



## **Economy and Agriculture in Thailand**

Charuk Singhapreecha  
Faculty of economics, Chiang Mai University

### **INTRODUCTION**

This paper addresses the role of Thailand's past and present agricultural sector. The analysis is focused primarily on agricultural development in Thailand which has accelerated progress in the Thai economy for over a half century. The principal aim is to identify a general figure of the agricultural sector in its various stages of development.

In addressing this issue, it is helpful to make a distinction between the past and present agricultural policies which aim at promoting economic development and generating wider employment opportunities for the Thai farmers.

In the long run, there is a need to anticipate the structural changes in agriculture that accompany successful economic development. These include (i) a declining share of agriculture in GDP as the economy develops and diversifies; (ii) a labor mobility from the agricultural to non-agricultural sectors.

### **Development of the agricultural sector in Thailand**

Thailand experienced high economic growth with average GDP of 7% - 9% before 1997. However, due to the economic crisis in 1997, the growth declined sharply. In 1998, the Thai economy experienced several adjustments and recorded a contraction of 8%; particularly from domestic demand, both in terms of consumption and investment. The Thai government sought to resolve the problems by adjusting policies to stimulate economic growth, such as, the Debt Structure Reform Policy, and the Low Interest Rate Loan Policy in order to stimulate investment progress in implementing policies in pursuit of macro-stabilization, and structural adjustments. The financial sector reforms have however, yielded significant benefits.

Thailand's development has been generally based on agricultural production. The agricultural sector of the country which is mainly supported by smallholders continues to be the basis of the livelihood of the majority of its 70 million population, of whom about one-third is presently employed in agriculture. Although its GDP share has decreased substantially, it still accounts for 25 % of total exports by value, and agricultural imports remain very small. At least 30 % of the country's total land area is now used for agricultural activities.

Thailand has the total a total land area of 321 million rais or about 51.4 million hectares. Of this total, 133 million rais or 41% is engaged in the agricultural sector. In this regard, 68

million rais or 21% is accounted for paddy area, and 30 million rais or 10% is accounted for other croplands. Agricultural production accounts for only 9% of the GDP. Despite such a small proportion, agriculture is still of great importance to the Thai economy, since the majority of the population still earn their living from agriculture.

Among the agricultural sub-sectors, crop production is the most important. It accounts for 60% of the total agricultural production. The main commodities are rice, rubber, followed by fishery, which accounts for 14%. Black tiger prawn is the most important fishery product. Animal products account for 9% of agricultural production, while the major commodities are chicken and swine. Simple agro-processing industry, which is one of the important sub-sectors, account for 11 percent.

However, productivities of most economic crops have not improved in spite of the fact that growth in agriculture has been increased. Yield has remained virtually constant and some crops have shown a downward trend. Since the development of the irrigation system in early 1960s, expansion of dry season cropping, in particular rice, has been observed. Production increase in rice has been based on double cropping rather than increases in yield per area. Therefore, it can be conclusively stated that agricultural production relies mainly on climatic factors, among them instability of monsoonal climate, which in itself is a major factor causing fluctuation in agricultural production.

Within the agricultural sector in Thailand, almost 75% of the value of agricultural production is contributed by the crop and livestock sectors. This position has remained unchanged since the mid-1960s. However, there has been a gradual increase in the importance of the livestock sector. In contrast, the share of forestry has declined continuously while that of fisheries has shown a less clear general tendency to decline.

The composition of the agricultural sub-sectors has undergone considerable change since the 1950s. There has been considerable diversification in the crop sector, particularly into vegetables and upland crops notably cassava, sugar, maize and kenaf. There has been a similar shift in the composition of the livestock sector away from draught animals, and towards the production of poultry and eggs. The decline in the importance of draught animals, particularly buffalo, reflects the increased use of tractors and rotavators and the increase in dry season cropping.

Since the late 1970s there has been a second wave of agricultural diversification. This has centered on intensive production of high-value production such as chickens, fruits, vegetables and fresh flowers for the export market. Since the mid-1980s, there has been a burgeoning of the Bangkok-based middle class market. This development has centered on the rapid growth of agri-businesses and various forms of contract farming. This started with the production of broiler chickens, spread to pig rearing and subsequently to fruit, vegetables, and fresh flowers, and such established crops like pineapples and palm oil. Overall, while the local impact of these activities can be substantial, as yet they affect a minute proportion of the rural population.

In the mid-1990s the Thai rural sector experienced widespread crisis. The country experienced rapid expansion in the cultivated area and the closure of the land frontier. The slow process of expansion had in long term brought a disastrous combination of extreme poverty and environmental degradation to large numbers of rural communities. While comprehensive evidence is lacking, there is sufficient information to suggest that land shortage, environmental degradation, limited prospects for future development of irrigation, and little real effort or success in the development of rain-fed cultivation seriously limited the prospect for a continued increase in agricultural production. A combination of land shortage and economic change is making an increasing number of farmers marginal, and pushing households into increased dependence on other activities (Dixon, 1999).

The agricultural sector was affected by the economic crisis. From 1997-1998, agricultural growth dropped to 0.67% and 3.10% respectively. However, the growth of this sector has since recovered somewhat. It was estimated that the agricultural sector in 2013 will grow by 4.5%.

### **Thailand's agricultural and its significant role**

The agricultural sector of Thailand has long been called the country's "backbone". This is because it is the most important sector in the economy, one that has generated food and living incomes for most of the Thai people. Before the manufacturing sector began to play an increasing role in the Thai economy in the late 1970s, the agricultural sector generated almost 100% of the country's export income. At present, it still constitutes a substantial share of Thai exports of almost 30%. However, its most significant aspect is that it has provided almost constant employment for the majority of Thai laborers.

A high proportion of the labor force is still working in the agricultural sector, although agriculture represents a decreasing share of the country's GDP (reflecting its labor-intensive production). Extensive utilization of land and low level of application of modern technology also characterize Thailand's agriculture. This trend began in the 1980s when land became scarcer.

The large number of people engaged in the agricultural sector, where fertile land is limited, is also an indication of the small average farm size. In 1996, average farm holding area per household was 15 acres. Just 82% of farmers own farms of such a small size; the remaining 18% rent and cultivate their land. This not only prevents any expansion in investment and returns to scale in the sector, but it also gives rise to poverty.

It is therefore necessary for the Thai Government to play a greater role in developing the agricultural sector. About 9% of the government's budget is regularly reserved for agriculture, most of which is targeted at the development of infrastructure, such as irrigation systems and roads. However, as a comparatively small percentage of the government's total budget (15% of GDP), the spending on agriculture hardly meets farmers' need. At present, only about one fourth of Thai farms are located in irrigated areas. Thus, the majority of the farming population is dependent on the weather and other natural conditions to help them in this regard.

The agricultural sector is influenced by its manufacturing counterpart, which has shown an increasing capacity to drive the growth in the Thai economy during the latest phase of economic expansion. The manufacturing sector helps generate demand and incomes for the agricultural sector. Any excess and seasonally unemployed labor force in the latter sector has been absorbed and employed by the former sector. But production costs in agriculture have also been bid up by the manufacturing sector, due to the rise in industrial demand for limited land and natural resources.

Some Thai farming families earn additional income from non-farm sources, but they are by nature self-supporting. This ensures that the Thai agricultural sector does not maintain a one-way dependence on the manufacturing sector and the overall economy, but are actually dependent on world agricultural prices, rainfall and other climatic factors. Before the crisis, the growth in the Thai agricultural sector had pursued an up-and-down path, while that in the manufacturing sector experienced a steady upward trend.

During the economic crisis of 1997-1998, the Thai agricultural sector experienced a surge in export volume and income, resulting from favorable world agricultural prices and the weakening of the Thai currency, the baht. There are several channels through which the agricultural sector is affected by the economic crisis. The changes both had positive and negative impacts. The loss of confidence by foreign investors leads to a large devaluation, failures in the banking system including the working of the payments mechanism, and interest rate rises as lenders are less willing to lend at the on-going rate. Higher export prices are a boost to the agricultural sector but are offset by higher prices for imports which are either used directly by the agricultural sector such as fertilizers and feed grains or indirectly by other sectors which, in turn, supply inputs to agriculture.

Another obvious impact is passed through the effect of higher interest rates. Higher rates chock off investment around the economy, including the agricultural sector. With the huge write-offs in asset values there is a large contraction in wealth and income. As the overall economy slows, the loss of income leads to a large drop in consumption which also affects agricultural consumption but to a lesser degree because people must continue to eat.

Nevertheless, there were some positive factors, which helped avert such sharp economic contraction. First was the export expansion in response to the baht depreciation. The export volume expanded at a satisfactory rate of 8.1% despite a reduction in total export value. In addition, the benefit of the depreciation also passed on to the rural population, specifically those in the agricultural sector who experienced a substantial 25% increase in income from the sale of major crops.

Crops and fisheries took their turn in boosting the country's exports and production. However, it is important to note the unofficial social safety net that is inherent in the agricultural sector, which helps absorb the unemployed and lessens the country's growing pains. The strong link among workers in the rural sector (agricultural) provided job opportunities in farmland for the newly unemployed during the crisis. Jobless employees could migrate back home (to the country) and secure rudimentary income support. This included finding food directly from nature, although the opportunity to do so is diminishing yearly.

## CONCLUSION

The role for government policy needs to take into account the structural changes in agriculture that accompany successful economic development. These include a declining share of agriculture in GDP as the economy develops and diversifies; a release of labor from the sector driven by the —push of labor-saving technical change in agriculture and the —pull of growing labor demand in non-agricultural sectors; and, despite the release of resources, rising agricultural output.

Recognizing that successful agricultural development is associated with adjustment pressures, policy needs to focus on improving economic opportunities for farmers outside the sector as well as within it. This paper describes development pathways for Thai agricultural sector. The information indicate an improving competitiveness within the agricultural sector; diversifying income sources among household members; and, finally, leaving the sector for a better paying job.

This finding is relevant for countries at all stages of development, even if the balance of opportunities may vary. Smallholder farming dominates agriculture in most poor countries, and there may be improving opportunities for smallholders to establish commercially viable operations. Yet exploitation of those opportunities will imply some less productive

smallholders moving on to other, ultimately more remunerative, activities. Such a pattern of development is evident from the successful transformations witnessed in Thailand

## REFERENCES

- Arunsmith, K.(1997), Measurement and Analysis of Structural Change in the Thai Economy: CAMGEM Project, Thailand: Chularlongkorn University.
- Asian Development Bank (1998). Asian Development Outlook, Oxford University Press.
- Chomchalow, N. (1993), Agricultural Development in Thailand.,In F.W.T Penning de Vries *et. al.*, eds. Systems Approaches for Agricultural Development. Netherlands: Klumwer Academic Publishers, pp.427-443.
- Export-Import Bank of Thailand (2013), Annual Report, Bangkok.
- Isvilanonda, S (2000), Recent Changes in Thailand's Rural Economy: A case Study of Six Villages, present paper in the third conference of the Asian Society of Agricultural Economists (ASAE), India.
- Manarungsan, S. (1989), Economics Development of Thailand,1859-1950: response to the world economy, Institute of Asian Studies,Chulalongkorn University, Bangkok.
- NESDB (2003), Study Project of Thai Rural Development during Development Plan 7 th, (In Thai).
- Office of Agricultural Economic (OAE) (2000-2013), Annual Report, Ministry of Agriculture and Cooperative, Thailand (in Thai).
- Ohizumi, K. 2004), "Thailand's New Development Strategy in the Era of Partnership for Economic Development." In T.Watanabe ed., Partnership for Economic Development in East Asia, Tokyo: Toyokeizai: 187-211 (in Japanese).
- Shintani, M. (2002), The Process of Agricultural Growth in Thailand, Kyushu University Press.
- Siamwalla, A. (1991), Land-Abundant Agricultural Growth and Some of its Consequence: the case of Thailand, TDRI, Bangkok.
- Thailand Development Research Institute (TDRI) (1995), Agricultural Diversification/Restructuring of Agricultural Production Systems in Thailand, Bangkok, Thailand.

Date submitted: May 7, 2014

Reviewed, edited and uploaded: May 9, 2014