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## The Role of Shocks on the Diversification of Rural Households: A Comparison between Thailand and Vietnam

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### Abstract

The paper analyses the relationship between diversification strategies and different types of shocks and risks experienced by rural households in Thailand and Vietnam. The data for this study were collected from a household panel survey conducted within the scope of the DFG research project “Impact of Shocks on the Vulnerability to poverty: Consequences for Development of Emerging Southeast Asian Economies”. In these surveys some 4400 rural households in six provinces in Thailand and Vietnam were interviewed during 2007 and again in 2008 using a questionnaire aimed at measuring vulnerability to poverty. In a first step of the analysis presented in this paper a fixed effects model has been used to identify the major driving forces for income diversification of the rural households in both countries. Next, using the Simpson diversification index households were grouped according to their main diversification strategies namely land or labour diversification, combinations of these and rather specialised households. Through a multi-nominal logit model factors that determine the choice of a household’s diversification strategy was developed. Results indicate that in spite of differences in institutional and policy conditions between the two countries diversification is used as a coping strategy both ex post and ex ante, especially against covariate shocks. However specialisation of lower degrees of diversification is more likely among households in Thailand. On the other hand, in spite of differences in infrastructure agricultural shocks are dominant in both countries. Households experience with shocks and their risk expectation households were found to be the two major factors that have a positive effect on diversification. In addition access to credit and markets, the household’s endowment with labour resources, the education of the household head, and the wealth status of the household are also factors that favour diversification.

**Keywords:** Vietnam, diversification, poverty, risk coping strategies, risk management, Thailand