

THE IMPACT OF 300-BAHT MINIMUM WAGE AS THE POLICY OF 2012 – 2014 GOVERNMENT TOWARD FOREIGN INVESTMENT IN THAILAND

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ABSTRACT

300-baht minimum wage was the policy about wage for labor floor of Thai and foreign workers. Labor force is very important to develop economy of the country. Labor force is conceived as that portion of the population which is economically active. It is important for Thai and foreign workers in the labor floor to have a good quality of life. However, 300-baht minimum wage policy has an impact to some entrepreneurs and some companies. This had affected foreign investors and national companies to move to another country with lower labor costs to invest or the companies must close. Entrepreneurs from small, and Small and Medium enterprises (SMEs) were also affected. And made some foreign workers fled to Thailand, so it made a gap from the previous influx of illegal migrants.

Keywords: Labor, Thai Government, minimum wage

Introduction

In the age of globalization, every country has competitiveness in the economic side in order to become developed country. Country cannot stay alone because a country needs to cooperate with other country 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.

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 to 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. Therefor 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.¹

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

¹ Nayoby Kharenggan Khantam 300 baht. Miss Rungrawin Sangsing.

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 increases 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.

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.² 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.

² Proposed 300 Baht Minimum Wage, MAZARS, From: <http://www.mazars.co.th/Home/Doing-Business-in-Thailand/Payroll/Proposed-300-Baht-Minimum-Wage>

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?”

Theoretical Framework

To analyze the mechanism or device, this paper will apply three theories: political system and wage theory.

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 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.”³

2. Wage theory by David Ricardo

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.

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

³ <http://visit-tolearn.blogspot.co.id/2014/10/political-system-by-david-easton.html>

conditions are determined by workers, employers, and unions, who determine these conditions by negotiation.⁴

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 hannelled their views of FDI theories towards perfective competitive conditions.

⁴ Wage theory. ENCYCLOPAEDIA. From: <http://www.britannica.com/topic/wage-theory>

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.⁵

⁵ General Review of Literatures on Theories of Foreign Direct Investment. Olusegun Ojo Ebenezer. March 2010. Page 5-8

General Condition of Labor in Thailand

Labor relations are consider the study of the relationships existing in the workplace between employers and workers or between workers, and the organizations that represent employers and workers, the government, and other types of institutions in society as a whole. In addition, the field of labor relations includes the study of personnel management, collective bargaining, labor laws, and social insurance systems. The real world of work and how to solve the problems existing within such a world such as workplace disputes between employers and labor unions, strikes, and lockouts, to promote fairness, efficiency, and a satisfying relationship⁶

This was partly due to the Thai government's policy to promote formal sector employment, an increase in the daily minimum wage, and a reduction in the numbers of workers with lower levels of education. The majority of those in the informal sector worked in agriculture (56.0 percent), trade and services (32.9 percent), and manufacturing (11.1 percent). Thailand's fertility rate has been very low, averaging 1.4 in the years 2010 - 2015, which ranks as second lowest among ASEAN countries after Singapore. Thailand could experience negative population growth by 2025 and it has faced labor shortages in many sectors, especially those requiring low-skilled labor.

In Thailand, workers' rights to organise and bargain with employers is not yet completely accepted. There is a lack of efficient, effective, and serious

⁶ The Thai Labour TDRI. Somkeit. October. Page 4-6.

measures to promote, protect, and build legal guarantees for these essential rights. In the past, there have been numerous attempts to divide up and dissolve unions and workers, to create division among workers and their representative organisations, and to destroy the general organisation of labor in the country. In many cases, laws have been passed with the clear and undeniable intention of limiting the right of some groups of workers to organise into unions.⁷

The Dynamics of Minimum Wage 300 Baht

Wage hike policy of the government aimed to raise income levels and improve the lives of workers. Stimulate the economy because every day, workers have to buy eggs. Instant noodle the same price But wages do not equal "If you look superficially raising the minimum wage to 300 baht nationwide. It is simply that government policy that has made Thailand to campaign for them. But if you look at the economics the wage hikes fit. "Labor productivity" is something that should be implemented long ago. According to data of the Ministry of Labor has calculated that. The increase in the minimum wage jump over the year 2012-2013 the overall wage increase of 50-70 per cent as wage Phayao. The year 2554 was the lowest in the country at 159 baht per day. April 2555 increased to 222 baht per day for the month of January 2556 and increased to 300 baht per day.

Before the increase to 300 baht a day, much of Thailand's minimum wage was at about 200 baht a day, meaning Yinglack just increased the minimum wage by about 30%. Without professional research backing, however, most Thai

⁷ The Thai Labour Movement. SAKDINA CHATRAKUL NA AYUDHYA. October 2010. Page 5-6

economist and business people, said that would add between 5% to 10% to a typical Thai firm cost. From that Yinglack extensive study phase to assess the impact from the minimum wage, the conclusion is that indeed, the higher minimum wage, has an impact, but the impact was not significant, as many Thai firms, were paying higher wages than the new minimum wage already, and in fact, Thailand suffers from workers shortages.⁸

The eight provinces in which the minimum daily wages will not be increased are almost all in the southern part of Thailand. For the other 69 provinces of Thailand, the minimum daily wage will increase by between 5 and 10 Baht per day (approx. 15 30 US cents per day). Most of the provinces in Thailand will see the daily minimum wages rise by 5 Baht a day. In 7 of the provinces, the minimum daily wage will rise by 10 Baht per day. It is no surprise that these provinces include 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 Khon Kaen, Nakhon Ratchasima, Chon Buri, Rayong, Chiang Mai, Songkhla and Ayutthaya, the minimum daily wage will rise by 8 Baht per day.⁹

The impact of Thai government policy

The minimum wage move was approved through a Cabinet resolution which sets the 300 Baht daily minimum wage to remain in all provinces

⁸ 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/>

⁹ Herbert Smith Freehills LLP. Lexology. Thailand: increase in minimum wage. 28 November 2016. From: <http://www.lexology.com/library/detail.aspx?g=1d902224-0bb3-4521-8fb1-bbfd8c88d28>

nationwide throughout 2013 and 2014. Only if the Thai economy faces severe volatility affecting the workers' livelihood will the Wage Committee consider revising the set minimum wage in 2013 and 2014. Here is an article that speaks about how the increase in minimum wage affects Thailand's labor force.

The increase in minimum wage of workers is believed to have increased 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. And while the wage increase have adversely affected small and medium-sized businesses like a typical accounting firm Phuket, the government offered relief by approving the reduction of corporate income tax from 30% down to 23% in 2012.¹⁰

The policy of the minimum wage to 300 baht has the impact to entrepreneurs and labors. The impact to entrepreneurs is reduce the cost of manufacturing and some entrepreneurs have to close down or reduce the labor required to make the labor trouble.

1. The minimum 300 Baht income per day will increase the cost of production, particularly those labor-intensive industries, e.g. textiles, garment, sale and wholesale, rubber and plastic, and etc.

2. The entrepreneurs need to take higher responsibility to the additional over-time payment and provident fund of their employees.

¹⁰ Phoenix Capital Group. News & Update. From: <http://www.thephoenixcapitalgroup.com/how-did-the-increase-in-minimum-wage-affect-the-consumer-purchasing-power/>

3. The minimum 300 Baht income per day might cause a 1 percent increase in inflation rate in regards to a normal situation. The study found that this policy led to a 1 percentage point increase in the inflation rate.

4. This policy might reduce capability of Thailand to compete with other countries the others because of the higher production cost.

5. The manufacturers are responsible for a daily increase in the production cost, around 1,000 million baht per day the employers have to responsibility for the increase of cost of productions, which is around 1,000 million Baht per day.

6. There is the decrease of employment in SMEs sector and there is the increase of informal sector. The disguised unemployment will increase continually.

7. The Gross Product might reduce more than 1.7 per cent if the entrepreneurs are unable to increase the labor productivity and the capability in manufacturing.

The impact of investment

In the short and medium term, but also need to be taken to foreign investment (FDI) would be out of the labor force more than a year, 5-7 million people to the need to expand the manufacturing sector. to accommodate workers each year, although the current unemployment rate of Thailand is at the rate of 0.7 ml sesame friend home to make the manufacturing sector of Thailand in the

medium term may have expanded the statistics for mobile that past the need to rely on foreign investment.

Thailand also has to rely on foreign investment. Thailand due to need to expand the manufacturing sector to accommodate new workers each year. If the wages of neighboring countries such as Vietnam, Thailand higher wages than Thailand 2.3 times to make investments in the country has slowed in the short and medium term. Thailand's manufacturing sector is needed to produce a labor intensive production system in Thailand prior to adapt to the industry skills, technology and innovation (Productive Industry) more.

Improving a quality of the labors life but effecting directly to entrepreneurs and making international workers fled to Thailand.

The minimum wage was increased to 300 baht in the remaining 70 provinces on 1 January 2013, after having the policy in place since 1 April 2012 in seven pilot provinces, namely Bangkok, Nonthaburi, Pathum Thani, Samut Prakan, Samut Sakhon, Nakhon Pathom, and Phuket. So this policy will help labor with more revenue and make have the ability to shop or purchasing power increases. This will contribute to the overall quality of life of labor improved as well.

This policy does help all the labors nationwide to earn more income by getting minimum wages up to 300 Baht a day. On one hand, higher income assists the labors to improve their living status to be able to spend more money to stipulate the market. On the other hand, the Revenue Department can collect more

tax which, in turn, driving a country to have a good economic. The labors in Thailand labor market have higher income from the implementing of “Minimum 300 Baht Income per Day” policy. This policy helps improving the economic status of these labors. There is the higher cash-inflow in the market and the government is able to more tax revenue. Consequently, it leads to the better national’s economic status.¹¹

The wage increase will have an impact on employment conditions, production cost and investing in the future. And the establishment of some the problems that will occur in advance with the welfare of others, including the wage rates in order the cost of hiring another way. Despite laws or guidelines that the government will not bring benefits or other compensation to be included and employees on the minimum wage has been adjustment nor affect their welfare ever received. The government solved the problem by adjusting the minimum wage to the consumer with higher prices. One side is Imports of goods from abroad, some have resulted in a higher cost of living. The spending of the population more than household income do such policies encourage beneficial to many people, is that "Labor", which has a workforce of about 5.4 million people receiving the minimum wage is currently.

This policy does not affect just the entrepreneurs or foreign investors, but also affects other areas as well. Thailand's exports are worth more than 62-65 percent of the gross domestic product (GDP) and more than 5.5 million workers in

¹¹ โครงการศึกษาผลกระทบของการดำเนินนโยบายรายได้ขั้นต่ำไม่น้อยกว่า 300บาทต่อวัน และเงินเดือนปริญญาตรี 15,000บาท ที่มีผลต่อการโครงสร้างเศรษฐกิจไทย. สถาบันวิจัยเพื่อการพัฒนาประเทศไทย. May 2012. Page 6.

labor-intensive industries, where 15 groups in the export sector will be affected by the cost.

The trade is one of the region with high commercial value, with more than 3 billion baht per year, in addition to a wide border trade. Dan is also an area where there are migrant workers from neighboring countries to come to labor because most district bordering Mae Sot, Thailand. This has a long border along the border in several districts of the province. However, airing the channel for illegal migrants the Group of office workers said that in 2012, with workers from the registration number 55 446 of whom are Burmese migrant workers reached 99%, the rest is labor, Laos and Cambodia by workers who come up through the accreditation process. Nationality and passports and subject to a work permit, the number three thousand people over two thousand people, the rest is to push away.

Domestic investors, International investors, and national companies move to another country

The minimum wage 300-baht policy poses problem and the impact on industry and the economy of Thailand. Thailand lose the opportunity to compete with other countries to attract foreign investors in Thailand have the advantage of lower labor cost. Many foreign investors have decided to move production to another country. Because faced with higher labor cost make Thailand lose the opportunity to attract foreign investors. No large-scale industrial expansion many businesses cut production.

The policy adjustment in the minimum wage will impact significantly on production costs of entrepreneurs and foreign investors to invest in Thailand. The proportion of labor costs in the total cost is high. Increasing labor costs may affect some operators have closed without any government support measures. Moreover, such a policy could increase pressure on the operators used. Instead, more workers this will result in the dismissal of many workers foreign directly investment statistics monthly cumulative 2013 and 2014.

Wages have outpaced productivity growth, causing our competitiveness to have declined relative to where we were 10 years ago. Over the past 10 years, labor productivity in Thailand grew at a relatively lackluster 2% per year on average. But prior to the minimum wage hike, real wages grew by even less, helping to maintain our competitiveness. Since the hike, however, real wages have significantly outpaced productivity growth. Cumulative growth in real wages have outpaced productivity by about 5 percentage points over the past 10 years, resulting in a decline in our competitiveness.¹²

Conclusion

The wage hike is necessary to allow workers to live a more quality despite rising wages required steps it must take into account the market conditions and in line with labor productivity. Employers and employees time to adapt the employer should find ways to increase productivity or cut cost elsewhere. Meanwhile, it's time for employees to increase productivity or quality of production of their own,

¹² 2 ปีค่าแรงขั้นต่ำ 300 บาทสิ่งที่ คาด..สิ่งที่ เกิดขึ้นจริง..สิ่งที่ ต้องทำต่อ. Thailand Future Foundation. August 2014. Page 4

so still that the government should review and should gradually raise the minimum wage to at least up to a level sufficient to spend personal circumstances each province may vary. According to the cost of living in each province and gradually adjust the rest to reduce the impact that would have on the overall economy.

Some businesses may pass this to the price of goods but some businesses it could only make a profit decline or loss of profit and but some businesses is not the impact on this point it is very strict in the management of an organization or business that will reduce operational costs to maintain profits in proportion to the original. The government to increase the minimum wage to 300-baht policy will be beneficial to worker. Because those people revenues will increase the economic condition of the country today.

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Biography

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