

TDRI

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Review

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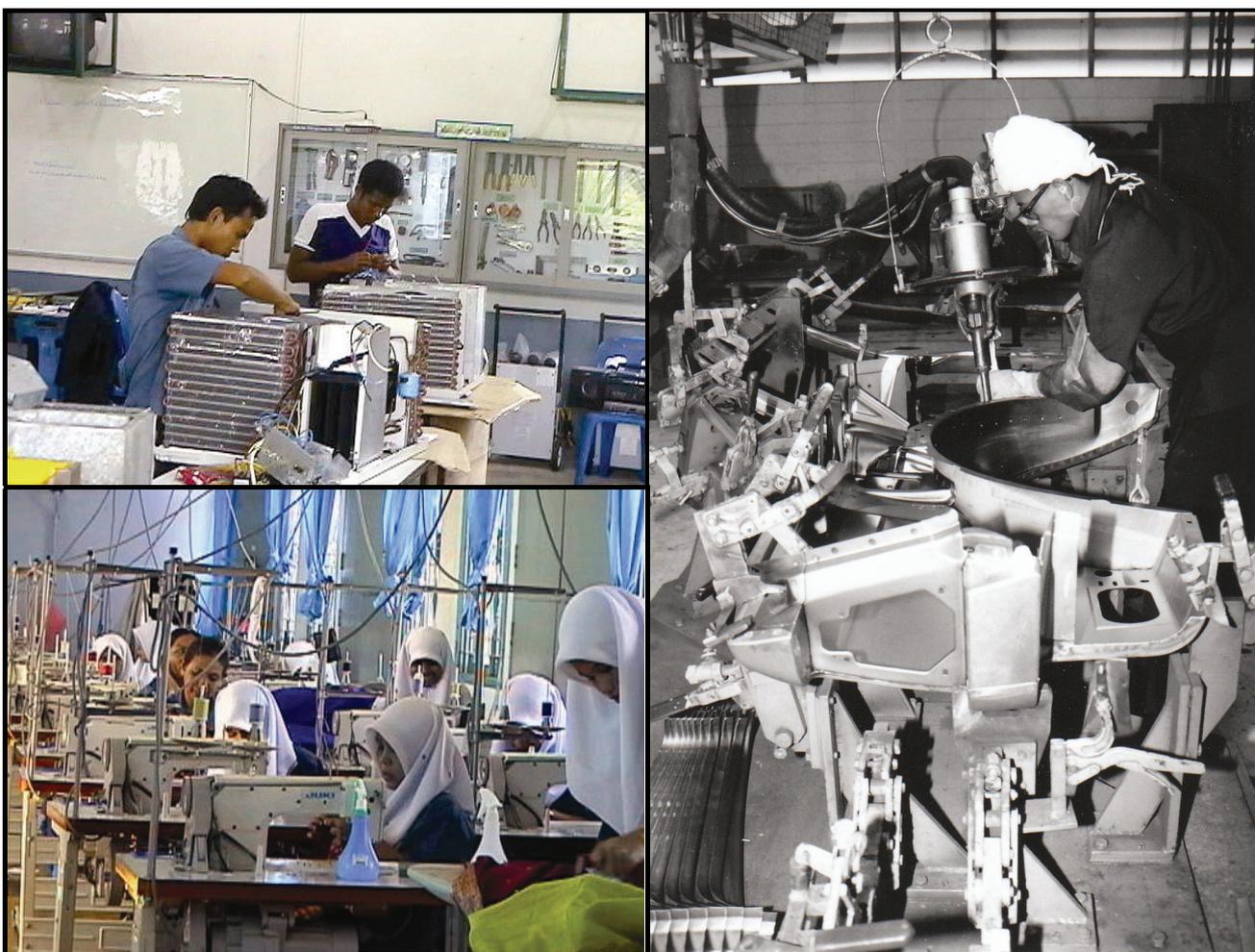
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As one of East Asia's most active users of free trade agreements (FTAs), Thailand has concluded 11 FTAs and engaged in another six FTA negotiations by December 2009. What is the impact of FTAs on exporters of three leading Thai exports—textiles/garments, electronics, and auto/auto parts—so far? See related article on page 3.

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How Do FTAs Affect Exporting Firms in Thailand?*

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1. INTRODUCTION

Since the 1970s, outward-oriented policies have transformed Thailand into a regional production hub and improved economic prosperity. As of 2010, automobiles and automobile parts and electronics make up a quarter of the exports from this upper-middle-income economy. From the 1990s, Thailand has emphasized regional trade agreements as a vehicle of commercial policy. The country has participated since 1993 in the Association of Southeast Asian Nations (ASEAN) Free-Trade Area (AFTA) and has pursued bilateral free trade agreements since 2001. By December 2009, Thailand was one of East Asia's most active users of free trade agreements (FTAs), having concluded 11 FTAs and engaged in another six FTA negotiations.

In response to the trend toward FTAs, there is growing academic interest in *ex ante* and *ex post* evaluation of Thailand's FTAs. *Ex ante* studies use globally computable general equilibrium (CGE) models to simulate the economic effects of alternative FTA scenarios. The Thailand Development Research Institute (TDRI) (2006) suggested that higher welfare effects of tariff reduction were visible from bilateral FTAs with traditional markets, such as Japan and the United States (US) than those with new markets. Kawai and Wignaraja (2009a) found that ASEAN FTAs generated significantly larger welfare gains for Thailand, especially if the CGE analysis incorporated reductions in tariffs, services barriers and improvements in trade facilitation.

Ex post studies rely on industry analysis to assess the effect of FTAs. In a study of the automobile sector,

Archanun and Juthathip (2006) concluded that overall FTA utilization rates were relatively low and that FTA export creation was not significant. In contrast, TDRI (2006) found relatively high utilization rates for the Thailand-Australia FTA and the Thailand-India FTA but relatively low rates for the ASEAN-China (PRC) FTA. TDRI (2006) also found that automobiles benefited more than textiles from implemented FTAs. Using revealed comparative advantage analysis, Chalongphob (2003) suggested that the full impact of the ASEAN-PRC FTA may be underestimated as China's range of comparative advantages over Thailand is broad.

The few available studies of Thailand's FTAs provide only partial insights. The CGE estimates highlight welfare gains from bilateral FTAs with traditional markets and ASEAN FTAs. Yet they are unable to clarify how much such welfare gains are realized. Furthermore, industry studies seem inconclusive on FTA utilization rates and effects on different sectors. In the absence of adequate industry information, enterprise surveys can help investigate the impact of FTAs on Thailand's exporters.

This study is the first systematic analysis of how FTAs affect exporting firms in Thailand. The research explores five key issues in current academic and policy debates: (a) awareness of FTA provisions and use of FTA preferences; (b) the relative importance of different FTAs and net benefits of FTAs; (c) enterprise responses to FTAs; (d) the burden imposed by multiple rules of origin (ROO) and the extent of the Asian "noodle bowl" effect; and (e) harmonization of ROO.¹ These issues were investigated using a survey of 221 exporters of

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three leading Thai exports—textiles/garments, electronics, and auto/auto parts—undertaken from April 2007 to May 2008.

2. SURVEY FINDINGS

This section presents the main findings from the survey of 221 firms involved in the manufacture of textiles/garments, electronics, and auto/auto parts. The sample covers firms of different size (small and medium-sized enterprises (SMEs), large firms, and giant firms) and ownership (domestic and foreign). The sample and sampling methodology are described in Appendix 1. The survey dealt with issues that can be arranged under six headings, as follows:

2.1 Awareness and Use of FTA Preferences

FTA texts, particularly for comprehensive agreements, tend to be long and written in complex legal and technical language. Given their complexity, an important issue is the extent to which business has studied the detailed provisions in Thailand's FTAs and is fully aware of their implications.

Some firms claimed to be aware of provisions in Thailand's FTAs. Of the sample firms, 43.5 percent (87 firms) claimed to have thorough and detailed knowledge of the FTA provisions that affect their business. Another 26.0 percent of sample firms claimed to have some knowledge of some aspects of the relevant FTA provisions. Larger firms tended to be more knowledgeable about FTAs than smaller firms were. While 66.2 percent of large firms and 65.0 percent of giant firms claimed that they have thorough knowledge of FTA provisions,

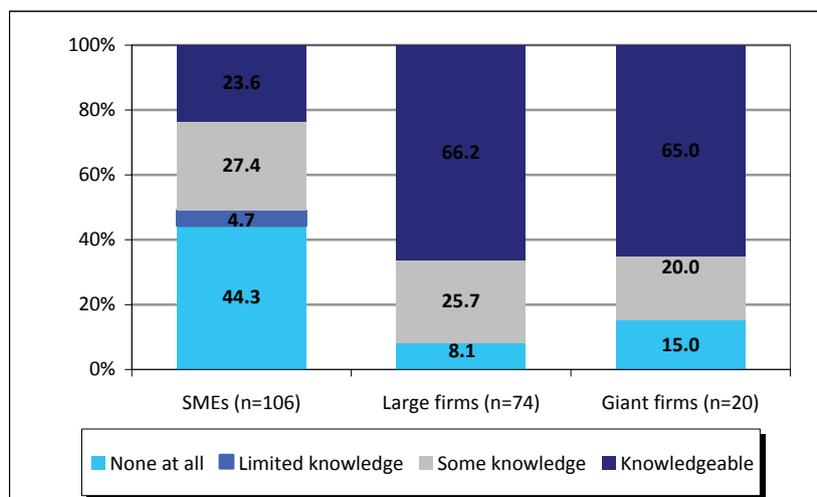
only 23.6 percent of SMEs provided the same response (Figure 1). Expectedly, a high proportion of SMEs (44.3%) reported that they had no knowledge at all of FTA provisions that affect their business.

Textiles/garments had the highest proportion of firms that claimed to be knowledgeable about FTA provisions (53.4%). However, without more detailed case studies of firms, it is hard to verify these claims. The levels of awareness of FTA provisions may reflect that the sample firms are mostly in (or near) major cities in Thailand and have access to information on FTAs, training, and other FTA-related services provided by government and business associations. Awareness levels are likely to decline with increasing distance from the capital city and ready access to FTA services.

Negotiating multiple FTAs requires investment of scarce resources. Yet, there is speculation about the utilization of preferences in Thailand's concluded FTAs and plans for preference utilization in FTAs under negotiation. The pattern of current and future preference utilization should be examined. Another issue is how much have FTAs influenced the behavior of businesses and the formulation of their business plans.

Utilization of preferences in existing Thai FTAs seemed reasonable and set to rise. Survey results suggest that 24.9 percent of respondents (55 firms) used Thai FTAs. When future use is factored in, the use/plan-to-use rate rises to 45.7 percent of respondents (100 firms). The utilization rate from survey findings generally accords with the utilization rate (26.7% in 2008) provided by Suthiphand (2008) based on certificate-of-origin data from the Thai Ministry of Commerce. Table 1 provides a breakdown of the pattern of FTA preference utilization. Larger firms were more likely to use FTA preferences than SMEs were.

Figure 1 Awareness of FTA Provisions that Affect Business
(percentage of responding firms in each size category)



Source: Authors' calculations based on survey data.

Table 1 Utilization of FTA Preferences (percentage of responding firms in each size category)

Use of FTA preferences	All	Textiles/garments			Electronics			Auto/auto parts		
		SME	Large	Giant	SME	Large	Giant	SME	Large	Giant
Use or plan to use	45.7	37.5	45.8	50.0	32.3	66.7	85.7	31.0	50.0	57.1
Plan to use	28.3	28.1	54.2	12.5	25.8	27.3	0.0	11.9	39.3	42.9
Do not use	26.0	34.4	0.0	37.5	41.9	6.1	14.3	57.1	10.7	0.0
All firms	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of responding firms	219	32	24	8	31	33	7	42	28	14

Source: Authors' calculations based on survey data.

It is interesting to consider which FTAs were important to firms that used or planned to use preferences. About 32.4 percent of firms reported the five FTAs in effect, namely AFTA, ASEAN-PRC FTA, Thailand-Australia FTA, Thailand-New Zealand Comprehensive Economic Partnership Agreement (CEPA), and Thailand-India FTA. Meanwhile, 67.5 percent of these firms reported the FTAs under negotiation, i.e., US-Thailand FTA and Japan-Thailand Economic Partnership Agreement (EPA), to be the most important for their business. Thus, the evidence seems to suggest moderate levels of utilization of preferences in existing Thai FTAs as of 2007–2008, but FTA utilization rates in Thailand are likely to increase when the major FTAs under negotiation become effective.

Meanwhile, 26.0 percent of the sample firms did not use preferences, mostly domestic SMEs. In-depth interviews with firms revealed interesting insights on why firms are not keen on using FTA preferences. Apart from the non-FTA preferences available to firms, such as the Information Technology Agreement (ITA), the demand for products from the FTA partner may be too small relative to the administrative cost associated with utilizing FTA preferences. Furthermore, most-favored nation (MFN) rates are also available to firms, which can sometimes be more competitive than FTA preference rates.

2.2 Ranking of FTAs and Net Benefits

The growing number of FTAs involving Thailand raises the issue of the relative importance of different FTAs for business, particularly those concluded versus those under negotiation. FTAs are associated with positive (e.g., higher export sales) and negative aspects (e.g., increased competition from imported products). A related issue is whether they have brought net benefits to business in Thailand.

The US-Thailand FTA and the Japan-Thailand EPA were the most important FTAs for the sample firms. Table 2 provides a ranking of the importance of Thai FTAs. Of the 221 firms, 22.6 percent of them chose the US-Thailand FTA while another 21.7 percent selected the Japan-Thailand EPA as being most vital to

their businesses. The two FTAs under negotiation thus emerged as being relatively more important for the sample firms than those already in effect. Other FTAs indicated in the survey include AFTA (14.5%), Thailand-Australia FTA (8.1%), Thailand-PRC FTA (Early Harvest Program [EHP]) (2.7%), ASEAN-PRC FTA (2.3%), Thailand-India FTA (EHP) (0.9%), and Thailand-New Zealand CEPA (0.4%). These findings underscore the role of Thailand's FTAs in strengthening its ties with large, traditional export markets (e.g., ASEAN, Japan, and the United States) and gradually improving access to new markets (e.g., Australia, China, India, and New Zealand).

The majority of the firms that selected the US-Thailand FTA or the Japan-Thailand EPA were larger firms, accounting for more than half of large firms (56.6%) and 64.5 percent of giant firms.² Meanwhile, AFTA was the most popular among smaller firms. Of the 32 firms that selected AFTA as being the most important to their business, 75 percent were SMEs.

A distinct pattern of interest in given FTAs emerges by sector and ownership, reflecting linkages with global supply chains. The US-Thailand FTA was overwhelmingly the most important FTA for textiles/garments, particularly for domestic firms. Meanwhile, the Japan-Thailand EPA was the most important FTA for electronics and auto/auto parts, particularly for foreign firms.³

Among the concluded FTAs, firms saw AFTA as the most important to their business, followed by the Thailand-Australia FTA. Expectedly, these two FTAs were popular among auto/auto parts firms, given the lower FTA preferential tariff rates and higher tariff margins relative to other FTAs.⁴ However, even if AFTA preference is low for textiles/garments (2.9%), it did not seem to be important for firms in this sector.

The 59 firms that had no response are noteworthy too. The majority of these are SMEs. Some firms are domestic electronics producers that supply parts and components to exporters (i.e., indirect exporters). Meanwhile, others are covered under agreements such as the ITA, which eliminate duties on selected information technology (IT) products.

Table 2 Ranking of FTAs (number of firms that indicated the FTA as the most important to business)

FTAs	All	Textiles/garments			Electronics			Auto/auto parts		
		SME	Large	Giant	SME	Large	Giant	SME	Large	Giant
Concluded										
AFTA	32	1	0	0	10	2	1	13	2	3
Thailand-Australia FTA	18	2	0	0	1	3	1	5	3	3
Thailand-PRC EHP ^a	6	3	0	0	0	0	0	3	0	0
ASEAN-PRC FTA	5	0	0	0	1	1	1	0	2	0
Thailand-India FTA	2	0	0	0	0	0	0	1	1	0
Thailand-NZ CEPA	1	0	0	0	0	0	0	1	0	0
Under negotiation										
US-Thailand FTA	50	11	16	7	3	5	0	3	2	3
Japan-Thailand EPA ^b	48	3	3	0	7	11	3	4	12	5
Number of respondents	162	20	19	7	22	22	6	30	22	14
No response	59	12	5	1	11	11	1	12	6	0
All firms	221	32	24	8	33	33	7	42	28	14

^a The Thailand-PRC agreement is under the ASEAN-PRC FTA.

^b Signed and in effect since November 2007 but under official negotiation at the time of the survey.

Source: Authors' calculations based on survey data.

On the net benefits of FTAs, firms typically reported more positive than negative impacts. Around two-thirds of the sample (131 firms) reported at least one positive impact of FTAs on their business, while only 13.1 percent (29 firms) reported at least one negative impact (Figure 2).⁵ The positive impacts of FTAs were reported to include wider market access that results in higher export sales (81 firms), concentration of production (58 firms), intermediate goods/raw materials that are easier to import due to lower preferential tariffs (44 firms), and new business opportunities, including joint ventures (41 firms).

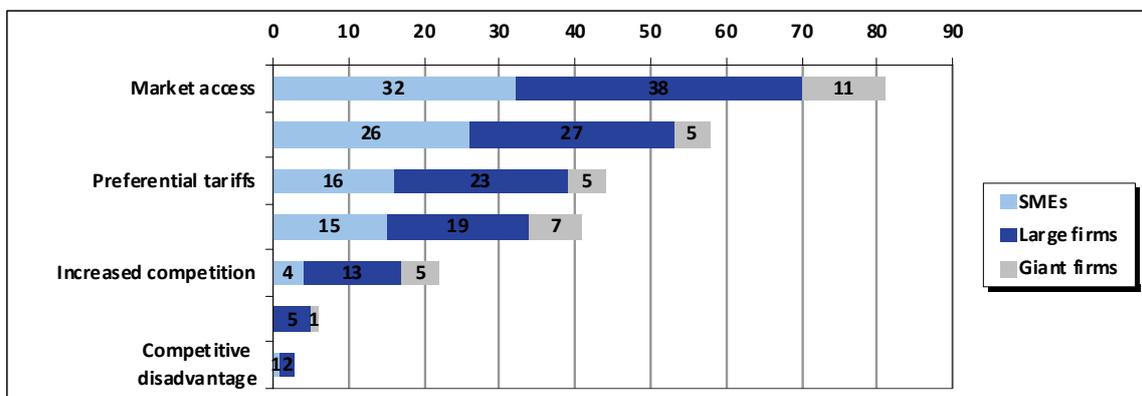
Meanwhile, the main negative impact of FTAs was increased competition from imported products (22 firms), while documentation of FTA use for clients and competitive disadvantage with other FTAs were chosen as reasons by six and three firms, respectively.

Figure 2 shows a breakdown of the impacts of FTAs by firm size. The positive impacts are visible

across all firm sizes. Accordingly, market access was indicated as a benefit by 32 SMEs, 38 large firms, and 11 giant firms. Interestingly, improved market access was generally perceived as positive across all three sectors, while increased competition was seen as especially negative by auto/auto parts firms and to some extent by textiles/garments firms.

2.3 Business Strategy Responses

Over half the firms reported that FTAs had influenced their business plans. Some 45.9 percent of respondents (100 firms) reported that they had changed or would change business plans in response to FTAs. Another 13.3 percent (29 firms) may do so. The positive response rate to FTAs (59.2% combined) was significantly higher than the rate of those that did not plan to change business plans (31.7%).

Figure 2 Perceived Positive and Negative Impacts of FTAs (number of firms that reported an impact)*

Note: * Multiple answers allowed.

Source: Authors' calculations based on survey data.

Figure 3 shows the distribution of the firms across firm sizes that reported business strategy responses to FTAs. Larger firms seemed to be more responsive to FTAs than smaller ones, as higher proportions of large and giant firms had changed or would change business plans compared with SMEs. Only 33.7 percent of SMEs reported that they had or planned to change business plans, which was lower than the 60.0 percent and 48.3 percent of large and giant firms that had done so, respectively.

One striking feature of the group of firms that have changed or will change business plans is that the majority chose the US-Thailand FTA and Japan-Thailand EPA as the most important FTAs to their business. This indicates that firms seem to anticipate a favorable impact of the FTAs on their business, since these two FTAs have not yet taken effect as of early 2010. Meanwhile, domestic firms dominate the groups that reported no change in business plans in electronics and auto/auto parts.

2.4 Burden Imposed by Multiple Rules of Origin

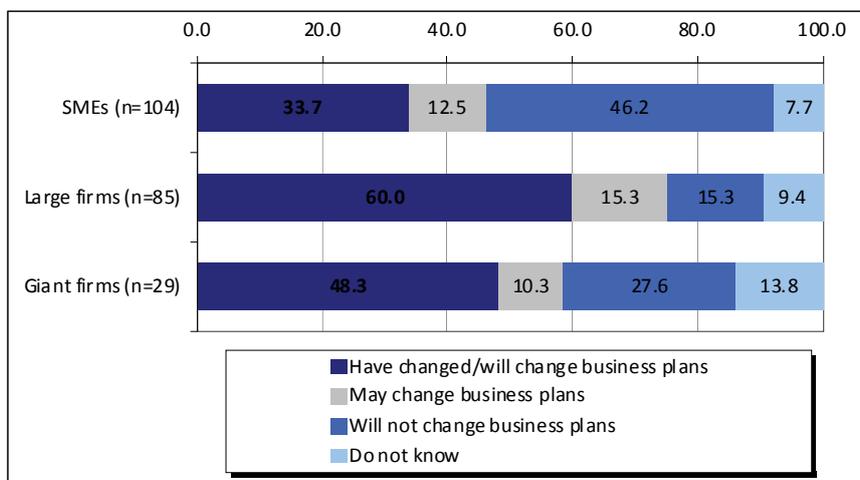
The growing number of FTAs in Thailand has triggered concerns that the attendant rules and administrative procedures might increase the cost of doing

business. If the country's agreements were mutually consistent, especially concerning ROO, then the costs of a new FTA would be minimal for business. If not, such costs could be considerable. The key issues relating to ROO in Thailand are as follows: Are ROO an obstacle to using FTA preferences? Does this observation vary by firm size? If multiple ROO are a problem, would this significantly add to business costs? Are there benefits from harmonization of ROO?

A few firms saw individual ROO as an obstacle to using FTA preferences. Table 3 shows whether firms perceive ROO as an obstacle to using FTA preferences. About 14.9 percent of firms reported that ROO in Thailand's FTAs were an obstacle to using FTA preferences. Meanwhile, 21.7 percent said that ROO might be an obstacle in the future with the projected growth of Thai FTAs. In general, auto/auto parts firms, with large amounts of components and parts as well as complex manufacturing processes, perceived ROO to be more of a problem than the other two sectors (20.2% of firms in this sector).

Large firms seemed to be more concerned about ROO than were SMEs and giant firms. Except for auto/auto parts firms, large firms account for the highest

Figure 3 Business Strategy Responses to FTAs (percentage of responding firms in each size category)



Source: Authors' calculations based on survey data.

Table 3 Perception of Impact of Rules of Origin (percentage of responding firms in each sector)

Use of FTA preferences	All	Textiles/garments			Electronics			Auto/auto parts		
		SME	Large	Giant	SME	Large	Giant	SME	Large	Giant
Is an obstacle	14.9	9.4	25.0	0.0	6.0	15.2	0.0	11.9	28.6	28.6
May be an obstacle	21.7	6.2	41.7	0.0	15.2	24.2	42.9	30.9	21.4	7.2
Is not an obstacle	46.2	37.5	29.2	87.5	54.6	51.5	57.1	42.9	39.3	57.1
Do not know	17.2	46.9	4.1	12.5	24.2	9.1	0.0	14.3	10.7	7.1
All firms	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of responding firms	221	32	24	8	33	33	7	42	28	14

Source: Authors' calculations based on survey data.

proportion of firms that reported that ROO were an obstacle to using preferences (25.0% for textiles/garments and 15.2% for electronics). Accordingly, giant firms accounted for the highest proportion of firms that did not see ROO as obstacles. This result suggests that giant firms, which have wider and deeper market penetration, can take advantage of FTA preferences and more easily prove origin of goods than smaller firms.

Interestingly, 46.2 percent of sample firms said that ROO were not an obstacle to using FTA preferences. One reason was that at the time of the survey, Thailand had concluded only seven FTAs, largely with new markets, while FTAs with the country’s traditional markets were still under negotiation. Accordingly, by 2010 firms in Thailand were beginning to see multiple ROO as an obstacle to using FTA preferences, and this trend is likely to become more marked after 2010 when more FTAs are concluded.

Some firms said that dealing with multiple ROO in Thai FTAs would significantly add to business costs. Of the responding firms, 26.2 percent (57 firms) indicated that dealing with multiple ROO would significantly add to their business costs, including many electronics firms and a smaller percentage of textiles/garments firms.

While firms of all sizes are concerned about the Asian “noodle bowl” effect, giant firms seemed to complain the most (Figure 4). Of the giant firms that

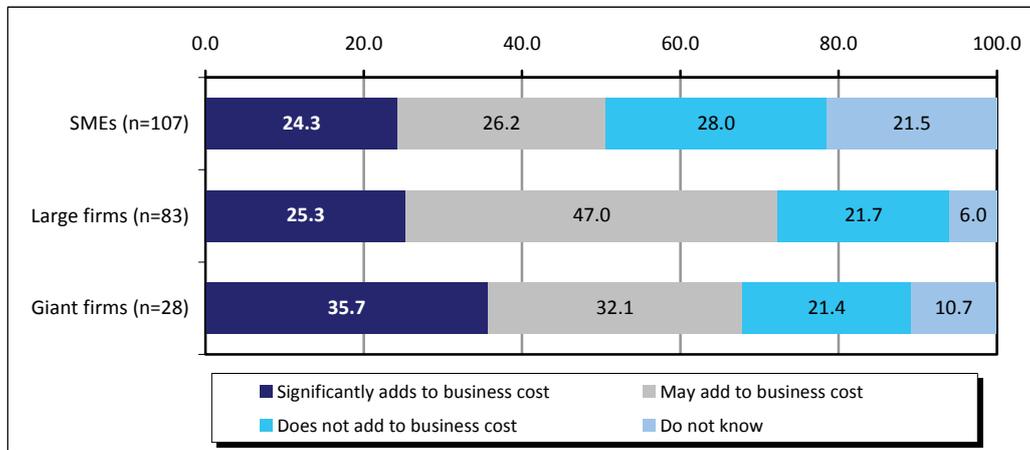
responded, 35.7 percent (10 firms) reported that dealing with multiple ROO significantly adds to business costs while only 24.3 percent of SMEs (26 firms) and 25.3 percent of large firms (21 firms) shared the same view. As users of multiple FTAs, giant firms are more exposed to the business costs of dealing with multiple ROO than smaller firms.

Firms typically estimated that these costs would be less than 1 percent of total export sales. Our interviews with firms indicated that the business costs of dealing with ROO can take several forms. These include wages of human resources employed to process customs documents and costs associated with changing business strategies to comply with the ROO, such as undertaking separate production runs, limiting product types, and changing import source.

2.5 Harmonization of Rules of Origin

There are benefits to be gained from the adoption of harmonized ROO. Large and giant firms seemed to recognize the benefits to be gained from the harmonization of ROO, particularly textiles/garments and auto/auto parts firms, more than SMEs did (Table 4). This could be attributed to the finding that SMEs are less likely to use FTA preferences than larger firms (see discussion on FTA preference utilization in section 2.1).

Figure 4 Firm Size and Burden Imposed by Multiple Rules of Origin (percentage distribution across firm size, according to number of employees)



Source: Authors' calculations based on survey data.

Table 4 Benefits from Adoption of Harmonized Rules of Origin (percentage of sample firms in each size category)

Responses	All	Textiles/garments			Electronics			Auto/auto parts		
		SME	Large	Giant	SME	Large	Giant	SME	Large	Giant
There are benefits	40.4	46.7	66.7	50.0	36.4	42.4	28.6	14.3	51.9	42.9
There may be benefits	32.6	16.7	29.2	37.5	27.3	39.4	28.6	50.0	25.9	28.6
There are no benefits	11.0	6.7	0.0	0.0	12.1	6.1	0.0	21.4	14.8	21.4
Do not know	16.1	30.0	4.2	12.5	24.2	12.1	42.9	14.3	7.4	7.1
All firms	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Number of responding firms	218	30	24	8	33	33	7	42	27	14

Source: Authors' calculations based on survey data.

Accordingly, the examination of the profile of firms that saw benefits to be gained from the adoption of harmonized ROO (88 firms) revealed that the majority had studied the text of the FTA provisions which affect their business (58.7%). Most firms had also changed or planned to change their business plans in response to FTAs (64.8%) and were currently using or planning to use FTA preferences (61.4%).

3. SUMMARY AND POLICY IMPLICATIONS

This study dealt with a pressing policy issue for Thailand—how do the country's FTAs affect the behavior of exporting firms? Using a relatively large sample (221 firms) in three key sectors (textiles/garments, electronics, and auto/auto parts) in Thailand, the study analyzed FTA use, costs and benefits of FTAs, ROO, and demand for services for business adjustment. Where possible, these issues were examined by sector, firm size, and ownership.

Key findings from the study are as follows:

- FTAs with Thailand's major traditional markets, especially the Japan-Thailand EPA and US-Thailand FTA (with the latter still under negotiation), were more important for the sample firms than those with non-traditional markets;
- Firms typically reported that FTAs have had more positive impacts (e.g., market access, concentration of production, new business opportunities, and preferential tariffs) than negative ones (e.g., increased competition);
- The evidence suggests reasonable use of preferences in existing Thai FTAs. Also, more firms used (or planned to use) tariff preferences in FTAs than otherwise thought. Survey results show that a quarter (24.9%) of the respondents (55 firms) used Thai FTAs, and 45.7 percent either used or planned to use them with the rate generally matching up with the utilization rate (26.7%) provided by Suthiphand (2008) based on certificate-of-origin data;
- Over half the firms, particularly foreign electronics and auto/auto parts firms, reported that FTAs have influenced their business plans;
- About 14.9 percent of firms saw ROO as an obstacle to using FTA preferences, and larger firms were more likely to view them as such. About 26.2 percent of firms said that multiple ROO would add to business costs (typically less than 1% of sales);
- Most firms said that the adoption of harmonized ROO would reduce transaction costs under FTAs.

The findings point to several recommendations through which businesses could benefit more from FTAs. These can be grouped under four headings:

Policies to build awareness of impacts from FTAs

Although the enterprise survey indicated high awareness among sample firms, other studies (e.g., TDRI 2006) have suggested that awareness varies among Thai firms (especially SMEs). Accordingly, they may not fully capture benefits from FTAs and are less likely to change their business plan to cope with potential losses. Furthermore, many firms are unsure whether they are eligible to use the preferences. To increase awareness of FTAs, the government should do the following:

- Provide timely information on FTA provisions and progress achieved in FTA negotiations;
- Encourage business associations and interest groups, including SMEs, to become more involved in FTA negotiations and provide opportunities for them to do so;
- Arrange regular conferences to educate firms, particularly SMEs, on the potential impacts of FTAs and ways in which firms can utilize preferences;
- Assess the effects of concluded FTAs (including surveys of firms) to help mitigate the losses of the losers and help intensify the gains of the gainers.

Policies to Encourage Utilization of FTA Preferences

Some Thai importers and exporters might perceive as complex the customs procedures and other procedures needed for using FTA preferences. Hence, many firms do not deal with the customs procedures by themselves but hire customs brokers to do so for them. From the firms' perspective, having to obtain a certificate-of-origin increases the complexity of the whole procedure. This is because, in addition to knowing the process, the firms need to know the harmonized system codes of their products, their cost structure, and relevant ROO. To encourage utilization of FTA preferences, the government can do the following:

- Make customs procedures clearer and more transparent. Every firm should be treated equally. In addition, the customs procedures should be accelerated in line with international best practices;
- Arrange workshops or conferences to introduce importers and exporters, as well as business associations, to new e-customs systems that streamline import and export procedures, as well as reduce documentation costs;

- Create a campaign to build understanding that using preferences is not as complex as the firms might think;
- The government should negotiate for the best tariff preference in FTAs to reduce tariffs significantly. Specifically, the government should go for the lowest tariff rate, compared with the MFN rate, in targeted products;
- Put effort into accelerating tariff reduction in textiles/garments under AFTA in order to take advantage of FTAs between ASEAN and major importing countries and regions such as the European Union, Japan, and the United States;
- For the Thailand-India FTA, the government should negotiate to include more tariff lines in order to create market access for a wider range of products.

Policies to Increase Competitiveness of Local Firms

Despite notable tariff preferences in some FTAs, many firms are still unable to increase their exports to FTA partners. This is largely due to firms' technological gaps relative to international standards. Production costs are sometimes high relative to those of competitors, so that tariff preference is not enough to increase exports. The government can increase enterprises' competitiveness, particularly that of Thai SMEs, through the following measures:

- Restructure tariffs that are unnecessarily high and distorted. Currently, tariffs on many inputs are high (for example, some auto parts and inputs for garments), resulting in high prices for finished products, which cannot compete internationally;
- Since competitiveness is dynamic and changeable, encourage further international technology transfer, particularly through the import of capital goods, technology licensing, and foreign direct investment (FDI), to businesses;
- Continue to improve and upgrade existing metrology, standards, quality, and other technology support services, particularly for SMEs, so that Thai firms reach global standards in these areas;
- Promote both public and private research and development (R&D) via tax incentives, access to new technologies, and closer linkages between firms and R&D institutions in order to move Thai products up the supply chain and add value to the products. As lower-wage countries, such as Cambodia, China, and Viet Nam, become increasingly prominent in

labor-intensive manufactured exports, Thailand is losing its competitive advantages in many products, such as garments;

- Support industrial clustering in the three sectors—through infrastructure improvements, new business development services, and simplification of business procedures—to strengthen linkages among supply chains and the technological upgrading of firms.

Dealing with the Asian “Noodle Bowl” Effect

The survey of firms indicates that the Asian “noodle bowl” effect is emerging as an obstacle for some firms and that it is likely to intensify after 2010 as FTAs involving Thailand proliferate in the region. This is a regional and international issue involving Thailand, other East Asian countries, and the World Trade Organization (WTO). Nonetheless, the government could contribute in this direction by doing the following:

- Advocate the benefits of harmonized ROO within ASEAN so that ROO become less influential in the choices of suppliers among members of ASEAN;
- In the negotiation of future Thai FTAs, consider negotiating ROO that are as competitive as possible, at least for all traded products;
- Support accelerated reduction of MFN tariffs within the WTO until ROO become meaningless under completely free trade (zero MFN tariffs). In addition, advocate global harmonization of ROO.

APPENDIX 1 SAMPLE PROFILE AND SAMPLING METHODOLOGY

In this study, firms were selected using a simple random sampling methodology. First, a list of firms was obtained from the Ministry of Labour that included firms in electronics (1,080 firms), auto/auto parts (767 firms), and textiles/garments (6,525 firms).

Small and medium-sized enterprises accounted for 34.9 percent of electronics firms, 52.6 percent of auto/auto parts firms, and 65.0 percent of textiles/garments firms. Because the study focused on how FTAs affect firms in the three main export sectors, the sample covers only exporting firms and excludes non-exporting firms. Consequently, about 52 percent of the total firms in electronics, 54 percent in auto/auto parts, and 60 percent in textiles/garments were excluded from the sample. The remaining firms in the sample were randomly selected, and 221 firms responded during the survey. The distribution of the sample by sector, firm size, and ownership type is shown in Table A1.

Table A1 Sample Profile

	All firms			Textiles/ garments		Electronics		Auto/ auto parts	
	No.	% Dist. (column)	% Dist. (row)	No.	% Dist. (row)	No.	% Dist. (row)	No.	% Dist. (row)
Number of firms	221	100.0	100.0	64	29.0	73	33.0	84	38.0
<i>By firm size^a</i>									
SME	107	48.4	100.0	32	29.9	33	30.8	42	39.2
Large	85	38.5	100.0	24	28.2	33	38.8	28	32.9
Giant	29	13.1	100.0	8	27.6	7	24.1	14	48.3
<i>By ownership^b</i>									
Foreign	99	44.8	100.0	7	7.1	41	41.4	51	51.5
Domestic	122	55.2	100.0	57	46.7	32	26.2	33	27.1

^a SMEs have 100 or fewer employees; large firms, 101 to 1,000; and giant firms, over 1,000.

^b A firm with more than 10 percent foreign equity is classified as a foreign firm (UNCTAD definition).

ENDNOTES

- See Kawai and Wignaraja (2009b) for a summary of the FTA “noodle bowl” phenomenon.
- Giant firms have over 1,000 employees; large firms have 101 to 1,000; and SMEs have 100 or fewer.
- In this study, a firm is classified as a foreign firm if the share of foreign equity is more than 10 percent (UNCTAD definition). The pattern of FTAs by sector and ownership is as follows: 31 domestic and three foreign firms from the textiles/garments sector selected the US-Thailand FTA; 3 domestic and 18 foreign firms from electronics, and 5 domestic and 16 foreign firms from auto/auto parts indicated that the Japan-Thailand EPA was their most important FTA.
- FTA preferential tariff rates in auto/auto part sector provided in AFTA and Thailand-Australia are 4.8 percent and 0.3 percent respectively, while tariff margins provided in AFTA and Thailand-Australia are 23.2 percent and 6.8 percent respectively.
- Firms were allowed to provide multiple answers.

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The Impact of the Global Financial Crisis and Policy Responses in Thailand*

Worawan Chandoevrit**

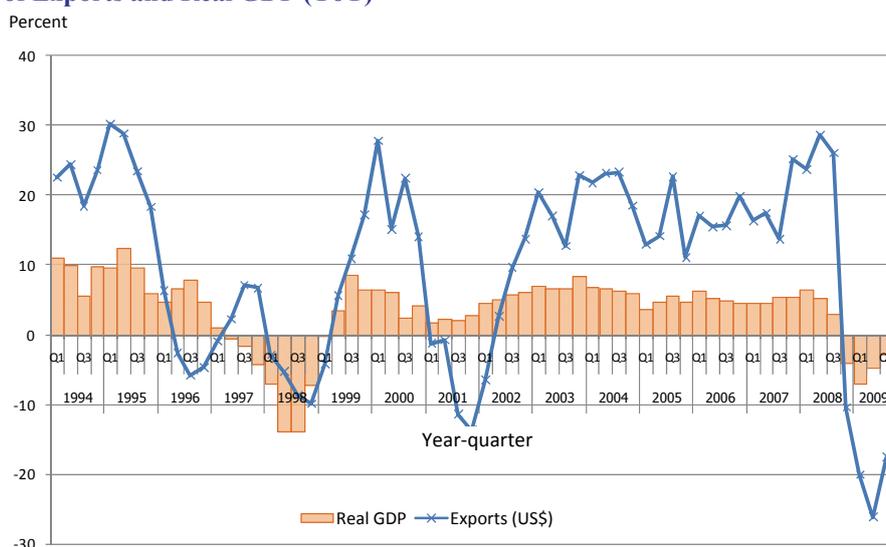
I. INTRODUCTION

About 10 years before the ongoing global financial crisis began to affect Thailand, the country experienced domestically a man-made crisis driven by speculative investment and an incorrect exchange rate policy. The large expansion of investment in the property and construction sectors that created a bubble in the Thai economy was financed by cheap dollar loans from overseas. It was followed by a shortage of labor and an increase in wages. The country lost its competitiveness owing to a steady drop in the real exchange rate, expressed as the ratio of tradable to non-tradable prices (Ammar 1999: 360). The export growth rate dropped from 30 percent annually to -5 percent within six quarters between 1995 and 1996 (Figure 1). However, the financial crisis in 1997 did not seriously affect the Western countries that were major consumers of Thai exports. It did however drastically

slow down economic activities in the property and construction sectors before spreading its effects widely among other sectors.

Thai financial institutions, which formed a major part of the problems in 1997, have learned something from the crisis and have since tended to be more risk averse. New debt instruments created outside Thailand, such as the collateralized debt obligations (CDOs) that helped cause the current global crisis, were avoided by Thai financial institutions (Chalongphob and Somchai 2009: 3). As the global crisis started outside Thailand in 2008, its effects were channeled into the Thai economy through the demand for Thai exports. The impact on exports was greater than that of the 1997 crisis (Figure 1), since the Thai economy depends so much on the export of goods and services. Exports account for about 60-70 percent of Thailand's GDP.

Figure 1 Growth of Exports and Real GDP (YoY)



Sources: National Economic and Social Development Board and Bank of Thailand.

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The effects of both crises passed through different sectors and then had different impacts on various social groups. In this paper, we illustrate the impact of the crises, particularly the current global crisis, on social groups, using survey data collected by the National Statistical Office. In response to the crisis, the Thai government, along with governments in other countries around the globe, introduced many projects aimed at stimulating the economy. We explore whether or not some of the stimulus projects helped people cope with the crisis.

II. THE IMPACT OF THE GLOBAL CRISIS ON VARIOUS SOCIAL GROUPS

Theoretically, any crisis triggered overseas would reduce the demand for goods and services, including Thailand’s export of goods and services. The Thai export sector would subsequently reduce production and the use of the factors of production. Employment in the export sector would be expected to decline. Workers in that sector may lose their jobs or get lower pay. The labor force participation rate may decline as finding jobs becomes difficult. These factors would affect the demand for the country’s goods and services. Ultimately, the country could expect to record lower economic growth.

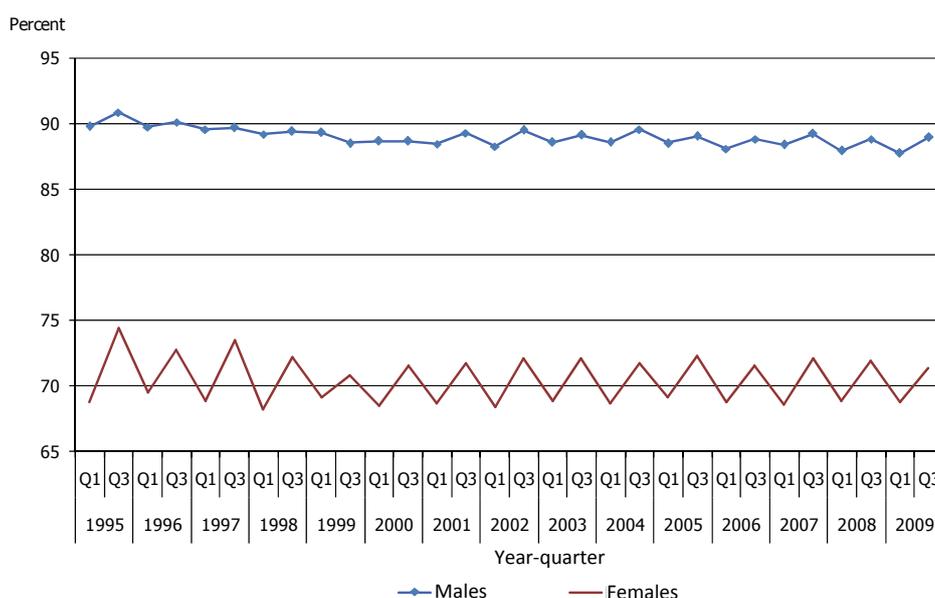
Figure 2 shows that the male labor force participation rate is about 15 percentage points higher than that of the rate for females. However, the labor force participation rate among males has been declining gradually. More young males in the age group 15-24 years are now tending to continue their studies instead of entering the labor market. Seasonality has more influence on the

female labor force participation rate than that of males. Many females enter the labor market in the rainy season (in the third quarter (Q3) of the year) to work in the agricultural sector. The 1997 financial crisis caused the female labor force participation rate to drop temporarily. By contrast, the global crisis that started in 2008 seems to have had no impact on either male or female labor force participation rates.

Employment in Thailand can be characterized as employment in the formal and informal sectors. Seasonality has a strong effect on employment in both markets, as unskilled labor can be mobile between the markets. Those who work as employees in the non-agricultural sector are considered to be working in the formal sector (Worawan 2004: 12). They receive social insurance in many forms and get protection from the Labor Protection Law. In this report employees are treated as a subset of workers. Employees get paid for their employment but workers may or may not, e.g., unpaid family workers. Employment in the formal sector accounts for about 43-47 percent of total employment.

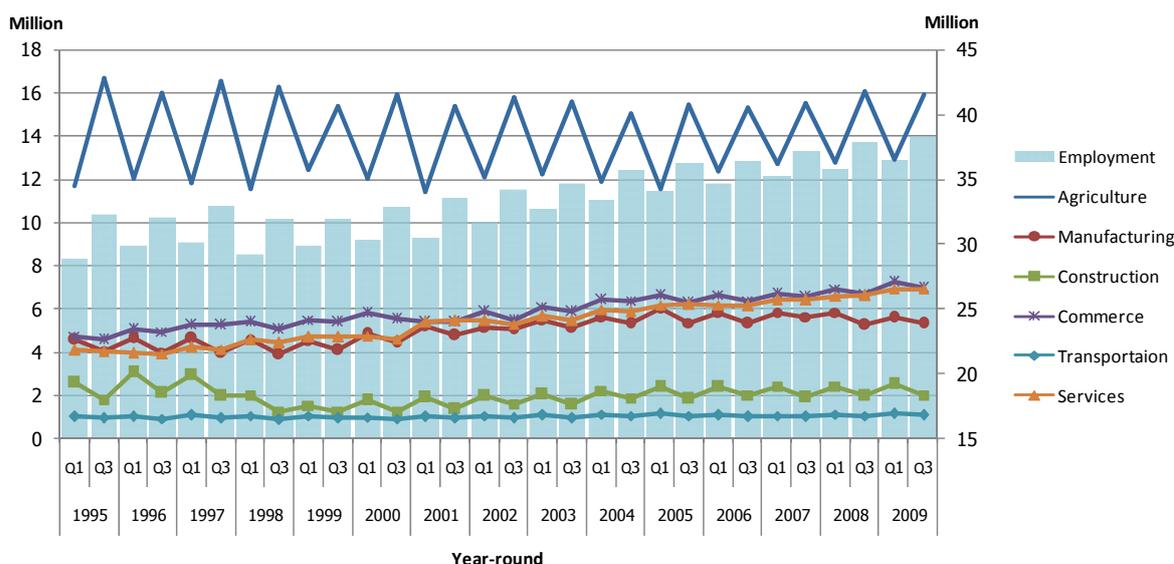
Total employment increased by approximately 500,000-700,000 workers per quarter in 2009. However, employment in the manufacturing sector declined by 360,000 workers in Q3 of 2008 compared with the same quarter in 2007. It dropped by 230,000 workers in Q1 of 2009 compared with the same quarter in 2008. The decline of employment in the manufacturing sector seems to have been small compared with total employment, i.e., 36-38 million workers in Q1 and Q3 in 2009 (Figure 3). During the 1997 crisis, many low-skilled employees who lost their jobs in the formal sector moved to work in the informal sector. In 2009, such incidents were not so significant.

Figure 2 Labor Force Participation Rate



Source: Labor Force Survey, National Statistical Office.

Figure 3 Employment by Sector



Source: Labor Force Survey, National Statistical Office.

If further exploration is carried out about the social groups that felt impacts from the crises, it is found that social groups were not the same in 1997 and in 2008 (Tables 1-4). The crisis in 1997 reduced employment by 35-36 percent in terms of the total hours employed in construction (Table 1). The persons severely affected were workers from the northern and northeastern parts

of the country (Table 2). However, the crisis in 2008 had the strongest impact on the manufacturing sector. Employment in manufacturing declined by about 5-9 percent in Q3 of 2008 and Q1 of 2009. Because factories are concentrated in Bangkok and surrounding provinces in Central Thailand, workers in these areas felt a stronger impact than those in other regions of the country.

Table 1 Percentage Change in Hours of Employment, by Sector

	1996		1997		1998	
	Q1	Q3	Q1	Q3	Q1	Q3
Agriculture	2.12	-7.36	-1.65	4.87	-4.27	-2.16
Manufacturing	2.25	-1.04	-0.71	-7.55	-13.91	2.53
Construction	20.09	16.23	-4.90	-10.14	-35.05	-36.07
Commerce	7.81	8.37	2.92	1.21	-4.38	-0.35
Transportation	2.80	-4.70	6.31	-4.28	-8.41	-2.50
Services	-1.86	-3.01	6.91	-4.38	3.27	16.88
	2007		2008		2009	
Agriculture	2.78	3.03	0.64	4.97	0.33	-0.05
Manufacturing	0.16	3.43	0.79	-4.90	-8.84	-0.08
Construction	0.83	-5.58	1.86	3.30	0.72	1.49
Commerce	-0.56	2.65	3.57	2.00	3.56	4.36
Transportation	-3.60	-3.89	6.14	6.11	2.42	3.42
Services	4.03	2.78	2.62	3.66	2.41	5.19

Source: Labor Force Survey, National Statistical Office.

Table 2 Percentage Change in Hours of Employment, by Region

	1996		1997		1998	
	Q1	Q3	Q1	Q3	Q1	Q3
Bangkok and metropolitan area	7.60	3.73	1.45	-6.07	-12.46	0.03
Central	3.05	0.57	0.16	-3.26	21.06	59.43
North	0.67	-2.12	0.91	-3.63	-46.04	-39.83
Northeast	7.78	-6.94	-0.48	8.30	-28.27	-41.39
South	1.63	1.24	0.47	-3.14	52.64	83.22
	2007		2008		2009	
Bangkok and metropolitan area	0.51	-0.21	4.04	-3.63	-4.55	3.27
Central	2.92	1.32	1.80	-3.33	-8.34	1.26
North	-0.38	2.43	1.15	6.65	5.65	2.62
Northeast	2.05	4.00	1.47	7.68	7.08	1.57
South	0.14	1.95	2.54	1.40	-1.36	2.04

Source: Labor Force Survey, National Statistical Office.

Table 3 Percentage Change in Hours of Employment: 1996-1998

	1996		1997		1998	
	Q1	Q3	Q1	Q3	Q1	Q3
By sex						
Male	4.34	-1.26	0.36	-0.67	-7.76	-0.87
Female	4.46	-3.59	0.24	1.71	-8.75	-2.14
By age group						
15-19	-1.20	-12.29	-15.44	-12.74	-20.61	-10.02
20-29	4.68	-2.67	-1.61	-1.32	-12.79	-4.28
30-39	4.09	-1.45	1.06	-0.95	-7.49	0.83
40-49	6.15	1.57	4.40	5.01	-2.93	1.30
50-59	0.85	-2.00	4.46	3.11	-3.04	1.50
60 and older	14.70	-4.32	3.31	11.71	-5.51	-5.08
By education						
Primary or lower	4.15	-4.08	-2.05	-0.10	-11.80	-7.02
Lower secondary	9.54	11.38	4.94	0.13	2.80	15.99
Upper secondary	-1.38	-5.37	15.17	13.87	6.85	18.76
Lower vocational	4.62	-0.05	8.50	2.27	-6.16	8.74
Upper vocational and diploma	-7.90	-8.92	7.32	-0.63	8.09	26.24
Bachelor's degree or higher	9.07	8.57	12.91	-0.65	5.52	26.04
Total	4.39	-2.29	0.31	0.37	-8.17	-1.43

Source: Labor Force Survey, National Statistical Office.

Table 4 Percentage Change in Hours of Employment: 2007-2009

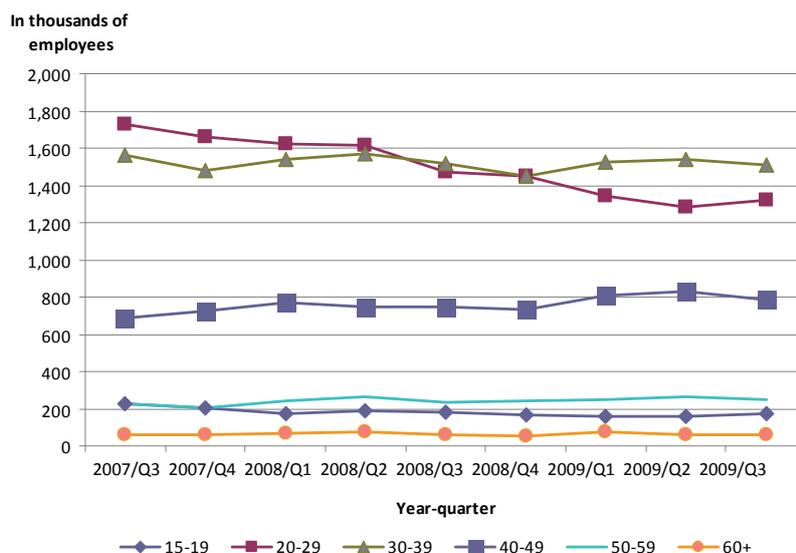
	2007		2008		2009	
	Q1	Q3	Q1	Q3	Q1	Q3
By sex						
Male	1.41	2.08	1.32	2.65	0.30	2.09
Female	1.43	2.45	2.73	2.27	-0.49	1.74
By age group						
15-19	0.92	-1.19	-3.91	-5.99	-0.68	2.92
20-29	0.28	0.19	-0.07	0.90	-4.11	-1.89
30-39	-0.71	-0.05	0.43	1.49	-1.16	-0.39
40-49	1.53	2.66	2.51	3.62	1.88	2.42
50-59	4.89	7.03	7.20	6.77	3.23	5.80
60 and older	7.55	8.87	4.60	2.03	3.45	12.11
By education						
Primary or lower	-0.93	0.45	-0.70	0.33	-1.35	0.28
Lower secondary	6.87	6.26	3.27	5.40	-0.67	2.19
Upper secondary	11.04	5.43	5.31	6.94	4.24	4.45
Lower vocational	1.29	4.11	1.44	-1.66	5.60	8.55
Upper vocational and diploma	3.31	8.61	11.89	3.51	-1.98	5.77
Bachelor's degree or higher	-1.54	1.17	8.46	7.68	2.79	4.68
Total	1.41	2.08	1.32	2.65	0.30	2.09

Source: Labor Force Survey, National Statistical Office.

Tables 3-4 show more detail about workers who were affected by declining hours of employment. Female and young workers were more strongly and negatively affected in both crises. The shortage of workers in 1996 drove youth to enter the labor market. When the effects of the crisis hit the labor market, youth were the first group to feel the impact. Low-skilled workers with primary or lower education lost their jobs when the construction sector collapsed. However, in 2008, there was no bubble in the Thai construction sector. Rather, it was employees in the age group 20-29 that were most severely affected, particularly if they worked in the manufacturing sector (Figure 4). This could be more serious if the crisis is prolonged, because this age group is at an early stage of establishing their families and

some might have to take care of aging parents as well. Losing their jobs would mean a deterioration of the fortunes of the whole family too.

However, having a job does not mean that a worker is better off in comparison with what would have been in the absence of a crisis. About 20-25 percent of the employees who still had jobs in 2009 were adversely affected by the crisis one way or another. In Q1, when the growth rate was at its lowest level (-7 percent), about 6 percent of the employees worked fewer hours per week, 11 percent received lower wages and 4 percent suffered both impacts (Table 5). A higher proportion of employees received lower wages in Q2 and Q3. Figures 5-7 confirm the incidence of these phenomena.

Figure 4 Number of Employees in Manufacturing

Source: Labor Force Survey, National Statistical Office.

Table 5 Impact of the Global Crisis on Employees (percentage of employment)

Impact on employees	Percentage		
	2009/Q1	2009/Q2	2009/Q3
1. Same hours of work	75.94	76.07	79.31
2. Reduced hours of work	6.09	5.25	2.70
3. Reduced earnings	10.94	12.35	12.66
4. Reduced bonus or benefits	1.57	1.12	1.07
Lines 2 and 3 above	4.45	4.52	3.72
Lines 2 and 4 above	0.68	0.43	0.26
Lines 3 and 4 above	0.33	0.26	0.27

Source: Labor Force Survey, National Statistical Office.

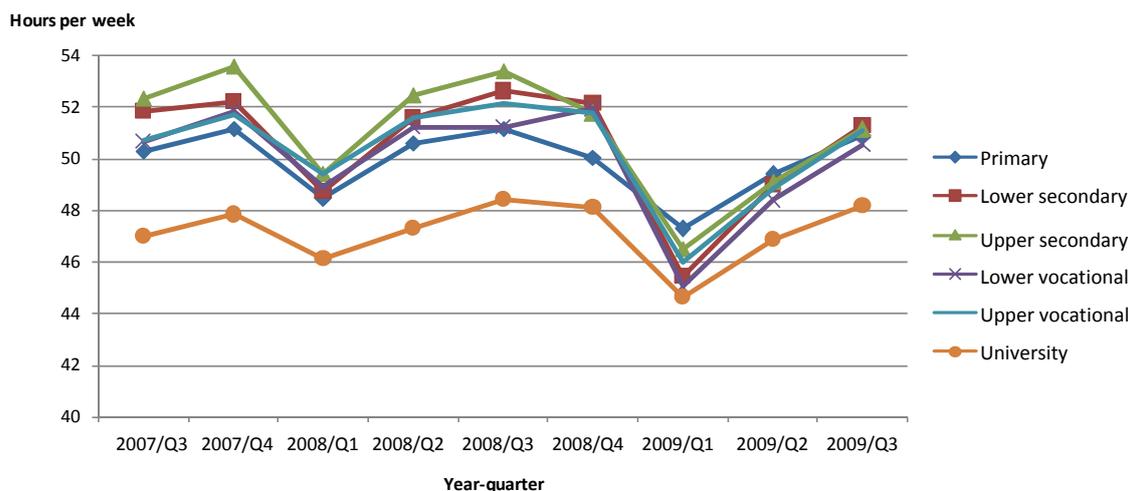
The average hours of work of employees in manufacturing declined from 48.5 per week to 46.3 per week. Full-time employees worked 40 hours per week. Employees with a university degree usually worked fewer hours per week than others because they receive higher wages. Low-skilled employees work around 48-50 hours per week. However, after the global crisis, their working hours declined by about 1-4 hours per week. Employees with a vocational education had the worst reduction in hours worked compared with their normal period of employment (Figure 5).

As the wage rate for average employees is low, they have to work overtime to earn enough to cover their living expenses. However, when their hours of work declined, they had lower earnings. Figure 6 shows that real overtime income (at 2002 prices) for employees in manufacturing dropped significantly among those in the age groups 15-19, 20-29, 30-39, and 40-49. As older employees were unlikely to work overtime, they got about the same real overtime income as they did prior to the global crisis. Employees with a secondary or vocational education suffered greatly from the adverse impacts of the crisis (Figure 7). Their average real overtime income plummeted by about 60 percent.

Who are more likely to lose their jobs when there is an economic crisis? According to the National Statistical Office, the number of persons unemployed increased from 550,000 in April 2008 to 820,000 in April 2009. The unemployment rate among the young workers (15-24 years old) however, jumped from 6.3 to 8.1 percent in the same period. Figure 8 shows that the unemployment rate in 2009 was not as serious as in 1999. The global crisis seems to have had a mild impact on the unemployment rate.

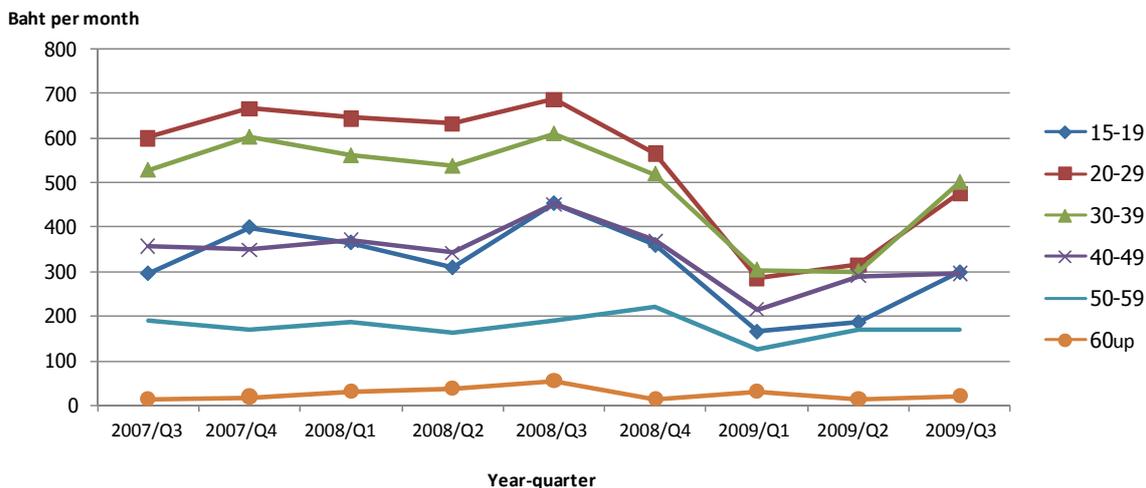
The impacts of the crisis were not distributed evenly across social groups, as shown in Tables 6 and 7. Because the workers in the youngest age group are marginal workers, they are more vulnerable to changes in the demand for labor. Their unemployment rates increased dramatically in 1998 when demand for unskilled labor in the construction sector dropped. However, the unemployment rates among the youngest age group declined in 2009 compared with 2008. The unemployment rates of the age group 20-29 increased as this age group is the prime labor force of the manufacturing sector. Employees with a vocational education seem to have been vulnerable to unemployment during both crises.

Figure 5 Average Hours of Work of Employees in Manufacturing



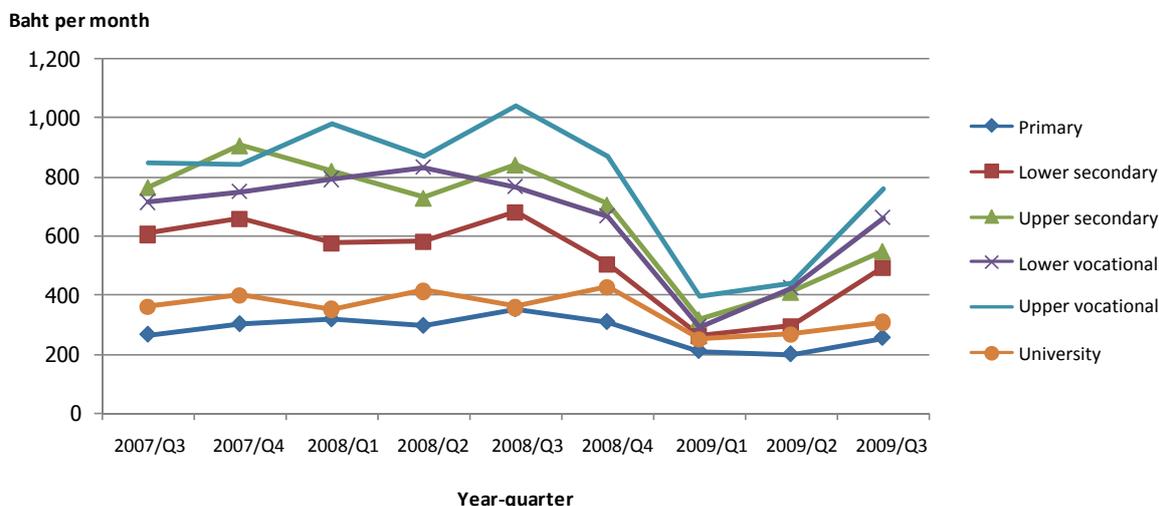
Source: Labor Force Survey, National Statistical Office.

Figure 6 Real Overtime Income of Employees in Manufacturing, by Age Group

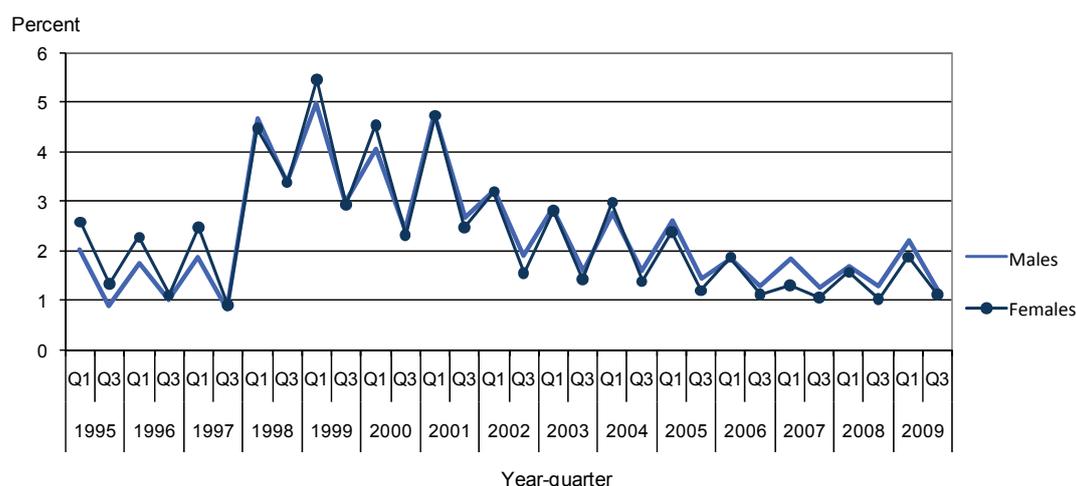


Source: Labor Force Survey, National Statistical Office.

Figure 7 Real Overtime Income of Employees in Manufacturing, by Education



Source: Labor Force Survey, National Statistical Office.

Figure 8 Unemployment Rate

Source: Labor Force Survey, National Statistical Office.

Table 6 Unemployment Rate (%): 1996-1998

	1996		1997		1998	
	Q1	Q3	Q1	Q3	Q1	Q3
By age group						
15-19	5.4	2.9	5.0	2.1	11.4	7.1
20-29	3.3	1.9	3.8	1.6	7.8	5.8
30-39	1.3	0.5	1.4	0.5	3.4	2.5
40-49	0.9	0.4	0.9	0.4	2.4	1.9
50-59	0.8	0.5	0.9	0.4	1.6	1.4
60 and older	0.5	0.7	0.8	0.3	1.5	0.9
By education						
Primary or lower	2.0	0.9	2.0	0.6	4.4	2.6
Lower secondary	2.6	1.2	3.1	1.3	5.8	4.2
Upper secondary	2.1	2.2	2.2	1.4	6.0	5.5
Lower vocational	2.1	2.9	2.7	1.6	4.1	6.3
Upper vocational and diploma	2.2	3.1	3.2	3.5	5.1	7.8
Bachelor's degree or higher	1.3	1.6	2.0	1.7	3.1	5.4
By region						
Bangkok and metropolitan area	1.2	1.3	1.4	1.0	2.0	2.5
Central	1.1	0.8	1.4	0.9	7.8	3.6
North	2.6	0.8	2.0	0.8	3.0	4.7
Northeast	3.0	1.3	3.4	0.7	3.1	2.9
South	1.0	1.1	1.2	1.3	3.9	3.4
Total	2.0	1.1	2.2	0.9	4.6	3.4

Source: Labor Force Survey, National Statistical Office.

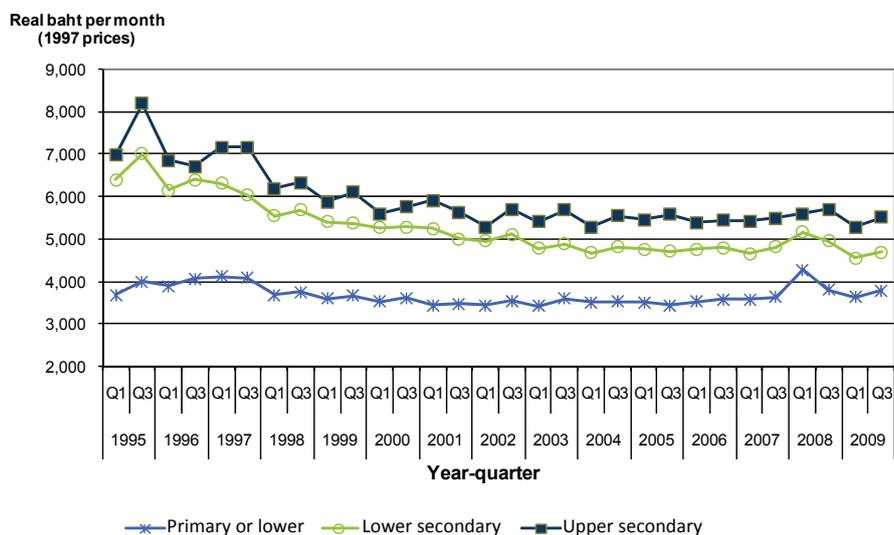
The real earnings (including wages, overtime income, and bonus) of Thai employees have been declining even in the period of no crisis (Figures 9 and 10). Employees with a primary education earn only Bht 3,500-4,000 (about US\$ 106-121) per month. They earn only half of what those with upper secondary education earn and only a quarter of what those with a university degree earn. Employees with a university degree earn around Bht 14,000-17,000 (about US\$ 424-515) per month. Following the crisis in 1997, the real earnings of this group have fluctuated around Bht 15,000 per month.

Unskilled employees are vulnerable to poverty. The minimum wage rates have been set low, at Bht 206 (about US\$6.20) per day in Bangkok, and Bht 151 (about US\$ 4.60) per day in small provinces in 2010. However, many employees earn wages that are below the minimum wages. Employees should be protected by the Labor Protection Law so that they would earn at least minimum wages. In Q3 of 1997, 3.3 million employees were earning wages below the minimums set by law. In the same quarter of 2009, there were still 3.2 million employees earning wages below the minimums.

Table 7 Unemployment Rate (%): 2007-2009

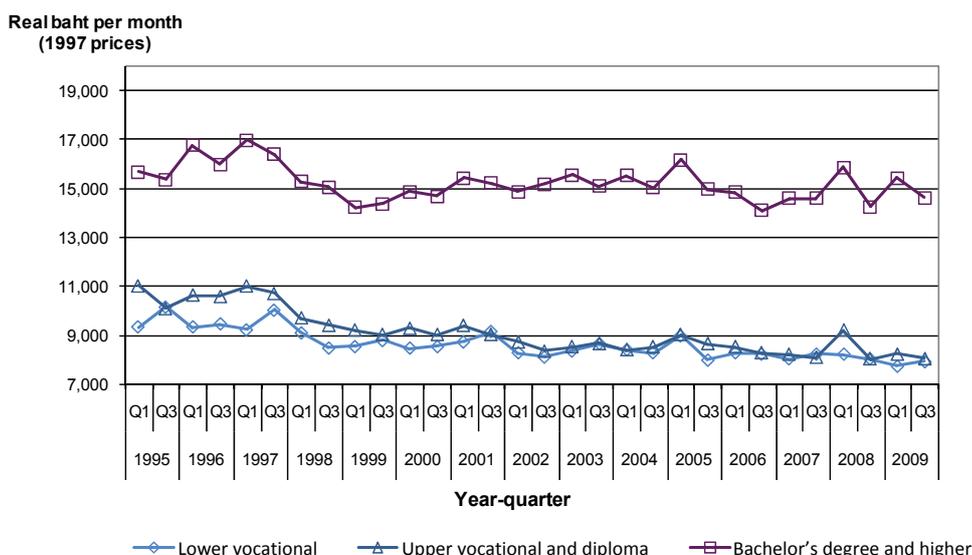
	2007		2008		2009	
	Q1	Q3	Q1	Q3	Q1	Q3
By age group						
15-19	7.0	4.9	8.3	5.9	7.6	4.5
20-29	3.8	2.7	3.5	2.9	5.3	3.0
30-39	1.0	0.7	1.1	0.7	1.3	0.8
40-49	0.6	0.5	0.8	0.4	0.7	0.4
50-59	0.5	0.4	0.5	0.2	0.6	0.3
60 and older	0.3	0.2	0.2	0.1	0.4	0.1
By education						
Primary or lower	1.1	0.6	1.1	0.6	1.2	0.6
Lower secondary	2.5	1.9	2.6	1.7	3.4	1.9
Upper secondary	2.0	1.4	2.2	1.9	3.1	1.1
Lower vocational	1.8	2.2	2.0	2.0	3.5	2.2
Upper vocational and diploma	3.6	2.2	2.1	2.8	3.2	3.1
Bachelor's degree or higher	2.4	2.3	2.3	2.1	2.6	2.2
By region						
Bangkok and metropolitan area	1.2	1.3	1.5	1.3	1.4	1.2
Central	1.2	1.4	1.3	1.4	1.9	1.3
North	1.6	1.3	1.6	1.1	1.8	1.2
Northeast	2.2	1.0	2.2	1.0	2.4	1.0
South	1.4	1.1	1.3	1.3	2.6	1.4
Total	1.6	1.2	1.7	1.2	2.1	1.2

Source: Labor Force Survey, National Statistical Office.

Figure 9 Real Earnings of Unskilled Employees

Source: Labor Force Survey, National Statistical Office.

Figure 10 Real Earnings of Skilled Employees



Source: Labor Force Survey, National Statistical Office.

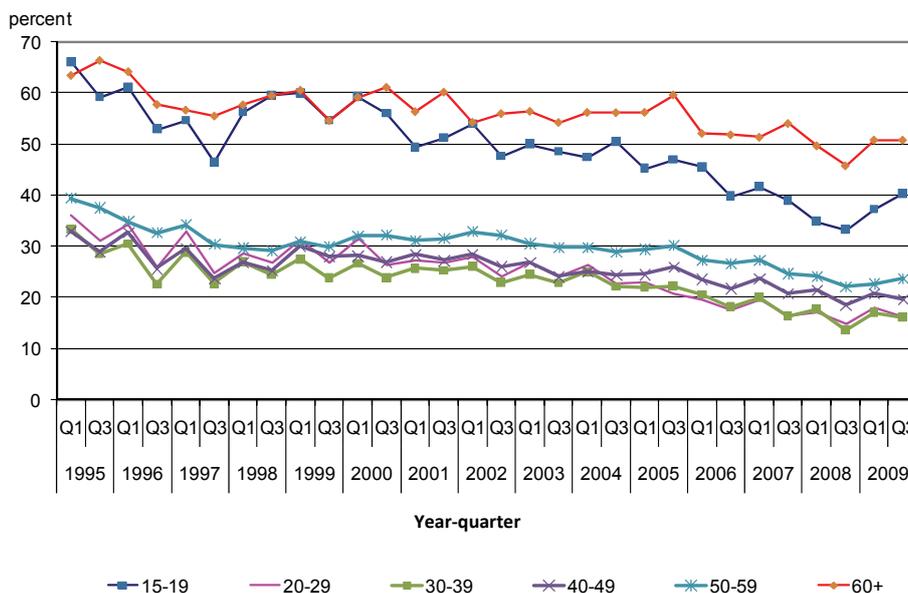
Figure 11 shows that high proportions of employees in the age groups 15-19 and 60 and older earning less than the minimum wages are not protected by the minimum wage law. It is not surprising that most of those who earn less than the minimum wages have a low level of education (Figure 12). Although the incidence of this phenomenon among the younger age group has improved, in 2009, the proportion in the age group 15-19 earning less than the minimum wages increased, repeating the experience of this age group following the 1997 crisis when the proportion increased from 47 percent to 60 percent.

Vulnerability to poverty among those with an education higher than the primary level was not sensitive

to shock or growth. The trends in the proportion of such employees moved around the same figures over time (Figure 12). This was contrary to the proportion of those with primary or lower levels of education, the proportion of which had been declining when there was no financial or economic shock.

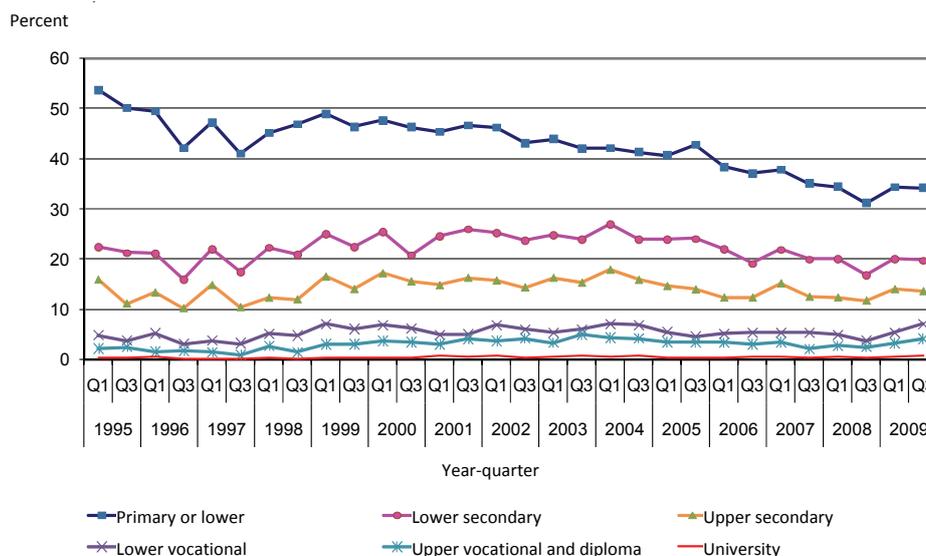
The under-protected employees are in the agricultural sector (Figure 13). Even now, about 50 percent of agricultural employees earn less than the minimum wages. In 2009, the proportion of employees in manufacturing who earned less than the minimum wages increased by 2 percentage points. Thus, the impact of the global crisis on this proportion has been rather mild.

Figure 11 Employees Earning Less than the Minimum Wages, by Age Group



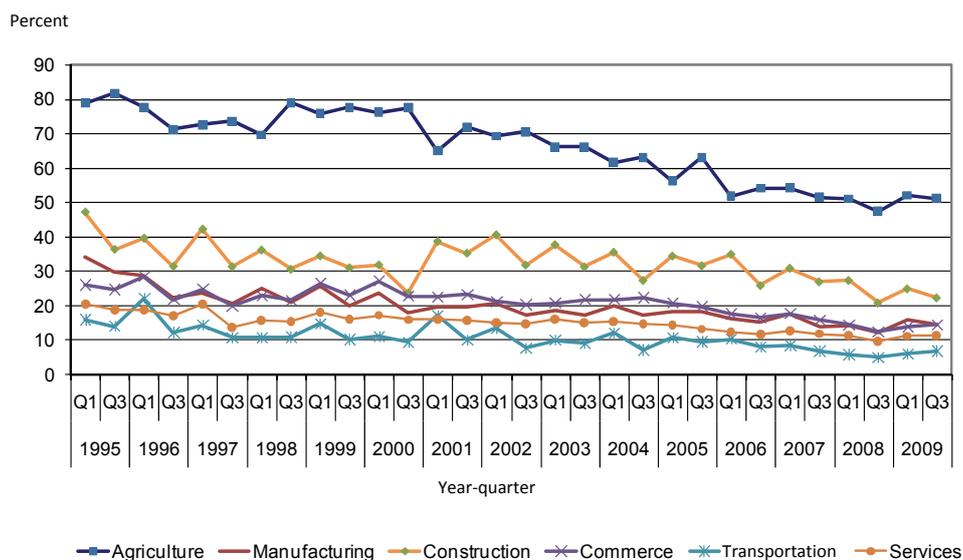
Source: Labor Force Survey, National Statistical Office.

Figure 12 Employees Earning Less than the Minimum Wages, by Education



Source: Labor Force Survey, National Statistical Office.

Figure 13 Employees Earning Less than the Minimum Wages, by Industry



Source: Labor Force Survey, National Statistical Office.

The well-being of households can be measured by their consumption. Using the most recent Socio-Economic Surveys (SES), in 2007 and 2008, it is found that household consumption increased in 2008 (Figure 14). Food consumption was about 35-40 percent of total consumption. However, it is too soon to investigate the impact of the global crisis on household consumption; we must wait until the 2009 SES data are available.

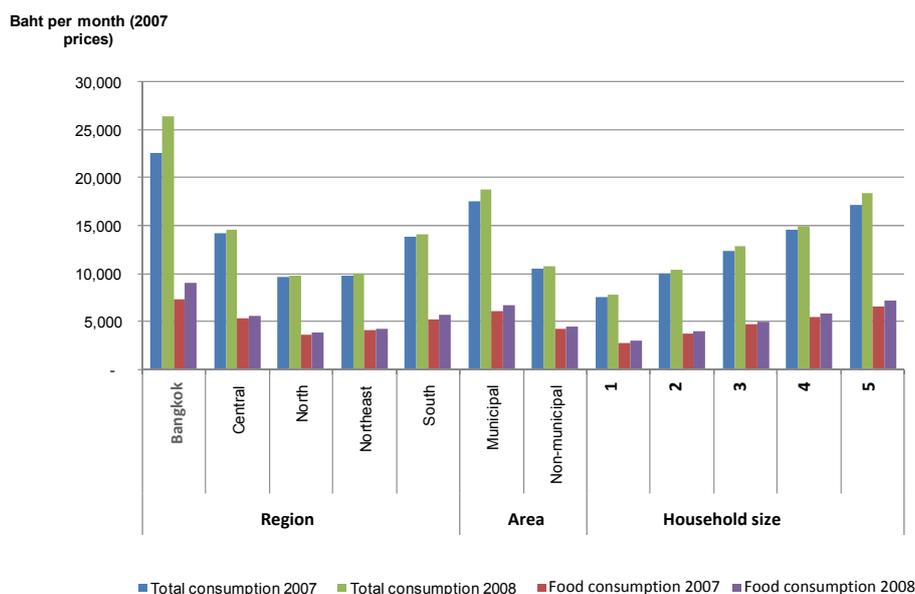
III. POLICY RESPONSES

To mitigate the impact of the global crisis, the current government introduced stimulus package-I,

comprising 18 projects in 2009 valued at more than Bht 200 billion, or about 2 percent of GDP. The 18 stimulus projects include the following:

- Agricultural price guarantees (Bht 123,581 million)
- Tax measures (Bht 40,000 million)
- 15-year free education (Bht 19,001)
- Bht 2,000 cash handouts (Bht 18,970 million)
- Sufficiency economy fund (Bht 15,200 million)
- So-called 5x6 subsidies (Bht 11,409 million)
- Bht 500 cash for the elderly (Bht 9,000 million)

Figure 14 Household Consumption



Source: Socio-Economic Survey, National Statistical Office.

- Training for the unemployed (Bht 6,900 million)
- Health volunteer support (Bht 3,000 million)
- Irrigation project (Bht 2,000 million)
- Housing for junior police officers (Bht 1,890 million)
- Dust-free roads (Bht 1,500 million)
- Health station improvement (Bht 1,096 million)
- Blue-flag scheme (Bht 1,000 million)
- Tourism promotion (Bht 1,000 million)
- Small reservoir construction (Bht 760 million)
- Promotion of small and medium-sized enterprises (Bht 500 million)
- Restore national confidence (Bht 325 million)

The measures that the Thai government used were not different from those of other countries, such as the United States of America, the United Kingdom, Japan, and other countries in Asia. These governments wanted to boost spending in their economies. However, the results from their projects may still be unclear as people and the private sector are uncertain about their future.

One interesting project is the Bht 2,000 cash handout or so-called “Bht 2,000 check.” The government has given Bht 2,000 to three types of employees, provided that their wage income was below Bht 15,000 per month. The first type of employees comprise current members of the Social Security Fund and former members who are currently receiving benefits, e.g., unemployment insurance benefit or sickness benefit. The second type are government employees, including village heads and pensioners. The last type are employees in local government administration, employees under

autonomous organizations founded by the constitution or by other laws, men conscripted into the armed forces, employees in state enterprises, and teachers in private schools. About 6 million people were declared eligible to receive the check.

The National Statistical Office of Thailand interviewed 7,800 household members in the Bangkok municipal area in May 2009. It found that about 50 percent of the sample had received the Bht 2,000 check, although not all of them decided to use it (Table 8). Nonetheless, about 95 percent used the check: about 72 percent of that proportion for purchasing consumer products. It is interesting to see that 78 percent of those who received the check did not spend more than what they normally spent. This might have been because, in the period when they received the check, the Thai economy had not recovered from the crisis. People were not sure about their future employment and earnings. They had learned from experience that the effects of the 1997 crisis were more than a year. A recent review (Pawin and Nada 2009: 16) also shows that the multiplier effect of fiscal policy in many countries in the short-run is rather small, between 0.2 and 1.0.

Besides the stimulus package, the government tried to slow down lay-offs by reducing social security contributions. In normal times, employer and employee have to contribute the equivalent of 10 percent of wages in order to be covered for sickness, death, maternity, invalidity, child allowance, old-age and unemployment insurance benefits. The employer and employee each share the contribution equally. The government contributes the equivalent of another 2.75 percent of the employee’s wages to the Social Security Fund. In July 2009, the government temporarily reduced the contribution rates from both employers and employees, from 10 percent to 6 percent. The rates returned to normal in January 2010.

Table 8 Impact of the Bht 2,000 Check on Consumption

Question	Answer	%
Did you use the Bht 2,000 check?	Yes	95.2
	No	4.8
On what item did you spend the money?	Education	3.9
	Tourism	2.9
	Consumer goods	71.8
	Luxury goods	2.9
	To pay debt	11.3
	Buy bond or other funds	0.3
	Give to parents or relatives	4.8
	For celebration	0.8
	Others	1.4
Did you spend more than normal?	Spent the same amount with or without the check	78.4
	With check, I spent more than normal.	21.6

Source: Opinion Survey on Bht 2,000 Check, National Statistical Office.

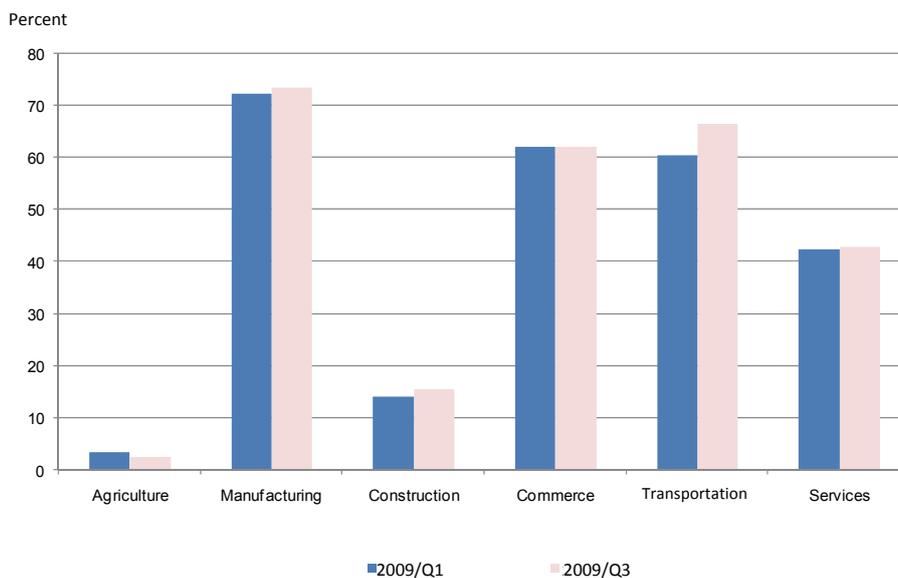
This policy may have a small impact on the labor market for two reasons. First, social security contributions represent only a small cost for firms, which do not decide on lay-offs based on this cost. When the demand for their products is low, firms have to reduce the use of this factor of production, i.e., labor. However, the policy might help firms to earn extra money. Second, the coverage of the social security system is still low, and many firms avoid contributing money to the Social Security Fund. According to the Social Security Law, all non-agricultural firms have to contribute to the Social Security Fund. The survey in 2009 showed that only 70 percent of employees in the manufacturing sector were covered by the law (Figure 15). For employees in other sectors, coverage was lower.

During the crisis, it was difficult for a person to find a new job. The government tried to help those unemployed by extending the period that they would be eligible for receiving unemployment insurance benefits.

For those who were involuntarily unemployed, the period for receiving the benefit was extended from six months to eight months. However, the extension did not apply to voluntary unemployment. Those who voluntarily quit their job without cause received the benefit for only three months. The policy was in effect from January to December 2009.

Figure 15 shows that a large proportion of employees were not covered by social insurance benefits, including the unemployment insurance benefit. The extension of the unemployment insurance benefit helps only a small proportion of unemployed persons. Only 26 percent of employees who were laid off in 2009 received the unemployment insurance benefit (Table 9). A smaller proportion received severance pay. The Labor Protection Law requires that firms must pay laid-off employees based on the duration of their employment. When the coverage of the law is limited, government policy intervention may work ineffectively.

Figure 15 Percentage of Private Employee with Social Insurance



Source: Labor Force Survey, National Statistical Office.

Table 9 Percentage of Those Unemployed Covered by Unemployment Benefits

Employees who lost their jobs in 2009 Q1, by causes	Unemployment insurance benefit				Received severance pay	
	Not a member of Social Security Fund	Do not qualify	Unemployment insurance-waiting period	Receive benefit	No	Yes
Firm is out of business	70.80	15.39	7.54	6.26	70.80	15.39
End of contract	71.67	20.68	2.07	5.58	71.67	20.68
Laid off	35.64	13.10	25.32	25.95	35.64	13.10
Quit	28.96	19.33	21.56	30.15	28.96	19.33

Source: Labor Force Survey, National Statistical Office.

IV. CONCLUSION

The ongoing global crisis has affected the demand for the export of goods and services from Thailand. Its impact on economic growth has been small compared with that of the 1997 financial crisis, and it has had a short-term impact on employment in the manufacturing sector. The social groups involved with the manufacturing sector suffered adverse effects. Employees who were in the age group 20-29 years, or who had a secondary or vocational level of education lost income owing to a lower number of hours worked overtime. Government policies to stimulate employment may not be effective because the coverage of the Social Security Law is low. The impact of stimulus package-I is not clear as the short-term multiplier effect tended to be small.

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