

The Household Demand for Goods Produced by Rural Industries*

Paitoon Wiboonchutikula

Industries located outside the Bangkok Metropolitan Region (BMR) consist of (in terms of production and employment) large firms and small- and medium-sized firms. Most large firms produce processed primary products for export, whereas small- and medium-sized firms produce nondurable consumer goods and light capital goods catering to domestic markets. Most firms outside the BMR are small- and medium-sized, and the goods they produce comprise food products, textiles, garments, wood products, furniture, pottery, construction materials, and small machinery and motor vehicles. These products are perishable, bulky, heavy, or require frequent contact with users for services. Indeed, most of these products were supplied to provincial markets, thus implying the importance of provincial markets as the demand source for goods produced by rural industries. If it is further found that the income elasticities of demand for these industrial goods are not too low or do not have negative values, a policy that helps increase rural income would in turn promote the growth of these small- and medium-sized firms. In principle, there are two opposing views regarding the income elasticity values of goods produced by small- and medium-scale rural industries. Some analysts postulate that these goods are inferior goods, which means that the demand for them will decline as rural household incomes increase over time. Another group argues that there is evidence showing a positive relationship between rural household income and the demand for small- and medium-scale industries located in rural areas. In other words, the goods are not inferior, at least in the short run.

Our study uses the National Statistical Office's socioeconomic survey data to examine the relationship between rural household income and the demand for goods produced by rural industries. It also attempts to identify the types of products whose demand is sensitive to changes in rural income, and hence to suggest new potential industries that can be established outside the BMR to satisfy the demand of rural households.

MAJOR FINDINGS:

1. Most goods had elasticities greater than zero, but some had consistent negative elasticities among regions and over time. They were rice, flour, coffee, tobacco and betel nut, men's non-cotton cloth, women's non-cotton cloth, sewing machines, and hair cream. However, these goods with negative elasticities included goods produced in both Bangkok and the provinces. No regular pattern showing that the inferior goods were solely goods produced by provincial industries is evident.
2. Certain goods had consistently low elasticities between zero and one; these were mostly food and clothing items, textile house furnishing products (such as mosquito nets, sheets and pillow cases, and blankets), medicines and supplies, minor equipment (such as cutlery, basin baskets, pots and pans, and small utensils), and major equipment (such as mattresses and electric irons). Processed food and light consumer goods were produced in the provinces, whereas most non-food products were produced in the Bangkok Metropolitan Area.
3. Items with consistently high elasticities in most regions in both periods were dairy products, T-shirts, children's clothes, sneakers, slippers, children's shoes, housing expenditure items (such as construction materials and furniture), gas, cosmetics, gasoline, towels and wash cloths, toilet goods, communication equipment, sports goods, and reading materials. Moreover, there were also goods whose elasticities might not be consistently large in both periods, but whose elasticities had increased over time. These were coffee, medical services, personal care items, and transportation equipment.

Some of these goods (such as processed food and construction materials) are already being produced in provincial areas; the rest are products primarily and currently produced in Bangkok. Thus, these products show good potential for provincial production, as they stand to gain from the good demand outlook found in provincial households.

4. The patterns of elasticity distribution of both food and non-food items were quite similar among provincial regions and the BMR. In all areas, the number of goods with elasticities exceeding unity was the greatest, followed by goods with elasticities ranging from zero to one, and goods with negative elasticities. However, there were more non-food items with positive elasticities in the provincial regions than in the BMR. This suggests that provincial household consumption of non-food items was more sensitive to income changes than that of BMR households. Furthermore, an additional finding that the percentages of food items with negative expenditure elasticities were greater in the richer BMR households than in the poorer provincial households suggests that as income rises to a certain level, there were more food items becoming inferior than non-food items.
5. When goods are separated into traditional and urban goods-in which urban goods are defined as goods with relative household expenditure shares being greater in the BMR than in the provincial regions-there is evidence to conclude that as income rose to a certain level, traditionally consumed goods were substituted with goods consumed by urban households. This suggests a direction in potential rural industry production to diversification.

CONCLUSIONS AND POLICY IMPLICATIONS

From all the above findings, major conclusions and policy implications can be drawn as follows:

1. Since the demand for rural industries' products comes mostly from rural households, the growth of rural industries depends on the expansion of rural household income. With increased household income, the household purchasing power to buy more rural industry goods (which mostly had positive elasticities) increases. Thus, a policy to increase rural income should be able to promote growth in the demand for rural industry goods, particularly those produced by small- and medium-sized rural industrial firms.

Since most rural households obtain their income from sources in both the farm and the non-farm sectors, the measures to increase rural household income should also be directed toward raising both their farm and non-farm incomes. The measures to increase farm income include:

- Promotion of agricultural growth through increasing land intensity, crop diversification, use of new inputs and production techniques, and improvement of the rural infrastructure. These measures can increase growth in agricultural productivity as land becomes increasingly limited, while also reducing income fluctuations arising from concentrated production of a few commodities.
- Promotion of agricultural exports and agro-based industries. This measure increases agricultural markets by extending the demand source to the external and intermediate demand markets. That is, instead of depending solely on limited demand originating from domestic households, the abundant supply of improved quality agricultural output (resulting from increased agricultural productivity) can alternatively be exported or used as inputs in local agro-based industries.

Both increases in exports and supply to local industries will lead to increases in farm income, whereas the growth of agro-based industries will additionally provide increasing employment opportunities for the rural labor force in the industrial sector. Thus, it further follows that a measure to increase non-farm income should be promoting industries-particularly, those located outside the BMR. The growth of rural industries will lead to increases in the demand for unskilled labor. Farm workers will raise their non-farm income by supplementing their work or by commuting to work in these industries without having to migrate to the BMR. In fact, this measure can not only help raise rural household income, but it can also reduce rural-urban migration.

Another measure that should be added for increasing non-farm income is to extend the education level of the rural population to the higher, secondary level. Increased education can help the rural labor force become trainable as semi-skilled workers, who are in high demand in both the local non-farm sector and

regional foreign labor importing countries.

2. As income rises, there is a change in consumption patterns (from food to non-food, nondurable to durable goods, and traditional to higher value-added goods consumed and produced in the metropolitan areas). Thus, rural industries should be encouraged to restructure their output mix and production techniques to satisfy this changed rural demand. In fact, in order to survive and continue growing, it is necessary for rural industries to be flexible in changing their output mix and production techniques when there are rapid changes in rural household demand patterns. Such changes of the industrial restructure can be facilitated by a general policy environment that does not present biases against rural industrial growth. Policy measures (such as interest rates, duties and taxes, and wages) should be uniform among industries of all sizes located anywhere. These neutralized policies would provide conditions that reduce distortions in both product and factor markets and would allow efficient industries and those with a high growth potential to expand regardless of size and location.

In addition, rural industries should be provided with technical assistance to increase their production and technological capabilities for introducing new products or for transforming their production from low to high value-added products. This calls for a number of measures related to supply-side assistance, such as provision of loans, information and technical know-how, and labor training facilities. Accessible loans in the provincial regions enable rural industries to both expand and finance investment in new products and techniques. Well disseminated information, effective technical assistance, industrial extension services, and public-private cooperation in labor training enable rural industries to increase their technological capabilities and productivity growth.

3. Small- and medium-sized rural industries that produce for rural households are already very competitive. Without rural income growth, these industries will continue to compete with each other, producing low-quality products at low prices for low income groups in towns and villages. With income growth, rural industries will be able to upgrade their products and production techniques to produce and supply more products of better quality to consumers with higher incomes. This will lead to the growth of rural industry goods in terms of both enlarging the quantity and improving the quality of these products. Thus, the importance of policies and measures to accelerate rural income and to enhance the technological capabilities of rural industries cannot be overemphasized.

In conclusion, increased rural income can help increase the demand for goods produced by rural industries. On the other hand, rural industry can grow under conditions of market and product diversification. Market diversification is possible if rural income is growing rapidly. The expansion of markets to higher income groups in all regions and product diversification is achieved by producing higher value-added products as substitutes for traditional products or as substitutes for products with low income elasticities. Both rapid rural income growth and the structural change of rural industries in response to changing household demand can be met by introducing measures that promote agricultural growth and agro-based industries, in combination with supply-side financial and technical assistance provided to neutralize any policy biases against rural industries.

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