Skilled-labour Crisis in Thailand: Prognosis, Policies and Prospects

By Min Ye Paing Hein

SYNOPSIS

Thailand is experiencing an acute shortage of skilled labour. First, its working-age population has been shrinking. Secondly, the supply of skilled labour has been declining. Thirdly, a large proportion of youths and adults lack digital skills. In response, the Thai government has been experimenting with myriad policy instruments but would benefit from a whole-of-government strategy.

COMMENTARY

International organisations such as the World Bank and the World Health Organization point to the issue of demographic decline in Thailand. Thailand's Total Fertility Rate (TFR) is the second lowest in ASEAN, at 1.16 children per woman in 2023. By 2045, Thailand's old-age dependency ratio is projected to surpass 50 per cent, meaning that its working-age population is shrinking with growing numbers of dependents.

Moreover, it had already become an ageing society in 2023 and is expected to become a "super-ageing" society by 2036. It means that 20 per cent of its total population, or 14 million people, had already entered the demographic bracket of 60 years and older in 2023. The older population of 60 or older is expected to account for 30 per cent of the total population within the next 15 years. This demographic change will result in a smaller working-age population and a higher dependency rate for older persons in Thailand.

Shortfall in the Supply of Domestic Skilled Labour

The National Economic and Social Development Council (NESDC), Thailand's top planning agency, warns that the demand for labour will reach 44.71 million by 2037, although Thailand only has 40.7 million working-age people, and this population

segment has been declining steadily over the years. According to the Office of National Higher Education Science Research and Innovation Policy Council (NXPO), there is a significant demand for highly skilled personnel in 12 target industries, with an average of 35,521 individuals per year between 2022 and 2024.

More specifically, the number of job vacancies in December 2023 increased by 19.2 per cent compared to the previous year. At the same time, only 9,358 candidates applied for 179,000 jobs available, meaning there were merely 14 applicants for every 100 jobs. The Thai Social Situation Report for the 4th quarter of 2023 further highlights this acute shortage of workers, especially skilled workers with vocational certificates.

Similarly, the Thailand Development Research Institute (TDRI) claims that the number of new computer science graduates joining the IT sector is less than 35,000 annually, although 19,781 graduate with a bachelor's degree in computer science annually. As such, these extant data bespeak an acute shortfall in the supply of domestic skilled labour in Thailand, which will become even more acute in the near future.

Lack of Digital Skills Amongst Youths and Adults

The World Bank's analytical report on foundational skills in Thailand demonstrates that 74.1 per cent of the youths are woefully lacking in foundational digital skills, including using a pointing device and keyboard on a laptop and finding the correct price of a product on an online shopping website. The lack of digital skills is more acute in certain segments of the population. For example, over 80 per cent of older adults fall below the threshold in digital skills.

Similarly, UNICEF Thailand announced that over one-third of children between 7 and 14 years of age do not possess basic numeracy skills. Statistical data from the International Institute for Management Development (IMD) further accentuates the issue of skill shortages in the digital economy, given that Thailand has only 0.58 million experts in digital skills (Level 4), equivalent to one per cent of the population. As per the World Bank's estimate, the lack of literacy and digital skills amongst youths and adults exacted an alarmingly high economic cost, amounting to 3.3 trillion baht, or 20.1 per cent of gross domestic product (GDP) in 2022.

Targeted Labour Migration Policies for Skilled Migration

According to data from Thailand's Department of Employment, 91.86 per cent of all migrant workers in Thailand are general workers from Myanmar, the Lao PDR, Cambodia and Vietnam as of March 2024. In the same vein, 60 per cent of migrant workers belong to middle-skilled occupations. Liberalisation of migration regimes towards neighbouring countries such as Myanmar and Cambodia can help alleviate the pressure on the labour market due to the declining domestic labour force. However, Thailand needs a tailored migration policy to attract highly skilled labour to its target industries.

On 15 July 2024, Thailand rolled out the Destination Thailand Visa (DTV) programme to allow remote workers, digital nomads, and freelancers a five-year visa with multiple entries. Thailand has reduced the application fee for an LTR (Long-Term Resident) visa from 100,000 to 50,000 baht to attract four types of migrants: high-income foreign

individuals, foreign retirees, foreigners intending to work remotely from Thailand, and foreign professionals with "special" skills. Under this long-term resident visa, the visa holder can stay up to ten years in Thailand with permission to bring up to four family members, including their legal spouse and children under the age of 20.

Fertility-boosting Policy Measures

The Royal Thai government is launching the "Give Birth, Great World" initiative to counter the demographic decline and skilled labour crisis. At the conceptual level, this initiative presents a comprehensive mechanism to promote fertility through various economic incentives, such as subsidies for in-vitro fertilisation, tax waivers for families with children, and subsidies for upskilling/reskilling programmes for children.

According to the Ministry of Health, the government will use more financial and child-support incentives and establish more childcare and fertility clinics nationwide. The government aims to tackle the demographic crisis by increasing paid maternity leave, raising the retirement age, and promoting retirement savings. However, fertility-boosting measures are only effective in the long term, given that it would take a couple of decades for the newborn to enter the labour market.

Human Capital Development for the Digital Economy

Thailand needs to invest substantially in human capital to build up its skilled labour force. According to the National Research Council of Thailand (NRCT) under the Ministry of Higher Education, Science, Research, and Innovation (MHESI), public expenditure on research and development (R&D) as a percentage of GDP declined from 1.33 per cent to 1.21 per cent in 2022.

As it stands, Thailand has only 24 researchers per 10,000 people, although it needs to reach the target of 42 researchers per 10,000 people in 2027. To meet this objective, Thailand would have to invest 30 billion baht in R&D. The Royal Thai government has announced its target to increase R&D investment to at least two per cent of GDP in February 2024.

To address the gap in foundational skills, such as digital skills, the World Bank recommends a number of policy measures, such as the establishment of a foundational skills framework and foundational skills standards, decentralisation of learning delivery, deployment of innovative teaching instruments, and implementation of an information campaign to socialise the issues surrounding foundational skills.

Automation

Another policy measure that the Royal Thai authorities are considering in response to labour shortages in the manufacturing sector is automation. The National Economic and Social Development Council (NESDC) has been prescribing automation as a solution with the potential to boost productivity by five per cent and reduce demand for more than two million workers. However, as of 2024, only five per cent of Thai industries have embraced Industry 4.0 practices or integrated automation into their production.

In August 2023, the Thai government issued a decree to provide an additional corporate income tax deduction of 100 per cent (i.e., a total deduction of 200 per cent) for capital expenditures incurred for investments in automation systems during the period from 1 January 2023 to 31 December 2025.

Policy Coordination

The Royal Thai government has a range of policy instruments in its arsenal, including targeted migration policies, fertility-boosting measures, targeted education policies and incentives for automation. In the short term, liberal migration regimes can address the labour shortage issue. Targeted labour migration policies, such as visas for digital nomads and digital migrants, could also help bring more skilled labour to Thai digital industries.

In the longer term, fertility-boosting measures can alleviate or even reverse the demographic decline. Recalibration of the Thai education system, focusing on acquiring foundational digital skills and marketable digital literacy, is essential in nurturing and sustaining a domestic skilled labour force for digital Thailand. Finally, through a phased automation of its industrial processes, Thailand can boost productivity while reducing the demand for workers in the manufacturing sector.

Most importantly, Thailand's campaign to resolve its skilled labour crisis would benefit from a whole-of-government strategy that creates greater policy coordination and integration across myriad pieces of policy actions and multiple agencies and ministries.

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