

LAND SPECULATION, RURAL LAND MARKETS OPERATIONS *CPL Repur Mts*

AND THE EFFECTS ON FOREST LANDS IN THAILAND <sup>1</sup>

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I. INTRODUCTION

Land speculation has recently become an important issue of the Thai society. The spectacular and unprecedented economic growth during the Sixth Plan period <sup>3</sup> is believed to be one of the major factors contributing to the tremendous land speculation. This in turn has resulted in a considerable reduction in forest areas in Thailand. Furthermore, growth potential of the Thai economy is expected to remain relatively high at about 7-8 percent per annum in the next five years, which should, as a consequence, result in an increase in the "real" demand for land, particularly for non-farm purposes such as industrial and recreational, including golf courses and resorts. At the same time, in anticipation of such increase in the "real" demand for land, speculators-cum-investors have bought up lands at sites with good potential for non-farm uses. This has pushed up the "total" demand for land and has resulted in a remarkable increase in land prices all over the country, particularly in certain urban and rural areas. Such a spectacular increase in land prices will inevitably have a significant impact on land use, farm production, income and the economic welfare of the Thai people.

Over the past three decades, a significant change in land use patterns was witnessed. Although agricultural production has increased markedly, it has been attributed to a rapid increase in land expansion, at the expense of forest area which has declined sharply from 58 percent of the total land area in 1960 to only about 25 percent in 1992. Up to now, forest area is still declining even though more stringent measures have been used to arrest this dismal trend. Deforestation has therefore been of great concern to the Thai government.

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<sup>3</sup> From 1987 to 1991, the average growth rate was 10.5 percent per annum.

That forest reserves in Thailand have been mostly encroached upon by the rural people is well known. At present, it is estimated that over 12 million people illegally occupied forest reserved areas of over 40 million rai. In fact, much of these areas have been settled and used for decades. Land selling has found to be more common than before although these lands have no legal documents. Since the start of the economic-boom period (i.e., 1987-1991), sales of forest/public lands have increasingly been active. Policy makers fear that farmers who sell their lands will quickly and unproductively spend their money and then will move on to clear new lands from the remaining natural forests, both protected and reserved, to farm. A

So far, very little is known about the extent and the socio-economic effects of land speculation and land transactions in Thailand. This paper will attempt to throw some lights on the important issue of land market operations and speculation and the effects on forest lands. It will first discuss some major aspects of land speculation, land market operations, and land prices. Then, some preliminary findings from the survey.<sup>1</sup> will be presented.

## II. LAND SPECULATION, RURAL LAND MARKETS OPERATIONS AND LAND PRICE

Land is, among other things, an asset which, by definition, gives the owner the right to claim from it net returns during its life-long period. In case of land, the productive life is indefinite.

The price of land is related to its productive potential. Therefore, land value is determined by two factors, i.e., expected net return and interest rate<sup>2</sup> as it is used to discount future returns or to derive the present value of land.

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<sup>1</sup> Conducted under the Ford Foundation funded research project on Land in the Thai Society being carried out at present.

<sup>2</sup>  $V = r/i$  where  $V$  = value of land,  $r$  = estimated average net return to land expected in the future, and  $i$  = the interest rate

The fact that land prices have skyrocketed in Thailand<sup>1</sup> indicates that people in the land market expect that the net returns from holding landed asset will be very high in the future. To be able to hold lands, people or speculators must have the purchasing power or the fund to invest. The fund needed may come from saving and/or borrowing from various sources, both formal (like banks) and informal (like relatives and money lenders). Hence, the rate of interest and the functioning of the financial markets can play a very important role in land speculation and land price. Beside interest rate policy, credit limitation and/or rationing in the credit market can also have a significant impact.

Expectation, either rational or irrational, is important in the decision-making process of the speculators/investors of land. In either case, market information is essential. Even when rational expectation is used, there could also be errors due to imperfect information, particularly in rural land markets where official data are neither published nor available. This is why getting or collecting information/data is necessary for facilitating rural and transactions. Someone must do it and costs will incur and must be covered by someone participating in the market. In this connection, agents or brokers can perform this important task.

Who are the agents in rural land markets? Available information indicates that village headmen and Kamnans are most important. Other village leaders and merchants may be included but they probably play a little role. This is because the headmen and the Kamnans already possess the necessary information. They know the households and their land holdings and their economic and personal situations. Close social and official relationship and personal contacts provide easy access to information. It is also easy for buyers or land brokers from outside the village to contact village headmen since this is what is being usually practiced. In addition to getting all needed information, persuasion by the headman may be effective. Since an active and commercial land

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<sup>1</sup> The data on land prices are very incomplete and are available only in certain areas in certain years. In the past 5 years, it is not uncommon to find that land prices in certain areas increased by over 10 times. In fact, if the data of the appraised land prices (by the Lands Department for tax purposes), during 1988 to 1992, in some areas outside Bangkok Metropolis increased up to 10 times (Lands Department, 1992). In the rural areas, land prices also increased markedly. The increased is particularly significant in relatively progressive areas as indicated by the data from the Land Titling Project. Land prices in less advanced areas of the Northeast (i.e. Buri Ram and Roi Et) increased by about 250 percent during 1987-1991, compared with about 550 percent in Chiang Mai (Land Titling Project-Final Report, 1993).

transaction is a rather new phenomenon in rural Thailand <sup>1</sup>, persuasion, which also means providing pertinent information to the potential sellers for decision making, may be necessary in many cases. Furthermore, the headman is also important in land transactions, particularly when land documents are not appropriate or are lacking <sup>2</sup>.

It is now generally recognized that the services of the local agents like village headman are necessary. This is why handsome commission fees are paid to them. These fees are the cost of information that must be included in the total cost of land transactions. If this is the case it can be seen that rural land markets are not really competitive in the economic sense, considering that there is no perfect information. Besides, in the early stages of land speculation, the number of buyers may still be relatively small. This kind of monopolistic or imperfect market implies that the returns made by the buyers could be excessive. In other words, speculators are making "superexcessive profit" (Ammar Siamwalla, 1990). If this is the case, many more buyers/speculators will be induced to enter the market. This will make the market more competitive, also implying increased efficiency in land market operations. In the process, excess profit will be disappearing. However, in the case of rural Thailand, there may be a "barrier to entry" due to a lack of information, a lack of fund, and a lack of experience in this type of business dealings.

One interesting aspect of land market operations in rural Thailand is the complex issue of land rights and land documents <sup>3</sup>. In many cases, the lands involved do not have clear titles or some may have a "low quality" land document like Sor Kor 1 (Claim Certificate, not defined in Land Code 1954 but can be converted into N.S. 3 or N.S. 3K, the Exploitation Testimonial). Buying land with S.K. 1 means that the buyer must make an effort to convert it to a higher quality one like N.S. 3. This will entail additional costs to the buyer. In doing this, the headman will be very helpful. For those buyers who are unfamiliar with land rights and land documentation, their transactions may involve some "risks".

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<sup>1</sup> In the past (say, some 20 years ago), selling land, particularly in rural areas, was considered an improper practice. Land was supposed to be inherited to the children later.

<sup>2</sup> As will be mentioned later, there are many types of land documents in Thailand with different types of rights. Most public lands (already occupied for years by villagers), have no legal documents, except in resettlement areas (Onchan, 1990).

<sup>3</sup> See Feder, et. al., 1988 for discussion and analysis of land titles on among other things, prices of land.

In caase of public lands (i.e. forest reserves) which have been occupied by farmers for many years, the buyers may obtain only P.B.Ts. i.e., a local development tax receipts, as documents indicating (illegal) occupation. This could complicate the matter later when an attempt is made by the buyers to convert them into legal or proper documents.

The recent upsurge in land prices has been largely the result of the high growth performance of the Thai economy. As long as this trend continues and no government measures are adopted to affect speculation costs, land market operations will remain active and rural land speculation will continue to be widespread. Speculators will have a higher income made from the excess profit due to market imperfection. Farmers or villages who sell lands will also get a high income and many be better off than before. But this is where a new issue emerges. Who benefits from the spreading land speculation or land transactions? The general belief has been that benefits mostly go to the buyers/speculators because land prices continue to increase sharply, particularly in "prime areas" where potentials for further developments (like resorts, golf course, etc.) are great<sup>1</sup>. At the same time, the sellers/farmers who receive the big amount of money will probably be worse off than before in the long run. This, as is generally assumed, is because farmers will likely spend the money unwisely (probably due to their ignorance or inexperience of holding a large sum of money). They may use it for buying durable consumer goods like pick-up trucks, T.V., motor cycles, etc. and then in a short while will spend all the money they receive. Because they lack skills or opportunities they will clear natural forest lends to farm, causing further deforestation.

How about the benefit to the whole society? The issue of income distribution and land speculation is of interest to many people, particularly policy-makers. This is even more difficult to articulate than the private-benefit issue. If the increase in wealth due to an increase in land value will lead to increased marginal efficiency of investment and increased foreign investment, social benefit may be sizable. Farm lands may now be used for non-farm activities like industrial, resorts and golf courses. These non-farm uses will likely give a higher return to land than if used for farming purposes. Non-farm employment will be available for the rural people. Assuming that non-farm wage rates are higher than farm's, rural income and hence rural welfare will increase.

The picture as painted above may distort the fact that farm lands which have been sold to outsiders may be purely for speculative purposes. This means that lands will be left idle for some time. If this is the case, there will be a big waste. At a

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<sup>1</sup> These areas are usually located in or near forest reserves and/or protected areas like natural parks and wildlife sanctuaries.

macro level. if the practice is widespread it can become a significant social cost. Public actions may be needed to avoid this to happen.

On this particular point, another interesting issue is what use of land is made after the change in ownership. We already mention that land may be left idle. Other two alternatives may be: continue using it for farming and change its use to non-farm purposes. In case of leaving land idle, what is the rationale behind it. The new owner may expect that the increase in land price will be very high and the opportunity cost of land is now low. So he can still expect a high net return from the land even if he does not use it. Another reason for not renting out to the farmers is the fact that rental laws are in effect. This may complicate the transaction or transferring process later. If this occurs, it is also a cost. To avoid the difficulty that might occur, the new owner may allow the former owner/farmer to continue using the land for the same purpose with a relatively low fee. The farmer can help look after his land. By doing this, he will not have much trouble getting the land back for future transactions. This is because he is now close to the headman (who is his well-paid agent) and also by allowing the farmer to use the land, the farmer will feel obliged to respect the new owner which is considered a good Thai tradition. Finally, to use land for other purposes may not come easy unless a plan has been originally made before the land transaction. If this is the case, then it is not land speculation. In fact, it may be of much benefit to the community. However, if the land is particularly fertile, the issue of losing good farm land may emerge. In fact, this appears to occur in many area and therefore is of current concern of the Thai government.

So far we have mentioned land speculation during the economic-boom period. What about the situation when the economy starts to experience a recession or at least a slowdown, as appears to currently happen in Thailand<sup>1</sup>. In theory, economic recession will have a great impact on land speculation and land prices. Funds needed for land purchases will become scarce and probably more costly than before. Expectation of the investors/speculator will become low. This will finally affect the demand, particularly of speculative type, for land. Land prices will be lower and transactions less active. Net returns to speculators will be adversely affected. If the transactions are financed by means of borrowing, the cost of holding the landed asset will be high. This will likely cause a further lower price of land. In reality, however, the decrease in land price may be a slow and gradual

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<sup>1</sup> The growth of the Thai economy has been on a declining trend since 1990, from 12.0% in 1989 to 10% in 1990, 7.5% in 1991 and 7% in 1992.

process<sup>1</sup>. This is because people generally believe that the demand for land will continue to increase due to, for example, population growth which will generate various types of derived demand. Hence, land prices will not likely to decline. This kind of expectation will help keep land speculation alive unless appropriate government policies and measures, particularly of fiscal and monetary types, are adopted and effectively implemented. In this regard, experiences so far indicate a slow policy response which is partly explained by extensive political vested interest in Thailand.

### III. SOME PRELIMINARY FINDINGS

To understand many of the above-mentioned aspects of rural land market operations, including land speculation and their effects, particularly on forest areas, a great deal of data must be collected and analyzed. One of the many fears of many people in Thailand is that the recent boom in land sales would have a detrimental impact on the country's remaining natural forest. They thought that farmers who sold their land would have no other option but to encroach the forests to clear new farmland.

In this connection, researchers involved in a study currently being conducted on the Role of Land in Thai Society sought to answer some of these questions:

- How extensive are rural land sales in the country?
- Who buys the land?
- How do farmers use the money earned from land sales?
- If they purchase new land, where is that land (in forests, etc.)  
And, finally,
- Who is encroaching the natural forests?  
From where do they come? What did they do with their land at their original home?

To obtain the data, a village survey has been conducted in certain areas of Thailand in 1992-1993, this section will present some preliminary findings from the survey which may give some answers to most, if not all, questions. Table 1 shows the percentage of households in each study area that sold land during the past 5 years.

We assumed there would be more sales near provincial centers, along roads, and in other areas of economic growth. This was certainly the case in Nakhon Ratchasima and somewhat so in Chiang

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<sup>1</sup> Relatively big investors will find new ways to make use of the lands. However, for those small buyers who cannot hold on very long due to financial burdens will be particularly affected by the recession. Unless the economy recovers in time, it will be difficult to keep land prices high.

Mai. The surprisingly high number of land sales near in Nakhon Ratchasima provincial center was due to the establishment of an industrial park near the study site. Most selling land in this site first sold it to a fellow villager who served as agent for the industrial park. The land was relatively poor quality.

In all the study sites, nearly all farmers who sold land only sold a portion of their holdings. They sold their most expensive plot or two ... those by the road or river ... but often kept their better agricultural land. Only a very few sold all their land; these were nearly all elderly people who divided part of the money among their children as inheritance, in lieu of dividing their land into small economically unviable holdings.

Table 2 shows to whom the villagers sold their land. By far the largest proportion sold their land to fellow villagers, often to relatives. The next largest amount was to local merchants. Except for the site near Nakhon Ratchasima provincial center, most land sold to fellow villagers was agricultural land, while the land sold to local merchants had other economic value (usually along main roads).

The data also shows that very little land was sold to people from outside the provinces, contrary to our original expectations.

The chief reasons why many people sold their land were:

- to clear debts<sup>1</sup>
- to buy new and better land
- to keep as savings and use the interest earning
- to improve or build a house

Few used the money to buy commercial goods such as motor cycle, pick-up trucks, T.Vs. and other electrical goods. Few invested to improve their farms (except buy new land) and virtually none invested in other economic activities. Only in the study site away from the Chiang Mai provincial center were there some villagers who claimed (in informal interviews) that their children were using the money from land sales to set up new, non-agricultural businesses such as hair dressing, dry goods stores, radio and T.V. repair shops.

If villagers bought new land, where was it located. There were only a few cases of people buying new land in the past 5 years, though many more claimed they want to buy land. Although the numbers are not sufficient to be statistically valid, the data in Table 4 indicate that most land bought by villagers has either

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<sup>1</sup> This is consistent with the findings in other areas in another study conducted in 1990. In Kanchanaburi, for example, pay old debt accounted for 44%, of the total responses (NRC, 1991).



chanote (full title or N.S. 4) or N.S. 3/3K certification (lesser title on private lands). Very few bought land without title or with a form of land documentation less than N.S. 3/3K<sup>1</sup>.

This seems to indicate that most villagers who buy new land with the earnings from land sales do not buy land in forest areas (where no land documentation is usually available) or in other public lands (where other forms of documentation are given that give usufruct but not ownership rights)<sup>2</sup>.

What of villagers now living in newly encroached forest areas? As seen in Table 5, most came from neighboring villages or at least from districts in the same province. The only cases of people migrating to natural forests from other regions were near Huai Kha Khaeng/Tung Yai Naresuan, where nearly a quarter of the encroachers interviewed came from the Northeast, many from as far away as Ubon Ratchathani province from all the way on the country's eastern edge, moving to nearly the western border.

Most people encroached the natural forests because they and their families had little or no land at their original homes. Many were landless and wanted to clear their own farms rather than rent land or work as agricultural laborers. For others, their brothers or sisters or other relatives inherited or were given the small farms at their original homes. Nearly a quarter of the encroachers sold their original lands to relatives or fellow villagers (Table 6). In most of these cases, their original holdings were small; they preferred to buy and clear new, larger, and initially more fertile lands in the forests.

This appears to follow the traditional pattern of expansion of agricultural area in Thailand. The encroachment of farmland in natural forests does not seem a direct result of the land boom and land speculation of recent years ... at least not evident from our surveys. None of those interviewed in the forest areas appeared to sell their original holdings to people from outside their home villages (whether local merchants or other outsiders).

#### IV. CONCLUSION

Long-term rapid economic growth has resulted in unprecedented increase in the demand for land. During the recent economic-boom period, in addition to "real" demand, speculative demand for land has been greatly increased. The rural land markets have become increasingly active, particularly where potential use for non-farm activities is good. Policy makers fear that farmers will sell their lands and then use the money unproductively and finally will

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<sup>1</sup> This is consistent with the NRC study in 1990.

<sup>2</sup> For example, ALRO-401 (issued by the Agricultural Land Reform Office), STK (by the Royal Forestry Department).

further encroach upon natural forest lands. Preliminary findings from the study reveal that although land sellings in rural areas have increased, they occur mainly in certain areas. Land speculation is not found to be common as generally believed and has not posed a serious problem to the depletion of natural forest areas. However, if allowed to continue without proper public measures, land prices may be further increased and forest land clearing for farm an non-farm purposes may also be increased, and finally resulting in depletion of forest areas,

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Table 1 Households Selling Land during Past 5 Years, by Province

	Near Provincial Center	Away from Provincial Center
Roi Et	19%	19%
Nakhon Ratchasima	52%	25%
Chiang Mai	19%	11%*
Phitsanulok		10%

Note: \* Data from survey conducted separately for Accelerated Land Titling Project in 1989. Informants asked about land sales for previous 3 years. All other data from survey conducted for the Study of the Role of Land in Thai Society in 1992. Informants of this survey asked about land sales for previous 5 years.

Table 1A Households Ever Purchasing Land, by Province

	Near Provincial Center	Away from Provincial Center
Roi Et	39%	32%
Nakhon Ratchasima	58%	45%
Chiang Mai	50%	16% <sup>*/</sup>
Phitsanulok		24%

Note: \* Data from survey conducted separately for Accelerated Land Titling Project in 1989. Informants asked about land bought during previous 3 years. All other data from survey conducted for the Study of the Role of Land in Thai Society in 1992. Informants asked about all land purchases.

Table 2 Person to Whom Land was Sold, Cases of Land Sales Only

	Near Provincial Center	Away from Provincial Center
<b>Roi Et</b>		
Fellow Villager	43%	50%
Local Merchant	36%	33%
Outside Province	14%	17%
Other	7%	-
<b>Nakhon Ratchasima</b>		
Fellow Villager	70%	40%
Local Merchant	20%	40%
Outside Province	10%	20%
<b>Chiang Mai</b>		
Fellow Villager	67%	N.A.
Local Merchant	33%	N.A.
Outside Province	-	N.A.
<b>Phitsanulok</b>		
Fellow Villager		56%
Local Merchant		33%
Outside Province		11%

Table 3 Reasons for Selling Land, Cases of Land Sales Only

	Near Provincial Center	Away from Provincial Center
<b>Roi Et</b>		
Clear Debt	36%	33%
Buy New Land	20%	17%
Deposit Money in Bank	10%	17%
Buy Commercial Goods	-	33%
Pay for Child's Education	7%	-
Build New/Improve House	20%	17%
Other	36%	33%
<b>Nakhon Ratchasima</b>		
Clear Debt	20%	60%
Buy New Land	40%	40%
Deposit Money in Bank	30%	20%
Buy Commercial Goods	-	20%
Pay for Child's Education	10%	-
Build New/Improve House	20%	40%
Religious Merit Making	10%	-
Other	30%	20%
<b>Chiang Mai</b>		
Clear Debt	17%	N.A.
Buy New Land	67%	#
Deposit Money in Bank	50%	N.A.
Buy Commercial Goods	17%	#
Invest in Agriculture	-	#
Invest in Other Activity	-	#
		# Major response given in informal interviews
<b>Phitsanulok</b>		
Clear Debt	38%	
Deposit Money in Bank	16%	
Invest in Agriculture	11%	
Pay for Child's Education	11%	
Build New/Improve House	3%	
Religious Merit Making	3%	

NOTE: Totals for each site may be greater than 100% because some households gave more than one response.

Table 4 Titles of Land Bought in Past 5 Years, No. of Titles

	Near Provincial Center	Away from Provincial Center
<b>Roi Et</b>		
Chanote	1	1
N.S.3/3k	1	2
Other	-	1
None	-	-
<b>Nakhon Ratchasima</b>		
Chanote	-	2
N.S.3/3k	2	-
Other	1	-
None	-	-
<b>Chiang Mai</b>		
Chanote	7	8*
N.S.3/3k	2	13*
Other	-	1*
None	-	2*
<b>Phitsanulok</b>		
Chanote		3
N.S.3/3k		3
Other		-
None		3

Note: \* Data from survey conducted separately for Accelerated Land Titling Project in 1989. All other data from survey conducted for the Study of the Role of Land in Thai Society in 1992.

**Table 5 Place of Origin of Settlers in National Reserve Forests Adjacent Wildlife Sanctuaries (Huai Kha Khaeng/Tung Yai Naresuan in Western Thailand; Phu Khieo in Northeast Thailand)<sup>2/</sup>**

	Both Areas	TY/HKK	PK
Original Inhabitants (hilltribes)	12%	20%	--
From Same District	28%	23%	35%
From Same Province, Different District	30%	17%	50%
From Same Region, Neighboring Province	14%	13%	15%
From Different Region	16%	23%	--

**Table 6 Status of Land Held in Place of Origin of Settlers in National Reserve Forests Adjacent Wildlife Sanctuaries<sup>2/</sup>**

	Both Areas	TY/HKK	PK
Still Living at Place of Origin	12%	20%	--
Landless at Place of Origin	48%	40%	60%
Gave Land to Siblings/Other Relatives, or Inherited by Siblings/Others	16%	17%	15%
Sold Land to Siblings/Other Relatives	16%	17%	15%
Sold Land to Neighbors who are not Relatives	8%	6%	10%
Sold Land to People Outside Original Village	0	0	0

Note: \* Data gathered from informal interviews in 7 communities around Huai Kha Khaeng/Tung Yai Naresuan and 4 communities around Phu Khieo. Analysis of data from formal surveys conducted in these same areas is not yet complete. The data are subject to change, pending analysis of data from formal surveys.