

# CHAPTER 1

## INTRODUCTION



### 1.1 Statement of the Problem

While industrialization has been widely accepted by recently developing countries as a means to boost economic growth, poverty remains a critical problem despite many years of sustained and rapid growth. This has a direct effect on the labor market, especially on labor mobility. Most developing countries see industrialization as a positive and natural result of the expansion of domestic or international trade. Through this means they aim to increase per capita income and reduce the level of poverty as growing industrialization, will mean more comparative advantages, economies of scales, and employment. However there is no guarantee that industrialization will enhance the income of the poor people.<sup>1</sup>

Thailand achieved impressive economic growth during the past two decades of modern industrialization. Between 1980 and 1990, Thailand's Gross Domestic Product (GDP) grew at an annual rate of eight percent and continued to grow during the 1990s. GDP per capita reached a level of US\$ 2,100 in 1993, placing Thailand in the category of a middle-income country. There were several factors contributed to this growth. These included the encouragement of exports, the promotion of foreign investment, human capital

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<sup>1</sup> This means absolute poor defined as households and individuals who can not earn enough to meet their basic needs.

development, and related economic and social policies. Nevertheless, Thailand was seriously facing the imbalance growth. Distribution of Gross Domestic Product by major sector in table 1.1 indicated a rapid industrialization with a sharp decline in agriculture. Output in the manufacturing sector and the services sectors have increased while that of the agricultural sector has decreased.

In the Fourth Development Plan (1977-1981), the government focused on industrial decentralization by selecting the new location for new industries set outside the Bangkok Metropolitan Region (BMR).<sup>2</sup> This was the first time that the promoted investment poles designated the regional growth centers. The major target sector was particularly the industrial sector.

In the Fifth Plan (1982-1986), many provinces included Phitsanulok, Nakhon Sawan, Udon Thani, Surat Thani, and Phuket were stated as additional regional centers. The Eastern-Seaboard was also designated as a specific regional development area. In 1985, the first regional industrial estate was set up in the North at Lumphun. This plan focused on rural poverty alleviation by specifying the target areas of poverty reduction.

The Sixth Plan (1987-1991) emphasized more on the agricultural development based industries and small-scale industries. The government attempted to pay more attention to the fundamental and long-term development such as the problem of income distribution, poverty alleviation, human resources development and the new infrastructures to ensure sustainable future growth.

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<sup>2</sup>Bangkok Metropolitan Region includes Bangkok and five surrounding provinces (Samut Prakarn, Pathum Thani, Samut Sakhon, Nonthaburi and Nakhon Pathom).

**Table 1.1** Distribution of Gross Domestic Product in Thailand by Major Sector  
(unit: percent)

Plan	Agriculture	Manufacturing	Services	Total
Before 1960	33.8	11.7	54.5	100
Plan I (1961-1966)	32.1	15.8	54.5	100
Plan II (1967-1971)	27.5	15.8	56.7	100
Plan III (1972-1976)	24.9	19.7	55.4	100
Plan IV (1977-1981)	21.5	21.8	56.7	100
Plan V (1982-1986)	19.7	21.3	59.0	100
Plan VI (1987-1991)	16.2	23.6	60.2	100
Plan VII (1992-1996)	10.7	28.2	61.1	100
Plan VIII (1997-2001)	11.0	30.4	58.6	100

**Source:** National Economic and Social Development Board (NESDB), 2000

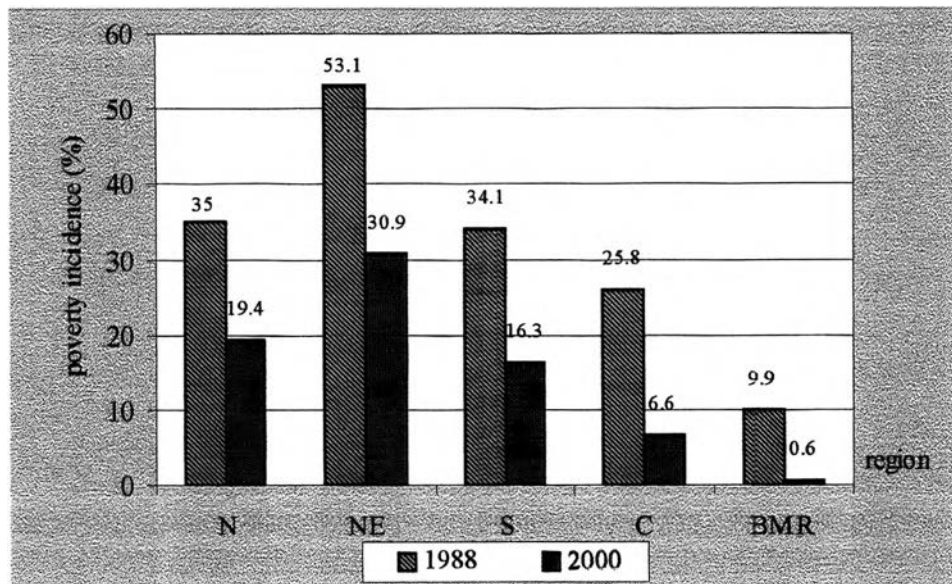
The Seventh Plan (1992-1996) focused more on the industrial reallocation towards regional centers. These were Chiang Mai, Phitsanulok and Nakhon Sawan in the North, Khon Kaen and Nakhon Ratchasima in the Northeast, Saraburi and Ratchaburi in the Central region and Surat Thani and Songkhla in the South. This was expected to reduce the income gap among the regions. The Eighth Plan (1997-2001) focused on improving the quality of life of the people. This plan could make a major shift from the fiscal or economic reforms to perhaps more human oriented labor policy reforms and more attention to select areas of industries such as machinery and electronics. The government also focused on poverty reduction to achieve the poverty incidence below 10 percent during the period of the Eighth Plan (1997-2001).

Despite having the long period of industrial development policies, there are no any studies directly address the impact of industrialization on poverty. Over this period of rapid industrialization, although Thailand has succeeded in poverty reduction in all regions as shown in figure 1.1, the number of the poor are still high.

The Ninth Plan (2002-2006) aims to reduce poverty through implementing several projects. The targeted growth rates of the sectoral output imply poverty incidence in 2006 at 16.5 percent.

According to many previous studies about the poverty in Thailand, the majority of the poor live in rural areas and they work mainly in agricultural sector. The agricultural development has been less significant than

**Figure 1.1** Poverty incidence by region in 1988 and 2000



**Note:** The data base on the average NESDB poverty lines which were 473 baht/person/year for the year 1988 and 882 baht/person/year for the year 2000. BMR consists of Bangkok and vicinity.

**Source:** Sarntisart and Wiboonchutikula, 2003: table 14.

the non-agricultural sector. This is because the agricultural sector contributes lesser shares in GDP growth than the industrial and the services sectors.

In Thailand, people can mobile across areas and sectors of production. Labor can move to whichever economic sectors that allow them to earn more income and higher productivity. Thus, this study hypothesizes that the regional industrialization policy stimulates labor to move across regions and sectors of production. This contributes to an increase in real income. The upward mobility of labor into higher income classes, especially of those in low-income classes, will lead to the national poverty reduction.

## **1.2 Research Question**

How does regional industrialization, through labor mobility and income changes, affect the national poverty incidence?

## **1.3 Objectives of the Study**

1. To specifically identify the impacts of regional industrialization on the national poverty incidence changes.
2. To investigate factors that might be contributing to the changes in national poverty incidence.

## 1.4 Scope of the Study

The period of the study cover two periods: between 1988 and 1996 and between 1996 and 2000. The first period was the economic boom period while the second was the period after the onset of the 1997 financial crisis.<sup>3</sup>

The cross-sectional data which is collected every 2 years will be used in this study. The data will be classified into 4 sectors, agriculture, manufacturing, services, and others (construction, mining and quarrying, and electricity, gas and water).

The study covers 3 areas: 1) Bangkok Metropolitan Region (BMR), 2) Eastern Seaboard Region (ESB) including Chonburi, Rayong, and Chachoengsao, 3) other regions encompassed with the North, the Central Region, the Northeast, and the South. Industrialization was concentrated more in the Bangkok Metropolitan Region and the Eastern Seaboard Region than the rest of the country. An analysis of poverty uses an absolute approach and an indicator of poverty incidence that is used widely, the Head-Count Ratio (HCR).

## 1.5 Definitions

**“Agricultural sector”** refers to the sector of production concerning crops, livestock, fisheries, forestry, agricultural services, and simple agri-processing product. (NESDB)

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<sup>3</sup> The growth rates of GDP were well above 8 percent in the beginning of the 1990s, however dropped to 5.93 percent in 1996 and recorded an economic contraction of -1.75 percent in 1997.

**“Manufacturing sector”** refers to the sector of production concerning production of goods such as food, textiles, wood products, metal products, paper products and others. (NESDB)

**“Services sector”** refers to the sector of production concerning transportation, communication, wholesale and retail trade, banking, insurance and real estate, public administration and defense. (NESDB)

**“Other sectors of production”** refers to the sector of production concerning construction, mining and quarrying, and electricity, gas and water. (NESDB)

## **1.6 Benefits of the Study**

1. To understand the co-movement of regional industrialization, labor mobility, and poverty changes in Thailand.
2. To propose future development strategies concerning the government measures in poverty alleviation.

## **1.7 Sources of data**

This study uses the secondary source of data as follows:

1. The data used in this study is the per capita households' income from the 1988, 1996, and 2000 Socio-Economic Survey (SES) data, which conducted by the National Statistical Office (NSO).
2. The data of regional industrialization and related policies is collected from the Office of the Board of Investment (BOI), the National Economic and Social Development Board (NESDB).

## **1.8 Organization of the Study**

This study is organized as follow: Chapter 1 is the statement of problem, research question, objectives, scope of the study, definitions, benefits of the study, and sources of data. Chapter 2 is the review of the relevant literatures. Chapter 3 presents framework of the study. Chapter 4 provides methodology. Chapter 5 presents Thailand regional industrialization policies. Chapter 6 is data analysis and empirical findings. Finally, chapter 7 contains the conclusion, policy implications, limitations and suggestions for further studies.