

# **EIGHT FACTS ABOUT WAGES AND LABOR IN THAILAND AND THEIR IMPLICATIONS FOR THE ECONOMY**

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EE460: Thai Economy

Semester 1/2019

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# FACT 1: LESS THAN HALF OF THAILAND'S LABOR FORCE ARE WAGE WORKERS

- Of the **38 million people** in the Thai labor force, only **17 million are wage workers**.
- The majority (**21 million**) are **non-wage** or **own-account workers**, e.g., farmers, taxi-drivers, vendors, shopkeepers, entrepreneurs and the like.

## **FACT 1: LESS THAN HALF OF THAILAND'S LABOR FORCE ARE WAGE WORKERS (cont'd)**

- What this means is that **less than half** of the overall labor force **benefit directly** from **minimum wage-type policies**.
- Indeed, while the 300 baht minimum wage policy will benefit a good chunk of those **17 million wage workers**, what it is also likely to do is further reduce the number of wage workers as **firms lay off workers** and they end up having to **work in the informal** and **non-wage sectors**.

## **FACT 2: OVER 11 MILLION WORKERS CURRENTLY EARN BELOW 300 BAHT/DAY**

- Based on the latest labor force survey (LFS) data from the National Statistical Office (NSO), about **11.5 million** workers currently earn **below 300 baht/day**, which translates into about **7,800 baht/month** based on the average number of **days (26)** worked **per month**.
- That represents nearly 70% of all wage workers or about 30% of the total labor force. The vast majority are in the **private sector (10.5 million)**.
- Full implementation of the new minimum wage will therefore affect a **really large number of workers** (and firms). It reflects that fact that actual wages in Thailand are pretty low.

## **FACT 2: OVER 11 MILLION WORKERS CURRENTLY EARN BELOW 300 BAHT/DAY (cont'd)**

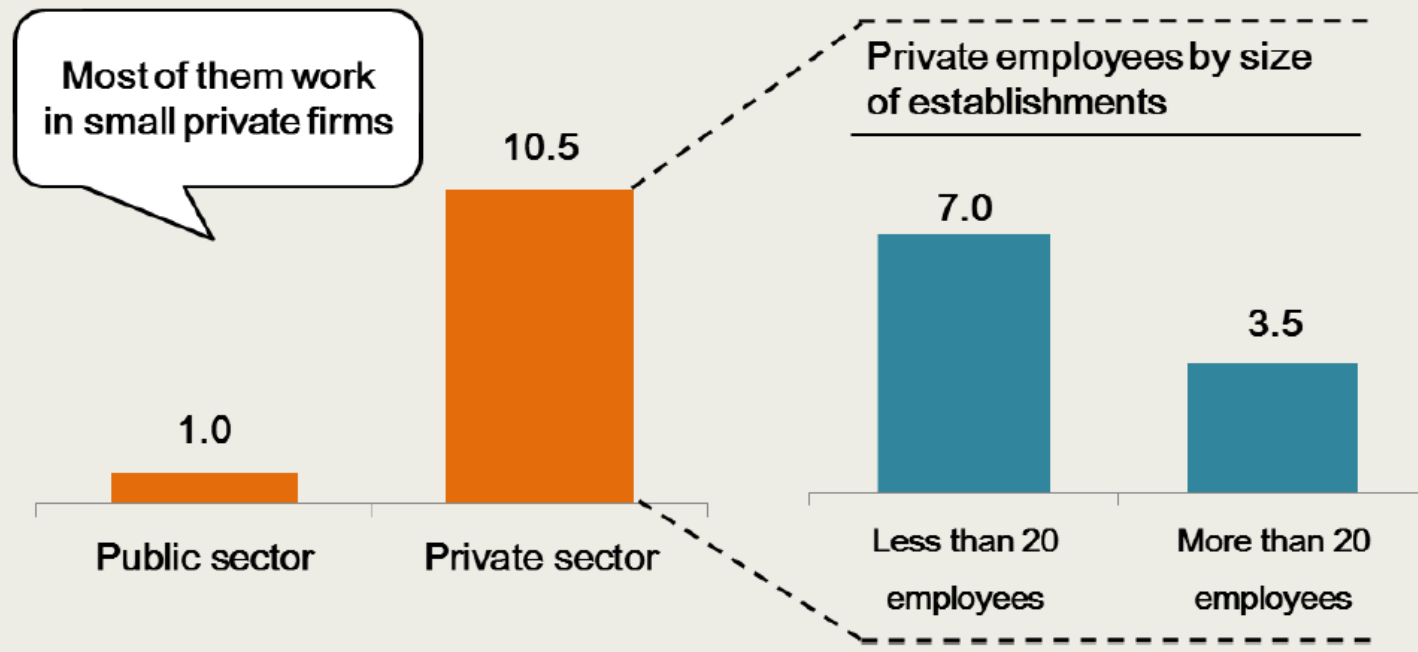
- The average monthly wage for workers with only a **primary** education (**5,100 baht/month**) and a **lower secondary** education (**6,100 baht/month**) are well below the proposed minimum. Only those with an **upper secondary education** earn average wages (**7,800 baht/month**) roughly equal to the new proposed minimum for all workers.
- Of Thailand's 76 provinces, **53 provinces** have average actual wages which are **below the new 300 baht** minimum wage.

## FACT 2: OVER 11 MILLION WORKERS CURRENTLY EARN BELOW 300 BAHT/DAY (cont'd)

1 Over 11 million wage workers earn less than 300 baht per day

Number of employees with income less than THB 300 per day without university degrees by types of organizations

Unit: million persons



Note: 2010 data; assume that employees work 26 days per month

Source: Advisor analysis based on data from Labor Force Survey (LFS) of the National Statistical Office (NSO)

## **FACT 3: WHERE ARE THEY?**

- Not surprisingly, most of those earning below 300 baht/day are employed in **small firms**. Nearly **half of the 11.5 million** are working in firms that employ **fewer than ten workers**.
- Mostly in **manufacturing; agriculture; construction;** and **retail and wholesale** trade. These 4 sectors collectively account for **over 75%** of those workers earning **below the 300 baht threshold**.

## FACT 3: WHERE ARE THEY? (cont'd)

- Manufacturing alone accounts for nearly **3 million of those workers**. Within manufacturing, nearly half (46%) are to be found in 3 subsectors: **food products** and **beverages**; **apparel**; and **furniture**.
- Geographically, they are spread out pretty much all over. But the **top provinces** where they are located are Bangkok (856,000); Nakhon Ratchasima (607,000); Chiang Mai (409,000); and Khon Kaen (336,000). Interestingly, Phuket has relatively few (42,000).

# FACT 3: WHERE ARE THEY? (cont'd)

## 2 Most of them work in manufacturing

Number of employees with income less than THB 300 per day by industry

Unit: million persons



Note: 2010 data; assume that employees work 26 days per month

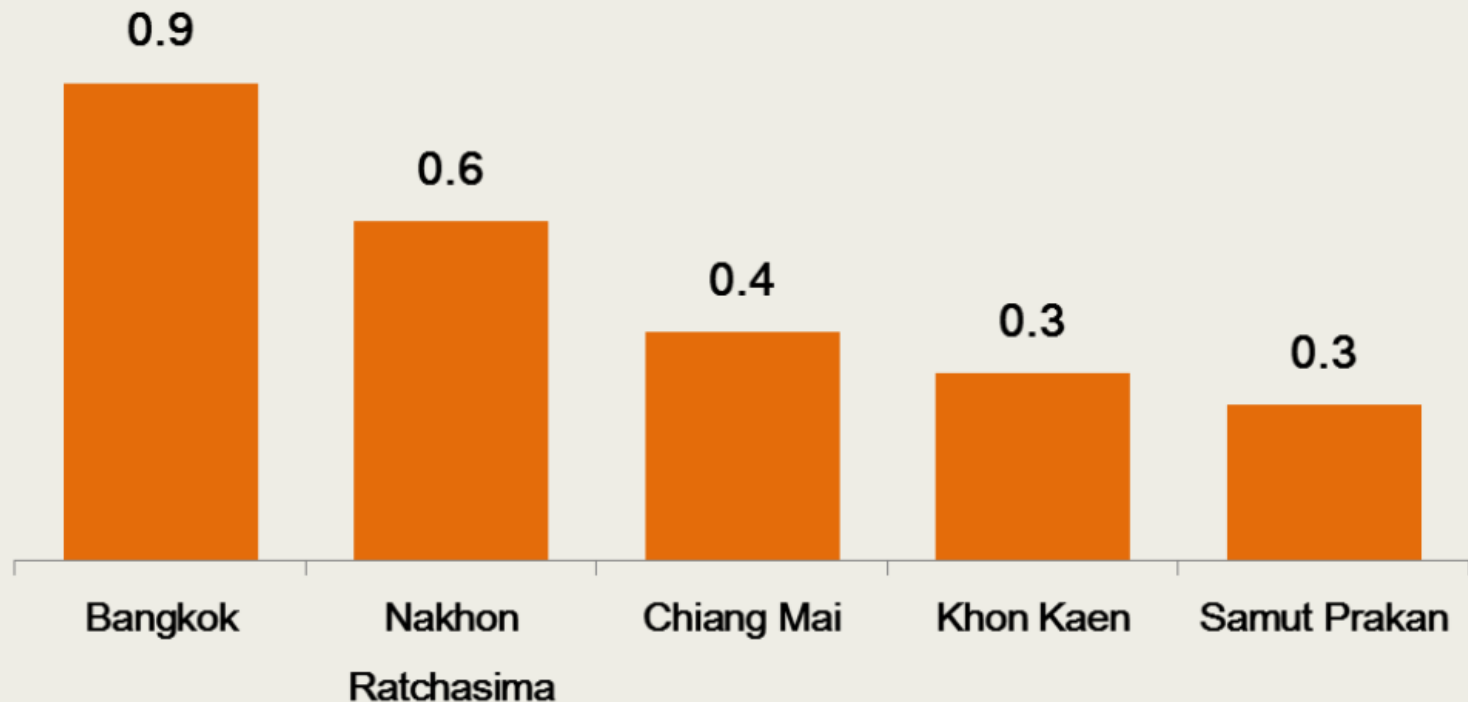
Source: Advisor analysis based on data from LFS of NSO

# FACT 3: WHERE ARE THEY? (cont'd)

## 3 ... and in Bangkok

Number of employees with income less than THB 300 per day without university degrees by geographies

Unit: million persons



Note: 2010 data; assume that employees work 26 days per month

Source: Advisor analysis based on data from LFS of NSO

## **FACT 3: WHERE ARE THEY? (cont'd)**

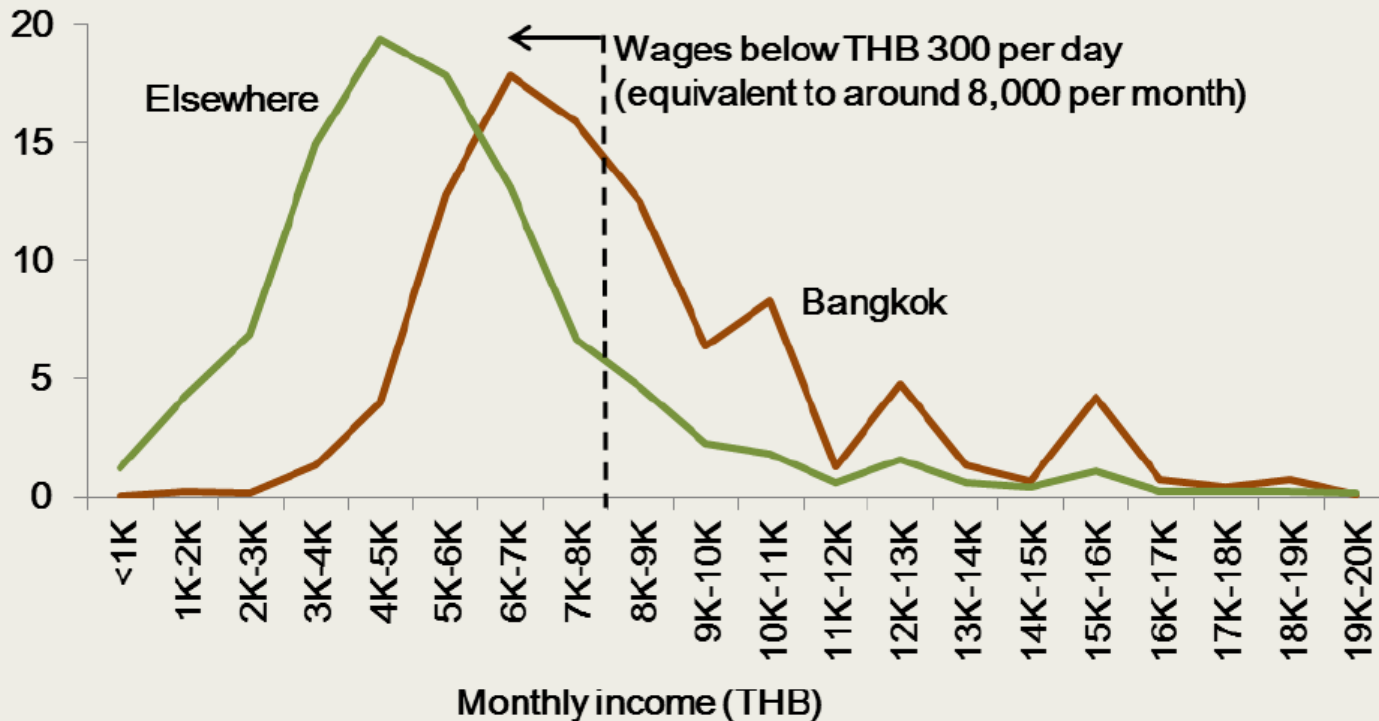
- The above highlights the fact that it can be very **misleading** to look at current minimum and average wages to assess the impact of the new minimum wage.
- Just because average wages in an area are higher than the new minimum wage does not mean that there won't be much impact.
- What matters is the entire distribution of wages. For example, even though average actual wages in Bangkok (at over 14,000 baht/month) are significantly higher than the new 7,800 baht minimum, there are still over **850,000 workers** who earn **less than the proposed minimum**.

# FACT 3: WHERE ARE THEY? (cont'd)

## 4 The impact depends on the *entire distribution* of wages

Wage distribution of employees (without university degrees) for Bangkok and elsewhere

Unit: Proportion in different income categories (%)



Note: 2010 data; assume that employees work 26 days per month

Source: Advisor analysis based on data from LFS of NSO

## **FACT 4: 15K PER MONTH FOR UNIVERSITY GRADS MORE OF AN ISSUE FOR THE PUBLIC SECTOR AND LARGER FIRMS**

- The **other policy** being mooted is a **minimum 15,000 baht/month** salary for **university graduates**.
- About **1.7 million workers** with a **university degree** (bachelor's or above), or roughly half, currently **earn below 15K**.
- Slightly over half are in the public sector. Many are in the education sector (teachers).
- Of those in the private sector, nearly half (49%) are employed in firms employing over 50 workers.

## **FACT 4: 15K PER MONTH FOR UNIVERSITY GRADS MORE OF AN ISSUE FOR THE PUBLIC SECTOR AND LARGER FIRMS (cont'd)**

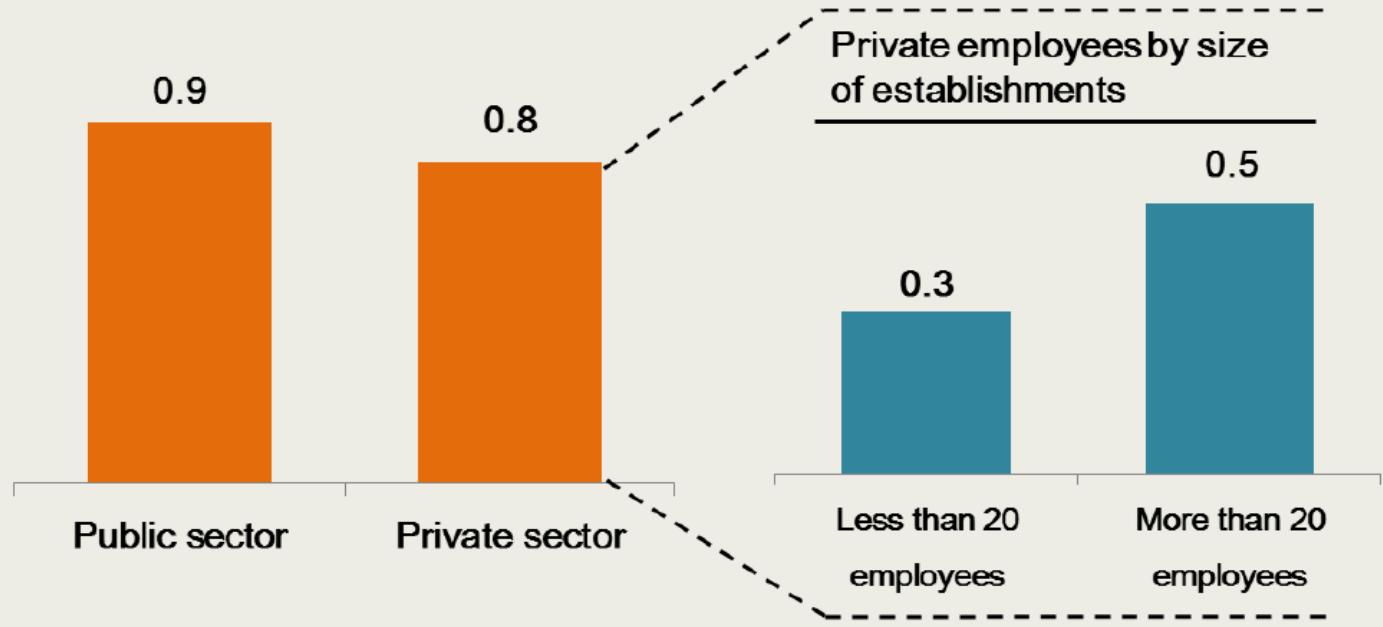
- **Paying for diplomas not skills.** While more and more people are graduating from university, the **quality of the graduates is waning**.
- This is not just anecdotal. The percentage of college graduates aged 20-25 who were employed as **professionals dropped** from **40% to 28%** between 2001 and 2009, while those working as **service workers** and **clerks** have **increased**.

# FACT 4: 15K PER MONTH FOR UNIVERSITY GRADS MORE OF AN ISSUE FOR THE PUBLIC SECTOR AND LARGER FIRMS (cont'd)

5 Around 1.7 million employees with university degrees have income less than THB 15,000 per month

Number of employees with income less than THB 15,000 per month with university degrees by types of organizations

Unit: million persons



Note: 2010 data; assume that employees work 26 days per month  
Source: Advisor analysis based on data from LFS of NSO

## **FACT 5: REGULATORY ENFORCEMENT AND COMPLIANCE IS PRETTY WEAK**

- At present, regulatory minimum wages vary by province, ranging from a **low of 159 baht/day** (Phayao province) to a **high of 221 baht/day** (Phuket).
- But actual compliance is weak: 39 out of 76 provinces have average wages below the regulatory provincial minimum wage.
- The proposed new minimum wage of **300 baht/day is much higher (40%)** than the **current minimum wage for Bangkok and surrounding provinces** (215 baht/day).
- But for workers to really get the benefit of any proposed new minimum, enforcement will also have to be improved.

## **FACT 6: WAGES HAVE NOT REALLY BEEN GROWING**

- There is a clear need to improve wage growth. The question is how best to achieve it.
- What probably matters most for a person's standard of living is that **person's real wage**, i.e. what a person can purchase with his or her income.
- But in Thailand, **increases in GDP** have **not really translated** into **higher real wages**.
- Between **2001 and 2010**, **GDP** in Thailand grew by **50% in real terms** (i.e., excluding inflation), but **wages have essentially remained flat** in real terms as they have **barely kept pace with inflation**.

## **FACT 6: WAGES HAVE NOT REALLY BEEN GROWING (cont'd)**

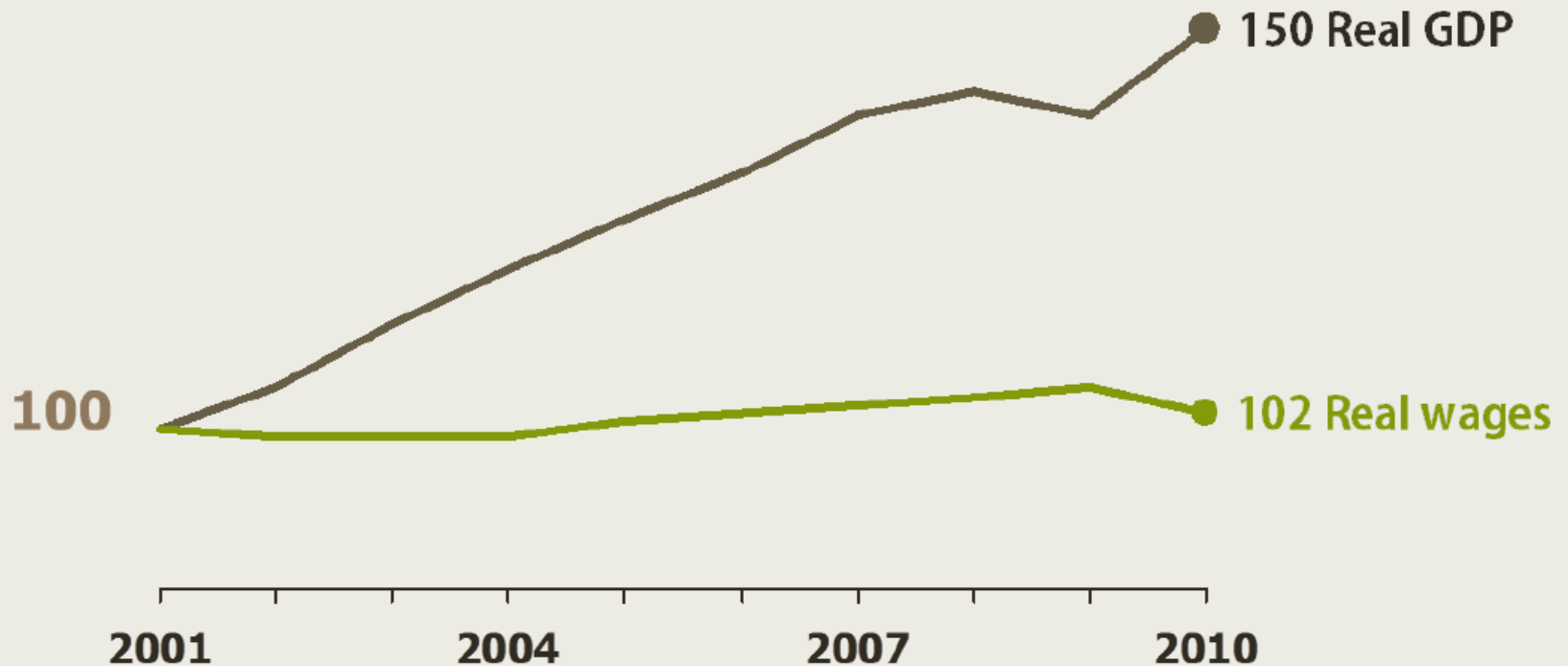
- What is particularly striking is how the pattern of flat real wages over time **holds true** pretty much **across all dimensions**: across regions; across levels of education; across industries; and across occupations!
- As a result, the reliance of the Thai economy on exports has only increased over time.
- Exports of goods and services as a share of GDP increased from 34% in 1990 to 71% in 2010.
- If **real wages aren't growing**, it is **hard to get sustained growth in domestic demand**.

# FACT 6: WAGES HAVE NOT REALLY BEEN GROWING (cont'd)

6 While GDP has grown, wages have not

Real GDP and real wages

Unit: Index 2001 = 100



Source: Advisor analysis based on data from National Economic and Social Development Board (NESDB); Ministry of Commerce (MOC); and the NSO

## FACT 7: LABOR PRODUCTIVITY GROWTH HAS REALLY LAGGED THE REGION

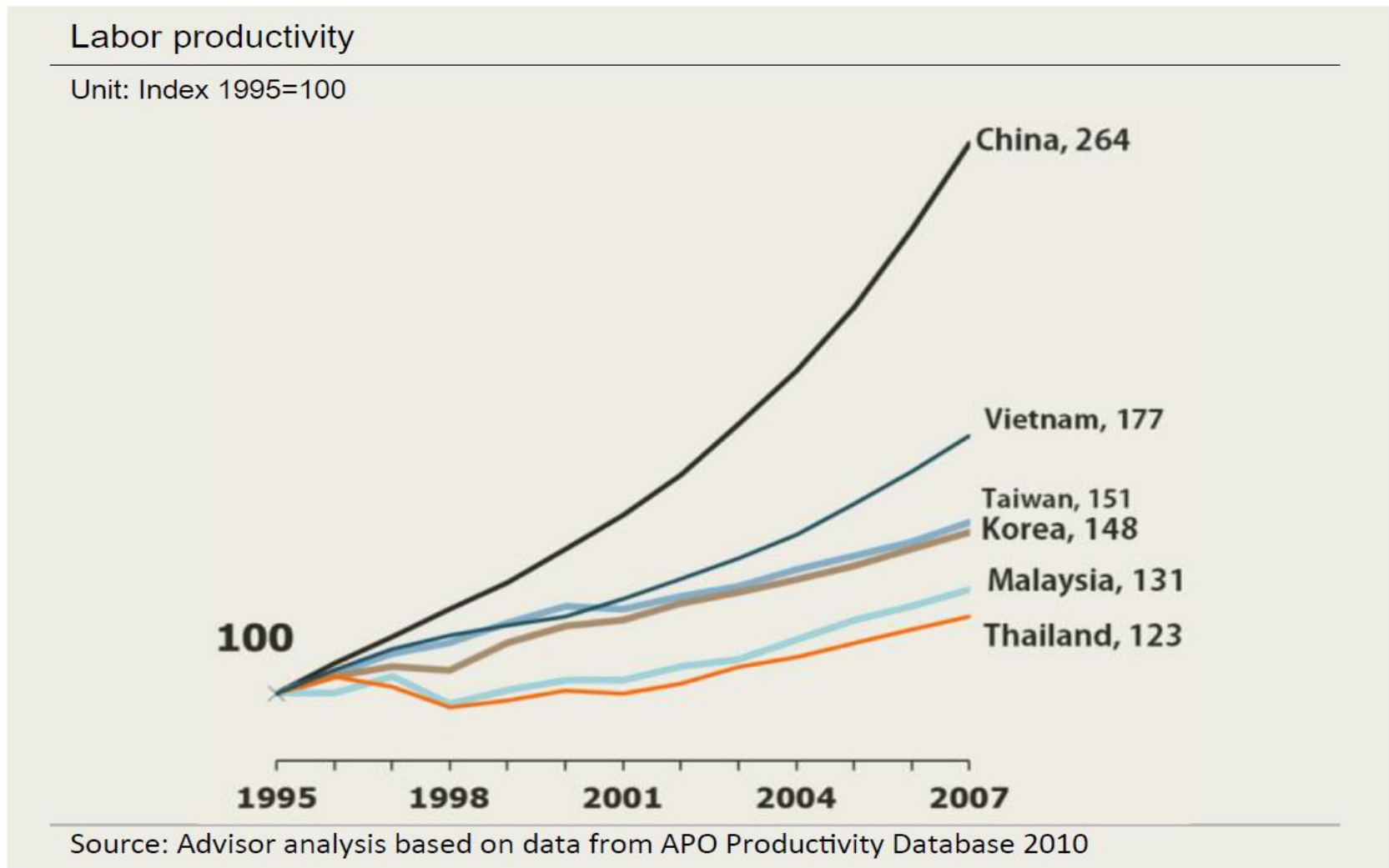
- Firms can **pay workers higher wages** if the price of the goods that they sell increases (**move up the value chain**) or if our workers produce more (**increase productivity**). We have **not had much of either**.
- Much of what we produce has registered slow growth in selling prices, especially on the export front.
- **Electronic machines** and **equipment**, for example, together account for about **27% of total exports**, but our **export prices** in USD in these sectors have registered a compound average **annual growth rate** (CAGR) of **only 1%** between 2000-2010.

## **FACT 7: LABOR PRODUCTIVITY GROWTH HAS REALLY LAGGED THE REGION (cont'd)**

- **Appreciation of the baht** means the price in baht has **suffered even more**.
- And our **productivity growth** has significantly **lagged much of the region**. Between 1995 and 2007, labor productivity in Thailand grew by about 23%, well below Malaysia (31%); Taiwan (51%); and Vietnam (77%).
- What this means is that if we want to sustainably grow our real wages, what we really need to do is invest a lot more to **increase the value of our products** and our productivity.
- But **investment** is another area where we have significantly **lagged the region**.
- Thailand is **the only country** in the region where real **investment still remains well below pre-Asian crisis levels**.

# FACT 7: LABOR PRODUCTIVITY GROWTH HAS REALLY LAGGED THE REGION (cont'd)

7 Productivity has lagged the region



## **FACT 8: WE NEED TO DO A LOT OF OTHER THINGS AS WELL**

- The data clearly indicate a need to improve growth in **real wages** to **improve living standards** and **domestic demand**.
- But our lackluster growth in **labor productivity** also highlights that we need to go about it systematically.
- If **real wages** are increased **much faster** than **productivity**, our **competitiveness will decline**.
- This is all the more worrisome in the current environment where **continuing weakness in the USD** will lead to further **appreciation of the baht**.

## **FACT 8: WE NEED TO DO A LOT OF OTHER THINGS AS WELL (cont'd)**

- We **cannot just legislate** or regulate our **way to higher real wages** or **living standards**. If it were that easy, every country would already have done it, and poverty would be a thing of the past.
- To be sustainable, increases in the minimum wage need to be done (gradually) **in line with market realities** and, most importantly, accompanied by **real increases in labor productivity**.
- Such **increases in productivity** are all the **more important** because we are going to face increasingly shortages of labor.

## FACT 8: WE NEED TO DO A LOT OF OTHER THINGS AS WELL (cont'd)

- Thanks to our changing demographics, the average annual growth rate of the working age population (aged 15-60) will drop from the 1.0% recorded over the last decade to only 0.2% over the next decade.
- More **investment and upgrading skills** must be part of the policy package. Otherwise, the **higher minimum wage** will benefit a subset of the labor force—e.g., those employed in larger firms in the formal sector—but **fail to benefit others more widely**.
- We probably do not want to see a situation where higher minimum wages for some causes higher inflation for all, resulting in even lower real wages and living standards for those—e.g., workers in the informal sector—that need the most help.