

Empirical Analysis on Employment and Regional Disparity Alleviation in Thailand

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1. Economic Development in Thailand

1.1 Shift from Import Substitution to Export Promotion

As widely known, it is Field Marshal Sarit Thanarat (1908–1963) who became premier of Thailand in February 1959 that steered the modernization of the Thai economy. Sarit toppled the Phibul administration in a coup d'état in October 1957, and took the helm of the politics with his military power. The Sarit regime was so called a dictatorship in the name of economic development, where the military government promoted economic development as a top priority. Under his regime, technocrat formulated various development policies and the government put them into practice. As for industrialization, the government of Prime Minister Sarit gave up the state-led economic development program which had advanced slowly, and oriented itself to private-sector-led economic development via promoting foreign investment in the country.

In 1959, the Board of Investment (BOI) and the National Economic Development Board (NEDB) were established, and in October 1960, the Industrial Investment Promotion Act was enacted to stipulate preferential treatment to and regulations of foreign direct investment. The act was amended in February 1962, based on which the Sarit government encouraged foreign investment in industry through the preferential treatment and aimed at import substitution industrialization while protecting and fostering domestic private industry through import tariffs.

Meanwhile, a study team of the World Bank surveyed the Thai economy for a year starting in July 1957, published the results and gave recommendations in 1959 to the Thai government. The recommendations chiefly concerned (i) improvement in trade balance, (ii) use of market mechanism, (iii) securing of public revenue sources and (iv) promotion of public work. Accepting the recommendations, the Sarit administration promoted import substitution industrialization to improve the trade balance and sought for private-sector-led industrialization by introducing foreign capital for use of the market mechanism. The Industrial Investment Promotion Act enacted in 1960 was also a measure to use the market mechanism. As for promotion of public work, the Thai government drew up development plans and built social infrastructure with assistance from foreign governments and international institutions such as the World Bank.

The current industrialization policy of Thailand is export-oriented, rather than import substitution adopted by the Sarit administration, but the country has been striving to promote the policy through introduction of foreign capital since the mid-1960s up to the present date.

Promotion of industrialization requires capital accumulation on a large scale. A development program for the Eastern Seaboard, promoted by the Prem Tinsulanonda administration in the wake of discovery of a natural gas field in the Gulf of Thailand in 1973, was launched in parallel with the start of introduction of foreign capital. Thailand had steadily promoted import substitution industrialization since the latter half of the 1960s and throughout the 1970s, but faced an increased balance of payments deficits due to the second oil crisis in 1979 and a sharp fall in prices of agricultural products since 1982. To that end, the country received in 1981 an emergency assistance loan from IMF, and in 1982 and 83 structural adjustment loans (SALs) from the World Bank.

The conditionality of lending from the IMF and the World Bank included reorganization of state-run enterprises, devaluation of baht, tightening financial and monetary policy, and easing and abolishment of various regulations. Having accepted the conditionality, the Thai government gave up import substitution industrialization adopted over 20 years since the Sarit administration, and shifted to policy of fully opening up to the outside world. In other words, having received the IMF emergency loan and the World Bank's SALs, Thailand was obliged to give up import tariffs which were the cornerstone of import substitution industrialization and steered itself in the direction of export-driven industrialization.

1.2 Acceleration of Introduction of Foreign Capital

The Plaza Accord, an agreement signed in September 1985 at a conference of the finance ministers and central bank presidents of five industrial nations in New York City stimulated Thailand's private-sector-driven and export-oriented industrialization through introduction of foreign capital. With most currencies including Japanese yen appreciating, enterprises of Japan and Newly Industrializing Economies (NIEs) gained a sense of crisis about the difficulty in maintaining competitiveness in export with domestic production and began to transfer their production bases to China, Thailand and other countries.

In such circumstances, in 1988, foreign direct investment in Thailand sharply increased: while the amount of foreign capital flowing into construction, trade, finance and various other industries increased, that in the manufacturing industry conspicuously increased. The amount of foreign direct investment in the manufacturing industry more than tripled from 1987 to 1988¹. The amount in 1988 and 1989 accounted for more than 50 percent of the total foreign direct investment in Thailand². Among the sharply increased foreign capital flowing into the country, the ratio of Japan's direct investment was exceptionally higher than that of any other country. In three years between 1988 and 1990 when direct investment in Thailand saw a considerable rise, direct investment from Japan accounted for 40 percent of the total direct investment in Thailand (50 odd percent in 1988). Thanks to the foreign capital inflow and an expansion in output of the manufacturing sector, real GDP growth rate recorded a double-digit increase in three consecutive years from 1988 to 1990³. The development program for the Eastern Seaboard, forced to be revised due to the sluggish economy since the second oil shock, picked up new momentum backed by high growth of the Thai economy since the latter half of the 1980s.

Incidentally, there must be factors other than change in foreign exchange rate when

enterprises decide to choose Thailand out of many countries to invest. In fact, there were some factors in the investment environment in Thailand which attracted foreign capital. These factors seemed to work organically and integrally to increase direct investment in the country.

The first factor is cheap and quality labor. The adult literacy rate for Thailand is at a high level in Asia, along with Japan, the Republic of Korea and Singapore: the rate was 88 percent in 1980 and 98.1 percent in 2005, respectively. In recent years, particularly after the Asian Financial Crisis, Thailand conducted a series of educational reform. In 1999, the National Education Act was enacted as the first basic law on education in Thailand, followed by formulation in 2001 of basic educational curriculums. This made 12 years from primary (elementary school) to upper secondary education (high school) a consistent basic education. In 2002, the first nine year education up to lower secondary education which is mandatory was made free, and in 2009, tuition fees for the entire 15 year basic education including upper secondary education, together with kindergarten levels of pre-primary education, were made free. As a result, the numbers of students going on to and enrolled at upper secondary schools increased dramatically, having doubled over the decade up to 2010. The school attendance rate for upper secondary education was close to 70 percent.

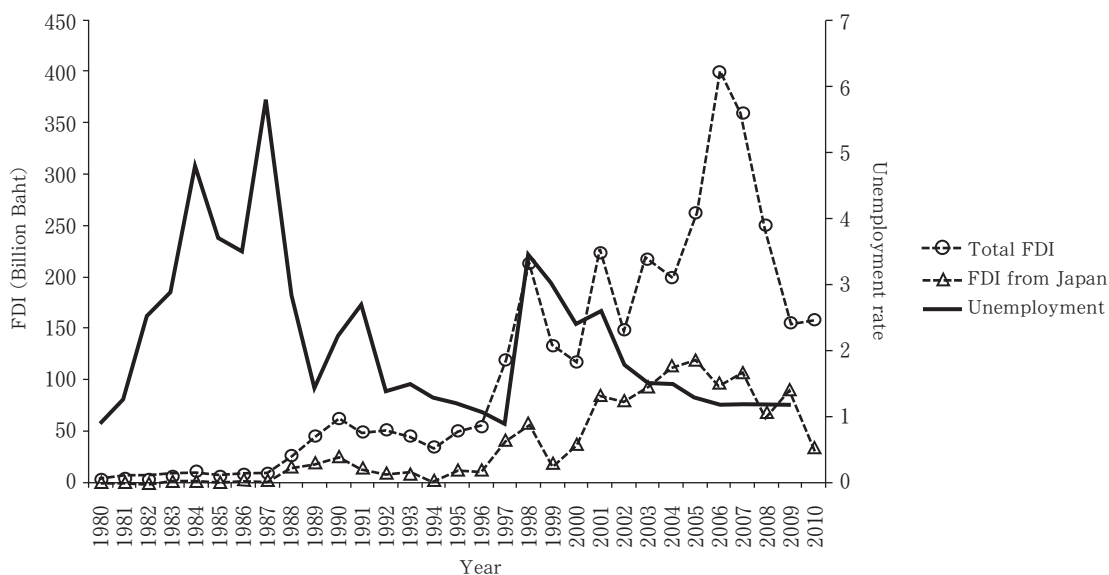
Graduates from upper secondary schools are chiefly hired by foreign capital enterprises making an advance into Thailand and local enterprises. An increase in direct investment has led to an increase in labor demand, so graduates from upper secondary schools can surely get work if they are not choosy about where to work. Workers with jobs regularly transmit a certain proportion of salaries to their parents. Behind a rise in the rate of going on to upper secondary education or graduation rate lies a fact, among other things, that the educational status as graduates from an upper secondary school has now become a major requirement to get a job in the domestic formal labor market. From the viewpoint of foreign enterprises, on the other hand, the increased availability of workers who are graduated from an upper secondary school (high school) or vocational school and have academic achievements and good knowledge can be counted as a decisive factor of selecting Thailand as destination of direct investment.

The second factor is well-developed social infrastructure and industrial parks. The government since the Sarit administration has been promoting development of social infrastructure and is beginning to achieve an effect induced by the inflow of foreign capital. Thailand was equipped from a relatively early period with social infrastructure essential for production activities, such as electricity, industrial water, road infrastructure and harbors. The public and private sectors have built a great number of industrial parks chiefly in the surrounding area of Bangkok, the eastern region and the central region which was devastated by severe flooding in 2011 and induced direct investment inflows from various countries. Japan's yen loan also contributed to construction of industrial infrastructure: a deep water port for large container vessels, roads, railroads, water pipes and other industrial facilities were constructed in Laem Chabang, a city located at the center of the Eastern Seaboard for which the Thai government resumed the development program as a result of the rapid economic growth since the latter half of the 1980s^{4,5}. Development of social infrastructure prompted private developers to build industrial parks: foreign capital enterprises, led by those of the automobile industry, began to construct their

plants in Thailand. In the 1990s, quite a few automobile makers and their affiliated businesses made forays into the Eastern Seaboard, making the country the Southeast Asia's center of the automobile industry. A particularly large number of industrial parks were built in Chonburi Province where Laem Chabang is located and Rayong Province, and the two provinces now form a large industrial band. These provinces used to be known for chicken farming and cultivation of cassava before the development program started, but saw increases in both the population and incomes thanks to job creation in manufacturing. Per capita Gross Provincial Product (GPP) in Rayong Province is more than three times higher than that for Bangkok, or higher than that of any province of the country. Per capita GPP in Chonburi Province is also above the level of Bangkok⁶.

The third factor is past investment records and hysteresis in key industries including the automobile industry. Japanese automobile makers have long deployed production activities in Thailand (since the 1960s). Because of the nature of automobiles, production process involves many stages and requires many parts to assemble. Thus, the more parts are procured locally, the more parts makers and supporting industries get involved in production activities of the automobile makers. Thus, as for automobile and other industries which require many supporting industries, Thailand is chosen as destination of direct investment because of not only its excellent investment environment but also hysteresis or necessary connection in production process with the past when foreign capital enterprises did directly invest in the industries in Thailand.

Other than the factors discussed so far, direct investment inflows from various countries to Thailand since the latter half of the 1980s are also attributable to the fact that the country has complied with "use of market mechanism", one of the World Bank recommendations that the Sarit administration accepted in the 1960s, and "easing and abolishment of various regulations",



Source: FDI by Bank of Thailand (BOT) and Unemployment by World Bank

Fig. 1 The relation between FDI and the unemployment rate in Thailand

a part of the conditionality that the World Bank imposed in 1982 and 83 in exchange for the structural adjustment loans. This means to foreign direct investors that free economic activities are guaranteed in Thailand. The country is still attractive to foreign investors because of the above fact and its stable political culture in medium- and long runs despite repeated political changes, coups and other political confusions in a short run.

1.3 Foreign Direct Investment and Domestic Unemployment Rate

Figure 1 shows trend in the relation between foreign direct investment and unemployment rate in Thailand over 30 years between 1980 and 2010. The dotted line with rings indicates the trend in the total amount of foreign direct investment (hereinafter referred to as “FDI”) to Thailand and the dotted line with triangles the trend in the amount of Japan’s direct investment. Prior to the currency crisis, the amount of FDI from Japan had moved more or less in the same direction as the total FDI. After the crisis, however, the total FDI fluctuated from year to year but steadily increased, while the amount of Japan’s direct investment increased almost monotonously until 2005. After the 2006 Thai coup d’état, the total FDI fell sharply, but that from Japan fluctuated and fell if not suddenly but gradually.

The solid line indicates unemployment rate in Thailand. Since 1987 when the amount of FDI started to increase, the unemployment rate moved inversely to the level of FDI, particularly to the level of FDI from Japan, except the period around the financial collapse of the Thai baht. The unemployment rate more or less steadily fell after 1999 when Japan’s direct investment increased for the first time after the currency crisis, fell under 2 percent in 2005, continued the downward tendency afterwards and now remains under 1 percent. The Thai labor market is considered to achieve full employment⁷.

As Figure 1 clearly shows, Japan’s FDI in Thailand was accelerated further in 1999 after the currency crisis. Table 1 lists 10 major countries whose capital flew in Thailand as direct invest-

Table 1 Ten countries having the largest net flow of FDI, 2009

(unit: million US\$)

Rank		Make	Net flow of foreign direct investment			
2009	2000		2009	% of total	2000	% of total
1	1	Japan	2,713.60	60.37	869.9	30.92
2	3	Singapore	575.7	12.81	355.7	12.64
3	n. l.	Netherlands	380.3	8.46	−73.3	−2.61
4	10	France	162.6	3.62	26.9	0.96
5	n. l.	Spain	127.9	2.85	1.6	0.06
6	5	Hong Kong, China	126.9	2.82	331.3	11.78
7	n. l.	Korea, South	105.3	2.34	−3.7	−0.13
8	7	Germany	97.3	2.16	102.4	3.64
9	n. l.	Denmark	96.5	2.15	8.7	0.31
10	n. l.	Luxembourg	91.7	2.04	4.9	0.17
		Other	17.1	0.38	1,188.90	42.26
		Total	4,494.90	100	2,813.30	100

n. l.: not listed

Source: Bank of Thailand

Table 2 Net flow of FDI: by sector, 2009

(unit: million US\$)

Sector	Net flow of foreign direct investment			
	2009	% of total	2000	% of total
Manufacturing	3,885.40	86.44	1,810.70	64.36
Financial institution	-1,063.90	-23.67	133	4.73
Trade	326.1	7.25	67.8	2.41
Construction	22.2	0.49	-1.7	-0.06
Mining and quarrying	549.8	12.23	-274.7	-9.76
Agriculture	7.4	0.16	0.7	0.02
Service	-214.9	-4.78	448.3	15.94
Investment	0.9	0.02	99.1	3.52
Real estate	729.8	16.24	69.1	2.46
Others	252.1	5.61	461	16.39
Total	4,494.90	100	2,813.30	100

Source: Bank of Thailand

ment in 2000 and 2009, and Table 2 shows the percentage of FDI by sector. Japan's FDI in Thailand accounted for 30.9 percent of the entire FDI in 2000, but rose to astounding 60.4 percent in 2009. By sector, the proportion of FDI in manufacturing stood at 64.4 percent of the entire FDI in 2000, but marked 86.4 percent in 2009. These figures clearly indicate that most of Japan's direct investment in Thailand is directed to manufacturing.

2. Economic Disparity in Thailand

2.1 Domestic Income Disparity

In general, income distribution in developing countries is less equal than that in advanced countries. In particular, it tends to deteriorate over time as a country is achieving a certain level of economic development. At an early stage of development, all citizens are equally poor and there is no disparity in wealth among them, so income distribution remains fair. Once an economy begins to grow, national income increases and disparity expands between rich and poor, resulting in less fair income distribution in the economy as a whole. However, as the government implements a series of economic measures, the gap between rich and poor is being corrected towards fair income distribution again.

Measurement of fairness of income distribution or trend in the Gini coefficient as economies move on to advanced stages is presented in Simon Smith Kuznets' *Inversed U Hypothesis* between Economic Development and Income Distribution⁸. At an early stage of economic development, everyone is averagely poor and income distribution is equal, so the Gini coefficient is low⁹. As an economy grows, the economic disparity increases and income distribution becomes more uneven so that the Gini coefficients becomes higher. When the economy grows further, the government carries out economic policies on income distribution equality, which begin to produce an effect. Or rather, poverty is reduced and the middle class of medium income earners expands, which decreases income disparity in the macroeconomy. In this process, the Gini coefficient starts to

Table 3 Gini Coefficients of Thailand (Income Base)

20 Income classes case:

Region	Area	1986	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006
Bangkok	Urban	0.4003	0.3845	0.4128	0.4338	0.3859	0.3741	0.3886	0.3855	0.3996	0.3839	0.3904
	Rural	0.4078	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Total	0.4117	0.3845	0.4128	0.4338	0.3859	0.3741	0.3886	0.3855	0.3996	0.3839	0.3904
Central and East	Urban	0.4003	0.4115	0.4551	0.4335	0.4362	0.4791	0.4199	0.4136	0.4175	0.4026	0.4133
	Rural	0.4078	0.4176	0.4672	0.4273	0.4433	0.4128	0.4279	0.4448	0.4199	0.4277	0.4374
	Total	0.4117	0.4228	0.4760	0.4572	0.4567	0.4642	0.4394	0.4450	0.4316	0.4283	0.4380
North	Urban	0.4003	0.4666	0.5131	0.4983	0.4839	0.4744	0.4958	0.4698	0.4700	0.4766	0.4622
	Rural	0.4078	0.4119	0.4192	0.4101	0.4346	0.4254	0.4227	0.4398	0.4371	0.4483	0.4614
	Total	0.4117	0.4219	0.4633	0.4691	0.4667	0.4552	0.4582	0.4652	0.4640	0.4724	0.4789
NorthEast	Urban	0.4003	0.4559	0.4851	0.5136	0.5197	0.5079	0.4895	0.5117	0.4946	0.4772	0.4944
	Rural	0.4078	0.3941	0.3863	0.4141	0.4099	0.4143	0.4006	0.4242	0.4014	0.3877	0.4601
	Total	0.4117	0.4059	0.4275	0.4561	0.4677	0.4620	0.4499	0.4736	0.4597	0.4388	0.4929
South	Urban	0.4003	0.4402	0.4547	0.4772	0.4596	0.4655	0.4367	0.4443	0.4304	0.4410	0.4586
	Rural	0.4078	0.4132	0.4449	0.4268	0.4796	0.4245	0.4785	0.4434	0.4375	0.4171	0.4543
	Total	0.4117	0.4349	0.4661	0.4743	0.4955	0.4606	0.4884	0.4711	0.4561	0.4380	0.4655
Whole Country	Urban	0.4003	0.4299	0.4712	0.4817	0.4624	0.4619	0.4504	0.4539	0.4520	0.4401	0.4493
	Rural	0.4078	0.4164	0.4435	0.4381	0.4562	0.4355	0.4453	0.4625	0.4414	0.4391	0.4759
	Total	0.4117	0.4808	0.5066	0.5284	0.5128	0.5052	0.5033	0.5193	0.5027	0.4882	0.5064

Source: *Household Socioeconomics Survey (SES)*, National statistic Office of Thailand (NSO), estimated by Author

fall at a certain point and income distribution becomes more equal.

Table 3 shows income-based Gini coefficients for Thailand and individual regions between 1986 and 2006, and Figure 2 shows trends in Gini coefficients for the urban and rural areas of the whole country. Over the 20 years, the income-based Gini coefficient for Thailand hovered around 0.5. The Gini coefficient for the rural area was generally lower than that for the urban area over the period, indicating that the income distribution was less equal (uneven) in the urban area than in the rural area. This is considered to be attributable to the fact that high-income population was concentrated in the urban area and their presence, together with ordinary people and the poverty group, caused uneven income distribution in the urban area.

In four years between 1988 and 1992 when FDI began to increase, Thailand saw an increase in the income-based Gini coefficient¹⁰, indicating that income distribution became less equal over the four years since 1988. Despite this, an analysis using the income distribution chart in Figure 3 and the expenditure distribution chart in Figure 4 has revealed that low-income population, particularly the poorest population, declined the most in the same four years. In that sense, Thailand did commit itself to poverty reduction and achieve a dramatic improvement in fairness of income distribution in 1988–92¹¹.

These two seemingly contradictory phenomena can be explained in a theoretical and consistent manner if an increase in high-income population is taken into account: the proportion of high-income population to the entire population more than doubled from 8.4 to 17.98 percent over the period in question¹². The income distribution of the macro economy gives the impression that

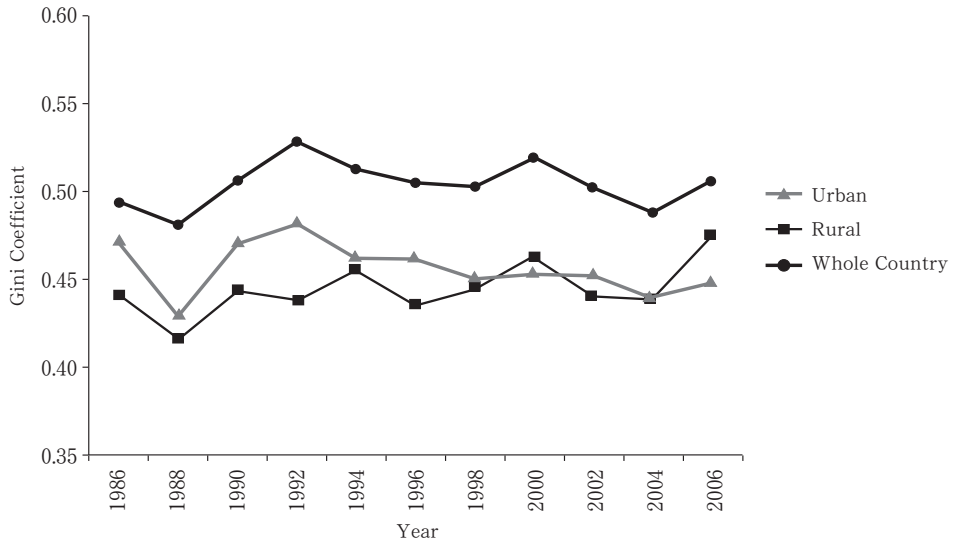
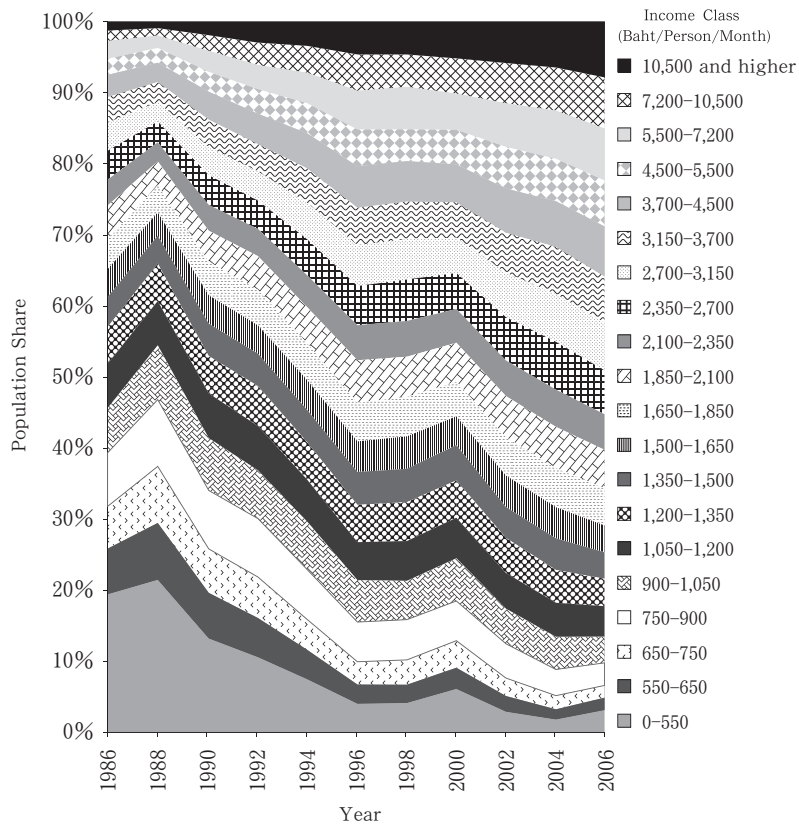
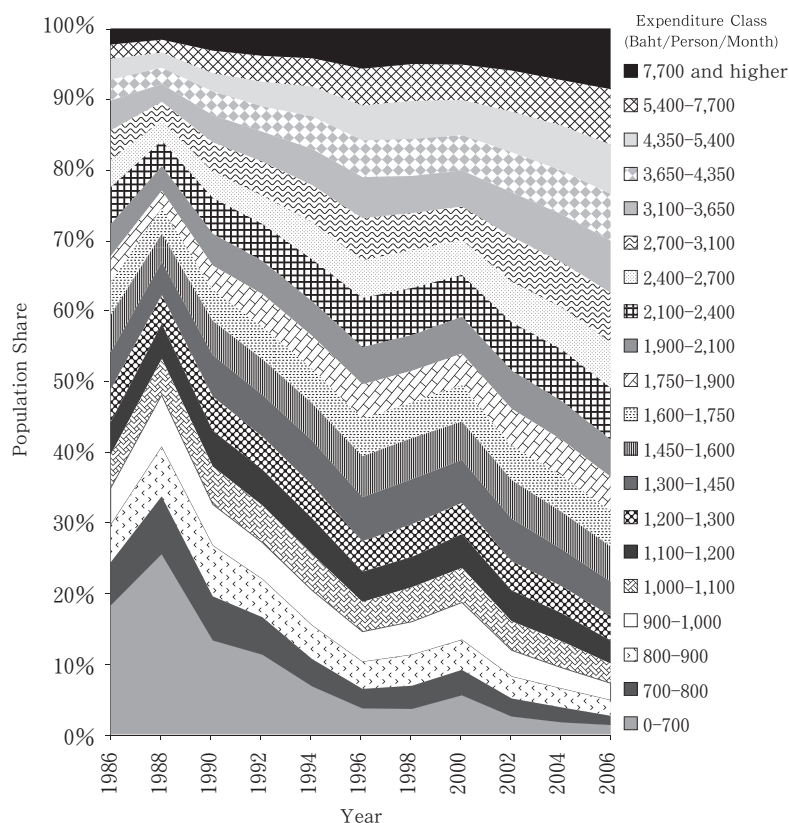


Fig. 2 Gini Coefficients (income Base) by whole country, urban area and rural area



Source: *Household Socioeconomics Survey (SES)*, National statistic Office of Thailand (NSO), estimated by Author

Fig. 3 Income Distribution of Thailand at Constant Price Year 2000



Source: *Household Socioeconomics Survey (SES)*, National statistic Office of Thailand (NSO), estimated by Author

Fig. 4 Expenditure Distribution of Thailand at Constant Price Year 2000

inequality accelerated simply because the number of high-income people increased and that of low-income people decreased thanks to economic growth. As postulated in the Kuznets Inversed U Hypothesis, a rise in the Gini coefficient was observed during 1988–92 in Thailand because of the gap between rich and poor which became conspicuous in the course of economic development. In this manner, one of the unique characteristics of the Thai economy is that a sharp rise in FDI directly brings about economic growth.

The income-based Gini coefficient for the whole country, after reaching a peak in 1992, fell monotonously for six years until 1998 with the currency crisis in between. The income distribution during the period showed that the magnitude of an increase in high-income population was not as large as the magnitude of a decrease in low-income population, compared to the situation before 1992: it is considered that income distribution became more equal across the country in this period¹³.

The Gini coefficient turned upward again during 1998 and 2000 as a result of financial and economic crisis triggered by the 1997 financial collapse of the Thai baht. The income distribution chart shows no particular change in high-income population but an increase in low-income population, particularly the lowest-income population. This trend tallies with a surge in the

unemployment rate due to the economic crisis. Accordingly, income distribution in Thailand is considered to become less equal in 1998–2000.

The Gini coefficient, on the other hand, continued to fall at the time the economy was recovering from the crisis. In the income distribution chart, an expansion of high-income population and shrinkage in low-income population were observed during this period. In 2004, in particular, the proportion of lowest-income population to the total population was 1.78 percent, the lowest in the survey period. The Gini coefficient which had shown a downward trend until then increased suddenly in 2004–06. In the income distribution chart, it is observed that the rate of an increase in high-income population was high, while low-income population slightly increased in these two years¹⁴. This is attributable to an increase in the Gini coefficients for the southern, northern and northeastern regions, in particular, the coefficient for the rural areas. As described later, an increase in the Gini coefficient for the rural areas in these regions is an evidence for the fact that regional economics are on their way to development and vitalization.

Taking all the matters described above into account, we can conclude that the Thai economy grew rapidly, as its real economic growth rate recorded a double-digit growth, in four years from 1988 to 1992 when inflow of FDI became on a full scale, and that the income distribution became less equal over the period. The income distribution in the country, however, was becoming more equal, if not steadily, after the inequality reached a peak in 1992.

2.2 Regional Disparity in Thailand

In Thailand, regional disparity is an old and unignorable issue, older than income disparity in the whole country in some ways. Until recently, urbanization has not been seen in any part of the country other than Bangkok metropolitan area. The country was dividable, though somewhat extremely, into the capital and the rest of the country which was rural areas. All the wealth was concentrated in Bangkok in the process of economic development, and the rest could not benefit from trickle-down economics. Behind this lie various facts including the political shift to centralization made as part of reform by Rama V also known as King Chulalongkorn who ascended the throne in 1868. As a result, local autonomies had little administrative discretion and spirit to make best use of their comparative advantage to develop regional industries.

When discussing regional disparity in Thailand, it is not appropriate to use per capita Gross Provincial Product (GPP) to envisage the actual income disparity among the provinces. The reason being that most of the GPPs in, for example, Rayong Province and Chon Buri Province with the Eastern Seaboard where a sufficient amount of capital is accumulated are enterprises' share¹⁵. On top of that, value-added-based GPP do not include transferred income such as remittance from other province or abroad. For comparison of actual incomes incorporating these factors, it is desirable to use data from household surveys. As of 2008, the average monthly household income was higher in Bangkok than in any other part of the country, and the lowest in Mae Hong Son Province, one of the northern provinces, the former being higher than the latter by 5.39 times¹⁶.

Tables 4 and 5 are shown 10 provinces having the highest and the lowest average monthly household income as of 2008, respectively. Provinces with high household income and

Table 4 Ten provinces having the highest average monthly household income 2008
(unit: baht/month)

Rank	Province	Average monthly		Expenditures as percentage of income
		Income	Expenditures	
1	Bangkok (Bangkok)	39,020	31,199	79.96
2	Nonthaburi (Vicinity)	32,743	28,329	86.52
3	Surat Thani (Southern)	26,207	20,983	80.07
4	Pathum Thani (Vicinity)	26,107	21,910	83.92
5	Nakhon Pathom (Vicinity)	25,447	17,890	70.30
6	Rayong (Eastern)	25,090	19,196	76.51
7	Phuket (Southern)	25,084	22,536	89.84
8	Trang (Southern)	23,650	18,632	78.78
9	Saraburi (Central)	22,363	15,783	70.58
10	Songkhla (Southern)	22,342	19,537	87.45
	Whole Kingdom	18,660	15,942	85.43

Source: *Report of the 2009 Household Socio-Economic Survey*, National Statistical Office (NSO), Ministry of Information and Communication Technology

Table 5 Ten provinces having the lowest average monthly household income 2008
(unit: baht/month)

Rank	Province	Average monthly		Expenditures as percentage of income
		Income	Expenditures	
1	Mae Hong Son (Northern)	7,245	5,917	81.67
2	Nakhon Phanom (Northeastern)	10,009	12,573	125.62
3	Yasothon (Northeastern)	10,040	10,429	103.87
4	Buri Ram (Northeastern)	10,263	10,727	104.52
5	Si Sa Ket (Northeastern)	10,782	8,679	80.50
6	Tak (Northern)	10,791	9,729	90.16
7	Chaiyaphum (Northeastern)	11,253	9,952	88.44
8	Phayao (Northern)	11,348	9,547	84.13
9	Nan (Northern)	11,407	10,841	95.04
10	Roi Et (Northeastern)	11,779	12,565	106.67
	Whole Kingdom	18,660	15,942	85.43

Source: *Report of the 2009 Household Socio-Economic Survey*, National Statistical Office (NSO), Ministry of Information and Communication Technology

expenditures were concentrated in the metropolitan area except for three southern provinces, whereas those with low household income and expenditures were all northern or northeastern provinces. Six provinces out of the ten provinces having the lowest average monthly income were northeastern, showing the seriousness of poverty in the northeastern provinces. The tables also show that the proportions of expenditures to the incomes in most of the provinces having high household income were lower than the national average, and those in most of the provinces having low household income were higher than the national average. This represents the fact that migrant workers in the capital and surrounding industrial areas remitted part of their salaries to their families in the northern and northeastern provinces. The populations in the northeastern and northern provinces accounted for 33.84 and 18.53 percent of the total population,

respectively. The fact that they were relatively low-income areas means that more than a half of Thai people lived in regions with low income levels¹⁷. Thus, there was an obvious regional disparity between Bangkok metropolitan area of a high income level, and the northern and northeastern regions of low income levels¹⁸.

Table 6 lists the average monthly household income in 2007 by region and source of income. Here, the country is divided into five regions, of which the average monthly household income was the lowest in the northeastern region, followed by the northern region. The gap in the average monthly household income between the Bangkok metropolitan area and the northeastern region was 2.69 times. The table shows two characteristics common to the northeastern and northern regions. First, the proportion of wage income to the total income was smaller than that in other regions, below 30 percent, whereas that in other regions was well above 30 percent. Second, the proportion of transferred income was relatively higher. The proportion in the northeastern region was particularly high, 16.5 percent, as of 2007. This suggests that employment opportunity giving salary income was scarcer in the northern and northeastern regions. Scarce employment opportunity within the regions led to a large number of migrant workers to the metropolitan and other areas with capital accumulation, and the large proportion of transferred income supports the presence of a large number of migrant workers.

Table 7 shows a trend in the average monthly household income in the northeastern region, together with sources of income, in 1990–2007. The average monthly household income on a value basis increased steadily except in 1998–2000 when the economy was suffering from the crisis triggered by the currency crisis. Two points are noteworthy: the first point is the proportion of wage income to the total income. In 1990–94, it was gradually increasing and hovered around 30 percent afterwards with no conspicuous growth. The second is the proportion of transferred income to the total income, which increased steadily except the period of 1996–98 when the economy was affected by the economic crisis.

Table 6 Average monthly household income: by region and source of income, 2007

(unit: baht/month)

Source of income	Greater Bangkok ²	Central	Northeastern	Northern	Southern	Whole Kingdom
Wages and salaries	18,326	8,301	3,872	4,067	6,635	7,445
Net profits from business	8,279	3,685	2,349	2,645	4,485	3,894
Net profits from farming	313	2,329	1,574	2,332	4,324	2,028
Property income	1,193	249	146	222	282	366
Current transfer	2,361	1,468	2,144	1,751	1,244	1,852
Non-financial income	4,041	2,615	2,536	2,202	2,423	2,712
Other money receipts	493	285	374	349	321	364
Total	35,007	18,932	12,995	13,568	19,716	18,660
Transfer as % of income	6.74	7.75	16.50	12.91	6.31	9.92
Wages and salaries as % of income	52.35	43.85	29.80	29.97	33.65	39.90

1 Household income was the data of the past 12 months and averaged out in the household monthly income.

2 Greater Bangkok includes Bangkok Metropolis, Nonthaburi, Pathum Thani and Samut Prakan.

Source: *Report of the 2007 Household Socio-Economic Survey*, National Statistical Office (NSO), Ministry of Information and Communication Technology

Table 7 Average monthly household income in Northeastern region: by source of income, 1990–2007
(unit: baht/month)

Source of income	1990	1992	1994	1996	1998	2000	2002	2004	2006	2007
Wages and salaries	871	1,219	1,741	2,279	2,498	2,369	2,852	3,165	3,573	3,872
Net-profits from business	351	600	858	1,158	1,372	1,157	1,543	1,557	2,270	2,349
Net-profits from farming	754	771	690	1,045	1,255	919	1,226	1,477	1,511	1,574
Property income	23	94	64	75	88	114	91	113	107	146
Current transfers ²	294	417	722	952	991	1,100	1,375	1,555	1,922	2,144
Non-financial income ³	1,169	1,337	1,443	1,703	2,131	1,945	1,962	2,066	2,241	2,536
Other money receipts	67	87	81	176	211	160	230	206	191	374
Total	3,529	4,525	5,599	7,388	8,546	7,765	9,279	10,139	11,815	12,995
Transfers as % of Total income	8.33	9.22	12.90	12.89	11.60	14.17	14.82	15.34	16.27	16.50
Wages and salaries as % of income	24.68	26.94	31.09	30.85	29.23	30.51	30.74	31.22	30.24	29.80

1 Household income was the data of the past 12 months and averaged out in the household monthly income.

2 Including assistance payment, pensions and annuities, terminal pay

3 Including imputed rental value of owned dwelling

Source: *Report of the 2007 Household Socio-Economic Survey*, National Statistical Office (NSO), Ministry of Information and Communication Technology

These facts indicate that there was no growth in household income due to job creation in the northeastern region, but an increase in the amount of money transferred by migrant workers to the Bangkok metropolitan area, the eastern seaside area, Ayutthaya Province in the central region and other regions with capital accumulation backed up household income growth in the region. This is considered to be an evidence to show that the government policies to raise the minimum wage and make education up to upper secondary education free, as well as other measures, mutually enhance their effects and contribute to a reduction in regional income disparity between the northeastern region and the metropolitan area.

3. Change in Efforts to Regional Disparity Alleviation in Thailand

Thai government has carried out measures to bridge regional disparity many times. The Third National Economic and Social Development Plan (1972–76) advocated decentralization of manufacturing to various regions to alleviate regional disparity, while putting poverty reduction measures into effect in rural areas. The Fifth Plan (1982–86) called for a shift in policy from import substitution to export-oriented industrialization and placed an emphasis on industrial decentralization to various regions, one achievement of which was development of the Eastern Seaboard extending through Chachoengsao, Chon Buri and Rayong Provinces.

In the high economic growth period and the subsequent recovery from the economic crisis, however, alleviation of regional disparity was put on the back-burner: amidst the rapid economic growth as a result of adoption of foreign capital, the Sixth (1987–91) and Seventh (1992–96) Plans prioritized growth over social fairness. The Eighth Plan (1997–2001) promoted to bridge regional disparity but put regional development after recovery from the economic crisis which was the imminent top priority for the government.

As the traditional regional promotion policy to bridge regional disparity, Thailand adopted

trickle-down economics to pass the wealth or income generated from intensively developed industries to other regions through decentralization of manufacturing. Prime Minister Thaksin Shinawatra taking power in 2001 launched unconventional disparity-adjustment policies, *Dual Track Policies*, simultaneously pursuing expansions of domestic demand and exports. The Ninth National Economic and Social Development Plan (2002–06) under the Thaksin administration viewed rural poverty as a focal issue, emphasizing correction of disparity through strengthening the urban-rural or inter-regional economic relations, rather than focusing on growth pole development and decentralization of industries.

One of the policies' wheels was promotion of domestic demand, aiming to stimulate private consumption in rural areas through creation of effective demand and at the same time vitalize private investment in such areas through incubating grass-rooted industries. More specifically, the policy strived to foster niche industries using comparative advantages of rural areas in the northeastern and other regions. The other wheel of the policies was an expansion in demand from abroad, aiming to enhance an expansion in production with foreign capital and promotion of exports to gain more foreign exchange. Thailand carefully specified leading industries such as the automobile and food-processing industries out of varied industries and injected capital into them to formulate industrial clusters. The country also promoted exports from the clusters by concluding a number of free trade agreements (FTAs) with foreign countries and expanding markets abroad, and aimed to secure stable export competitiveness. All these policies were expected to stabilize trade balance of Thailand.

In February 2001, Prime Minister Thaksin announced "Nine Items of Emergency Economic and Social Policy", including a three-year debt moratorium for farmers on repayment of principal to the Bank for Agriculture and Agricultural Cooperatives (BAAC), installation of People's Bank in rural areas to provide collateral-free loans and creation of the 30 baht healthcare program. A series of these programs vitalized microfinance in rural areas, enabling farmers engaged in labor-intensive farming with water buffalos to purchase tractors and harvesting machines with loans and shift to capital-intensive farming. The government's buyback program for agricultural products stabilized agricultural income of farmers. An expansion in FDI (chiefly from Japan) created new jobs in the metropolitan and other industrial areas, where workers who used to have no choice but to engage in farm work became able to find regular employment in industrial parks after completing upper secondary education and send more money to their hometowns. Moreover, as stated above, in 2009, tuition fees for the entire basic education were made free, helping increase the advancement rate.

The most praised aspect of the set of these economic policies called *Thaksinomics*, together with an expansion in foreign direct investment, is that they enabled farmers in the northeastern and northern regions to have greater access to liquidity. Liquidities were supplied to farmers, so that they became able to send money to their families and secure loans at low interest rates through financial institutions. The Thaksin administration thought that liquidities would expand effective demand of farmers and rural areas as a whole, and that an expansion in effective demand would increase domestic demand and result in shrinkage in regional disparity. Thaksinomics differed from any traditional rural development program in that it directly

stimulated rural areas through liquidities to simultaneously create demand for goods and supply for labor, rather than aiming at spillover effects of wealth through decentralization of manufacturing to rural areas.

4. Conclusions and Policy Recommendations

Figure 5 shows a comparison of reformed urban-rural labor movement and flows of transferred income between the 1980s and the 2000s. Domestic labor migration from rural areas in the northeastern, northern and other regions to urban areas existed in both decades, but the implications for the economy are completely different.

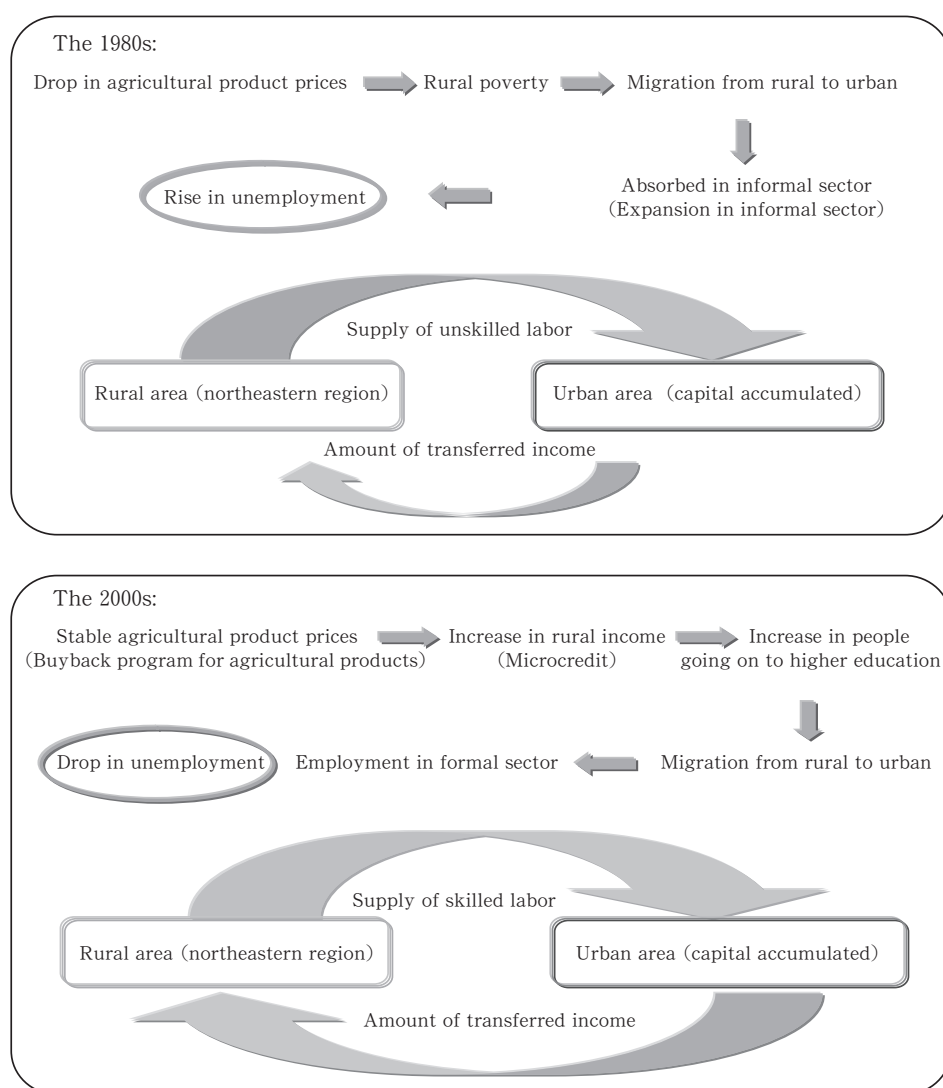


Fig. 5 Changes of Employment Pattern and Domestic Migration

In the 1980s, agricultural product prices fell and farmers' income also fell sharply, resulting in outflows of a large number of farmers to Bangkok as migrant laborers. Most of these migrants did not receive even primary education and thus could not enter the formal sector of the labor market¹⁹. Bangkok's Klong Toey Slum and other slums were formed or expanded in size around that time. Farmers from rural areas were obliged to get a job in the informal sector at low pay and had difficulty in sending money to their hometowns. As a result, and also because of the second oil shock in 1979 and a drop in agricultural product prices in the 1980s, unemployment rate sharply increased, not just rural poverty in the northeastern and other regions remained unsolved but also the gap with urban areas expanded.

In the 2000s, effective demand in rural areas expanded thanks to the government's well-established buyback program for agricultural products and the Thaksin administration's poverty reduction programs in rural areas. At the same time, Japan's and other FDI facilitated to form production bases in the Eastern Seaboard, the Bangkok's metropolitan area, Ayutthaya Province and other regions and create a large number of jobs in such areas. Currently, new graduates from upper secondary schools or vocational schools, or workers having received vocational training in the northeastern and northern regions are migrating as regular workers to regions with capital accumulation. They are hired in the formal sector, work for the legal minimum or higher wages and send part of salaries to their families in hometowns. The government's repeated raises in the legal minimum wage increases the ratio of labor cost to production cost and weighs on the financial conditions of enterprises, but at the same time increases workers' income and the amount of money transferred to their families. Consequently, household incomes in the northeastern and northern regions have increased, and economic disparity with urban areas is being reduced.

Labor migration from rural to urban areas raised unemployment rate and enlarged the urban-rural economic disparities in the 1980s, but fell unemployment rate, increased rural income and reduced the disparity with urban areas in the 2000s. A difference between the two decades is the nature of migrant workers only: that is, unskilled labor in the 1980s and skilled one in the 2000s²⁰.

Currently, Thailand is seeking change in the domestic industrial structure — a shift from labor-intensive industries such as light industry to capital-intensive ones using advanced technology. An increase in FDI enabled the country to sophisticate production facilities and accumulate physical capital. It is impossible, however, to make up for human capital with workers from abroad, which should be interacted with physical capital to optimize the country's capital-labor ratio. The Thai economy since 2000 suggests the importance of not just physical capital accumulation but also human capital accumulation across the country. It has proved that correction of urban-rural disparity in education will make rural workers match job opportunities in the urban labor market and reduce economic disparities in urban and rural areas.

According to data, unemployment rate in Thailand has been below 1 percent: it is not too much to say that the country is in the full employment. Economic growth with maintaining fully-employed production factor market means in a way optimal growth on a balanced growth path. Whether or not the labor market equilibrium is stable is yet open to question. The price in the labor market is wage, and wage is determined as the equilibrium price when supply equals

demand in the market. The Thai government has declared that it will make the legal minimum wage in every region of the country at 300 baht per day in 2013. If the prescribed legal minimum wage is identical or close to the shadow price reflecting the value of labor in the labor market, the supply-demand balance in the labor market will be sustained. As economic theory tells, however, various distortions will occur not just in the labor market but also in the economy as a whole if a legal minimum wage deviates from the shadow price in equilibrium.

In its process of economic growth, Thailand placed emphasis on “efficiency” to accelerate growth and accumulated capital in urban areas. On the other hand, it was considered to be desirable to accumulate capital in rural areas for the sake of “fairness”. In other words, there was said to be a trade-off between efficiency and fairness. However, now that the income levels in rural areas in various regions have improved and microfinance has been well established there, mechanization will directly improve agricultural productivity and rural income further. Use of agricultural machines will reduce labor necessary for agricultural work, which enables to secure more liquidities through employment in the formal sector. An increase in agricultural income by streamlining agricultural work will reduce economic disparity between rural and urban areas further.

If comparative advantages in the Thai industrial structure are taken into account, agriculture is still a vital, key industry. It is certainly important for the country to attract and diffuse manufacturing to rural areas, create jobs and disseminate wealth throughout the country in the process of economic development in future. Even if the Thai government does not take the initiative, capital will surely accumulate in various regions as a result of the behavior of independent, profit-maximizing enterprises (this has actually happened in some regions). Even so, trickle-down development policy relying solely on an expansion in manufacturing cannot break the trade-off relation between efficiency and fairness. More cash income must be secured not by reducing the agricultural share and increase the manufacturing one but by simultaneously increasing agricultural income through mechanization and employment. An improvement in agricultural efficiency in rural areas in the northern and northeastern regions will also produce an improvement in fairness in the sense of correction of regional disparity with urban areas.

Notes

- 1 For specific figures, see *Quarterly Bulletin*, Bank of Thailand.
- 2 ditto
- 3 The real GDP growth rate in three years during 1988–1990 was 13.29%, 12.19% and 11.62%, respectively.
- 4 Laem Chabang Port opened in 1991. The volume of cargo handled exceeded in 1998 that of Bangkok's Khlong Toei Port, making Laem Chabang Port the largest port in Thailand.
- 5 The project for development of the Eastern Seaboard is a successful case where liaison of Japan's technical cooperation and financial cooperation worked appropriately. A total of 16 supportive projects were put into practice, and a total of 27 yen loans were granted through OECF.
- 6 As of 2008, per capita GPP in Rayong Province was 1,011,476 baht and that in Chonburi Province 400,456 baht. Per capita income in Bangkok, on the other hand, was 334,053 baht.
- 7 The National Economics and Social Development Board (NESDB), Bank of Thailand and IMF publish

unemployment rate data but their figures are different from one another. This report refers to data published by the NESDB.

- 8 For Inversed U Hypothesis, see Kuznets, Simon S., (1963) "Quantitative Aspects of the Economic Growth of Nations: Part VIII, Distribution of Income by Size," *Economic Development and Cultural Change*, Vol. 11.
- 9 The Gini coefficient, developed by the Italian social statistician Corrado Gini, is a statistic to measure the inequality of income distribution in society.
- 10 A Gini coefficient of 0.5284 in 1992 was a record high among both income-based and expenditure-based coefficients throughout the survey period of 1988–2006.
- 11 The term "low-income population" covers from the lowest income strata to the fifth lowest strata in the income distribution chart in Figure 3. In four years between 1988–92, the proportion of low-income population decreased from 54.61 to 36.95 percent.
- 12 The term "high-income population" covers from the highest income strata to the fifth highest income strata in the income distribution chart in Figure 3. In four years between 1988–92, the rate of an increase in the proportion of high-income population was 103.3 percent.
- 13 During this period, the rate of decrease in low-income population was 42.6 percent and the rate of increase in high-income population was 47.8%.
- 14 The expenditure distribution chart during this period shows that low-income population tended to decrease. The expenditure-based Gini coefficient during the period fell from 0.4362 to 0.4220.
- 15 As stated above in this report, per capita GPP in Rayong Province was more than three times than that in Bangkok.
- 16 As Tables 4 and 5 shows, the average monthly household income in Bangkok was 39,020 baht, and that in Mae Hong Son Province was 7,245 baht.
- 17 Rural workers normally migrate to the metropolitan area without bringing their registration records with them, so the actual population in the northern and northeastern regions is smaller than that officially recorded.
- 18 Thailand's population as of 2009 totaled 63,525,062, of whom the populations in the northeastern and northern regions based on registration records were 21,495,825 and 11,770,233, respectively. (Source: Bureau of Registration Administration, Department of Local Administration, Ministry of Interior)
- 19 The term "formal sector" refers to regular employment that can receive the legal minimum or higher wage.
- 20 The term "skilled labor" refers to workers who can enter the formal sector of the labor market, regardless of their technical level.

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