

CHAPTER III

THE DYNAMICS OF 300-BAHT MINIMUM WAGE

This chapter describes about the dynamics of minimum wage 300 baht and the impact of Thai government policy. The minimum wage is to reward the labor of works. An hourly, daily, monthly, as daily wage of an employee at the convenience store down 150 baht per day is the minimum wage. The policy said that the minimum wage to 300 baht. The first would be 150 baht and then it was up to 300 baht for everyone every work and every category.

A. Minimum Wage 300 Baht

1. Minimum wage 300 baht

By the policy of wage increase, the government aimed to raise income levels, to improve the lives of workers and stimulates the economy because of the same cost of living every day, but wages were not the same. It was simply that government policy that has made Thailand to campaign for them. "Labor productivity" is something that should be implemented long ago. Based on the data, the Ministry of Labor had calculated that the increase of the minimum wage jumped over the year 2012-2013. The overall wage increased 50-70 percent in Phayao. The year 2011 was the lowest in the country at 159 baht per day. In April 2012, it increased to 222 baht per day and in January 2013, it increased to 300 baht per day.

Thai government, under Yingluck, increased the Thai minimum wage to 300 baht a day, nation-wide. The “nation-wide” implementation was after the policy was implemented in some parts of Thailand for an extensive study phase. Before the increase to 300 baht a day, Thailand’s minimum wage was about 200 baht a day. It meant that Yingluck increased the minimum wage about 30 percent. Without any professional research, most Thai economist and business people said that it would add between of 5 percent to 10 percent to a typical Thai firm cost. Because of that, Yingluck extensified study phase to assess the impact from the minimum wage. The conclusion was that the higher minimum wage had an impact, but the impact was not significant.

However, the finding of extensive study phase said that Thailand’s Small to Medium Enterprises (SMEs) would find the higher minimum wage as a threat for their operation continuation. Therefore, the Yingluck’s government had passed a package to assist SMEs.¹

2. Thailand increased minimum wage

The Central Wage Committee announced its decision to raise the minimum daily wages in the 69 province out of the 77 provinces. The eight provinces in which the minimum daily wages would not be increased were mostly in the southern part of Thailand. For the other 69 provinces, the minimum daily wage would increase between 5 and 10 baht per day. Most of provinces in

¹ Thai Intel ASEAN News. Thailand effects a significant increase in minimum wage. Terence Chulavachana. January 12, 2013 From: <https://aseaneconomist.wordpress.com/2013/01/12/thailand-effects-a-30-increase-in-minimum-wage-relationship-to-workers-productivity/> (Accessed 17-02-2017)

Thailand would see the daily minimum wages rise by 5 baht a day. In the 7 provinces, the minimum daily wage would rise by 10 baht per day. It was no surprise that these provinces including Bangkok, Phuket and some of the surrounding provinces where the cost of living is generally higher than the rest of the country. In 13 other provinces, including Khonkaen, Nakhonratchasima, Chonburi, Rayong, Chiang Mai, Songkhla and Ayutthaya, the minimum daily wage would rise by 8 Baht per day.

In determining the new minimum daily wages for each province, the Central Wage Committee considered factors such as the cost of living, inflation, GDP, production costs and capacity, living standards, competitiveness, and economic and social conditions. The Central Wage Committee had announced that the new minimum daily wages were intended to be introduced on 1 January 2017. The Central Wage Committee's decision is not yet law. Before taking effect the Central Wage Committee would have to submit its decision on the new minimum daily wages to the Labor Minister, who would in turn submit the decision to the Cabinet for approval and endorsement. There was no indication as to how long the process would take to get Cabinet approval or whether there would be further changes to the Central Wage Committee's decision.²

² Herbert Smith FreehillsLLP.Lexology. Thailand: increase in minimum wage. 28 November 2016. From: <http://www.lexology.com/library/detail.aspx?g=1d902224-0bb3-4521-8fb1-bbfd8c88d28>(Accessed 17-02-2017)

B. The Impact of Thai Government Policy

1. The effects of the 300-baht minimum wage policy

The increase of minimum wage in Thailand was a burden to most employers. The Thai government believed that the 300 baht daily minimum wage would have positive effects to the country's economy in the long run. This referred to the full and mandatory implementation of the minimum wage increase across Thailand would be effective on January 1, 2013. This had been piloted in seven provinces since May 1, 2012. At the beginning of 2013, the government directed that all employees to be paid at least 300 baht a day throughout the country. The increase of minimum wage was approved by a Cabinet resolution which set the 300 baht daily minimum wage to be adopted in all provinces nationwide throughout 2013 and in 2014. Only if the Thai economy had faced severe volatility affecting the workers' livelihood, the Wage Committee would have considered revising the minimum wage set in 2013 and 2014. Here was an article that spoke about how the increase of minimum wage affected Thailand's labor force.

The increase of workers' minimum wage is believed that it will increase the purchasing power of the general public and helped workers cope with the rising costs of living. With more income received by the workers, buying and selling of consumer goods are likely to improve as well. The increased wage had adversely affected small and medium-sized businesses like a typical accounting

firm in Phuket. The government offered relief by approving the reduction of corporate income tax from 30 percent down to 23 percent in 2012.³

2. The effect to entrepreneur and labor

The policy of the 300-baht minimum wage had the impact to entrepreneurs and labors. The impact to entrepreneurs reduced the cost of manufacturing and some entrepreneurs had to close down or reduce the labor.

- a. The minimum 300 Baht income per day would increase the cost of production, particularly those labor-intensive industries, e.g. textiles, garment, sale and wholesale, rubber and plastic, and etc.
- b. The entrepreneurs needed to take higher responsibility to the additional over-time payment and provident fund of their employees.
- c. The minimum 300-baht income per day might cause 1 percent increase in inflation rate in regards to a normal situation. The study found that this policy led to a 1 percent point increase in the inflation rate.
- d. This policy might reduce capability of Thailand to compete with other countries the others because of the higher production cost.
- e. The manufacturers were responsible for a daily increase in the production cost, around 1,000 million baht per day the employers had to responsible for the increase of cost of productions, which was around 1,000 million baht per day.

³ Phoenix Capital Group. News & Update. From:<http://www.thephoenixcapitalgroup.com/how-did-the-increase-in-minimum-wage-affect-the-consumer-purchasing-power/> (Accessed 17-02-2017)

- f. There was the decrease of employment in SMEs sector and there was the increase of informal sector. The disguised unemployment would increase continually.
- g. The Gross Product might reduce more than 1.7 percent if the entrepreneurs were unable to increase the labor productivity and the capability in manufacturing.⁴

3. The impact on the manufacturing sector and the service sector.

The government adjusted the minimum wage from 215 baht per day to 300-baht a day nationwide. Therefore, the private sectors had to adjust the wage up to 85 baht per day. The adjustment of workforce for 300-baht per day effected 16.0 percent in the entrepreneurs and 5.60 percent in the labor. The cost of the manufacturing sector would be affected by the adjustments of the minimum wage.

The affects are:

- a. Employment levels decreased after adjusting the wages, small industries decreased 19.70 percent, medium industries decreased 20.54 percent, and large industries decreased 27.33 percent.
- b. There were reducing the level of employment of each sector. Central region had (31.68 percent) the most reduction of employment, Northern region was 18.81 percent, Southern was 18.64 percent, Northeastern region was 15.66 percent, and Eastern region was 11.76 percent.

⁴ ผลกระทบทางเศรษฐกิจจากนโยบายค่าจ้างแรงงานขั้นต่ำ 300 บาทต่อวันและเงินเดือนปริญญาตรี 15,000 บาท. รายงาน TDRI. March 2014. Page 9 (Accessed 25-02-2016)

- c. The impact of wages on the industry was varied SMEs that was affected was 90.29 percent, while SMEs that was not affected by the wage adjustments was only 3.24 percent. Medium-sized businesses that was affected was 94.06 percent. While large businesses that had the impact was that 92.54 percent, and that had no impact was 6.21 percent. Therefore, all industries, whether small, medium or large, were affected.
- d. The impact of the wage by region showed that the Eastern region was the most affected (98 percent), the North was 96 percent, the Northeast was 95 percent, and the Central part was the least affected of all (89 percent). However, all regions were affected averagely.

Therefore, the total production cost affected by the increase of wage was 4.0 percent averagely. It affected all industries. Small, medium, and large industries would be affected around 90-94 percent average. Considering the impact, the Eastern region got the most affect (98 percent). Northeast got 96 percent, and the South got 95 percent.⁵

The business sectors that got the impact were labor-intensive business in the manufacturing sector such as the production of furniture: wooden furniture, uncut stones, air bags, leather, etc; and the service sectors: hotels, construction business, house and land transportation, etc. In addition, it was predicted that the

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โครงการศึกษาผลกระทบของการดำเนินนโยบายรายได้ค่าแรงไม่น้อยกว่า300บาทต่อวันและเงินเดือนปริญญาตรี15,000บาทที่มีผลต่อการโครงสร้างเศรษฐกิจไทย. สถาบันวิจัยเพื่อการพัฒนาประเทศไทย. May 2012. Page 11-13. (Accessed 25-02-2016)

minimum wage might cause many businesses to close down or move their production based to other countries, which would lead to a weakening of the competitiveness of the country compared to other countries in the region.

4. Labor cost

Labor costs increased the minimum wage rate in those areas from the current 85 baht to 215 baht per day. It would result in a wage increase of 39.5 percent on the cost of the wage. Compared to production costs (Production costs), an increase in wages made the total production cost of enterprises increased 3.58 percent in small and medium businesses. Enterprises account for labor costs raised more than large enterprises even large industry used a greater number of workers. 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. The industry said that the cost of labor was high compared to the overall cost of production. Therefore, the total cost would be higher. The industries that their total costs raised due to the adjustment of the minimum wage were the five largest manufacturing industries: furniture industry, toys industries, jewelry and leather industry, textile Industry and printing industry.

5. The impact in investment

Foreign investment needed to increase or expand production to accommodate labor 5-7 million people every year. Although the current unemployment rate in Thailand was around 0.7 million, Thailand asked for help from neighboring countries to expand its manufacturing sector in the medium

term. Therefore, it was necessary to rely on foreign investment that paid more than Thailand's neighbors (eg, employment in Thailand in neighboring countries is more than 23 times).

It would make investments in the country slow down. The Japanese companies, including the Japanese Chamber of Commerce, expressed concern about the wage policy in Thailand. In Thailand's manufacturing industry, the key to creative economy, took at least three to four years or more. in the short, medium-term, central region of Thailand is the production of labor-intensive systems. In the time before the industry will adjust.

Thailand also has to rely on foreign investment Thailand needs to expand the manufacturing sector to accommodate new workers each year. If the wages of neighboring countries such as Vietnam are lower than Thailand's, the investments in the Thailand will be slow down in the short and medium term. Therefore, in the manufacturing sector in Thailand, the production system is concentrated in Thailand before adjusting to more industries.