

**Impact of Economic Liberalization on Growth, Employment and Poverty:  
Micro-Macro Simulation Model for Northern Thailand<sup>1</sup>**

**Abstract**

This study investigates the factors determining household income based on household characteristics and housing characteristics such as household size, gender of household head, occupation, assets, skilled, educational achievement, village characteristics, health and social services. It also examines the effect of economic liberalization on household income distribution and inequality in Northern Thailand.

A micro-macro simulation model is applied in this study using household data with explicit treatment of heterogeneity of skills, labor and consumption preferences at household level. The consumption patterns and income structures of 8235 households in Northern Thailand are investigated econometrically modeling wage and consumption functions. The model's parameters are estimated using data from 'The 2004 Household Socio-Economic Survey (SES): Northern Region'. Various scenarios of economic liberalization policy simulation are carried out to examine the comparative static of the model and the impact of different growth strategies on poverty and inequality.

Average monthly income of households in Northern Thailand was 10,885 Baht, compared with a national average of 16355 Baht, in 2004. In 2007, average monthly income of households in Northern Thailand indicated 13568 Baht while a national average was 18660 Baht. In addition, average monthly wages and salaries of individuals in Northern Thailand increased from 3974 Baht in 2004 to 4068 Baht in 2007 which reached far above the national poverty line of 1386 Baht per month in 2007. The results also indicate that the number of people in poverty declined drastically from 11 million in 1998 to 6.1 million in 2006. This study also investigates the principal determinants of wage income of households under study.

To construct a wage function of households, 8235 wage-earners from the '2004 SES survey' were employed in the model under study. The major factors influencing wages of individuals are

---

<sup>1</sup> The author gratefully acknowledges the financial support from Mae Fah Luang University to complete this research report. All errors are the author's responsibility.

gender, age, education, urban or rural habitation and the size of farm. The model primarily focuses on labor allocation at the household level, but consumption behavior is also modeled. Finally the impact of trade liberalization policies on poverty and inequality are examined applying computable general equilibrium (CGE) model. The results suggest that the effects of such liberalization on household' income vary across policy options depending on micro and macro economic factors outlined in this study. Simulation results show the potential usefulness of economic policy options on the inequality interventions in explaining intra-group income distribution.

Key words: income distribution, poverty eradication, poverty measures, micro-macro simulations and determinants of household income , CGE model and Northern Thailand

December 2007