

Economic Crisis, International Migration and the Labor Market in Thailand^{*}

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RECENT ECONOMIC PERFORMANCE AND ITS IMPACT ON THE LABOR MARKET

Recent Economic Performance

During the past ten years, Thailand's economic performance has been remarkable. In a very short time, she became a newly industrialized country. It benefited the people as per capita income increased from US\$750 in 1986 to US\$2,400 in 1996.

A complex set of external and internal factors contributed to impressive growth. Foreign direct investment increased more than seven times over the period. Thailand has become a leading exporter of medium-high technology manufactured goods and continues to supply the world market with her agricultural products.

Thailand has realized the benefits of export-led growth and there are concerted efforts to develop more permanent types of comparative advantages to strengthen the foundation of Thailand's future development.

The economy started to slow down from two-digit growth since the early 1990s, but it was still quite high at more than 8 percent per annum. A sign of trouble emerged in the second half of 1996 when export growth unexpectedly fell to zero percent. Macro economists pointed to the decline in total world trade, believing that the stagnation of export growth was temporary and would recover with a resurgence of demand from trading partners and more aggressive export promotion by the Thai government.

Yongyuth (1997a) pointed out that in order to maintain the strength and dynamism of the Thai economy, aside from the gradual reform of the political system, the non-political sectors must play a key role in finding effective solutions to the bottlenecks faced by the country. The strengths of the non-political sectors must be put to work in a hurry to build up public confidence since the Thai economy has begun to slow down for the first time in so many years. The growth rate of real GDP dropped to 6.4 percent in 1996 (see [Table 1](#)).

In early 1997, Thailand experienced economic instability for the first time in a decade. As explained by Ivory Tower (1997), the crisis resulted from five imbalances in Thailand's macroeconomic financial position.

(1) Capital account deficit: caused by excessive borrowing by the local private sector from foreign sources since the liberalization of the Thai financial system. The Bank of Thailand introduced Bangkok International Banking Facilities (BIBFs) in March 1993 with the intent of making Bangkok a financial center. In less than four years, the amount lent through BIBFs rose quickly from zero to \$31.2 billion by the end of 1996, constituting almost half of total private foreign debt. Total external debt via BIBFs was recorded at 48 percent of gross domestic product in 1996 and estimated at 55 percent at the end of 1997.

(2) Term imbalance caused by borrowing on a short-term basis for long-term purposes. Cheap loans were used to invest in the property sector, which should have collapsed several years earlier. The funds inflow prolonged the collapse until the end of 1996. As a result, many financial companies faced severe loan problems, which led to the suspension and permanent shutdown of 56 finance companies by the Bank of Thailand.

(3) High debt to equity ratio among Thai-based corporations due to borrowing from both domestic and foreign sources has left many of them in highly vulnerable situations.

(4) Sharp deterioration in the quality of financial institutions has made many of them effectively insolvent.

(5) Excessive issuance of money to support ailing financial firms by the Central Bank fueled speculation against the baht and led to the depletion of net reserves to critical levels. Net reserves dropped from US\$40 billion at the beginning of 1997 to US\$33.8 billion at the end of June on the eve of the managed float of the baht.

The bubble economy started during the administration of Prime Minister Chatchai Choonhavan nine years ago when land prices were inflated. The inflation of land prices was later driven by foreign capital inflows through BIBFs, thus fueling speculation on stocks and land. Huge amounts of short-term loans were taken out by private real estate companies to support their long-term projects. The maintenance of a strong baht caused exports to lose their competitiveness, as demonstrated by zero export growth in 1996. These factors burst the speculative bubble and set off capital flight by mid-1997.

Thailand's economic crisis and the turmoil that followed the baht floatation in July, 1997, has forced the country to seek financial help from the International Monetary Fund (IMF). The government expects a sharp revenue shortfall this year which prompted lavish budget cuts three times, with further cuts forthcoming if revenue targets are not met. The budget cuts have been deemed necessary in light of the IMF's requirement that the government record a one percent budget surplus in fiscal year 1998. In 1997, the economy's growth rate was an estimated zero percent for the first time in three decades. The current account deficit has contracted sharply as imports dropped by 14 percent from the previous year. It has been recommended that the Thai government strictly implement the austerity program (i.e., bitter pill) negotiated with the IMF in order to rebuild economic stability.

The US\$17.2 billion IMF rescue package has shocked many sectors of the economy.¹ Some analysts think that the economy may slide into prolonged recession; these predictions may be justified based on the following incidents. In the first letter of intent to IMF, the government predicted GDP growth rates at 2.5 to 3 percent in 1997 and 3.5 percent in 1998, with sustained growth of 5 to 6 percent from 1999. The second letter of intent to the IMF was very gloomy with the 1997 growth rate revised to only 0.6 percent and expected zero growth in 1998.

The Organisation for Economic Co-operation and Development (OECD), in a key economic forecast, predicts that the Thai economy will suffer the most from the Southeast Asian economic crisis, with growth at 1 percent in 1997, -1 percent in 1998, and 3 percent in 1999.²

The Bank of Thailand's preliminary figures for September showed surpluses in the current and trade accounts for the first time in decades. These surpluses should continue throughout the fourth quarter of 1997, a result of the Thai baht's weakening since the July 2, 1997 float.

TDRI's macroeconomic forecast (December, 1997) shows that the sharp drop in the value of baht would negatively affect the economy and the public. The forecast concurs with the IMF's forecast of 0.6 percent growth in 1997, but estimates a considerably lower rate of inflation at 5.9 percent. Industrial sector growth is estimated at 1.5 percent, while service sector is estimated at -4 percent. The country's trade balance and current account are estimated to be negative, totaling 3.4 percent and 2.5 percent of GDP respectively (see Table 1).

If the country continues to follow the IMF bail-out package into 1998, TDRI forecasts that the value of baht will fluctuate around 41 baht to the US dollar. The economy will record growth at -2.2 percent. The industrial sector will experience growth of -2.1 percent. The service sector should also record negative growth at -3.3 percent despite the fact that the government has declared 1998 and 1999 as "Amazing Thailand" years for tourism promotions. Both current account and trade account would be in surplus to the tune of US\$4.2 billion and US\$3.0 billion, respectively.

The slow down of the Thai economy in 1996 and recession in 1997 would definitely increase the open unemployment rate. This point will be explored further in the next section.

The Impact of the Crisis on the Labor Market

Regional income disparities were exacerbated by a decade of economic boom that was concentrated in the Bangkok Metropolitan Area and the Eastern Seaboard. The concentration of growth created more and more migration from rural to urban areas. The growth of employment in the industrial and service sectors in urban areas has not broken rural household ties. Rather, this growth provided rural households with more wage employment opportunities to

supplement their earnings from agriculture through seasonal migration (Medhi 1995).

The lack of employment and educational opportunities in rural areas and labor market segmentation in urban areas are push factors which have driven some of the most able-bodied men and women to work overseas. The pattern of labor outflows are consistent with sectoral and income disparities and the lack of good opportunities for those with a lower education in the Thai labor market (Chalongphob and Yongyuth 1994).

Labor supply could not keep pace with the rapid increases in labor demand brought about by the enormous changes in the production structure. Labor market tightening was clearly evident from the low open unemployment rates and from the rapid rise in wage rates. Labor market tightening spread out from Bangkok and its vicinities to other provinces nationwide. This was particularly felt in the agricultural sector during peak seasons. Shortages of labor also occurred in fishery and related sectors, the domestic household sector, construction, and small-scale manufacturing (Yongyuth and Sevilla 1996).

Labor shortages and changing attitudes toward menial and low-paid work among the Thai labor force led the Thai authorities to accept low-skilled economic refugees from neighboring countries. The number of illegal migrants increased rapidly from 38,000 in 1987 to about 733,000 in 1996 (Yongyuth 1997b).

The labor market situation has begun to change in recent years as Thai industrialists are forced to cope with volatile export markets characterized by ever increasing competition from the world market. Thai industrialists are adjusting, as evidenced by the transition from low-end labor intensive industries to more capital intensive or labor saving technology. The production of some labor intensive manufacturing products has shifted to neighboring countries with lower wages, a move necessary to maintain their price competitiveness. These structural changes, which are still underway, will create problems for Thai workers with a primary education or less. Thailand is experiencing a labor market dilemma: there are shortages of medium- and high-level educated workers but there are surpluses of workers with a primary education or less.

The labor market dilemma shifted when the bubble economy burst into the ground. The 56 finance firms were permanently closed down. The government and authorities could not quickly resolve the country's economic problems, especially the financial crisis. Many property developers once part of the bubble boom are now suffering or have already suffered from bubble burst. The dream of a high-tech electronic industry collapsed. The automobile industry, once dubbed as a rising star, shrank suddenly as market demand receded, as taxes on automobiles were hiked (on top of the price increases already resulting from the baht devaluation), as the liquidity crunch meant less loan funds for consumer purchases, and as a result of the sharp reduction of purchasing power.

An unmanageable baht float is adding to the private sector's foreign exchange burden, and increasing the volatility of the business environment. These factors, coupled with the lack of confidence in Thailand's economic fundamentals, could prevent the country from staging a full recovery in a short period of time.

The impacts of the economic recession on labor market in 1998 are clear. The tight labor market is disappearing very quickly. There is now a surplus of low- and medium-skilled labor, while shortages in the areas of science and technology have persisted. This pattern is inferred from past labor market and education trends and estimated unemployment as reported in [Table 2](#). The unemployment rate, as estimated by the National Economic and Social Development Board, was .37 million or 1.5 percent 1997, as compared to only 0.11 million or 0.7 percent in 1996.

Thai Farmer Bank Research Center Limited³ forecasts that total unemployment will reach 2.2 million in 1998, assuming GDP growth is -2 percent with an inflation rate of 10 percent. Based on the same model, the sectoral breakdown of unemployment in 1998 is as follows:

Sectors		Currently Employed (mill.)	Unemployed 1998 (person)	%
1.	Construction	1.7	225,300	13.45
2.	Manufacturing	4.3	556,710	13.31
3.	Service	3.4	324,550	9.60

4.	Mining & Quarrying	0.057	3,470	6.05
5.	Transport. and Comm.	1.0	54,090	5.22
6.	Agriculture	15.4	752,000	4.87
7.	Utilities	0.18	6,180	3.48
8.	Total	26.037	1,919,300	7.37

It is expected that that unemployment may be worse as almost a million of illegal migrants from neighboring countries still work in the country, with the expectation that more will enter into Thailand to seek jobs and a better life while a million and more low-skilled Thai workers will be laid-off and also looking for, but unable to find jobs.

EMIGRANTS

Legal Thai Emigrants

Over the past 10 years, more than one million Thai workers have gone to work in many countries, and earned foreign currency to help the country's current account deficit. The main factors contributing to emigration is the combination of persistent income inequality (a push factor) and the high income differential gained from working overseas (a pull factor). Last year, the number of Thai workers going overseas decreased slightly from 202,296 in 1995 to 185,436 in 1996. The share of oversea workers in the major geographical destination, East Asia, declined while other majors destinations, such as ASEAN, the Middle East and Western countries, increased slightly. This is because many Thai workers finished their two-year contracts in Taiwan and only a small number of workers were able to renew their contracts. This indicates Thai workers tried to stay longer while they continued to search for new opportunities elsewhere.

During the past eleven months of 1997, as indicated in [Table 3](#), the total number of Thai workers going overseas continued to decline. It is probable that the total number of workers going abroad in 1997 was probably less than in 1996. The main jobs forms of employment for Thai workers abroad during the past eleven months were production workers, textiles, farmers, metal works, mechanics, electronics, construction, and maids ([Table 4](#)).

The fierce competition among labor exporting countries, such as Vietnam, Indonesia, and South Asian countries, makes it more difficult to find overseas employment. This may retard the efforts of the current Thai government in promoting the export of labor which is desperately needed for earning foreign currencies which could stimulate the economy.

Illegal Thai Emigrants

There have not been any new surveys of illegal emigrants this year. The total number of illegal emigrants reported here were estimated by the Department of Employment, Ministry of Labour and Social Welfare, and other sources. In 1996, there were an estimated 111,637 illegal emigrants, or about 26 percent of all Thais working abroad. These illegal emigrants are concentrated in countries with more advanced economic development than Thailand. These countries include Japan (41,280), Malaysia (36,121), Singapore (4-5,000), Taiwan (4,636), Korea (5,000), Greece and Israel (4,000), Brunei (600), and other countries (15,000). Due to stricter enforcement of migration law among some of these countries, it is expected that the illegal emigrants from Thailand will decrease in the future.

IMMIGRANTS

Legal Immigrants

[Table 5](#) presents the number of semi-skilled and skilled foreign workers who were granted permanent residence under the Alien Act of 1978, temporary workers under the Immigration Act of 1978, temporary workers under Article 12 of the Immigration Act, and the Investment Promotion Act (Board of Investment-BOI). The total number of legal aliens in Thailand reached 316,174 in 1996, a sizable increase from 180,022 in 1994. This represents an increase of 28 percent per annum. In fact, the number of permanent permits have not changed. Only the temporary work permits increased, especially the number of the temporary permits granted under Article 12 of Immigration Law. The increase

was more than 140 percent between the two periods. This resulted from cabinet resolutions in mid-1996 which allowed employers to bring their illegal workers to report to the immigration office and apply for work permits. The issue is discussed in detail in the next section.

However, the number of aliens who received work permits from the BOI increased only 9.7 percent during the study periods. The majority of them are Japanese, Hong Kong Chinese, Taiwanese, and Westerners. They are largely skilled and highly skilled workers in areas of medium-high technology manufacturing where Thailand has faced shortage in the past.

Since June, 1997, the Ministry of Interior, with approval of the Cabinet, was authorized to announce a quota of general aliens to be granted with resident permits, not to exceed 100 people of each nationality in each year. The main purpose is to accommodate aliens who have invested in business in the Kingdom at the benefit of the nation's economy. The amount of funds brought in must be at least 10 million baht. Within three years of the announcement, the number of aliens to be granted permission is limited to 5,000. Recently, the Ministry of Interior also announced that aliens who over-stayed in Thailand can apply for such a resident permit under the same conditions

Illegal Immigrants

In 1995, the cabinet agreed to allow those immigrants who were in Thailand before June 25, 1995, to work and stay in Thailand temporarily under Article 17 of the Immigration Act. At that time there were about 750,000 undocumented migrant workers. After the 90 day period granted to the employers to register their illegal workers, only 293,652 or about 39 percent registered. Of the total aliens that registered, 87.3 percent were from Myanmar, 8.7 percent were from Cambodia, and 4.0 percent were from Laos. The main occupations were construction, agriculture, fishery, and maids. Based on statistics reported by the Department of Employment in late 1997, it was found that 23,704 registered migrants decided to quit and returned home ([Table 6](#)).

However, an October, 1997, survey by the Department of Employment (shown in [Table 7](#)) indicated that the influx of the illegal migrants from neighboring countries has continued. Even though the government has stepped up enforcement at all check points along the border (see [Figure 1](#)). The number of total illegal migrants was recorded at 943,745⁴ as compared to 750,000 reported last year. There are several factors contributing to an ever increasing number of illegal migrants in Thailand. First, there is an enormous wage differential between Thailand and her neighbors, 10 times with Myanmar, and five times with Laos and Cambodia. It was estimated that these migrants workers sent at least US\$1 billion back home each year while Thai entrepreneurs saved at least US\$3 billion on their wage bills.⁵ Second, the lack of work opportunities in their own countries, in addition to unfavorable living conditions, are the main push factors. Third, informally organized networks of private placement agencies with cooperation from both officials and businesspeople helped speed up the influx of illegal migrants. Fourth, there are too many channels along the thousands of kilometers of the Thai border, making enforcement very difficult (see [Figure 1](#)). Finally, some employers never thought the government would launch a major crackdown on them, and should the officials ever do so, they assumed they would be able to bribe the local authorities so that they could continue to hire illegal workers without any problem.

However, the government has stepped up its campaign to seal the border since last year so that there will be no new illegal migrants. Based on statistics released by the Immigration Office, the authorities have intercepted and pushed back more than 130,000 illegal migrants at 53 immigration check points.

The government is now at a cross-road on what to do with these millions of illegal migrants. The pressure has built from various parties for the government to make a decision as millions of Thai workers are looking for jobs as a result of the economic recession.

POLICY RECOMMENDATIONS

There are several policies and guidelines the Thai government could adopt toward solving problems affecting the country's economic development and labor market so that Thailand can achieve a full recovery soon.

Macro Economic Policies

The main problems facing Thailand in the short-run are the sluggish economy due to the unstable baht, lack of liquidity among various business sectors, sluggish investment, lack of purchasing power, and budget cuts. The

government should do the following as recommended by Tarrin Nimmanhaeminda.⁶

- (1) Rebuild confidence in the financial system and ease the tight liquidity to smooth the way for business and the economy;
- (2) Solve the budget deficit problem in such a way as to minimize the impact on people. Implement measures that will create employment, promote farm production and ensure better welfare for people;
- (3) Promote foreign exchange earnings from exports and service industries such as tourism;
- (4) Map out measures to alleviate the hardship on people caused by the rise in the cost of living and unemployment;
- (5) Work closely with the IMF to restore confidence in the baht and stabilize the currency.

In the medium-long run, the government should turn this crisis into opportunity by promoting structural change in the industrial sector and changing the way that Thailand promotes industry. The government has to eliminate the decision to promote selected industries, especially in those which required substantial capital. However, the investment decision should be left in the hands of the private sector. Thailand should focus on building local competitiveness by upgrading the capability of Thai industries. This includes quality enhancement, truly understanding our customers, and focusing on customer satisfaction.

In the long-run, labor productivity must increase to match with the rise in wage rates. The main strategies include: (1) broaden the educational background of the Thai workforce; (2) promote opportunity for continuing education and skill development among workers; (3) make educational planning more consistent with demand in the real production sector; (4) On the Job Training should be treated as a core activity in the tradable and non-tradable sectors; (5) apprenticeships should be promoted.

Strategies to Reduce Unemployment

To cope with potentially high levels of unemployment, the following measures should be introduced:

- (1) Improve the ability of the labor market to adjustment by improving the efficiency of information dissemination and job placement services.
- (2) Promote re-training of laid-off employees to prepare them once new opportunities emerge.
- (3) Promote self-employment in both urban and rural or agriculture areas. Such programs will be more effective if supplemented by sound credit schemes and courses to improve entrepreneurial skills.
- (4) Immediately assist the hard core unemployed to survive through existing welfare programs.
- (5) During the deep crisis, the employer and employee must endure the hardship together. Hence a good relationship between them is extremely important. Labor disputes could further reduce the competitiveness of firms which will eventually hurt employees. Employers should take the opportunity during the production slowdown to improve employee capability through skills upgrading.

Migration Policy

The number of laid-off employees is increasing. Thousands of those who could not find new jobs are now returning to their respective hometowns. The majority of the return migrants head back to the poorest regions of the country where local job opportunities are limited. Now many people are concerned about what to do with almost one million illegal alien workers throughout Thailand, of which only less than 300,000 are registered. A House Labor and Social Welfare Committee⁷ said recently that all of these alien workers must be repatriated to prevent them from competing with Thai workers for jobs. It has been proposed by the Ministry of Interior recently that the government could allow employers to register the remaining 600,000 undocumented alien workers so that these illegal workers are on the record. This will reduce the threat to national security. Kachadpai Burusapattana, Deputy Secretary General of the National Security Council pointed out that Thailand should enter into labor agreements with neighboring countries in order to stop the

flow of illegal workers. Such agreements would help control the flow of migrant workers as well as protect their rights.⁸

However, the committee opposed the Ministry of Interior ideas for fear that alien workers will dominate the lower-skilled labor market. The influx of alien workers has posed a threat to job security since Thai workers could lose their jobs to immigrants. So the alien workers must be sent back home and concerned agencies must launch drastic crackdowns on illegal migrants by arresting and sending them back home.

This point of concern is confirmed by the new Minister of Labour and Social Welfare, Dr. Trairong Suwannakhiri as evidenced in one of the Ministry's measure to remedy the problem of unemployment. The Ministry intends to push back illegal workers to make room in the market for an estimated one million unemployed Thai workers. In June 1998, 300,000 registered migrants from neighboring countries will complete their two-year terms, and the Ministry intends to repatriate all of them. In addition, another 700,000 undocumented migrants will soon be arrested under the repatriation policy.

Under these economic circumstances, the policy of introducing another round of registration of illegal migrant workers proposed by Ministry of Interior, would not be possible, at least until the crisis is over.

Labor Market Integration and Cooperation

There are variations in levels of development across ASEAN countries, however the ASEAN countries are integrating due to the increasingly freer flow of goods and investment (Chalongphob 1997). Incomes are expected to gradually converge but this process is likely to take a long time, especially with some of these countries experiencing economic downturn.

There are possibilities to explore how the skilled labor market can become more integrated. It could start with freer flows of highly skilled and professional level workers and later skilled, semi-skilled, and unskilled workers. To stimulate these flows, benefits and insurance should be gradually developed which cover the ASEAN region so that the worker can continue to receive benefits even though they are working temporarily in the other countries. The framework to deal with both legal and illegal migrants should be addressed at the ASEAN level.

The ASEAN member nations could benefit from sharing their experiences on human resource policy and development planning. Any cooperation among member nations in training program should provide mutual benefits to all members (Yongyuth 1977b).

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