

# AN EMPIRICAL PROPOSAL ON POWER, KNOWLEDGE AND TRUTH OF CORRELATIONS AMONG THE MINIMUM WAGE, FOREIGN DIRECT INVESTMENT IN THE INDUSTRIAL SECTOR AND EXPORT<sup>1\*</sup>

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## ABSTRACT

*This research showed the correlations among the minimum wage, foreign direct investment in the industrial sector, and export. These entities were criticized severely by the authorities on the Pua Thai Party's policy announcement on the guarantee of labors' minimum wage of 300 baht/day. The present research then employed an advanced quantitative methodology, analyzing time-series data of the minimum wage, foreign direct investment in the industrial sector, and export by regression, the Johansen Cointegration Test, and the Pairwise Granger Causality Test.*

*It was revealed that the minimum wage correlated in the same direction with both foreign direct investments in the industrial sector and export. Whereas the Johansen Cointegration Test showed that the minimum wage had no cointegration with the foreign direct investment in the industrial*

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*sector. However, the Pairwise Granger Causality Test showed a causal relationship with the export according.*

*These results indicated that the claim that the minimum wage increase affecting the competitiveness of the country with regard to foreign direct investment in the industrial sector and export, had been reinforced by the authorities' superior status to dominate the process of building a body of knowledge. The authorities' superior status was also used to distort the truth to control the society. This is thus not a good-faith mistake but an effort of discourse fights on the economic unfairness and social-class discrimination, which is the root of Thailand's structural problems.*

**Keywords:** *Empirical Discourse Analysis, Export, Foreign Direct Investment in Industrial Sector, Minimum Wages*

## **INTRODUCTION**

### **On 'Discourse'**

The concept of 'discourse' (beyond the definitions in general dictionaries) is a masterpiece of Michel Foucault, which is popular among academics in the fields of social science and humanities. This concept managed to capture critical analysis methods of every academic field only two decades after his death (Vighi and Feldner, 2007:141).

The understandings about the 'social text' (remarks or articles in the operational social context) and the 'social reality', constructed and maintained through languages, (Alvesson and Kärreman, 2000: 1126) according to the scattering concepts in Michel Foucault's works, were finally reproduced in Thai by Somkiat Wantana (Mektrairat, 1989:15).

Later, Chairat Charoensin-o-larn (2006:19-20) published his work on 'discourse' as a system and procedure in the creation/production of a symbol and definition for the society. It is then broadly accepted by the society that it becomes a 'dominant discourse'.

By using the 'power', polished and purely cleaned in the pattern of 'specialized knowledge/expertise' in science, medicine, and economics,

through disciplines and customaries of various ‘experts’ in the ‘academic discourse’ on relevant matters, ‘discourse’ has been used as a sign or label for ‘a complex strategical situation in a particular society’ (Charoensin-olarn, 2006:25-26). This is to indoctrinate/cause a viewpoint, which is not the truth, to eventually become ‘knowledge’ and ‘truth.’

### **Discourse on ‘Minimum Wage’**

The labor’s minimum wage at 300 baht per day was announced a main policy by the Pua Thai Party in its general election campaign on 3 July 2011. Later the Yingluck Shinawatra administration announced its Policy Statement in Parliament on 23 August 2011, that the labor’s minimum wage at 300 baht per day was an urgent policy to be implemented in the first year.

In the ‘labor’ circle, the ‘minimum wage’ issue and argued by the opponents, had two reasons: (1) ‘foreign direct investment in the industrial sector’ argued by Arthit Wuthikaro, Director General of the Department of Industrial Works (Second-Half Slowdown of Investment in Factories, Effects of 300 Baht Wage in Cost Increase, Many Risking Close of Business in 2012, 2011, 15 July), Nantawan Sakultanak, Director General of the Department of Export Promotion, (Commerce Queuing up to Talk to the Pua Thai’s Economic Team to Report Performance-Obstacles-Recommendations, 2011, 29 July: 17) Dusit Nontanakorn, ex-Chairman of both the Thai Chamber of Commerce and the Board of Trade of Thailand, (the Joint Standing Committee on Commerce, Industry and Banking Opposed 300 Baht Wage-investment to Plummet Hundred Billion, 2011, 20 July) and Tanit Sorat (2011: 4) and Vice Chairman of the Federation of Thai Industries (Industry Federation Points 5 Risk Factors, Japan Requested Slowdown 300 Baht Wage, 2011, 27 July: 2). These four argued that Thailand would lose its competitiveness to attract foreign investment. They believed the investment would stagger badly that the investors, especially the Japanese, would move their production bases to neighboring countries. The effect was approximately one hundred billion baht per year.

In addition, the Department of Export Promotion (Commerce Queuing up to Talk to the Pua Thai’s Economic Team to Report Performance-Obstacles-Recommendations, 2011, 29 July: 17) and Sorat (2011: 3) also point that such policy would obstruct the Thai export in the fourth

quarter. This policy also in the long run would decrease the nation's export competitiveness. Studies made by University of the Thai Chamber of Commerce stated that the minimum wage adjustment may increase 28% of the labor cost of the Thai export.

In the mean time, the proponents of the policy which included Charlie Loysoong, Chair of the Thai Labor Relations Committee, Sakdina Chatrakul Na Ayudhya, an academic specialized in labor, (Economist Proposed Destroy Minimum Wage Structure and Build Central Organ to Raise 'Wage', 2011, 1 August), Yongyuth Chalamwong, Director of Labor Development Research, Thailand Development Research Institute, (TDRI Supports 300 Baht Wage Raise, 2011, 4 September: 1) and Narong Petchprasert, Associate Professor of the Faculty of Economics, Chulalongkorn University, (Asking for Pua Thai's Promise to Raise 300 Baht Wage-Threatening to Sue of Breaching, 2011, 25 July). They emphasized that in ten years, the inflation rate and minimum wage rate had compiled 1.9 percent, making the current minimum wage rate lower than the wage rate sufficient to the living cost.

Also, Lae Dilokwittayarat, Distinguished Scholar of the same institution as Petchprasert, and Direk Patamasiriwat, Professor of the School of Development Economics, National Institute of Development Administration (Asking for Pua Thai's Promise to Raise 300B Wage-Threatening to Sue of Breaching, 2011, 25 July), observed that the production cost comes from the minimum wage not more than 10 percent, and the remaining 90 percent derives from the other costs. All these reactions are currently the gaming negotiations.

## OBJECTIVES

This study was conducted to analyze the relationships between the minimum wage rate and foreign direct investment and export. Whereas the discourse on 'the minimum wage rate' which has been created by the authorities to oppose the policy change, is based on the assumption of possible decrease of foreign direct investment in the industrial sector and export, the expert proponents avoid arguing to refute such assumption. The proponents wished to maintain the claim of inequality, economic injustice, and the labor's distress in living.

It is expected that the discourse created by the authorities in the public and private sectors, the truth or suspicion, hidden, to produce improper status of knowledge and truth, be shown.

## **RESEARCH METHODOLOGY**

### **Data and Variables**

The researchers deployed time series data which were collected from the relevant agencies in the period of 136 months, January 2000 - April 2011, as the following variables:

1. Minimum wage rate (WAGE), by using the minimum wage rate in Bangkok from the Ministry of Labor (2011). This is assigned an independent variable of the foreign direct investment in the industrial sector and export.
2. Foreign direct investment in the industrial sector (INDUSTRY) from the Bank of Thailand (2011a), assigned as a dependent variable of the minimum wage rate.
3. Export (EXPORT) from the Bank of Thailand (2011b), a dependent of the minimum wage rate.

### **Data Analysis**

The 'discourse analysis' is analyzed under a quantitative methodology instead of the currently popular qualitative criticism (Hodge, Kuper and Reeves, 2008). This was to reduce the subjectivity and raise the scientific reasonableness, which are presently under wide critiques (Freshwater, Cahill, Walsh and Muncey, 2010: 502). The analysis employed the high-level statistics, regression analysis to test the relationships between variables. The Johansen Cointegration Test (Johansen, 1988, 1991) was to reprove the relationships whether they were real or falsified relationships. Later, the pattern of the relationships was analyzed by the Pairwise Granger Causality Test (Granger, 1969) in a built-in computer software.

## DISCUSSION

### Minimum Wage Rate

The minimum wage rate from January 2000 started at 162 baht per day and continuously increased at 0.40 baht per month. It reached its maximum at 215 baht per day since January 2011.

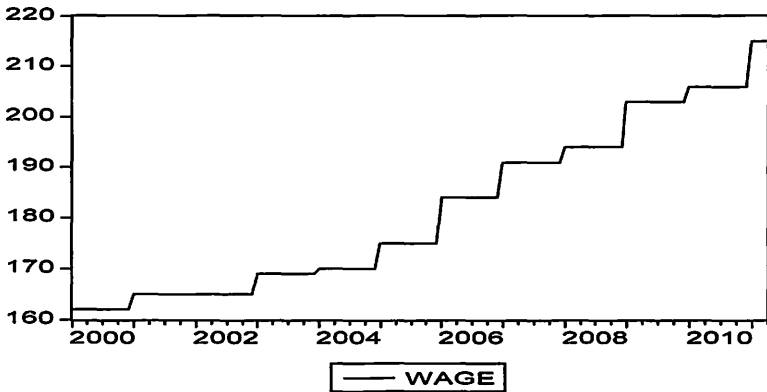


Figure 1: Minimum Wage Rate

### Foreign Direct Investment in the Industrial Sector

Foreign direct investment in the industrial sector in January 2003 started at 32.79 million US dollars and had increased and decreased in different intervals. Considered in a big picture, the value of foreign direct investment had had a trend of increase on average 1.53 million US dollars per month, the lowest value was -21.45 million US dollars in December 2002 and the highest was 1,003.57 million US dollars in February 2008.

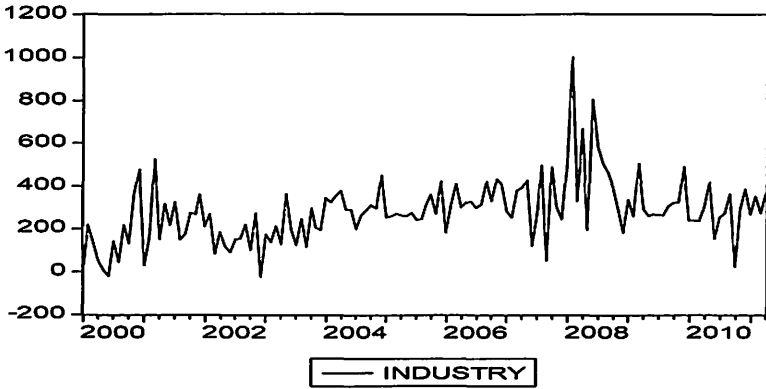


Figure 2: Foreign Direct Investment in the Industrial Sector

## Export

The export in January 2000 was 5,390 million US dollars and had increased and decreased in different intervals. The export increased to an average of 97.38 million US dollars per month while the lowest was 4,856.7 million US dollars in January 2002. The highest was 21,260.61 million US dollars in March 2011.

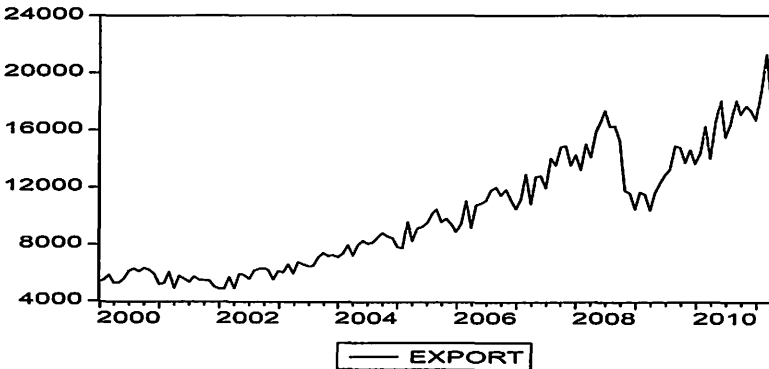


Figure 3: Export

## Relationship between the Minimum Wage Rate and Foreign Direct Investment in the Industrial Sector

At the beginning, the regression analysis showed that the minimum wage rate and foreign direction investment in the industrial sector, a relationship in the same direction with a statistical significance at 0.01 levels. Any change of the minimum wage rate at every one baht would change the foreign direct investment in the industrial sector to the same direction of 3.32 million US dollars. However, the minimum wage rate can only explain the foreign direct investment in the industrial sector at only 13.49 percent.

**Table 1: Regression Analysis on Minimum Wage Rate and Foreign Direct Investment in the Industrial Sector**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-321.2078	181.4937	-1.769802	0.0790
WAGE	3.323242	1.021535	3.253185	0.0014
R-squared	0.134931	Prob(F-statistic)		0.000011
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				

## Relationship between the Minimum Wage Rate and Export

Table 2 demonstrates that the minimum wage rate and export have a relationship in the same direction with a statistical significance at 0.01 levels. Any change of the minimum wage rate at every one baht causes an export change in the same direction for 235.84 million US dollars. The minimum wage rate can highly explain the export at 86.65 percent.

**Table 2: Regression Analysis on Minimum Wage Rate and Export**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-32673.77	2785.051	-11.73184	0.0000
WAGE	235.8428	16.28472	14.48246	0.0000
R-squared	0.866543	Prob(F-statistic)		0.000000
Newey-West HAC Standard Errors & Covariance (lag truncation=4)				



At this stage, the research concluded that the discourse on ‘minimum wage rate’ by the opponents had the status of truth. Therefore, the implementation of Pua Thai’s policy of guaranteeing labor’s minimum wage rate at 300 baht per day would affect the country’s competitiveness - both in foreign direct investment in the industrial sector and export.

Nevertheless, these relationships which seemed to go along with the common sense might originate from the non-stationary series in the regression analysis and could be only falsified relationships (Box and Jenkins, 1976). As such the Johansen Cointegration Test was used to double-check the relationships.

### **Cointegration between Minimum Wage Rate and Foreign Direct Investment in the Industrial Sector**

The Johansen Cointegration Test showed that the minimum wage rate and foreign direct investment in the industrial sector did not have any cointegration at the significance at 0.05 levels, implying the relationship in the above regression analysis of the two variables was only falsified.

**Table 3: Johansen Cointegration Test on Minimum Wage Rate and Foreign Direct Investment in the Industrial Sector**

Hypothesized		Trace	5 Percent	1 Percent
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None	0.083483	11.41990	14.07	18.63
At most 1	0.009018	1.186730	3.76	6.65

\*(\*\*) denotes rejection of the hypothesis at the 5%(1%) level  
Trace test indicates no cointegration at both 5% and 1% levels

### **Cointegration between Minimum Wage Rate and Export**

Table 4 shows that the minimum wage rate and export have cointegration at the significance at 0.01 levels, meaning, the relationship found in the above regression analysis of the two variables was real.

**Table 4: Johansen Cointegration Test between Minimum Wage Rate and Export**

Hypothesized		Trace	5 Percent	1 Percent
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Critical Value
None **	0.145827	20.64847	14.07	18.63
At most 1 *	0.043004	5.758184	3.76	6.65

\*(\*\*) denotes rejection of the hypothesis at the 5%(1%) level

Max-eigenvalue test indicates 2 cointegrating equation(s) at the 5% level

Max-eigenvalue test indicates 1 cointegrating equation(s) at the 1% level

The tests at this stage refused the relationship between the minimum wage rate and foreign direct investment in the industrial sector. They also confirmed only the same-direction relationship between the minimum wage rate and export with the proportion of one baht to 235.84 million US dollars. However, that was only a statistical truth, which was produced by the regression equation calculation.

In the real world, many relevant factors would have affected these relationships, which would not have increased the minimum wage rate drastically from 215 baht to 300 which heightened the export value to 20,046.4 million US dollars instantly.

**Reasonableness between Minimum Wage Rate and Export**

The result of the Pairwise Granger Causality Test demonstrated the nature of the relationship between the minimum wage rate and export. They were reasonable to each other, which were moving in the same direction. This means, even though the minimum wage rate immediately increased to 85 baht, in this case, it was possible that the export value instantly increased less than 20,046.4 million US dollars. It was also deduced that the increase of the minimum wage rate would not reduce the export.

**Table 5: Pairwise Granger Causality Test between Minimum Wage Rate and Export**

Pairwise Granger Causality Tests			
Lags: 12			
Null Hypothesis:	Obs	F-Statistic	Probability
WAGE does not Granger Cause EXPORT	124	7.52553	1.1E-09
EXPORT does not Granger Cause WAGE		5.98015	9.6E-08

## CONCLUSION

In conclusion, the perception of the 'minimum wage rate', created based on the competitiveness of the country's foreign direct investment in the industrial sector and export, as the opposite-diction relationships, not only shows the defects of the public authorities and the private sectors' arguments, it also depicts the use of the discourse fights on the economic unfairness and social-class discrimination, which are the root of Thailand's structural problems.

Such fights have been utilized by authorities to transform their own viewpoints into knowledge and the truth in order to dominate the society. This is consistent with the method that Dilokwittayarat referred to Supa Sirimanon's lecture 60 years ago at the 20<sup>th</sup> Supa Sirimanon Seminar on 23 July 2008 at the Faculty of Economics of Chulalongkorn University. It says as follows:

"In the development of the capitalist system, productivity expands and continues to widely expand. However, it appears that what the workers and the public receive for a living is decreasing and even continuing to decrease with no relationship whatsoever with the expanding production power."

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