Available online at www.sciencedirect.com
SCIENCE DIRECT®
Journal of Asian Economics 14 (2004) 861–884
JOURNAL OF ASIAN ECONOMICS

Labor productivity, wages, nationality, and foreign ownership shares in Thai manufacturing, 1996–2000

Eric D. Ramstetter*

International Centre for the Study of East Asian Development (ISCEAD) 11-4 Otemachi, Kokurakita-ku, Kitakyushu 803-0814, Japan

Received 9 May 2003; received in revised form 30 July 2003; accepted 7 October 2003

Abstract

This paper compares labor productivity and wages among nationality and ownership groups of foreign multinational corporations (MNCs) and local plants in Thai manufacturing for 1996, 1998, and 2000. Disaggregating foreign MNCs by nationality or foreign ownership share revealed a few significant differences in both labor productivity and wages that were not present in more aggregate specifications. In these cases, there was a weak tendency for MNCs from Europe, Japan, and the United States to have relatively high labor productivity and wages, for wholly-foreign MNCs to have relatively high labor productivity, and for majority- and wholly-foreign MNCs to pay relatively high wages. However, these results suggest that the relationships among labor productivity or wages, on the one hand, and nationality or foreign ownership shares, on the other hand, were generally weak in Thai manufacturing. These results are also consistent with those of previous studies in suggesting that the relationship between labor productivity and foreign ownership in general was also rather weak, though the relationship between wages and foreign ownership was somewhat stronger.

JEL classification: D24; F23; O53

Keywords: Multinational corporations; Nationality; Foreign ownership shares; Labor productivity; Wages; Thai manufacturing

1. Introduction

Previous studies of foreign MNCs in Thailand present two puzzles for economists. First, most studies suggest that foreign MNCs have generally had higher labor productivity than

* Tel.: +81-90-8794-8166; fax: +81-93-583-4602.
E-mail address: ramst@icsead.or.jp (E.D. Ramstetter).

1049-0078/$ – see front matter
doi:10.1016/j.asieco.2003.10.009

local plants or firms but that differences in labor productivity, as well as more general differences in production technology were often insignificant statistically.[1] These results are puzzling because they contrast markedly with the conclusions suggested by theoretical analysis and with similar results obtained for other countries.[2] Second, despite the inability to find statistically significant differences in labor productivity, previous studies suggest that foreign MNCs often paid significantly higher wages. This finding of higher wages in foreign MNCs is more consistent with theoretical predictions and findings from other countries.[3] However, the combined finding of significant differences in wages but insignificant differences in labor productivity is puzzling to the extent that one would expect wage differentials and labor productivity differentials to be correlated in competitive markets. Correspondingly this suggests that labor and/or output markets may not be competitive in Thailand, at least when foreign MNCs are involved.

One reason for the above findings could be that previous analyses omitted important factors from their analyses. Moran (2001), for example, suggests that distinguishing by foreign ownership share is very important and there is a strong theoretical rationale for expecting this distinction to be important as discussed below. A second distinction of potential importance is the nationality of investor, a distinction that was first emphasized by Kojima (1978). Although some previous studies of Thai manufacturing have attempted to account for these factors, no known study has attempted to analyze the effects of nationality and foreign ownership shares on both labor productivity and wages in a consistent framework at the industry level.[4] The primary goal of this study is to fill this gap in the literature and see if there are statistically significant differences in labor productivity and wages among nationality and ownership groups of foreign MNCs and local plants, after removing the influences of other determinants such as factor intensities, policy status (proxied by promotion by the Board of Investment or BOI), size, and vintage. A second aim of the paper is to see if labor productivity and wages in European plants, in particular, differ from other foreign plants in Thailand and if so, how. The paper first reviews the theoretical and methodological issues involved (Section 2).

[1] These studies include analyses of limited data sets primarily covering firms promoted by the Board of Investment (BOI) for 1973–1974 and 1985–1986 (Tambunlertchai & Ramstetter, 1991), 1982–1983 (Khanthachai, Tanmavad, Boonsiri, Nisaisook, & Arttanuchit, 1987), and 1990 (Ramstetter, 1993, 1994), as well as from analyses of the more comprehensive data sets for 1996 and 1998 similar to those used here (Ramstetter, 2001a, 2001b, 2002b).

[2] See, for example, studies of Indonesia (Hill, 1988, pp. 107–120; Okamoto & Sjöholm, 2000; Sjöholm, 1998; Takii, 2002; Takii & Ramstetter, 2000), Mexico (Blomström, 1990, pp. 28–34), and five Asian economies (Ramstetter, 1999a).

[3] See studies of Thailand for 1990 in Ramstetter (1994) and 1996 in Matsuoka (2001a, 2001b, 2001c). See also studies of Indonesia by Hill (1990), Lipsey and Sjöholm (2001, 2002), and Manning (1993) and five Asian economies by Ramstetter (1999a).

[4] Ramstetter (1994, 2001a, 2001b) also investigates differences in labor productivity among nationality and ownership groups of foreign MNCs, including European MNCs, finding that these differences tend to be statistically insignificant in 1990, 1996, and 1998. In contrast, Ramstetter (1994) and Matsuoka (2001c) also report evidence that MNCs from the triad (Europe, Japan, and the United States) paid higher wages than MNCs from three of Asia's newly industrializing economies (NIEs: Korea, Singapore, Taiwan; Hong Kong is the other NIE but Hong Kong MNCs are not identified in these data sets) in 1990 and 1996 while Matsuoka (2001c) also reports that 1996 wages tended to be highest in majority-foreign plants, followed by wholly-foreign and minority-foreign plants.