

# LABOUR-MARKET ISSUES UNDER TRADE LIBERALIZATION: IMPLICATIONS FOR THAI WORKERS

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*This paper analyses the impact of trade liberalization on the labour market in Thailand. The impacts on wages, employment, gender roles, labour 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 with other stakeholders, is shown to be a major concern. Workers are shown to have bad working conditions and low levels of protection and bargaining power. Since a more competitive atmosphere resulting from freer trade forces businesses to adjust their working environment, those businesses have to consider upgrading their human resources, which will thereafter help those businesses to make cost-effective adjustments and enhance the working conditions of labour. In order to cope with the international standards resulting from trade liberalization, the labour protection law of Thailand should be amended to include workers in the informal sector, such as home workers, part-time workers, subcontracted workers and temporary workers. In addition, the labour protection law should be linked to the development of skills and work safety.*

## I. INTRODUCTION

In the last few decades, most developing countries have been living in a world characterized by the conjunction of three factors, namely globalization, rapid technical change and intense competition. An analysis of the current economic situation starts with globalization; it then considers technical changes and competitiveness as they relate to the decisions of policymakers. Globalization has given rise to concerns about its impacts and about the effects of the mobility of

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capital on inequality, in particular about how globalization affects both capital and labour. Workers are concerned about their incomes and job security: in other words, with the consequences of globalization and how much bargaining power labour has. Workers are greatly exposed to the uncertainties that may come along with globalization, and they are particularly fearful of “immiserisation” and the possibility of unemployment. The main difference between the current era of globalization and earlier times is that, previously, both labour and capital were equally mobile, whereas now, financial capital is more mobile while labour is remarkably less mobile.<sup>1</sup> Diwan (2001, 2002) argued that there are two implications of globalization affecting capital and labour. First, the burden-sharing of negative shocks between labour and capital is most likely unequal, and labour ends up bearing a larger burden. On the other hand, if globalization benefits certain sectors, labour benefits less in comparison. Second, in a world of greater mobility of both financial and physical capital, labour for each country will have to compete harder to attract capital, leading to lower wages.<sup>2</sup> Currently, 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 in order to investigate those implications linked to production factors in the market.

Also, in Thailand trade globalization or trade openness brought about by trade liberalization has created both benefits and costs for the Thai economy, both changes and responsive reactions and both wider choices and social tensions. It is possible that trade will produce a positive net gain on overall welfare, but it may not be realized unless domestic structural adjustment takes place. As Thailand has an abundant labour force, its labour force should gain from higher demand for labour-intensive products owing to greater trade liberalization. However, its impact on income distribution is a cause for concern. To start thinking about the impacts of trade on labour, the following theoretical approaches in trade can be used:

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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 the mobility of financial capital, while the international movement of physical capital would be related to 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 behaviour of capital inflow as caused mainly by the productivity and economic performance of the countries involved.

(a) the Heckscher-Ohlin theorem (H-O),<sup>3</sup> (b) the Stolper-Samuelson theory (S-S)<sup>4</sup> and (c) the Rybczynski theory.<sup>5</sup>

For a number of reasons, the relationship between trade liberalization and its implications for labour in Thailand cannot be explained by using theoretical predictions alone. 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. Second, what the country did in the past was to launch a policy of promoting import substitution, which had been followed since the 1960s, and determined how its resources were used. Consequently, the remuneration of productive factors and the rate of investment were influenced directly by the orientation of the country's industrial and trade policies. Moreover, the allocation of resources is sensitive to the structure of protection. As a result, the allocation of labour, including the return on wages, may differ.<sup>6</sup> Third, because Thailand, as well as many other developing countries, has received large amounts of foreign direct investment (FDI), the country tends to rely on foreign technologies by importing them from developed countries, such as Japan, the United States, and those in Europe, rather than create its own technologies.

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<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 labour, a relatively cheaper price should result. Thus, countries in which the labour supply is relatively abundant, especially various developing countries including Thailand, should specialize in the production of labour-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 labour in developed countries and capital in developing countries. On the contrary, trade liberalization should increase labour wages in developing countries and improve income inequality where labour is abundant. The opposite is expected to result in developed countries due to capital abundance. In cases when 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 labour increases, since the country specializes in the production of good A.

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

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

Nonetheless, how trade liberalization affects the different production sectors depends on a number of factors, for example the factor intensity of production (i.e. whether it is capital-intensive or labour-intensive), status of the technology used (i.e. whether it is up to date or not) and structural changes within the industries. However, a number of studies have analysed the impacts of trade liberalization on labour 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. The intention of this paper is to explain the conceptual linkages of trade liberalization, such as the ASEAN Free Trade Area and other forms of liberalization, on various labour-market outcomes in Thailand. It starts with an examination of the general issues of wage earnings and the share of employment before covering labour standards and protection, the flow of labour through migration, human development, gender issues and unionization. Also carried out were tripartite interviews with employers, employees and government officials in order to obtain more information about the linkages. In the end, we discuss various policy implications of trade liberalization on labour issues in Thailand.

**Table 1. Labour force by industry**

	1995	1996	1997	1998	1999	2000	2001	2002
	(Thousands)							
Total labour 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

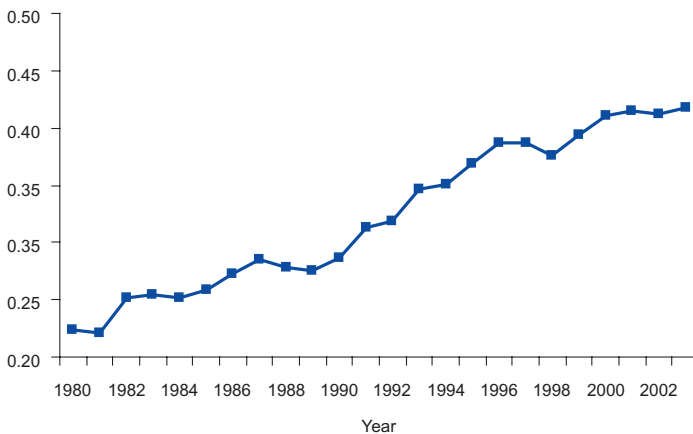
Source: Thailand's Labour Force Survey

## II. TRADE LIBERALIZATION AND WAGES AND THE EMPLOYMENT OF THAI WORKERS

Theoretical support for this study comes from the views of labour economists. This study takes, as a starting point, a model similar to the H-O framework, in which trade liberalization should shift labour 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 labour markets. The bargaining situation as a result of market imperfections varies among different types of workers.

Similar to the labour markets in many other developing countries, the Thai labour 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 (a) own-account workers and (b) unpaid family workers, who accounted for, respectively, about 32.7 per cent and 25.5 per cent of total employment in 2003. The sum of those two groups is the ratio of workers in the informal sector to total employment. These workers might be considered by the Labour Force Survey as non-wage workers; who include those who work in an enterprise that typically operates on a small scale with a low level of organization.

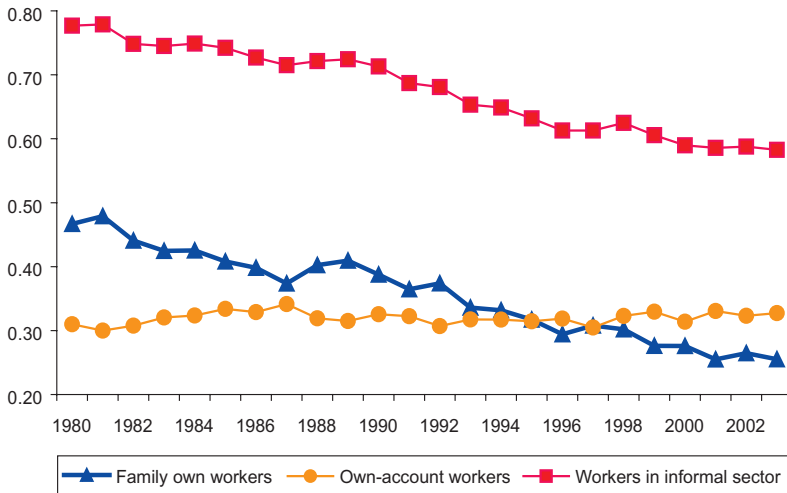
**Figure 1. Share of wage and salaried workers (workers in formal sector) to total employment**



Source: Author's calculation based on data collected from Thailand's Labour Force Survey.

During the period studied, the shares of workers in the informal sector dropped significantly, from 77.8 per cent in 1980 to 58.2 per cent in 2003. The share of own-account workers was found to be quite constant, about 32 per cent, during the period studied, while the share of unpaid family workers has been dropping substantially from 46.7 per cent in 1980 to 25.5 per cent 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? It did so 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 labourers 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>

**Figure 2. Share of own-account workers, share of family own workers and share of workers in the informal sector to total employment**



Source: Author's calculation based on data collected from Thailand's Labour Force Survey.

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

<sup>8</sup> Regarding the Labour 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 per cent of unpaid family workers are female; they were found to have more seasonal (by quarter) movement compared with male workers.

By applying this percentage share of labour to the total employment series using the national account, the real wage rate of workers can be calculated using the definition of labour 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 labour share multiplied by the nominal GDP at factor cost divided by the number of workers in the formal sector (wage and salaried workers), after which the wages are adjusted 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 period following the 1997 financial crisis 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 from the late 1980s to the late 1990s. The wage rate in 2003 was about 57 per cent higher than what it was in 1980. During the above-mentioned 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; many corporations decided not to immediately lower their employees' wages, but rather to choose other options.<sup>10</sup>

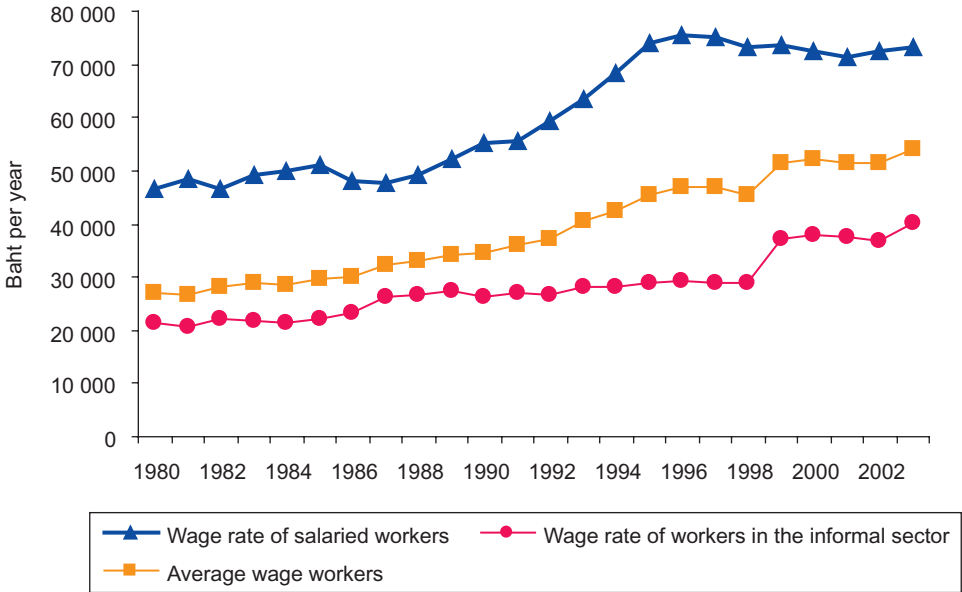
Figure 3 also illustrates the real wage rate of workers in the informal sector. Similar to what we computed for wage and salaried workers, the real wage rate of informal workers is calculated as the difference between the adjusted labour share and the raw labour share, multiplied by the real GDP at factor 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 increased slightly 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. The sharp increase in 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 enterprises during the crisis period.

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<sup>9</sup> The Labour 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-level managers to retire early, with hefty compensation, cutting the bonuses and other fringe benefits that were normally given to the employees, or saving on other expenditures, such as the cost of transportation, advertising and production.

**Figure 3. Real wage rates: salaried workers, workers in the informal sector and the average wage workers**



Source: Author's calculations based on data collected from Thailand's Labour 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 per cent 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>

<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 per cent of total employment throughout the periods studied.



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 labour-intensive manufactured goods. The agricultural sector captured only a tiny gain from the investment boom. The wages offered in this most labour-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 influence of trade liberalization on employment and wages is still ambiguous and it varies by industry. 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 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 has been 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 liberalization might harm some sensitive sectors, and may adversely affect the job security and wage earnings of labourers.<sup>13</sup>

According to trade theories, people should prosper if they live in a society where free trade, free capital movement and free labour movement are practised. However, these theories may not be applicable under conditions of actual trade liberalization once political and labour concerns are involved. Politically, free trade may hurt some segments of the society; yet more and more countries have argued for the long-term benefits of free trade. In investigating the impacts of trade liberalization on Thailand's labour employment and wage earnings, account also needs to be taken of the differences among industries, depending on whether the

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<sup>12</sup> The reasons for the decline are changes in domestic terms of trade from a decline in relative agricultural prices (known as Stolper-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.

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

sector is expected to gain or lose from trade liberalization. The losing industries often endure negative impact with regard to labour employment and wage earnings. Industries that benefit from trade liberalization caused by output expansion, however, may experience either positive or negative impacts on labour, depending on the rate of complementarity (or substitution) between the labour and the 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 the factor intensity of the industry.

### **III. TRADE LIBERALIZATION AND LABOUR PROTECTION AND LABOUR STANDARDS OF THAI WORKERS**

Trade liberalization in Thailand no doubt undermines job security for Thai workers in some industries, but it also enhances job security for others. It also opens up new job opportunities for industries that have benefited from the free trade agreements into which the country has entered. Therefore, the social safety nets and other forms of labour 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 labour protection law was enacted. Currently, Thai workers are covered under the Labour Protection Act 2541 (1998). The Act protects workers, including women and child labourers, in terms of their basic rights, working hours, wages and other payments, holidays and leave, labour welfare, occupational safety, severance pay, and right to petition against unfair practices. In addition to the Labour Protection Act, the Labour Welfare Fund and the Minimum Wage Committee were also established to provide benefits for workers. In 2004, the unemployment insurance programme went into effect.<sup>14</sup> Nevertheless, adverse shocks to job security are still of great concern for those employed in the informal sector since such workers receive no social protection from employers

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<sup>14</sup> Employees and employers contribute 5 per cent, and the Government contributes 2.75 per cent of insured earnings for benefits under the Social Security Act. Employers contribute 0.2-1 per cent of insured earnings for benefits extended under the Workmen's Compensation Act.

nor from the Government.<sup>15</sup> Our formal-informal distinction is therefore closely related to firm size. Workers in the formal sector are protected by the labour 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 level of education, 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 with their jobs arise. Even though their job security is less owing to the impact of trade liberalization, insurance against the risk of being laid-off can minimize workers' difficulties. Labour 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 health care, 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-agricultural sector, private school teachers, government employees, State-enterprise employees, private employees in the agricultural sector, self-employed workers, other work cohorts and people not in the labour force. Generally, all people, from both the formal and informal sectors, receive health-care 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-agricultural sector do not receive benefits for 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 labour-protection schemes, can be expected to receive more benefits from trade liberalization. On the other hand,

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<sup>15</sup> Social protection programmes 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 set up under the Social Security Act B.E. 2533 (1990), which is aimed at providing social security to people on a contributory basis. 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 sickness, maternity and child allowances. Social security paid out as unemployment insurance still remains low, about 30.6 million baht, compared with other expenses. In addition, social security payments in the categories of child allowance and old-age pension have been significantly increasing. Since unemployment insurance was just introduced in the year 2004, the provision rate must be raised, particularly for these categories. See Chandoeuwit and Pholphirul (2003) for more details regarding the benefits provided by the Social Security Fund.

the adverse effects of trade openness on job security do seem to affect those workers employed in the informal sector, for which unemployment insurance and other forms of protection do not apply.

One of the greatest concerns of trade liberalization with regard to the security of jobs should be whether or not the employees affected are covered under unemployment insurance. According to the Social Security Act, unemployment insurance benefits are provided to insured persons based on the contributions from employees, employers and the Government. According to the Act, a maximum of 5 per cent from each contributor is applied. Thus, the Social Security Act insures on a voluntary basis the unemployed, the self-employed and other excluded people. The unemployed who previously had been insured (for at least 12 months) and who want to continue receiving benefits from the Social Security Office must pay a higher premium at their own expense. In general, the

**Table 2. Benefit paid within categories of the social security system, 1991-2004**

Year	<i>Benefits paid (Millions of baht)</i>							Total
	<i>Illness</i>	<i>Maternity</i>	<i>Death</i>	<i>Invalidity</i>	<i>Child allowance</i>	<i>Old age</i>	<i>Unemployment insurance</i>	
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 2004.

**Table 3. Contribution rate under the social security system**

<i>Types of benefit</i>	<i>Contribution rate (percentage of wages)</i>			
	<i>1991-1997</i>	<i>1998-2003</i>	<i>2004</i>	
<i>Illness, maternity, death and disability</i>				
Government	1.5	1.0	1.5	
Employers	1.5	1.0	1.5	
Employees	1.5	1.0	1.5	
<i>Child allowance and old-age pension</i>				
	<i>1991-1997</i>	<i>1998-1999</i>	<i>2000-2002</i>	<i>From 2003</i>
Government	–	1.0	1.0	1.0
Employers	–	1.0	2.0	3.0
Employees	–	1.0	2.0	3.0
<i>Unemployment Insurance</i>			<i>2004</i>	
Government			0.25	
Employers			0.50	
Employees			0.50	

Source: Social Security Office.

Note: As of September 2004; wages applied for all workers who receive 15,000 baht or more per month.

benefits package the Social Security Office provides to the self-employed and other excluded people (under Article 40) is less favourable compared with that of private employees.

In addition, the Workmen's Compensation Fund (WCF) is considered another form of labour protection. Under Article 33, WCF provides the benefits that insure persons who might have been injured or got ill as a result of their work. Benefit types include benefits for illness, disability and, in the case of death, benefits for one's survivors. However, it is financed solely by employer's contributions, which for the period 1992-1997 ranged between 0.2 and 2.0 per cent of the insured earnings of the companies concerned. Enterprises that have registered with WCF for four years but which have not reported any work-related accidents are entitled to a reduced contribution rate, which is set at a maximum of 80 per cent 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 had registered with the Social Security Office. There were 226,321 establishments and 804,672 persons respectively who employed or were employed by firms with fewer than 10 workers. There were 97,758 establishments and 6,629,565 persons

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

However, social security and the social safety net set up to counter the possible negative effects of trade liberalization still leave gaps, even within the formal sector. The Labour Force Survey and administrative data show that in 2001 many employees were not covered by the social security system. About half the employees in the north-eastern region of the country and in the construction sector were excluded from the social security system; only 60 per cent of the employees working in firms with 10-99 employees were covered. Moreover, a special module of the Labour Force Survey in 1998 showed that approximately 95, 80 and 50 per cent 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 Labour Protection Act. In addition, labour protection and safety nets for private employees are also administered inequitably with respect to the size of the firm and other criteria. In general, larger sizes of firms enjoy better protection 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 the negative effects of free trade.

**Table 4. Number of establishments and insured persons, by types of business, 2003**

Code	Industrial classification	Establishments (places)	Insured persons (number)
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	Construction	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
	Total	300 589	7 033 907

Source: Social Security Office.

**Table 5. Injuries and degree of losses of workers in the whole country**

Year	Death	Permanent total disability	Permanent partial disability	Temporary disability more than 3 days	Temporary disability less than 3 days	Total
	(Number of cases)					
2000	620	16	3 516	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.

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

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

#### **IV. TRADE LIBERALIZATION AND THAI FEMALE WORKERS**

Issues related to globalization, international trade and gender have taken on 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 the WTO agreements on employment were considered. In addition, lack of evidence in most developing countries on the gender-disaggregated composition of the labour force by sector and on the response of the labour force to economic reform limits any attempt at conducting 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 focuses mainly on income and employment effects. Evidentially, the impacts of structural adjustments, especially in many developed countries, tend to be relatively disadvantageous for women compared with men. Basically, Thai economists and specialists examining the gender dimension of globalization have focused on structural adjustments associated with trade and international competition. A critical issue is that the benefits of

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<sup>16</sup> The technical term used in international trade theory refers to the ability to substitute between machines and labour "factor-intensity reversal".



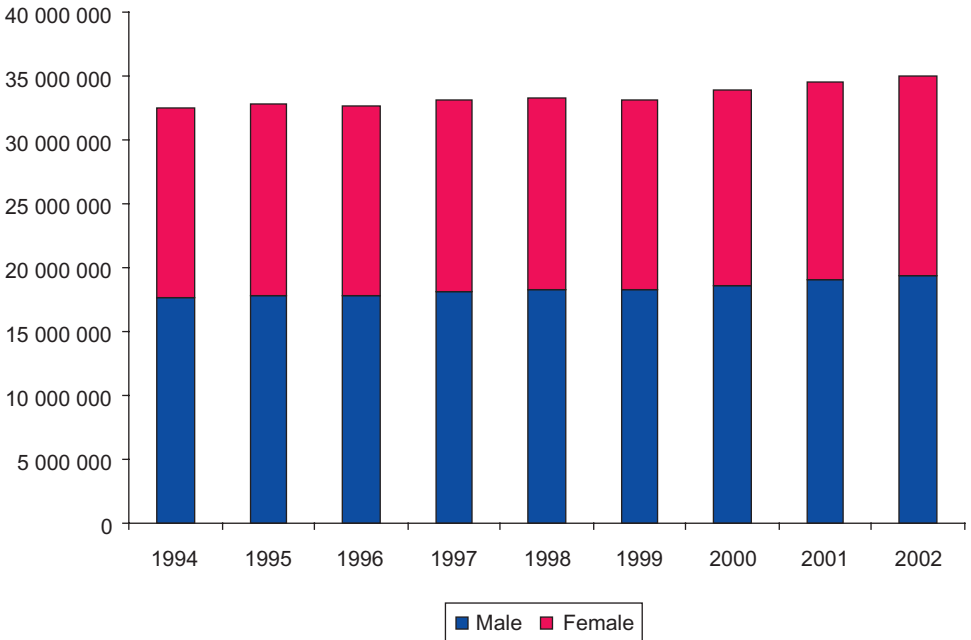
trade liberalization that might lead to the expansion of export volumes should be differentiated not only between male and female workers, but also among groups of women themselves. Thai women have less access to resources and are also less likely to have job choices given their responsibilities for child care and pregnancy, and the constraints of education.

There are two basic premises for explaining the interaction of international trade and gender issues: (a) trade liberalization involves different costs and benefits for men and women and (b) 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 labour-force participation. Many feminists argue that women are less likely than men to own or have access to resources. They are likely to be less mobile, given their responsibility for child care 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 labour. The result is that women are channeled into areas of the informal sector where entry barriers and remuneration are lower.

The manner and the extent to which trade liberalization affects men and women differently are still less than obvious. During the period 1994-2002, even though females accounted for about 43.5 per cent of all employees, they accounted for a slightly smaller share (40 per cent) of the wages because more females than males are employed as unpaid family workers. Real wage rates for females average about 90 per cent of those for males in all sectors. Behrman and others (2000) explain this type of 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, such as the textile and garment industry, also experienced a much larger percentage drop in the wages paid to females than to males and a larger percentage increase in the number of females underemployed. In addition, female labour supply was found to have been increasing in percentage terms more than that of males.

However, the trend in the proportions of males and females in the labour force shown in figure 4 present an overall picture of labourers in the market. Figure 4 shows that in 1994 male workers accounted for 54 per cent of the total labour force, or 17.7 million male workers out of 32 million workers. In 2002, male workers increased to 19.3 million, whereas the total labour force was 35 million. In addition, according to data from the Labour Force Survey, labour-force participation

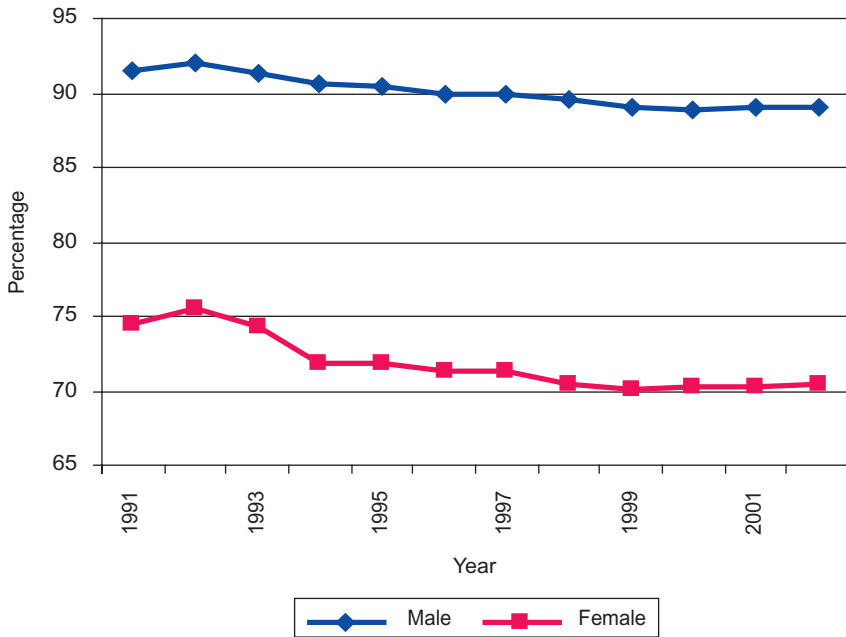
**Figure 4. Proportions of males and females in the labour force**



Source: Author's calculation based on data collected from Thailand's Labour Force Survey.

rates for male workers are always higher than those of the female labour force. In 1991, the labour-force participation rates for male and female workers were 92 and 74 per cent respectively. In 2002, the male and female labour-force participation rates were 89 and 70 per cent respectively. The labour-force participation rate of female workers is usually high in the third quarter of any given year, which is the rainy season. Note that a classification of workers by skill and sex may exhibit a different trend from that of the overall labour-force participation rate 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 labour market. Also, 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 with different age and education levels. Ideally, AFTA and other trade liberalization agreements should take into consideration those female workers in industries in which unskilled female workers are the majority. However, since we still do not have very clear-cut data to conclude that females always receive fewer benefits than do males, each particular sector needs to be investigated.

**Figure 5. Labour-force participation rates between males and females**



Source: Author's calculation based on data collected from Thailand's Labour Force Survey.

## V. TRADE LIBERALIZATION AND HUMAN DEVELOPMENT

Another positive impact of globalization on the labour market is the drive towards human capital development, especially for those industries in which skilled workers are required. The 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 good-quality products to satisfy increased demand and to remain competitive, once there is no more tariff protection. Trade liberalization therefore drives firms to enhance the 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 current 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 serve to motivate workers to work harder and raise their productivity levels, which in turn would positively affect the human capital

accumulation of the country and industries overall. 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 the requirements agreed upon in the trade liberalization frameworks (Leelawath and Suntavaruk, 2004).

Moreover, regional and bilateral free trade liberalization would create a higher demand for goods and services, for which individual countries have comparative advantages. As a result, the demand for knowledgeable workers in the production of these goods and services would rise and stimulate both the public and the private sectors to provide on-the-job training programmes for workers in order to enhance their production capacity. Since trade liberalization also promotes inflows for foreign direct investment into 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 seek 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 the knowledge and technological transfers that accompany foreign direct investment. Thai workers would acquire knowledge from the training programmes organized by transnational enterprises, and also through 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 programmes. Certainly, this would improve the quality of the education system in Thailand and would speed up the country's accumulation of human capital.

## **VI. TRADE LIBERALIZATION AND LABOUR MIGRATION IN THAILAND**

Immigrant workers in Thailand include both skilled and unskilled workers. Skilled immigrants enter the Thai labour market legally. Approximately 70 per cent of them are professional managers and technicians and thus receive industrial promotional privileges extended by 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. The Ministry of Labour of Thailand has indicated that there were nearly 60,000 skilled foreign workers in the country, the majority being from Japan (23.3 per cent), followed by the United Kingdom (8.8 per cent), India (8.8 per cent), China (7.8 per cent), the United States (7.0 per cent), Taiwan Province of China

**Table 6. Number of foreign skilled workers in Thailand, 2002**

<i>Country/area</i>	<i>Number</i>	<i>Occupation</i>	<i>Number</i>
Japan	13 675	Managers and executives	33 638
United Kingdom	5 148	Professionals	11 832
India	5 135	Technicians	3 775
China	4 593	Craftsmen	1 037
United States	4 099	Clerks	743
Taiwan Province of China	3 681	Plant/machine operators	426
Others	22 266	Others	7 146
Total	58 597	Total	58 597

Source: Department of Employment, Ministry of Labour.

(6.3 per cent) and others (38.0 per cent) (all approximate numbers). Positions filled are generally managers and executives, professionals, and technicians.

In addition, trade liberalization increases job opportunities not only for Thai workers, but also for international irregular migrant workers residing in Thailand. These are mostly unskilled immigrants working mostly in the informal sector; they generate high economic benefit but also social costs for the Thai economy. Thailand hosts foreign unskilled immigrants from neighbouring countries such as Myanmar (80 per cent), Cambodia (8 per cent), and the Lao People's Democratic Republic (7 per cent), many of whom are working and/or residing in Thailand 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-sized enterprises will definitely play a vital role in Thailand's 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 the 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 than their Thai counterparts. However, labour migration is expected to generate one of the most salient social and political problems that Thailand will have to face. In the case of Thailand, labour migration today 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 socio-economic development levels among countries and the arrival of job-seeking migrants from countries with lower per capita income (economic refugees), as well as disequilibrium in the demand for and supply of labour in the 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 if they become ill. Whether justifiably or not, irregular migrants are also often blamed for rising crime rates. It is believed that the trend towards economic and trade liberalization and thus towards inward flows of population movement among the ASEAN countries will 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 could 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. As has occurred in Malaysia and Singapore, Thailand will possibly face a more serious shortage of skilled manpower in, for example, accounting, engineering, and information technology, with the prospects for growth as a result of economic liberalization. At the same time, the immigration to Thailand of unskilled workers from Thailand's neighbouring countries should also be expected to increase as demand grows, especially in labour-intensive industries, such as agriculture and fisheries, as well as in domestic employment (for gardeners, maids, nannies etc.). The "new" ASEAN member countries, which share borders with Thailand (Cambodia, the Lao People's Democratic Republic and Myanmar) will most likely contribute to the influx of illegal and unskilled labour in the future as AFTA schemes are fully implemented at the same level as they have been for the original six members of ASEAN.<sup>17</sup>

## **VII. TRADE LIBERALIZATION AND LABOUR UNIONIZATION IN THAILAND**

Labour unions are an institution that can protect the workers' interests. By law, private enterprise and State-enterprise employees have the right to form labour unions under the Labour Relations Act 2518 (1975), which provides

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

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 labour unions between 1991 and 1996. Nevertheless, the number of unions actually decreased by 5 per cent in 1997, which was the year that the financial crisis started in Thailand. The Labour Force Survey showed that in the third quarter of 1998 only 2.9 per cent of wage earners in the private sector were members of a labour union, the lowest proportion compared with other Asian countries. In Malaysia, the Philippines and Republic of Korea, about 9, 11 and 11.2 per cent of the labour force respectively were members of a labour union in 1998. It can be surmised that the low rate of unionization in Thailand is one reason for the lack of labour protection. Collective bargaining has not played an important role in the Thai labour market. However, a problem of “free riders” has been generated as a result of unionization since current Thai law states that a negotiated work agreement applies to all workers in a 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 labour unions in influencing the “social dialogue” among labour, industry and government. (Behrman and others, 2000).<sup>19</sup>

Only 0.2 per cent 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 per cent 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 per cent). Even within this group, less than two thirds, or 9 per cent, 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 labour unions.<sup>20</sup> Therefore, unionization does not protect these

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<sup>18</sup> In 1990, there were 713 labour 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.

<sup>19</sup> Campbell (1999) estimated that the number of collective bargaining agreements was a better indicator of labour unions' influence. However, the number of collective bargaining units is much smaller than the number of labour unions in Thailand. As of December 1997, there were only 271 collective agreements in the country (Campbell, 1999).

<sup>20</sup> The Labour Force Survey data show that, while the rate of unionization among the highest-wage workers in the country, say those who make more than 15,000 baht per month, is about 9 per cent, that of low-wage workers (those who make less than 3,000 baht per month) is only 0.3 per cent.

low-wage workers from the effects of trade liberalization, even though workers in low-wage industries and in small and medium-sized enterprises (SMEs) 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 per cent of the State-enterprise employees. In addition, the existing Thai labour unions continue to cooperate with other international labour unions and receive external support from international organizations to improve their position. External sources of funding from international organizations have been found to enhance the negotiating power of Thai labour unions when bargaining for better living standards and in dealing with issues brought about by globalization (Charoenloat and others, 2003). The data from the Ministry of Labour also show a significant increase in the number of labour disputes that were referred to the Central Labour 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 labour courts.

## **VIII. 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 labour. Thus, we conducted interviews with government officials, employer representatives and labour unions in 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. The interviewees were asked not only about their past experience with AFTA but also about their opinions on various aspects of the bilateral agreements to which Thailand will be partner in the future. Information regarding the impacts of trade liberalization on labour demand, income and labour standards in different sectors was extracted from the interviews. Policy recommendations on the adjustment needed in the Thai economy is discussed in the next section.

Generally, trade liberalization creates more linkages among markets and countries. Thailand seems to have become more involved in global trade and in the global economy since its 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 with the agricultural 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 policymakers, AFTA did not affect the Thai economy very much. However, the 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 tariffs and other trade barriers should stimulate more competition among firms, which thereafter will help to reveal the real production potential of firms. 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 global 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 cost-efficient way.

Nevertheless, many NGOs and labour unions are still not in favour of trade liberalization, since they know that benefits will accrue only to capitalists, producers and high-level 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 a worsening of the unemployment problem in Thailand since the majority of employment is provided 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 the full implementation of AFTA on the Thai labour market does not concern them much since many believe that Thailand has a comparative advantage compared with other AFTA countries. Furthermore, the volume of intraregional trade between Thailand and other ASEAN countries is still quite low, so that the harm that AFTA might bring to Thailand's labour market is not considered to be significant. Therefore, the effects of AFTA on the Thai labour 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 greater concern. In terms of the effects on the labour market, the impact of trade liberalization should lead to greater demand for unskilled and semi-skilled labour in labour-intensive industries, such as textiles and jewellery industries, and greater demand of skilled labour in capital-intensive industries, such as vehicle parts and components. The higher demand for labour follows from the positive impact of trade on the increase in output, especially in globalized firms and export-oriented firms, more than in firms

that produce for the domestic market. Nonetheless, highly skilled workers and technicians will be able to demand more 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 with those in other countries are still an important factor in producing goods cost-effectively.

The impact of trade liberalization varies by sector. In the 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, based on the experience of the 1997 financial crisis, if firms suffer negative shocks in output and reduce the cost of production by laying off some employees, the employers tend to implement 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. However, there are more negative effects of trade liberalization on the informal sector than on the formal sector of the labour markets. This occurs because informal workers are not protected by the social security scheme; most are employed as temporary and subcontracted workers. By contrast, temporary and subcontracted 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 an immediate shutdown would cause huge losses to such 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 the benefits they give to labour because they realize that good benefits and a good working environment help to increase the productivity of employees.

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

- (a) To protect the good name of the firm in the eyes of the public;
- (b) To avoid non-tariff barriers that might be imposed by clients from developed countries such as the United States, those in the European Union or Japan if a poor working environment exists;
- (c) To keep down costs, since, in the formal sector at least, the cost of maintaining a safety programme in the workplace is considerably lower than the cost arising from illness, accidents and injuries;
- (d) 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 programmes and increasing the Workmen's Compensation Fund. 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 form of direct insurance for workers. Nonetheless, since the unemployment insurance programme covers only workers in the formal sector, the Government should consider extending the programme to include workers in the informal sector in the future. For human capital development, the Department of Labour Training should emphasize skill development for workers, which includes the promotion of labour skill standards. In terms of policies on trade liberalization, it helps to develop skills for workers in those sectors that enjoy a high demand for their products.<sup>21</sup> In the industries that are negatively affected by trade agreements, the Government is now establishing programmes to develop skills for unemployed workers in order to assist those workers to find new jobs, as well as to enter sectors that will benefit from trade liberalization. Social tensions would result, particularly, if labour and domestic industries lacked the capability to adjust themselves to fit a changing environment.

## IX. POLICY IMPLICATIONS AND CONCLUSION

The impacts of AFTA and other prospects of trade liberalization discussed in this paper suggest the policy implications with regard to the adjustment of trade policy, industrial policy and labour-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 to enhance industrial competitiveness, which in turn is linked to adjustments in the labour markets. Since labourers are important for firms not only in terms of production costs, but also as an indication of a firm's productivity.

### *International trade policy*

Thai economic policy follows the Government's "dual track" development approach to strengthening the domestic economy while also facilitating trade and investment. The aim is to further integrate itself into the global economy by

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<sup>21</sup> Examples of the training activities are industrial sewer, ladies' dressmaker and embroidery using sewing machine training programmes. In the jewellery industry, training activities are currently conducted in Chanthaburi, Chiang Mai, and Ubon Ratchathani. In the auto parts industry, there are training activities on repainting cars, electrical wiring of vehicles and electrical arc welding.

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 United States, Japan, Australia and New Zealand. Therefore, export promotion, including diversification of markets and the 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 to be the key to stimulating the growth of the economy by encouraging investors from all sources to put their resources into Thailand. To this end, the tax structure and the tariff system have 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. Policymakers should continuously review each agreement for both consistency and efficiency. Trade policy should concern itself not only with the benefits and losses to Thailand's trade volume, but also with the measures of the gains/losses of firms, workers and consumers. Liberalization has to be pursued more carefully in the future to ensure that Thai workers reap benefits overall rather than incur losses by strengthening competitive industries in the context of trade openness.

### *Industrial policy*

Thailand's international trade policy is aimed at maintaining and strengthening industrial policy to enhance the country's competitiveness, especially in the global market. Current Thai industrial development policies are concurrent with the Ninth National Economic and Social Development Plan, which is aimed at enhancing the well-being of the Thai people by increasing the productivity in all industrial sectors. The policy implications include also increases in production capacity and efficiency along with greater protection of Thai industries from the effects of trade liberalization and the various trading blocks that now exist. Since Thai small and medium-sized industries function as a major engine of economic development, the labour productivity in SMEs should be developed. First, SMEs should link with larger establishments in the form of supplier arrangements, the transfer of know-how and training. Second, 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 capability of larger firms. Since traditional policy instruments, for example

local content requirements and investment performance requirements, 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 extended to rural areas through the expansion of infrastructure networks and public utilities and the establishment 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 towards industrial development. Improved product quality and design are also necessary to enhance competitiveness, the development of labour skills and widen marketing channels, in line with industrial policies. Thailand's Ministry of Industry should play a more important role in providing policy and institutional support for technology development. Lastly, recent Thai industrial policy includes controls on pollution and measures to protect the environment and the ecological balance according to international standards. Briefly defined, the goal is to increase industrial productivity by 0.5-1.0 per cent within 3-5 years, as well as to prevent a rise in the current level of pollution.

### *Labour policy*

With fiercer competition in global content, labour, which is absolutely the most important factor in industrial production, has been awarded new respect in labour policy. The governmental policies related to labour markets changed in this regard during the 1997 financial crisis. Particular attention was paid to minimum wages, severance pay, social security coverage, unionization, employment creation and public-sector employment. Since the time of that crisis, active employment and labour-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 programme, an economic stimulus package consisting of expenditure measures, tax reductions and measures to lower energy prices. These kinds of measures are aimed at creating jobs and increasing income for those who had been severely affected by the crisis. Through its labour policy, Thailand tries to offer meaningful social protection to vulnerable workers. One way to do so is to ensure that employers comply with existing laws and employees are provided with better information about the ongoing changes in the labour market. Thai labour policies have been changed not only as part of the recovery process of the economy, but also as trade liberalization and globalization progress. Under the trade liberalization regime, each industry has to adjust itself and at the same time labour can be shifted to newly emerging industries. To cope with global competition, 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 labour 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 on promotional schemes for strengthening understanding and fostering a cooperative attitude between employers and employees. This approach should help to resolve disputes between employers and employees.

In conclusion, since the working conditions in Thai firms are still considerably below standard, workplace safety should be improved. Various agencies, related technical centres, or the Government itself should establish rules and regulations to monitor the labour standards and to encourage more participation from the private sector. In this case, the role of research and labour standards must be promoted in order to meet the changes occurring in terms of economic development. The industrial relations law should be improved in such a way as to allow it to cope well with future trade liberalization. In addition, formal social protection and social safety net measures provided by the Government should be considered in order to cover workers who are likely to face negative impacts from liberalization. The Labour protection law should be amended to include the workers in the informal sector, including workers labouring under other types of employment contracts, such as home workers, part-time and subcontracted workers and temporary workers. This law should also be linked to skills development and worker safety. For the sake of long-term stability, improvement in 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. However, the training of engineers and technicians is still an urgent task, which is necessary to maintain high-technology operations. In higher education, the Government needs to assist universities in educating more engineers and by removing the ceiling on its coverage of school expenses. In sum, the Thai Government should be more alert to ongoing changes occurring under international trading schemes when prioritizing policies regarding labour 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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