

Thailand After the Economic Crisis of 1997: Labour Issues

Voravidh Charoenloet
Faculty of Economics
Chiangmai University

Introduction

The paper attempts to understand the period of post-crisis in Thailand related to labour questions. Indeed, Thailand was able to exploit its comparative advantage by relying on cheap labour, the integration into the world economy through the development of labour-intensive industries such as textile. In the early 90s, with the globalization of economy, Thailand is facing the difficulty of industrial up-grading due to the constraints of low skill labour and equitable income distribution. The structural problem pertaining to industrialization is the perpetuation of a growth regime founded on “low wage, low productivity and long working hours”. Although statistics reveals current change in the composition of the export of Thailand’s manufacture, where electronics tend to dominate, but this is very questionable when classified as high-tech. Most of electronic factories employed relatively more educated labour force especially the vocation school. But for Thailand, it is the low-end of production that was delocated or the assembling of parts. The production of electronics aims at export and has no linkages with the national economy. The immanent solution for Thailand is to shift to intensive growth and redistribution of income, the return to industrial democracy.

Thailand and Race to the bottom.

The Textile industry in Thailand consists of 3 sectors: Upstream such as fiber and synthetic fiber which is capital-intensive. Most of the inputs production are imported such as the petro-chemical substance. The product of this sector is to feed the mid-stream. Mid-stream industry consists of spinning, weaving, dyeing and printing. It can use high technology or very labour-intensive but create environmental problems. The downstream industry such as clothing and garment which is very labour-intensive. In 1999, of 4.2 million workers in all industries, about 1 million workers are in the textile industry, 80% of which are in clothing and garment (843,030 workers).

In the 1960, Thailand began to develop textile industry under the import-substitution policy. By 1980, under export-led growth, there is a shift towards the downstream, i.e. the garment making. Profiting from being a labour abundant country, low cost and the quota system, garment became the exporting industries. The integration of Thailand into the world economy through the development of labour-intensive industries did produce the “Asian miracle,” the high growth and fast track economy the country has yet never known. Between 1988 and 1990, Thailand was able to achieve a double digit growth rate, comparable to that of the East Asia NICs. Local producers of textile and garment have grown into leading company, benefiting from delocation of industries, the spread of international subcontracting and the quota system. Many could upgrade themselves into the Original Equipment Manufacturer

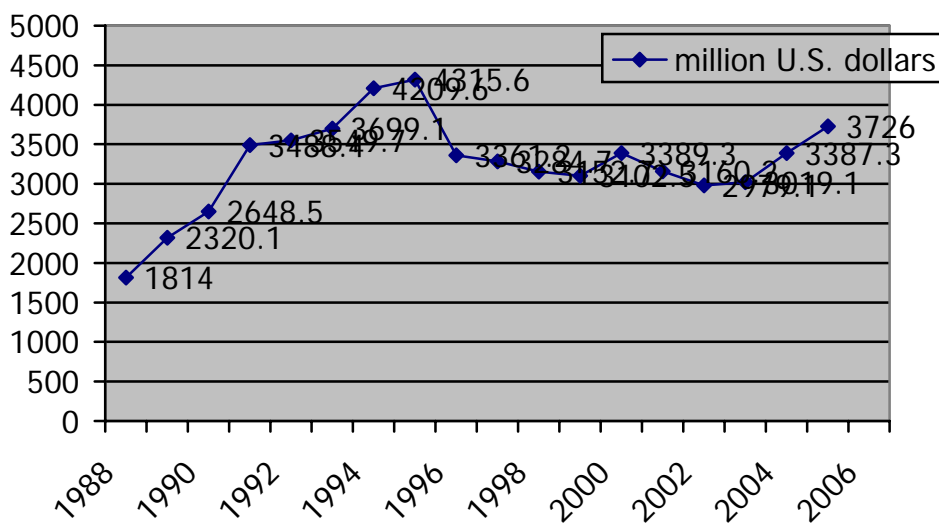
(OEM) such as the Saha Pat group. It also brought about related development of Original Design Manufacturer (ODM) and the Thai Fashion Brandname such as Grey Hound, Boutique Newcity, Karita, Fly Now, Pena House, etc.

Although the economic crisis of 1998 shattered the dream of Thailand to become the next NICs, the decline of the labour-intensive (garment) industries was well before that. Beginning 1990, with the events of globalization, growing international competition and emergence of newly, low-cost countries, the growth of labour-industry tends toward a decline. The declining trend continues into the year 2000s.

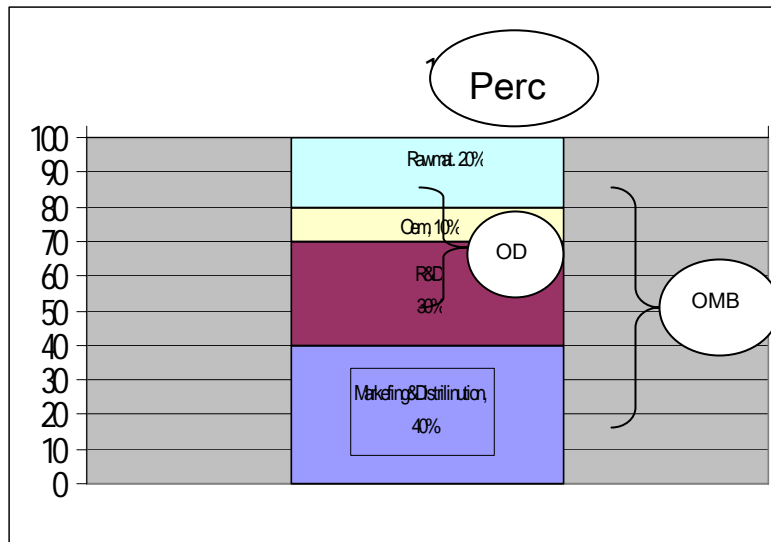
During the first phase of export-oriented growth, the bulk of Thailand's sports shoes, toys, artificial flowers, gams and jewelry. The increased export of these products was directly related to the delocation of industries from the Asian NICs and Japan. However, by the early 1990s, there were indications that the labour-intensive industries were quickly losing their competitiveness. In the second half of the 1980s, Thailand's labour-intensive manufactured exports were growing at 30% to 40% per annum. Currently, the growth rates of these products are about 10% per annum or less. After 1989, the share of labour-intensive products export of Thailand declined sharply to 40-45% in 1991 and dropped to 26.26 in 1995.

The Future of Garment Industries in Thailand.

The burst of a bubble economy in 1998 sent the Thai economy into deep depression. With the liberalization of the exchange rate, the value of the baht currency depreciated by half. But this does not seem much to have reverse the trend. The devaluation of the Thai currency after the crisis, did not lead to significant increase in the value of garment exported (Schema 1). Although the value exported has shown the increase but the growth rate of production in all sector of textile has been low or minus. (table)



The precipitation of the garment industries is a concern that brought local producers and Thai brandname. The issue raised at the meeting concerned industrial upgrading of the Thai garment industries from OEM → ODM → OBM. The reason is that when examining the price composition of garment, if Thailand rests at OEM stage, i.e. provider of labour in the supply chain, it will capture only 10% of the retail price. But if it combines OEM and invests more in R&D, the share increases to 40%. If the country strives for OBM, it will benefit the most. This is because over 40% of the retail price goes to marketing and distribution.



Under the initiative of local producers and brandname, supported by the Thai Rak Thai government (business dominated), Bangkok Fashion City project (BFC) was launched. The project received cabinet approval and funded from the central budget. Three years after its onset, what eventually came out of the project was not about production or upgrading of the apparel industry. The TRT government sees that garment industry as “sunset industry” not competitive compared with the more imposing ones such as the automobile and electronics. Garment producers are now encouraged to delocate their industries to the border region or produce from outside and export into Thailand. BFC project is, thus, to turn Bangkok into a leading market in the region for imported brandname and consumers products. Who benefits from BFC is not the producer of garment but commercial capital owning the big department stores in Bangkok such as the Paragon group, the group closed to the power center.

Flexibility and Informalization of Labour Relation.

The Textile industries especially garment are facing challenge in a number of ways. **First** in order to cut cost and maintain profit margin, the industry began to downsizing by laying-off workers without paying compensation. The economic crisis in 1998 provides the pretext, the government changed the labour law (the 1998 Labour Protection Act) to ease employer to lay off workers without legal responsibility by citing economic justification (the economic crisis). **Secondly**,

flexible employment has been pursued. The hire of contract workers through labour agencies has been used extensively in the garment industry. Outsourcing has also been widely used to reduce cost as well as market uncertainty which leads to the development of the “informal sector”. Both of the strategies, i.e. the employment of subcontract workers and outsourcing aims at the informalization of labour relation, to externalize the cost of production of the company especially those dealing with welfare and reproduction of the labour force. The World of Work has been divided into formal and informal employment, permanent versus temporary, regular versus contract workers, protected versus unprotected, and organized versus unorganized workers. **Thirdly**, to speed up work. In some garment industries, the line has been shortened by incorporating the cutting process into production line. Various incentives are used to gain more productivity such as coupons and group bonus. **Fourthly**, delocation of garment industries to the borderline region to make use of migrant workers or to shift production across border, to produce outside the country and export into Thailand.

The consequence of such a development is that Thai workers have the longest working hours in Asia, i.e. between 48 and 72 hours a week. Normal working hours are 8 hours a day and 6 days a week. But as workers receive very low wages, the family (of 3 persons) could survive only if the workers do the overtime work receiving additional wage (but not exceeding 4 hours a day according to the law). Long working hours leads to health and safety, this is a very serious problem in Thailand. Each year, around 200 000 cases are reported as injuries related to work. Of these, 600-900 died in accident in workplace which usually occurs in construction where many migrants workers, rural as well as foreign workers are absorbed into this sector but less regulated by the government while there numerous subcontractors with different or no OSH standard. Cases of workers with occupational diseases are under reported, not more than 100 cases a year considering the level of economic development and the extensive use of chemical in factories. This is revealing as many injured workers have to file their cases to court in order to seek social justice. With high growth rate, the situation on health and safety in Thailand has worsened. From the year 1990-1993 under export-led industrialization, while the economic growth rate was 8-9%, the rate of injuries in workplace was 21.6% or doubled. This means that there is a hidden cost of industrialization that has not been taken into account in the GDP. The labour movement has taken the lead in the demand for the reform of OHS system in Thailand, i.e. the reorganization of Workmen Compensation Fund to be incorporated under a newly independent OSH institute. The functioning of such institute will be base on a five-partite system consisting of elected representatives from employers, employees and government (the tripartite) plus representatives from injured workers group and academics. This new perspective may bring about the reform of labour relation and promote industrial democracy in Thailand. But it may also open the way to a new phase of capital accumulation in Thailand, i.e. the intensive growth founded on “high wage, high productivity and redistribution”.