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Fostering Active Ageing in Thailand's Informal Economy: A Policy Imperative

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ABSTRACT

Ageing societies pose a unique challenge for Thailand, where a large informal sector excludes most workers from mandatory retirement ages and social security coverage. While extending retirement ages is a pertinent consideration for the formal sector, policy considerations should also encompass the informal sector. Specifically, policies should strive to enhance the physical and cognitive abilities of older workers in the informal sector through appropriate guidance, empowering them to prolong their working years and bolster their financial security. Despite the availability of voluntary social security schemes, enrollment rates among informal workers remain low due to a combination of factors, including lack of awareness, perceived benefit inadequacy, financial burden, and reliance on alternative social welfare programs. Even those receiving the government's old-age allowance may struggle financially.

This article highlights the underutilized potential of Thailand's extensive informal sector as a source of employment opportunities for older adults. Despite cross-country data suggesting a positive association between a large informal sector and high elderly employment rates, Thailand's labor force participation rate (LFPR) for individuals aged 65 and above remains comparatively low among similar developing nations. Furthermore, the LFPR decline for people transitioning from age group 55-64 to 65 and above is sharper in Thailand than in many other countries. The Active Ageing Index (AAI) can serve as a tool to investigate the factors contributing to Thailand's relatively low old-age LFPR by evaluating active ageing scores across various aspects. By identifying the missing elements in specific localities, the AAI and its sub-indices can guide local-area policy prioritization

to address these gaps and enhance national policy effectiveness in promoting higher LFPR in old age. Fostering an active-ageing ecosystem within the informal sector will empower older individuals to continue working for longer periods and mitigate poverty risks in their later years.

Keywords: Active Ageing, Informal Economy, Ageing Society, Labor Force Participation, Thailand

1. Background and Introduction

As the world confronts the challenges of an ageing population, retirement age has emerged as critical policy issue. Unlike developed countries where retirement age is a central concern, Thailand faces a unique challenge. For the majority of Thai workers, retirement age is not a significant issue. In 2018, a staggering 65% of all employment in Thailand falls within the informal sector (ILO, 2023). The prospect of maintaining financial independence persists into their later years, provided they maintain physical and cognitive well-being. Therefore, the notion that retirement leads to old-age poverty does not fully capture the reality for most Thai workers and many of those in developing countries. In many cases, existing old-age poverty stems from earlier periods of poverty during their working years, before the age of 60. This accumulated poverty becomes more severe in later years, highlighting the need for early interventions rather than solely focusing on retirement age. Without adequate support during their working years, many elderly individuals may lack the capacity to extend their working lives. Even with pension or old-age allowance eligibility, those who cannot continue to work may face income insecurity.

Thailand's vast informal economy holds immense potential, particularly in terms of work and employment opportunities for older adults. This potential remains largely underutilized. Aside from restructuring within the formal economy, the government can effectively address the challenges of an ageing society by fostering an active-ageing ecosystem within the informal sector. This approach will enhance income security for older adults and mitigate the risk of poverty in their later years. To effectively design relevant policies, indicators such as the Active Ageing Index (AAI) and its sub-indices can serve as valuable tools. The AAI helps identify the factors that should be prioritized for urgent

development in the localized context. This data-driven approach ensures that policies are tailored to the unique needs of each area.

The subsequent section delves into the discourse on the informal economy and its implications for the overall economy and the quality of life of workers. The third section presents an overview of the ageing labor force in Thailand. This is followed by a comparative assessment of the informal sector and labor force participation rate (LFPR) among the selected countries, utilizing stylized statistical representations. The paper proceeds to explain the application of AAI as a policy tool, identifying the missing elements in the localities where policy should prioritize. The concluding section provides policy recommendations from the perspective of the informal sector in the context of Thailand.

2. A Brief Review of the Discourse on Informal Economy

The term "informal economy" encompasses all economic activities undertaken by workers and economic units that are either legally or practically excluded from formal arrangements. These activities may fall outside the purview of the law, indicating operation beyond the formal legal framework. Alternatively, they may nominally fall within the legal framework but remain uncovered due to inadequate enforcement or overly burdensome regulations that discourage compliance (ILO, 2015).

The International Labour Organization (ILO) defines informal employment as encompassing three distinct groups: individuals without social security or employment benefits, entrepreneurs operating within informal units, and contributing family workers without separate wages. In contrast, formal employment refers to work meeting none of

these criteria, offering social security, benefits, and independent legal status.

Informal employment, encompassing approximately 2 billion workers, representing 60% of the global labor force, constitutes a significant aspect of the economic landscape (Delechat & Medina, 2021). While prevalent in emerging and developing economies, informality also exists in developed nations. The majority of informal workers, around 85%, are engaged in precarious employment situations within small production units, often driven by a lack of opportunities in the formal sector (ILO, 2018).

The pervasiveness of informal employment has significant macroeconomic consequences. Informal firms, typically small and unproductive, contribute minimally to the tax base, hindering government revenue generation (Joshi et al, 2014; World Bank, 2019). Limited fiscal resources constrain governments' ability to provide adequate coverage for social protection programs, comprehensive public services, and business cycle improvements (World Bank, 2020). Consequently, countries with high levels of informality experience lower growth rates and struggle to collect sufficient taxes, further perpetuating informality (Ohnsorge & Yu, 2022).

Economies with a large informal sector typically exhibit lower levels of development and workers' living standards. Informal workers are more likely to experience poverty and earn lower wages compared to their counterparts in the formal sector (World Bank, 2019). This disparity is further exacerbated by their lack of social protection and access to credit. Consequently, human development indicators such as life expectancy and maternal mortality tend to be lower in economies with a large informal sector. Youth often face challenges in securing formal employment due to limited experience and qualifications, while older workers may

transition to informal work as they approach retirement or face age-related discrimination (OECD/ILO, 2019).

Despite misconceptions, the informal economy significantly contributes to tax revenue and economic growth. Studies show no negative correlation between informality and tax revenue when considering development levels. Informal workers contribute through indirect taxes, presumptive taxes, and their connections to the formal economy. They also contribute to local public goods through informal taxation systems. Additionally, the informal sector drives economic growth by producing goods and services, creating employment, and transferring hidden subsidies to the formal economy. These contributions can reach 30% of GDP in agriculture and 17% in non-agricultural sectors (OECD/ILO, 2019).

3. The Characteristics and Well-being of Thailand's Ageing Labor Force

The Survey of the Older Persons in 2021, conducted by the National Statistical Office (NSO) (2022), provides insights into the labor market participation and employment characteristics of Thailand's older population. Thailand's demographic landscape is characterized by a rapidly ageing population, with approximately 13.4 million older persons aged 60 and above, constituting 19.6% of the total population in 2021. This ageing trend is reflected in the steady rise of the old-age dependency ratio, which reached 30.5% in 2021 and is projected to reach 55% by 2040.

Despite this ageing trend, labor market participation among older persons remains significant. Approximately 34.7% of the total older population reported working in the past seven days, representing a modest decrease compared to 2017 (35.%) (NSO, 2022). Self-employment is the dominant

form of employment among older workers, with 64.8% engaged primarily in the agricultural, forestry, and fishery sectors. The reasons why older persons continue to work from the survey may be collectively grouped as: "work without necessity" (physical capability, making good use of time, etc.) and "work out of necessity" (income needed for family, children, debt, etc.). Approximately half of older workers reported working out of necessity, highlighting the need for income generation to meet basic living expenses. This is further supported by their self-evaluation of income sufficiency. Based on their subjective assessment without formal monetary benchmarks, close to half of the older population reported income insufficiency, with a higher prevalence in rural areas outside the municipality.

Public assistance programs significantly influence the well-being of older adults beyond income and employment factors. Notably, Thailand's informal workers enjoy a comparatively higher level of protection through its universal healthcare system, as compared to informal workers in other developing countries. Moreover, to extend social protection beyond formal employment, the government has introduced voluntary contributions to the Social Security Fund (SSF) for informal sector workers (Section 40 of the Social Security Act). Despite the Social Security Act's mandate, informal workers face several enrollment barriers: lack of awareness, inadequate perceived benefits, and perceived financial burden.

4. A Comparative Assessment of the Ageing Labor Force Participation in Thailand

Thailand's population ageing is occurring at a relatively low-income level compared to other ageing East Asian economies like Hong Kong, Japan, Korea, and Singapore. This raises concerns about the country's ability to support its growing elderly population and address the potential

economic slowdown associated with a shrinking working-age population. According to Moroz et al (2021) population ageing could have a negative impact on Thailand's economic growth. Projections suggest that, without policy adjustments, demographic changes alone could reduce growth in GDP per capita by 0.86% in the 2020s.

Moreover, Thailand's labor market, once a vibrant hub of economic activity, faces a declining total labor force participation rate from 70.27% in 2013 to 67.54% in 2022. However, it can be observed that despite the decline in the total participation rate, the labor force participation rate of those aged 65 and above have seen an increasing trend (Table 1). This divergence in participation rates underscores the importance of considering the dynamics of the elderly workforce in Thailand's ageing landscape.

Table 1. Labor Force Participation Rate (LFPR) in Thailand

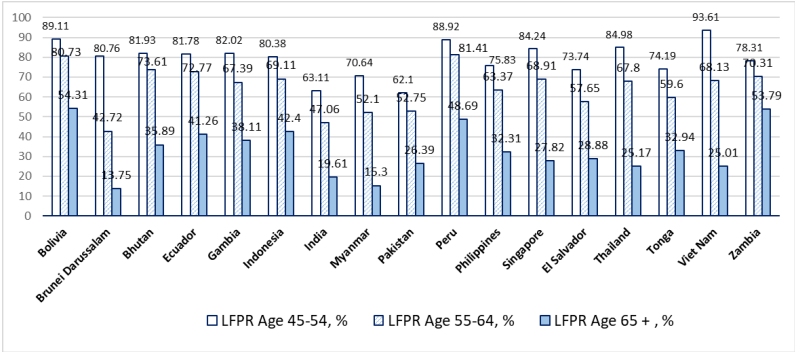
	Total LFPR, %	LFPR Age 55-64, %	LFPR Age 65+, %
2013	70.27	69.14	25.66
2020	67.02	67.70	25.72
2021	66.94	68.06	26.42
2022	67.54	68.61	26.49

Source: ILO Stat (ILO, 2023), compiled and rearranged by the author.

The labor force participation rate (LFPR) is calculated by dividing the number of people in the labor force (employed and unemployed) by the working-age population (usually 15 and older) (see detail of the calculation in Bourmpoula et al, (2013)). In developing nations, the lack of adequate income security and social welfare compels older individuals to remain active in the workforce, resulting in significantly higher LFPR compared to developed countries. Despite their

substantial contribution to household finances, older workers in developing countries, particularly in low-income regions, face declining remuneration as they age (Barrientos et al, 2003). Previously, Arifin and Anata (2009) drew attention to Thailand's relatively high labor force participation rate (LFPR) among individuals over 60, surpassing that of neighboring Southeast Asian economies such as Singapore, Indonesia, and Brunei Darussalam. However, recent estimations in 2018 indicate that Thailand's old-age LFPR has declined below that of Singapore and Indonesia, while still remaining higher than Brunei and Myanmar and close to Vietnam (Figure 1). When examining the LFPR change between the age groups of 55-64 and 65 and above, Thailand, along with Brunei, Vietnam, and Myanmar exhibit the most significant negative shift. This suggests that a relatively high proportion of older workers in these countries have exited the workforce as they have aged.

Figure 1. Labor Force Participation Rate in Thailand and Selected Countries, 2018



Source: ILO Stat (ILO, 2023), compiled and rearranged by the author.

An analysis of the relationship between the informal sector and the labor force participation rate (LFPR) among

individuals aged 65 and above in 82 selected countries reveals a strong positive Pearson’s correlation of 0.74. This finding is further supported by the regression analysis, which indicates that for every 1% increase in informal employment, there is an average 0.36% increase in the LFPR among individuals aged 65 and above (Table 2). The goodness-of-fit test demonstrates that the model effectively explains 54% of the variation in the old-age LFPR. Additionally, the Analysis of Variance, where F-statistics of 94.29 exceeds the critical value, confirms the overall significance of the model. The strong positive correlation between informal employment and LFPR among individuals aged 65 and above, coupled with the significant regression results, underscores the importance of the informal sector in supporting the labor force participation of older workers. It can be observed that the potential of Thailand's informal sector remains underutilized. By fostering the growth and development of the informal sector, Thailand can harness its potential to support the economic security and well-being of its older population.

Table 2 Ordinary Least Squares Regression

Dependent variable: LFPR Age 65 and above, %

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	4.448599889	2.0033873	2.220539128	0.02924709
Informal Employment, %	0.364914692	0.037580415	9.71023571**	4.0213E-15

** Significant at the 0.05 level

Source: Data from ILO Stat (ILO, 2023), author’s calculation.

5. Utilizing the Active Ageing Index (AAI) as an Indicative Policy Tool

Research has shown that appropriate employment can lead to active ageing and vice versa; and active ageing requires supportive policies (OECE, 2006; Parent-Thirion, 2014;

Myck, 2015, Phijaisanit, 2015; Magnavita, 2017). An example of the effectiveness of a macro-level policy linked to the degree of active ageing is the case of tax breaks for hiring older adults. In Thailand, one of the measures implemented is the corporate income tax deduction for hiring senior employees, as stipulated in the Revenue Code (No. 639) B.E. 2560. It was found that the provinces with increasing employment have higher active ageing score, compared to that in provinces with declining private sector employment after the policy was implemented in 2016 (Phijaisanit, 2021).

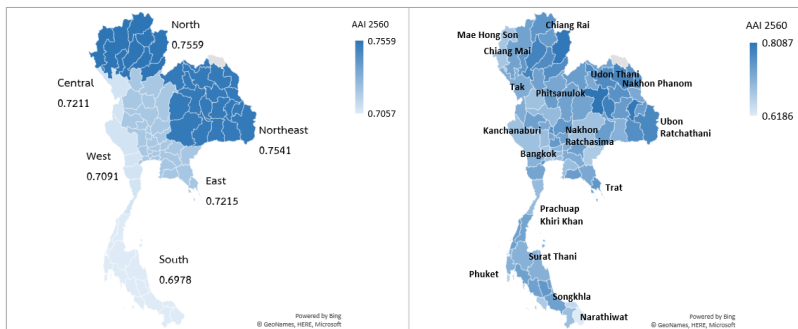
A report by the United Nations Economic Commission for Europe (UNECE) and the European Commission (2019), building on the lessons of their first report in 2015 (UNECE & European Commission, 2015), developed the Active Ageing Index (AAI) using the WHO's Active Ageing framework as the basis for converting it into different components of the composite index as a benchmark for comparing the quality of life of older people in the European Union.

The composite index, AAI, consists of 22 indicators, divided into four dimensions to reflect the characteristics of active ageing: (1) employment, (2) social participation, (3) independent, healthy and secure living, and (4) enabling environment for active ageing. It is a widely accepted tool for designing effective ageing policies in many countries, particularly in the European Union, the People's Republic of China, and the Republic of Korea, both at the national and local levels (UNECE & EC, 2015, 2019; Breza & Perek-Bialas, 2014; UNECE, 2012; Zaidi et al, 2017, 2019).

The development of the Active Ageing Index (AAI) in Thailand has been characterized by a gradual expansion of its scope and complexity. Early research focused on three dimensions of active ageing: health (HI), participation (PI), and security (SI) (Thanakwang & Soonthorndhada, 2006;

Chansarn, 2012; Saengprachaksakula, 2014). The National Statistical Office (2017) subsequently incorporated a fourth dimension, "enabling factors for active ageing," (EI) in its AAI calculations. This dimension captures indicators such as access to information and communication technology (ICT) and literacy. Most findings reveal that the level of active ageing of Thai elderly people is mostly at a moderate level.

Figure 2. AAI classified by region and province in Thailand, 2017



Source: Phijaisanit (2021), modified from Figure 9, p. 60 and Figure 17, p.

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Phijaisanit's (2021) extended utilization of Active Ageing Index (Figure 2) pinpoints regional disparities in Thailand, guiding local policy interventions. Prioritizing active ageing is necessary in the West and South, with specific needs addressed based on sub-indices: the Northeast on public health (HI), the West and South on transportation (PI), and the South on elderly security (SI). The North should benefit from lifelong learning initiatives (EI). This data, also available at the provincial level, empowers targeted policy crafting, complementing national initiatives and enhancing both active ageing and older adults' financial security.

6. Conclusion and Policy Implications

Thailand's ageing society presents a distinct set of challenges compared to developed countries where retirement age is a central concern. This is primarily due to the substantial informal sector, where income security is not contingent on formal retirement plans or age limitations. Consequently, the prevalence of old-age poverty often originates from earlier periods of financial hardship during the working years, underscoring the necessity for early interventions and proactive measures rather than an exclusive focus on retirement age policies. The fundamental challenge lies in empowering older adults to preserve their physical and cognitive abilities, through appropriate guidance, enabling them to continue working for extended periods to maintain financial security.

Informal employment plays a crucial role in promoting labor force participation among older workers, as evidenced by a strong positive correlation between the informal sector and the labor force participation rate (LFPR) among individuals aged 65 and above. Thailand, with its substantial informal sector, has the potential to effectively tap into this resource to enhance the well-being and economic security of its ageing population. However, despite the large informal sector, old-age labor participation has declined in recent years, particularly when examining the LFPR change between the age groups of 55-64 and 65 and above. Thailand exhibits a significant negative shift, suggesting that a relatively high proportion of older workers have exited the workforce as they have aged. To address these challenges and harness the underutilized potential of the informal sector in Thailand's ageing society, a multifaceted approach is required.

The Active Ageing Index (AAI) encompasses four dimensions through its sub-indices: health, social participation, security, and enabling environments. By

incorporating these dimensions, the AAI and its sub-indices can assist policymakers in effectively evaluating the employment situation of older informal workers, identifying impediments to their participation in the workforce within the context of their specific local areas. Based on the AAI findings, concrete and tailored policies and programs can be formulated to support the employment and overall well-being of older informal workers. These initiatives could include: skill training and microcredit initiatives, social participation opportunities in regions where social engagement is a critical need and infrastructure development to facilitate mobility and communication.

By utilization of AAI as a policy tool to effectively create an active-ageing ecosystem suitably designed for the localities, policymakers can harness the potential of the informal sector to promote increasing labor force participation, financial security, social engagement, and continued contribution to society, ultimately leading to a more inclusive and sustainable ageing society in Thailand.

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