

CHAPTER I

INTRODUCTION

A. Background

In the age of globalization, every country has competitiveness in the economic side in order to become a developed country. Country cannot stay alone because a country needs to cooperate with other countries to increase its market in another region such as market in the Euro zone.

Labor force is very important to develop economic of country. Labor forces that portion of the population, which is economically active. The labor force is defined simply as the people who are willing and able to work. The size of the labor force is used to determine the unemployment rate. The percentage of the unemployed in the labor force is called the unemployment rate.

Nevertheless, there are many sides come out to support or to oppose this policy more widely. The main reason for the objection when this policy was practiced was that many enterprises, especially SMEs (Small and Medium Enterprise: SMEs), would be shut affect their ability to compete for the country in the endless. Exports will decline due to their ability to compete in the export of low cost. Inflation rises exponentially (Multiply Inflation), and workers are flowing into the country. Moreover, this policy will affect investment in the country, and in particular, the FDI (Foreign Direct Investment: FDI).

300-baht wage had an impact on employers and employees. Some of the employees that had an impact on the wise employer refused to comply, according to Thai government. The total of labor welfare included 300-baht wage policy that the government adopted. Despite, employers had no opportunity to adjust the wages for the employee or stop the rise of labor costs. Every year, the establishment had to adjust up money wages to the employee. It appeared to exploit workers, and at the same time affected the welfare of other establishments with employee labor more difficult as well. The deduction rate and employee contributions to the social security fund increased the benefits from Social Security's more. Therefore, when the government has adopted a policy to workers to neighboring countries poured into interventions and find work as laborers. This is a race to make a career of Thailand.

The current account has been in foreign workers to work in Thailand is increasing every year and the government of Yingluck had made 300 baht minimum wage policy occurs. The current minimum wage was too low. Employers were required to pay the employee in order to improve the living standards of workers and reduce poverty.¹The government and Ministry of Labor were working on new measures to aid business operators that might be affecting by the 300-baht daily minimum wage policy. These measures included SME tax benefit (legal definition of SME is a legal entity with registered capital of less

¹NayobyKharengganKhantam 300 baht.MissRungrawinSangsing. (Accessed 01-04-2016)

than five million baht, and income from product sales and service of less than 30 million baht per year).²

Now, due to the Thai volume of work was down. Thailand's lower labor scarcity made it necessary to import labor from neighboring countries for workers' compensation benefits. The increasing of the 300-baht minimum wage a day to affected the quality of labor's life, especially Thai labors. Their quality of life was improved but conversely there was also the increasing of foreign worker. It was because at the same time some entrepreneurs needed the foreign workers to reduce production costs.

The government all ages has the employment rate hikes with the high cost of living depended on constantly. Besides the increasing of the income and purchasing power of the workers increase the critical effect and enhance the economic competitiveness of the country's higher. However, the government must take into account the impact of the business, the cost of production and the industry sectors most in need of labor in their operations. These may affect the price that was adjusting to higher price. If the operation has reduced profits or losses, it may reduce the number of workers and replace them with technology or machinery or with foreign workers whom mostly seen today. After adjusting wages above the government and the business sector may have replaced them. Several evaluations were conducting for the blank.

²300 daily baht minimum wage. Permanent Secretary of Ministry of Labor urges all sides to assist Thai SMEs. Ministry of Labor. Tuesday, 03 April 2012. From: <http://www.mol.go.th/en/content/300-daily-baht-minimum-wage-permanent-secretary-ministry-labour-urges-all-sides-assist-thai-> (Accessed 25-05-2016)

The policy of Thai government to increase 300-baht minimum wage a day was good to Thai labor and foreign worker. There was an increase in production costs without any increase in production output. Multinational companies with large labor forces were likely to consider investing in neighboring countries with more competitive cost structures. However, the wage increase was also an opportunity for Thai companies in to automate manufacturing processes. In response, the Department of Skill Development under the Ministry of Labor had announced additional training for new and non-skilled labor.³The 300-baht minimum wage contributed to the Thai economy it was started on 1 April 2012 and was expected to be effective in the 70 provinces on 1 January 2013. This minimum wage two had side effects; Employee side, they had more purchasing power and cope with rising cost of living. On the small and medium-sized enterprises side, it increased the costs.

According to Dr. Somsajee about the impact of the increase of the minimum wage to 300 baht, "MOAC automatically indicate that the labor market is Thailand as the market focuses on the use of cheap labor. The economic structure need to rely on exports as a driver. The government must try to maintain the capacity of the competitiveness of the product by turning the focus from the low-cost producer with a production output of Thailand's most categories. "Fabrication" by the customer (Original Equipment Manufacturer or OEM)

³ Proposed 300 Baht Minimum Wage, MAZARS. From: <http://www.mazars.co.th/Home/Doing-Business-in-Thailand/Payroll/Proposed-300-Baht-Minimum-Wage> (Accessed 09-10-16)

product produced”.⁴Even though, it had benefit to the Thai people, it is quite a few and did not improve the labor productivity as well as innovation. Technology and productivity are the reason for the country to fall into the trap of middle-income countries (Middle Income Trap). By comparing wage rates under Labor Thailand in early 2010. Before the policy to increase the minimum wage to 300-baht average per day, the rate of 177 baht per day wages was so low that hardly enough to sustain life quality. In particular, workers must have the burden of raising a family matter, even in the rate of the minimum wage a day since 1972 and developed by the Wage Committee tripartite determine. The rate of the minimum wage to take care of the interests of the employee and the employer already but the minimum wage over the last 40 years, it didn't not help Thailand workers out of poverty or that are economically justified should be the goal of a minimum wage.⁵

Eventually, the cost of living would rise again. The Permanent Secretary for Labor, who is also Chairman of the Wage Committee, stated that the minimum wage in April 2012 would increase the purchasing power of the public and help workers cope with rising costs of living. He believed that the hike in the minimum rate would produce more positive results than negatives ones. More income earned by workers would facilitate the buying and selling of consumer goods, as

⁴300 daily baht minimum wage. Permanent Secretary of Ministry of Labor urges all sides to assist Thai SMEs. Ministry of Labor. Tuesday, 03 April 2012. From: [http://www.mol.go.th/en/content/300-daily-baht-minimum-wage-permanent-secretary-ministry-labour-urges-all-sides-assist-thai-\(Accessed 09-10-16\)](http://www.mol.go.th/en/content/300-daily-baht-minimum-wage-permanent-secretary-ministry-labour-urges-all-sides-assist-thai-(Accessed%2009-10-16))

⁵Thairat.ค่าแรง300บาทเร่งรัฐบาลเสียภาษีให้ถูกจุด. 4 Jan 2016. From: <http://www.thairath.co.th/content/319869> (Accessed 09-10-16)

well. The policy of 300-baht minimum wage made structure of wage very different. The benefits will largely fall on workers with low revenue. But employers also need to increase wages to workers with higher incomes to. This implies that the rate of the minimum wage was as a reference to determine the wages of all workers. Therefore, the rate of increase in the minimum wage, and production costs of private enterprise. However, some businesses and private company criticized the implementation of the 300-baht minimum wage, by saying that it would adversely affect small and medium-sized enterprises.⁶

B. Research Question

Based on the background part of this paper, the research question was:

“How was the impact of minimum wage policy in Thailand toward foreign investment in Thailand?”

C. Theoretical Framework

1. Political system by David Easton

The term of “political system” is being used increasingly in the study of comparative politics. Different political scientists have a variety of views upon the definition of political system. David Easton says that “Political system is authoritative allocation of values but before going into the elaborated definition of the political system, one must know about “political and system.” The word political in its literal meanings is that any

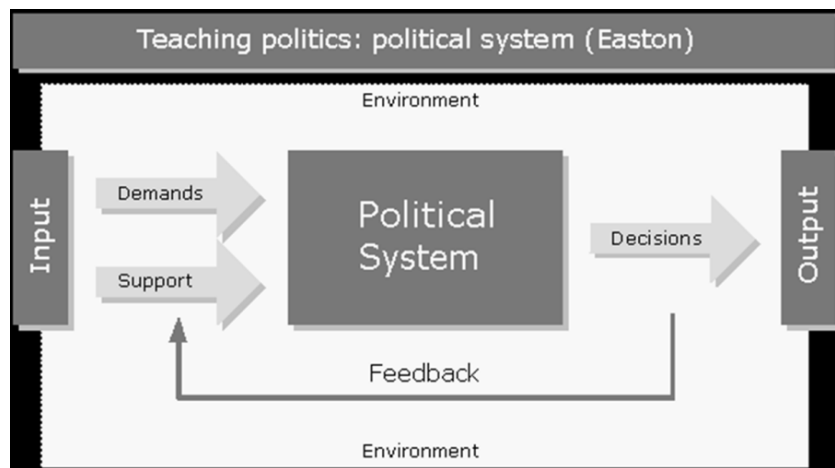
⁶300-Baht Daily Minimum Wage. THREE BUFF. From: <http://threebuff.blogspot.co.id/2013/02/300-baht-daily-minimum-wage.html> (Accessed 03-06-2016)

phenomenon pertains to the study of politics. Therefore, politics in its simplest meaning is “Practice of government and managing of public affairs.” The word system “implies the interdependence of parts and a boundary of some kind between it and its environment”. Further he said, “By interdependence we means that when the properties of one components in a system change all the other components and the system as a whole is affected.” The boundary of the political system means that every political system has its circumscribed frame work in which it performs. In this way it has become easier to understand the meaning of a political system “Broadly the political arrangement of a society, embracing all factors influencing collective decisions, the political system thus includes processes of recruitment and socialization, parties, voters and social movements, which is not a formal part government.”

In a political system, some fundamental units and boundaries differentiate it from other systems. The political system is composed of different structures and functions, structures ensure systems officially and development functions denote realization of demands and promotion of development since demands and developments are variables. The political system is a biological phenomenon in which is a human body work in a mechanized form. The heart circulates blood to the organs of the whole body. All organs of the body have their special functions to perform. If any organ of the body does not receive the blood properly or resists in performing its function, the whole system of the body will be disturbed. In

the same way, the political system has different structures and functions and every structure has its sub system that is assigned specific functions to do, it may be authoritative assigned function. The political system exists only in a state, which is the sole entity for the identification of its credibility.⁷

Figure 1 Political System



Model of political system by Easton⁸

The political system by David Easton generally, talks about relation and behavior in political, included the political structures. In order for the state to have policies or make business decisions, it will have to pass various processes in order to obtain policies or laws. David Easton makes map's Political system it has the following elements: demand, support, environment, output, and feedback.

⁷ <http://visit-tolearn.blogspot.co.id/2014/10/political-system-by-david-easton.html> (Accessed 11-11-2016)

⁸ Model of political system by Easton. <http://visit-tolearn.blogspot.co.id/2014/10/political-system-by-david-easton.html> (Accessed 11-11-2016)

Input (Demands and Support):

- There are protesting for increase minimum wage every year.
- Improve the quality of life
- Reduce the social gap
- As an incentive for people to work
- More efficient and more productive workforce

Political system:

- Government recognition to solve a problem and release the policy

Output (Decision):

- The government issued to increase 300-baht minimum wage and problem when employer discontent and they need to up the price of material and have the flow to foreign worker increase.

Feedback:

- Entrepreneurs and investors got the affect from 300-baht minimum wage policy.
- This policy got the labor have good quality of life.
- The increase of wage would affect in employment conditions, production cost and investment.
- This policy helped all the labors to earn more income by getting minimum wage up to 300-baht a day.

2. Wage theory by David Ricardo

Wage theory, portion of economic theory that attempts to explain the determination of the payment of labor. A brief treatment of wage theory follows for full treatment see wage and salary. The subsistence theory of wages, advanced by David Ricardo and other classical economists, based on the population theory of Thomas Malthus. It held that the market price of labor would always tend toward the minimum required for subsistence. If the supply of labor increased, wages would fall, eventually causing a decrease in the labor supply. If the wage rose above the subsistence level, population would increase until the larger labor force would again force wages down.

The wage-fund theory held that wages depended on the relative amounts of capital available for the payment of workers and the size of the labor force. Wages increase only with an increase in capital or a decrease in the number of workers. Although the size of the wage fund could change over time, at any given moment it was fixed. Thus, legislation to raise wages would be unsuccessful, since there was only a fixed fund to draw on.

Karl Marx, an advocate of the labor theory of value, believed that wages were held at the subsistence level by the existence of a large number of unemployed. The residual-claimant theory of wages, originated by the American economist Francis A. Walker, held that wages were the remainder of total industrial revenue after rent, interest, and profit (which

were independently determined) were deducted. In the bargaining theory of wages, there is no single economic principle or force governing wages. Instead, wages and other working conditions are determined by workers, employers, and unions, who determine these conditions by negotiation.

The marginal productivity theory of wages, formulated in the late 19th century, holds that employers will hire workers of a particular type until the addition to total output made by the last, or marginal, worker to be hired equals the cost of hiring one more worker. The wage rate will equal the value of the marginal product of the last-hired worker. Supporters of this theory maintain that the test of an economic theory should be its predictive power. They hold that the marginal-productivity theory is a guide to long-run trends in wage determination and applies more generally than the bargaining theory of wages.⁹

In this case, 300 daily baht minimum wage policy need the labor have good quality of life and need foreign worker come to Thailand for better economic in Thailand because labor is a part of economic. The impact of wage policy is the labor cost increased the minimum wage rate in those areas increased from the current 85 baht to 215 baht per day it would result in a wage increase. However compared to the cost of labor and cost of production, the proportion of lower-cost labor, industry, small and medium industries that use a lot of workers would be affected.

⁹ Wage theory. ENCYCLOPAEDIA. From: <http://www.britannica.com/topic/wage-theory> (Accessed 03-03-2016)

Wage theory by David Ricardo, this theory follows for full treatment see wage, salary, and market price of labor would always toward the minimum. Moreover, Karl Marx believed that wages were held at the subsistence level by the existence of a large number of unemployed.

3. Theories of Foreign Direct Investment by MacDougall

The genesis of theoretical development of foreign direct investment can be traced to the model of Heckscher-Ohlin model which is based on the assumptions of two countries, two factors, two commodities, returns to scale and both countries use identical factor inputs. Heckscher and Ohlin (1933) concluded that the driving forces for the FDI in this situation are higher returns and low cost of labour. MacDougall (1958) established his model based on the assumptions of perfectly competitive market. Kemp (1964) elaborated on this view of MacDougall view by assumption of a two-country model and prices of capital being equal to its marginal productivity. MacDougall and Kemp both stated that when there was free movement of capital from an investing country to a host country, the marginal productivity of capital tended to be equalized between the two countries. They found that after investment, the output of the investing country fell without any decrease in the national income of the country. This is because in the long term the investing country gets higher income from its investment abroad. Apart from MacDougall and Kemp, other

scholars like Simpson (1962), and Caves (1971) also channelled their views of FDI theories towards perfective competitive conditions.

Hymer (1976) faulted the proposition that driving force behind FDI flows is premised on the fact that market abroad has indisputable attribute of perfection. He was the first to consider the theory of FDI from the perspective of imperfection. The essence of Hymer's theory is that firms operating abroad have to compete with domestic firms that are in an advantageous position in terms of culture, language, legal system and consumer's preference. Furthermore, foreign firms are also exposed to foreign exchange risk. These disadvantages must be offset by some form of market power in order to make international investment profitable. The sources of market power are in the form of patent-protected superior technology, brand names, marketing and management skills, economies of scale and cheaper sources of finance.

According to Caves (1971), he articulated a significant feature of this theory as the advantages that are transmitted effectively from one unit of a firm to another unit of that firm, irrespective of the fact that they are either located in one country or in more than one country. Apart from Caves, Graham and Krugman (1989), they also supported the view of imperfection by stating that technological advantages possessed by UK gave them the upper hand to be able to invest in USA. Hymer and his supporters failed to have a complete explanation for FDI because they failed to mention where and when the FDI takes place.

Moving away from imperfection-based theories of FDI, Aliber (1970) put forward that FDI flow between two countries of different currency strength is possible. He postulated that weaker currencies compared with stronger investing country currencies had a higher capacity to attract FDI in order to take advantage of differences in the market capitalization rate. Aliber had tested his hypothesis and found the result to be consistent with FDI in the United States, the United Kingdom and Canada. Among other notable studies in the same genre are Caves (1988), Froot and Stein (1991). Though the theory is widely supported, it is not without two faults of failing to compare the FDI flow from weak currency nation to strong currency nation and an explanation for investment between two developed countries that have currencies of equal strength.

Kojima (1985) improved on Aliber's works. He deviated from placing emphasis on currency-based theory of FDI. He based his proposition on firms' inability to compete domestically in Japan had compelled them to look for investment opportunities abroad. He was of the opinion that the more efficient local firms were pushing the less competent firms out of the local market. As a result, the weaker firms were moving overseas, especially to other developing countries. However, Kojima's hypothesis failed to explain the expansion of business activities in international markets by the domestically competent firms. Also, he did not try to divide FDI into vertical FDI and horizontal FDI respectively.

Helpman (2003) improved on the work of Kojima by dividing foreign direct investment into horizontal FDI and vertical FDI respectively. He advocated that in the theory of horizontal FDI, the model predicts that foreign markets are better served by exports relative to FDI sales when trade frictions are lower or economies of scale are higher. Helpman and others (2004) tested their hypothesis with the help of export and FDI sales by United States firms in 38 countries and 52 industries; the results supported their theoretical predictions. Helpman's model also based on the differences in the factor endowments of different locations where a vertical MNC chooses to start its production centre. The model argues that firms like to choose cost-minimizing locations to maximize their profits. The differences in the factor endowments are associated with the relative size of the country. The theory explains the simultaneous existence of inter sector trade, intra-industry trade and intra-firm trade. The theory also explains cross country penetration by MNCs as a result of impediments to trade such as transportation cost and tariff.

The proposition of Helpman was improved upon by the innovation of some scholars like (Yannopoulos, 1990) and (Lipse, 1990) that emphasised regional integrations as the major driving force for foreign direct investment. Regional integration agreements (RIA) have proliferated throughout the world, leading to increasing flows of production factors across nations. This has coincided with a dramatic surge in flows towards developed as well as developing countries. As a

result, the role of RIA as a location determinant of FDI has become a topic of intense debate in recent years. The relevant question is whether RIAs supplement or complement FDI. RIAs typically encompass reductions in regional trade barriers and investment restrictions.

Hence, the impacts of RIAs on FDI flows will ultimately reflect the effects that investment and trade liberalization have on location and firm-specific advantages. The liberalization-induced changes in relative cost among member and non-member countries, changes in relative economic growth rates, altered investors' perceptions about country-specific political risks etc. will alter the location-specific advantages. RIAs also have the potential to change firm-specific advantages, thereby providing incentives for firms to undertake FDI. For example, an RIA may lead to a geographical concentration of specific industrial activities. If those activities involve significant agglomeration economies, then the firms with production facilities within the locations may enjoy increased efficiency advantages compared to other firms. Therefore, if these advantages are best exploited by establishing facilities abroad, FDI will increase to such regions.

Salike (2010) faulted (Yannopoulos,1990) and (Lipsey, 1990) because they failed to account for reasons for different impacts of FDI on regions. Salike noted that to identify and assess the connections between RIAs and FDI it was essential to consider the motives and modes of FDI from the intra-regional (internal) and inter-regional (external) perspectives.

Salike identified two important motives of FDI (tariff jumping and internalization) and two channels of FDI (vertical and horizontal). The two views of the motives for FDI will provide contradictory results regarding the effects of RIAs on intraregional flows of investment. If the motive for FDI is tariff jumping, horizontal FDI flows will decline because exporting from the home country will be relatively more attractive than FDI. However, if internalization is the motive, RIAs will create an incentive to increase investment as it will help to exploit the intangible assets of firms more efficiently. This is especially true for vertically integrated FDI, where the operations of MNCs are specialized according to the location advantages of the host countries. With regard to interregional investment FDI flows, both the two motives and the modes will lead to higher investment flows from outsiders into the region as a result of RIAs, either because of fears about future protection or the perception of an enlarged market.¹⁰

In this case the Investment in Thailand in 2014 was the of Yinglack government can see a decreased in the number of foreign-investment and domestic-investment was total down more than in 2013, so the 300-baht minimum wage policy had had an impact on Thai investment and had affected to large entrepreneurs and the other.

¹⁰ General Review of Literatures on Theories of Foreign Direct Investment. Olusegun Ojo Ebenezer. March 2010. Page 5-8 (Accessed 07-05-2017)

D.Hypothesis

Based on the background, the research question and the theoretical framework, the following hypothesis can be put forward as the impact of minimum wage policy in Thailand:

1. It improved the quality of the labor lifebut it effected directly to entrepreneur, and it made international worker fled to Thailand.
2. Domestic investors, International investors and national companies moved to another country.

E. Method of Data Collection

This writing used several ways to collect the data in order to discuss the problem they were as follows:

1. Media research, collecting the data from media like internet in order to find references and sources to accomplish the explanation of the problem.
2. Library research, this method was used to study the relevant sources in order to discuss the problem and by using the qualitative research the writer also will get secondary data.
3. Data analysis, the data gained from the internet and library were checked for the relevancy in order to be used as the sources in the final paper arrangement.
4. Proving hypothesis, it was derived from the meaning of the title, the discussion of the problem, and data analysis.

F. Objective of Research

This research aimed:

1. To understand the impact of the minimum wage to 300 baht of Yingluck Shinnawatra's government.
2. To know the impact and the benefits of minimum wage.
3. To implement the political concept of international relations directly to explain the case that is relevant to the problem.

G. Scope of research

Focusing more on the topic research, the research was limited in the time, in which the research was conducted. The scope of discussion started from the beginning of the policy of 300-baht minimum wage and the impact of the minimum wage (since 2012 until 2014). This time limitation showed that the labors had quality of life but entrepreneur had problem or got impact on the applying of this policy.

H. System of Writing

CHAPTER I, This chapter covered discussions of background, research questions, research purposes, theoretical framework, hypothesis, research methodology, research range and system of writing.

CHAPTER II, it discussed general condition of labor in Thailand.

CHAPTER III, it discussed the dynamics of 300-baht minimum wage.

CHAPTER IV, it answered the research question the impact of 300-baht minimum wage policy in Thailand.

CHAPTER V, Conclusion.