

## **The Sustainable Solution to Labour Shortages**

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The economy has enjoyed a firm recovery since the fourth quarter of 2009 when production resumed to fill rising foreign orders and domestic demand.

It now has returned to its normal level with momentum going forward. However, there is an obstacle to further economic expansion, as experienced by entrepreneurs after the recovery early last year. That is the shortage of both skilled and unskilled labour. Two credit rating agencies recently expressed concern over the Thai economy because of the shortage, especially for skilled labour, which could hinder future economic growth.

Unemployment registered at 1.3 per cent right before the 2008 crisis. The rate had risen during the crisis in early 2009, but soon afterwards has continued to decline during the recovery to a 10-year low of 0.7 per cent in March. One may ask why the labour market is much tighter than before the 2008 crisis even though the economy has recovered only to the pre-crisis production level. Was there an abrupt structural change in the labour market during the 2008 crisis?

One of the reasons for the labour shortage, particularly in industry, is the labour migration from industry to agriculture during the recent period of rising farm prices. This movement started during the crisis when industrial workers were laid off and the movement remained after the economic recovery as agricultural prices started to strengthen. The rising trend of agricultural prices due to shortages as a result of natural disasters and strong demand during the recovery has resulted in high farm incomes and the lower attractiveness of industrial jobs in comparison.

Businesses also point to the problem of skill mismatches, as the labour market is demanding skilled and experienced workers, particularly those with a vocational education, while the individuals entering the workforce are mostly university graduates.

New graduates also prefer service jobs due to the lighter workload. The ratio of the never-worked-before unemployed to the labour force has been declining for some time while employment in the service sector has been rising recently above industrial employment, reflecting the tightening labour market. That is another reason for the shortage in industrial labour.

Further analysis shows that these two reasons are still not the core cause of this labour shortage. From 2000-10, economic growth averaged 4.4 per cent a year while the factors of production grew at a much slower pace. Capital stock and labour force growth averaged 2.7 and 1.5 per cent per year.

Since 2000, unemployment has been declining to a level below 1 per cent in 2010. The true underlying cause of the labour shortage is that capital accumulation growth has not caught up with economic growth. Workers are in greater demand to compensate for the low capital growth and meet increasing demand for goods and services. The Thai economy is sensitive to the supply of workers because of its labour-intensive nature not only in the agricultural but also industrial sector.

An easy way out would be to expand the labour force. Over the years, hiring migrant workers has been the cheap and quick fix for the problem. However, it is not a sustainable solution. Looking ahead, the population structure with growth of less than 1 per cent a year cannot provide enough new entrants to completely replace retiring workers. The labour force will only keep shrinking or, at best, remain stable and this cannot solve the labour shortage especially with the current labour-intensive economic structure.

Without a start on finding an appropriate resolution today, the labour shortage would become a bigger obstacle to economic growth going forward. Since the economy cannot sustainably provide enough labour to fulfil demand, the only way to solve this problem is to raise labour productivity by improving worker efficiency and capability. The direct way to raise labour productivity is to train and educate the labour force while the indirect way is to use machines or technology to assist labour in the production process.

Both ways then boil down to the need for investment in three areas -capital and machinery, research and development, and training and education - in order to produce a high quality labour pool with value-adding capability.

Investment in these areas would be a long-term and sustainable solution to the labour shortage, as it would equip businesses with technology, knowledge and skills. The economy could move up the value chain by shifting away from cheap and low-skilled labour dependency to technology- and capital-intensive production in order to compete in the world market and achieve high and sustainable growth.

This labour-shortage issue should concern all parties - the government, business and labour - and bring about their engagement in finding a solution. To ensure efficient implementation of this solution, Thailand must have a clear strategic plan with a holistic approach for all parties to align their goals and move ahead in the same direction.

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**The views expressed in this column are the author's own.**

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