

# Chapter I

## Introduction

In the Upper Northern Region of Thailand (UNT hereinafter) which includes Changwats Mae Hong Son, Nan, and Phrae, as well as five Changwats namely Chiang Mai, Chiang Rai, Lampang, Lamphoon, and Payao, on which we focus, there has been a lot of diversification of the agricultural products during the past thirty years of development.<sup>1</sup> In the Upper Northern Thailand, the agriculture has been, and is still, the most important sector of the economy in the region. The past development thinking have been placing emphasis on the trickle down effects from the center to periphery of development. However, the UNT has a unique characteristics that the people in the Lanna Thai, not only in Thailand, but also living in Northern Myanmar, Laos, or Yunnan, Southern China, have their culture and value system in common. Our reason to pick up UNT at the beginning of our study was: We want to identify the factors comprising regional integrity which may have led to the economic strength of the region, the resilient power to cope with the capitalist pressure from outside, especially Bangkok. And we believe that this characteristics of UNT has made the largest development potentials of the area.

As for introduction to the UNT economy, first of all, a brief description of the region will be given. In this report, the UNT consists of eight Provinces as is mentioned above, which exclude Tak Province from the government's denomination of Upper North sub-region. The UNT covers an area of 53.7 million rai. (One rai is about 0.16 hectare) The area is largely dominated by hill lands with an elevation higher than 500 meters above sea level. It serves as the origin of the four major rivers in Thailand—the Ping, Wang, Yom, and Nan. Due to its topography, the area is divided into three parts: lowland area of 5.2 million rai, or 8.1 % of UNT; upland area of 8.9 million rai, or 29.6 %; and the highland area which is the highest, occupying an area of 39.8 million rai, or 62.3 %. The UNT is located in tropical wet and dry climate with three seasons:

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1 It is said that there are about 300 varieties of fruits and vegetables grown for domestic use and commercial purpose in the region.

the rainy season from mid-May to October, having the Southwestern monsoon; the moderately hot season from November to February, having the Northeastern monsoon; and the hottest dry season from March to mid-May, influenced by the Southeastern monsoon. The average annual precipitation is about 1,200 mm, with 110 rainy days<sup>2</sup>. The average temperature is 26° centigrade.

The population of UNT was about 5.69 million in 1994. Because of the success of the family planning activities in the past, the annual growth rate of population is 0.74 %, the lowest in the country. As for the population structure, the share of the population in the 0 - 9 age cohort decreased while there is an increase in 60 and over age group. This is a recent tendency, and showing that UNT is now gradually aging.

The changes in agriculture and other sectors of the economy in the UNT region were not impressive at first. The changes in the roughly forty years up to 1995 are the main objective of our study. At the end of the 1950s, the changes in the Thai government's policy at the national level emphasizing more on liberalization or privatization did not extend much impact on the economy in UNT. Then some movement of people were, though, observed. All people from Burma and Laos also moved to the area near the Thai border then in order to get more food. The minority people (Chaaw Khao in Thai words) gradually came down to low land to compete and coexist with the Thai people during forty years in the past.<sup>3</sup> It seems that the private sector in Thailand was able to pursue profit making activities, and so attracted the people from neighboring countries.

In the middle of the 1960s, the Thai government started to implement regional development through the National Development Plans. Later it turned to the distribution of the industrial activities to the remote areas by incentive policy for investment. But again the UNT region did not receive enough attention from both the Thai and the foreign inves-

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2 The annual average rainfall differs among the Provinces in UNT. For example, Chaing Rai has a higher average rainfall than Chiang Mai which enables Chiang Rai better to grow rice of water-field variety, whereas Chiang Mai is likely to grow more field crops, fruits and vegetables.

3 The uncertainty within their countries may not be the only reason for the people of Burma or Laos to come to the Thai mountains. But on the Thai side there was no pulling factor other than one mentioned below.

tors. The foreign direct investment from Israel to operate a fruit canning factory was at the center of focus at that time. There were a few factories then in and around Chiang Mai such as sugar milling, besides a number of rice mills, most of which were of small scale, traditional textile makers and wood product makers. In the 1970s attempts were made to promote tourism development. One of the triggers to boost tourism was the annual meeting of PATA in Chiang Mai in 1971. It was observed in the construction outstand of the high-raised hotels, of higher classes and more number of rooms.

The land development following the construction boom in the late 1970s were, at first, observed in the suburbs of Chiang Mai. But at that time, those places around the center of Chiang Mai City such as Mae Jo, San Pa Tong, or San Kam Paeng were still the suburbs of Chiang Mai, keeping independent economy to some extent. They were not a part of the greater economic sphere united to Chiang Mai City as today. In the late 1980s, these satellite towns were already started to be united with Chiang Mai. There was again a big wave of land and housing construction in the suburbs of Chiang Mai. Then the Chartchai government emerged in 1988 saying making Indochina a market place. During his administration, the border trade developed very much. The infrastructure such as road, airport, and other communication facilities also developed. It was only after development of these sectors, with development of agriculture on the other hand that marketing of the product of agriculture and of the rural industries became easy and profitable.

The past development performance in UNT has been remarkable. It enjoyed continuous economic growth with stability. The growth rate in the 1980s and 1990s were 8.9 % and 4 % respectively. At the same time, an increased diversification in the economic structure was observed.

The agricultural sector has decreased its importance in the regional Gross Domestic Product (GRP hereinafter). In 1982 the ratio of UNT's agricultural sector in the GRP was 30 %, and decreased to 19 % in 1993. In the 1990s, the agricultural sector has had a low growth rate of about 0.8 % due mainly to land shortage and deterioration of natural resources, with an influence by natural disasters. But this sector is still an important economic sector in UNT which is evident in the figure show-

ing high share of GRP.

During the past three decades and more, the diversification of crops was also remarkable. The new crops such as soy bean, ground nut, and new varieties of vegetables and fruit were introduced. When the land in use is seen as the indicator of cropping pattern, the land of these new crops increased, while the land for the traditional crops decreased. In UNT during the period from 1982 to 1992, the lands under oranges, longan, lynchee, mango, soy bean, cabbage, and tomato were increasing from some 553 thousand rai to 1,071 thousand rai, almost to double the area in ten years. While the lands under tobacco, garlic, ground nut, and mung bean, were decreasing from some 784 thousand rai to 564 thousand rai. The land under rice was also decreasing from 3,846 thousand rai to 3,051 thousand rai.<sup>4</sup> Although the yield of rice per hectare increased during the period, mainly because of using more fertilizers, other agricultural chemicals, and increased working days.

Manufacturing was also developing substantially in UNT in the past three decades. In 1994, the share of manufacturing in GRP came up to the level of 16 %. It is estimated that the average annual growth rate of manufacturing in the 1990s were as high as 25 %. The structure of industry in UNT changed from that of small scale to that of medium and large scale. They employ a large number of laborers, and include such sectors as agricultural processing, ceramic, and mining.

A few examples of the brief introduction to the rural industries existing in the UNT region may be given as follows. The wood and furniture industry had five factories operating during World War Two period over the country. After the war ended and construction of houses rapidly developed. In two decades of time, it was already clear that the shortage of the source, the woods, was coming soon. The ceramics industry distributed over the country. In UNT Lampang Province has a source of the material for the industry, and nowadays there is a Ceramics Center in Lamphoon Province. It was established with economic cooperation

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<sup>4</sup> The figure of land for tobacco was not available, though the quantity harvested showed decrease from some 50 thousand ton to 34 thousand ton. So we included the tobacco as a crop decreasing its land. In Thailand, more than 90% of tobacco is planted and harvested in UNT.

from a foreign country. The Center performance so far has been satisfactory. The gem and jewelry industry in UNT is mainly the lapidary industry. Since in Thailand there used to be sources of the raw stone of some kind of jewelry, it seems that the industry had a prosperous future at the beginning. But like the wood furniture, the shortage of the raw materials soon became obvious. In the UNT region, some imported raw stones from Burma were polished and processed in Chiang Mai. The experiences accumulated at the craftsmen raised the level of skill and technology of the local factory to a high level.

Since 1993, the government has implemented the new investment promotion policy aiming at distributing industries into up-country areas. A new zoning was set up giving higher privileges to the investment in the up-country, remote zone (Zone 3). There are two industrial estates in UNT, both are located in Lamphoon. One is the Northern Region Industrial Estate (NRIE)<sup>5</sup> of the government and the other is a private-run industrial estate. In case of the NRIE, there are about 90 firms located, of which 75 % are now in operation (in 1995) with about 20 thousand employee. The main industries are electronics industry and agricultural processing industries. Thanks to these effort to industrialization from both of the government and the private, the manufacturing industry showed higher contribution to the GRP. It may not be redundant to say that the people in UNT still consider the area as agricultural in spite of the rapid growth of and hence the prevalence of the industrial activity. Even Chiang Mai is also deemed as agricultural. The GRP figure is really a good reflection of the economic activities in the area. Other economic sectors grew fast include construction, communication and transportation, banking and finance, and other service industries including public administration.

During the beginning of the 1990s, the tourism in UNT, especially in Chiang Mai, expanded in a slower rate than before. The number of tourists visited the area reached 2.57 million in 1995. They were national tourist (63 %), and foreigner (37 %).<sup>6</sup> The tourism industry earned the revenue of 16,000 million baht in 1993. The government's policy of "Visit Thailand Year" (started in 1987) contributed to increase the num-

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5 This is under administration of the Office of Industrial Estate Authority of Thailand.

6 (Source) Tourism Authority of Thailand

ber of foreign tourist visiting Thailand, and thus visiting UNT, too.

Thailand has developed during the past more than three decades, and the factors contributed to the success in the past may be listed as follows. Some of them are more influencing in UNT compared to the whole nation. 1) Expansion of export. Export from Thailand continuously grew at a high rate, and the economy in UNT received the benefit such as more and more food and beverages produced in the region transported to Bangkok, the largest consumption market, and overseas. Moreover, the growth in the national economy made the UNT's border trade with the neighboring countries more active. 2) Expansion of investment. The implementation of the investment promotion policy in the early 1960s increased the investment, both national and foreign. It is observed that there is an increase of investment in UNT especially during the Seventh Plan period (1992 - 1996). Most of them turned, however, to development of buildings, land, and not much turned to manufacturing. The whole UNT area is under the Zone 3, where the investors could enjoy the highest privileges of investment, of BOI's zoning since 1993. 3) Consistency of development policy. More than three decades since the beginning of the 1960s, Thailand has implemented policies which place more and more emphasis on the private sector's vigorous power. Besides, throughout these years, the national development plans have been continually formulated and carried out by the government. These attitudes of the government must have some effect on the UNT economy. 4) Expansion of tourism. As is shown above, the number of tourist has increased, and so has the revenue earned in this sector. A certain number of the increased tourists have visited UNT, where many attractive things and places are located. The ecotourism has become more and more popular recently, since more people are concerned about the natural environment. The tourism in UNT has been most concerning about it. It is natural that the tourism in UNT has come to a boom in recent years.

The rural industry in the region is promising of further agricultural development, and in that sense it is important to evaluate the future potentials of the industry. The rural industry exists closely with the people there, or the industry deems well expressing the demand and need of the people, as well as things that they can afford and also supply to the market. If you want to see the development potentials in a region, it may be a good beginning to evaluate the state of the rural industry there. One of

the factors observed common to each rural industry studied is that the workers in the sector are the focus of the problems. Especially leading their skill to a higher level, or finding enough source of the labor supply not to give effect on the other sectors when employment expands, are common problems.

In this study we took up four basic industries in UNT, which seem having a certain development potentials each. They are, tourism, traditional textiles, wood carving, and food processing industry. In the next Chapter II, the state of agriculture will be examined, and possible development prospect will be given. In Chapter III, the tourism industry with relation to labor market in the Northern region will be taken up. Chapter IV treats the hand-made textiles, wood carving and food processing in this order. And finally, the conclusion derived will be given in Chapter V.