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The Surprising Effects of the Great Recession: Losers and Winners in Thailand in 2008–09

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Summary. — The "great recession" of 2008–09 affected Thailand significantly, reducing exports by 19% and tourist arrivals by 14%. Yet monthly survey data show, after controlling for household variables, that real consumption per capita rose in 2009 relative to 2008 for most groups, including the poor, and urban and rural households. Losers included some residents of Bangkok, especially those aged 20–29. Nationally, school enrollment rates did not fall, and durables purchases rose. A simulation exercise based on the drop in GDP would have missed these effects. Hence the importance of country-specific policy analysis, rooted in timely local evidence.

Key words — recession, household wellbeing, Thailand, Southeast Asia

1. INTRODUCTION

In late 2008, the world economy went into recession and world GDP fell by 0.6% in 2009 (IMF (2012)). Although the "great recession" originated in the United States and Western Europe, its effects were felt worldwide, as the demand for exports from developing countries fell sharply. In the case of Thailand, the dollar value of exports fell by 19%, and tourist arrivals dropped by 14%, in the crisis year (2008.IV–2009.III) compared to the previous year. A priori, one might anticipate shocks of this magnitude to have a substantial effect both on GDP overall, and on poverty and vulnerability.

This was certainly a common expectation. In an exercise that has been widely cited, Ravallion and Chen (2009) estimated that the global recession would leave 53 million more people in poverty in 2009 than if economic growth had not been interrupted. Their methodology is straightforward and sensible: measure the reduction in the forecast growth of consumption attributable to the recession, assume the effect is distributionally neutral, and recompute the poverty headcount rate, country by country. Wan and Francisco (2009) applied a similar approach to the countries of developing Asia; they simulate the ex ante effects of the 2008–09 global recession both on poverty and on social spending, and devote some effort to measuring the relevant elasticities. They argue that such an assessment "can produce findings and insights for swift policy actions" (p.1), although they recognize that the estimates only apply to "the aggregate impacts of the crisis, not the impacts at the household level" (p.2).

A significant problem with such simulations is that they focus almost exclusively on a single aggregate, such as consumption, as the main driver of poverty. In reality, and especially in the short-run, other factors matter. For instance, a growth slowdown accompanied, perhaps even triggered, by higher energy prices—and perhaps the higher food prices that may ensue (Chongvilaivan, 2012)—is likely to have very different distributional effects compared to one associated with lower energy prices. This makes it remarkably difficult to forecast the effects of recession on groups within a country, such as the poor, or rural households, or children. Yet it is groups such as these that policy interventions typically need to target.

The effects of a global recession on living standards are also likely to vary widely from country to country, given differences in economic structures, and sources of household income. For instance, de Janvry and Sadoulet (2010) found, somewhat to their surprise, that during the global food crisis of 2006–08, when food prices rose sharply, most farm households in Guatemala lost from the rising prices. For Thailand—consistently the world's largest exporter of rice—Jitsuchon and Siamwalla (2009) found that the higher rice prices of 2007 helped some poor households and hurt others, with a net effect that was difficult to determine. Headey (2011) notes the striking contrast between simulations, which estimated that 75–160 million people would be "thrown into hunger and poverty" due to the global food crisis, and the results of self-reported outcomes that the number of "food-insecure" people fell by 60–250 million during 2005–08.

The important point here is that it is essential to build policy on actual data—to the extent practicable—rather than on simulations. This is in line with one of the main lessons that the World Bank (2009) draws from previous crises in which it emphasizes the need for "sound information on what is happening on the ground as the crisis unfolds" (p.8).

An implication of this discussion is that the effects of global recession on socio-demographic groups within a country are an empirical matter. For instance, Bresciani *et al.* (2002), in their study of the impact of the Asian financial crisis of 1997–98 on farm households in Thailand and Indonesia, find

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that poor farmers were hard hit in Thailand, but not in Indonesia, and that in both countries farmers specializing in export crops benefitted from the currency devaluation associated with that crisis.

The volume edited by Khandker (2002) includes several papers that trace the effects of the East Asian financial crisis on poverty in Malaysia, Indonesia, the Philippines, South Korea, and China. One generalization is that "the uneducated, inexperienced, young female workers, and the urban sector suffered most from the crisis" (p.5), but there were variations across countries. The ultra-poor suffered disproportionately in Malaysia, as did households headed by old, or very young, individuals; poverty rose rapidly in Indonesia, especially in Java, but also fell quickly when the crisis had passed; and large households suffered from the slowdown, due at least as much to El Niño as to the financial crisis, in the Philippines. Yap, Reyes, and Cuenca (2009) provide an exhaustive recent update for the Philippines. Ananta and Barichello (2012) argue that in Southeast Asia, as a result of the 1997 crisis, "the poor have and will have suffered the most" (p.3). Boonyamanond and Punpuing (2012), in the same volume, note that poverty rose in Thailand, especially in the Northeast, but with a lag, as households in that relatively poor region found their remittance receipts shrink and prospects for work in Bangkok diminish.

There have been relatively few published studies so far of the actual (as opposed to simulated) effects of the most recent global recession on groups within society. Aryeetey and Ackah (2011) argue that the crisis of 2008–09 had a strong aggregate impact on the economies of Africa, and suggest that "there is growing evidence that the impact on the poor has been more acute than for the nonpoor" (p.419). Huang, Zhi, Huang, Rozelle, and Giles (2010) find that the crisis led to a very sharp drop in rural off-farm employment in China during October 2008–April 2009, followed by an equally fast recovery by August 2009.

In the context of Thailand, Paitoonpong and Akkarakul (2009) argue that women "are among the most vulnerable to the downturn" (p.11), mainly due to their relatively high representation in the less-stable jobs in export-oriented manufacturing firms. Chirathivat and Mallikamas (2011) show that while food consumption was maintained during the crisis period, and spending on services rose, the amount devoted to buying durable goods fell sharply. They do not, however, disaggregate the effects to the level of household groups. The World Bank (2010, p.69) contends that in Thailand, "vulnerable households lost ground in 2009."

(a) *The question of interest*

Figure 1 shows that during the great recession economic growth in Thailand followed the same pattern as the world as a whole, with a 2.3% drop in real GDP in 2009, the worst contraction in Southeast Asia (Swee-Hock, 2011, p.10).

In this paper we address a seemingly straightforward question: who in Thailand was actually hurt by the recession of 2009? Was it the poor, or the ultra-poor, or urban populations, or farmers, or women, or wage workers, or large households, or the self-employed, or young children, or school children, or pensioners, or those in the informal sector? Only once we have answered this question can we begin to determine whether the government response to the recession was well targeted, and of an appropriate magnitude. This work also fits within the growing body of research on how households cope in times of recession; UNESC (2009) presents a recent example.

(b) *What should we expect*

Before going any further, it is worth asking what effects are to be expected to result from a sharp drop in exports and in tourist arrivals. At the macroeconomic level, the specific factors model would predict a direct effect on incomes (both profits and wages) in the affected sectors—mainly exportables and tourism, where the relative price fell. This would be followed by indirect effects through the reduction in demand for inputs for these sectors, which, based on an input–output analysis, is likely to affect a broad swathe of the economy (Haughton, Jitsuchon, & Rukumnuaykit, 2013). To the extent that lower income leads to reduced spending, there would be further induced effects (Round, 2003).

Although the reduction in exports and GDP was sharp, it was also short-lived. This is important, because it is widely recognized that households are more able to protect against the effects of short shocks, typically by dipping into savings or selling assets, or relying on diversified sources of income (Dercon, 2002). On the other hand, asset prices fall during a slump, which contributes to the fact that consumption smoothing is far from perfect (Deaton, 1991). In relatively severe cases, parents may withdraw their children from school and put them to work in response to a shock (Jacoby & Skoufias, 1997), as occurred in Indonesia after the 1997 Asian financial crisis (Thomas *et al.*, 2001).

Although it is possible to develop fairly satisfactory measures of vulnerability at the macro, meso, and micro levels (Naudé, Santos-Paulino, & McGillivray, 2009), vulnerability is fundamentally a statistical concept, and it is not so easy to identify who is likely to be vulnerable to any given shock, which will have its own peculiar characteristics. This is consistent with Dercon's (2002) observation that only about a quarter of the income risk faced by households in less-developed countries is systemic (rather than idiosyncratic).

Governments respond in times of stress, and this was certainly true in Thailand, where successive governments sought to cushion the effects of the shock by increasing pensions, extending unemployment benefits, and increasing subsidies to health, transportation, and education (see Jitsuchon, 2010 for details). We cannot, in this paper, separate out the effects of these measures on incomes or poverty, but in addition to their direct tangible role, the government's activist stance helped boost confidence, a point that is also noted by Dercon (2002).

(c) *Why Thailand?*

An important reason for focusing on Thailand is the availability of excellent and timely household survey data. The National Statistics Office conducts its Socio-Economic Survey on an on-going basis, interviewing about 3,800 households nationwide every month, and collecting detailed information on consumption as well as many other variables (National Statistical Office, 2009). In principle this allows one to track the actual effects of global recession on different groups in Thailand, with a lag to allow for data cleaning and processing of just a month or two (for government research institutions, at least). We are also interested in whether data of this nature are likely to be helpful when a government crafts its response to the cold winds of global recession.

We begin by examining in more detail the timing of the 2008–09 recession as it affected Thailand, and documenting the effects on output and unemployment. After developing a serviceable measure of welfare, we then use data from the Thailand Socio-Economic Surveys to construct a month-