

THE ROLE OF INFORMAL SECTOR IN THAILAND

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Abstract – This paper intends to study the role of informal sector in Thailand by reviewing various related papers. I found that as a result of Thailand's development policy and the limitation of the formal sector in absorbing excess labor supply in the economy, the informal sector has played a distinct role to support Thai labor market situation since in the past. Furthermore, the economic crisis in 1997 also led to a significant movement of Thai labors from the formal sector to the informal sector.

Keywords – Informal Sector, Thailand, Crisis

I. INTRODUCTION

The informal sector plays an important role in an economy, especially in the developing countries. Since this sector encompasses many unorganized economic activities, including commerce, agriculture, construction, manufacturing, transportation and services, as a result, this sector creates new jobs as well as absorbs around 60 percent of labor force in urban areas (Singh, 1999). The statistical data shows that the estimated share of labor force in the informal sector, especially in the urban area, in Africa, Asia, and Latin America are 44.0, 49.8, 54 percent, respectively (Todaro, 2000). All these numbers present how importance of this sector on the developing countries' economies.

This paper reviews the role of the informal sector in Thailand's economy. I have chosen Thailand as a representative of small developing countries since Thailand has been through different stages of economy starting from the prosperity to the economic crisis in 1997. Thailand was the first dead country and one of four main countries in the Southeast Asia including Indonesia, Malaysia, and the Philippines, which had the negative effects from the crisis (Warr, 2000). As a result, Thailand will be an interesting country, in which we can compare the role of the informal sector before and after the crisis.

II. THE DEFINITION OF INFORMAL SECTOR

The informal sector has been defined in different ways. Based on the concept of the International Labor Organization (ILO), the ILO/ICFTU international symposium on the informal sector in 1999 states that the informal sector can be classified into three types: (a) "owner-employers of micro enterprises", (b) "own-account

workers", and (c) "paid or unpaid family workers" (ILO, 2001).

The activities of the informal sector depend on the economic environment and the society of each country. The workers will create their own activities, that they are interested in, fit with their economic status, and expected income. These activities sometimes are not legalization, and normally unregistered activities in the labor market. Todora (2000) explains that the self-employment is distinct kinds of these activities, including "hawking, street-vending, letter writing, knife sharpening, and junk collecting to selling fireworks, prostitution, drug peddling, snake charming and others found jobs such as mechanics, carpenters, small artisans, barbers, and personal servants".

III. UNDERSTANDING THE THAI ECONOMY

If we look at the country's development process, the public sector plays an important role by using the national development plans as a development guideline for setting preferences and resource allocation (Teokul, 1999). As a result, it leads Thailand as the one of the countries, which has a high economic growth rate in the world; as stated by Warr (2000), at the end of 1995, the Thai economy was known as the fastest growth in the world. Furthermore, Thailand had real Gross Domestic Product (GDP) almost 10 percent per year and over 8 percent per person more than 10 years, this result presents that Thailand was one of "Miracle" East Asian economies that even famous economists were nervous to clear up (The World Bank, 1993).

However, most benefits from this high economic growth are concentrated just only in the group of high and middle population class; while, the poor people could reach only a "slice of the developmental cake" (Rigg, 1998). According to Krongkaew (1992), among the Southeast Asia countries, Thailand faced the most serious problem regarding trade-off between growth and equality. Moreover, the development creates the large gap between rural and urban areas. The modern infrastructure, the business center, the government agencies are clustered in urban area, whereas the rural areas were known as areas for old and poor people. In addition, the average income per head in rural areas is much lower than those in urban areas.

According to Bello et al (1998), one of main factors, which decrease the importance of the rural areas, is that

Thai government normally has an urban bias in development process. Todaro (1997) defines an urban bias as it occurs in most developing countries, in which the governments' policies seems to prefer to improve urban rather than rural areas, which generates a gap between these areas. Thai government's policy normally neglects the development program for rural areas, and mostly concentrates on only the center province of each region, especially Bangkok, until having the comment that "Bangkok is Thailand and Thailand is Bangkok"(Phongpaichit, 1996). In addition, rural development plan is mannered by "top-down" and "macro-level centralized strategies", which is decided by the urban officers in central government and force rural people to follow their plans (Parnwell, 1996). The main weak point of this strategy is a lack of participation of local people, which causes the failure of the development programs.

As a result, Thai economy becomes as the dualism situation between urban and rural areas. In theory of development, the dualistic characters in the developing countries is the large difference between modern urban capitalist sectors (using capital-intensive and large scale of production), and rural traditional sector using labor-intensive, small-scale of production (Todaro, 2000). However, the case of Thailand can be considered as a "double dualism" because rural areas mostly depend on agriculture sector, whereas urban area mostly relies on industrial sector (Rigg, 2001).

IV. THE ROLE OF INFORMAL SECTOR IN THAILAND

As a result of Thailand's development problem, the gap in economic growth between rural and urban areas induces the population migration. Many people migrate to Bangkok or to the regional centre province, such as Chiangmai and Khonkean. According to Dejong (2000), "theory of planned behavior" (Ajzen, 1988), an expectation of income, comfort, stimulation, and affiliation play major roles in a migration decision-making. Moreover, the free movement of labor between sectors in Thailand encourages migration, in which the educational level is pointed as an indicator of labor quality (Nakanishi, 1996), as well as urban businesses also need a rural cheap labor to be their workforces (Phongpaichit, 1996). Working in the factories is the most popular job for migrated people due to "factory system is a core institute in industrialized societies" (Ohno, 1995). This event could be described by "Lewis Theory of Unlimited Labor Supply" (Lewis, 1954), due to the country's labor surplus, the supply of unskilled rural labor was so huge and so elastic, in which it causes a labor movement from agriculture sector to manufacturing and services sectors, which can enlarge their employments without an increase of real wages (Nakanishi, 1996).

However, there is a limitation of a formal business to absorb labors from rural areas, which could create urban unemployment as Todaro (2000) describes that the formal sector in developing countries has a small base in terms of output and employment. When demand of labor lowers than supply of labor, the informal sector plays the distinct role to absorb these labors to survive from their poverty

and underemployment in rural area. In the case of Thailand, the types of migrants can be divided by time period including "recent migrants (two or fewer years of residence) and long-term migrants (more than two-years of residence)" (Goldscheider, 1983). Temporary migrants can be defined as seasonal migration because their migration depends on seasonal farming activities. Nakanishi (1996) discusses that the urban informal sector is the "the biggest source of their annual cash income" during the dry season. For example, informal contracted workers, such as construction workers, can be source of their income. For another group, the total revenue is the main incentive of migration. This group will be a long-term migrant because they could gain high income from their job. This example could clearly explain the situation; a taxi driver in Bangkok earns around 10,000 baht (AUS\$ 437) per month that is triple of their revenue from agriculture work in rural area in Chiangmai (Rigg, 2001).

Furthermore, the amount of labors in the informal sector has also increased continuously due to various factors such as the family network. For example, a worker will see the opportunity to get a job in urban areas if they can set a team with their relatives to work as a contracted workers. Then, based on the theory of planned behavior, affiliation is one of main factors of a migration decision making (Ajzen, 1988). If someone moves to live and find a job in urban area, his/her relatives tend to move follow and then, find the job that relates to his/her job. Moreover, based on Thai culture, we normally live as an extended family. For example, in construction jobs, people in a team includes carpenters, electricians, painters, and other craftsmen are relative.

In addition, migrants in the informal sector are rarely possible to get the jobs in the formal sectors (Nakanishi, 1996), as a result, the number of people in the informal sector consistently increases from migration. Normally, a worker in the informal sector is uneducated, unskilled, low productivity, so their opportunity to get job in the formal sector is very low. Thus, they tend to be got stuck in the informal sector and earned very low income. Moreover, the Thai belief in Thai society states an unequal in social and work status between man and woman in a family. Although now this belief gradually decreases, it remains in less-educated society. Goldin (1995) describes that in the predominant society, "only a husband who is lazy, indolent and entirely negligent of his family would allow his wife to do such a labor". This belief increases a number of labors in the informal sector, especially home workers. In Thailand, an estimated number of homemaker is about 1 million people and they are less-educated women (Pandita, 2001).

Furthermore, after the country faced the huge economic crisis in 1997, the informal sector also played a distinct role in absorbing unemployed workers. According to Warr (2000), Thailand's growth rate was near zero in 1997 and real GDP decreased by 8-9 percent per person in 1998. Rigg (2001) criticized that the break-down of Thai baht in mid-1997 is the starting point of the Asian crisis, in which it showed the failure of Thai government in attempt to link

“love affair with globalization”. As a result Thailand had to be a debtor of International Monetary Fund (IMF) and in the IMF program Thai government needed to follow many strict plans including monetary and fiscal discipline, and structural adjustment programs such as privatization. Wickramasekara (2001) describes that in the process of IMF program, a group of worker was the worst group because of a big lay-off, unemployment, declining of real-wages, and loss of big amounts of their benefits. Kakwani (1998) found that the average real wage and the total wage (including overtime and bonuses) had declined since February 1997. Moreover, the Brooker group (1999) found that around 1.5 million people are unemployed because of this economic crisis. In addition, if we classified a group of workers, Asian Development Bank Report (1999) stated that within one year after crisis, two million less educated labors lost their jobs as well as all new university graduates. This situation represents the worst employment situation in Thailand.

Although many Thai economists insisted that the agricultural sector can absorb these unemployed people, in my view point Thai rural has no ability to play this role. The main reason is that as a result of development for long period of time, Thai economic base has changed from an agricultural base to be an industrial base. Although over 50 percent of Thai labor is in agriculture sector, the share of agriculture product is only 11 percent of Thailand Gross Domestic Product (GDP) (Wickramasekara, 2001). Moreover, eventhough the government has the data of labor, who stays is in the agricultural sector, indeed some of these are in the urban informal sector and the government could not measure their working status. Warr (2000) discussed that many people who lost job in urban areas returned to rural areas that is still drought, agriculture movement, and illegal labors from Myanmar and Laos, this reflects that the chance in rural areas were not good enough to absorb these people. Moreover, the activities in the rural areas does not base on agriculture but concentration on non-farm activity, which can be classified as working in the informal sector, such as artificial flower making, because this work has the advantage such as saving travel cost, directly income from output, and easy to entry (Rigg, 2001).

The main reason is that Thai economy lacks the social security net for unemployed people, and has inefficient government assistance policy. As a result, a worker needs to find his/her own way to support him/herself and his/her family. Because of its attractive characters, including a small-scale activity, a labor intensive, an ease to entry and exit, an excess capacity, a self-employment (Todaro, 2000), working in the informal sector is the one option for unemployed workers. As a result, in Thailand, the number of employed people in the formal sector decreased, whereas those running activities in the informal sector increased (Sauwalak and Chettha, 2000). In Thai economy, the small-scale of production and services grew included repair work, foot massage, car washes, laundries, trash recycling; moreover, big areas of pavement were newly occupied by vendor in both in the city center and major suburb area (Phongpaichit and Baker, 2000). This sector

absorbs the unemployed people to create their own income to support themselves, although it lowers than their formal income in the past. Consequently, after crisis, the informal sector also played a major role in Thailand economy.

V. CONCLUSION

In this paper, I have discussed the role of the informal sector in Thailand economy. I have analyzed why this sector becomes an important part in Thailand labor market as well as its evolution. We found that this increasing trend of an informal sector does not represent only the turning point from formal to informal sector, but it also reflects the policy trend of the Thailand government in the future to manage and work with the labors in this sector. Government has to pay more attention on providing both the occupation safety and health services covering to this group. Also, the government should try to support both training and accessing to the useful information in order to improve these workers' productivity levels. As a success of the government policy, these labors will become an important function in Thailand economy in the future.

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