

Quiz #1 – Suggested Solution

EE460 (Semester 1/ 2019)

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There has been the consistent cyclical pattern of both migration and total production in Thailand as exhibited in Figure 1 and 2.

Figure 1: Share of employment in Agricultural and Non-Agricultural sectors

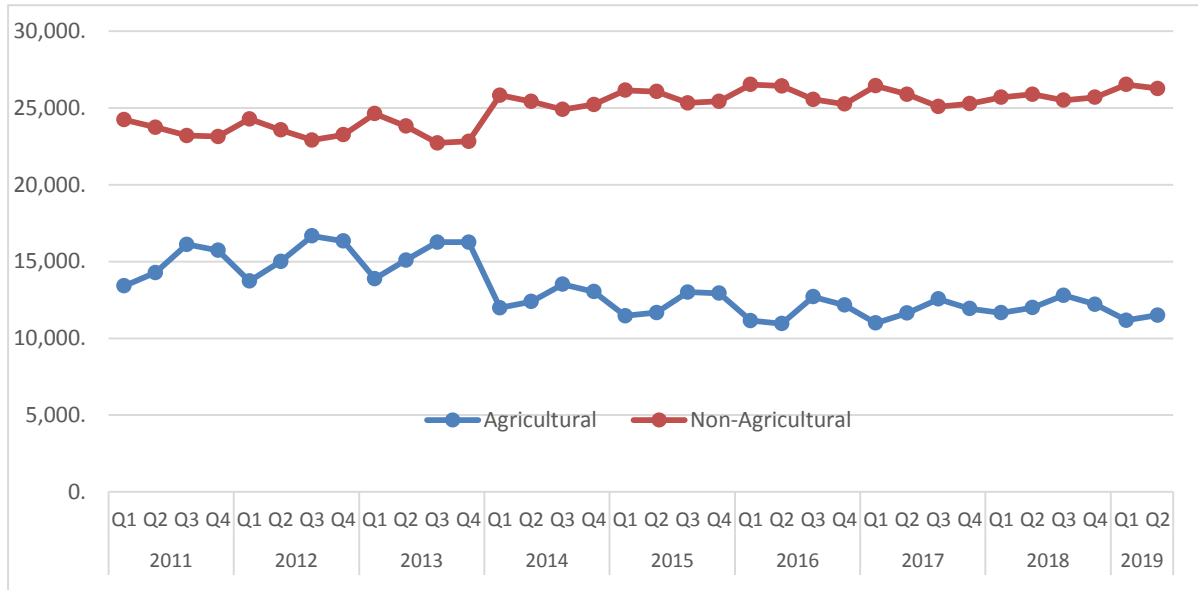
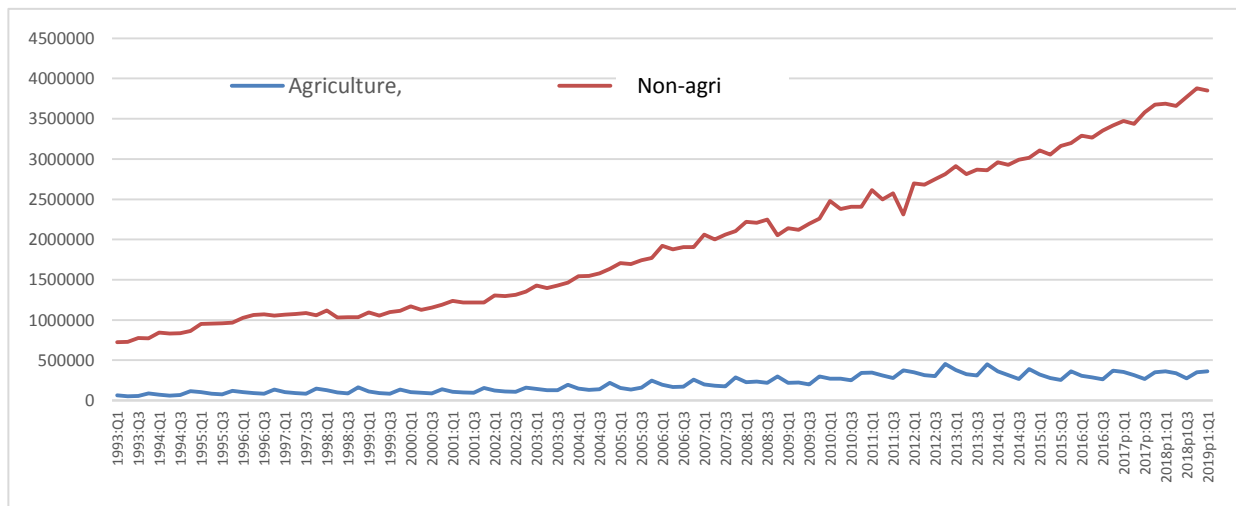


Figure 2: Total Production in Thailand



Question 1: What are the main causes inducing the cyclical pattern in Figure 1?

The seasonal migration between agricultural and non-agriculture sectors has played an important role in Thai economy. After the harvest season, unskilled workers migrate to find informal jobs in urban areas. Later they will move back to rural areas again when the crop season starts. Based on this fact, there exists the highly significant negative correlation between employment in agricultural and non-agricultural sectors. This mechanism has been stabilizing the economy and maintaining the low unemployment rate. Specifically, it enables Thailand to achieve one of the lowest unemployment rates in the world. However, it conversely leads to the problem of stagnant in GDP growth because these unskilled workers earn mostly the low level of income in both agricultural and non-agricultural sectors.

Question 2: Is the structure of production as in Figure 2 proportionate to the structure of labor exhibited in Figure 1?

The relationship between Figure 1 and 2 has twofold. First, in the time dimension, both cyclical patterns of employment and agricultural output are based on the annual cycle of main crops. This pattern, constrained by rain season, dominates the temporary employment and seasonal migration between agricultural and non-agriculture sectors, allowing Thai economy to maintain its low unemployment rate. Second, in term of output per labor ratio, it is clearly shown that this ratio has been disproportionate for many decades. Approximately, 40 percent of labor is still working in agriculture, albeit generating only 8 percent of GDP. A lack of continuous technology improvement in agriculture has caused the low productivity. The disproportionate structure of generated output and employed labor, together with the seasonal migration between agriculture and unskilled jobs, leads to the low GDP growth. Investing in both the technology improvement and upgrading the skill of labors would be the key strategy enabling the higher long-term growth rate of Thailand's GDP.