

TDRI

Quarterly Review

Contents

Summary of the 2003 Year-end Conference on "Human Security"

by Srawooth Paitoonpong

3

Labor Market Issues in Thailand

by Worawan Chandoevvit

10

A Critical Review of the Economic Freedom of the World Index, with Reference to Thailand and the Freedom to Exchange with Foreigners

by Piriya Pholpirul

16



Human Security has gained its prominence both in Thailand and international arena. Nevertheless, its concept is still very new to Thai people and further clarification is needed. See discussions on various aspects of Human Security in Thailand from the 2003 Year-end Conference on Page 3.

Summary of the 2003 Year-end Conference on “Human Security”*

Srawooth Paitoonpong**

The 2003 Year-end Conference on “Human Security” was considered timely for at least a couple of reasons. First, the Ministry of Social Development and Human Security had been set up recently, so the concept of human security has now become more visible in Thailand, although it is still very new. It was thought that further clarification and discussion should be useful in making the concept more operational for public policy.

Second, at the international level, the Human Security Commission, co-chaired by Mrs. Sadako Ogata, former United Nations High Commissioner for Refugees, and Professor Amartya Sen, Nobel Laureate, had earlier in the year finished two years of work in producing the Human Security Commission Report entitled “Human Security Now.” This report was published in May and is currently in the dissemination stage.

Format and Contents of the Conference

The Year-end Conference consisted of four parts. In the morning session of November 29, the Conference started with a panel discussion on “Human Security in the Thai Context.” This was followed by a presentation by representatives of the research team summarizing the various research papers distributed as background papers at the Conference.

In the afternoon session of the same day, the Conference was divided into group sessions under four main themes comprising seven separate groups. Finally, in the plenary session in the morning of November 30, representatives of the various groups reported on the main findings and recommendations from each group.

The group sessions were divided up as follows:

1. International Dimensions Affecting Human Security in Thailand

This session examined developments at the international and regional levels that are relevant to human security concerns in Thailand. Four papers were presented covering transnational crimes, human trafficking, illicit drugs, and illegal migrants.

2. Social Environment and Human Security

This topic was divided into two group sessions as follows:

2.1 Social Aspects of Human Security

This group covered various social aspects related to human security; three papers were presented covering political and electoral processes, education, and housing.

2.2 Increasing Human Security at the Grass-roots

This group focused on increasing human security in local communities; three papers were presented covering human rights, community contentment, and social capital.

3. Increasing Economic Security

This topic was divided into three groups as follows:

3.1 The Economic System and Human Security

This group focused on features of the economic system that will enhance economic security; four papers were presented covering the economic system, social protection mechanisms, the underground economy, and poverty reduction.

* The Conference was co-organized by the Chai Pattana Foundation, the Ministry of Social Development and Human Security, the Office of the National Economic and Social Development Board, the Community Organizations Development Institute, the Health System Research Institute, and the Thailand Development Research Institute, during November 29-30, 2003 at the Ambassador City Jomtien Hotel, Chon Buri.

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3.2 Increasing Economic Security at the Grass-roots Level

This group focused on how to increase economic security at the level of local communities; the role of the state, local communities, and agencies that provide coordination between the state and the local communities was discussed.

3.3 The Role of the Business Sector and State Enterprises in Supporting Community Security

This group focused on how businesses and state enterprises can compliment the role of the state in contributing to better human security at the local level. The experiences of various organizations were presented.

4. Health Security

This group focused on various aspects related to increasing health security. Four papers were presented covering road safety, drug addiction, the 30-baht health care project, and environmental contamination.

Participants

The Conference was attended by approximately 600 participants from the political and public sectors, the private sector, academia and representatives of the general public.

REPORT OF THE GROUP DISCUSSIONS

The results of the group discussions were presented at the plenary session, which was chaired by Mr. Chakramon Phasukavanich, Secretary-General of the Office of the National Economic and Social Development Board. The group discussions covered seven topics as follows:

1. International Dimensions Affecting Human Security in Thailand
2. Social Environment and Human Security
 - 2.1 Social Aspects of Human Security
 - 2.2 Increasing Human Security at the Grass-roots
3. Increasing Economic Security
 - 3.1 Economic System and Human Security
 - 3.2 Increasing Economic Security at the Grass-roots Level
 - 3.3 The Role of the Business Sector and State Enterprises in Supporting Community Security
4. Health Security



The results of the group discussions are as follows.

GROUP 1: International Dimensions Affecting Human Security in Thailand

The discussion covered four issues, namely, (a) transnational crime and threats to human security; (b) measures to cope with the trafficking of women and children; (c) illicit drugs and human security; and (d) migrant workers and human security. The group defined the dimensions of human security as covering human rights, protection, and empowerment. The group also maintained that the scope of human security should cover everyone, not only the Thai people; it considered the migrant workers issue as a matter of people on the move.

On the issue of transnational crime and threats to human security, the group noted that human security in Thailand is complicated and there is a close link between internal factors and international factors, that is, Thailand's problem of insecurity could become a security problem of the region or of the world. On the contrary, the security problems of neighboring countries or the region could become Thailand's problems. The group also noted that an appropriate approach to fighting against terrorism, to achieve a balance between state security and people's security, required a clear understanding of the concept of human security, due consideration of human rights, and people's participation in policy-making and cooperation at various levels.

Trafficking of women and children is a transnational problem. As such, Thailand cannot solve the problem alone. Although women and children providing illicit sexual services are acting illegally, they are the victims or outcome of the trafficking process. Therefore, they need to be rescued, and their cooperation should be sought in the fight against trafficking. In other

words, the solution to the problem of trafficking should

be aimed at the traffickers not the victims. Otherwise prosecuting the victims would be actually victimizing and stigmatizing them.

The issue of illicit drugs is an international problem that is detrimental to the human security of the Thai people. The solution to the problem requires the cooperation of many countries. Although the serious suppression of illicit drugs has a positive impact on human security, an inappropriate approach to suppression (such as extra-judicial killing) can also have an adverse impact.

In 2002, the number of migrant workers in Thailand was about 1.2 million. Notably, migrant workers are now spreading all over Thailand, with concentrations in border areas and major provinces. Migrant workers are demand-driven. Labor-intensive industries, not being able to increase productivity, opt to reduce the costs of production by hiring low-wage migrant workers. The group maintained that migrant workers should be treated on an equal basis with Thai workers, and migrant workers should be registered.

The discussion also touched upon policy issues such as the trap of treating people as either friends and foes, vicious circle, the fear of the victims of crime to come forward in seeking justice, democratic style justice, perception gaps, the culture of power abuse, etc. Recommendations for such policy issues included a paradigm shift to treat human security as a transnational problem; strengthening the problem-solving of the state, the private sector, and civil society; breaking the aforementioned trap; and transnational justice.

2. Social Environment and Human Security

GROUP 2.1: Social Aspects of Human Security

Three aspects of social human security were focused upon: election/politics, education, and housing and community development (for low-income groups).

Elections are a process of people empowerment. Good politicians lead to good policy, good policy leads to better living, and better living leads to human security. Thus, the holding of fair and free elections is imperative for human security. The group considered that good elections result from good education, particularly civic education: both formal education and continuing education. The group emphasized that democracy under the representative system of government needs a system of close monitoring. Key factors in this regard are: first, the candidate; second, the voters; third, NGOs; and fourth, the electoral referees.

Education contributes to human security in many ways. First, education increases people's literacy and mathematical literacy; second, education increases job opportunities; third, education increases understanding of one's rights and reduces the chance of a person being exploited; fourth, education strengthens the right to vote and the voice of the disadvantaged; and fifth, education strengthens women's capacity to obtain decent employment and to participate in the decision-making

process both within and outside the family. Accordingly, the group called for the following measures: increase the quality of basic education; encourage the participation of the local community in education administration; develop local practices into community learning and education; encourage cooperation among the parties concerned, particularly, schools, homes, places of worship, and communities; promote fair or justified allocation of resources, emphasizing the needs of the disadvantaged; develop a community information system; encourage the learning and appreciation of local culture and parents' occupation; develop or strengthen an assessment system that reflects ability, moral conduct and ethics; and provide incentives for attracting teachers.

The discussion on housing and community development for low-income groups centered around a project called *Baan Man Kong* (permanent house) for slum dwellers. The project is aimed at providing living quarters of good condition for the poor in slum areas, emphasizing the more permanent settlement of slum dwellers. In the past, government assistance in housing provided low-cost flats that had a high turn-over problem because the poor families who are eligible for the right to occupy a unit would always sell their right to people in a higher income bracket. Under the Baan Man Kong project, the house belongs to the community, while the government acts as a facilitator in its management. This project claims to be successful in obtaining the participation of the community and the people. The poor become more secure with regard to their housing. Further extension of the project was encouraged by the discussion group.

GROUP 2.2: Increasing Human Security at the Grass-roots

The group adopted the social capital framework that emphasizes trust, mutual understanding, shared value and behavior that creates connections among community members. Social capital and human security are positively related. It was noted that every aspect of human security is interlinked: the economy, food, health, the environment, the individual, the community, politics and spiritual aspects. Community human security is the basis for national security and international security. Human security is complex and dynamic. On the contrary, human rights and a culture of honesty are foundations for human security at the community level. This means that the rights of others as well as an individual's dignity should not be violated. There should not be autocracy (a system of government in which all the power is in the hands of a single individual). The group maintained that human security can come from correct thinking (*Sam-ma-thi-thi*). For example, there is a difference between thinking that "work is money and money is work" and "work is happiness and happiness is work." The latter can be achieved by anyone and such thinking creates self-satisfaction. For a community to have security its members should be self-reliant, mutually dependent (depending on one another), living

together in balance, and be happy both physically, socially and mentally. A series of risk factors were identified in the discussion, such as centralization of power through legal processes, economic control through the abuse of public support, and invisible control of the mass media, etc. In response to emerging political issues, the discussion group proposed a number of recommendations including encouragement of active participation or initiation of community members in community activities, application of local knowledge with support or facilitation from academics, the building of “community immunity” against external interference or control, etc.

3. Increasing Economic Security

GROUP 3.1: Economic System and Human Security

The emphasis of this group was to review the characteristics of an economic system that enhances human security. The discussion included a review of economic security at three levels: social protection, the role of the government in poverty eradication, and the underground economy and mafia. Major issues discussed included:

- Economic systems and risks
- Market mechanisms
- Social protection
- Eradication of basic poverty
- Underground economy
- Economic policy

Economic activities involve risks. The discussion noted, along the line of Joseph Schumpeter’s hypothesis, that too much economic security, without risks, creates no incentive for business activity, investment, and competition; an example is the failure of many socialist countries. Market mechanisms such as competition involve risks. This makes an economic system more efficient. However, extreme dependence on the market mechanism involves too much risk, particularly in the financial market where there is a high degree of fluctuation and risk of financial crisis. Intervention in such markets is necessary to reduce risks. Competition under the free market mechanism has to be under fair rules and regulations (good corporate governance). If winners are successful based on cronyism or connections, economic security cannot be achieved.

Social protection can serve as a safety net to reduce adverse impacts of economic risks. Economic competition involves winners and losers and economic activities can be up and down. In addition, workers who are a major factor of production are human beings who are subject to health problems, the inevitability of retirement, as well as the possibility of unemployment or being laid-off. Social protection with wide coverage that is sustainable is needed. Otherwise, those who are affected by economic risks could not recover. The group held the view that migrant workers should also be eligible for basic social protection, but supports would be

needed from international agencies because of the high costs involved.

Poverty is a serious threat to human security. It is an obstacle to human development and a major cause of chronic insecurity. A good approach to the eradication of poverty must be sustainable. Good strategies include the empowerment and participation of the poor, as well as continuous monitoring. Policy on poverty eradication should be flexible and suitable to the problems of different areas or situations.

An underground economy does not promote human security if the activity is based on certain “mafia” figures (influential persons) because there is no way to ensure security. The management or formalization of the underground economy must avoid dependence on the mafia or cronyism. The lessons learned from a case study indicate that it is not easy to formalize the underground economy.

In making policy recommendations, more intensive study is needed to identify concrete responses. Optimal weight has to be given to various objectives. For the time being, the group urged that a good policy is one that would not increase economic risks. Each policy should be reviewed carefully through the promotion of people’s participation in policy-making. Otherwise, carelessly designed policy could result in added economic risks and increased human insecurity.

GROUP 3.2: Increasing Economic Security at the Grass-roots Level

Economic development at the grass-roots level has been a major development strategy in both the Eighth and Ninth Five-Year Plans, as well as the government’s policy. Economic security at the grass-roots level plays an important role in the development of the economy as a whole by

- Increasing the community’s capacity to become self-sufficient and shock proof against external impacts
- Alleviating community poverty
- Increasing the country’s competitiveness
- Promoting economic growth with stability and sustainability

Economic development at the grass-roots level can be classified into public and private development. For the Ninth Plan, the grass-roots economic development approach has adopted the “sufficiency economy” principle as a guideline. The principle means moderation, reasonable thinking, and good protection from external impacts. The policies in general are as follows:

1. Building people’s capacity in community development;
2. Creating opportunities for occupational development, employment, and access to sources of funds; and
3. Promoting participatory management as well as the reform of rural and urban development.

The government's policy with regard to economic development at the grass-roots level emphasizes three measures: increase income, reduce expenditure, and open up opportunities. During the period 2002-2003, projects on economic development at the grass-roots level include: (a) community economic development; (b) the One-Tambon-One-Product project; (c) Village Fund; (d) People's Bank; (e) Debt Suspension for Small-scale Farmers; (f) New Entrepreneur Creation (NEC); and (g) Conversion of Assets into Capital.

The implementation of the policy has been successful.

1. It has helped create jobs and generate income, particularly in the rural areas.
 - Unemployment in the rural areas decreased from 3.4 percent in 2001 to 2.2 percent in 2002 (the first time ever in the last five years that unemployment in the rural areas was lower than that of the urban areas).
 - Household income has increased by almost 10 percent.
2. It has, to an extent, solved the fundamental problem of giving people access to formal sources of credit.
 - Ninety-four percent of the members of the Village and Urban Community Fund had access to the Fund.
 - Ninety percent of the self-employed who applied for small credits received credits from the People's Bank.
3. People have more opportunities to build their earning-capacity while the number of economically sufficient and strong villages has increased.
 - Skill development has led to a variety of products from the community.
 - Activities emphasizing networks of occupational groups are preconditions for a community's sufficiency economy.
 - The stability of a community's funds, the affection and care of the people for their community, as well as the willingness to help each other indicate the strength of the community.

A role for the community in economic development at the grass-roots level is to strengthen people's thinking or community intellect by (a) adjusting people's reasoning process in order to emphasize self-sufficiency and self-reliance as well as the community's "intelligence capital," (b) creating community consciousness, (c) changing behavior, and (d) creating community strength.

The group suggested the use of a community plan with a view to learning about the community and strengthening the community. A community plan is

formulated by the community and for the community. It contains community data and information, an analysis, and direction for solving community problems. A community plan is dynamic and community planning is a continuous process that needs to be updated all the time.

The group made recommendations on three major issues:

1. Guidelines for increasing economic security at the grass-roots level
 - Actions (to strengthen economic security) should be taken at the community level consistent with the economic development at the national level, within the framework of a self-sufficiency economy.
 - Community members should be able to learn and plan by themselves and by interacting with the outside world.
 - Integration among development agents should be emphasized, with a focus on the target area and community.
2. Guidelines and approach to promoting economic security
 - The principle of a self-sufficient economy should be applied at all levels, from the individual, family, community, and entrepreneur level, to that of businessmen, and from the village, tambon, and amphur levels to the provincial levels.
 - The community planning process should be utilized for the purpose of developing the grass-roots economy, with support from the public sector and development agents.
 - The number of community learning centers should be increased in each region.
 - A network of government agencies, in connection with the private sector, should be established for the purpose of providing technical assistance in tackling the problems of the grass-roots economy.
3. The role of the parties concerned in promoting economic security at the grass-roots level
 - Government:
 - i) Should change its role from directing or giving orders to assisting and providing the assistance needed or requested by the community.
 - ii) Should intervene to solve the problems which cannot be solved by the community, especially on making policies and measures to protect the community against possible external impacts.
 - Community:

- i) Should concentrate on the process of making community plans continuously.
 - ii) Should develop a learning process.
 - iii) Should establish networks.
- Private sector:
 - i) Should support and interact with community businesses.
 - ii) Should create jobs in the community.

GROUP 3.3: The Role of the Business Sector and State Enterprises in Supporting Community Security

This group remarked that looking at the poor as being impoverished and desperate is not a good approach toward helping them. By giving the poor only social welfare is not an effective way to them because doing so would weaken them. The group felt that the poor should be empowered by providing them with knowledge or know-how, capital, or opportunities so that they could help themselves, and become self-reliant. The poor can be viewed as businessmen who fail because of lack of knowledge, capital, or opportunity. Thus, by teaching them to do business more effectively, they can become “non-poor.”

The group emphasized that teaching the poor how to do business should be done by the business sector. It has been recognized that the business sector and some state enterprises are capable of doing business and using their resources, skills and knowledge to support the government sector in helping the rural poor. Thus, business agencies should be encouraged to participate in this type of community development. Currently, many businesses and state enterprises have used their own resources to strengthen communities, either directly or indirectly. Success stories of projects conducted by the Population and Community Development Association and other private companies were cited. State enterprises can also play a similar role with similar objectives for community security. Currently, there is a group of state enterprises called the “Forum of State Enterprises for Community Development (FSECD)” that was formed in December 1998, consisting of members from 43 state enterprises. The community work of the Forum consists of promoting community products, increasing outlets for community products, and increasing the production capacity of the community. However, the performance of that organization is still not satisfactory and needs improvement.

Experience indicates that the business sector can participate in strengthening community economic security through activities on income generation, education improvement, environmental conservation, and social development.

Some activities of the private sector in strengthening communities include:

1. Income-generating activities

- Sweden Motor Co. Ltd.’s project at Baan Cha-om on techniques for growing garden trees
 - American Express Co. Ltd.’s financial support for a silk-weaving group at Baan Nong-Takai
2. Educational improvement activities
 - Scholarships from East Water Co. Ltd.
 - The establishment of schools with financial support from the James Clark Foundation
 3. Environmental conservation activities
 - The village piped-water supply project requires those eligible to participate to grow vegetables.
 - Mobile units that monitor environmental conservation.
 - Youth and environment conservation project
 4. Social development activities
 - Family planning
 - Care for orphans, the disabled, and people living with AIDS
 - Forming groups and organizations for the promotion of democracy

The group recommended that the government should provide incentives to encourage the participation of the business sector in building community security. For example, the government may consider integrating the business sector with the One-Tambon-One-Product project, tax incentives may be provided to industries that are located in areas with intensive employment of local people, etc. The group also recommended that the government consider relocating a number of government agencies to provincial areas to help decentralize business activities.

4. Health Security

The group focused on the problem of illicit drugs, the environment, road accidents, and health insurance. These problems are considered to be unresolved issues, which have a considerable impact on health security.

A. *Illicit drugs*: The issue of illicit drugs is a dynamic problem that affects many parties. It is interrelated with other social and economic problems. Measures to deal with the problem must also be dynamic, systematic and take various forms. The group noted that political will already exists and serious measures have been taken, but more information is needed and the actions taken should be continuous.

Evaluation of policy implementation must be conducted both in Thailand and in other countries.

B. *Environmental problems*: Environmental problems are widespread and closely linked to economic

security. Collective and integrated actions are needed to solve the problems. A one-sided approach to finding solutions to problems can create conflicts or misunderstanding among the parties concerned. A more holistic or integrated approach, which is based on benefiting the people and the society, is thus recommended.

C. Traffic accidents: Traffic accidents are a major cause of death in Thailand, and the trend is increasing owing to reliance on personal means of transport rather than on the mass transit system. Corrective actions to date are usually aimed at correcting the outcome not the cause, such as uncoordinated policies and plans, inefficient resource management, inactive implementing agencies, and unpredictable government interventions. The group maintained that the key factors to achieving success in tackling the problems of traffic accidents include formulation or collection of related knowledge, dissemination of the knowledge through the mass media, creating and mobilizing networks of people, communities and society, and implementation of these measures through policy entrepreneurs.

D. Health care scheme: The health care scheme and health insurance (e.g., Health Welfare Card, Social

Insurance, 30-Baht Health Care Scheme) have contributed to the health security of many Thais during the past few decades. Although the group noticed an improvement in the availability of health services, the quality of health care still remains an issue that clouds the health security of the people. Problems of inadequate funding and uneven distribution among service providers still existed. The group, however, concluded that the health security of the Thai people has been improving, especially physically. The group was of the view that the Thai people and society have considerable capacity and opportunities to improve health security both in general and in terms of the equality of distribution. This can be achieved by focusing on unresolved issues or major problems that have an impact on a large number of people. These unresolved problems are usually complicated and linked to other aspects of human security (such as the economy, food, education, and the environment). Therefore, a holistic approach to the problem, which does not only consider the medical or health factors, is recommended. In general, the major factors that contribute to health security are knowledge, the capacity of the people, communities and society, and the existence of political will and administrative reform.



Labor Market Issues in Thailand*

Worawan Chandoevrit**

GENERAL CHARACTERISTICS OF THE THAI LABOR MARKET

The Thai labor market can be characterized as a segmented labor market, consisting of formal and informal labor markets. Laborers who work in the formal market get higher wages and are covered by the Labor Protection Act as well as many social security programs.

In 1994, more than half of those employed (17.8 million) were working in the agricultural sector. Because that sector accounts for the majority of the labor force, the following discussion will focus on labor force activities in the third quarter when most cultivation takes place.¹ In the same year, the manufacturing, commerce and service sectors each employed approximately 12 percent (3.6-3.9 million) of the total number of people employed (32 million). The commerce sector has enjoyed a high rate of employment growth, its share increasing to 17 percent in 2002, which is significantly higher than the percentage of people employed in the manufacturing and the service sectors. In 2002, agriculture accounted for 15.8 million workers, or 50 percent of the total employed (Table 1).

Male workers slightly dominate the Thai labor market. In 1994, males accounted for 54 percent of the

total labor force, or 17.7 million male workers out of a total of 32 million workers. In 2002, male workers increased to 19.3 million, whereas the total labor force was 35 million. Data from the Labor Force Survey (LFS) show that the male labor force participation rates are always higher than those of the female labor force.² In 1991, labor force participation rates for male and female workers were 92 and 74 percent respectively (Figure 1). The gap between the male and female labor force participation rates ranges from 17 to 19 percentage points. In 2002, the male and female labor force participation rates were 89 and 70 percent respectively. However, the labor force participation rate of female workers increases in round 3 of any year, i.e., in the wet season. Also, female workers are more likely to participate in the informal sector than male workers.

In 1994, approximately 9 percent of the labor force (or 3 million) were in the age group 15-19. As the birth rate declines and more young people attend school, the number and the proportion of the labor force in this age group have declined (Table 2). On the contrary, for those in the age group 50 and older, the number and proportion in the labor force have increased.

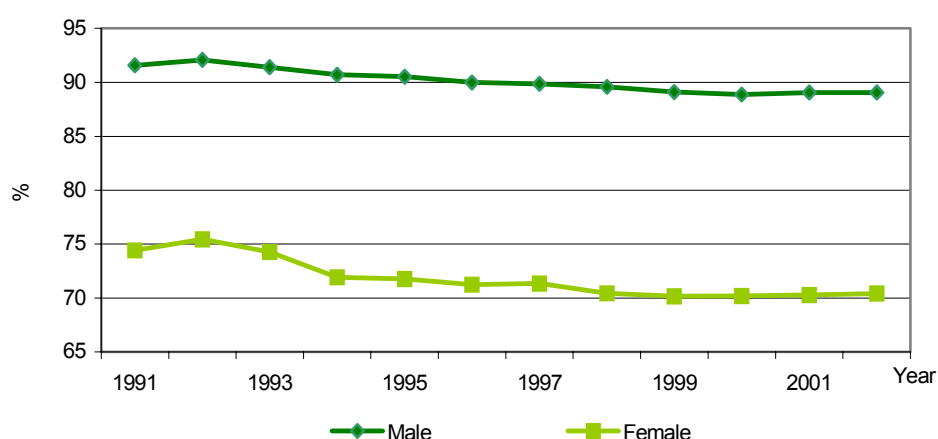
Table 1 Labor Force by Industry (thousands)

	1995	1996	1997	1998	1999	2000	2001	2002
Total labor force	32,750	32,603	33,194	33,254	33,106	33,849	34,526	35,029
Economically active population	32,702	32,442	33,090	33,177	32,969	33,690	34,418	34,938
Employed	32,339	32,093	32,797	32,047	31,991	32,882	33,523	34,322
Breakdown by sector:								
Agriculture	16,748	16,030	16,464	16,387	15,487	16,021	15,451	15,843
Manufacturing and mining	4,409	4,368	4,316	4,225	4,436	4,813	4,787	5,080
Construction	1,843	2,162	2,004	1,282	1,285	1,277	1,408	1,620
Utilities	168	143	177	178	158	172	101	96
Commerce	4,075	4,348	4,557	4,467	4,745	4,798	5,432	5,510
Transportation	987	956	974	925	990	951	977	964
Services	4,109	4,086	4,305	4,583	4,889	4,850	5,366	5,209
Unemployed	363	349	293	1,130	979	808	895	616
Seasonally inactive labor force	49	162	104	77	136	159	108	91
Economically inactive population	10,164	11,011	11,135	11,798	12,676	12,646	12,576	12,687

Source: Based on the Labor Force Survey (round 3).

* This paper was presented for discussion on the topic "The Labor Market Issues in Asia" at the Fifth Global Development Network (GDN) Annual Conference on Understanding Reform, New Delhi, India, January 28-30, 2004.

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Figure 1 Labor Force Participation**Table 2 Labor Force by Gender, Age Group, Education, and Region (thousands)**

	1995	1996	1997	1998	1999	2000	2001	2002
Total labor force	32,750	32,603	33,194	33,254	33,106	33,849	34,526	35,029
Classified by gender								
Male	17,827	17,881	18,109	18,272	18,256	18,604	19,040	19,302
Female	14,923	14,723	15,085	14,982	14,849	15,245	15,487	15,728
Classified by age group								
15-19	2,776	2,455	2,255	2,157	1,912	1,956	1,958	1,756
20-29	9,423	9,368	9,479	9,304	9,130	9,092	9,260	9,263
30-39	8,752	8,793	8,971	8,988	9,062	9,177	9,286	9,452
40-49	6,193	6,428	6,714	6,932	7,113	7,346	7,527	7,715
50-59	3,832	3,842	3,916	4,022	4,064	4,272	4,349	4,584
60+	1,773	1,717	1,858	1,851	1,824	2,006	2,146	2,259
Classified by education								
Primary or lower	25,469	24,998	24,838	23,542	22,965	22,995	22,852	22,897
Lower secondary	3,010	3,316	3,475	4,095	4,096	4,390	4,443	4,580
Upper secondary	1,097	1,029	1,234	1,471	1,682	1,915	2,152	2,431
Lower vocational	879	893	956	1,024	974	1,024	1,134	1,130
Higher vocational and diploma	785	727	797	979	1,048	1,089	1,202	1,237
University	1,510	1,640	1,894	2,144	2,341	2,436	2,744	2,754
Classified by region								
Bangkok and metropolitan area	3,686	3,770	4,035	4,075	4,061	4,264	4,430	4,449
Central	7,318	7,368	7,459	7,573	7,614	7,747	7,928	8,112
North	6,363	6,272	6,238	6,341	6,417	6,436	6,478	6,444
Northeast	11,394	11,174	11,386	11,144	10,820	11,212	11,339	11,609
South	3,989	4,019	4,076	4,121	4,194	4,190	4,351	4,416

Source: Based on the Labor Force Survey (round 3).

Table 2 shows that most of the Thai labor force has a low education level and lives in the northeastern and central parts of the country. In 2002, approximately 71 and 14 percent of the labor force had a primary education and a lower secondary education respectively. Such a labor force composition might make it more difficult for Thailand to evolve into an advanced economy and be competitive in a globalized environment. The shares of Bangkok and surrounding provinces in the labor force have been declining. This might imply that

more economic activities have expanded to other regions. For example, the share of the northeastern region in employment increased from 22 percent in 1994 to 36 percent in 2002.

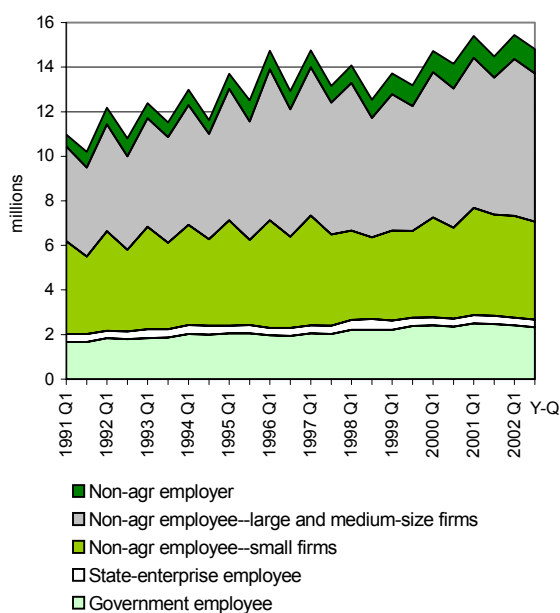
Dualism

We define workers in the formal sector as those who work as government employees, state-enterprise employees, and private employees and employers in the

non-agricultural sector, since these workers are protected by the Labor Protection Act and are covered by many kinds of social insurance. Those who work in the formal sector face various barriers to entry; for example, they must have a high level of education, be able to access some job-related information, be able to network well or be a land owner. Some might say that private employees in small firms employing 10 or fewer workers should be considered under the informal labor market as they are in a perfectly competitive labor market. Since private employees in small firms are protected by the Labor Protection Act and the Social Security Act, in the same way as employees in medium and large-size firms, in this discussion we consider them as being in the formal labor market.

Workers in the formal sector accounted for 34 percent of the labor force in 1991 and increased to 44 percent in 2002. The seasonal pattern of the number of workers in the formal sector (as shown in Figure 2) is caused mainly by the seasonal mobility of laborers in private enterprises, especially those in the small and medium-size firms. Unskilled workers move from the formal sector to the informal sector, specifically the agricultural sector, in the third quarter of the year (i.e., in August). Since the unskilled and agricultural labor markets are free-entry competitive markets, the movement between the two sectors is normal. However, the development of the Thai labor market has witnessed more and more laborers moving into the formal sector where there are barriers to entry. Also, the cost of seasonal moving between the two sectors has increased. As a result, the difference in the number of workers between the first quarter and the third quarter has become smaller.

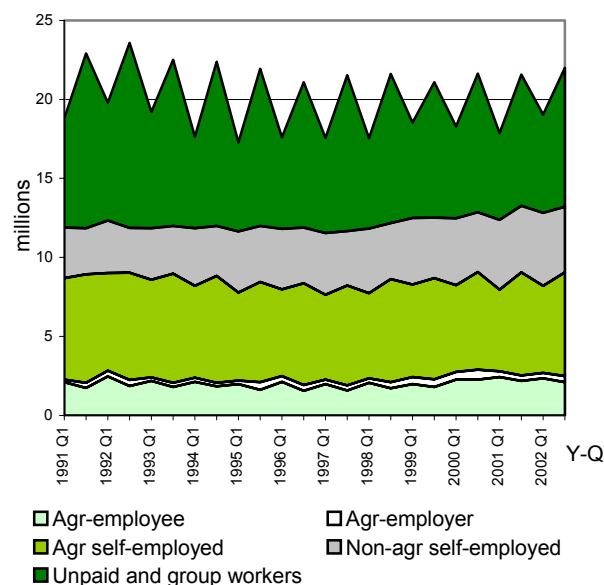
Figure 2 Workers in the Formal Sector in Q1 and Q3



The share of workers in the informal sector was almost 70 percent in 1991, but decreased to be less than 60 percent in 2002. Self-employment is the main work status for the informal sector (Figure 3). The number

self-employed ranged between 10 million and 11 million. Unpaid family workers are the second largest group in the informal sector. This type of worker is strongly determined by agricultural season. The number of unpaid family workers reached a peak annually in the third quarter. Most workers in this group are female.

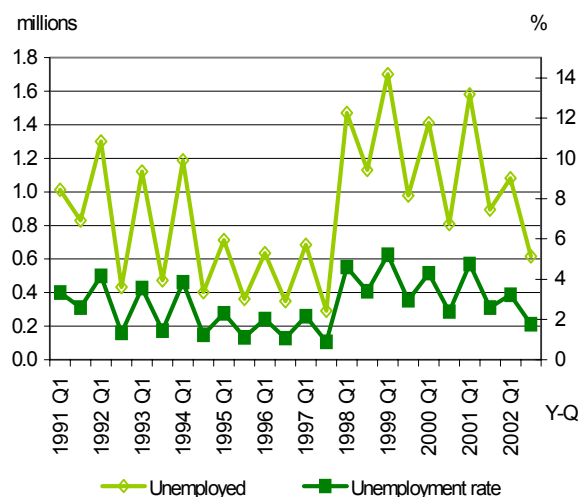
Figure 3 Workers in the Informal Sector in Q1 and Q3



Unemployment

The unemployment rate of the Thai labor force is quite low compared with that of the OECD countries. The third quarter of the year always shows a lower unemployment rate than the first quarter. The average unemployment rate in the period 1991-1997 was 2.2 percent and in the period 1998-2002 it was 3.5 percent. The number unemployed was the lowest (300,000 unemployed workers) in the third quarter of 1997 (Figure 4). The number unemployed reached the highest level in the first quarter of 1999 when 1.7 million workers were out of work.

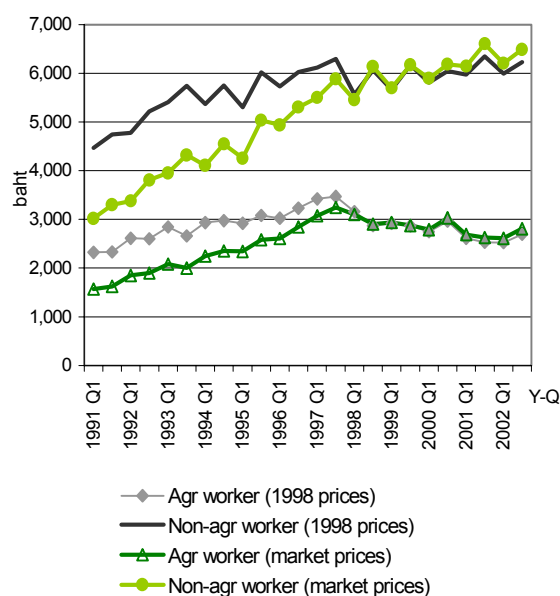
Figure 4 Unemployment in Q1 and Q3



Wages

Workers in the informal sector earn lower wages than those in the formal sector. Private employees in agriculture earned an average of 1,569 baht (US\$ 40) per month in the first quarter of 1991 (Figure 5) but private employees in non-agricultural work earned 92 percent more (3,019 baht or US\$ 75 per month). The gap between agricultural and non-agricultural wages was wider in 2002. In the first quarter of 2002, non-agricultural workers earned 6,201 baht per month, 137 percent higher than agricultural wages. During the period 1991-2002, the average quarter-on-quarter growth rate of monthly wages for non-agricultural workers was 6.69 percent and for agricultural workers 5.33 percent. Non-agricultural workers experienced a negative growth rate in wages only once in the third quarter of 2002 (when the quarter-on-quarter growth rate was -1.69 percent). However, agricultural workers had to bear with negative growth in their wages from the third quarter of 1998 to the first quarter of 2000 and from the first quarter of 2001 to the first quarter of 2002. Their monthly earnings were lower than working for a minimum wage for 22 days in a month. Figure 5 also shows that the real wage of agricultural workers was highest in 1997 after which it declined. The real wages of non-agricultural workers in 2002 were about the same as in 1997.

Figure 5 Average Monthly Wages



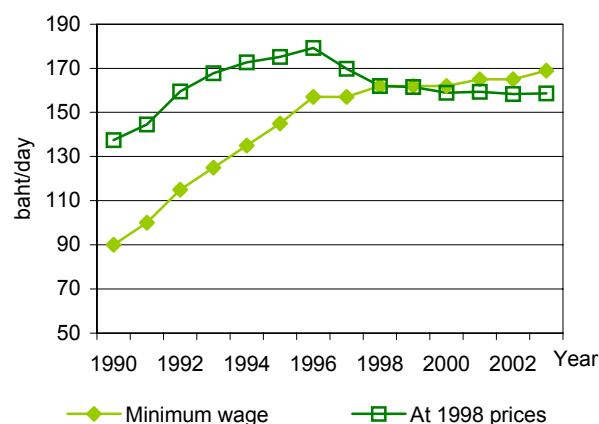
Minimum Wage

The minimum wage law in Thailand has been enforced since 1972. At the beginning, it was enforced only in Bangkok and the metropolitan area. In 1974, nationwide enforcement began. At that time, the minimum wage rates were established for three areas: Bangkok and the metropolitan area, 38 large provinces, and the re-

maining provinces. An amendment to the Labor Protection Act in 1998 allowed the minimum wage (tri-partite) committee to adjust the minimum wage in each area based on the cost of living, inflation, standard of living, cost of production, firms' competitiveness, labor productivity, GDP and other economic and social conditions. In 2004, there were 14 minimum wage levels, ranging from 133 to 170 baht.

The minimum wage rate for Bangkok and the metropolitan area grew very fast in the period 1991-1996 (Figure 6), with the highest annual growth rate of 15 percent in 1992. The rates were adjusted slightly after the 1997 financial crisis, with the annual growth rate of 1 percent in the period 1997-2003. The real minimum wage, however, moved in a direction opposite to the nominal minimum wage, dropping by 5.3 percent in 1997 and 4.6 percent in 1998. During the period 1997-2003, the real minimum wage grew at a rate of -1.7 percent on average. Data from the LFS show that in the third quarter of 2003 approximately 36 percent of private employees earned below the minimum wage. Among these employees, approximately 62 percent worked in firms employing 1-9 workers, 78 percent had attained a primary or lower level of education, 52 percent were female, and 41 percent worked in the agricultural sector.

Figure 6 Minimum Wage Rate for Bangkok



Labor Protection and Welfare

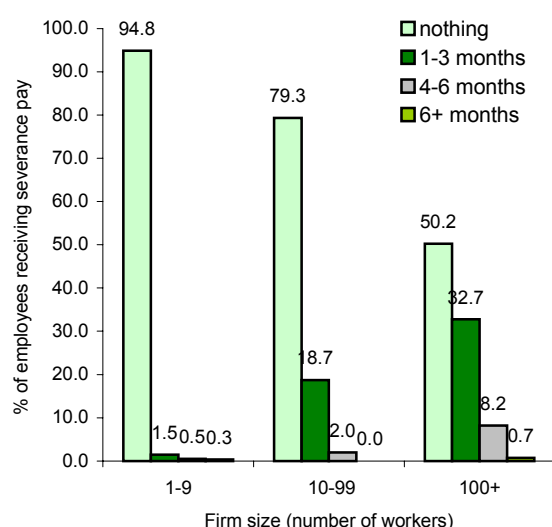
As a member of the International Labour Organization (ILO), Thailand has tried to comply with ILO conventions related to the International Labour Standard. In the period when democracy began to flourish, the first labor protection law was enacted in 1975. With the changing political environment and labor market dynamism that ensued, the labor protection law was amended. Currently, Thai workers are covered under the Labor Protection Act 2541 (1998). The Act protects workers in terms of the general right of employees, working hours, women workers, child labor, wages and other payments, holidays and leave, labor welfare, occupational safety, severance pay, complaint for fairness, the Labor Welfare Fund, the Minimum Wage Committee, and various regu-

lations and punishments. The Act, however, does not cover government and state enterprise employees, and the employees in agriculture or home-based workers.

Other forms of welfare for workers are the contributory social security schemes under two laws: the Social Security Act 2533 (1990) and Workmen's Compensation Act 2537 (1994). The social security schemes provide sickness, maternity, invalidity, death, old age, and survivor benefits, and child allowances for non-agricultural employees working in firms with 10 or more workers. In 2002, the coverage of the social security schemes was extended to non-agricultural employees in firms of all sizes. In 2004, the unemployment insurance program took force. Employees and employers contribute 5 percent and the government contributes 2.75 percent of insured earnings for benefits under the Social Security Act. Employers contribute 0.2-1 percent of insured earnings for benefits extended under the Workmen's Compensation Act. At the end of September 2003, there were 7.35 million insured persons and 320,000 registered enterprises.

The enforcement of the social security and the labor protection acts has been inefficient. The LFS and administrative data show that in 2001 many employees were not covered by the social security system. About half of the employees in the northeastern region and in the construction sector were excluded from the social security system. Only 60 percent of employees working in firms with 10-99 workers were covered. Moreover, the special module of the LFS in 1998 showed that approximately 95, 80 and 50 percent of laid-off workers in firms with one to nine employees, 10-99 employees and 100 and more employees, respectively, received no severance pay as called for under the Labor Protection Act (Figure 7).

Figure 7 Percentage of Laid-off Employee Receiving Severance Pay



It can be said that private employees get unequal treatment from the social security and labor protection

acts. Employees in agricultural industries and home-based workers receive no social security benefits and are not protected by law. Besides working in a hazardous environment, agricultural workers also earn lower wages. Therefore, the Thai government should pay more attention to the extension of social security benefits to these workers.

Unionization

Private enterprise and state enterprise employees gained the right to form labor unions under the Labor Relations Act 2518 (1975). The Act provides regulations for employers and employees wishing to form unions, associations, and federations. State enterprise employee unions were considered to be strong prior to 1991 when the National Peacekeeping Committee staged a coup d'état and announced martial law. After 1991, state enterprise employees were not allowed to form a union or be a member of any labor union. Moreover, Article 19 of the State Enterprise Employee Relations Act 2534 (1991) prohibits strikes by state enterprise employees under all circumstances.

In 1990, there had been 713 labor unions, 129 of which were formed by state enterprise employees. After the law was amended in 1991, state enterprise employees could set up only 36 associations. In contrast, private employees formed more labor unions from 1991 to 1996. However, the number of unions decreased by 5 percent in 1997, the year of the financial crisis, but increased after that.

The LFS in round 3 of 1998 showed that only 2.9 percent of wage earners in the private sector were members of a labor union. This proportion is quite low compared with other countries. In Malaysia, the Philippines and South Korea, about 9, 11 and 11.2 percent of the labor force, respectively, were members of a labor union in 1998. The low rate of unionization could be related to the lack of labor protection extended to workers while forming a union as well as a "free rider" problem (Behrman et al. 2000). The Act states that negotiated results also apply to the non-members of a union.

However, the rate of unionization will likely increase in the near future since the State Enterprise Employees Relations Act of 2000 is now being enforced. According to that Act, at least 10 employees can initially set up a union. After the establishment of a union, the union members must comprise at least 25 percent of the state enterprise employees. This new Act was the result of collective bargaining with AFL-CIO, ICFTU and Thai labor unions. As Thai labor unions continue to coordinate with international labor unions, it is expected that they will negotiate with the government on issues such as labor standards and welfare and anti-globalization.

Immigrant Workers

Immigrant workers in Thailand comprise skilled and unskilled workers. The skilled immigrant workers

enter the Thai labor market legally. They are mostly in firms receiving industrial promotion privileges under the Board of Investment. Approximately 70 percent of them are professional managers and technicians. Twenty percent of them are from Japan. In 2002, there were approximately 71,000 skilled immigrant workers in Thailand (Yongyuth et al. 2003).

It can be said that Thailand has gained from having these workers as they filled labor shortages in certain areas.

The immigrant workers who generate high economic benefits as well as social costs for the Thai economy are the unskilled immigrant workers. Most of the unskilled immigrant workers are working illegally; they work in the fishing industry, low-standard factories, and farms. Many such female immigrants work as housemaids. These workers are not protected by the Labor Protection and the Social Security Acts. As they are illegal workers, they are exploited. Their working conditions are poor and their wages are low. Pressures from inequalities and exploitation might be among the reasons for a high crime rate involving workers and their employers.

The Thai government has no clear policy to manage the shortage of unskilled workers and unskilled immigrant workers. Temporary measures were introduced in 2001 when the government allowed illegal immigrant workers to register with the Department of Employment. Workers had to pay a registration fee of 1,200 baht (or US\$ 30). This amount was used to defray the cost of the immigrant workers' healthcare. The registered immigrant workers will lose their work status and become illegal workers if they resign from their current employer. As a consequence of the policy, approximately 568,000 unskilled immigrant workers registered; approximately 1 million immigrant workers remained unregistered.

The lack of a clear immigrant worker policy generates high social costs while the employers enjoy benefits: they gain from low labor costs and make high profits. However, the public has to bear the healthcare and education cost of illegal workers and their families. In 2002, the Ministry of Public Health absorbed costs of 115 million baht (approximately US\$ 2.9 million) in un-

paid bills of the immigrant workers. Moreover, the Ministry of Education provides free formal education for approximately 151,000 "non-resident" children (or stateless children). It is believed that many such children are left without an education and many immigrant workers could not afford medical treatment. A good policy on immigrant workers should be initiated to improve immigrant workers' well-being and to impose undistorted costs on the employers and public.

ENDNOTES

- ¹ The data on the Thai labor market are mainly from the Labor Force Survey (LFS), which has been conducted regularly by the National Statistical Office (NSO) since 1963. Rounds one and three of the Survey are conducted in February (during the dry season) and August (during the wet season).
- ² The labor force participation rate is a percentage calculated by dividing the number of people aged 15 and older who are both employed and unemployed (or those who are in the labor force) by the number of people aged 15 and older who do not attend school and are able to work.

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A Critical Review of the Economic Freedom of the World Index, with Reference to Thailand and the Freedom to Exchange with Foreigners*

Piriya Pholphirul**

I. INTRODUCTION

The *Handbook of Freedom* (DFN 2004) defines economic freedom as “the right of man to engage in voluntary economic activities (e.g., trade) for his benefit.” There are a number of other definitions and measures of such economic freedom. The Fraser Institute and other institutions annually publish the *Economic Freedom of the World* report, which contains various indices to measure *economic freedom*. This publication forms the basis for our review. Economic freedom is not a new term but an adaptive dimension for rating how residents of a country assess the freedom of their personal choices and voluntary exchanges, their freedom to compete, and the protection of their person and property from incidental shocks.

Representative government is the political corollary of the market economy. The same philosophic movement that created modern capitalism substituted elected officeholders for the authoritarian rule of absolute kings and hereditary aristocracies. It was this much-decried bourgeois liberalism that helped to bring about today’s freedom of conscience, of thought, of speech, and of the press, and put an end to the intolerant persecution of dissenters. The governmental as well as political institutions providing the infrastructure and necessary foundations of society therefore protect individuals and their property from violence and coercive forces. In preparing the *Economic Freedom of the World* report, Gwartney and Lawson (2003) found a positive high correlation between the economic freedom index and per capita income and economic growth. In addition, the index is comparable to other leading social indicators, such as the illiteracy rate, the percentage of the population having access to improved sanitation facilities, and the expectation of life.

The *Economic Freedom of the World* index adapts third-party data to measure the degree of economic freedom of countries in five areas: (1) size of government, (2) legal structure and security of property rights, (3) access to sound money, (4) freedom to

exchange with foreigners, and (5) regulation of credit, labor, and business. This paper is aimed at analyzing and qualifying the degree of freedom under *Area 4: Freedom to Exchange with Foreigners*, as it relates to the policies of Thailand and their implications.

Area 4 encompasses one of the most important issues of economic freedom in the global context, i.e., the freedom to exchange among a nation’s residents and those living outside its national boundaries, a process that contributes to better living standards. The freedom to exchange with foreigners therefore involves the elimination or amelioration of restrictions that would otherwise be an obstacle to international trade, such as tariffs and quotas, non-tariff barriers, hidden administrative costs of exchange, exchange rates and capital controls. These economic freedom indicators are therefore notified and adapted using the current situation of Thailand as well as the current policy implications to support these indices.

Based on the economic freedom indices for Area 4, the evidential and policy implications will be discussed according to the following economic freedom ratings (see Gwartney and Lawson (2003) for details on how the indices are computed):

- A: Taxes and international trade
 - (i) Taxes as a percentage of exports and imports
 - (ii) Mean tariff rates
 - (iii) Variability of tariff rates
- B: Regulatory trade barriers
 - (i) Hidden import barriers
 - (ii) Cost of importing
- C: Actual size of trade sector compared with expected size
- D: Difference between official exchange rate and black market rate
- E: International capital market controls
 - (i) Access to foreign capital
 - (ii) Restrictions on foreign capital transactions

* A brief paper presented at the Fifth Workshop – Economic Freedom Network Asia, Jaipur, India, September 25-28, 2003. Information and data have been updated as appropriate.

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Section II provides an overview of economic freedom ratings under two major issues: trade liberalization and financial/capital liberalization, both of which are related to the freedom rating of Area 4. Section III discusses the current status of Thailand's policies and their implications, especially under the current governmental administration, based on the above ratings. Section IV provides a conclusion.

II. THAILAND'S ECONOMIC FREEDOM TO EXCHANGE WITH FOREIGNERS: AN OVERVIEW

Thai people gained greater freedom in the twentieth century than had ever been the case previously. Thai citizens are free from proactive controls by government agencies and are free to move about at their own discretion. They also generally enjoy freedom of speech, which is a constitutional right, and the government generally respects these rights in practice. However, although the government may restrict these rights to preserve national security, maintain public order, preserve the rights of others, and protect public morals, in practice this rarely has been done.

Thailand was ranked 44th among 123 countries in 2001 for overall economic freedom; its rating then was 6.7. A rating of 10 is the highest score. In 1975, Thailand was rated 5.8 (rank 24th), a level that has generally varied little over the years. The freedom index for Thailand reached its highest level in 1995, i.e., 7.1 (rank 26th). If only the index of freedom to exchange with foreigners is considered, Thailand's rating increased considerably, i.e., from 6.0 in 1975 to 7.7 in 2001 (Table 1). The freedom to exchange with foreigners therefore provides insight into the country's progress in increasing economic freedom with regard to international relations in the global context.

Thailand's freedom to exchange or to trade with foreigners when compared with that of some countries in Asia is reflected in Table 2.

The results show that Thailand has achieved the strongest level of freedom with regard to (1) the actual vs. expected size of the trade sector and (2) the

difference between the official and black market exchange rates, the ratings for which reached the highest level, i.e., 10. However, these two indices are not surprisingly different from those of other countries in Asia. The sub-section with the lowest rating for Thailand concerns restrictions in foreign capital market exchange; Thailand's rating was only 1.5.

Table 1 Economic Freedom Index for Thailand

Year	Overall economic freedom rating	Freedom to exchange with foreigners
1975	5.8	6.0
1980	6.0	6.1
1985	6.1	6.2
1990	6.8	6.6
1995	7.1	6.9
2000	6.6	7.6
2001	6.7	7.7

In overview, the freedom to exchange with foreigners in Thailand's context is generally divided into two parts: (1) freedom to trade with foreigners, or trade liberalization, and (2) freedom in capital market exchange with foreigners, or international financial liberalization.

2.1. Trade Liberalization

The freedom to trade with foreigners, or trade liberalization issues, are currently distinguishable policies that the Thai government aims to implement with other trading partners. Trade liberalization involves the freedom of countries to trade without any tariff or non-tariff barriers. Preferential free trade arrangements have strengthened the freedom of Thailand to exchange with foreign countries, thus also making development among nations more sustainable. The preferential trade arrangements, both bilateral and multilateral that have been signed, purposed, or under negotiation with various country groups are summarized in Table 3.

Table 2 Area 4's Economic Freedom Rating in Selected Asian Economies, 2001

	Hong Kong	India	Indonesia	Malaysia	Thailand
Ai Tax as percentage of exports/imports	9.8	4.4	9.5	9.0	9.0
Aii Mean tariff rates	10.0	3.5	8.3	8.1	6.7
Aiii Standard deviation of tariff rates	10.0	5.0	5.7	0.0	4.4
A Tariffs	9.9	4.3	7.8	5.7	6.7
Bi Hidden import barriers	8.9	5.5	4.2	6.3	5.8
Bii Costs of importing	9.6	7.0	8.1	8.6	8.8
B Regulatory trade barriers	9.2	6.2	6.1	7.5	7.3
C Actual vs. expected size of trade sector	10.0	6.0	9.9	10.0	10.0
D Difference between official and black market exchange rates	10.0	10.0	10.0	10.0	10.0
Ei Access of citizens to foreign capital markets/foreign access to domestic capital markets	9.9	4.0	8.1	6.6	7.0
Eii Restrictions on foreign capital market exchange	9.2	0.0	1.5	0.8	1.5
E International capital market controls	9.6	2.0	4.8	3.7	4.3
Freedom to exchange/trade with foreigners	9.8	5.7	7.7	7.4	7.7

Table 3 Preferential Trading Arrangements Involving Thailand and Other Countries: as of May 2004

Partners	Type of arrangements	Status
Regional level		
ASEAN	Free Trade Area	Implemented
ASEAN+3	Comprehensive Economic Cooperation	Official discussions
ASEAN-EC	Comprehensive Economic Cooperation	Official discussions
ASEAN-Canada	Comprehensive Economic Partnership	Implemented
ASEAN-China	Comprehensive Economic Partnership	Implemented
AFTA-CER	Comprehensive Economic Partnership	Official discussions
ASEAN-Japan	Comprehensive Economic Partnership	Official discussions
ASEAN-India	Comprehensive Economic Cooperation	Official discussions
ASEAN-USA	Trade and Investment Framework	Official discussions
BIMST-EC	Free Trade Area	Implemented
Bilateral level		
Thailand-China	Free Trade Area	Implemented
Thailand-Bahrain	Closer Economic Partnership	Implemented
Thailand-USA	Free Trade Area	Official discussions
Thailand-Australia	Free Trade Area	Will sign in July 2004
Thailand-Sri Lanka	Free Trade Area	Proposal/study
Thailand-India	Free Trade Area	Implemented
Thailand-New Zealand	Closer Economic Partnership	Proposal/study
Thailand-Peru	Free Trade Area	Implemented
Thailand-Japan	Closer Economic Partnership	Official discussions

Source: Summarized by International Economic Relations Program, TDRI.

A number of preferential trading arrangements in regional agreements have been extended from the regional trading partners of the ASEAN Free Trade Area (AFTA) to a wider area. Moreover, Thailand has encouraged regional economic partnership within the Asia-Pacific Economic Cooperation (APEC) forum, Asia-Europe Meetings (ASEM), Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC), and the Greater Mekong Subregion (GMS) to liberalize more rapidly and extensively in the context of regional trading arrangements, because of its conviction that liberalization should assist economic recovery. However, the trade liberalization policies that the Thai government has signed or is negotiating with many individual countries or country groups may be complicated to implement owing to the intra-linkages among those agreements. Figure 1 shows the intra-linkages in various preferential trading arrangements involving Thailand and other countries or groups of economies.

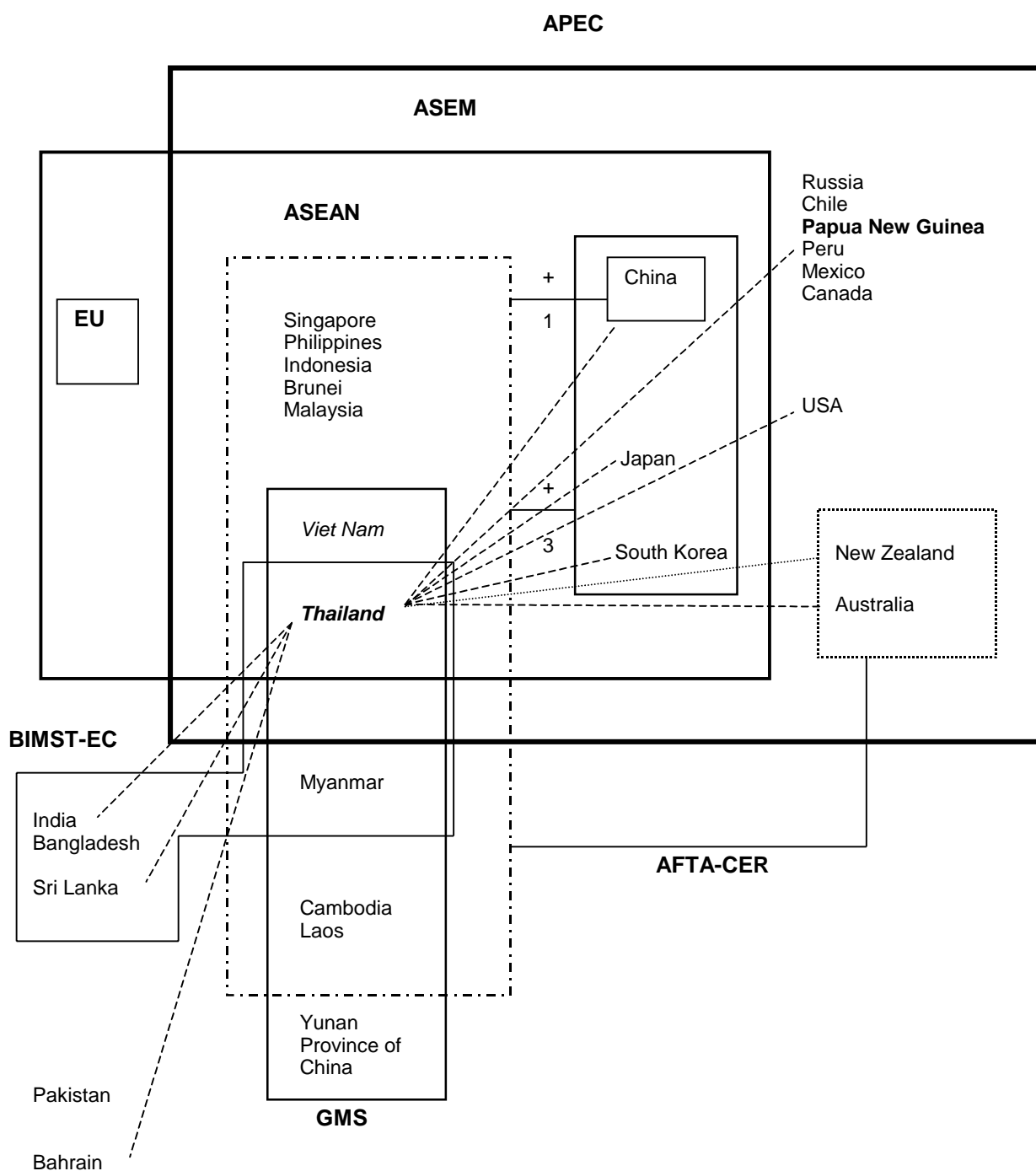
The likelihood of establishing free trade areas involving Thailand and other countries is therefore one of the main issues for building up the economic freedom of the nation. However, with regard to taxes on international trade and regulatory trade barriers, especially in specific sectors, the free trade areas are still not so effective that it would be possible to conclude that Thailand's economic freedom will be improved. The rating ranges from 4.4 to 8.8 under the various areas listed under tariffs and regulatory trade barriers provide useful indicators of what areas need adjustment to improve Thailand's trade liberalization policies. (More specific details for each topic under these areas will be presented in section III.)

2.2. Capital and Financial Liberalization

The financial liberalization of Thailand was one of the hottest issues during the country's financial reform process. During the period from the late 1980s to 1991, Thailand's economy underwent deep structural changes, including the liberalization of its financial sector and the integration of its economy with global financial and product markets. The management of the economy during this period of rapid structural change and the large capital flows that started in 1988 was a major challenge for the Thai authorities. Thailand maintained relatively open current and capital accounts, with liberal treatment of foreign direct and portfolio investments. Foreign borrowing by Thai residents was allowed, but was subject to registration with the Bank of Thailand (BOT). Starting in 1985, both current and capital account transactions were significantly liberalized. By the end of 1994, Thailand was free of foreign exchange restrictions on current account transactions, and had a very open and favorable regime for foreign investment. Thai investment overseas, in particular by financial intermediaries and banks, was also restricted.

Hardin and Holmes (1997) ranked the degree of liberalization among countries in terms of its support of foreign direct investment (FDI) inflows to business, communication, distribution, and financial sectors. Their *FDI Restrictiveness Indices* showed that Thailand still provided a relatively low degree of liberalization, especially in the services and financial sectors (Table 4).

Figure 1 Preferential Trading Arrangements



Source: Summarized by International Economic Relations Program, TDRI.

Table 4 Financial Liberalization: FDI Restrictiveness Indices

Country/area	Business	Communication	Distribution	Financial
Thailand	78	81	78	88
China	36	82	28	45
Hong Kong	2	35	5	23
Indonesia	56	61	53	55
Japan	6	35	5	36
Malaysia	32	42	8	61
Philippines	48	76	48	95
Singapore	26	32	25	38
South Korea	57	69	63	88

Note: The higher the score, the lower is the degree of liberalization, or the higher is the degree of restriction. Maximum score is 100.

Source: Hardin and Holmes (1997).

The most important change in Thailand's financial liberalization before the 1997 financial crisis was the establishment of the Bangkok International Banking Facility (BIBF) in 1993. BIBF was an offshore financial market, which provided supportive tax and regulatory advantages aimed at fostering the development of Bangkok as a regional financial center. The establishment of BIBF was due mainly to two factors: (1) BIBF institutions were granted considerable tax advantages, and (2) many Thai firms which could not directly access overseas capital markets were able to borrow through BIBF. As a result, BIBF increased foreign borrowing; rapid credit growth resulted in high leverage economy-wide as well as an asset price bubble. This therefore led to a rapid increase in foreign exchange exposure and a shortening of the maturity structure, rendering the economy vulnerable to reversals in capital inflows and downturns in economic activity, which led to the 1997 financial crisis. Other liberalization measures adopted during the 1985–1996 period included subjecting non-resident Baht accounts at domestic commercial banks to lower reserve requirements and gradually eliminating restrictions on the purchase of foreign exchange by residents and on the transfer of the Baht overseas.

To survive after the 1997 crisis, the Thai government, especially under the control of BOT, has been implementing capital controls and financial resolution measures. For example, in 1998, BOT tightened regulations on loan classification, provisioning, and reporting standards, with the aim of upgrading local financial institutions. Thai authorities have implemented a number of financial-sector restructuring measures to restore financial stability and address structural weaknesses. The restructuring measures have been based on both market-driven and state-led mandatory approaches. Veerathai (2003) categorized the restructuring measures into (1) those intended to address financial institutions' insolvency and capital adequacy issues, and (2) those intended to address non-performing loans and distressed assets.¹

The recent financial crisis therefore clearly demonstrates the powerful influence of market forces and capital flow regulations across borders. The control of capital flows and exchange rates is therefore one of the main measurements of economic freedom of international exchange with foreigners in the area of capital markets. (More details about how the BOT regulates international capital market controls will be discussed in the next section.)

III. THAILAND'S ECONOMIC FREEDOM TO EXCHANGE WITH FOREIGNERS: BY CATEGORY

Thailand's economic freedom index under Area 4, i.e., economic freedom to exchange with foreigners, will be discussed under the following sub-sectors:²

- Taxes on international trade
- Regulatory trade barriers
- International capital market controls.

3.1. Taxes on International Trade

The *Economic Freedom of the World* reports that Thailand reached a rating of 6.7 in section A (Tariffs), which is high owing to the tax revenue on exports and imports. The reason that Thailand achieved 90 (Table 2) in this sub-section (Ai) is mainly because of the establishment of a number of free trade areas, especially AFTA, which is currently being implemented.³ Therefore, as a member of AFTA, Thailand should incur a significant perceived cost related to the potential loss in revenues from trade taxes associated with tariff reductions. Trade tax revenues normally constitute a significant share of total government revenue, but it is likely to fall.⁴ Nevertheless, it is believed that the reduction in tariffs over time will increase economic growth and thereafter stimulate imports. Therefore, less tariff revenue will be collected on each good imported; in the meantime, the increase in the volume of imports should mitigate the fall in revenue in the aggregate. In addition, the reduction in tariffs and other trade barriers is likely to reduce the incentive to engage in illegal cross-border trade, i.e., smuggling. Where the volume of illegal or informal cross-border trade is perceived to be low, smuggling may decline in response to a lowering of tariff barriers, after which the share of trade on which tariffs can be applied will increase. The revenue from international trade taxes therefore depends on (a) the size of tariff reduction, (b) the possible switch from an informal to a formal trading system, and (c) the growth in imports as a result of tariff cuts.

Table 5 provides evidence of the amount of revenue collected by Thailand's Ministry of Finance from 1996 to 2003. Taxation on international trade (import duties and export duties) has been decreasing during the periods from 15.5 percent of tax revenue in 1996 to 12.2 percent of tax revenue in 2003. This indicates a trend toward tariff reduction over time. Under preferential trade arrangements between Thailand and other countries, it may decrease further in the future. The economic freedom rating for this sub-sector was 6.7. Compared with historical data, the average tariff rates of Thailand and other Asian countries have been declining. Thailand's mean tariff was 32 percent in 1984 and it dropped to 20 percent in 1996.

The first reason for the downward drift in ASEAN tariffs is mainly due to the multilateral trade negotiations resulting in the GATT and WTO agreements. Negotiations began with the Uruguay Round, which aimed at making world trade freer and at reducing tariffs. The second reason is that the unilateral tariff reforms of AFTA have limited CEPT, which is even lower than the most-favored-nation (MFN) tariff rates, so that they are now low and uniform among member countries. Nevertheless, the reduction in tariff

Table 5 Thai Government's Taxation and Tariff Revenues

Source	1996	1997	1998	1999	2000	2001	2002	2003
(Million baht)								
Tax revenue :	781,772	757,440	686,338	625,353	688,632	694,482	785,574	902,579
<i>Taxes on income and profits :</i>	<i>281,779</i>	<i>276,367</i>	<i>213,435</i>	<i>205,007</i>	<i>243,493</i>	<i>254,089</i>	<i>286,019</i>	<i>346,608</i>
Personal	107,728	111,683	123,058	91,925	90,541	97,033	104,912	116,099
Corporate	170,428	159,717	85,114	101,941	142,097	140,088	162,415	208,211
Petroleum income tax	3,623	4,967	5,263	11,141	10,855	16,957	18,691	22,298
<i>Taxes on consumption</i>	<i>357,684</i>	<i>381,495</i>	<i>335,751</i>	<i>325,802</i>	<i>319,651</i>	<i>327,802</i>	<i>379,716</i>	<i>421,466</i>
Business tax	620	305	451	95	152	133	101	86
Value added tax	150,472	152,062	144,925	138,529	139,167	126,804	147,228	150,457
Specific business tax	32,856	33,879	31,467	19,193	15,015	13,143	12,960	12,727
Excise taxes	173,735	175,159	158,908	167,986	165,317	187,722	219,426	258,196
<i>Taxes on international trade</i>	<i>121,539</i>	<i>94,826</i>	<i>60,946</i>	<i>73,424</i>	<i>85,168</i>	<i>91,496</i>	<i>98,291</i>	<i>109,882</i>
Import duties	121,533	94,814	60,928	73,355	85,080	91,403	98,116	109,628
Export duties	6	12	18	68	88	93	175	214
Other taxes	20,770	24,752	16,262	21,121	21,319	21,075	21,549	24,663
Percentage of tax revenue								
Tax revenue :	1000	1000	1000	1000	1000	1000	1000	1000
<i>Taxes on income and profits :</i>	<i>360</i>	<i>365</i>	<i>341</i>	<i>328</i>	<i>364</i>	<i>366</i>	<i>364</i>	<i>384</i>
Personal	138	147	196	147	135	140	134	129
Corporate	21.8	21.1	136	163	21.2	202	207	231
Petroleum income tax	0.5	0.7	0.8	1.8	1.6	2.4	2.4	2.5
<i>Taxes on consumption</i>	<i>458</i>	<i>477</i>	<i>536</i>	<i>521</i>	<i>477</i>	<i>472</i>	<i>483</i>	<i>467</i>
Business tax	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Value added tax	192	201	231	222	208	183	187	167
Specific business tax	42	45	50	31	22	1.9	1.6	1.4
Excise taxes	222	231	254	269	247	270	279	286
<i>Taxes on international trade</i>	<i>155</i>	<i>125</i>	<i>97</i>	<i>117</i>	<i>127</i>	<i>132</i>	<i>125</i>	<i>122</i>
Import duties	155	125	97	11.7	127	132	125	121
Export duties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	27	33	26	34	32	30	27	27

Sources: 1) Comptroller-General's Department.

2) Bank of Thailand.

revenues has been absorbed by increases in other tax revenues collected on income and profit, and on consumption. The proportion of tax revenue collected as excise taxes has increased from 22.2 percent in 1996 to 28.6 percent in 2003. A high rate of excise tax is collected on particular items such as gasoline (increasing from 25 percent to 31 percent), beer (from 53 percent to 55 percent), and wine (from 55 percent to 60 percent). Such taxes are also collected on luxury items such as yachts and wool carpets (50 percent).

Even though Thailand's mean tariff rates have been declining as a result of various preferential trade arrangements, its mean tariff structures are still relatively high compared with that of other countries; for example, Thailand's MFN rate is about 16.1 percent for agricultural products and about 15.9 percent for manufactured products, or about 16.5 percent for all goods. The tariff mean however indicates that the tariffs that Thailand imposes are generally higher than the world standard, i.e., 12.6 percent for low-income countries, 11.6 percent for middle-income countries, 6.9 percent for high-income countries (not associated with OECD), and only 3.7 percent for high-income OECD countries.

Although there has been a general downward trend in Thailand's tariffs, there are still major sectors hiding behind high-tariff barriers aimed at protecting infant industries. Therefore, tariffs in Thailand vary widely among sectors because some attempt to protect particular sectors with high tariffs and others, to apply lower tariffs in sectors that are less sensitive to foreign trade. Agricultural products are on the list of politically sensitive commodities, which is why the negotiations regarding this sector are generally considered separately from industrial tariffs. Frankly, the import duties on agricultural and food products applied by Thailand are quite high, perhaps the highest in ASEAN. The automobile sector is another protected sector; the combined import duties and taxes that Thailand currently imposes are among the highest in ASEAN.

In general, Thailand has been trying to reform its tariff structure since the end of 1994. On some categories of goods, tariffs are around zero percent, e.g., for medical equipment and fertilizer; 1 percent for raw materials and electronic components; 5 percent for primary and capital goods such as machinery, tools, and computers; 10 percent for intermediate goods; 20 percent for instant-print film and certain finished products; and

30 percent for goods that need special protection. This is what we call a “tariff escalator.” The situation thus described obstructs the economic freedom rating by applying various tariffs or, what we call a high “standard deviation of tariffs.”

The standard deviation of the tariff rates measures the average deviation of the tariff rates around the mean; it is calculated using unweighted tariff data. Highly dispersed rates are evidence of discriminatory tariffs that may distort economic freedom with regard to residents’ production and consumption decisions. It can be stated that sectoral tariff structures remain escalated with the highest protection given to final goods. In this sub-sector, Thailand achieved only a 4.4 rating score, which seems to be quite a low degree of economic freedom with regard to the World Development Indicators, the standard deviation of Thailand during the period 1990-1993 was about 16.9, increasing to 17.8 in 1998. Therefore, it may be concluded that the degree of protection on Thailand’s domestic industries is relatively and highly varied compared with that of other countries; therefore, it remains a major obstacle for Thailand in its efforts to foster economic freedom.

3.2 Regulatory Trade Barriers

The hidden import barriers (considered as non-tariff barriers) comprise another obstacle lowering the degree of economic freedom in Thailand. Those hidden import barriers include the combined effect of import tariffs, license fees, bank fees, and the lag time required for administrative works and handling clearance, all of which raise the cost of the importing process. In this area, Thailand achieved a 7.3 rating for regulatory trade barriers divided into two sub-sections: the hidden import barriers, for which Thailand achieved a 5.8 rating and the cost of importing, for which Thailand achieved an 8.8 rating. Hence, the index of hidden import barriers indicates a lower degree of economic freedom within this category. Hidden import barriers included in the cost of importing are treated separately in the following paragraphs.

Import license barriers

Thailand is in the process of changing its import licensing procedures to comply with WTO regulations. Import licenses are required for a number of items such as raw materials, petroleum, industrial materials, textiles, pharmaceuticals, and agricultural products. The import of some items not requiring licenses must nonetheless comply with the applicable regulations of the agencies involved, including extra fees and certificate-of-origin requirements.

Customs barriers

We have to accept that Thai customs procedures are an impediment to international trade and investment inflow. Thailand’s Customs Department has quite a high degree of autonomy, so its import regulations are

complicated, not very transparent, and inconsistently applied. The problems include excessive paperwork and formalities.

Standards, testing, and labeling barriers

In general, the importation of food, and pharmaceutical products and medical devices must meet certain standards and pass testing and labeling requirements as well as be granted certification permits from the Thailand Food and Drug Administration (TFDA). The testing procedures generate costs with regard to their duration and complexity. Food import licenses must be renewed every three years and pharmaceutical import licenses must be renewed every year, with additional payment for the fees applied. Moreover, labels bearing the product’s name, description, net weight or volume, and expiration dates must be printed in Thai and approved by TFDA. These requirements are basically for consumer safety.

Financial services barriers

Different criteria apply to the bank fees for supporting international trade. With regarding to information from the Export-Import Bank of Thailand (EXIM Bank), the minimum fee for issuing a letter of credit (L/C) for imports is 1,000 baht; the fee for amending an L/C is 500 baht; the charge for Swift/Telex is 800 baht per message, while the fee for amending such a message is 300 baht. Thailand’s banking fees are considered reasonable; they are under the strict exchange control of the BOT. The fees also include delivery and charges, import bills for collection, and outward remittance services. (Financial service barriers are considered in more detail under the topic of international capital market controls, which will be discussed in section 3.3)

In summary, the level of economic freedom in Thailand under the sub-sector of regulatory trade barriers (either hidden import barriers or cost of importing) shows the unavoidable regulatory agenda of countries, especially in terms of barriers such as standards, testing, and labeling for sensitive products related to human life such as food and pharmaceuticals. However, the hidden costs under customs procedures and governmental administration need to be improved by enhancing services for supporting international exchange abilities in Thailand and among other partner countries. Nevertheless, the overall economic freedom rating of 7.7 under Area 4 may still be considered acceptable compared with that of other countries in Asia.

3.3 International Capital Market Controls

International capital market controls can be categorized in two ways: (1) according to how citizens are able to access foreign capital markets and foreigners are able to access domestic capital markets and (2) the restrictions that exist on the freedom of citizens to engage in capital market exchange with foreigners.

Thailand achieved a rating of only 43 in this regard. Its worst rating was 15, which refers to the restrictions on the freedom that Thai people enjoy to engage in capital market exchange. Under capital control conditions, BOT began to regulate both the inflows and outflows of capital.

The restrictions on and exemptions from foreign exchange control regulations in Thailand are very tight in order to meet the requirements of the Exchange Control Act of 1992. Under the Act, Thailand regulates the manner in which money flows into, or is taken out of, the country. Based on BOT information, the foreign exchange control system encompasses the following rules:

1. All trade transactions are free of restrictions although the proceeds of exports in excess of 500,000 baht must be deposited with an authorized bank within 15 days of receipt.
2. There are no restrictions on foreign borrowing and capital investments.
3. Repatriation of investment funds, dividends and profits as well as loan repayments and interest payments, net of taxes, may be made freely.
4. Direct foreign investment by residents, or lending to affiliate companies abroad, of more than US\$ 5 million a year requires the approval of BOT.
5. Payments for service fees related to foreign trade, educational expenses or family allowances abroad may be made freely.
6. Banks in Thailand may offer foreign currency accounts to individuals and companies with a total outstanding balance for all accounts of US\$ 500,000 and US\$ 5 million respectively.
7. No more than 50,000 baht (100,000 baht for bordering countries) in cash may be taken out of Thailand.

Export transactions

In general, there are few exchange control restrictions on export transactions. With certain exceptions, exporters are required to obtain a certificate of exportation from an authorized bank, in order to authorize the Customs Department to clear the goods for export. The proceeds from exports must be collected and brought into the country immediately after payment is received and within 120 days from the date of the export.

Transactions on invisibles

All receipts from invisibles must be surrendered to an authorized bank or deposited in a foreign currency account with an authorized bank within 15 days of the date of receipt. Payments for invisibles, such as services related to foreign trade, educational purposes or family allowances abroad, can be made freely. For travel

expenses abroad, a resident can take out foreign currency without limit.

Bank facilities

The EXIM Bank is a financial institution wholly owned by the Royal Thai Government under the supervision of the Ministry of Finance. It is empowered to engage in various business undertakings and offers the facilities of short-term and long-term credits in domestic or overseas markets for which the Bank can borrow from local or overseas financial institutions.

Borrowing

There are no restrictions related to the borrowing by residents from commercial banks in Thailand; however, non-residents may freely borrow either directly or through FX Swap transactions in local currency from commercial banks to finance their underlying activities. Without underlying activities, non-resident borrowing in local currency is limited to a maximum of 50 million baht per person. Private companies may provide lending to affiliated companies abroad if they hold at least a 25 percent share in them.

Foreign and local currency

Persons living in Thailand are permitted to use foreign exchange that originates from abroad to service their external obligations. Any person receiving foreign currencies is required to sell or deposit such foreign currencies with an authorized agent within seven days from the date of receipt. In terms of local currency, there is no restriction on the amount of Thai currency that may be brought into the country. A person traveling to countries bordering Thailand and to other countries may take out local currency up to an amount permitted by current regulations.

Investment in securities abroad

Residents can invest in securities abroad as institutional investors: through life insurance companies, government pension fund, social security fund, mutual funds, provident funds, and specialized financial institutions. The securities must be issued prior to January 1, 2003 by the Thai government, or corporate and sovereign debt securities issued by non-residents with an international credit rating but limited to a total of US\$ 500. Recent demands for investment in foreign debt securities have been high, with application from a total of 105 financial institutions.

Holding shares in overseas companies

Prior approval is required in many cases in order to invest or lend abroad, but prior approval is not required in order to invest money in Thailand. Foreign investments in Thailand, which receive promotional

privileges from the Board of Investment, are accorded various incentives and special benefits. Repatriation of investment funds, dividends and profits as well as loan repayments and interest payments thereon may be made freely after settlement of all applicable taxes in Thailand.

However, with greater liberalization in the global context, international capital controls and exchange rate controls have been eased. The Bank of Thailand (2003) announced that it would ameliorate the rules on holding foreign currency deposits that previously allowed for an obligation to become due in three months; instead they would be due in six months. Moreover, it allowed Thailand's state enterprises to freely hedge Thai foreign currency debts regardless of maturity; previously, they could hedge for only up to one year.

Thai residents are also allowed to issue structured products, which link return to foreign variables such as exchange rates and foreign assets. However, such products can be sold only to institutional investors under specified conditions. The last and most recent measure to alleviate international capital controls was the establishment of mutual funds for individual investors to invest in the "Asian Bond." This idea will be further pursued by BOT to assess the demand for and the amount of funding. Therefore, capital controls on international movements are currently being relaxed, which should help to increase the degree of economic freedom under this category.

IV. CONCLUSION

This paper is aimed at providing a comparison of the Economic Freedom Indices reported in the current *Economic Freedom of the World* Annual Report under Area 4: Freedom to exchange with foreigners, with reference to Thailand. In this paper, three sections of Area 4 are analyzed and preliminary and supportive evidence of Thai policies provided as they relate to international exchange/trade among Thai residents and foreigners.

ENDNOTES

¹ By estimation, the total public costs of Thailand's financial-sector restructuring are in the range of

approximately 30-40 percent of GDP, which may raise serious concerns over the sustainability of the long-term public debt.

- ² The paper omits two sub-sectors: (1) the actual size of the trade sector compared with expected size, and (2) the difference between the official exchange rate and black market rate, for which Thailand achieved a rating score of 10.
- ³ The decision to establish AFTA was taken at the Summit Meeting of the ASEAN Heads of State in January 1992. The six original signatory countries (known as ASEAN-6) agreed to a deadline of 2008 for reducing Common Effective Preferential Tariff (CEPT) rates to 0-5 percent. In addition, they also agreed that each ASEAN-6 country would have a minimum of 85 percent of its tariff line in the Inclusion List, with a tariff of 0-5 percent by 2000; this should be increased to a minimum of 90 percent of the Inclusion List by 2001.
- ⁴ It is still uncertain whether the fall in tariff revenues will be a result of the implementation of AFTA, because other major factors, such as the economic situation and imported values, could be the cause.

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