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Labour Migration and the Economic Sustainability in Thailand

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Abstract: Migration is one of the top debate topics in terms of the national policy agendas of middle-income countries, and Thailand is no exception. The segmentation of its labour market explains why Thailand is experiencing large-scale immigration and a simultaneous emigration of low-skilled workers. Immigration inflows from its less-developed neighbour countries – namely, Laos, Cambodia and Myanmar – pose a challenge for Thailand. Wage differentials between Thailand and other migrant-receiving countries, which are mostly more economically developed than Thailand, also stimulate emigration from there. Due to regional disparities within the country and to a lack of employment and educational opportunities in rural areas, internal migration is also common and encouraged. In this paper I first analyse the economic pros and cons of migration both to and within Thailand before formulating labour migration policies that aim to maximize beneficial outcomes while minimizing economic costs. The cost–benefit analysis of labour migration is key to addressing relevant gaps in formulating and implementing effective policies.

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1 Introduction

Over the past several decades in Thailand, movement on the part of workers and their families has been increasing rapidly, and so has become an important social and economic development issue. Economists often cite inequality as a main economic driver of migration flows in Thailand and other developing countries. Differing from other countries, Thailand is both a significant labour-sending country in the global market and a major labour-receiving country among Southeast Asian countries. Understanding both the emigration and immigration of workers is therefore very complex and challenging when attempting to implement migrant-related labour policies.[1]

For quite a long time, Thailand has been experiencing the labour-market dilemma of having a shortage of low-skilled and semi-skilled workers but a surplus of high-skilled workers. The segmentation of the labour market explains why Thailand is experiencing simultaneously a large-scale immigration and an emigration of low-skilled workers. The lack of employment and educational opportunities in rural areas and the segmentation of the labour market in urban areas can be identified as the major factors driving Thai workers to seek employment overseas. Wage differentials between Thailand and other migrant-receiving countries, which are mostly more economically developed than Thailand, also stimulate emigration. The international labour market and overseas employment serve as outlets for excess labour in Thailand.

At the same time, widening income gaps between Thailand and its neighbouring countries, the slowing growth of Thailand's workforce, and the improvements in the infrastructure linking various points in the Greater Mekong Sub-region are the major drivers of cross-border movement of labour into Thailand, especially among documented migrants. As mentioned above, a large demand for low-skilled workers in labour-intensive production also attracts foreign labourers to come across the borders and work in Thailand.

Within Thailand, regional income disparities have been exacerbated by a decade of economic boom that was concentrated mainly in the Bangkok Metropolitan Region (BMR) and on the Eastern Seaboard. The concentration of growth created more internal migration from rural to urban areas. At the same time, improvements in communication and transport facilities helped facilitate the movement of people at unprecedented levels. Labour migration is acknowledged as a catalyst for economic development, but there is growing recognition that there are both positive and negative im-

1 The author would like to thank the International College of the National Institute of Development Administration for their support.

pacts arising from such migration. The role of economic policy in maximizing migration's benefits and minimizing its costs has yet to be properly understood.

The economic pros and cons of both international and internal migration in Thailand should be analysed before formulating labour migration policies. Appropriate policies should be geared toward maximizing beneficial outcomes while minimizing the economic costs. Comparing and contrasting the benefits and the costs of labour migration is key to addressing relevant gaps in the formulation and implementation of effective policies.

2 Labour Immigration and Economic Sustainability

Immigration issues are at the forefront of current economic and political concerns, as the economic benefits of immigration are currently being hotly debated in Thailand. A number of empirical studies have attempted to measure the costs and the benefits to the country:[2] For instance, Rukumnuaykit (2008) claims that the most obvious benefits of migrant workers to the Thai economy are the contributions that immigrant labour makes to increasing economic output. In quantifying the benefits the overall Thai economy has enjoyed, Thai economists first explained the macro-economic benefits of employing immigrants. Sussangkarn (1996) used the SAM-CGE model to gauge the impact and concluded that approximately 750,000 immigrants (about 2.2 per cent of the labour force) raised the Thai GDP by an estimated 0.55 per cent at current prices in 1995. Martin (2007) applied the renewal of the model to the data ten years later, adjusting the share of migrant labour to the overall labour force according to the latest data. He found that immigrants, making up about 5 per cent of total workers, increased GDP by about 1.25 per cent. Pholphirul and Rukumnuaykit (2010) used a similar methodology to Martin's (2007) and found that the net contribution of immigrant workers to the Thai economy was approximately 0.023 per cent.[3] On average, this contribution accounts for the net contribution of approximately 0.023 per cent of the real national income (in constant 1988 THB) per year – approximately 760 million THB per year. The most

2 These studies take only low-skilled migrant workers into account and exclude foreign professionals and high-skilled workers.

3 Adjusted labour share was recalculated by estimating the labour share from those in the informal sector at approximately 70 to 80 per cent (40 per cent for Martin, 2007), and the estimated reduction in the wages of Thai workers found by Bryant and Rukumnuaykit (2007) to be 0.023 per cent (0.3 per cent for Martin 2007).

recent study by Pholphirul, Rukumnuaykit, and Kamlai (2010) uses other approaches but also confirms the economic contribution of immigrants to the Thai economy.[4] Those techniques have confirmed that immigrants increase real GDP by between approximately 0.75 and 1.07 per cent, depending on the methodology used.[5]

Besides the contribution to overall GDP growth, the economic benefits immigrants bring are particularly prominent in sectors and industries with labour-intensive production. Immigration also rectifies market failures that result from the uncertainty of output production, which itself is the result of incomplete information in the labour market. At the firm level, employing migrants helps to stabilize the labour supply in these sectors and to prevent uncertainties arising from production and unfilled vacancies.[6] The most recent study by Pholphirul (2013) finds that firms facing job vacancies in either skilled or unskilled positions – and thus losing production days due to work slow-downs and stoppages – also tend to employ more immigrant workers to fill those vacancies and smooth out their production. The impact of job vacancies on the demand for immigrant workers was found to be stronger among firms located in border area because immigrants tend to move toward larger and central cities due to better job opportunities.

Employing unskilled migrants helps to increase production mostly in labour-intensive sectors. The recent study by Pholphirul, Rukumnuaykit, and Kamlai (2010) confirms this by estimating that immigrants increased agricultural production by approximately 1.33 per cent in 2007, which is more than the increase in production by either the manufacturing sector (0.9 per cent) or the service sector (0.53 per cent), as compared to the base case of no immigrants. In addition, firm-level data for the manufacturing sector shows

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4 Namely: 1) Macro-economic Simulation Model, 2) Growth Accounting, and 3) Econometrics t.

5 The contribution of 0.75 per cent (of GDP) was computed from the Macro-economic Simulation Model and the contribution of 1 per cent was computed from the Growth Accounting method (1990–2008). From 2006 through 2008, migrants were found to contribute approximately 1.07 per cent of real GDP growth. Our results are similar to Martin's (2007), who found that migrant workers contributed approximately 1.25 per cent of the Thai GDP in 2005.

6 Apart from economic activity, the labour-shortage problem is also crucial in non-economic (non-tradable) household activity, such as domestic work. Even so, employing migrant domestic workers not only helps the Thai household to alleviate this problem, but also allows Thai workers, especially women, to participate in the labour market, which partly alleviates labour-shortage problems in some specific sectors.

that unskilled migrants helped to fill jobs and to generate more operating revenue in labour-intensive sectors, such as garments and textiles.[7]

Low-paid immigrants have enabled Thai firms to maintain price and cost competitiveness, especially in the global market. Kura, Revenga, and Hoshino (2004) analysed the shrimp production sector, in which unskilled migrant workers are concentrated in shrimp-peeling jobs. Thailand is among the world's leading shrimp exporters, with a market share of 16 per cent, surpassing other countries in the region. Kura, Revenga, and Hoshino claimed that maintaining competitiveness in the shrimp industry requires shrimp producers to pay low wages, which has encouraged the hiring of immigrant workers. Kohpaiboon (2009) examined the impact of Burmese immigrants on Thai clothing factories in Tak Province, which borders Myanmar. There are numerous Thai export-oriented small and medium enterprises in the clothing industry that have been established along the border with the aim of employing immigrants from Myanmar for low wages in order to gain cost competitiveness. Pholphirul, Rukumnuaykit, and Kamlai (2010) found that a firm employing an additional 10 per cent of unskilled immigrants could save approximately 5,746 THB per person per year on wage expenditures. Such savings are even more prominent in labour-intensive industries, such as the textile industry, which can save approximately 24,144 THB per person per year.[8] Pholphirul (2013) also confirms this evidence by using the results of a survey of Thai manufacturers. He finds that a firm that pays 10 per cent more in unskilled wages (relative to total labour cost) in the previous year can be expected to employ 1.6 per cent more of unskilled migrant labour. This is particularly true in labour-intensive sectors, such as the garment industry, in which higher wages paid to unskilled labourers forces firms to hire more unskilled immigrants from abroad.

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7 Employing skilled migrants helps fill skilled positions in relatively capital-intensive sectors, such as machinery and equipment, auto parts, and electronic and electrical appliances (Pholphirul, Rukumnuaykit, and Kamlai 2010).

8 The findings of this paper come from the use of manufacturing firm-level data to examine the six propositions mentioned earlier. We used the Productivity and Investment Climate Survey (PICS) data, which is firm-level data funded by the Royal Thai Government with technical assistance from the World Bank. Data were collected during two rounds of surveys (2004 and 2007) of 1,043 manufacturing establishments and covered six regions of the country (Northern, Central, Eastern, Upper and Lower Northeastern, and Southern Thailand, along with the BMR) and nine industries based on ISIC classifications (food-processing, textiles, garments, automobile components, electronic components, electrical appliances, rubber and plastics, furniture and wood, and machinery and equipment). PICS data is therefore a good representative of the firm-level population in Thailand.

The low-wage labour of migrant workers also gives Thailand a cost advantage that helps attract foreign investment, which in turn promotes domestic employment and drives economic growth. Pholphirul, Rukumnuaykit, and Kamlai (2010) found that there is evidence of a positive relationship, or complementary effect, between the employment of skilled migrants and the probability of foreign ownership.[9] Foreign direct investment (FDI) also stimulates the labour mobility of skilled workers from source countries to Thailand, therefore promoting knowledge transfer.[10]

Another way that employing immigrants affects the Thai economy is that it helps producers maintain lower prices, which in turn maintains a low inflation rate, thus benefitting Thai consumers. Vasuprasart (2010) explained that real minimum wages in Bangkok had been declining since the 1997 economic crisis, which may be due to the presence of unskilled immigrants and the weak bargaining power of low-skilled Thai workers.

Even though there are benefits to be reaped from employing immigrants, these benefits are unevenly distributed, mainly going to the owners of capital (firm owners and employers) and to the immigrants themselves, while native workers are economically jeopardized. This is even more likely when immigrant workers are highly substitutable for Thai workers. As a result, declining wages for Thai workers can be expected. Using the data from migrant registration as well as from the labour-force survey and the population census, Bryant and Rukumnuaykit (2008) found that immigration appears to have caused a small reduction in wages rather than in employ-

9 A firm will have approximately 17.2 per cent more foreign ownership with 10 per cent more skilled migrants. However, employing another 10 per cent of unskilled migrants *reduces* foreign ownership by 2.9 per cent. Intuitively, even though labour cost has always been a major determinant of FDI inflow, we find strong evidence supporting the argument that foreign direct investors are as likely to be concerned with the quality of labour as they are with lower labour costs.

10 Nevertheless, according to the data from the Ministry of Labour, in July 2012, skilled immigrants still numbered relatively few in comparison to the unskilled migrants. There were only 26,904 immigrants under FDI (Article 12) in July 2012 and 76,019 immigrants arrived under Article 9 (with a work permit). They are followed by skilled immigrants from the United Kingdom, the People's Republic of China, India, the Philippines, and the United States. Nearly two-thirds of the work permits for foreign nationals went to senior officials and managers, and nearly one-fourth of the permits went to professionals. The majority of the work permits held by Japanese citizens went to those working in the business industry while 59 per cent of those held by Filipinos went to educational professionals. By industry, 30 per cent of the work permits held by skilled foreign workers were in manufacturing, 16 per cent were in education, and 16 per cent were in trade (Huguet and Chamratrithirong 2011). However, firms under the Board of Investment (BOI) privileges are not allowed to employ migrant workers from Cambodia, Laos or Myanmar.

ment. A 10-percentage-point increase of migrant share is found to cause only a 0.23 per cent reduction in domestic wages. This is supported by Kulkolkarn and Potipiti (2007) who state that there seems to be no significant effect of immigration on the reduction of wages of Thai workers. Nevertheless, if classification by skills and education is considered, the adverse impacts on Thai workers would be much larger for young and low-skilled workers. Younger workers with less than a secondary education suffer disproportionately more than their older counterparts. Immigrants are found to benefit high-skilled Thai workers who have secondary and tertiary educations (Lathapipat 2010), while they adversely affect the wages of those working in the agriculture sector more than they do in other sectors (Pholphirul, Rukumnuaykit, and Kamlai 2010). However, if wages paid are steady due to the statutory minimum wage, unemployment among Thai workers could increase. Kulkolkarn and Potipit (2007) found that a percentage increase in the ratio of migrant to native workers in a particular province could be expected to raise the unemployment rate there by 0.5 per cent. Pholphirul, Rukumnuaykit, and Kamlai (2010) used a different methodology and found that hiring migrant workers would reduce the number of native agricultural labourers by 0.67 per cent.

Given that there are gains for both the capital owners and the immigrants themselves but losses for native workers, Pholphirul and Rukumnuaykit (2010) estimated that the gains were about 0.04 per cent of real GDP allocated to Thai employers during the period from 1995 to 2007, while losses incurred by domestic workers were about -0.016 per cent of real GDP during the same period. However, the losses were outweighed by the capital gains. On average, there was a net contribution of approximately 0.025 per cent to the real national income (in constant 1988 Thai THB) per year, or approximately 831 million THB per year (in constant 1988 Thai THB).[11] Pholphirul, Rukumnuaykit, and Kamlai also found strong evidence that employing immigrants brought about a 21.5 per cent increase in business income and a 22.3 per cent in business savings.

11 The impacts of migrants on the real profits of firms come mainly from two channels: 1) A loss of immigrant workers puts more pressure on real wages to rise and leads to higher labour costs and reduced business profits. (2) The removal of migrants reduces domestic demand, mainly from private consumption, which in turn reduces business incomes, profits and savings.

Table 1: Capital Gains, Labour Losses and Net Gains of Immigration

Years	Percentage in Relation to Real GDP		
	Labour losses	Capital gains	Net gains
1996	-0.014	0.030	0.016
1997	-0.015	0.031	0.016
1998	-0.016	0.040	0.024
1999	-0.017	0.044	0.027
2000	-0.017	0.034	0.017
2001	-0.017	0.038	0.021
2002	-0.016	0.039	0.023
2003	-0.016	0.039	0.023
2004	-0.016	0.039	0.023
2005	-0.016	0.048	0.033
2006	-0.015	0.051	0.036
2007	-0.015	0.051	0.036
Years	Million THB (at constant price in 1988)		
	Labour losses	Capital gains	Net gains
1996	-447	936	489
1997	-459	959	500
1998	-435	1,090	655
1999	-493	1,255	762
2000	-506	1,017	511
2001	-511	1,159	648
2002	-525	1,267	742
2003	-558	1,362	805
2004	-597	1,431	835
2005	-564	1,742	1,177
2006	-581	1,981	1,400
2007	-605	2,056	1,451

Source: Updated from Pholphirul and Rukumnuaykit (2010).

The comparison of the costs and the benefits of employing immigrants as seen in Table 1 seems to be measured for the short term. However, there are also other, long-term impacts. For example, employing mostly unskilled immigrants may help to speed the shift of Thai workers to higher-skill sectors (occupational mobility).[12] Nevertheless, this phenomenon is hardly

12 When there is a greater supply of labour to fill low-skilled jobs vacated by local workers, the local workers are indirectly pushed into higher-skilled sectors, such as services, computers and electronics, and automobiles and spare parts. This could be considered beneficial in moving Thailand toward more innovative production.

observable in the short run because it requires a very long period of adjustment. The process of this sectorial shift may take some time, leaving Thai workers to bear adjustment costs, such as temporary unemployment. This is especially true for those whose skills do not yet match the demands of the high-skilled sectors. Therefore, whether there are long-term benefits to reap from employing immigrant workers is still questionable.

According to the Thai government's long-term national, economic and social development plan to promote a knowledge-based economy, the key factors required to achieve such a goal include upgrading Thai labour productivity from substantive human capital investment, promoting the coverage of the social protection floor, and encouraging innovation as well as R&D. There are still concerns regarding whether employing immigrants, who are mostly unskilled, poses an obstacle. For example, Pholphirul, Rukumnuaykit, and Kamlai (2010) found that an increase by 10 percentage points in unskilled immigrants by a given firm is likely to reduce the latter's overall labour productivity by approximately 5 per cent. The answer is clearer when we classify firms at the industry level. Firms in industries with labour-intensive production, such as the textile industry, tend to face more depression in their labour productivity. In the textile industry, a firm increasing the number unskilled migrants it employs by 10 per cent means accepting a 15-per-cent drop in labour productivity. Textile firms located in border provinces have labour productivities approximately 45.2 per cent lower than firms located in non-border provinces.[13]

Employing unskilled migrants might be expected 1) to blunt a firm's incentives to make innovative investments or 2) to reduce the training of workers. Firms employing cheap labour from abroad can be regarded as adopting a kind of "labour-using technology", which in the long run would slow productivity improvement and lead to deteriorating global competi-

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Nevertheless, this statement needs to be confirmed since there are a large number of low-skilled Thai workers that may move from one 3D job to another, but who are still using low-level skills; indeed, the limitation of their skills may be another obstacle for them to find employment in higher-technology industries.

13 At least 70 per cent of the workers in the Thai textile industry are female, so the negative impacts of employing unskilled immigrants in this sector should adversely affect female workers more than male workers. Since a large proportion of textile and garment firms are established in the informal sector, many female workers are sub-contracted. Therefore, the adverse effects of employing unskilled migrants should play an increasingly important role by entailing less job security and increasing lay-offs of certain employees, as well as contributing to less bargaining power and lower membership in the labour unions, which negatively affects workers in terms of, for example, protection and unemployment benefits.

tiveness (Martin 2007).[14] Kohpaiboon (2009) has argued that there need not be so much concern about the adverse effects on technological progress of employing Burmese migrants in clothing factories in Tak Province, and Bryant (2006) used the 2003 Thai Agriculture Census to reject the hypothesis that farms in districts with intensive use of migrants use less labour-saving technology, but Pholphirul, Rukumnuaykit, and Kamlai (2010), using firm-level data, found a negative relationship between R&D investments and employing unskilled immigrants, in particular for firms located in border provinces. A 4-per-cent reduction in R&D corresponds to a 10-per-cent increase in the number of migrant labourers employed.

Immigrants, as well as their families, are usually entitled to social services, such as healthcare and child education.[15] As the majority of migrant workers are unregistered, they do not contribute to the pool of social protection funds, leaving the government to bear the entire cost of providing them with social services. In many cases, Thai nationals have to compete for social services with migrant workers, especially in areas where migrants are highly concentrated. Inevitably, this provision imposes a heavy burden on law enforcement and compliance-monitoring authorities.

In summary, there are definite economic benefits to reap from employing migrant workers – chief among these is the ability to supply labour demand to fill low-skilled jobs that are shunned by native workers. Migrant labour increases Thailand's overall output (GDP) and profit rate, particularly in labour-intensive sectors, by stabilizing the labour supply to prevent uncertainties in production by filling vacancies as needed. In addition, immigration benefits Thai and foreign producers by presenting opportunities for businesses to take advantage of lower wage costs in order to maintain price competitiveness. The cost to Thailand of migrant workers from Cambodia, Laos and Myanmar might cause Thailand to become stuck in a middle-income trap. Even though the benefits of employing unskilled migrants (output growth and reduced labour shortages) can be observed only in the short term, the contribution of migrant workers to Thailand's long-term economic development is jeopardized. Higher labour productivity and R&D

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14 Even though employing "unskilled migrants" may burden firms with slowed technological improvement, Acemoglu (1998) postulates that the rapid rise in the number of college graduates in the United States during the 1970s shows that a high proportion of skilled workers in the labour force leads to a larger market size of skill-complementary technologies and encourages faster upgrading of the productivity of skilled workers. Even though an increase in the supply of skilled migrants reduces skill premiums in the short run, it induces skill-biased technology change and increases skill premiums later on.

15 For example, registered migrants from Laos, Cambodia and Myanmar in Thailand are required to pay 1,900 THB (one-time fee) for health insurance.

investment are key factors in creating a higher standard of living, so a reduction in labour productivity and the tendency for Thai firms to use labour-intensive technology by employing unskilled immigrants would pose challenges for long-term economic and social development.

3 Emigration and Economic Sustainability

As well as being an important migrant-receiving country in the region, Thailand is also a significant migrant-sending country. As also stated in its current (11th) National Economic and Social Development Plan, the Thai government has implemented a policy to promote Thai labourers working abroad by establishing a recruitment system of "overseas Thai workers" through government agencies and licensed private companies. From 1995 to 2009, more than 2.5 million Thai workers migrated abroad, though approximately 40 per cent of those were to become return migrants. Nonetheless, the number of Thai migrant workers deployed abroad decreased by about 27 per cent, from 202,296 in 1995 to 147,711 in 2009. The reduction of 8.6 per cent in the number of Thai workers deployed between 2008 and 2009 can be explained by the severity of the global economic crisis that made it more difficult for Thai workers to find jobs abroad. The major destinations for Thai workers going overseas are Taiwan, (41.3 per cent), the Republic of Korea (10.2 per cent), Singapore (8.4 per cent), Israel (6.3 per cent) and Japan (4.7 per cent).[16]

The specific reasons that explain the declining number of Thai workers deployed abroad over the past decade are under-researched. One reason may be that workers prefer to stay in Thailand, where there is enough job creation and an abundant demand for domestic labourers. The personal preference to stay with family and a desire for greater personal security are other important factors that explain why Thai workers are less likely to move overseas despite huge income gaps.[17] Another reason could be fiercer competition among labour-exporting countries, such as China, Indonesia, the Philippines, Vietnam and South Asian countries, which makes it more difficult for Thai workers to find employment overseas.[18]

16 Most recent data provided by the Ministry of Labour.

17 Pholphirul (2009) computed the inward remittances per Thai worker overseas (in real 1988 value and compared that to the average wage earned in Thailand. The result shows clearly than an overseas worker earns approximately 3.2 times more than the average wage in Thailand and approximately 4.5 times more than those working in the informal sector. The gap continues to increase over time.

18 How many overseas Thai workers have decided to return to Thailand is still difficult to measure due to a lack of relevant data.

An economic analysis of emigration can be carried out by using a simple cost–benefit analysis. Among the benefits of emigration, it provides opportunities that are not available at home to Thai workers, while helping to ease surplus labour and reduce unemployment. Emigration can also increase trade and investment flows between Thailand and countries receiving Thai workers.

While the benefits of emigration are noticeable, they are hard to quantify. The easiest way to quantify the direct benefits of emigration is by the inflows of foreign exchange and inward remittances. Even though the number of overseas Thai workers decreased from 1995 to 2009, the financial benefits from inward remittances increased annually by an average of 6 per cent during that time period. The inversely increasing trend of remittances as compared to the declining trend in the number of emigrant Thai workers clearly indicates that the latter are earning higher incomes abroad. Nevertheless, there are several factors that explain the increasing trend of remittance flows to Thailand, such as better data collection on such flows, higher income gains overseas, lower costs and wider networks in industries that support remittances, and improvements in banking access and the technology of money transfers, which promote transfers through official channels.

Computing remittance amounts as a percentage of GDP in Thailand shows that the proportion has been relatively stagnant over time, reaching a maximum point above 1 per cent from 1998 through 2000, but remaining between 0.6 and 0.7 per cent in 2009. Except for Laos, the current level of 0.6 or 0.7 per cent of remittance-to-GDP is much lower than that of other member countries of the Association of Southeast Asian Nations (ASEAN). In the Philippines and Vietnam, this ratio was far higher, at 11.17 per cent and 7.94 per cent, respectively, while the ratio was a just bit higher than Thailand's in Indonesia (1.32 per cent) and Malaysia (0.98 per cent). The average remittance-to-GDP ratio in the low-income countries has remained at approximately 1.9 per cent.

Table 2: Remittances, Number of Thai Overseas Workers, and Remittance: GDP Ratio

Year	No. of overseas Thai workers	Per cent change	Remittance (million THB)	Per cent change	Remittance/ GDP (in %)
1995	202,296	-	29,422	-	0.70
1996	185,436	-8.3	31,530	7.2	0.68
1997	183,671	-1.0	37,867	20.1	0.80
1998	191,735	4.4	49,543	30.8	1.07
1999	202,416	5.6	44,723	-9.7	0.96
2000	193,039	-4.6	57,816	29.3	1.18

Year	No. of overseas Thai workers	Per cent change	Remittance (million THB)	Per cent change	Remittance/ GDP (in %)
2001	160,252	-17.0	44,673	-22.7	0.87
2002	160,807	0.3	49,567	11.0	0.91
2003	147,769	-8.1	52,174	5.3	0.88
2004	148,596	0.6	61,082	17.1	0.94
2005	139,667	-6.0	47,695	-21.9	0.67
2006	160,846	15.2	53,985	13.2	0.69
2007	161,917	0.7	56,399	4.5	0.66
2008	161,652	-0.2	63,107	11.9	0.70
2009	147,711	-8.6	56,058	-11.2	0.62
Total	2,547,810	-	735,641	-	-
Average	169,854	-1.9	49,043	6.0	0.8

Note: Remittances were collected from reported in F.T.3 only foreign exchange purchases of more than 10,000 USD per transaction.

Source: Bank of Thailand.

Even though remittances to Thailand are low relative to the size of the Thai economy, they are still an important source of external finance, helping to smooth consumption and stabilize the economic status of Thai households. By computing the proportion of international remittances to household consumption, remittances as a share of personal-consumption expenditure in Thailand rose substantially during the financial crises from 1997 to 2000 (from 1.94 per cent in 1997 to 2.1 per cent in 2000).[19] Unlike other types of capital inflows, remittances are person-to-person flows, which tend to directly benefit recipient households suffering from an economic downturn. Overseas Thai workers sent more money to help their families during the hard times, leading to a sharp increase in inward remittances: They increased from 1996 to 1997 by 20.1 per cent and in 1998, they rose another 30.8 per cent from the 1997 total. Therefore, the remittances seem to have a strong counter-cyclical effect on the Thai economy.[20]

From a macro-economic perspective, remittances are more reliable than volatile inflows of foreign investment, such as portfolio and equity investment or FDI. Even though remittance flows are likely to reflect the underlying micro-economic considerations that determine individual decisions to remit, an increase in the aggregate consumption of households

19 During the 1997 financial crisis, the THB depreciated or was devalued by 60 per cent, which allotted greater value to remittances changed into Thai baht.

20 The correlation between the growth of remittances and Thailand's output growth is about -0.2, which clearly confirms the counter-cyclical impact of remittances on the Thai economy.

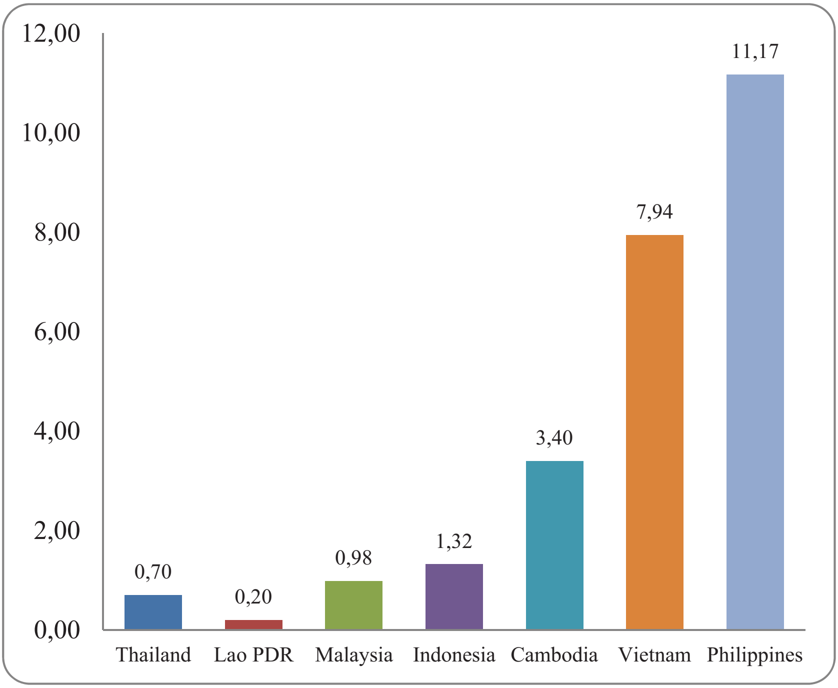
brought about by remittances should help stimulate the local economy and diffuse into the economy as a whole. The consumption-smoothing pattern due to remittances also creates economic stability, particularly at the community level. From a micro-economic perspective, remittances not only improve living standards directly but also reduce poverty and enhance children's education, all of which have a high social return, in most circumstances.[21] At the local level, remittances and the resulting social changes affect socio-economic inequality more than anything else. Both macro- and micro-benefits of remittances are especially magnified in households located in the Northeast, the poorest region of Thailand, where the majority of overseas workers come from.

In addition, remittances can be regarded as the savings of emigrants, in which case these savings would generally total more than the savings of domestic Thai workers.[22] This is consistent with the life-cycle theory of consumption, which would predict that overseas Thai workers may expect their future incomes to fall if they have a positive probability of returning to Thailand, so they would need to save more to smooth out their lifetime levels of consumption. Nevertheless, studies of overseas Thai workers indicate that remittances are used mostly for consumption rather than investment or the education of children. There are debates about the possible negative consequences of inward remittances that are used mainly for consumption purposes and less for investment (Glytsos 1993; Macmillen 1982). Nevertheless, the positive effects of emigrants on domestic investment can be observed for migrants who return home with new experiences, and potentially new skills and enough money to set up their own businesses (Jones and Kittisuksathit 2003; Boonyamanond and Punpuing 2009).

21 Suksomboon (2008) interviewed 45 low-educated Thai females in the Netherlands and found that even though their remittances led to their households in Thailand gaining social status, they had also contributed to widening the socio-economic gap between emigrant and non-emigrant households.

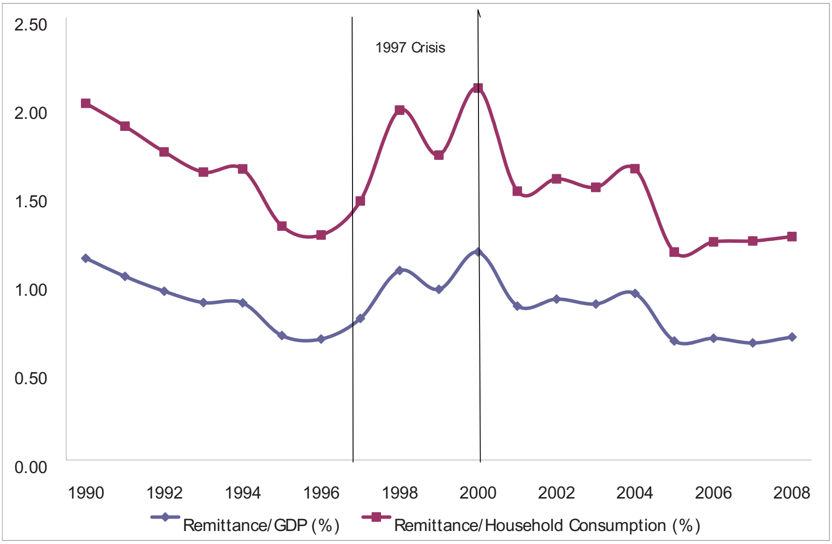
22 By comparing average household savings per year (49,920 THB per household in 2007) with the remittances per worker, (348,320 THB in 2007), it is clear that remittances per overseas Thai worker totalled approximately seven times more than the average savings of a Thai household.

Figure 1: Remittances and Compensation of Employees as Percentage of GDP among ASEAN Countries in 2008



Source: World Bank Group, the Development Data Group, September 2009, World Development Indicators (online database).

Figure 2: Remittance-to-GDP Ratio and Remittance-to-Household Consumption Ratio



Source: Author's calculation. Data from the Bank of Thailand.

It is important to compare the benefits of remittances with the potential costs of emigration in terms of loss of a scarce highly skilled workforce, known as the "brain drain" phenomenon. A traditional argument is that emigration lowers growth in the source economy because brain drain occurs when highly skilled workers emigrate. However, 70 per cent of all overseas Thai workers have little secondary education (Sciortino and Punpuing 2009), and these workers are mainly employed in relatively unskilled and semi-skilled occupations, such as in service work and retail (30 per cent), and as labourers and technical workers (28 per cent). The cost of losing Thai emigrants from the labour force is still not that large, as the proportion of overseas Thai workers in relation to the overall labour market is still quite small. There is still no empirical evidence that indicates a serious lack of labourers due to the loss of unskilled and semi-skilled workers abroad.[23] The brain

23 This could be due to overseas workers being easily replaced with no discernible loss in output or rise in wages at home.

drain problem is not significant, as only a small fraction of emigrants are highly educated.[24]

Nonetheless, we still lack a long-term economic evaluation of the loss of Thai talents and professionals, such as medical doctors, engineers, scientists and university professors, as well as of semi-skilled and skilled Thai workers going abroad. Labouring overseas has continually been promoted by the Thai government to enhance both the reputation of the Thai workforce and the amount of inward remittances.[25] The Thai government has also implemented policies to help Thais overseas by providing short training programmes, manuals, and labour protection. Part of this effort is a response to a series of multilateral and bilateral free trade agreements that Thailand has either already signed or is continuing to negotiate with other countries. Some basic costs of the emigration of highly skilled workers, such as productivity loss and an insufficient supply of practitioners of certain key professions, have not yet become serious concerns.

4 Internal Migration and Economic Sustainability

The movement of people in Thailand happens not only across borders, but also within the country, as most people move where they believe better opportunities await them. In Thailand, not only is international migration prevalent, but so is rural-to-urban migration; this is due to rapid urbanization and industrialization as well as improved transport and communication networks. Internal migration in Thailand has been influenced mainly by disparities in both economic and social statuses in urban and rural areas. These disparities have been exacerbated by the rapid economic growth since the 1980s that has mainly been concentrated in the BMR, including the Eastern Seaboard areas. Economic promotion policies, coupled with export-led growth policies and the development of industrial and service sectors

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24 According to the migration data from the World Bank, the emigration rate of those with tertiary educations (percentage of total tertiary-educated population) in Thailand is approximately 2.2 to 2.3 per cent. Of all workers in the Thai labour force, approximately 5.5 million have a higher-education degree, which implies that there are about 126,500 (2.3 per cent x 5.5 million) highly educated Thai workers abroad.

25 Adam (2009) explains the relationship between the skill composition of emigrants and inward remittances. Countries that export a larger share of highly skilled (educated) migrants generally receive less in per capita remittances than do countries that export a larger proportion of low-skilled migrants. The large number of unskilled (and low-educated) overseas Thai workers indicates the strong impact of poverty reduction, particularly in rural households.

have created high demand for labour, attracting large flows of workers from rural or non-municipal areas into urban areas and resulting in a massive relocation of the labour force from the agricultural sector to the industrial sector.

Internal migration in Thailand seems to be pro-cyclical with outcomes. During the boom periods when there were relevant jobs available in Bangkok and other municipal areas, immigration into cities significantly increased. On the other hand, the economic downturns of 1997/1998 and 2008/2009 did not just slow the trend of migrant resettlement around Bangkok, but actually reversed it. A large number of migrants in the industrial and service sectors were laid off and many chose to return to rural areas.

Similar to the cases of other types of migration, linkages between internal migration and economic outcomes can be analysed by cost–benefit comparisons. The benefits of internal migration are directly felt by the migrants themselves, as they are able to earn higher incomes and send home remittances that help to improve the living conditions of their families. Nevertheless, communities where some households have international emigrants have very unequal income distributions as a result of remittances, while remittances from internal migrants have a favourable effect on the village income distribution.

Boonyamanond and Punpuing (2009) used the migration survey data reported from Thailand's National Statistical Office and found that the migrants sent their remittances mainly in cash and/or in kind. The average amount in remittances from return migrants is slightly higher than that of internal migrants. While male migrants tended to remit more in cash, female migrants tended to remit more in kind.[26] Since most migrants living in Bangkok came from the Northeast (49.5 per cent) – where households are relatively poor compared to those in other regions – followed by the Central region (22 per cent) and Northern region (21 per cent), remittances that the workers sent home should have a significant impact on enhancing their living standards.

Using a survey of 1,874 rice-farming households in the Northeast, Paris et al. (2009) found that 40 per cent of their household incomes came from remittances. Guest (1998) also estimated that remittances to Thai households constitute on average approximately one-fourth of all household incomes, ranging from 8 per cent of the monthly household income of out-migrant households to over 40 per cent for those households that contained

26 According to data from the migration survey conducted by the National Statistical Office in 2007, the largest proportion of remittances were sent to migrants' parents (74.6 per cent), followed by their children (15.4 per cent), their spouses (6.62 per cent), and other relatives (2.6 per cent).

both returning and out-migrants. He also found that the Gini coefficient for household incomes without remittances was 0.55, which was reduced by almost 10 per cent to 0.50 when remittances were included in household incomes.

Therefore, similar to remittances from abroad, internal remittances are predominantly used to meet daily expenses, including purchasing food, investing in farms (purchasing inputs and hiring labourers) and sending children to school. Therefore, a high volume of internal remittances (relative to household income) helps to reduce poverty at the household level. Unlike international remittances, which reach fewer households, internal remittances are more evenly distributed to specific areas and poor families since internal migration stems from a broader range of households, even though the remitted amounts per capita are smaller than those remitted from abroad.[27] In conclusion, internal migration is more likely to decrease inequality than is international emigration since internal migration is less selective, less costly and less risky than international emigration. International emigration is more selective for the relatively wealthy and skilled segments of population (De Hass 2009).

Table 3: Average Remittances in 2009 (THB)

Remittances	From destination			Returning to origin		
	Male	Female	Total	Male	Female	Total
In cash	12,873.7	10,068.7	11,534.8	15,536.7	13,620.4	14,706.1
In kind	2,028.8	3,396.1	2,689.1	2,041.6	3,565.3	2,843.8
Total	14,902.5	13,464.8	14,223.9	17,578.3	17,185.7	17,549.9

Source: Boonyamanond and Punpuing 2009: Table 4.

The relationship between urban–rural income inequality and internal migration is not clear-cut in a number of ASEAN countries because it is probably a two-way relationship. There is evidence that remittances enhance inequality in some ASEAN countries – for example, in the Philippines (Leones and Feldman 1998) and in Vietnam (Adger 1999).[28] The distribution of income

27 Using spatial location analysis based on provincial data, Piriyakul (2010) found a negative relationship between income per capita of source provinces and out-migrant ratios, which implies that internal migrants originally come from extremely poor families.

28 Using Gini coefficients to measure income distribution, Leones and Feldman (1998) found that remittance income contributes more to the Gini coefficient, indicating an increase of income inequality in Filipino agricultural communities. Using household survey data from coastal Vietnam, Adger (1999) also states that an increase in regional inequality resulting from remittances was only short term, as it should potentially decrease in the longer term as emigrants take up job opportunities.

depends largely on the location of that community in the development continuum that exists across space. Remote and resource-poor regions and/or communities may have more unequal distributions of income than do communities where more resources and income-earning opportunities are available. This pattern of unbalanced community/regional development may explain why remittances increase income inequality.

Nonetheless, all empirical studies conclude that internal migration clearly alleviates poverty and decreases regional inequality in Thailand. For example, Yang (2004) uses a fixed-effects estimation of provincial data and finds a statistically significant negative relationship between emigration and income inequality. An increase in the mean fraction of out-migrants to Bangkok by 1 per cent leads to a 0.058 reduction in the average ratio of Bangkok's income to all other provinces. Guest (1988) analysed changes in household income from 1992 through 1994, along with the proportion of 1994 household income provided by remittances, and found that in the rural Northeast of Thailand, remittances contribute to significantly improving household incomes. The largest increase in income (39.9 per cent) was for households that contained migrants who had returned by the time the 1994 survey was conducted. Osaki (1999) also found that remittances are an effective means for low-income households to quickly overcome income shortages, thus contributing to the equalization of income distribution. A recent study by Skeldon (2008) explains that the achievement of Millennium Development Goal No. 1, halving Thailand's poverty level by 2015, has been correlated with an increase in the number of rural-to-urban migrants. Inequality clearly drives internal migration, while migration itself affects inequality, both within the sending area and between regions.

Even though relevant studies all agree that internal migration helps to reduce income inequality in Thailand, the resultant lack of a young and energetic labour force in rural areas is still a concern. Nevertheless, since the need for labour on farms varies by season, internal migrants usually decide to return home during the cultivation and harvesting periods. Many jobs in agriculture are currently filled by low-wage labourers who migrated from neighbouring countries, as a majority of them (approximately 40 per cent) are employed in agriculture and fishery. Demand for foreign migrants has therefore played a very important role in sustaining economic activities in the agriculture and fishery sectors.

Nevertheless, internal migration, especially of young labourers, causes significant changes in living arrangements, with fewer young persons to support older persons, thus posing a serious challenge to aspects of filial support. This is especially the case in the context of an ageing society where elderly people, including those who are frail, suffering from chronic illness, and/or requiring long-term personal care, are left behind in rural areas (Knodel et al. 2010).

5 Conclusion and Policy Recommendations for Sustainability

It is clear that migration is a driver of economic growth and an important tool for reducing poverty in Thailand. In summary, employing migrant workers has both costs and benefits. Thai employers clearly receive short-term benefits from hiring migrant workers in that their wage costs decrease and a pool of workers is easily maintained, while unskilled Thai workers are likely to suffer a reduction in their wages. The balances between those paying costs and those receiving benefits from immigration (between loss groups and gain groups) may create some space for the Thai government to tax the benefits from employers by imposing some form of migrant levy. Even though the migrant levy should help to redistribute income, the Thai government needs to ensure that the levy will not be passed on to the workers.

While the benefits and costs of having migrant workers in Thailand exist for both short-term and long-term prospects, determining how Thailand can reap economic benefits from all types of migration, while simultaneously protecting national security and human rights, is a challenge. To be consistent with a long-term plan, Thailand's migration policy must be included in the national economic and social development plan by taking into account the need for human resource and skill development, the demographic transition, and economic development. Since immigration to Thailand, especially from Cambodia, Laos and Myanmar, is presently a major concern of policymakers, specific public policies toward these goals can be addressed.

First, migration policy should be based on long-term objectives rather than a short-term response. Since Thailand is currently challenged by countries with certain comparative advantages (for example, China and Vietnam), the overall long-term development policy in line with creating a knowledge-based economy should be strongly promoted. Promoting R&D investment within Thai firms, securing intellectual property rights, upgrading the technical skills of domestic workers, and enhancing the value added in the production of goods and services through the adoption of technology should comprise some immediate responses. Without question, since the value-added goods and services will present more competitive advantages (which will thus be better commercialized) and help to sustain global competitiveness, their production should be promoted rather than production that relies on the low-wage labour of migrant workers.

Second, following predictions from economic theory, immigration of the highly skilled has unambiguous, positive effects on the growth rate in the host country. Thailand is no exception. Since a number of benefits accrue from employing skilled immigrants – for example, improving productivity, promoting R&D investment, attracting foreign investment, and increasing knowledge transfer – the importation of skilled migrants (rather than unskilled ones) should therefore be considered. Thailand should offer more flexible entry requirements and more promising long-term opportunities in order to attract skilled immigrants. Both tax-related and non–tax-related incentives, including launching a temporary programme to employ foreign workers, can be attractive measures.[29]

Third, the majority of migrant workers residing in Thailand are unskilled and need to be provided with basic social protection. Access to healthcare, education, and labour protection should improve the quality of economic migrants and should therefore contribute to the overall production process. In addition, providing social protection coverage to migrants can be an attractive way to prevent the documented or regular migrant workers from lapsing into an irregular visa status. Nevertheless, to prevent public services from being overloaded by migrants, the government must provide sufficient numbers of healthcare personnel (for example, doctors and nurses) and education personnel (teachers), especially in the provinces where migrants are concentrated.

Even though the number of overseas Thai workers has declined over time, inward remittances as an important and reliable source of external finance are stable and run counter-cyclical to economic performance. As mentioned above, remittances tend to rise when the recipient economy suffers a downturn following a financial crisis. In the long run, remittances reduce poverty and result in better development outcomes, as they have done in many poor Thai households for decades. Policy schemes intended to enhance the amounts remitted are very common.[30] In general, the government should introduce policy measures to affect the decisions of mi-

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29 For example, there are the Temporary Foreign Worker Program in Canada and the Migration Occupations in Demand List (MODL) in Australia. In East Asia, Singapore, Hong Kong and China also have explicit policies to welcome highly skilled foreign professionals by facilitating permanent residence following designated working periods (two years for Singapore and seven years for Hong Kong and China).

30 Some countries impose mandatory regular remittances from contract workers abroad.. For example, the Republic of Korea has used mandatory requirements as an effective tool to attract remittances. The Korean government has stipulated that at least 80 per cent of the earnings of migrant workers be remitted through the Korean banking system.

grants to maximize the flow of remittances. To that end, the government should cooperate with the private sector to ensure that efficient and reliable channels for remittances exist. This should apply both to Thai emigrants remitting the money back to Thailand and foreign immigrants in Thailand sending money back to their home countries.[31] Aside from those measures, due to the current situation of underemployment of educated workers, exporting college graduates should be promoted.

The costs and benefits of labour migration have become a topical issue among economists and policymakers in most countries, especially in Thailand, in whose labour market all types of migration are creating an economic dilemma. A major challenge will be figuring out how to resolve this dilemma. In the long run, the labour productivity of Thai workers, as well as their wage rates, must increase. Improving labour productivity and enhancing educational performance can be a simple solution.

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31 Since remittances are stable but can be lessened by an appreciation of the exchange rate, some countries attempt to reduce the adverse effect of remittance inflows on external competitiveness through intervening in the foreign exchange market. However, as remittances constitute less than 1 per cent of GDP, manipulating exchange rates should not make much of a difference.

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