

# 7 reasons why our labor productivity is low

[www.thailandfuturefoundation.org](http://www.thailandfuturefoundation.org)



**F**ew challenges matter more to Thailand than raising our labor productivity<sup>1</sup>. Thailand’s labor productivity grew only about 2% per annum over the past 6 years, only half that of Vietnam (4%). The recent increase in the minimum wage to 300 baht has caused wages to outpace productivity growth, reducing our competitiveness as unit labor costs have increased in Thailand, unlike elsewhere in the region (e.g., Indonesia and the Philippines)<sup>2</sup>. Without improvements in labor productivity, we are unlikely to see the kinds of sustainable improvements in

real wages and living standards essential to improve our longstanding problems with income inequality.

**Why then has our labor productivity growth underperformed? We identify at least 7 reasons.**

**1 We aren’t investing: total investment is still below what it was in 1996!** If we are not investing in plant and equipment, how can we really expect our workers to be more productive? Like other Asian crisis countries, Thailand’s investment took a nose dive after the 1997

<sup>1</sup> This is an abridged version of a longer report available in Thai at [www.thailandfuturefoundation.org](http://www.thailandfuturefoundation.org)

<sup>2</sup> For further detail, see “The 300 baht minimum wage: what has happened, what needs to happen” at [www.thailandfuturefoundation.org](http://www.thailandfuturefoundation.org)



Asian crisis. But unlike other countries, our investment hasn't even recovered to pre-crisis levels. Thailand's total real investment (both public and private, excluding inflation) stands at only 84% of what it was in 1996, in marked contrast with others in the region such as Korea (130%), Malaysia (146%), or Indonesia (173%).

**2 We haven't moved up the value chain.** We can improve our productivity by either producing more goods or producing goods which are worth more. Unfortunately, we haven't really too much of either. We are largely still stuck in lower value added activities such as assembly (e.g., in electronics), and many of our agricultural exports are unfinished raw materials (e.g., in rubber). Innovation and R&D remain low. Electronics and computer parts account for 11% of our total exports. We produce about 11,400 graduates per year in areas related to computer science, but the number of R&D personnel (full-time equivalent) in our computer industry stands at just 178.

**3 More education, but of variable quality.** Our workforce is better educated. The percentage of the workforce with university degrees went up from 9% to 13% between 2003 and 2013. But quality remains an issue as evidenced by what the market is willing to pay for these graduates. Typically, the returns to

education (measured, for example, by the premium that a university graduate earns relative to someone with only a high school education, controlling for other characteristics) should increase over time as a country develops as the economy places a greater premium on skills. In Thailand, however, the returns to education have actually dropped, reflecting higher quantity and lower quality.

**4 40% of our labor force is still in agriculture, where labor productivity is only a tenth of that in manufacturing.** For its level of income, Thailand has an unusually high percentage of the labor force in agriculture (40%), significantly higher than others such as China (35%), Indonesia (35%), and Malaysia (24%). But agriculture contributes to less than 10% of GDP. Because agricultural productivity is so much lower than in other sectors, having so many workers in agriculture pulls down overall or average labor productivity. We estimate that if an additional 10% of the labor force had moved out of agriculture into manufacturing, this would have raised growth in per capita income by about a percentage point during the past 10 years. A percentage point increase doesn't sound like much but compounded over 10 years would cause the income level to increase almost 6,000 baht.



**5** When labor has moved out of agriculture, it has tended to go into services, where productivity is only about half of that of manufacturing.

The share of the labor force in manufacturing has remained essentially flat at around 20-21% over the past 20 years. By contrast, the share of the labor force in the services sector, where productivity is 54% of manufacturing, has increased by about 12 percentage points during the same period.

**6** Only about 15% of the labor force are monthly, salaried employees working in the private sector.

Thailand has a labor force of 39 million. Only a third (13 million) are private sector employees; the vast majority are self-employed (farmers, street vendors, taxi drivers, etc.). Less than half of those employed in the private sector are paid a monthly salary; the majority are paid a daily wage (or piece rate). Many self-employed are likely to face significant constraints in investing. And firms that hire workers on a daily rate are likely to be less motivated to invest in upgrading their skills and knowhow.

**7** Over 40% of private sector employees work in firms employing fewer than 10 people.

Smaller firms not surprisingly face greater limitations in investing in equipment and training to improve worker productivity.

## What needs to be done?

The answers are reasonably straightforward (and well known): invest more, improve education, move up the value chain, reduce the informality of the labor force. Many—ourselves included—have repeatedly opined on the need for reforms in these and related areas. The challenge, as always in Thailand, is getting it done.

**Try thinking local, not (just) national.** It would be best to get these things done at the national level. But since that hasn't worked, perhaps we should also try working more at the local or regional level.

**Developing new industrial clusters at the regional level, for example, could help improve investment, value added and productivity.**

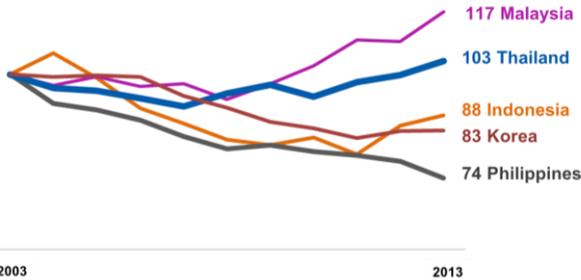
Doing this successfully would require concerted and coordinated action among government, the private sector, and academia, e.g., getting regional universities to conduct relevant R&D and produce the kinds of workers needed; getting the infrastructure investment needed from local and national governments; getting the private sector to invest. Such coordination may be easier to achieve at the local or regional level, where it might be easier to get the incentives of the various players aligned. It may also help provide greater consistency and constancy, given the frequent changes at the national level.

# Thailand's labor productivity

## Unit labor costs have increased and productivity growth has been slow

### Unit labor cost in Asia

Unit: 2003=100 (Base year)

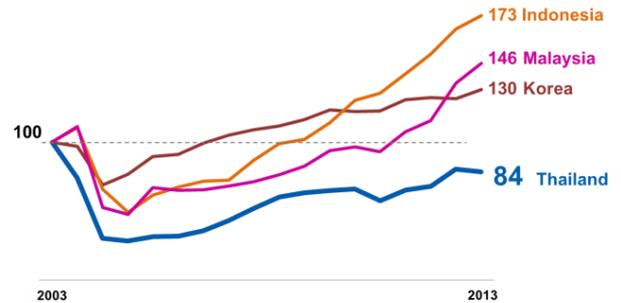


Note: Unit labor cost = Average wage/Labor Productivity. All numbers are in real term and in local currency units  
 Source: World Bank, ILO Global wage database, Statistics Indonesia of the Republic of Indonesia, National Statistical Office of the Philippines, Department of Statistics of Malaysia, National Statistics Office of Thailand, TFF Analysis

## Because our investment is low...

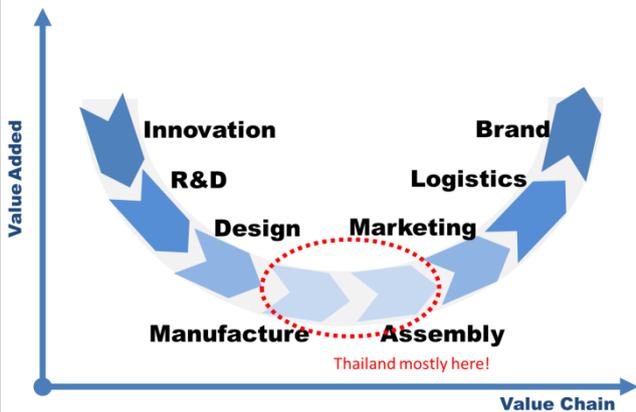
### Real Investment

Unit: 1996 = 100



Source: World Bank, TFF Analysis

## And we haven't moved up the value chain

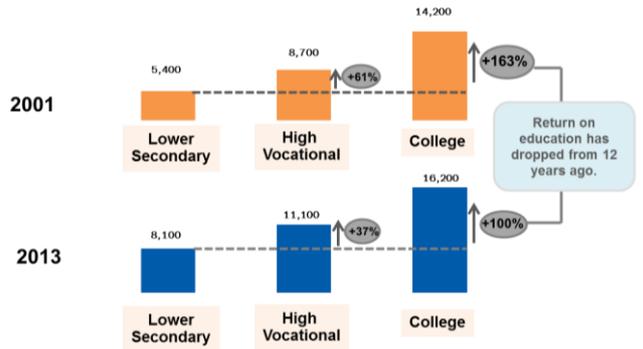


Source: World Economic Forum Report (2012) "The Shifting Geography of Global Value Chains: Implications for Developing Countries and Trade Policy"

## More education but of questionable quality

### Average wage by educational attainment

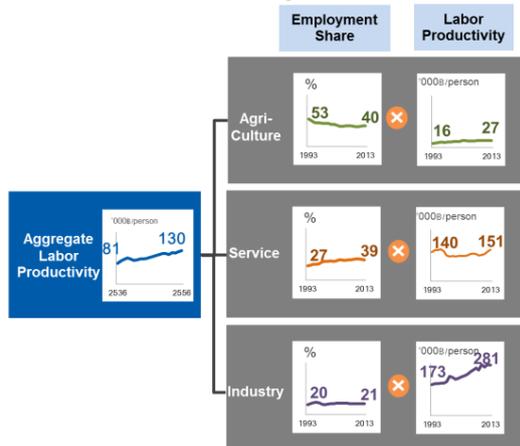
Unit: Baht/Month



Source: Labor Force Survey, Quarter 3, 2001 and 2013, TFF Analysis

## Our labor is concentrated in agriculture and services

### Thailand Labor Productivity

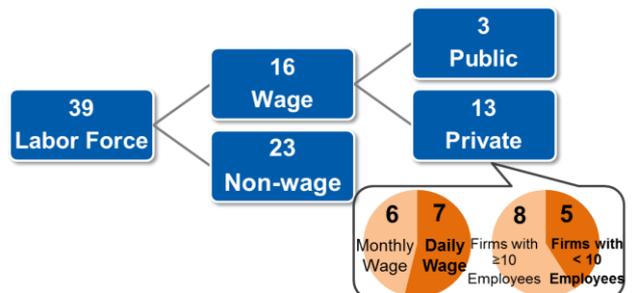


Source: Office of the National Economic and Social Development Board, National Statistical Office, TFF Analysis

## And many work in small firms and paid a daily not monthly wage

### Structure of Thai Labor Market

Unit: million persons



Source: Labor Force Survey 2013, TFF Analysis

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**THAILAND FUTURE  
FOUNDATION**

Thailand Future is a non-profit foundation set up to conduct research and engage leaders from the business, policy and academic communities in informed discussion about issues of importance for the country with a view towards formulating them into implementable recommendations.

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