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Why Do Rural Households in Northeast Thailand Invest Less? consequences for the Development

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Abstract

In emerging market economies like Thailand, rural development has not received adequate attention in the recent past. The government tends to rely more on specific and often irrelevant agricultural income subsidies (e.g. rice pledging scheme), as well as the rural urban migration, in order to improve the well-being of rural households. However, well-targeted rural development programs are largely missing. As a consequence, the productive investments by rural households have declined. Using a unique panel data set of some 2000 households from over 200 villages in three provinces of Northeast Thailand, this paper analyses the pattern and determinants of investments by rural households. We use two panel waves (2010 and 2013) from the project "Thailand-Vietnam Socioeconomic Panel (TVSEP)", which included specific investment modules in the survey instrument.

In this paper, we have used a classification approach for different types of investments to identify the investment patterns. To analyse the volume and the determinants of investment, we developed a fixed-effects regression model (FEM). Our results show that the investment pattern has changed profoundly while the overall investments have declined. Rural households invest less in agriculture and more in non-agricultural enterprises, i.e. micro- and small-scale businesses. For investment determinants, we found that education, gender, access to credit, household wealth and the household head's willingness to risk are positively associated with both the propensity to invest and the amount of investment.

The findings of this research provide a scientific basis for designing the rural development policies. The basis can effectively foster the improvement of socio-economic conditions in rural villages, in order to reduce the alarmingly high rural urban welfare gap in Thailand.

Keywords: Fixed-effect regressions, investments, Panel data, Rural development, Thailand

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