

# **Labor Market Issues under Trade Liberalization: Implications for Thai Workers**

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## **Abstract**

This paper analyzes the impact of trade liberalization on the labor market in Thailand. The impacts on wages, employment, gender roles, labor standards and protection, human development, and unionization are investigated. Such impacts vary among different sectors and in different aspects. The negative impact on workers, compared to other stakeholders, is shown to be a major concern. Workers are shown to have bad working conditions, less protection, and less bargaining power. Since a more competitive atmosphere from freer trade forces firms to adjust their working environment, firms have to consider upgrading human resources, which will thereafter help firms to make a cost-effective adjustment and enhance working conditions. To cope with international standard from trade liberalization, the Labor Protection Law should be amended to include workers in the informal sector, such as home workers, part-time workers, subcontracting workers, and temporary workers. In addition, the Labor Protection Law should be linked to skill development and work safety.

JEL Classification: J5, J6, J8

*Key Words:* Trade Liberalization, Labor Market in Thailand

# 1. Introduction

In the last few decades, most developing countries have been living in a world characterized by the conjugation of three factors, namely *globalization*, rapid *technical change*, and intense *competition*. An analysis of the current economic situation starts with globalization, and then considers technical changes and competitiveness as the decisions of policy-makers. Globalization has given rise to concerns about its impacts and about the effects of mobility of capital on inequality, in particular about how globalization affects both capital and labor. Workers are concerned about their incomes and job security. In other words, with the consequences of globalization, how much bargaining power does labor have? Workers are greatly exposed to the uncertainties that may come along with globalization, and are particularly fearful of immiserisation and the possibility of unemployment. The main difference between the present world of globalization and earlier times is that, before, both labor and capital were equally mobile, while now, financial capital is more mobile while labor is remarkably less mobile<sup>1</sup>. Diwon (2001, 2002) argues that there are two implications of globalization affecting capital and labor. First, the burden sharing of negative shocks between labor and capital is most likely unequal, and labor ends up bearing a larger burden. On the other hand, if globalization benefits certain sectors, labor benefits less in comparison. Second, in a world of greater mobility of both financial and physical capital, labor for each country will have to compete harder to attract capital, leading to lower wages.<sup>2</sup> At present, the existing degree of globalization is driven more by the opening of trade and investment of the respective country. Detailed studies of trade liberalization are needed to investigate those implications linked to production factors in the market.

Also, in Thailand, trade globalization or trade openness created by trade liberalization has brought both benefits and costs to the Thai economy, both changes and responsive reactions, and both wider choices and social tensions. Positive net gain from trade on overall welfare is possible, but it may not be realized unless domestic structural adjustment takes place. As an abundant labor force, Thai labor should gain from higher demand for labor-intensive products due to greater trade liberalization. However, its impact on income distribution is a cause of concern. To start thinking about the impacts of trade on labor, the following theoretical approaches in trade can be used: (i) the Heckscher-Ohlin Theorem (H-O)<sup>3</sup>, (ii) the Stoper-Samuelson Theory (S-S)<sup>4</sup>, and (iii) the Rybczynsky Theory.<sup>5</sup>

The relationship between trade liberalization and its implications for labor in Thailand cannot be explained by using theoretical predictions alone for a number of reasons. First of all, Thailand has gone through structural adjustments including the adoption of unprecedented economic reforms involving trade liberalization, privatization of state-owned enterprises, and deregulation of the financial and capital markets, all of which have caused fast and deep changes in the Thai economy. Secondly, what the country did in the past was launch a policy

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<sup>1</sup> Physical capital is also much less mobile and cannot credibly threaten to flee abroad easily. Thus, when we speak of the mobility of capital we mean mobility of financial capital, while international movement of physical capital would come in the role of foreign direct investment or investment in the real sectors (Felipe and Sipin, 2004).

<sup>2</sup> However, this argument has been given less credence since a number of studies explain the behavior of capital inflow as mainly caused by productivity and economic performance of the countries involved.

<sup>3</sup> The H-O theorem states that for a country that has a comparative advantage in the production of goods that involve intensive but abundant labor, a relatively cheaper price should result. Thus, countries in which labor supply is relatively abundant, especially those developing countries including Thailand, should specialize in the production of labor intensive goods, and vice-versa for countries whose capital supply, or capital stock, is relatively large (e.g. developed countries).

<sup>4</sup> The S-S theorem was the first theoretical formulation to explain the effects of free trade on income distribution among production factors. The basic result of the S-S theorem is that protectionism increases the returns to a scarce production factor, such as labor in developed countries and capital in developing countries. On the contrary, trade liberalization should increase labor wages in developing countries and improve income inequality where labor is abundant. The opposite is expected to result in developed countries due to capital abundance. In the case that a country faces a policy of trade liberalization, inverse results would be observed. The return to capital falls by a larger proportion than the price reduction of the imported good, at the same time that the return to labor increases, since the country specializes in the production of good A.

<sup>5</sup> The Rybczynski Theory claims that, with the production with labor-intensive goods, the growth of labor employment should increase, thus creating more jobs. Therefore, given this theoretical prediction, had Thailand become involved in trade liberalization and produced more labor-intensive goods, the overall wage earnings and numbers of workers employed would have increased.

of promoting import substitution, which was followed since the 1960s and determined how resources were used. Consequently, the remuneration of productive factors and the rate of investment have been influenced directly by the orientation of industrial and trade policies. Moreover, the allocation of resources is sensitive to the structure of protection. As a result, the allocation of labor, including the return on wages, may differ.<sup>6</sup> Thirdly, because Thailand, as well as many other developing countries, has received large amounts of foreign direct investment (FDI), it tends to rely on foreign technologies by importing them from developed countries (Japan, the USA, and European countries) rather than creating its own technologies.

Nonetheless, how trade liberalization affects the different production sectors depends on a number of factors, for example factor intensity of production (i.e., whether capital intensive or labor intensive), status of the technology (i.e., whether it is up to date or not), and structural changes within the industries. However, a number of studies have analyzed the impacts of trade liberalization on labor markets, such as job creation or job loss. Studies on the effects of international trade exposure to job creation often focus on the effects at the aggregate level of employment and production, without distinguishing among part-time, full-time, and overtime employment. More desegregated studies of trade liberalization's effect on wages, skill premiums, unemployment, job security, and gender inequality have, however, received less consideration. This paper intends to explain the conceptual linkages of trade liberalization, such as AFTA and other liberalizations, on various labor market outcomes in Thailand. It starts by examining the general issues of wage earnings and share of employment and proceeds to cover labor standards and protections, the flow of labor through migration, human development, gender issues, and unionization. We also carried out tripartite interviews with employers, employees, and government officials to obtain more information of the linkages. In the end, we discuss various policy implications of trade liberalization on labor issues in Thailand.

**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

Source: Thailand's Labor Force Survey

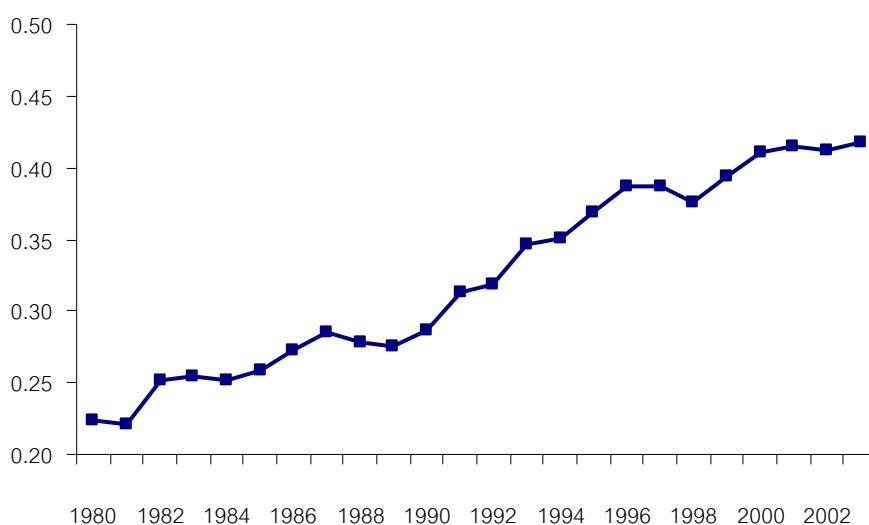
## 2. Trade liberalization and wages and employment of Thai workers

Theoretical support for this study comes from the views of labor economists. This study takes, as a starting point, a model similar to the H-O framework, in which trade liberalization should shift labor demand towards the factor with which an economy is relatively more endowed. In an economy that has liberalized trade, domestic producers and exporters often find themselves in imperfectly competitive market structures such as oligopolistic and monopolistic competition. Hence, the fiercer competition due to trade liberalization in an imperfectly competitive product market opens up scope for bargaining in labor markets. The bargaining situation due to market imperfections varies among different types of workers.

<sup>6</sup> Krueger (1998) argues that such a policy can distort relative prices by moving resources away from activities in which the country has comparative advantages and causing more production of goods of lesser quality but at a higher price.

Similar to the labor markets in many other developing countries, the Thai labor market consists of a large proportion of workers who are non-wage employees and who work in the informal sector. Non-wage workers are classified as (1) own-account workers and (2) unpaid family workers, which accounted for, respectively, about 32.7 percent and 25.5 percent of total employment in 2003. The sum of those two is the ratio of workers in the informal sector to total employment. These workers might be considered by the Labor Force Survey as non-wage workers; this includes workers who work in an enterprise that typically operates on a small scale with a low level of organization.

**Figure 1: The Share of Wage and Salaried Workers (workers in formal sector) to Total Employment**



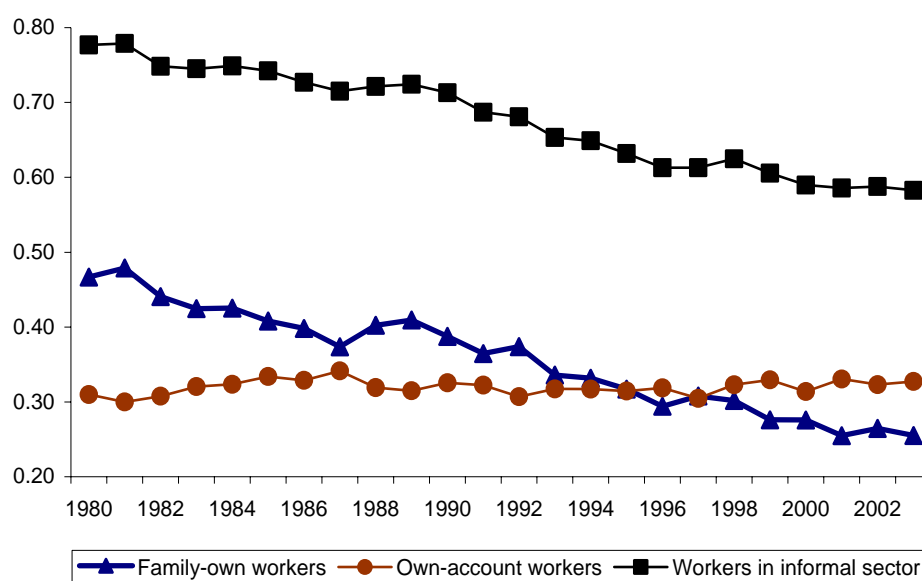
Source: Author's calculation. Data collected from Thailand's Labor Force Survey

During the period studied, shares of workers in the informal sector dropped significantly, from 77.8 percent in 1980 to 58.2 percent in 2003. The share of own-account workers was found to be quite constant, about 32 percent, during the period studied, while the share of unpaid family workers has been dropping substantially from 46.7 percent in 1980 to 25.5 percent in 2003. Therefore, this pattern means that the declining share of unpaid-family workers is causing a decrease in the share of informal workers. Why did the share of unpaid-family workers decline? This is because the majority of unpaid-family workers in Thailand are in the agricultural sector. Over time, a large number of these workers moved to formal sectors, especially to small and medium-sized enterprises.<sup>7</sup> The seasonal pattern of the number of workers in the formal sector is determined mainly by the seasonal mobility of laborers in private enterprises. Nevertheless, the seasonal movement of workers between the formal sector and the informal sector is also apparent, especially in the agricultural sector.<sup>8</sup>

<sup>7</sup> Approximately 85 percent of unpaid-family workers are in the agricultural sector, followed by those employed in the commerce sector and in the service sector.

<sup>8</sup> Regarding the Labor Force Survey, the majority of unskilled workers move from the formal sectors to the informal sector, especially during the curvature period in the agricultural sector (i.e., the third quarter of the year). Approximately 68.8 percent of unpaid family workers are female; they were found to have more seasonal (by quarter) movement compared with male workers.

**Figure 2: The Share of Own-Account Workers, the Share of Family-Owned Workers, and the Share of Workers in Informal Sector to Total Employment.**



Source: Author's calculation. Data collected from Thailand's Labor Force Survey

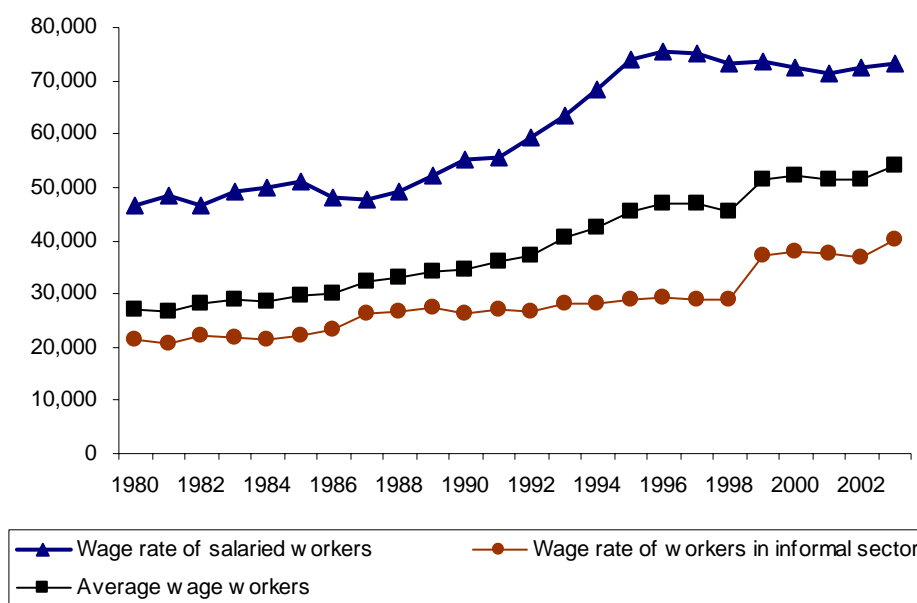
By applying this percentage share of labor to the total employment series using the national account, the real wage rate of workers can be calculated using the definition of labor share, corresponding to two categories of workers: those in the formal sector and those in the informal sector. The real wage rate of workers in the formal sector (wage and salaried workers) is calculated as the product of the raw labor share times the nominal GDP at factor cost divided by the number of workers in the formal sector (wage and salaried workers), then adjusting the wages using the 1988 GDP deflator.<sup>9</sup> The most significant feature of this series is its substantial increase during the boom decade, namely, from 47,928 baht in 1986 to the maximum of 75,483 baht in 1996, and its slight drop during the crisis period to 73,328 baht in 2003. Consistent with the rapid growth of the Thai economy, the real wage rate of salaried workers increased substantially during the boom decade. The wage rate in 2003 was about 57 percent higher than what it was in 1980. During the crisis, the real wage rate of workers in the formal sector was found to be quite stagnant. It was consistent with the situation existing in Thailand that many corporations decided not to immediately lower their employees' wages, but rather to choose other options.<sup>10</sup>

Figure 3 also illustrates the real wage rate of workers in the informal sector. Similar to what we computed for wage and salaried workers, the real wage rate of informal workers is calculated as the difference between the adjusted labor share and raw labor share, times the real GDP at factor cost (in 1988 prices), divided by the number of workers employed in the informal sector (own-account workers plus unpaid family workers). Unlike those in the formal sectors, the computed wages of workers in the informal sector slightly increased during the boom decade from 26,169 baht in 1987 to 28,874 baht in 1998. However, it significantly increased to 40,092 baht in 2003. A sharp increase of real wages in the informal sector from 28,874 baht in 1998 to 37,106 baht in 1999 was due to a sharp increase in the share of income from unincorporated enterprise (IUE) during this crisis period.

<sup>9</sup> The Labor Force Survey also provides the monthly wages of those workers in the formal sector. Nevertheless, computing real wages from the account identity also introduces another approximation. Comparing the series to the minimum wages in each period, wages computed from the national account seem to be reliable, since those computed wages are slightly higher than the minimum wages (see Pholphirul, 2005).

<sup>10</sup> Those options included, for example, encouraging executives and high position managers to retire early, with large compensations, cutting the bonuses and other fringe benefits to employees, or saving on other expenditures such as costs of transportation, advertising, and production.

**Figure 3: Real Wage Rates: Salaried Workers, Workers in Informal Sector, and Average (Unit: baht per year)**



Source: Author's calculation. Data collected from Thailand's Labor Force Survey

On average, the real wages of salaried employees or workers in the formal sector are about 2.2 times higher than those of workers in the informal sector. The gap became larger when the boom decade started. In 1987, the real wages of workers in the formal sector were about 1.8 times higher than those of workers in the informal sector. In 1996, real wages of workers in the formal sector were about 2.6 times higher than those of workers in the informal sector. It sounds intuitive to say that the wage rates of salaried workers are higher than those of informal workers. Since the majority of informal workers are unpaid family workers, and about 85 percent of such workers are employed in the agricultural sector, the wages of those workers are much lower than those of the workers in the manufacturing sector.<sup>11</sup>

Furthermore, why did the wage gap between workers in the formal and informal sectors widen during the boom period? Again, since the majority of informal workers are in the agricultural sector, the wages of informal workers are determined by agricultural outputs, whereas the wages of formal workers are mainly from non-agricultural outputs. The gains from the boom were not equally shared among the sectors. Thailand's successful development strategy has been built mainly on the export of labor-intensive manufactured goods. The agricultural sector captured only a tiny gain from the investment boom. Wages offered in this most labor-intensive sector were not as competitive as those offered in other sectors. As a result, while industrial employment grew significantly during the export-led boom period, the share of workers in the agricultural sector declined.<sup>12</sup>

However, the influences of trade liberalization on employment and wages are still ambiguous and vary by industries. Thus, more studies on market access are required. To many critical observers, international trade presents major threats to Thailand's job creation and job security, especially in the manufacturing sector. In the past, trade liberalization also facilitated

<sup>11</sup> Even though some own-account workers, such as doctors and lawyers, might have higher earning than salaried employees, the share of those own-account workers is still low and relatively stable at approximately 30 percent of total employment throughout the periods studied.

<sup>12</sup> The reasons for the decline are changes in domestic terms of trade from a decline in relative agricultural prices (known as Stoper-Samuelson effects) and unequal rates of factor endowment growth, which cause factors to migrate to sectors where their relative productivity is higher (Rybczynski effects). Both of these intersectoral effects have been observed to be important features of explanations for the relative decline of Thai agriculture over the boom period.

the transfer of certain types of jobs to export-oriented production, which also varied in terms of several other characteristics of plants and industries. In many general cases, it is found that the growth of net employment possibly increases in capital intensive industries, especially for those employing skilled workers because in some capital intensive industries human capital and physical capital tend to be complementary inputs into the production process. However, trade linearization might harm some sensitive sectors, and may adversely affect job security and wage earnings of laborers.<sup>13</sup>

According to trade theories, people should prosper if they live in a society with free trade, free capital movement, and free labor movement. However, these theories may not be applicable under actual trade liberalization once we involve political and labor concerns. Politically, free trade may hurt some segments of the society and yet more and more countries have argued for the long-term benefits of free trade. Investigating the impacts of trade liberalization on Thailand's labor employment and wage earnings also needs to take into account the differences among industries, depending on whether the sector is expected to gain or lose from trade liberalization. Losing industries often receive negative impact on labor employment as well as wage earnings. Industries that benefit from trade liberalization caused by output expansion, however, may experience either positive or negative impact on labor, depending on the rate of complementarity (or substitution) between labor and physical capital used. Output expansion from trade liberalization that causes producers to adopt and use physical capital, such as machines, and reduce the number of employed workers should therefore generate negative impacts on employment and wage earnings, and vice versa. In addition, the direction and the magnitude of the impacts also depend on factor intensity of the industry.

### **3. Trade liberalization and labor protections and labor standards of Thai workers**

Thailand's trade liberalization no doubt undermines job security for Thai workers in some industries. But it also enhances job security for others and opens up new job opportunities for industries that have benefited from those free trade agreements. Therefore, the social safety nets and other forms of labor protection in Thailand need to be crafted so as to address the negative effects of job losses from trade liberalization. As a member of the International Labour Organization (ILO), Thailand has tried to comply with ILO conventions related to the International Labour Standards. In 1975, in a period when democracy had begun to flourish, the first labor protection law was enacted. Currently, Thai workers are covered under the Labor Protection Act 2541 (1998). The Act protects workers, including women and child laborers, in terms of their basic rights, working hours, wages and other payments, holidays and leave, labor welfare, occupational safety, severance pay, and right to petition against unfair practices. In addition to the Labor Protection Act, the Labor Welfare Fund and the Minimum Wage Committee were also established to provide workers' benefits. In 2004, the unemployment insurance program took force.<sup>14</sup> Nevertheless, adverse shocks to job security are still of great concern for those employed in the informal sector since they receive no social protections from employers nor from the government.<sup>15</sup> Our formal-informal distinction is

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<sup>13</sup> Bhagwati and Dehejia (1993) explain that the openness of trade may increase uncertainty about employment possibilities and undermines job security. More general forms of human capital, as gauged, for example, by skills, education, or occupation, need to be investigated.

<sup>14</sup> 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.

<sup>15</sup> Social protection programs for private employees are administrated by a government organization, the Social Security Office (SSO), which controls two funds, the Social Security Fund (SSF) and the Workmen's Compensation Fund (WCF). The SSF was setup under the Social Security Act B.E. 2533 (1990) aimed to provide social security to people on a contributory basis. The SSF provides a wider range of non-work related benefits. According to data provided by Thailand's Social Security Office, major proportions of SSF funds paid to workers are for those with Sickness, Maternity, and Child Allowance. Social security paid out for unemployment insurance still remains low, about 30.6 million baht, compared to other expenses. In addition, Social Security payments in the categories of Child Allowance and Old-Age Pension have been significantly increasing during this period. Since, unemployment

therefore closely related with firm size. Workers in the formal sector are protected by the labor protection law and receive many kinds of social insurance. Nevertheless, those who wish to work in the formal sector face various entry barriers such as having to have a high education level, channels to job-related information, and good networking skills.

Social protection, although provided to both formal and informal workers, is different in each case. Workers who receive full protection from society would be affected much less when problems arise with their jobs. Even though their job security is less due to the impact of trade liberalization, insurance against the risk of being laid-off can minimize workers' difficulties. Labor protection mechanisms in Thailand have been in place for more than a century. As of 2003, the types of social security benefits provided to Thai people could be grouped into healthcare, disability, death, old age, and survivor's benefits, as well as child allowance and child education benefits. Unemployment insurance has been in place since 2004 to help those who have lost their jobs. People provided with different types of benefits can be classified into private employees in the non-agriculture sector, private school teachers, government employees, state-enterprise employees, private employees in the agriculture sector, self-employed workers, other work cohorts, and people not in the labor force. Generally, all people, from both the formal and informal sectors, receive healthcare benefits. However, only those employed in the formal sector receive additional benefits, for example, Disability, Death and Old Age, Child Allowance, and Provident Fund. Private school teachers do not receive Survivor benefits and private employees in the non-agriculture sector do not receive benefits from Child Education. These differences suggest that trade liberalization has affected workers in different sectors differently, thus initiating income inequality among various groups of workers. Workers in the formal sector, who receive the benefits from the labor protection schemes, can be expected to receive more benefits from trade liberalization. On the other hand, the adverse effects of trade openness to job security do seem to affect those workers employed in the informal sector, for which unemployment insurance and other protections do not apply.

One of the greatest concerns of trade liberalization on the security of jobs should be whether or not affected employees are covered under unemployment insurance (UI). According to the Social Security Act, UI benefits will be provided to insured persons by contributions from employee, employer, and the government. According to the Act, a maximum of 5 percent from each contributor is applied. Thus, the Social Security Act insures the unemployed, self-employed, and other excluded people on a voluntary basis. The unemployed who were previously insured (for at least 12 months) and who want to continue receiving benefits from the SSO, must pay a higher premium out of their own pockets. In general, the benefits package the SSO provides to the self-employed and other excluded people (under Article 40) is less favorable compared to that of the private employees.

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insurance was just introduced in the year 2004, the provision rate must be raised particularly for this category. See Chandoevrit and Pholpirul (2003) for more detail regarding benefits provided by the social security fund.

**Table 2: Benefit Paid within Categories of the Social Security System: 1991-2004 (Unit: Million Baht)**

Year	Benefits Paid							Total
	Sickness	Maternity	Death	Invalidity	Child Allowance	Old Age	Unemployment Insurance	
1991	753.2	3.7	16.9	-	-	-	-	773.7
1992	1,823.0	189.9	42.6	1.4	-	-	-	2,056.9
1993	2,136.4	326.9	60.7	120.4	-	-	-	2,644.4
1994	2,622.1	433.5	86.4	116.8	-	-	-	3,258.8
1995	2,912.3	1,072.6	187.0	311.0	-	-	-	4,482.8
1996	4,076.7	1,857.4	269.1	35.4	-	-	-	6,239.0
1997	5,295.0	4,382.0	514.0	54.0	-	-	-	10,245.0
1998	6,808.0	493.0	273.0	63.0	-	-	-	7,637.0
1999	5,565.0	1,545.0	459.0	83.0	23.0	1.0	-	7,676.0
2000	6,648.0	2,059.0	518.0	117.0	1,184.0	28.0	-	10,554.0
2001	7,792.0	1,527.0	399.0	92.0	1,336.0	77.0	-	11,223.0
2002	9,243.1	2,030.2	567.9	138.1	1,410.6	152.5	-	13,542.5
2003	11,904.0	226,841.0	682.0	156.0	1,905.0	340.0	-	17,358.0
2004	7,999.1	2,126.6	498.1	122.6	1,663.8	426.9	30.6	12,867.5

Source: Social Security Office  
Note: As of September in 2004.

**Table 3: Contribution Rate of Social Security System.**

Types of Benefits	Contribution Rate (Percentage of Wages)			
	1991-1997	1998-2003	2004	
Sickness, Maternity, Death and Disability				
Government	1.5	1.0	1.5	
Employers	1.5	1.0	1.5	
Employees	1.5	1.0	1.5	
Child Allowance and Old-Age Pension	1991-1997	1998-1999	2000-2002	From 2003
Government	-	1.0	1.0	1.0
Employers	-	1.0	2.0	3.0
Employees	-	1.0	2.0	3.0
Unemployment Insurance			2004	
Government			0.25	
Employers			0.5	
Employees			0.5	

Source: Social Security Office  
Note: 1) As of September 2004.  
2) Wages applied for all workers who receive 15,000 baht or more per month.

In addition, the Workmen's Compensation Fund (WCF) is considered another form of labor protection. WCF provides the benefits that insure the persons (under Article 33) who might have been injured or gotten sick from work. Benefit types include benefits for sickness, disability, and, in the case of death, benefits for one's survivors. However, it is financed solely by employer's contributions, which for 1992-1997 ranged between 0.2-2.0 percent of insured earnings of the companies. Enterprises that have registered with the WCF for four years, but that have not reported any work-related accidents, are entitled to a reduced contribution rate, which is set at a maximum of 80 percent of the normal contribution rate. However, enterprises that have reported work-related injuries among their workers may see their contribution rates rise.

As of December 2003, 324,079 establishments and 7,434,237 persons registered in the Social Security Office. There were 226,321 establishments and 804,672 persons who employed or were employed by firms with less than 10 workers. There were 97,758 establishments and 6,629,565 persons who employed or were employed by firms employing 10 or more workers. Nonetheless, such jobs vary in terms of safety and the dangers that employees have to face. The table below shows that a majority of establishments and insured

persons in 2003 were concentrated in the trade sector, followed by construction, metal products, manufacture and assembly of vehicles, and transport and communications. However, the contribution of employers to the WCF varies by industry, according to the degree of risk—from 0.2-1.0 percent of wages. The more risk that is faced by workers, the higher the contributions that employers need to provide to the WCF. For example, the contributions to the WCF for textile and garment industries are between 0.2-1.0 percent, while those from the parts and components industry are 1.0 percent, and those from the gems and jewelry industry only 0.2 percent. Therefore, statistics based on the WCF provision and benefits might be used as a sufficient indicator of working conditions of Thai laborers, in terms of exposure to risk. Even though workers in the formal sector receive benefits provided by both the Social Security System and WCF, the efficiency of program fund management by the government should be a matter of concern. Such concern should focus on budgeting sufficiency and the coverage of insured workers. Thus, the negative shock of trade liberalization on private employees working in the formal sector should be milder compared to those in the informal sector since they are technically insured by some program fund or another. Government and state-enterprise employees should experience the least negative impacts, in terms of job security, from expansion of free trade.

**Table 4: Number of Establishments and Insured Persons by Types of Business in 2003.**

<i>Code</i>	<i>Industrial Classification</i>	<i>Establishments (Places)</i>	<i>Insured Persons (Person)</i>
100	Survey and mining	1,483	39,677
200	Food and beverage	10,938	650,687
300	Textiles and accessories	9,007	749,191
400	Forestry and wood products	4,838	219,810
500	Paper products and printing	5,863	166,454
600	Chemical products and petroleum	8,585	532,294
700	Non-metallic products	4,035	157,508
800	Manufacture of basic metal	5,854	105,619
900	Metal products	17,732	862,335
1000	Assembly of vehicles	16,270	299,003
1100	Other manufacturing industries	3,155	146,089
1200	Public utilities	1,051	30,954
1300	Constructions	17,130	310,148
1400	Transport and communication	14,581	308,461
1500	Trade	98,503	1,104,156
1600	Other types of business	81,564	1,351,521
	<b>Total</b>	<b>300,589</b>	<b>7,033,907</b>

Source: Social Security Office

**Table 5: Injuries and Degree of Losses of Workers in the Whole Kingdom (Unit: Numbers of Cases)**

<i>Year</i>	<i>Death</i>	<i>Permanent Total Disability</i>	<i>Permanent Partial Disability</i>	<i>Temporary Disability over 3 days</i>	<i>Temporary Disability less 3 days</i>	<i>Total</i>
2000	620	16	3516	48,338	127,076	179,566
(%)	(0.35)	(0.01)	(1.96)	(26.92)	(70.77)	(100)
2001	606	20	3,510	48,077	137,407	189,620
(%)	(0.32)	(0.01)	(1.85)	(25.35)	(72.46)	(100)
2002	650	14	3,424	49,012	137,879	190,979
(%)	(0.34)	(0.01)	(1.79)	(25.66)	(72.20)	(100)
2003	787	17	3,821	52,364	153,684	210,673
(%)	(0.37)	(0.01)	(1.81)	(24.86)	(72.95)	(100)

Source: Social Security Office

However, social security and the social safety net set up to counter possible negative effects of trade liberalization still leave gaps, even within the formal sector. The LFS and administrative data show that in 2001 many employees were not covered by the Social Security System. About half the employees in the northeastern region and in the construction sector were excluded from the Social Security System and only 60 percent of employees working in firms with 10-99 employees were covered. Moreover, a special module of the LFS in 1998 showed that approximately 95, 80, and 50 percent of laid-off workers in firms with 1-9 employees, 10-99 employees, and 100 and more employees, respectively, received no severance pay as called for under the Labor Protection Act. In addition, labor protection and safety nets for private employees are also administered inequitably with respect to size of the firm and other criteria. In general, larger sizes of firms have better protections than smaller firms. Those workers in the informal sector such as those employed in agriculture or those employed in home-based industries receive no Social Security and have no legal protection from negative effects of free trade.

The impact of trade liberalization also varies according to the skills of the laborers and according to labor sector. Although workers in the formal sector receive more benefits and suffer fewer adverse impacts, trade liberalization would nevertheless diminish job security for unskilled labor. Trade liberalization also lead to rising income gaps among laborers according to their skill type and level (e.g. among skilled, semi-skilled, and unskilled laborers), especially those in labor-intensive industries such as textiles and jewelry.

Higher demand for labor in labor-intensive sectors as a result of trade liberalization is consistent with the positive trade impact of output growth in more globalized firms. Thereafter, benefits to those laborers accrue in the form of higher wages. Nevertheless, those wage benefits seem to vary according to differences in skill level. Skilled workers, especially for those employed in the formal sector, receive more benefits from trade than do unskilled laborers. In addition, adverse impacts from trade on laborers are still ambiguous with regard to skilled and unskilled laborers. Firms that might have to face more competition might decide to employ fewer unskilled laborers and introduce new labor-saving machines and technology if there is a sufficiently high degree of substitution between capital and labor.<sup>16</sup> Nonetheless, many firms might decide to reduce numbers of skilled workers in order to save a portion of the wages paid to those workers.

#### **4. Trade Liberalization and Thai Female Workers**

Issues in globalization, international trade, and gender have taken on a new meaning and dimension since 1995, when multilateral trade agreements embodying the results of the Uruguay Round were put into place. At this stage, assessments of the gender-differential impacts of WTO agreements on employment were considered. In addition, lack of evidence in most developing countries on the gender-disaggregated composition of the labor force by sectors and on the responses of the labor force to economic reform limits any attempts at a comprehensive analysis of this issue. Trade policies may have different consequences for women and men because women and men differ in their economic and social status. Gender analysis of trade policy mainly focuses on income and employment effects. Evidentially, the impacts of structural adjustments, especially in many developed countries, tend to be relatively disadvantageous for women compared to men. Basically, Thai economists and specialists looking at the gender dimension of globalization have focused on structural adjustments associated with trade and international competition. A critical issue is that the benefits of trade liberalization that might lead to the expansion of export volumes should be differentiated not only between male and female workers, but also among groups of women themselves. Thai women have less access to resources and are also less likely to have job choices given their responsibilities for childcare, pregnancy, and constraints of education.

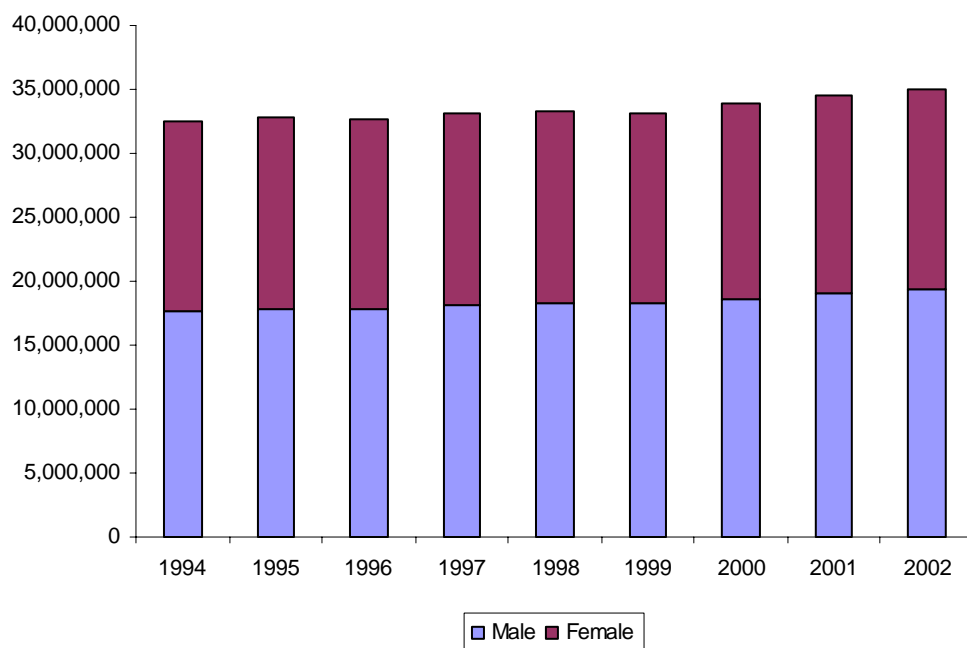
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<sup>16</sup> The technical term used in international trade theory calls an ability to substitute between machine and labor the "factor intensity reversal (FIR)."

There are two basic premises for explaining the interaction of international trade and gender issues: (i) trade liberalization brings different costs and benefits to men and women, and (ii) the impact of trade liberalization is mediated by gender relations and gendered social economic and political structures. These structures may be in the form of gender gaps in education and health, which result in different levels of wage earnings and labor force participation. Many feminists argue that women are less likely to own or have access to resources. They are likely to be less mobile, given the responsibilities of childcare and other human resource requirements of the family and given the constraints of education and training that maybe required for new jobs. These disadvantages facing female workers may comprise barriers to the full employment of labor. The result is that the channeling of women into areas of the informal sector where entry barriers and remuneration are lower.

The manner and extent to which trade liberalization affects men and women differently are still less than obvious. During 1994-2002, even though females account for about 43.5 percent of all employees, they accounted for a slightly smaller share of wages (40 percent) because more females than males are employed as unpaid family workers. Real wage rates for females average about 90 percent of those for males in all sectors. Behrman, et.al. (2000) explains this gender segregation by noting that the adverse impacts of the financial crisis that emerged in Thailand affected women more than men, especially in sectors such as construction, which was hit very hard and had a large majority of male workers. However, those sectors which had a major proportion of female workers, e.g. the textile and garment industry, also experienced a much larger percentage drop in wages paid to females than to males and a larger percentage increase in numbers of female underemployed. In addition, female labor supply is also found increasing in percentage terms more male labor supply.

**Figure 4: Proportions of Male and Female Labor Force.**

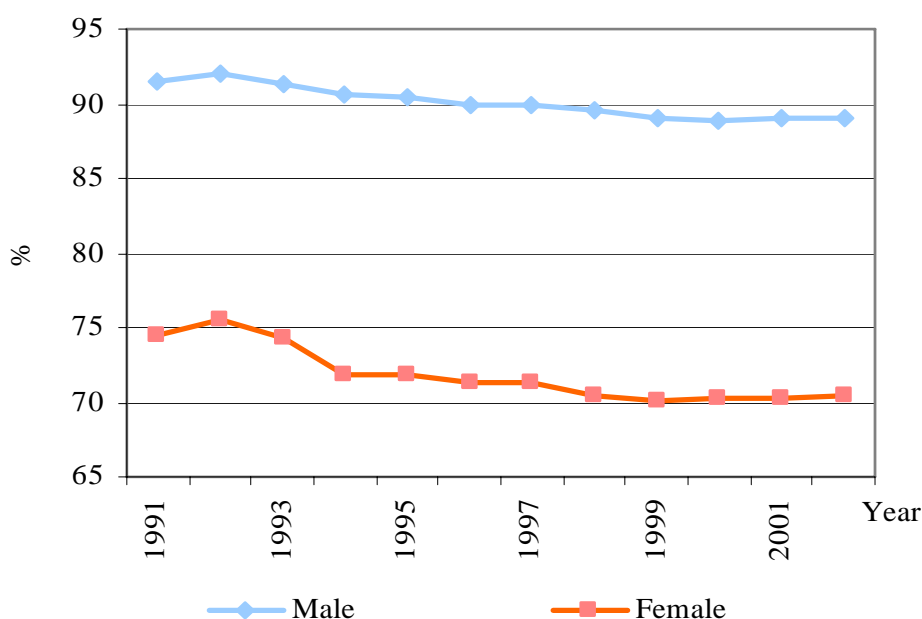


Source: Author's calculation. Data collected from Thailand's Labor Force Survey.

However, the trend in the proportion of male and female labor force in Figure 4 presents an overall picture of laborers in the market. From Figure 4, in 1994, male workers accounted for 54 percent of the total labor force, or 17.7 million male workers out of 32 million workers. In 2002, male workers increased to 19.3 million whereas the total labor force was 35 million. In addition, according to the data from the Labor Force Survey, labor force participation rates for male workers are always higher than those of the female labor force. In 1991, labor force participation rates for male and female workers were 92 and 74 percent, respectively. In 2002, the male and female labor force participation rates were 89 and 70 percent, respectively. The labor force participation rate of the female workers is usually high in the

third quarter of any given year, which is the wet season. Note that a classification of workers by skill and gender may exhibit a different trend from that of the overall labor force participation of males and females. For example, the wage differential between male and female skilled workers should be less than that between male and female unskilled workers. Besides, higher wage male workers slightly dominate the Thai labor market. In addition, since on average female workers, not only in Thailand but also in many other developing countries, have less access to education than male workers, the link between free trade agreements and gender issues should be extended to consider those workers who have different age and education levels. AFTA and other trade liberalization agreements should take into consideration those female workers in industries in which unskilled female workers are the majority. But since we still do not have very clear-cut data to conclude that female always receive fewer benefits than do males, each particular sector needs to be investigated.

**Figure 5: Labor Force Participation between Male and Female.**



Source: Author's calculation. Data collected from Thailand's Labor Force Survey.

## 5. Trade Liberalization and Human Development

Another positive impact of globalization on the labor market is the drive toward human capital development, especially for those industries in which skilled workers are required. Development of human capital will be an area of great importance for Thailand with the advent of numerous free trade areas. Human capital must be developed for two obvious reasons: to produce quality products to satisfy the increased demand and to remain competitive, as there is no more tariff protection. Trade liberalization therefore drives firms to enhance competitiveness of their workers. The question that arises is who should bear the adjustment costs.

Under the existing circumstances, it is more likely that the Thai firms will have to bear their own adjustment costs. Under the present system of capitalism, increased competition will make it necessary for domestic producers to improve production efficiency. One rational way of achieving this goal is to lay off unproductive workers. This would be motivation for workers to work harder and raise their productivity levels, which in turn would positively affect the

country's and overall industries' human capital accumulation. In addition, increasingly rigorous rules and regulations would force producers to acquire knowledge and seek new methods to improve the quality of their products in order to meet requirements agreed upon in the trade liberalization frameworks (Leelawath and Suntavaruk, 2004).

Moreover, regional and bilateral free trade liberalization would create higher demand for goods and services, for which a country has comparative advantages. Then demand for knowledgeable workers in the production of these goods and services would rise and stimulate both public and private sectors to provide on-the-job training programs for workers in order to enhance their production capacity. Since trade liberalization also promotes inflows for foreign direct investment in Thailand, multinational firms might need to use Thailand as a site for their offshore production facilities. An increase in foreign direct investment will result in an increase of both skilled and unskilled workers. Workers will be motivated to gain more education and training, which will raise their productivity levels and further enhance the level of human capital in the country. In addition, human capital accumulation can be accelerated through knowledge and technological transfers that accompany foreign direct investment. Thai workers would acquire knowledge from training programs, organized by transnational enterprises, and also by the process of learning-by-doing. Furthermore, regional and bilateral trade liberalization is likely to promote and strengthen cooperation in education through joint research projects and exchange programs. Certainly, this would improve the quality of education system and would speed up the country's accumulation of human capital.

## 6. Trade Liberalization and Labor Migration in Thailand

Immigrant workers in Thailand include both skilled and unskilled workers. Skilled immigrants enter the Thai labor market legally. Approximately 70 percent of them are professional managers and technicians and thus receive industrial promotion privileges under the Board of Investment. Thailand has a relatively large proportion of foreign skilled workers compared to other ASEAN countries as a consequence of a decades-long policy of adopting an FDI-based growth strategy. Thailand's Ministry of Labour indicates that there were nearly 60,000 skilled foreign workers in the country, the majority being from Japan (23.3 percent), followed by the U.K. (8.8 percent), India (8.8 percent), China (7.8 percent), the U.S.A. (7.0 percent), Taiwan (6.3 percent), and others (38.0 percent) (all approximate numbers). Positions filled are generally managers and executives, professionals, and technicians.

**Table 6: Number of Foreign Skilled Workers in Thailand (2002)**

<i>Country</i>	<i>Number</i>	<i>Occupation</i>	<i>Number</i>
Japan	13,675	Management and Executive	33,638
U.K.	5,148	Professionals	11,832
India	5,135	Technicians	3,775
China	4,593	Craftsmen	1,037
U.S.A.	4,099	Clerks	743
Taiwan	3,681	Plant/machine operators	426
Others	22,266	Others	7,146
Total	58,597	Total	58,597

Source: Department of Employment, Ministry of Labor

In addition, trade liberalization increases job opportunities not only for Thai workers, but also for international irregular migrant workers residing in Thailand. These migrants are mostly unskilled immigrants working mostly in the informal sector, who generate high economic benefit but also social costs for the Thai economy. Thailand hosts foreign unskilled immigrants from neighboring countries such as Myanmar (80 percent), Cambodia (8 percent), and the Lao PDR (7 percent), many of whom are working and/or residing illegally. As trade liberalization under AFTA becomes more effective, it is likely that intra-ASEAN trade will grow dramatically, not only in goods but also in services. The targeted priority areas of the trade in services include financial services, maritime transport, air transport, telecommunications,

tourism, construction, and business services. In addition, the appearance of small and medium enterprises (SMEs) will definitely play a vital role in economic development. Therefore, with free trade of both goods and services resulting from closer economic integration, the elimination of tariff and non-tariff barriers is expected not only to expand regional trade dramatically, but also to enhance industrial competitiveness of ASEAN member countries in a cost-efficient way. One such way is to rely on foreign immigrants, who are paid lower wages. However, labor migration is expected to generate one of the most salient social and political problems. Labor migration today, in the case of Thailand, occurs mostly, for both legal and irregular migrants, as “cross border” movement. Cross-border migration is often pictured as a threat to national security and a cause of many social problems in the country of destination. Such problems arise from the causes of migration itself, namely, unequal socioeconomic development levels among countries and the arrival of job seeking migrants from lower per capita income countries (economic refugees) as well as disequilibrium of demand and supply of the labor market. Once irregular migrants have arrived in the target country, there are other costs, for example, the costs borne by public hospitals to care for them. Whether justifiably or not, irregular migrants are also often blamed for rising crime rates. The trend toward economic and trade liberalization and thus toward inward flows of population movement among the ASEAN countries is believed to become an even more significant problem in the future. An inventory of the current problems and national policies to deal with them should also include a migration policy that would identify what role ASEAN can be expected to play.

Within AFTA, it is likely that some industries will prosper and grow and thus absorb some of the unemployed in their own countries, thereby reducing the number of migrants seeking job opportunities in other countries. Similar to Malaysia and Singapore, with the growth prospect from economic liberalization, Thailand will possibly face a more serious shortage of skilled manpower in, for example, accounting, engineering, and IT. At the same time, the immigration to Thailand of unskilled workers from Thailand’s neighboring countries should also be expected to increase as demand grows, especially in labor-intensive industries such as agriculture and fisheries, as well as in domestic employment (gardeners, maids, nannies, etc.). The “new” ASEAN member countries, which share borders with Thailand (the Lao PDR, Cambodia, and Myanmar), will most likely contribute to the influx of illegal and unskilled labor in the future as AFTA’s schemes are fully implemented at the same level as they have been for the original ASEAN-6.<sup>17</sup>

## **7. Trade Liberalization and Labor Unionization in Thailand**

Labor unions are an institution that can protect worker interests. By law, private enterprise and state enterprise employees have the right to form labor unions under the Labor Relations Act 2518 (1975), which provides regulations for employers and employees wishing to form unions, associations, and federations. Even though they were relatively strong before 1991, after 1991 state enterprise employees were not allowed to form unions or allowed to go on strike under any circumstances, as prohibited under Article 19 of the State Enterprise Employee Relations Act 2534 (1991).<sup>18</sup> In contrast, private employees formed more labor unions between 1991 and 1996. Nevertheless, the number of unions actually decreased by 5 percent in 1997, which was the year of the financial crisis in Thailand. The Labor Force Survey in the third quarter of 1998 showed that only 2.9 percent of wage earners in the private sector were members of a labor union, the lowest proportion 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. It can be surmised that the

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<sup>17</sup> However, Thailand’s policy towards illegal workers from its neighboring countries has been ambivalent. Foreign workers are required to register and are allowed to work in selected occupations by resolutions of the Cabinet. Most unskilled foreign workers are found mainly in agriculture (especially on rubber and sugarcane plantations and on fruits and vegetables farms), fisheries and fish processing, construction, manufacture (especially in textiles and garment manufacturing), and housemaids. More detailed studies can be found in Martin (2004).

<sup>18</sup> In 1990, there were 713 labor unions, of which 129 had been formed by state enterprise employees. After the law was amended in 1991, state enterprise employees could set up only 36 associations.

low rate of unionization in Thailand is one reason for the lack of labor protection. Collective bargaining has not played an important role in the Thai labor market. However, a problem of “free riders” has been generated from unionization since current Thai law states that a negotiated work agreement applies to all workers in the factory, regardless of whether or not they are members of the union. The low numbers of aggregate union membership, therefore, understate the importance of Thai labor unions in influencing the “social dialogue” among labor, industry, and government. (Behrman et al, 2000).<sup>19</sup>

Only 0.2 percent of employees working in small establishments (fewer than 10 workers) reported belonging to a union. Even among medium-sized establishments (10-99 workers), union penetration was still very low, with only 2 percent of workers being union members. Only among large establishments with 100 or more workers was the proportion of workers belonging to a union appreciably higher (about 14 percent). Even within this group, less than two-thirds, or 9 percent, of all employees reported being union members. In addition, since unions are commonly found in large establishments, this means that there is a greater tendency for the better-off workers in Thailand to have access to and be members of labor unions.<sup>20</sup> Therefore, unionization does not protect these low-wage workers from the effects of trade liberalization, even though workers in low-wage industries and in small and medium-sized establishments are the ones most likely to need and benefit from collective bargaining.

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 the Act, a minimum 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. In addition, the existing Thai labor unions continue to cooperate more with other international labor unions and receive external support from international organizations to improve their position. External sources of funding from international organization have been found to enhance Thai labor unions’ negotiating power when bargaining for better living standards and in dealing with issues brought about by globalization (Charoenloat et al, 2003). The data from the Ministry of Labor also show a significant increase in the number of labor disputes that were referred to the Central Labor Court since mid-1997, when the crisis began. It indicates that, since the financial crisis, there has been a greater awareness among workers of their rights and a greater willingness to take their disputes with employers to the labor courts.

## 8. Qualitative Assessment

Quantitative assessment and analysis using secondary data alone may not provide strong enough arguments as to how AFTA or other trade liberalization agreements affect Thai labor. Thus, we conducted interviews with government officials, employer representatives, and labor unions during August 2004. The detailed information from the in-depth interviews was useful in terms of providing valuable qualitative data to add to the analysis of the effects of trade liberalization. Interviewees were asked not only about their past experience with AFTA but also about their opinions on various aspects of the bilateral agreements that Thailand will be partner to in the future. Information regarding the impacts of trade liberalization on labor demand, income, and labor standards in different sectors is extracted from the interviews. Policy recommendations on adjustment needed in the Thai economy is discussed in the next section.

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<sup>19</sup> Campbell (1999) estimates that the number of collective bargaining agreements is a better indicator of labor union’s influence. However, the numbers of collective bargaining units are found much smaller than the number of labor unions in Thailand. As of December 1997, there were only 271 collective agreements in the country (Campbell, 1999).

<sup>20</sup> The LFS data shows that while the rate of unionization among the highest-wage workers in the country, let’s say those who make more than 15,000 baht per month, is about 9 percent, while low-wage workers (those who make less than baht 3,000 per month) belong to unions at a rate of only 0.3 percent.

Generally, trade liberalization creates more linkages among markets and countries. Thailand seems to have gotten more involved in global trade and in the world economy since an export promotion policy was put into place, replacing the import substitution policy. Under trade liberalization, the manufacturers benefited most from increased growth in trade, compared to the agriculture sector, which grew at a much lower rate. As revealed in the interviews, both employers and workers realize both the benefits and downside that come with trade liberalization, especially when it comes to facing more competition and having to improve the quality of their products in a cost effective way.

In the view of the government and policy makers, AFTA did not affect the Thai economy very much. However, trade liberalization agreements that the country intends to sign in the future will have, overall, positive effects on the economy. Policymakers believe that, given the forces of globalization, free trade agreements cannot be avoided. The reduction of tariff and other trade barriers should stimulate more competition among firms, which thereafter helps reveal firms' real production potential. Furthermore, integration will strengthen bargaining power with other non-member countries. The Thai Government is in the process of implementing FTA policies and promoting investment to integrate Thailand into the world economy. Firms also realize the necessity for Thailand to form trade liberalization. Awareness of more intense competition is now starting to grow in the private sector, which realizes that it must increase competitiveness by enhancing product quality in a the cost-efficient way.

Nevertheless, many NGOs and labor unions are still not in favor of trade liberalization since they know that benefits will accrue only to capitalists, producers, and high government officials whose relatives own big businesses in Thailand. SMEs and businesses owned by people at the grass-roots level will have to be shut down. This will result in the worsening of the unemployment problem in Thailand since the majority of employment is provided mostly by SMEs. On the other hand, firms that benefit from trade liberalization will be those that are relatively more capital-intensive in their production and so do not require many workers.

From the perspectives of the benefiting firms, the impact of full implementation of AFTA on the Thai labor market does not much concern them since many believe that Thailand has a comparative advantage compared to other AFTA countries. Furthermore, the intra-regional trade between Thailand and other ASEAN countries is still quite low, so that the harm that AFTA might bring to Thailand's labor market is not considered significant. Therefore, the effects of AFTA on the Thai labor market are regarded as minimal. However, other trade liberalization agreements, both bilateral and multilateral, that are planned to be signed in the future are arousing more concern. In terms of effects on the labor market, the impact of trade liberalization should lead to greater demand for unskilled and semi-skilled labor in labor-intensive industries, such as textiles and jewelry industries, and greater demand of skilled labor in capital-intensive industries, such as vehicle parts and components. Higher demand for labor follows from the positive impact of trade on the increase of output, especially in globalized firms and export-oriented firms, moreso than in firms that produce for the domestic market. Nonetheless, highly skilled workers and technicians will be more demanding in Thai firms whose sales are dominated by the domestic market. This might suggest that the cheaper wages of skilled and semi-skilled workers compared to other countries are still an important factor in producing goods cost-effectively.

The impact of trade liberalization varies by sector. In case of negative impacts, trade liberalization would hurt the job security of females, who tend to be less skilled, than males, who tend to be more skilled. However, from experience of the 1997 financial crisis, if firms have negative shocks in output and reduce the cost of production by laying off some employees, the employers will deliver the layoff by giving incentives to employees to volunteer to quit. The incentives could be in the form of a financial compensation package or temporary employment agreements. When the temporary employment term expires, the employers have the right to terminate the employment. But there are more negative effects of trade liberalization on the informal sector than on formal sector of the labor markets since informal workers are not protected by the social security scheme because most are employed as temporary and subcontract workers. On the other side, temporary and subcontract workers, especially in the textile industry, may not receive higher compensation from freer

trade. Nevertheless, it is argued that the firms that cannot compete in the global market may not shut down their operations immediately since the immediate shut down would cause huge losses to the firms. Firms may instead produce new products by subcontracting with bigger firms that benefit from free trade or by subcontracting with multinational firms. Firms then might have to adapt to learn how to make the new products by using existing workers. In addition, when adversely affected by trade liberalization, firms may not lower the cost of production by reducing benefits to labor because firms realize that good benefits and a good working environment help increase the productivity of employees.

Regarding working standards, firms need to improve safety and working conditions for the following reasons:

- (i) To protect the good name of the firm in the eyes of the public.
- (ii) To avoid non-tariff barriers that might be imposed by clients from developed countries such as the USA, the EU, or Japan if a poor working environment exists.
- (iii) To keep down costs, since, in the formal sector at least, the cost of maintaining a safety program in the workplace is considerably lower than the cost arising from sickness, accidents, and injuries.
- (iv) To improve productivity and develop human capital.

In terms of the government's role, social safety nets, job security, and better working conditions should be guaranteed and extended by improving social security programs and increasing the WCF. This should help to minimize losses and negative impacts from trade liberalization. Unemployment insurance under the social security scheme is thought to be the most important direct insurance for workers. Nonetheless, since unemployment insurance program covers only workers in the formal sector, the government should consider extending the program to include workers in the informal sector in the future. For human capital development, the Department of Labor Training should emphasize skill development for workers, which includes the promotion of labor skill standards. In terms of their policies on trade liberalization, it helps develop skills for workers in the sectors that have high product demand.<sup>21</sup> In the industries that are negatively affected by trade agreements, the government is now establishing programs to develop skills for unemployed workers to assist these workers to find new jobs as well as to enter sectors that will benefit from trade liberalization. Social tensions would result, particularly, if labor and domestic industries lacked the capability to adjust themselves to fit a changing environment.

## 9. Policy Implications and Conclusion

The impacts of AFTA and other prospects of trade liberalization discussed in this paper suggest policy implications on the adjustments of trade policy, industrial policy and labor market policy. There are linkages among those three policy measures. Trade policy under liberalization causes the industries concerned to adjust themselves to meet the more competitive atmosphere in the global market. Industrial policy should help enhance industrial competitiveness, which in turn is linked to adjustments in the labor markets. Since laborers are important for firms not only in terms of production cost, but also an indication of a firm's productivity.

### *International Trade Policy*

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<sup>21</sup> Examples of the training activities are Industrial Sewer, Ladies' Dressmaker, and Embroidery Using Sewing Matching training programs. In the jewelry industry, there are presently training activities in Chantaburi, Chiangmai, and Ubonratchatani. In the auto parts industry, there are training activities on car repainting, vehicle electrical wiring, and electrical arc welding.

Thai economic policy follows the Thai government's "dual track" development approach of strengthening the domestic economy while also facilitating trade and investment. The aim is to further integrate itself into the global economy by increasing exports and developing a world-marketing network. Therefore, this approach involves proactively committing to voluntary trade liberalization within APEC and regional liberalization within ASEAN. The plan is to expand Thailand's bilateral trading arrangement with a number of countries such as the U.S., Japan, Australia, New Zealand, etc. Therefore, export promotion, including diversification of markets and production of higher-valued goods is a major thrust of Thailand's trade policy, which will guide future trade negotiations. In addition, Thailand generally can be said to have a liberalized foreign investment regime. Direct foreign investment is considered the key to stimulate growth of the economy by encouraging investors from all sources. To meet this end, the tax structure and tariff system has been restructured to remove hindrances to trade and investment, to improve customs procedures, and to reduce production costs for enhancing the country's export capacity. In sum, trade policy must continually be reviewed in the face of changing global circumstances and evolving comparative advantages. The policymakers should continuously review each agreement for both consistencies and efficiencies. Trade policy should not only concern itself with the benefits and losses to Thailand's trade volume, but also with measures of the gains/losses of firms, workers, and consumers. By strengthening competitive industries in the context of trade openness, liberalization has to be pursued more carefully to ensure that Thai workers reap benefits, overall, rather than incur losses.

#### *Industrial policy*

Thailand's international trade policy aims at maintaining and strengthening industrial policy to enhance the country's competitiveness, especially in the world market. Current Thai industrial development policies are concurrent with the 9<sup>th</sup> National Economic and Social Development Plan, which aims to enhance the well-being of Thai people by increasing productivity in all industrial sectors. The policy implications include also the increase of production capacity and efficiency along with the increase in the protection of the Thai industries from the effects of trade liberalization and various trading blocks. Since Thai small and medium industries function as a major engine of economic development, the labor productivity in SMEs should be developed. First, SMEs should link with larger establishments in the form of supplier arrangements, transfer of know-how, and training. Secondly, productivity can be greatly increased by encouraging SMEs to invest in new equipment and model production facilities, especially those firms that have new business linkages with larger firms. Given the urgent need for Thailand to develop human capital and industrial skills, it is important to pursue training, either in individual firms or through taking advantage of the training capabilities of larger firms. Since traditional policy instruments, for example, local content requirement and investment performance requirement, are nowadays less relevant and more subject to the rules of globalization (e.g., WTO agreements), well-targeted incentives to support particular industries will be less likely. Investment should be more decentralized and extend to rural areas through the expansion of infrastructure networks and public utilities and the establishing of industrial estates and special zones, which offer incentives to encourage local employment. The private sector should also be encouraged to cooperate in this direction toward industrial development. To enhance competitiveness, development of labor skills, and widen marketing channels, improved product quality and design are also necessary to promote industrial policies. Thailand's Ministry of Industry should play a more important role in policy and institutional support for technology development. Lastly, recent Thai industrial policy includes controls on pollution and measures to the environment and the ecological balance according to international standards. Briefly defined, the goal is to increase industrial productivity by 0.5-1.0 percent within 3-5 years as well as to prevent a rise in the current level of pollution.

#### *Labor policy.*

With fiercer competition in global content, labor, which is absolutely the most important factor in industrial production, has been awarded new respect by labor policy. The governmental policies related to labor markets changed in this regard during the financial

crisis. Particular attention was paid to minimum wages, severance pay, social security coverage, unionization, employment creation, and public sector employment. Since the economic crisis in 1997, active employment and labor market policies have been launched, as a result of job losses, wage reduction, and the lack of social protection among workers. Those workers who face the greatest risk are, in general, female workers, younger workers, less skilled workers, and workers in the informal sector, including part-time and subcontracted workers. In addition, the government has started an employment creation program, an economic stimulus package consisting of expenditure measures, tax reductions, and measures to lower energy prices. These kinds of measures aim to create jobs and increase income for those severely affected by the crisis. Thailand's labor policy tries to offer meaningful social protection to vulnerable workers. One way to do so is to ensure compliance by employers with existing laws and by providing employees with better information about the on-going change in the labor market. Thai labor policies have been changed not only as part of the recovery process of the economy, but also as trade liberalization and globalization progress. Under trade liberalization, each industry has to adjust itself and, at the same time, labor can be shifted to newly emerging industry. To cope with global competition, the policymakers need to improve their efforts at capacity building in order to design offensive plans under rapidly changing circumstances. The government should move further into the realm of economic affairs and should stress the increasing need for the authority to handle economic problems under a global trade agenda. The sectoral approach in targeting labor problems should be taken into consideration as different groups of workers and industries are affected differently by trade liberalization. Nevertheless, the government should focus more towards promotional schemes in strengthening understanding and fostering a cooperative attitude between employers and employees. This should help resolve disputes between employers and employees.

In conclusion, since the working conditions of Thai firms are still considerably below standard, workplace safety should be improved. Various agencies, related technical centers, or the government itself should set up rules and regulations to monitor the labor standards and to encourage more participation from the private sector. In this case, the role of research work and labor standards must be promoted to meet changes in economic development. The Industrial Relations law should be improved in such a way to allow it cope well with future trade liberalization. In addition, formal social protection and social safety net measures provided by governments should be considered in order to cover workers who are likely to face negative impacts from liberalization. The Labor Protection Law should be amended to include the workers in the informal sector, including workers laboring under other types of employment contracts, such as home workers, part-time and subcontract workers, and temporary workers. This protection law should also be linked to skill development and work safety. For the sake of long-term stability, improvement of skills and qualifications are critical to economic development and competitiveness, which are governed by the availability of qualified workers. The Thai government already has a policy to extend compulsory education to secondary school. But the training of the engineers and technicians is still an urgent task to maintain high technology operations. In higher education, the government needs to assist universities in educating more engineers and by removing the ceiling of school expenses. In sum, the Thai government should be more alert to on-going changes under international trading schemes when prioritizing policies regarding labor markets. Special attention should be paid to capacity building of domestic workers to enhance productivity and competitiveness and workers' protection with regard to different types of workers, especially unskilled and informal workers.

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