

Labor Market Issues in Thailand*

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GENERAL CHARACTERISTICS OF THE THAI LABOR MARKET

The Thai labor market can be characterized as a segmented labor market, consisting of formal and informal labor markets. Laborers who work in the formal market get higher wages and are covered by the Labor Protection Act as well as many social security programs.

In 1994, more than half of those employed (17.8 million) were working in the agricultural sector. Because that sector accounts for the majority of the labor force, the following discussion will focus on labor force activities in the third quarter when most cultivation takes place.¹ In the same year, the manufacturing, commerce and service sectors each employed approximately 12 percent (3.6-3.9 million) of the total number of people employed (32 million). The commerce sector has enjoyed a high rate of employment growth, its share increasing to 17 percent in 2002, which is significantly higher than the percentage of people employed in the manufacturing and the service sectors. In 2002, agriculture accounted for 15.8 million workers, or 50 percent of the total employed (Table 1).

Male workers slightly dominate the Thai labor market. In 1994, males accounted for 54 percent of the

total labor force, or 17.7 million male workers out of a total of 32 million workers. In 2002, male workers increased to 19.3 million, whereas the total labor force was 35 million. Data from the Labor Force Survey (LFS) show that the male labor force participation rates are always higher than those of the female labor force.² In 1991, labor force participation rates for male and female workers were 92 and 74 percent respectively (Figure 1). The gap between the male and female labor force participation rates ranges from 17 to 19 percentage points. In 2002, the male and female labor force participation rates were 89 and 70 percent respectively. However, the labor force participation rate of female workers increases in round 3 of any year, i.e., in the wet season. Also, female workers are more likely to participate in the informal sector than male workers.

In 1994, approximately 9 percent of the labor force (or 3 million) were in the age group 15-19. As the birth rate declines and more young people attend school, the number and the proportion of the labor force in this age group have declined (Table 2). On the contrary, for those in the age group 50 and older, the number and proportion in the labor force have increased.

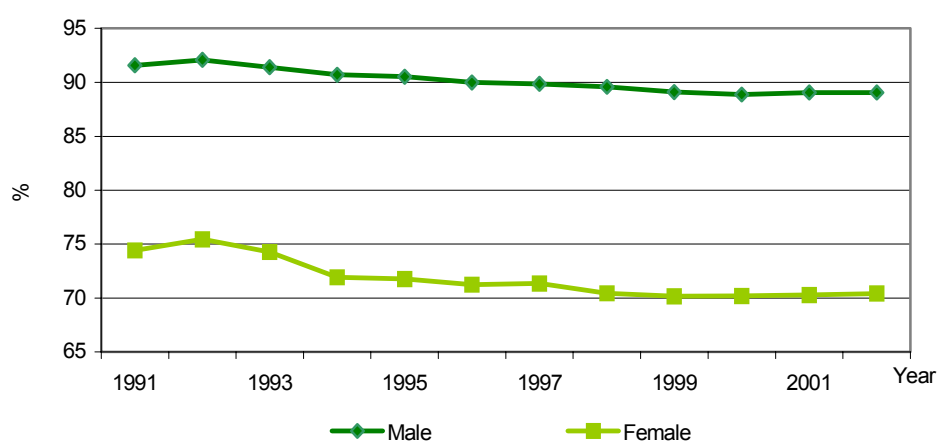
Table 1 Labor Force by Industry (thousands)

	1995	1996	1997	1998	1999	2000	2001	2002
Total labor force	32,750	32,603	33,194	33,254	33,106	33,849	34,526	35,029
Economically active population	32,702	32,442	33,090	33,177	32,969	33,690	34,418	34,938
Employed	32,339	32,093	32,797	32,047	31,991	32,882	33,523	34,322
Breakdown by sector:								
Agriculture	16,748	16,030	16,464	16,387	15,487	16,021	15,451	15,843
Manufacturing and mining	4,409	4,368	4,316	4,225	4,436	4,813	4,787	5,080
Construction	1,843	2,162	2,004	1,282	1,285	1,277	1,408	1,620
Utilities	168	143	177	178	158	172	101	96
Commerce	4,075	4,348	4,557	4,467	4,745	4,798	5,432	5,510
Transportation	987	956	974	925	990	951	977	964
Services	4,109	4,086	4,305	4,583	4,889	4,850	5,366	5,209
Unemployed	363	349	293	1,130	979	808	895	616
Seasonally inactive labor force	49	162	104	77	136	159	108	91
Economically inactive population	10,164	11,011	11,135	11,798	12,676	12,646	12,576	12,687

Source: Based on the Labor Force Survey (round 3).

* This paper was presented for discussion on the topic "The Labor Market Issues in Asia" at the Fifth Global Development Network (GDN) Annual Conference on Understanding Reform, New Delhi, India, January 28-30, 2004.

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Figure 1 Labor Force Participation**Table 2 Labor Force by Gender, Age Group, Education, and Region (thousands)**

	1995	1996	1997	1998	1999	2000	2001	2002
Total labor force	32,750	32,603	33,194	33,254	33,106	33,849	34,526	35,029
Classified by gender								
Male	17,827	17,881	18,109	18,272	18,256	18,604	19,040	19,302
Female	14,923	14,723	15,085	14,982	14,849	15,245	15,487	15,728
Classified by age group								
15-19	2,776	2,455	2,255	2,157	1,912	1,956	1,958	1,756
20-29	9,423	9,368	9,479	9,304	9,130	9,092	9,260	9,263
30-39	8,752	8,793	8,971	8,988	9,062	9,177	9,286	9,452
40-49	6,193	6,428	6,714	6,932	7,113	7,346	7,527	7,715
50-59	3,832	3,842	3,916	4,022	4,064	4,272	4,349	4,584
60+	1,773	1,717	1,858	1,851	1,824	2,006	2,146	2,259
Classified by education								
Primary or lower	25,469	24,998	24,838	23,542	22,965	22,995	22,852	22,897
Lower secondary	3,010	3,316	3,475	4,095	4,096	4,390	4,443	4,580
Upper secondary	1,097	1,029	1,234	1,471	1,682	1,915	2,152	2,431
Lower vocational	879	893	956	1,024	974	1,024	1,134	1,130
Higher vocational and diploma	785	727	797	979	1,048	1,089	1,202	1,237
University	1,510	1,640	1,894	2,144	2,341	2,436	2,744	2,754
Classified by region								
Bangkok and metropolitan area	3,686	3,770	4,035	4,075	4,061	4,264	4,430	4,449
Central	7,318	7,368	7,459	7,573	7,614	7,747	7,928	8,112
North	6,363	6,272	6,238	6,341	6,417	6,436	6,478	6,444
Northeast	11,394	11,174	11,386	11,144	10,820	11,212	11,339	11,609
South	3,989	4,019	4,076	4,121	4,194	4,190	4,351	4,416

Source: Based on the Labor Force Survey (round 3).

Table 2 shows that most of the Thai labor force has a low education level and lives in the northeastern and central parts of the country. In 2002, approximately 71 and 14 percent of the labor force had a primary education and a lower secondary education respectively. Such a labor force composition might make it more difficult for Thailand to evolve into an advanced economy and be competitive in a globalized environment. The shares of Bangkok and surrounding provinces in the labor force have been declining. This might imply that

more economic activities have expanded to other regions. For example, the share of the northeastern region in employment increased from 22 percent in 1994 to 36 percent in 2002.

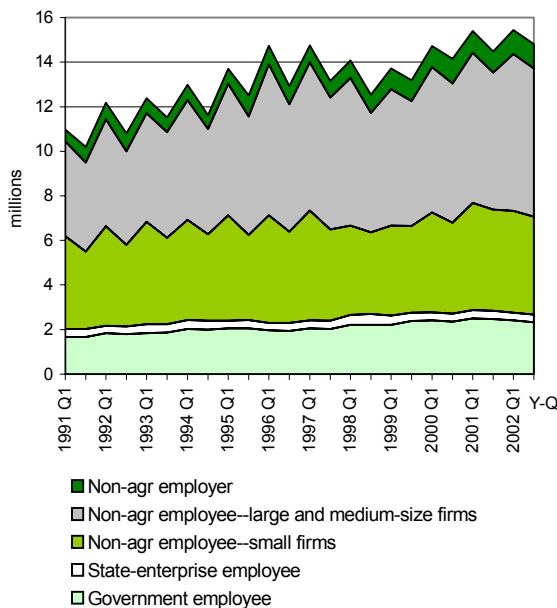
Dualism

We define workers in the formal sector as those who work as government employees, state-enterprise employees, and private employees and employers in the

non-agricultural sector, since these workers are protected by the Labor Protection Act and are covered by many kinds of social insurance. Those who work in the formal sector face various barriers to entry; for example, they must have a high level of education, be able to access some job-related information, be able to network well or be a land owner. Some might say that private employees in small firms employing 10 or fewer workers should be considered under the informal labor market as they are in a perfectly competitive labor market. Since private employees in small firms are protected by the Labor Protection Act and the Social Security Act, in the same way as employees in medium and large-size firms, in this discussion we consider them as being in the formal labor market.

Workers in the formal sector accounted for 34 percent of the labor force in 1991 and increased to 44 percent in 2002. The seasonal pattern of the number of workers in the formal sector (as shown in Figure 2) is caused mainly by the seasonal mobility of laborers in private enterprises, especially those in the small and medium-size firms. Unskilled workers move from the formal sector to the informal sector, specifically the agricultural sector, in the third quarter of the year (i.e., in August). Since the unskilled and agricultural labor markets are free-entry competitive markets, the movement between the two sectors is normal. However, the development of the Thai labor market has witnessed more and more laborers moving into the formal sector where there are barriers to entry. Also, the cost of seasonal moving between the two sectors has increased. As a result, the difference in the number of workers between the first quarter and the third quarter has become smaller.

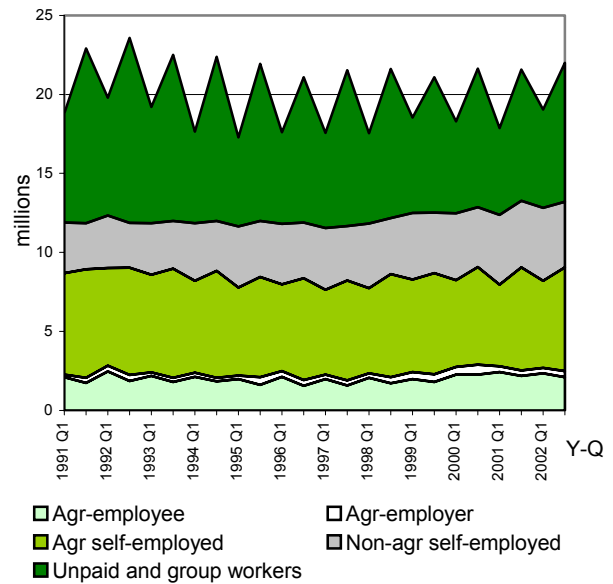
Figure 2 Workers in the Formal Sector in Q1 and Q3



The share of workers in the informal sector was almost 70 percent in 1991, but decreased to be less than 60 percent in 2002. Self-employment is the main work status for the informal sector (Figure 3). The number

self-employed ranged between 10 million and 11 million. Unpaid family workers are the second largest group in the informal sector. This type of worker is strongly determined by agricultural season. The number of unpaid family workers reached a peak annually in the third quarter. Most workers in this group are female.

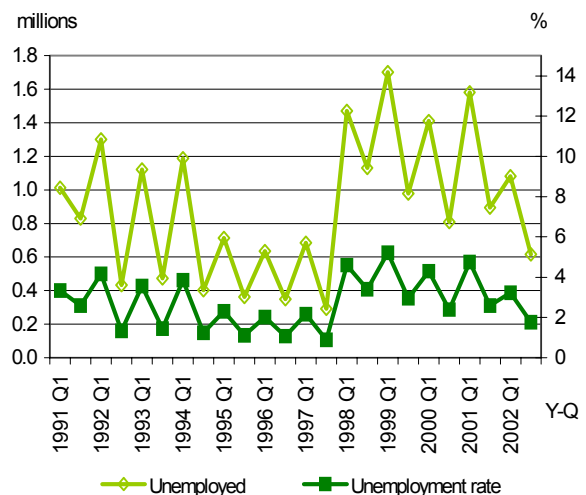
Figure 3 Workers in the Informal Sector in Q1 and Q3



Unemployment

The unemployment rate of the Thai labor force is quite low compared with that of the OECD countries. The third quarter of the year always shows a lower unemployment rate than the first quarter. The average unemployment rate in the period 1991-1997 was 2.2 percent and in the period 1998-2002 it was 3.5 percent. The number unemployed was the lowest (300,000 unemployed workers) in the third quarter of 1997 (Figure 4). The number unemployed reached the highest level in the first quarter of 1999 when 1.7 million workers were out of work.

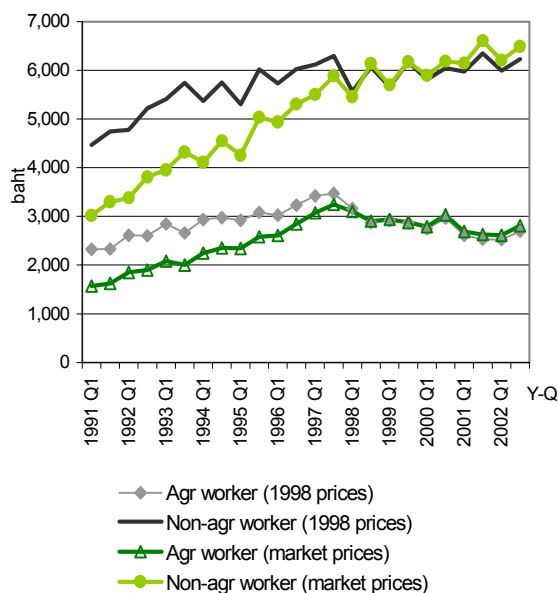
Figure 4 Unemployment in Q1 and Q3



Wages

Workers in the informal sector earn lower wages than those in the formal sector. Private employees in agriculture earned an average of 1,569 baht (US\$ 40) per month in the first quarter of 1991 (Figure 5) but private employees in non-agricultural work earned 92 percent more (3,019 baht or US\$ 75 per month). The gap between agricultural and non-agricultural wages was wider in 2002. In the first quarter of 2002, non-agricultural workers earned 6,201 baht per month, 137 percent higher than agricultural wages. During the period 1991-2002, the average quarter-on-quarter growth rate of monthly wages for non-agricultural workers was 6.69 percent and for agricultural workers 5.33 percent. Non-agricultural workers experienced a negative growth rate in wages only once in the third quarter of 2002 (when the quarter-on-quarter growth rate was -1.69 percent). However, agricultural workers had to bear with negative growth in their wages from the third quarter of 1998 to the first quarter of 2000 and from the first quarter of 2001 to the first quarter of 2002. Their monthly earnings were lower than working for a minimum wage for 22 days in a month. Figure 5 also shows that the real wage of agricultural workers was highest in 1997 after which it declined. The real wages of non-agricultural workers in 2002 were about the same as in 1997.

Figure 5 Average Monthly Wages



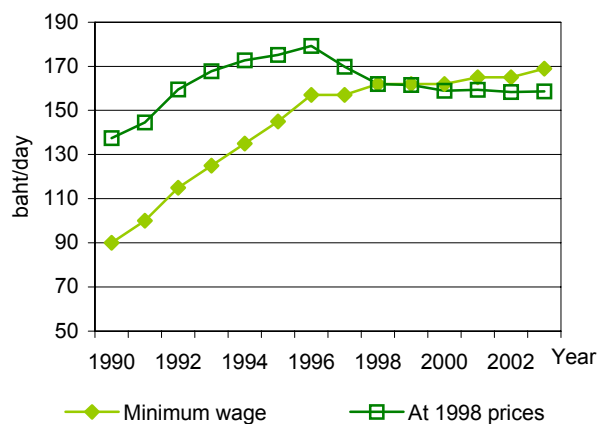
Minimum Wage

The minimum wage law in Thailand has been enforced since 1972. At the beginning, it was enforced only in Bangkok and the metropolitan area. In 1974, nationwide enforcement began. At that time, the minimum wage rates were established for three areas: Bangkok and the metropolitan area, 38 large provinces, and the re-

maining provinces. An amendment to the Labor Protection Act in 1998 allowed the minimum wage (tri-partite) committee to adjust the minimum wage in each area based on the cost of living, inflation, standard of living, cost of production, firms' competitiveness, labor productivity, GDP and other economic and social conditions. In 2004, there were 14 minimum wage levels, ranging from 133 to 170 baht.

The minimum wage rate for Bangkok and the metropolitan area grew very fast in the period 1991-1996 (Figure 6), with the highest annual growth rate of 15 percent in 1992. The rates were adjusted slightly after the 1997 financial crisis, with the annual growth rate of 1 percent in the period 1997-2003. The real minimum wage, however, moved in a direction opposite to the nominal minimum wage, dropping by 5.3 percent in 1997 and 4.6 percent in 1998. During the period 1997-2003, the real minimum wage grew at a rate of -1.7 percent on average. Data from the LFS show that in the third quarter of 2003 approximately 36 percent of private employees earned below the minimum wage. Among these employees, approximately 62 percent worked in firms employing 1-9 workers, 78 percent had attained a primary or lower level of education, 52 percent were female, and 41 percent worked in the agricultural sector.

Figure 6 Minimum Wage Rate for Bangkok



Labor Protection and Welfare

As a member of the International Labour Organization (ILO), Thailand has tried to comply with ILO conventions related to the International Labour Standard. In the period when democracy began to flourish, the first labor protection law was enacted in 1975. With the changing political environment and labor market dynamism that ensued, the labor protection law was amended. Currently, Thai workers are covered under the Labor Protection Act 2541 (1998). The Act protects workers in terms of the general right of employees, working hours, women workers, child labor, wages and other payments, holidays and leave, labor welfare, occupational safety, severance pay, complaint for fairness, the Labor Welfare Fund, the Minimum Wage Committee, and various regu-

lations and punishments. The Act, however, does not cover government and state enterprise employees, and the employees in agriculture or home-based workers.

Other forms of welfare for workers are the contributory social security schemes under two laws: the Social Security Act 2533 (1990) and Workmen's Compensation Act 2537 (1994). The social security schemes provide sickness, maternity, invalidity, death, old age, and survivor benefits, and child allowances for non-agricultural employees working in firms with 10 or more workers. In 2002, the coverage of the social security schemes was extended to non-agricultural employees in firms of all sizes. In 2004, the unemployment insurance program took force. Employees and employers contribute 5 percent and the government contributes 2.75 percent of insured earnings for benefits under the Social Security Act. Employers contribute 0.2-1 percent of insured earnings for benefits extended under the Workmen's Compensation Act. At the end of September 2003, there were 7.35 million insured persons and 320,000 registered enterprises.

The enforcement of the social security and the labor protection acts has been inefficient. The LFS and administrative data show that in 2001 many employees were not covered by the social security system. About half of the employees in the northeastern region and in the construction sector were excluded from the social security system. Only 60 percent of employees working in firms with 10-99 workers were covered. Moreover, the special module of the LFS in 1998 showed that approximately 95, 80 and 50 percent of laid-off workers in firms with one to nine employees, 10-99 employees and 100 and more employees, respectively, received no severance pay as called for under the Labor Protection Act (Figure 7).

Figure 7 Percentage of Laid-off Employee Receiving Severance Pay



It can be said that private employees get unequal treatment from the social security and labor protection

acts. Employees in agricultural industries and home-based workers receive no social security benefits and are not protected by law. Besides working in a hazardous environment, agricultural workers also earn lower wages. Therefore, the Thai government should pay more attention to the extension of social security benefits to these workers.

Unionization

Private enterprise and state enterprise employees gained the right to form labor unions under the Labor Relations Act 2518 (1975). The Act provides regulations for employers and employees wishing to form unions, associations, and federations. State enterprise employee unions were considered to be strong prior to 1991 when the National Peacekeeping Committee staged a coup d'état and announced martial law. After 1991, state enterprise employees were not allowed to form a union or be a member of any labor union. Moreover, Article 19 of the State Enterprise Employee Relations Act 2534 (1991) prohibits strikes by state enterprise employees under all circumstances.

In 1990, there had been 713 labor unions, 129 of which were formed by state enterprise employees. After the law was amended in 1991, state enterprise employees could set up only 36 associations. In contrast, private employees formed more labor unions from 1991 to 1996. However, the number of unions decreased by 5 percent in 1997, the year of the financial crisis, but increased after that.

The LFS in round 3 of 1998 showed that only 2.9 percent of wage earners in the private sector were members of a labor union. This proportion is quite low compared with other countries. In Malaysia, the Philippines and South Korea, about 9, 11 and 11.2 percent of the labor force, respectively, were members of a labor union in 1998. The low rate of unionization could be related to the lack of labor protection extended to workers while forming a union as well as a "free rider" problem (Behrman et al. 2000). The Act states that negotiated results also apply to the non-members of a union.

However, the rate of unionization will likely increase in the near future since the State Enterprise Employees Relations Act of 2000 is now being enforced. According to that Act, at least 10 employees can initially set up a union. After the establishment of a union, the union members must comprise at least 25 percent of the state enterprise employees. This new Act was the result of collective bargaining with AFL-CIO, ICFTU and Thai labor unions. As Thai labor unions continue to coordinate with international labor unions, it is expected that they will negotiate with the government on issues such as labor standards and welfare and anti-globalization.

Immigrant Workers

Immigrant workers in Thailand comprise skilled and unskilled workers. The skilled immigrant workers

enter the Thai labor market legally. They are mostly in firms receiving industrial promotion privileges under the Board of Investment. Approximately 70 percent of them are professional managers and technicians. Twenty percent of them are from Japan. In 2002, there were approximately 71,000 skilled immigrant workers in Thailand (Yongyuth et al. 2003).

It can be said that Thailand has gained from having these workers as they filled labor shortages in certain areas.

The immigrant workers who generate high economic benefits as well as social costs for the Thai economy are the unskilled immigrant workers. Most of the unskilled immigrant workers are working illegally; they work in the fishing industry, low-standard factories, and farms. Many such female immigrants work as housemaids. These workers are not protected by the Labor Protection and the Social Security Acts. As they are illegal workers, they are exploited. Their working conditions are poor and their wages are low. Pressures from inequalities and exploitation might be among the reasons for a high crime rate involving workers and their employers.

The Thai government has no clear policy to manage the shortage of unskilled workers and unskilled immigrant workers. Temporary measures were introduced in 2001 when the government allowed illegal immigrant workers to register with the Department of Employment. Workers had to pay a registration fee of 1,200 baht (or US\$ 30). This amount was used to defray the cost of the immigrant workers' healthcare. The registered immigrant workers will lose their work status and become illegal workers if they resign from their current employer. As a consequence of the policy, approximately 568,000 unskilled immigrant workers registered; approximately 1 million immigrant workers remained unregistered.

The lack of a clear immigrant worker policy generates high social costs while the employers enjoy benefits: they gain from low labor costs and make high profits. However, the public has to bear the healthcare and education cost of illegal workers and their families. In 2002, the Ministry of Public Health absorbed costs of 115 million baht (approximately US\$ 2.9 million) in un-

paid bills of the immigrant workers. Moreover, the Ministry of Education provides free formal education for approximately 151,000 "non-resident" children (or stateless children). It is believed that many such children are left without an education and many immigrant workers could not afford medical treatment. A good policy on immigrant workers should be initiated to improve immigrant workers' well-being and to impose undistorted costs on the employers and public.

ENDNOTES

- ¹ The data on the Thai labor market are mainly from the Labor Force Survey (LFS), which has been conducted regularly by the National Statistical Office (NSO) since 1963. Rounds one and three of the Survey are conducted in February (during the dry season) and August (during the wet season).
- ² The labor force participation rate is a percentage calculated by dividing the number of people aged 15 and older who are both employed and unemployed (or those who are in the labor force) by the number of people aged 15 and older who do not attend school and are able to work.

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