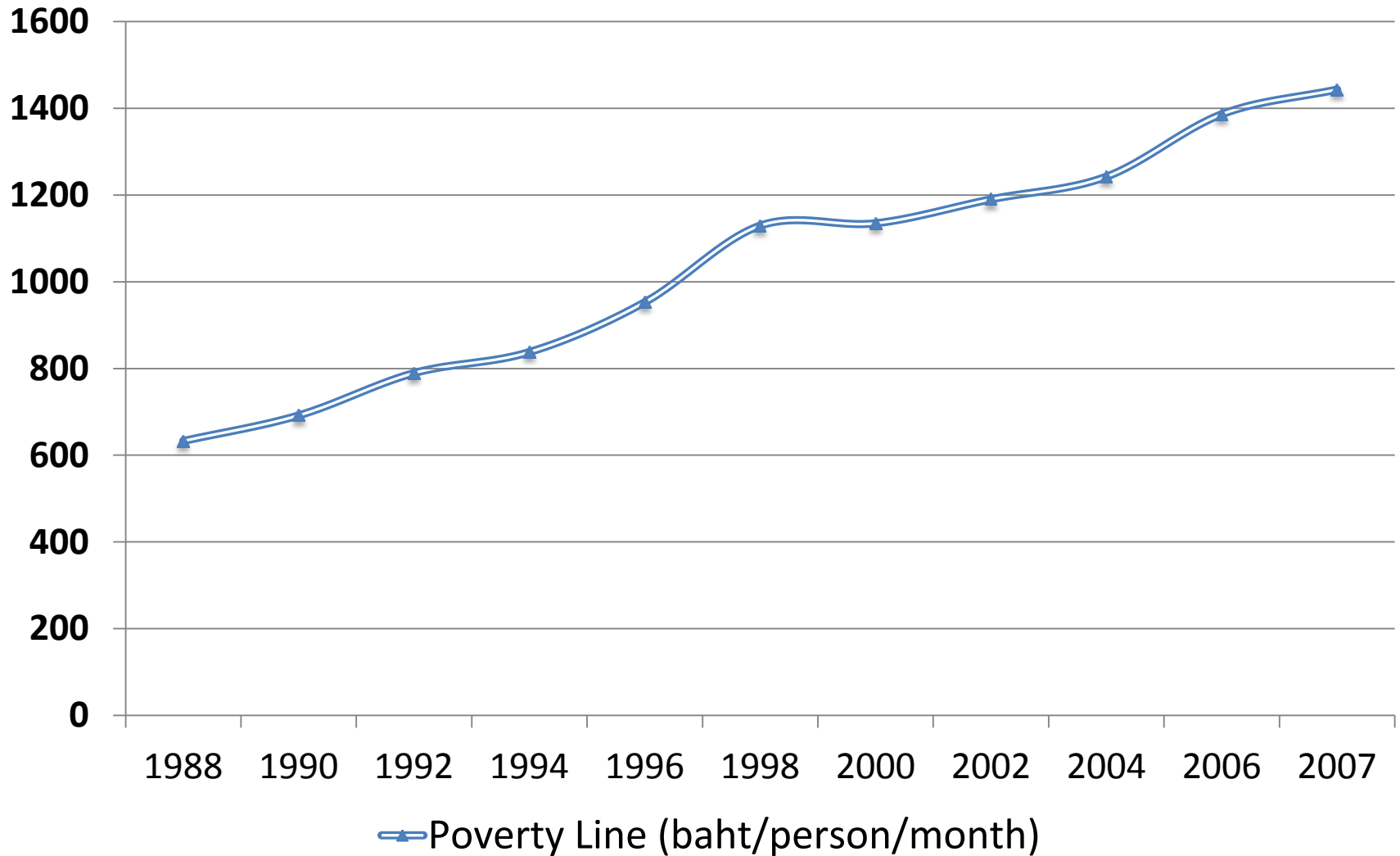
Large vs. small farmers

- The crisis affects the small and marginal farmer, and less severely, the medium one.
- **Large farmers are thriving during the food crisis.**
- Income inequality exists in rural areas

Why can 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 are very high.
- Large farmers also have access to credit, extension, technology, which the small holders do not.

Poverty Line (baht/person/month)



Source: NESDB

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

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: Counter argument

- 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 would Vietnam and Myanmar have opened their economies?
- 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.
- Thaksin's 30 baht health care program
- PCOC (500 baht per head for the poor)

A.K. Sen

- Poverty, as asserted by Amartya Sen in his famous book, *Development as Freedom* (2000), 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

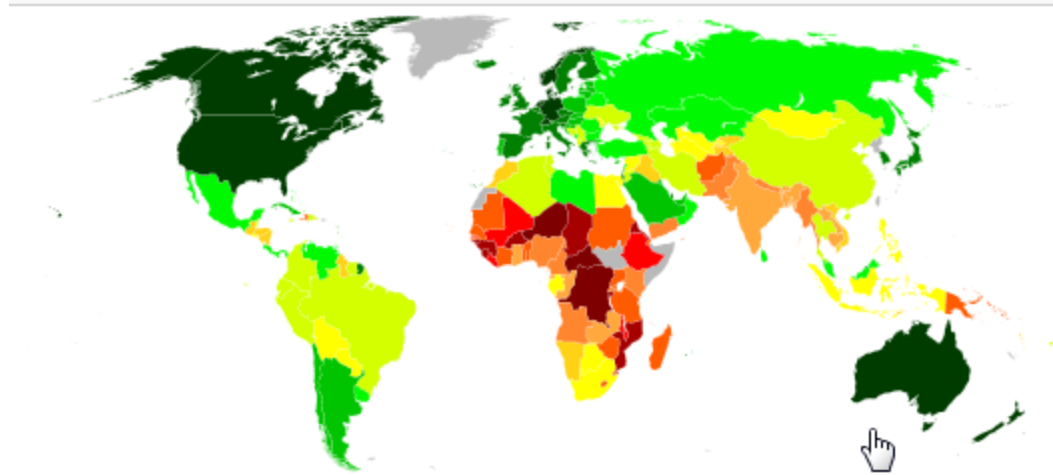
- Public spending on education, health, welfare services can mitigate the plight of the poor.
- Public spending on health and welfare increased gradually during the past three decades, from 1.2% of GDP to 2.4% during 1997-2000.
- Human Development Index indicates the quality improvement of human resources

East Asia and the Pacific

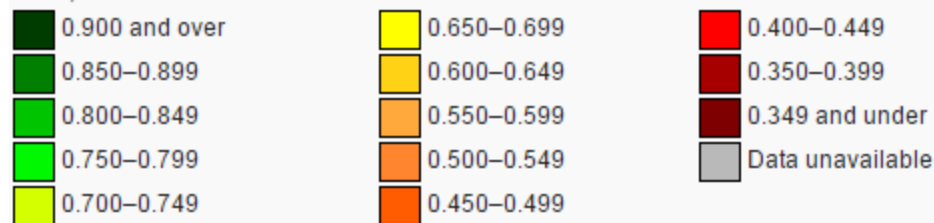
10 highest HDIs

Rank	Country	HDI
		New 2014 estimates for 2013
Very high human development		
1	 Australia	0.933
2	 New Zealand	0.910
3	 Singapore	0.901
4	 Hong Kong	0.891
4	 South Korea	0.891
6	 Japan	0.890
7	 Brunei	0.852
High human development		
8	 Palau	0.775
9	 Malaysia	0.773
10	 Thailand	0.722

World Map indicating the HDI



World map indicating the [Human Development Index](#) (based on 2013 data, published on July 24, 2014).^[1]



Average years of total schooling: This is absolutely shocking!

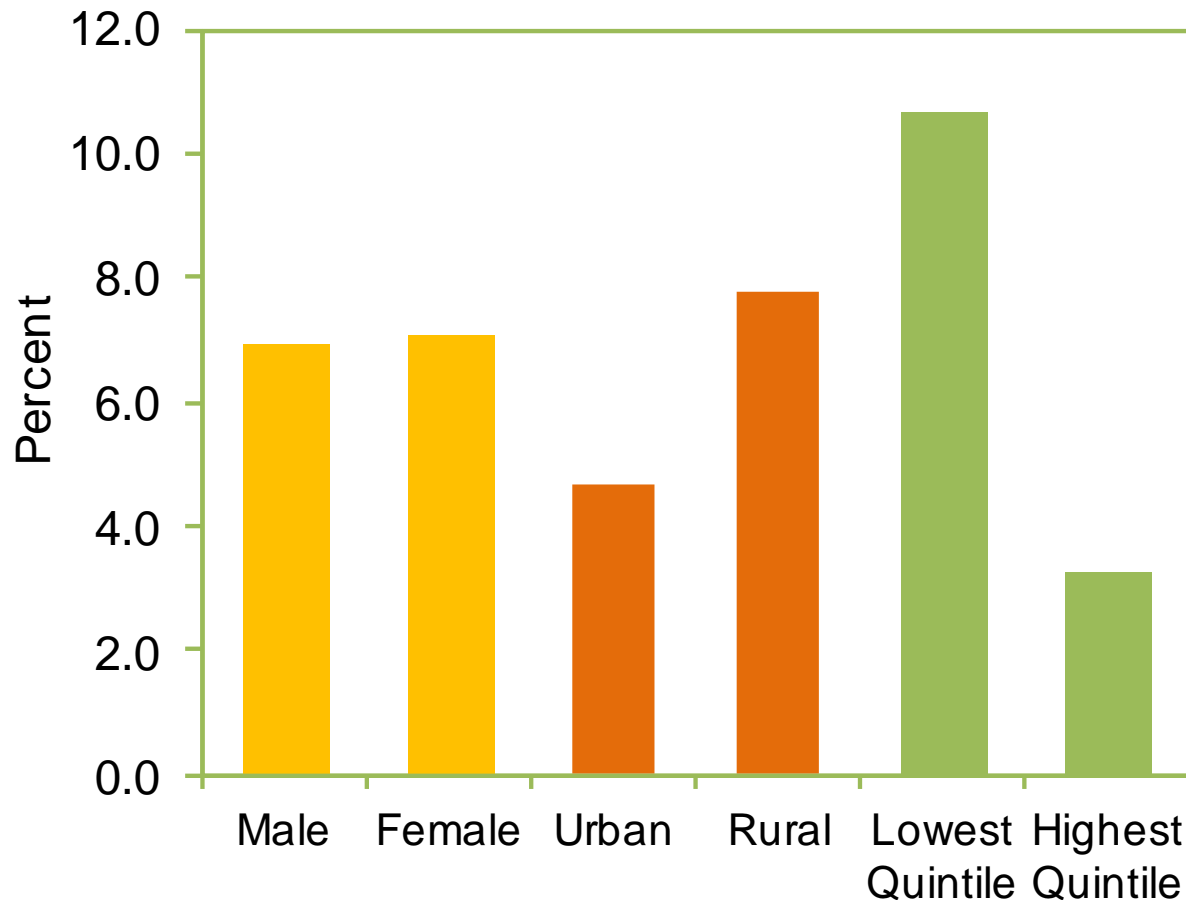
	1990	2009
Youth (Aged 15–24)	7.2	10.6
Male	7.0	9.8
Female	7.5	11.4
Adults (Aged 25 and over)	4.6	6.6
Male	5.0	6.9
Female	4.1	6.2

(Too late to re-tool)?

(low cognitive ability)

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

Children under five – Underweight, 2006



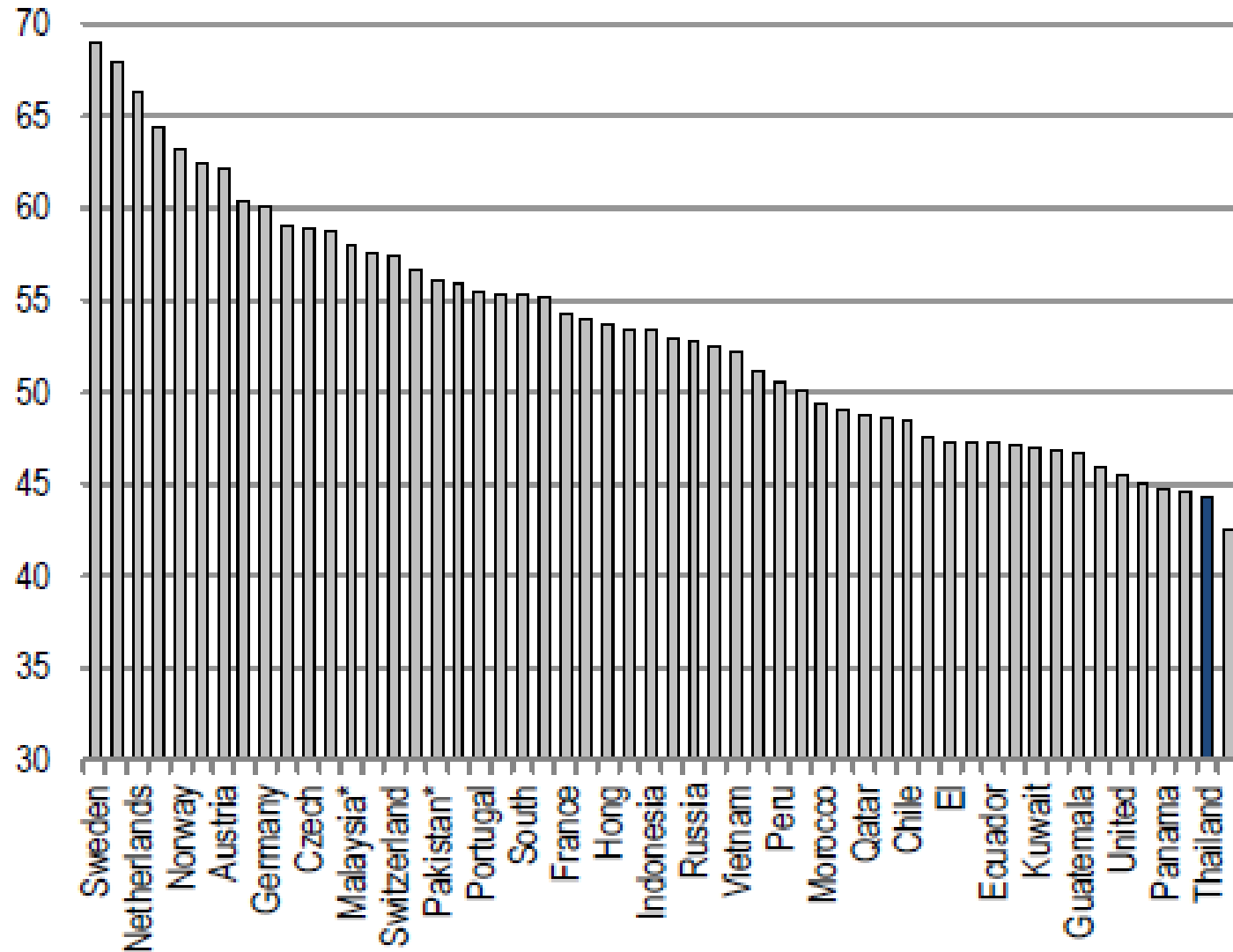
The stark contrast
Between the rich
And the poor, between
Urban and rural area

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.



Figure 4: Thailand ranks last in Asia and second-worst of 54 countries in a private survey of English-language proficiency



Source: Education First

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

**Prevalence of Undernourishment
(% to total population)**

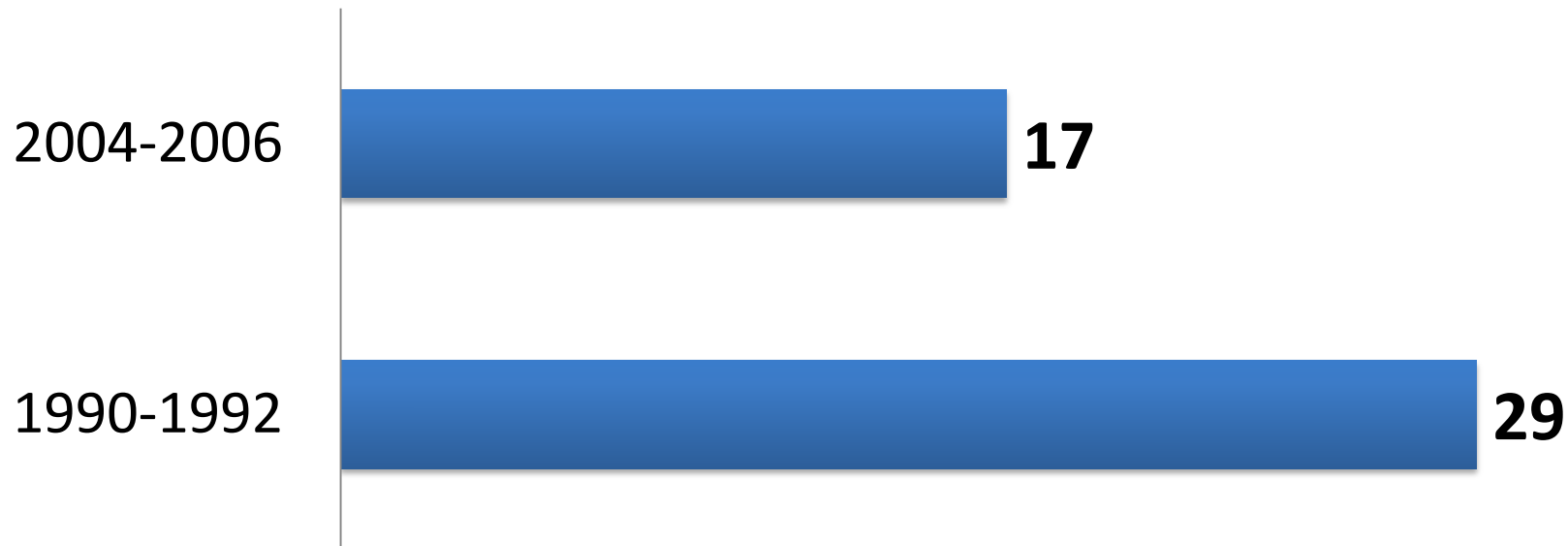
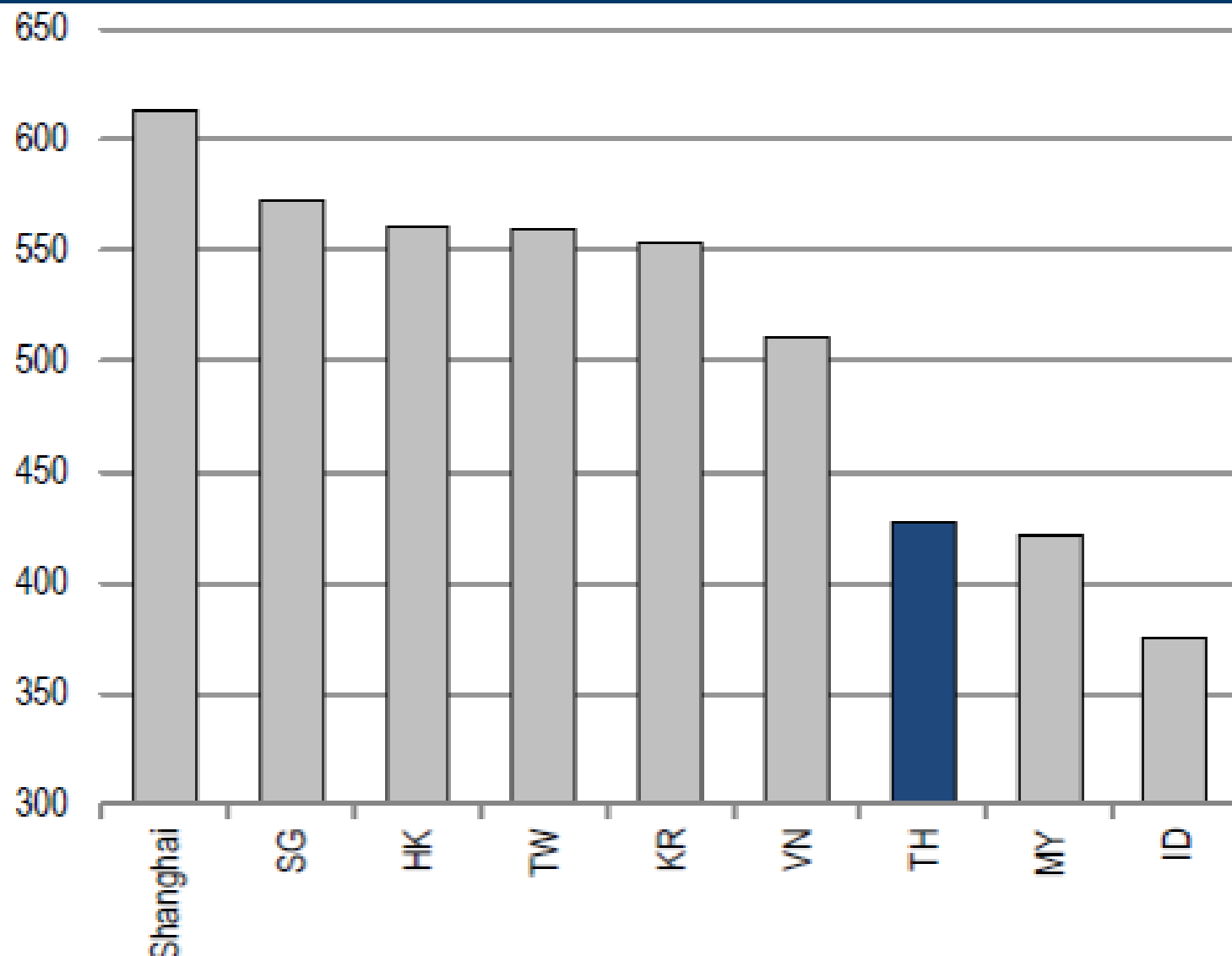


Figure 3: PISA—mathematics scores far below VN and Shanghai



Source: OECD

Why do tall people earn more than short people?

- Taller workers receive a substantial wage premium.
- 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).
- More recent research argues that cognitive abilities explain the height-wage relationship.

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.

Height as a Proxy for Cognitive and Non-Cognitive Ability

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

NBER Working Paper No. 16570

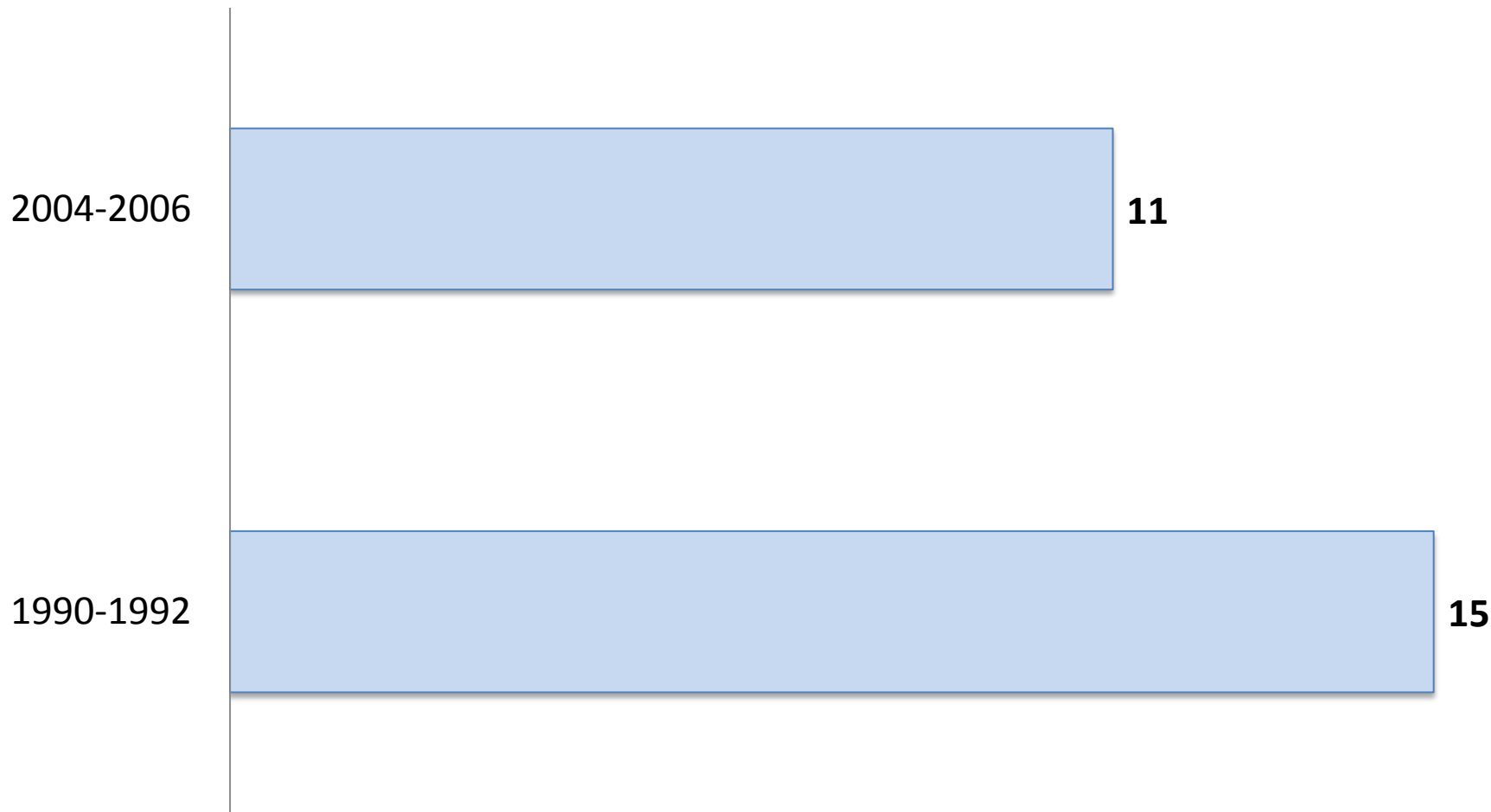
Issued in December 2010

- 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)

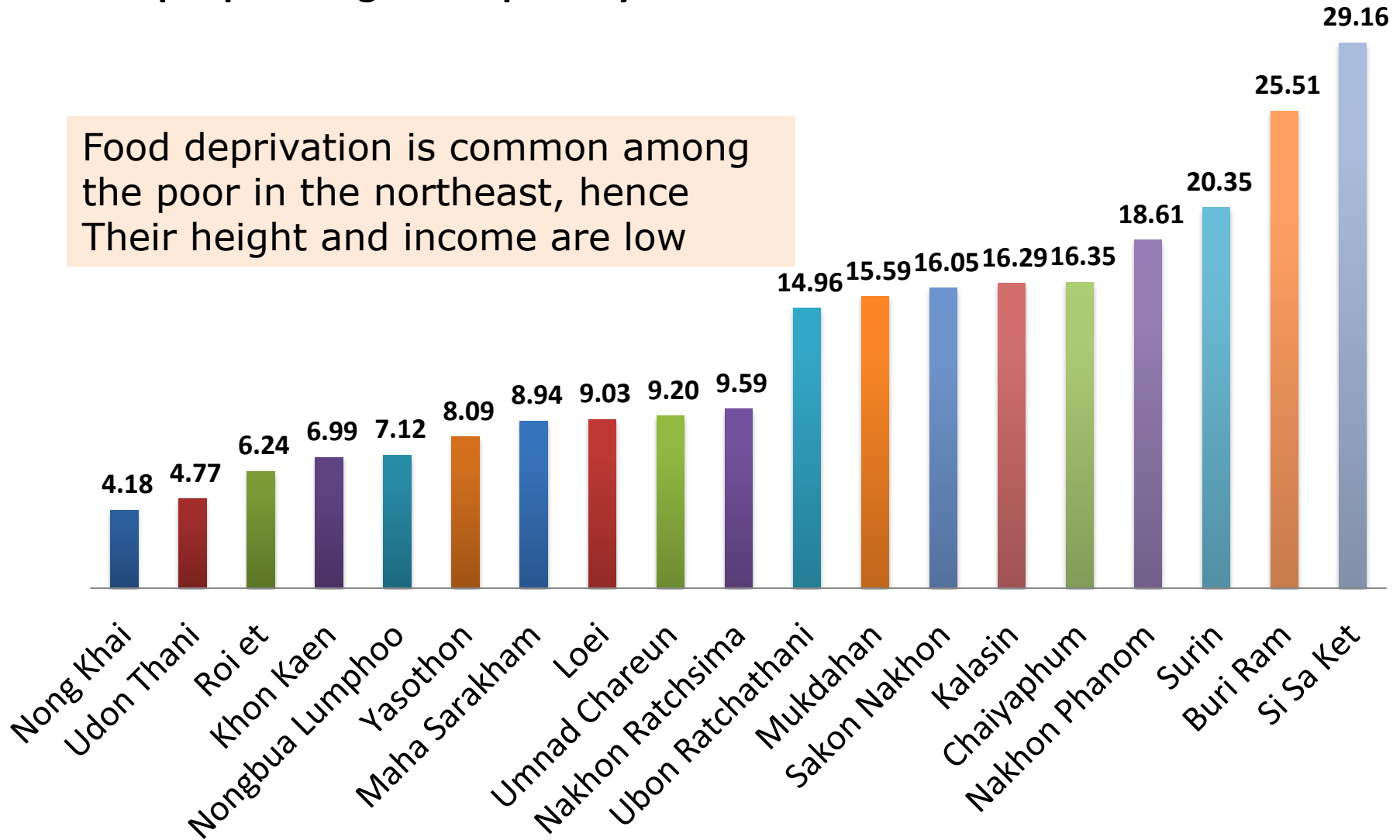


Source: UNDP

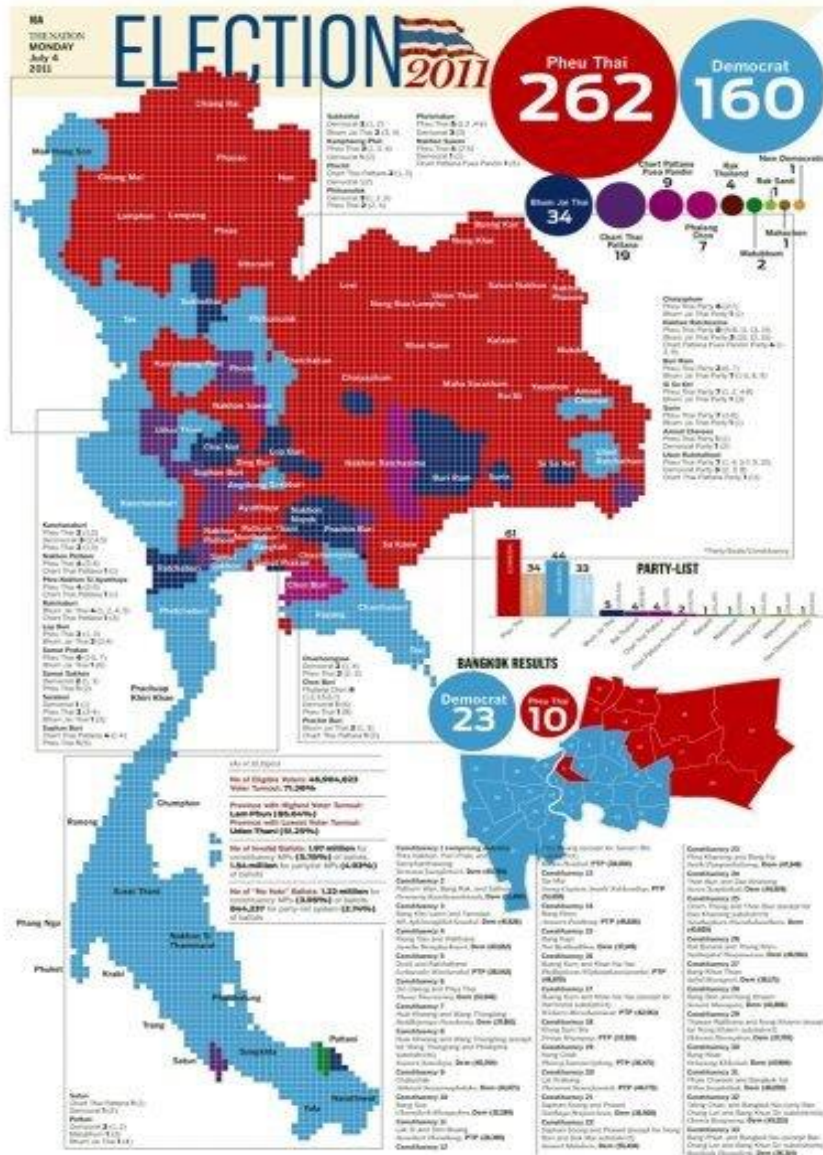
Poverty in the northeast

% of people living below poverty line in 2007

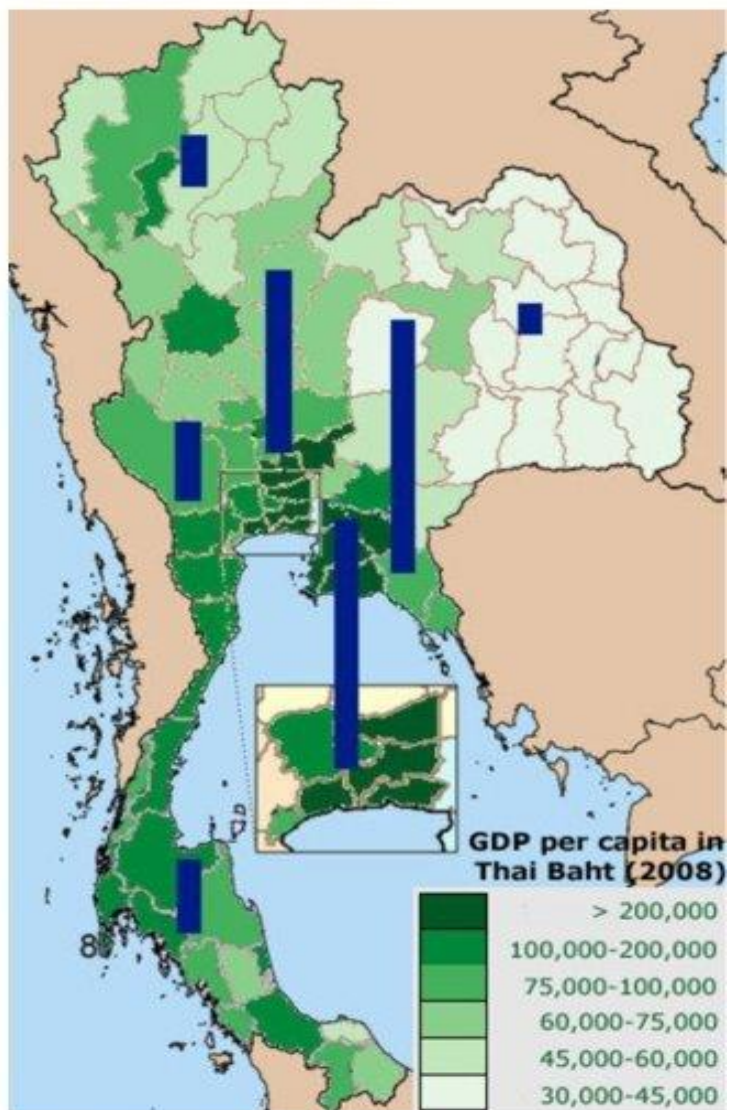
Food deprivation is common among the poor in the northeast, hence their height and income are low



Poverty and Politics are related



Thailand's GDP



Questions

- How did global economic crisis *affect* poverty in Thailand?
- How were the poor affected by the global food crisis in 2008?
- What were be the impact of the growth slowdown in 2014-2016 on poverty in Thailand?