ASEAN Community 2015:
Managing integration for better jobs and shared prosperity

International Labour Organization

# Will the AEC help Thailand's 66.5 million women and men prosper ?

## Thailand Country Brief | April 2016

From the onset of the century, Thailand national development plans have moved from a growth-oriented approach to one that centres on people and aims at more sustainable, equitable and resilient development, as highlighted in the 11th National Economic and Social Development Plan (11th NESDP). Trade measures leading to deeper integration under the ASEAN Economic Community (AEC) could unlock new opportunities for growth and support efforts towards a more prosperous and equal society, if relevant policies are in place. [1]

The AEC became a reality on 31 December 2015. This single common market and production base, has the potential to significantly impact Thailand's economy and labour market. However, if not properly managed, integration could exacerbate labour market weaknesses. Despite low unemployment rates, workers face challenges in job quality. Fifty-five per cent of those employed are vulnerable and many are in the informal economy, with limited access to legal and social protection.[2] Income inequality remains a concern with the top decile of the population holding 11 times the income of the bottom decile.[3] In addition, Thailand is an ageing society whose working-age population is expected to contract by just over one per cent by 2025, highlighting the importance of migrant workers, and the need for quality jobs and higher productivity in order to maintain current levels of output.

**Table 1. Selected economic and labour market indicators in Thailand**

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| GDP growth rate (%) | 2.8 | 0.9 | 2.5 |
| Merchandise trade (% of GDP) | 114.0 | 112.5 | … |
| Output per employed person, PPP (constant 2011 international $) | 23 804 | 23 863 | 24 431 |
| | **Total** | **Male** | **Female** |
| Total employment (thousand) | 38 330 | 20 776 | 17 554 |
| Labour force participation rate (%) | 70.1 | 78.6 | 62.1 |
| Unemployment rate (%) | 0.9 | 0.9 | 0.9 |
| Agriculture share of total employment (%) | 33.9 | 35.7 | 31.8 |
| Vulnerable employment rate (%) | 50.5 | 49.1 | 52.2 |
| Average monthly wages (US$) | 394 | 397 | 390 |

***Note:*** All labour market indicators cover the population ages 15 and above and reflect 2015.
***Source:*** International Monetary Fund (IMF): World Economic Outlook Database, October 2015; World Bank, World Development Indicators; ILO: ILO Trends Econometric Models, November 2015. National Statistical Office of Thailand (NSO), Labour Force Survey 2015.

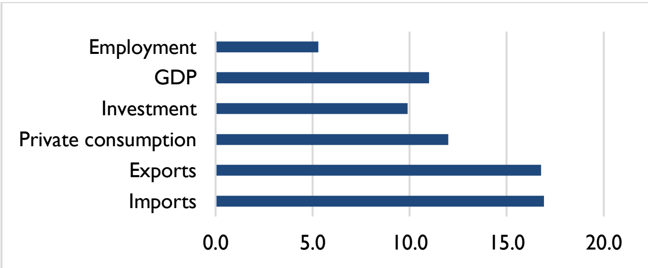
[1] This country brief is based on Asian Development Bank (ADB) and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, 2014).
[2] Vulnerable employment defined as own-account and contributing family workers.

Ensuring all will benefit and no one is left behind will require concomitant and coherent policy action in key areas to promote Decent Work.

### The AEC could generate 2.2 million jobs in Thailand by 2025

Model simulations suggest that Thailand's economy could significantly benefit from deeper economic integration (figure 1). By 2025, the country's gross domestic product (GDP) could be 11 per cent higher with implementation of trade measures under the AEC, compared to the baseline scenario without implementation. Estimates indicate an additional 2.2 million jobs could be created over the baseline, equivalent to 5.3 per cent of total employment in 2025. Yet, vulnerable employment could account for almost three in five additional jobs. This highlights the need for policies to promote job quality and decent working conditions and the importance of carefully monitoring AEC impacts.

**Figure 1. Change in various economic and labour market indicators under the AEC scenario relative to the baseline in Thailand, 2025 (per cent)**




***Source:*** ADB and ILO, op. cit.

Structural change has been fast occurring for the past 20 years. Between 1990 and 2014, agricultural employment fell by almost 30 percentage points, from 64 per cent to 35 per cent. In the same period, the share of services in employment almost doubled from 22 per cent to 42 per cent. Industry now accounts for roughly 23 per cent of employment, from 14 per cent in 1990. These trends have played an important role in raising Thailand's productivity.

Simulations indicate that the AEC could potentially accelerate the ongoing process of structural change. The AEC is projected to expand employment in trade and transportation, and construction, accounting for one in five and one in ten additional jobs respectively. Relatively large gains are also expected in food processing, and

[3] Higher than in several Asian countries, including India (8.5), Indonesia (8.5), Lao PDR (10.2), and Nepal (7.5). The Gini coefficient, although declining in recent years, remains high at 39.3. Income share and Gini data from World Bank: Poverty and Equity Database, December 2015.

manufacturing of vehicles and machinery.[4] In many of these sectors, such as the automotive industry and food processing, Thailand has a strong position in global supply chains and is expected to maintain its comparative advantage.[5] Conversely, significant losses relative to the baseline could occur in private services.

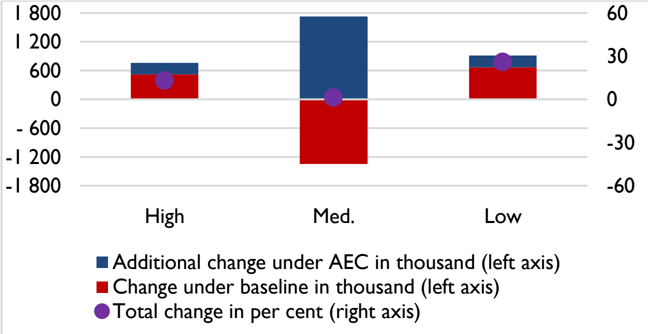
Although the share of agricultural employment is expected to contract between 2010 and 2025, the implementation of trade measures under the AEC will likely slow the pace of decline. Employment in agriculture could account for one in two additional jobs relative to the baseline, or 1.2 million workers. Almost half of these new jobs could be in crop farming. Labour productivity in Thailand's agricultural sector grew strongly by more than 40 per cent between 2000 and 2012. As a result, agriculture in Thailand is relatively more productive than in neighboring countries and thus stands to gain from its comparative advantage, including in rice production.

These projections suggest that despite positive net gains in employment, benefits are not evenly distributed and workers in declining sectors may initially be unable to find alternative employment. Policies are thus needed to manage transformation, including robust social protection. Although Thailand is often seen as an example in the region, with the largest expenditure, 7.2 per cent of GDP, and universal health care, more remains to be done.[6] In addition, the bulk of job creation could take place in agriculture and construction, where jobs can often be informal, perpetuating decent work deficits and contributing to persistent inequality.[7] Moreover, job quality is also of concern in strong, and growing, sectors such as food processing.[8] Coordinated policies aimed at enhancing job quality will be beneficial. In particular, given the continuing prevalence of agriculture, advancing agricultural productivity remains crucial, and calls for investments in infrastructure and agriculture-related value chains and off-farm businesses.

## Meeting demand requires skills development

As trade integration shapes structural change, it will impact the occupational composition of the labour market, increasing the demand for some skills while reducing that for others (see figure 2). Realizing the opportunities for growth for the benefit of all Thai women and men will require forward-looking education and skills development policies. Simulations indicate that the demand for medium-skill workers will increase substantially between 2010 and 2025 under the AEC, 1.7 million people. Trade measures are also expected to lead to a significant rise in the demand for high skills, 32 per cent higher than in the baseline – this means a total of 764,000 additional high-skill jobs between 2010 and 2025.

**Figure 2. Estimated change in employment by skill level in Thailand, 2010-25 (thousand and per cent)**




***Source:*** ADB and ILO, op. cit.

These results point to the imperative for enhancing the relevance and quality of technical and vocational education and training (TVET), and tertiary education, and fostering cognitive and specialized skills in subjects such as science and engineering. Currently, about four in five firms find it difficult to fill job vacancies due to a mismatch between the available and required skills of most graduates.[9] Only 15.6 per cent of tertiary graduates have a diploma in engineering, manufacturing and construction.

Thailand has already been moving towards skill-intensive production and exports, currently accounting for roughly 20 per cent of ASEAN high-skill manufacturing exports. Thus, aligning the education and training of the workforce to market needs will remain critical to further structural change towards higher productivity sectors and attracting foreign direct investment (FDI). A stronger education system at all levels is paramount if Thailand is to realize the Vision 2027. As recognized in the 11th NESDP, developing human resources is a priority in better preparing for regional integration.

## Minimum wage increase contributes to wage growth and shared prosperity

Labour productivity in Thailand has increased by 22 per cent between 2006 and 2015. The productivity level is predicted to further increase under the scenario with deepened regional integration. Thailand could almost double its labour

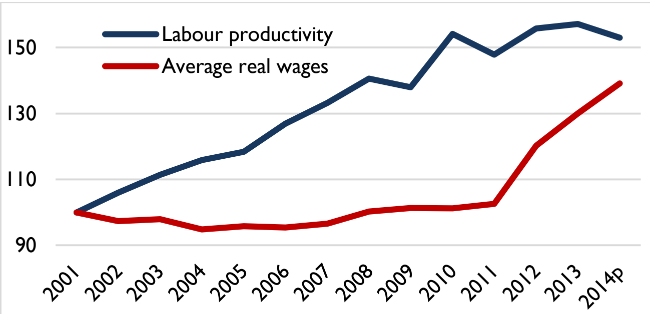
[4] M. Plummer; P. Petri; F. Zhai: *Assessing the impacts of ASEAN integration on labour markets*, ILO Asia-Pacific Working Paper Series (Bangkok, ILO, 2014).
[5] Thailand is a leading production hub for automobiles in the region. There have been fears the AEC could lead to a shift towards adjacent countries, however, our projections suggest Thailand will maintain its comparative advantage and employment in the sector is expected to expand significantly as a result of trade measures under the AEC. For more information on the Thai automotive industry see K. Techakanont: *Managing integration for better jobs and shared prosperity in the ASEAN Economic Community: The case of Thailand's automotive sector* (Bangkok, 2014).
[6] Social protection expenditure data from ILO: *World social protection report 2015/15: Building economic recovery, inclusive development and social justice* (Geneva, 2014).
[7] According to the National Statistical Office of Thailand, in 2015, the rate of informal employment in agriculture was 92.2 per cent, while it was 48.3 per cent in construction.
[8] For instance, Thailand's shrimp and seafood processing industry is often associated with child and forced labour, with serious decent work deficits, including for migrant workers. See for instance ILO: *Migrant and child labour in Thailand's shrimp and other seafood supply chains: Labour conditions and the decision to study or work* (Bangkok, 2015), or ILO: *Caught at sea: Forced labour and trafficking in fisheries* (Geneva, 2013).
[9] World Bank: *Thailand Social Monitor: Towards a competitive higher education system in a global economy* (Washington DC, 2011).

productivity from 2010 to 2025, especially in industry. Over the last decade, wage employment in Thailand increased, whereas labour wage share of GDP stagnated.[10] This suggests room for rises in wages.

However, to what extent increases in productivity translate into gains for workers will depend on how strong wage setting mechanisms are. For instance, wage-productivity gap has been stark in labour intensive manufacturing. Real wages in the sector remained virtually flat from 2001 to 2011, whereas output per worker increased by nearly 50 per cent. As a result, the labour share in Thailand's manufacturing declined by more than 14 percentage points over the same period. The capital-output ratio in Thailand's manufacturing sector has fallen since 2001, so the sector has become less capital-intensive.[11] Therefore, the disconnect between wages and productivity shows that gains in productivity boosted profits rather than wages.

After 2011, a sizeable adjustment of minimum wage policy in 2012-13 led to a compensatory growth in terms of average wages and a convergence between wages and productivity (figure 3).

**Figure 3. Labour productivity and average wages in Thailand's manufacturing sector, 2001-14 (Index, 2001=100)**




***Note:*** Real wages are nominal wages adjusted for purchasing power, using the consumer price index. Labour productivity is measured in real terms.
***Source:*** Bank of Thailand: table EC_EI_029 and table EC_EI_027; National Statistical Office of Thailand: Labour Force Survey (Bangkok, various years).

The lopsided distribution of productivity gains before 2012 can be largely explained by Thailand's weak labour market institutions (LMIs).[12] During the 2000s, the purchasing power of minimum wages fell below the 1995 level, despite substantial gains in labour output. Therefore, the increase in the minimum wage to 300 Thai baht (THB) per day (US$9.8)[13] represented a catch-up after more than a decade of neglect. Minimum wages have played a major role in reviving wage growth in Thailand in the past five years.

In 2015, the average nominal wage in Thailand was US$394, relatively higher than wage levels in most neighbouring countries, three times those in Cambodia and Lao People's Democratic Republic, for instance. In order to continue on this equitable path, Thailand will need to maintain well-functioning wage-setting and collective bargaining mechanisms.

## Intra-regional disparities point to continued migration

Thailand is a major destination for ASEAN migrant workers. Over 96 per cent of the migrant stock in Thailand comes from another ASEAN country, mostly from Myanmar, Lao People's Democratic Republic and Cambodia.[14]

The large majority of these workers are low-skill immigrants. Whereas 66.8 per cent of immigrants from elsewhere have less than tertiary education, the share is 82.7 per cent for those coming from other ASEAN Member States. In 2012, 75 per cent of migrants coming to Thailand were employed in medium-skill occupations, 21.9 per cent in low-skill jobs and 3.1 per cent in high-skill positions. Overall, in 2012, there were 1.1 million regular migrant employees in the country.[15]

Migration has been spurred, and will likely continue to be, by economic and demographic structural reasons. Ageing population and lower fertility rates are expected to lead to labour shortages. The Thai labour force growth is projected to become negative after 2022. Already by 2020, research suggests a shortfall of some 4.7 million workers.[16] The demand for migrant workers is projected to increase to match country needs.

Migration, particularly into sectors such as construction, fishing, food processing, and domestic work, has been important in Thailand for more than 20 years, and is expected to become even more so. In sum, current and projected trends suggest labour migration will be an important feature in sustaining growth and development in the short- and medium-terms. These workers have been and will likely continue to be of low- and medium-skill. Yet, the current AEC framework for migration is restricted to eight high-skill occupational groups.[17]

## Conclusion

The AEC has the potential to generate employment and productivity gains, and propel Thailand towards more

[10] B. Jetin: *Declining labour income share in Asian export-led growth economies: the role of wage-productivity de-linking in industry* (ILO, forthcoming). Labour wage share refers to the share of value added received by workers as wages or employers' contributions to the social security system.
[11] See: ILO: *Wages in Asia and the Pacific: Dynamic but uneven progress* (Bangkok, 2014), box 3 for details.
[12] S. Boonyamanond et al.: *Wages, productivity, and the evolution of inequality in Thailand* (Bangkok, ILO, Sep. 2013), unpublished manuscript.
[13] Exchange rate is for 2013, from World Bank: World Development Indicators.
[14] Myanmar accounts for one in two migrant workers in Thailand, while Lao PDR and Cambodia account for one-fourth and one-fifth of total immigrants respectively.
[15] It is important to note these numbers exclude large numbers of undocumented workers. In 2009-10, the International Organization for Migration estimated there were 1.5 million unregistered migrants in Thailand.
[16] Thailand Development Research Institute: *Designing manufacturing and labour force development strategies for industrial sector demand in 2015*, Research report submitted to the Ministry of Industry, Office of Industrial Economics (Bangkok, 2012).
[17] Namely engineers, surveyors, architects, doctors, nurses, dentists, accountants, and tourism professionals.

inclusive growth. This requires decisive policy action in key areas to ensure Thailand's 66.5 million men and women benefit and no one is left behind.

### (i) Invest in higher productivity sectors and strengthen agricultural productivity

In the past, Thailand's competitiveness relied on low-wage labour-based exports. Increasingly, high-skill exports have gained prominence. The AEC provides an opportunity for Thailand to strengthen its manufacturing base and increasingly rely on higher productivity industries for growth and development. At the same time, agriculture will remain a major employer. It will be crucial to invest in increasing agricultural productivity and agro-businesses. To this end, it will be critical to develop physical and human capital to reduce transport, production and transaction costs, while supporting value chains in key sectors, such as food processing and vehicles.

### (ii) Improve education and skill development systems

In line with the 11th NESDP, according to which knowledge, science and technology, and innovation will drive future development, addressing skills mismatches requires strengthening education and aligning strategies for economic and workforce development, especially in science and engineering, and TVET. It will be important to strengthen partnerships with the private sector to identify labour demand, assure technical and soft skills are in line with industry demands, and expand workplace training opportunities. Human resources have also been cited as the most crucial part of the upcoming 12th NESDP in the framework recently released.[18] Skills are paramount in maintaining competitive advantages and participation in global supply chains, and attracting FDI.[19]

### (iii) Extend and harmonize social protection programmes

Accelerated structural change will create job losses and vulnerabilities, requiring social protection. Thailand was instrumental in the ASEAN Declaration on Strengthening Social Protection and is often seen as an example in the region. The country has committed to providing a Social Protection Floor, and has a solid starting point in the universal health care system, which includes those working in the informal economy and migrant workers. Yet, there is room for improvements, as, for instance, a number of different old-age pension schemes contribute to inefficiencies, administrative burdens, and protection risks from the lack of portability of benefits.[20]

### (iv) Strengthen wage-setting institutions

In the past few years, real wage growth accelerated in Thailand driven by an increase in the Wage Council's minimum wage rate, which is substantially higher than in neighbouring countries.[21] However, the minimum wage does not cover domestic work, often vulnerable and dominated by migrant workers. Weak LMIs persist, with 3.6 per cent of workers unionized and 3.2 per cent of collective bargaining coverage rate.[22] It will be critical to strengthen LMIs to assure future productivity gains reach workers and prosperity is shared.

### (v) Strengthen framework for labour migration at all skill levels

Thailand is an ageing society. This has implications for output levels, growth, and development. The 11th NESDP recognizes labour shortage as a major concern and that there is a need to improve foreign labour administration. Currently, the bilateral memoranda of understanding (MoUs) between Thailand and neighboring countries, including Cambodia, Lao People's Democratic Republic, and Myanmar, signed over a decade ago remain the main mechanisms for migration management.[23] Thailand and other ASEAN Member States could benefit from improved regulation of the migration already taking place in the region, and enhanced workers' rights and protection, such as through agreements on the portability of social security and enacting the Cebu Declaration on migrant labour. The Government has already taken positive steps with efforts to register thousands of migrant workers and providing access to the public health care system.

### (vi) Ratify labour Conventions

Establishing a level playing field for competition in the region requires a baseline in terms of labour standards. The ratification of ILO core Conventions would be a good starting point. This would improve workers' protection while assuring those that don't comply with international standards cannot compete unfairly against those who do, levelling the playing field for competition between companies, ultimately contributing to improved economic outcomes. Thailand has ratified five of the eight core Conventions, while other ASEAN Member States such as Cambodia, Indonesia, and the Philippines have ratified all.

The full report "ASEAN Community 2015: Managing integration for better jobs and shared prosperity" can be accessed at: www.ilo.org/asia.

**Contact Information:**
*ILO Regional Office for Asia and the Pacific*
*United Nations Building*
*Rajdamnern Nok Avenue, Bangkok 10200, Thailand*
*Tel.: +66 2 288 1234 | Fax: +66 2 288 3062*
*Email: BANGKOK@ilo.org*

[18] See http://thailand.prd.go.th/ewt_news.php?nid=2660&filename=index [Accessed 19 Apr. 2016]
[19] Initiatives such the establishment of STEM Centers in all regions indicate movement in the right direction For more, see Promotion of Teaching Science and Technology (IPST): *Annual Report Summary 2013*.
[20] V. Schmitt; R. Chadwick: *Social protection assessment-based national dialogue exercises: Cambodia, Indonesia, Thailand, and Viet Nam*, in International Social Security Review (2014), Vol. 67, No. 1, pp. 95-119.
[21] Minimum wage in Thailand is substantially higher (US$237 per month) than neighbouring countries, such as Lao PDR (US$78) and Cambodia (US$128 for garment and footwear sector).
[22] Trade union density rate refers to 2010 and collective bargaining coverage rate refers to 2007, source from ILO: ILOSTAT.
[23] ILO: *Review of the effectiveness of the MOUs in managing labour migration between Thailand and neighbouring countries* (Bangkok, 2015).