

Keynote Address (คำขวัญ)

By

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Excellencies
Distinguished delegates
Ladies and Gentlemen

It is my great pleasure and honor to address you at this Second World Congress on Agricultural and Rural Finance. This World Congress is being hosted by the Asia-Pacific Rural and Agricultural Credit Association and the Bank for Agriculture and Agricultural Cooperatives of Thailand, and is being organized in collaboration with the African Rural and Agricultural Credit Association (AFRACA), the Asociación Latinoamericana de Instituciones Financieras de Desarrollo (ALIDE), the Confédération Internationale du Credit Agricole (CICA), and the Near East-North Africa Regional Agricultural Credit Association (NENARACA). To our overseas guests, I would cordially extend my warmest welcome to all of you to Bangkok. I am confident that we will benefit from the sharing of knowledge, views and visions on the topic of this congress which is the Contribution of Agricultural and Rural Economies to Sustainable and Equitable Development.

Given the topic, I believe it is very appropriate that this Second World Congress is being held in Thailand. Although the agriculture and food sectors in Thailand now only account for about 16 percent of GDP, Thailand is still the largest or major exporter of many food products including rice, rubber, tapioca, sugar and shrimps. Indeed, one can say that agriculture and food are sectors where Thailand has something like a "permanent comparative advantage". They have comparative advantages because of our geographical location, soil and climate, and the comparative advantages will tend to remain even as the country develops and incomes rise. This is in contrast to many labor intensive manufacturing sectors that depend on cheap labor for their comparative advantages. For these sectors, as the country develops and incomes rise, so do real wages, and products of these sectors find themselves less and less able to compete with similar products being produced by lower income countries where wages are lower. This is the situation for many labor intensive products produced in Thailand today.

Looking back over the past three to four decades, economic development in Thailand has been very satisfactory. While the pace of economic development was not as impressive as that in a few countries, such as the Asian NIC's (for example, South Korea and Taiwan), Thailand nevertheless ranks very high in terms of the pace of economic development during this period among all countries in the world. In the twenty five years between 1960 and 1985, Real GDP grew on average by about 6.9 percent per annum. After the Plaza Accord in 1985, with the resulting realignment of the value of major currencies, particularly the rapid strengthening of the Yen, Thailand's growth rate picked up even more. Driven by large inflows of foreign direct investment, manufactured exports boomed, increasing by about 30 - 40 percent per annum. This resulted in the country achieving an average real GDP growth rate of about 9.1 percent per annum between 1985 and 1996. Part of this rapid growth was due to the economic bubble that began to build up during the 1990's and with mismanagement of the macroeconomic policy framework and exchange rate policy, this culminated in the economic crisis of 1997. The crisis led to a lost half decade of growth, but the economic hangover from the crisis is now mostly over and the country should be able to move back to its normal growth path although in the last couple of years it has been held back by political turmoil. Nevertheless, we expect a growth rate of about 4.5 percent this year and a higher rate of growth next year, driven by many major investment projects, both by the public sector and by foreign direct investment, that will be coming on stream next year as well as continual contributions of the export sectors as long as the world economy does not suffer too badly from the sub-prime problem and rising energy prices.

During these decades, sustained growth of the economy, except for a relatively short period in the aftermath of the 1997 crisis, had huge benefits for poverty reduction. Poverty

incidence declined from about 60 percent in 1960 to only about 9.6 percent in 2006. At the same time, there have been major changes in the economic structure. In 1960, agriculture and food sectors accounted for about 47 percent of GDP. Services account for about 42 percent of GDP with non-food industries accounting for only about 11 percent of GDP. By 1980, agriculture and food sectors had declined further to about 16 percent of GDP, while services declined slightly to about 46 percent of GDP and non-food industries increased significantly to about 38 percent of GDP.

Although the figures that I just mentioned indicate a declining role for the agriculture and food sectors in Thailand, this is not really the case. First, as I mentioned earlier Thailand is still the largest or major exporter of many agriculture products, and these are products where Thailand has more permanent comparative advantages compared to many other manufacturing sectors. Even more important is the fact that a very large percentage of the population still lives and works in rural areas and in the agriculture sector.

Thailand is much more of a rural and agricultural society than the share of various sectors in GDP would suggest. Around 70 percent of the population is still formally registered as living in the rural areas. While this gives an overestimate of the numbers actually living in the rural areas, because many workers migrate to work in cities but they do not change their official registered residents, it is the case the majority of people actually live in rural areas. In term of employment, more than 40 percent of workers have their main occupation in agriculture. This compares to the share of agriculture in GDP of only about 10 percent at present. While again, most of those with main occupation in agriculture may spend up to half of their time on non-agriculture activities, for example on make handicrafts to supplement their income, or as temporary migrants to the cities during the dry season, it is still the case that a very large percentage of the population is dependent significantly on agriculture.

An important reason why a large percentage of the population is still tied to agriculture even though the importance of agriculture in Thailand's overall economy is now fairly small related to the land-holding pattern. In Thailand there is a very high proportion of farm households who are owner cultivators (probably about 70 percent or more). This likely to be a factor working against large scale migration into the urban areas. Normally migration from self-cultivating households would be limited to a few family members such as sons or daughters, and may be circulatory in nature, rather than a wholesale movement of all the family members. A factor which would reinforce the above reason is that many of the so-called "owner cultivator" in fact do not have full land titles. Many farmers migrated to open up new land in forest areas in the 1960's and 1970's, and were actually taking possession of the land illegally. Many now have cultivation rights by no formal legal ownership documents. This will make it very costly for a farmer to abandon the untitled land and migrate out off the rural areas. Therefore, the rural population in Thailand is much larger than what might be expected from simply looking at the shares of various sectors in GDP.

An important result of this imbalance between the contribution of agriculture to GDP and the share of employment still dependent on agriculture is that there are large disparities in productivities and incomes between agriculture and non-agriculture sectors and between rural and urban areas. Even if one assumes that those with main occupations in agriculture only spends 50 percent of their time in agricultural activities, the labor productivity in the non-agriculture sector is still about 2.3 times that in agriculture. The average per capita income in urban areas is about 2.1 times that in rural areas in 2006, while the difference between the average income in Bangkok and average rural income in the Northeast (which is the poorest area) is about 4.2 times. These disparities contribute to the rather large income disparities in Thailand, where in 2006, the richest 20 percent of the households account for 56.3 percent of total incomes while the poorest 20 percent of households account for only 3.8 percent of total incomes.

Although I indicated earlier that the total poverty incidence in Thailand was 9.6 percent in 2006, most of these are in the rural areas. Poverty incidence in rural areas was about 12 percent compared to only 3.6 percent in urban areas. Actually, these figures only indicate those living below the poverty line which was about \$1.63 per day in urban areas and about \$1.25 per day in rural areas. If one takes for example those living below \$3 per day, then we

are talking about around half of the country's population, and clearly one would say that those living on \$3 per day are poor people by most standards although they are not living below the poverty line.

Thus, there still many poor people in Thailand and they are mostly located in the rural areas with main occupations in agriculture. Therefore, the health of the rural and agricultural economy in Thailand is crucial for the sustainability and equity of the country's development. And rural and agricultural development policies have always been very important parts of the policies of all governments in Thailand. Here the Bank for Agriculture and Agricultural Cooperatives or BAAC has always had an important role to play since it was established in 1947, first as the Bank for Cooperatives and then since 1966 as the current BAAC. The bank is almost entirely owned by the state. Also, just recently, the Law establishing the Bank was amended to allow the Bank to begin to evolve into a rural development bank and not just simply an agricultural bank.

At this Congress, with dedicated professionals in the field of agricultural and rural finance, there is no need for me to dwell on the importance of credit for farmers and the rural population in general. You are much more knowledgeable on this than I am. However, I just want to stress that money alone may not be fully effective. Credit should be accompanied by knowledge so that the borrowers can make most productive use of the credit. Throwing in too much credit without accompanying knowledge can easily lead to a loss of fiscal disciplines and non-performing loans.

Another point I also want to make is that there is always the danger of a bank such as the BAAC being used as a political tool. We have seen many populist schemes to gain with farmers and grass root voters. Schemes such as crop mortgage schemes where the mortgage price is deliberately set much higher than the market price have led to huge losses for the state. Farmers simply mortgage their crops with no intention of getting back their crops. The BAAC is usually the pawn in these schemes having to lend out money to finance these mortgages and then having to go back to the cabinet to ask for compensation, usually with long delays before getting full compensations. Thus, we should always be aware of political trickeries, and try to develop out agricultural and rural credit system that has some built-in protections from these undisciplined populist schemes. Of course, this is much easier to say than to actually attain. However, one should certainly not stop trying.

Excellencies and Delegates, I see from the agenda that you have many topics to pursue today and tomorrow. I am sure that everyone will benefit from the information and knowledge that will be discussed and shared at this meeting. I wish all of you every success for this conference that also marks the auspicious occasion of the 80th Birthday of His Majesty the King. Please enjoy your stay in Bangkok.

Thank You

Keynote Address by H.E. Chalongphob Sussangkarn (5121) X
Minister of Finance of Thailand
“Enhancing The Fight Against Poverty”
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Excellencies
Chairpersons of the Five Rural and Agricultural Credit Associations
Distinguished Delegates
Ladies and Gentlemen

It is my great pleasure and honor to address this highly important conference which brings together international participants under the umbrella of the renowned 5 continental representation. To our overseas guests, I would cordially extend my warmest welcome to all of you to Bangkok. And I am so confident that out of this congress all of us will mutually benefit from sharing of know ledges, views and visions on rural and agricultural finance as well as a number of crucial topics on development efforts in the global perspectives. I do hope that the experiences you learn from each others in this congress will contribute greatly to your countries efforts towards sustainable and equitable development.

Ladies and Gentlemen

Poverty Reduction and the Challenge

Having glanced at the five topics for discussions in this congress, I admit that they are well thought, excellently selected and also timely. I have read between the lines and interpret that an intention of our gathering here is to enhance efforts to fight against poverty and thereby to reach a common goal of the regions free of poverty. In this connection, I do admire it and would like to take opportunity to share my views with you based on experiences I have during my academic as well as political career.

Let me begin my contribution with statistics in the Asia and Pacific region. In the early 1970s, more than half the population of the region was poor. In 1990, about 32% or 900 million people in the region survived on less than \$1 a day. By 2000, this number had declined by around 180 million to 720 million. This was achieved in spite of a major financial crisis in 1997 that depressed the regional growth and triggered a temporary setback in poverty reduction.

There is still a long way to go, however. Poverty remains at unacceptable levels and progress has been uneven across the region. During the 1970s and 1980s, poverty reduction was most pronounced in East and Southeast Asia. During the past decade, on the other hand, it has been most apparent in the People's Republic of China and in India. According to official estimates, the incidence of poverty declined from 31% to 16% in the People's

Republic of China and from 41% to 33% in India. The rest of The Asia and Pacific region did not experience a major improvement.

In addition, less progress has been made in the non-income dimensions of poverty. For instance, the mortality rate of children under 5 years in the region fell from 85 per 1,000 live births in 1990 to 70 per 1,000 in 2000, a rate too slow to meet the target of reducing under-five mortality by two-third by 2015. The biggest challenge lies in South Asia where child and infant mortality rate remains exceptionally high. Under-five mortality rates declined slowly there in 1990s from 120 to 94 per 1,000 live births while infant mortality was reduced from 69 to 58 per 1,000 live births. Progress in reducing the proportion of undernourished children, in expanding immunization coverage, in increasing the number of births attended by skilled health staff, and in combating HIV/AIDS also remains slow. These indicators are strongly linked to the poor status of women.

Thus, while the Asia and Pacific region as a whole appear to be on track for meeting the goal for income poverty, several countries are likely to be left behind. Others that are likely to meet the overall target may still have sizable pockets of poverty. In addition, accelerating the pace of progress to meet the targets relating to non-income poverty also continues to be a formidable challenge. I believe that situation in other regions except Europe is of no difference.

Ladies and Gentlemen,

Asian Development Bank has come up with a strategy framework for poverty reduction that must help to achieve **pro-poor, sustainable economic growth; inclusive social development; and good governance**. Successful poverty reduction therefore requires policies that simultaneously strengthen all three. The relative importance of each pillar will depend on country circumstances at a particular time.

Within the framework of the three pillars, interventions for poverty reduction can be short term such as those that sustain basic services to the poor; medium term such as targeted interventions; or long term such as those that build human resources, stimulate pro-poor growth, and encourage expansion of the private sector. Rapid, broad-based economic growth is the single most important factor in sustaining poverty reduction. The experience of the East and Southeast Asian economies highlights the importance of a dynamic public policy and an active state role in creating enabling conditions for rapid economic growth.

The complex relationship between economic growth and poverty reduction is illustrated by long-term trends in Asia. From the 1960s until about the mid-1990s, the "miracle" economies of East Asia grew faster than any other group of developing countries in the world. By the 1990s, poverty had been virtually eliminated in the newly industrialized East Asian economies, while Indonesia, Malaysia, and Thailand had also made impressive strides. The social indicators of many of these countries are gradually converging

toward industrial country averages. In contrast, South Asia experienced sluggish growth in the three decades preceding the early 1980s with per capita income growth averaging about 1.5-2.0% per annum. Poverty reduction was correspondingly slow.

While economic growth favors poverty reduction, broad-based, labor-utilizing growth will have a stronger impact. A combination of sound macroeconomic management and policies that encourage steady growth in employment has proven to be a powerful pro-poor measure. Such policies include the gradual removal of market distorting interventions. Other policies in this category are those that develop a conducive environment for the private sector and those aimed at increasing employment and income-generating opportunities for women and other groups that may be outside the formal labor force. Similarly, opportunities for self-employment have made an important contribution to poverty reduction.

The private sector, the engine of growth, has a direct role in poverty reduction. It can participate in building physical and social infrastructure including provision of basic service that will benefit the poor. For the private sector to contribute more effectively to the delivery of such services, an enabling environment must be established and the financial sector must be developed. As the role of the private sector expands, the role of the government should shift from the owner and product of goods and services to that of a facilitator and regulator. An effective regulatory framework becomes critical to promote competition, enforce fair practices and standards, and ensure that essential services reach the poor.

Infrastructure development has both social and economic effects. It can contribute to poverty reduction both indirectly by fostering growth and development, as well as directly through job creation and improving access to economic activities and basic social services. For an economy to grow, expanding infrastructure and related services that enhance capacity and efficiency are essential. Expanding opportunities at the local level requires integration with national markets which infrastructure can facilitate. Market-driven growth typically benefits better-off areas where infrastructure and human capital are already reasonably well advanced. In underdeveloped areas, poorer households may not be able to share in the expanding opportunities provided by growth elsewhere, and targeted public investment may be necessary.

Another important way to accelerate growth is regional and sub-regional cooperation that offers larger markets, economies of scale, and division of labor. Such cooperation is especially useful for small countries with limited options. Cooperation may work best at the sub-regional level as in the Greater Mekong Sub-region (GMS) and the "growth triangles" in the Association of Southeast Asian Nation, South Asia, and the Central Asian republics.

Environmental sustainability is central to pro-poor economic growth. Growth will be short-lived if it does not conserve the natural environment and resources. Although much damage in the past was caused by powerful vested interest, the pressures of poverty and population compound the trend through deforestation, overgrazing, and depletion of fish stocks. The rural poor are often forced to live on fragile lands and waters that require sensitive resource management in the face of increasing degradation. The urban poor are exposed to disease and illness resulting from overcrowding and polluted living conditions. Poverty reduction strategies need to incorporate policies and actions that enhance the quality and productivity of the environment and natural resources.

Ladies and Gentlemen

Inclusive Social Development

Economic growth must be accompanied by effective social development programs that enable disadvantaged groups in society to benefit from the expanding opportunities it provides. Such access creates opportunities for poor people to improve the quality of their lives and to participate more fully in social and economic development and to promote initiatives that meet the needs of previously excluded groups. The reach and sustainability of social development is improved when all people, especially the poor have an opportunity to participate in shaping public policies and programs. Ensuring that the voice of the poor is heard at all levels of decision making is central to the success of social development efforts.

Human capital is often the only asset of the poor, and its development is of fundamental importance in poverty reduction. Building marketable skills, protecting the poor against health hazards and risks, and eliminating harmful practices like child labor are central to the development of human capital. It is necessary to ensure the relevance, quality, and quantity of social services to boost the productivity and participation of all members of society. Moreover, the correlation between family size and self-perpetuating poverty is generally strong, especially in rural areas. Most countries realize the need to reduce population growth by giving highest priority to (i) ensuring universal education for girls, (ii) providing accessible reproductive health services, and (iii) increasing economic opportunities for women.

In many societies, women suffer disproportionately from the burdens of poverty and are systematically excluded from access to essential assets and services. Improving their status addresses a key aspect of poverty and provides important socioeconomic returns through reduced health and welfare costs and lower rates of fertility and maternal and infant mortality. Giving women voice and promoting their full participation can make important contributions to the overall development of society.

When poverty is pronounced, social cohesion is often weak, and communities suffer from conflict, marginalization, and exclusion. In such cases, strong and proactive policies are required to reverse perceptions of

social and psychological inferiority, to foster a sense of empowerment and to create genuinely participatory institutions. Social capital and a more inclusive society can be promoted through antidiscrimination legislation land reform, legal recognition of user groups, and accessible systems of justice. Specific measures may be required to provide suitable social services and equitable access to economic opportunity for ethnic minorities.

Every society has people who are vulnerable because of age, illness, disability, natural disasters, economic crises, or civil conflict. Social protection comprises a cluster of programs designed to assist individuals, households, and communities to manage risks better and to ensure economic security. Such programs include old age pensions, unemployment and disability insurance, and social safety nets. Also included are policies to improve labor mobility and to enforce labor standards. Adopting efficient strategies and public programs for managing risk and vulnerability can help enable the poor and the excluded to participate in economic growth and development.

Ladies and Gentlemen

Good Governance

Good governance is critical to poverty reduction as weak governance hurts the poor disproportionately. Public sector inefficiency, corruption, and waste leave insufficient resources for basic public services and antipoverty programs. Good governance facilitates participatory, pro-poor policies as well as sound macroeconomic management to encourage economic growth and maintains price stability. Better revenue administration and carefully prioritized and implemented expenditures, particularly for basic services, are essential. Lack of accountability, domination by local elites, widespread corruption, historic patterns of inequality, and lack of participation of the poor must also be addressed in public service delivery in order to raise the living standards of the poor. Good governance is also necessary in the private sector as well to protect depositors, investors, and consumers; to enhance competition; to increase efficiency; and to expand financial resources for all.

Sufficiency Economy

Last but not least, I urge you all to apply the royal initiative on Sufficiency Economy to your development efforts at all stages. His Majesty King Bhumipol Adulyadej has expressed Sufficiency Economy Philosophy in his speech as a guideline for the Thai people to lead their lives for more than 25 years before the economic crisis in the late 1990s. He has placed importance on step-by-step development on the basis of self-reliance, moderation, reasonableness, and self immunity. The royal statements also significantly raised consciousness of Thai people to be prudent, to realize steps of development which academically correct, and to adhere to morals for every conduct of life. It also requires the application of accurate knowledge, care and giving, mutual assistance, and collaboration. The aim is to create bonds which closely link people from all sectors together and boost positive

creative force in order to lead to unity, balanced and sustainable development as well as readiness to cope appropriately with critical challenges occurring as a result of globalization. You would hear Sufficiency Economy Philosophy in details in the later speech.

I do hope that my views on “Enhancing The Fight Against Poverty” is informative and worth your time. I wish a great success for this congress as well as a pleasant stay in Thailand and the best of luck to you all. Thank you.