July 15, 2014

"Enhancing Labor Opportunities for Board of Investment Companies"

Overview:
Thailand is facing challenges in securing the optimal labor force for its continuing growth– important sectors in industry, services, agriculture and economic investment. Board of Investment "BOI" promoted companies equally share this constraint although many are in higher value-add, more capital intensive, and higher employee compensation industries.

This brief comments on the labor market challenges and how continued economic and labor enhancements would benefit employers and employees in Thailand and the economy. Proposals are made for an enhanced BOI.

Thailand in a Global Economy:
Thailand's economic growth has performed well, but also had some constraints in comparison with other ASEAN neighbors and BRIC countries recently, due to continued political unrest and lagging infrastructure investments. The World Bank continued to give Thailand a strong ranking of 18th for Ease of Doing Business in 2013. The World Economic Forum Global Competitiveness 2013 Ranking for Thailand has trended flat at 37 out of 148 economies, but seems to be overly dependent on cost as a competitive aspect, rather than innovation. The IMD World Competitiveness Yearbook 2013 ranking was down slightly for Thailand at 27 out of 148 countries.

New Challenges:
Challenges outlined by the NESDB and others include the economic growth and movement from traditional production and service-based economies to one inclusive of digital and social media reflecting a change in lifestyles. Where in the past, economic performance, exports and trading relationships were more isolated, increasingly, trading pacts including the AEC, various

1035/22 3Fl. Soi Pridi Bhanomyong 41 Sukhumvit 71 Road, North Klongton, Wattana, Bangkok 10110
Tel: +66 2 713 1175 Fax: +66 2 713 1173 Email: secretary@jfcct.org

Free Trade Agreements and global economic performance, including capital markets, are more correlated. Equally, investors can move capital resources and sourcing readily to multiple countries for market access and competitiveness. Thailand has experienced recent political conflicts as well as natural disasters. Finally, the demographics for Thailand project an aging population, a need for increasing supplemental labor employment at many levels in the economy as well as English skills, computer literacy, and higher education to meet the future challenges.

<u>Reinventing the BOI</u>:

The BOI is increasingly moving beyond just the industrialization of the country to innovation driven, knowledge based, and technology capital intensity. While this is desired for the domestic and international manufacturers, utilities and services as well as software and creative enterprises who can adapt, attract, and thrive, the BOI promoted industry today still reflects a broad base of manufacturing industry. Smaller companies have traditionally lacked the capital to reinvest, and the research or regional/global competitiveness to benefit from trading liberalization. They also have a lower competitive position in the recruitment and attractiveness for human resource sourcing, compensation, and benefits.

The BOI could also usefully have a remit for promotion of services innovation in a number of sub-sectors.

<u>The Manufacturing Importance</u>:

Manufacturing is creating over 40% of the GDP in Thailand. Although there is an over-reliance on exports at 70%, it is normal in a middle income economy as domestic consumption and per capita income are still increasing. BOI incentives have been focused on reducing the labor intensity of industry with continued opportunities of capital investment for increased productivity, innovation and skills development, and higher quality support.

Infrastructure investment; however, has been lacking with the populist spending and political disruptions, resulting in high logistics costs as a percent of GDP as well as a decline in competitiveness, and a failure to reach desired increases in labor productivity. Roads are lacking particularly in the Eastern Seaboard and Laem Chabang port area and are further exacerbated with a lack of investment in the provision of a functioning double track rail system. These critical infrastructure investments are necessary for the long-term development of the country as well as to attract and increase foreign investment in other areas of the country, which may not be attractive today.

Also realizing Thailand's depleting energy sources, renewable energy and energy savings have been widely adopted, by the use of BOI privileges, in reducing excise tax for ECO qualified vehicles, as well as with higher prices for renewable power feed-in tariffs.

While there are admired industry success stories in automotive, petrochemical, food, tourism, and in some services, Thailand has had mixed success in the high value creative industries and other higher-value service sectors with which it aspires. One example in the services sector is some lower end BPO activity, but much less in the higher end KBO activities. Design, engineering, architecture, and animation are strength areas (but not leveraged in ways that recognize Thailand as a services hub), while foundries software and technology intensive industries are more limited. Reflecting this, the quality of the Thailand education system according to the World Economic Forum Global Information Technology Report for 2013 places Thailand in the final quartile rank at 78, and behind its ASEAN neighbors.

<u>The Unskilled and Semi-skilled Worker Migration Challenges</u>:

Unskilled and semi-skilled foreign labor is a broad term used when referring to low wage employees with restrictions in the work force. A large percentage of this labor is employed informally and undocumented, often being at an employment and human rights disadvantage. These workers are mostly employed from Cambodia, Laos, and Myanmar, having attained low education, and a difference in the vocational or certification levels from

Thailand. While the Thailand Labor Department aspires to have certification skill levels for AEC, today in Thailand even this is just beginning. The estimate of the migrant unskilled and semi-skilled labor is 2.2 million workers registered (or two thirds), comprising 1.7 million from Myanmar, 400,000 from Cambodia, and 100,000 from Laos, with another 800,000 illegal workers, which accounts for a combined total of 3 million workers (or more) from the same countries. The actual number of foreign workers could be higher with the demand also trending up.

The jobs in many industries with high foreign migrant labor may have been unskilled or semi-skilled initially prior to experience and training. Over time with experience and investment, many workers have become experienced trade or craftsmen. BOI member companies have cited examples in the construction industry with increased construction technology in addition to shrimp processing with these workers and industries being important.

<u>Foreign Workers as a National Program</u>:

Thailand needs to develop and to publish foreign worker employment (five year labor) targets with their NESDB planning process. Industry, demand, and demographics would be indicated as well as areas that the Thai workforce is unwilling or unable to meet the labor demand. That becomes the limitation on the appropriate foreign migrant worker levels and the template for industry allowances for subsequent recruitment and registration efforts to attain such.

Currently there is an emerging movement to border locations in Laos and Cambodia and eventually Myanmar to fill the labor intensive manufacturing needs. JETRO has recommended this approach and some Japanese companies have invested already in Laos and Myanmar. Infrastructure, limited border customs checkpoints, logistics, education, technical workforce, and ease of doing business are some constraints. Thailand is also considering industrial zones at various borders, employing foreign labor. These zones could face constraints from lack of GSP, and other quota limitations.

Significantly, other neighboring ASEAN countries such as Malaysia and Singapore have embraced the foreign labor force importance in their economies, for decades, out of necessity. This workforce is largely from Indonesia, India, Bangladesh, Philippines and Myanmar. Much of this employment in Singapore and Malaysia are in industries that would typically be considered to be BOI promoted and strategic in Thailand despite their labor intensity, including industries such as hard drives and electronics.

Thailand should be considering a combination of the retention of manufacturing and service companies in Thailand with higher foreign worker labor needs in order to capture the GDP from these industries as well as meet its growth. There is the significant multiplier impact from the complete supply line economic benefits, as well as the proximity to markets and logistics advantages that Thailand enjoys.

Thailand will also need to identify increasing labor sources as the economies of Cambodia, Laos, and Myanmar grow rapidly and in turn provide more employment opportunities for its citizens. Other countries within ASEAN for labor to meet Thailand's needs could include Vietnam, Indonesia, and Philippines. However, non ASEAN countries over time would need to be considered also for employment in Thailand at varying skill levels including India, Bangladesh, and others. Even today in Thailand, with highly skilled positions in engineering and service particularly for smaller companies, many have reached the limits and restrictions in the number of foreigners able to be employed.

Recent positive government efforts in documenting and the offering of affordable migrant worker registration are welcome. The registration of all workers is needed with employment rights, respect for human rights, a guaranteed minimum wage, health care insurance, and their protection under Thai law. They also have needs for housing and education for their spouses and children.

Compensation levels at minimum wage or a higher multiple of this depending on industry, in order not to depress local wages, could be part of the industry criteria for foreign employment levels allowed by industry.

The length of employment contracts needs to be both easy to secure and affordable so that workers can renew their employment legally. The term after the first period should be 1 year, 3 year, and 5 years extendable.

Employees freedom of movement mobility and not indentured to an employer or to a recruiting company will help to protect the employees in the situation of poor working conditions without an employment alternative.

<u>BOI Companies with "Non-Professional" Foreign Labor</u>:

The BOI has been apprehensive of its BOI member companies receiving income tax privileges while employing foreign "unskilled or semi-skilled" labor. However, the areas of manufacturing, agriculture, food processing, construction, tourism and some services have a leading role in the economy. We do not know what these levels of employment are and how many BOI companies are impacted today. In the context of the shortages of labor, and the perceived full employment of Thais in Thailand, the role of creating more "Thai only" labor jobs as a criteria for BOI tax incentive may be of lower importance. The continued foreign investment and the strategic industry growth of Thailand, inclusive of BOI companies who may employ a limited level of foreign labor employment depending on the industry, are still needed in order for Thailand's to reach its GDP growth objectives. We believe that the BOI should pursue a foreign employee strategy that is consistent with the Thailand foreign employment levels by industry, which needs to be outlined. There are examples in competing investment countries of Malaysia and Singapore.

As the value creation increases, the proportion of foreign educated, skilled and highly skilled employees will increase. This will eventually lead to the professional and technical opportunities envisioned with the AEC professional labor liberalization. It will also introduce a host of other professional labor problems and restrictions to overcome, that many of the foreign professionals in Thailand experience today. Thailand will also be in the situation of competing for these professional labor resources while trying to, in fact, retain their own professionals from competing higher wage AEC countries.

Administratively, different categories of work authorization may be needed. Thus for example lower skilled / unskilled work may be in one set of categories, with skilled work in another.

Organsational Situation of the BOI

In order to better address the pressing needs outlined in this document, consideration must be given to the location of BOI. If the BOI is within a Ministry whose main focus is industry, it is less likely to be able to achieve the economy-wide remit, which is needed. Thought should be given to an arrangement, which would provide the BOI with much more latitude to serve a broader base such as making it part of the Prime Minister's Office.

Creating effective partnership with local government as well as working with the Revenue Department, and Ministry of Finance to place foreign laborers into the Thai income-tax system would represent another way to strengthen the services provided by the BOI, as well as to increase the tax base, which is much needed in Thailand.

Assisting small and medium firms (SME's) in the service sector, including software development, can be strategized in a different way from obtaining the interests and investment fund from large firms. Many SME's, locally owned or venture capital, need to be promoted so that a strong foundation for future innovation within Thailand can be developed.

Targeted Key Industries for Growth by NESDB and Ministry of Industry:

Need for Foreign Labor "Example"

Industry	SME Company	Large Company
Agriculture*		
Rice [Millers]	**High**	**High (80% to 90% dependency)**
Rubber [Plantation, Tapping]	**High**	**High**
Field Corn	**High**	**High**
Fruits	**High**	**High**
Bio Energy	**High**	**High**
(cassava, sugar cane, palm oil)		
Fisheries	**High**	**High**
Livestock	**High**	**Medium (20% to 80% dependency)**

*Note: The purpose of including these tables is by way of example only. They do not reflect a comprehensive analysis of service sector activities, which can be enhanced, nor a strategy for the services sector.

Targeted Key Industries for Growth by NESDB and Ministry of Industry:

Need for Foreign Labor "Example"

Industry	SME Company	Large Company
Strengthen 5 Existing Industries**		
Rubber Products	High	Medium
Food Processing	High	Medium
Petrochemical and Plastic	Low	None
Biodiesel/Ethanol	Low	None
Automotive and Parts	Low	None
Electrical and Electronics	Medium	Low (5% to 20% dependency)
Petrochemical and Plastic	Low	None

****with7.8% annual growth rate 2012-2017 and 5.1% annual rate 2018-2027, Source NESDB and Ministry of Industry 2012-2031**

*Note: The purpose of including these tables is by way of example only. They do not reflect a comprehensive analysis of service sector activities which can be enhanced, nor a strategy for the services sector.

Targeted Key Industries for Growth by NESDB and Ministry of Industry:

Need for Foreign Labor "Example"

Industry	SME Company	Large Company
Develop 5 Future Industries* **		
Clean Energy	Low	None
Healthcare Products (Alternative medicines including Health Herbs Remedies, Cosmetics, and Beauty Supply)	Low	None
Biochemical Products/ and Bio Plastics/Bio Materials	Low	None
Aviation and Aerospace	None	None
Creative (Fashion/Design/Advertisement/ Architecture/Jewelry/Robot/OTOP)	Low	None

***with7.8% annual growth rate 2012-2017 and 5.1% annual rate 2018-2027, Source NESDB and Ministry of Industry 2012-2031

*Note: The purpose of including these tables is by way of example only. They do not reflect a comprehensive analysis of service sector activities which can be enhanced, nor a strategy for the services sector.

Targeted Key Industries for Growth by NESDB and Ministry of Industry:

	Need for Foreign Labor "Example"	
Industry	**SME Company**	**Large Company**
Service****		
Tourism	**Medium**	**Low**
Retail	**Medium**	**Low**
Construction	**High**	**High**
Transportation	**Medium**	**Medium**
and Telecommunication	**Low**	**Low**
Medical Service	**Low**	**Low**

******with 6.1% annual growth rate 2012-2017 and 5.2% annual rate 2018-2027, Source NESDB and Ministry of Industry 2012-2031**

*Note: The purpose of including these tables is by way of example only. They do not reflect a comprehensive analysis of service sector activities which can be enhanced, nor a strategy for the services sector.

	Need for Foreign Labor "Example"	
Industry	**SME Company**	**Large Company**
Other Industries Not Referenced		
Garments	**High**	**High**
Textile	**High**	**High**
Furniture	**High**	**High**

*Note: The purpose of including these tables is by way of example only. They do not reflect a comprehensive analysis of service sector activities which can be enhanced, nor a strategy for the services sector.

Appendix

Appendix 1: Demographic in Thailand

Current Situation

- Child Age(0-14 years old) tends to decrease
- Working Age(15-59 years old) has decreased after 2010
- Old Age(60+) continue increasing

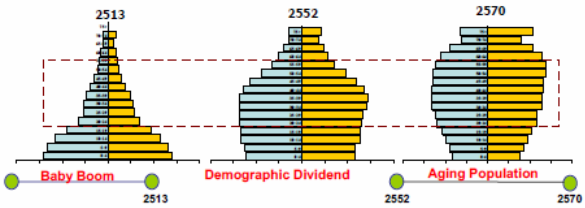
	1969	2011	2030
Child Age	45.12	20.07	13.50
Working Age	49.99	67.63	61.38
Old Age	4.89	12.26	25.12

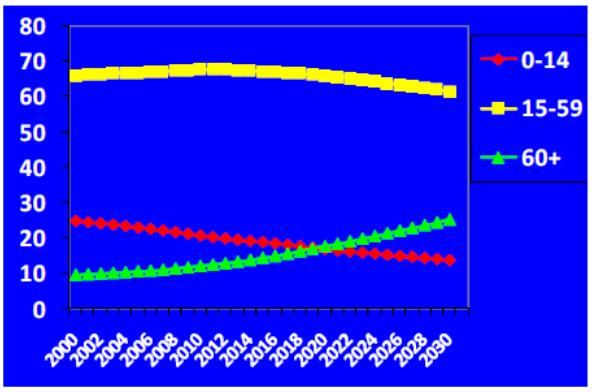
Increasing in Dependency Ratio

⇨ Increasing number of elderly that working age has to responsible for

	2000	2011	2030
Old Age :Working Age	7 : 1	5 : 1	2 : 1

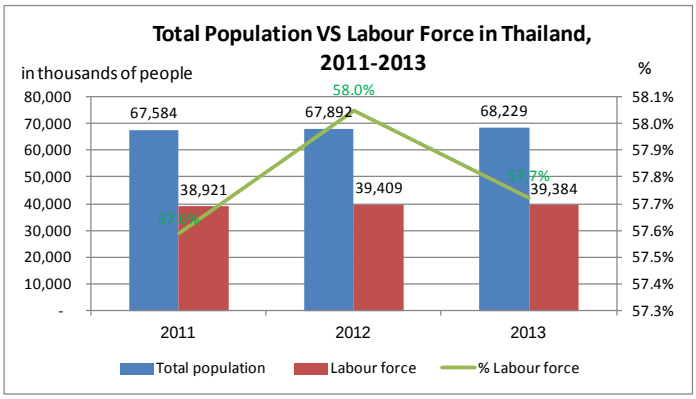
Thailand is passing the period of taking advantage from population dividend. In the future, population structure shows that working age will have more burden in taking care of elderly.

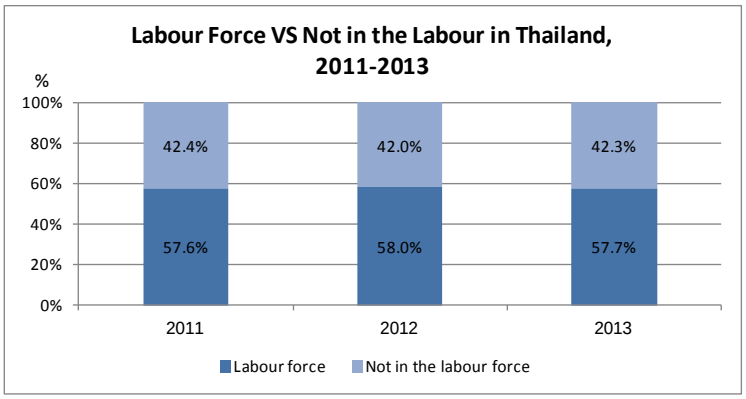




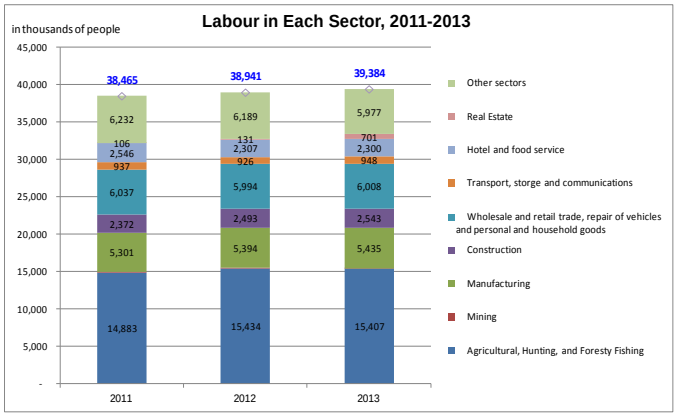
Source: NESDB, Thailand's Labor, Infrastructure Capacity and Dawei Development Project, by Mr. Arkhom Termpittayapaisith, Secretary-General of NESDB, Page 15

Appendix 2: Thailand Labor Force



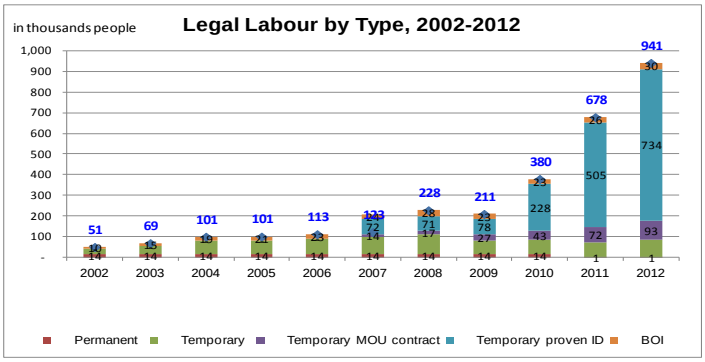


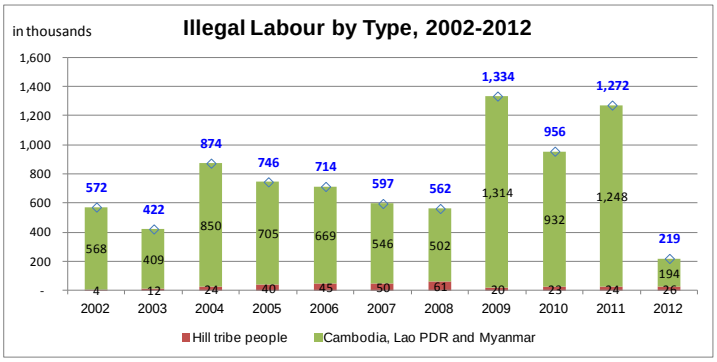
Source: NESDB



Source: NESDB

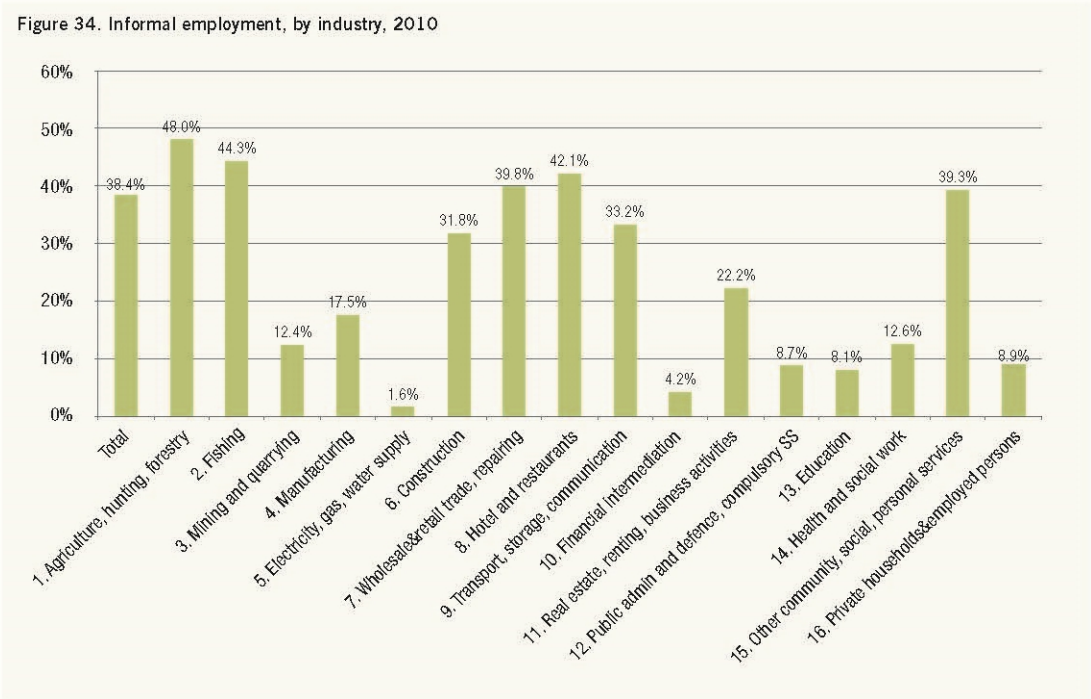
Appendix 3: Legal and Illegal Labor by Type



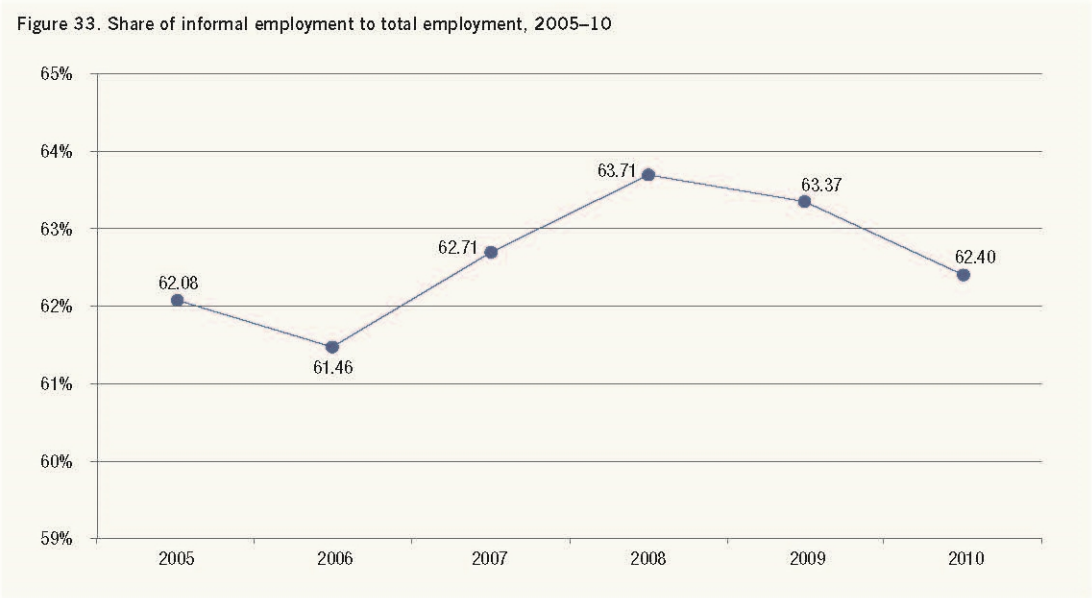


Source: NESDB

Appendix 4: Informal Employment



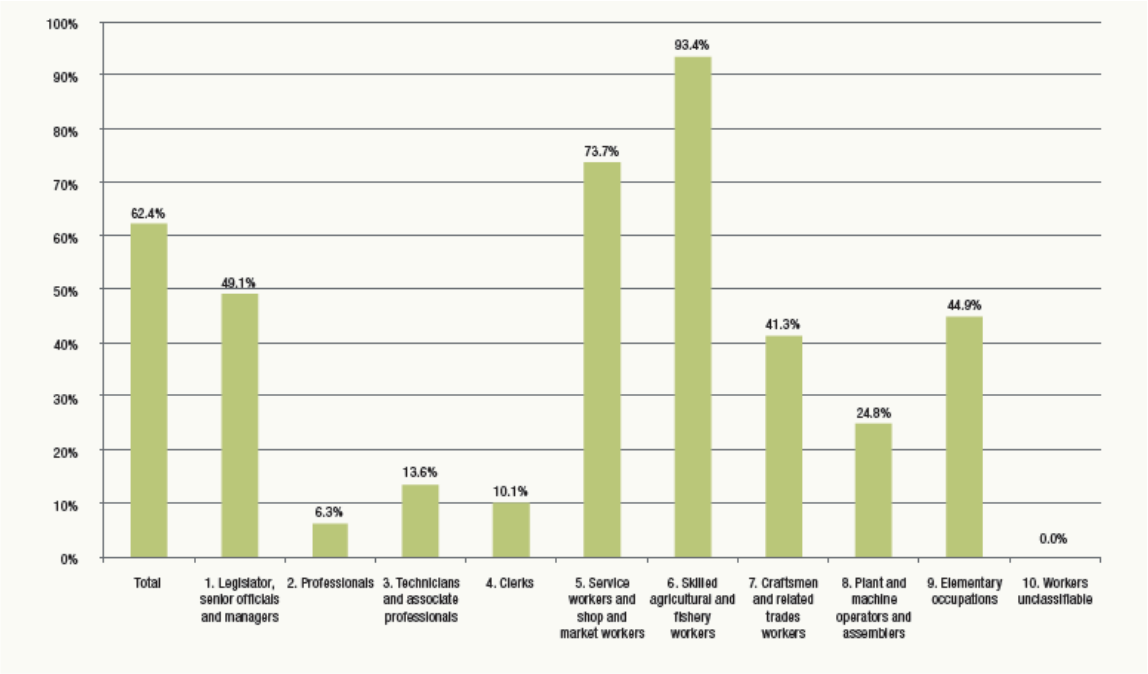
Source: NSO, Informal Employed Survey, 2005–10.



Source: NSO, Informal Employed Survey, 2005–10.

Source: ILO, Thailand A Labor Market Profile, Page 31

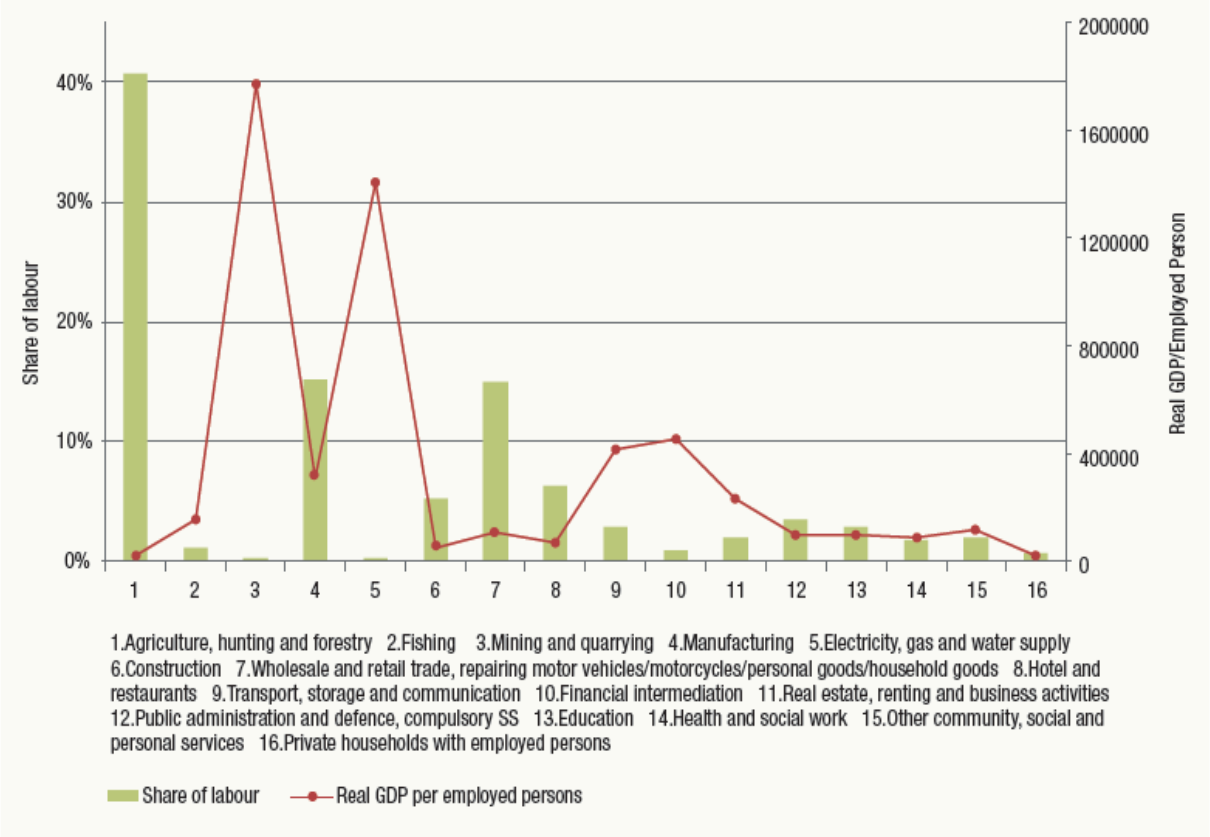
Appendix 5: Informal Employment: Share of informal employment by occupation, 2010



Note: For the large share of informal employment in occupation No. 1, there are many employed persons in managerial positions in the small and medium-sized enterprises in Thailand wherein most of these enterprises are classified as the informal sector.
Source: NSO, Informal Employed Survey, 2010.

Source: ILO, Thailand A Labor Market Profile, Page 32

Appendix 6: Real GDP per employed persons by industry, 2008



Source: NESDB and NSO, 2008.

Source: ILO, Thailand A Labor Market Profile, Page 46

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