

Toward an Integrated ASEAN Labor Market Prospects and Challenges for CLMV⁽¹⁾ Countries

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Abstract: Recently, at the 22nd ASEAN Labor Ministers Meeting (ALMM) held in Cambodia in May 2012 with the theme “Enhancing social protection and skill development”, Prime Minister Hun Sen continued emphasizing the role of the integrated labor market among ASEAN member countries for building the ASEAN Community (AC) as well as the ASEAN Economic Community (AEC) in 2015. The accomplishment of AEC would be considered as an important content to promote building an ASEAN labor market freer, more efficient and improving the competitiveness of member countries, especially for the less developed countries such as CLMV. However, an Integrated ASEAN Labor Market (IALM) would also pose some challenges for CLMV countries. In this context, this paper aims to focus on resolving the following two main questions: (1) What is the content of the ASEAN commitments for promoting an Integrated ASEAN Labor Market and the IALM would be a more complete market for free movement of skilled and professional labor within ASEAN countries?; (2) What are the prospects and challenges for CLMV countries? It is important to note here that in this paper, we focus only on a theoretical (not empirical) analysis of the integrated labor market in ASEAN and prospects as well as challenges for CLMV countries. Thus, the paper just provides theoretically analytical information and outcomes of the proposed research.

Keywords: ASEAN Economic Community, Integrated ASEAN Labour Market, CLMV countries.

1. ASEAN integration and its implications for an Integrated ASEAN Labor Market

1.1. ASEAN Agreements for an Integrated Labor Market

Over past years the ASEAN region has established some agreements and working programs on labor market integration starting with the existence of RTAs (Regional Trade Agreements). But all these existing agreements do not all have provisions to facilitate movement of natural persons, reflecting the difficulties in addressing the international labor market. RTAs which do not provide for full labor or service supplier mobility tend to use GATS type carve-outs as RTAs generally exclude permanent migration and access to the

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⁽¹⁾ An abbreviation of Cambodia, Laos, Myanmar and Vietnam.

labor market, and RTAs also do not impinge on the rights of countries to regulate the entry and staying of individuals. The RTAs tend to replicate two key bases found in GATS, namely, (i) favouring highly skilled and professional workers; and (ii) closely linking investment with the specialized skills such investments require.

The 1995 ASEAN Framework Agreement on Services (AFAS) provides *inter alia*, regulating convergence and harmonization, including Mutual Recognition Agreements (MRAs). ASEAN countries may recognize the education or experiences obtained, requirements met and licensing or certification granted by other ASEAN countries. However, progress in Mode 4 on movement of natural persons and progress on MRAs has been slow. The Bali Concord II in 2003 called for completion of MRAs for qualifications in major professional services by 2008 to facilitate free movement of professionals and skilled labor within ASEAN.

One of the most important ASEAN's working programs on labor market integration was that of the ASEAN Labor Ministers (ALM). Since 2000, ASEAN's work on labor and human resources has been guided by the ASEAN Labor Ministers (ALM) Work Program. The Work Program provides the framework to prepare the region's labor force to face the challenges of globalization and trade liberalization. The five broad priorities initially set in the Work Program are in the areas of *employment generation, labor market monitoring, labor mobility, social protection, and tripartite cooperation*. In May 2006, the ASEAN Labor Ministers agreed in their Joint Statement to add a sixth priority area, namely *occupational safety and health (OSH)*, in the ALM Work Program.

Apart from the priorities set in the ALM Work Program, ASEAN made a

groundbreaking move to address the issue of migrant workers on 13 January 2007, when its leaders signed the *ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers*. The Declaration mandates ASEAN countries to promote fair and appropriate employment protection, payment of wages, and adequate access to decent working and living conditions for migrant workers. As a follow-up to the Declaration, an ASEAN Committee on the Implementation of the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (ACMW) convened its first Meeting in September 2008.

Furthermore, the existence of the GMS⁽³⁾ Labor Migration Program which was launched in June 2005 as part of the World Bank's overall GMS regional assistance strategy, sought to address some of these key knowledge gaps. The objectives of this multi-year GMS Labor Migration program are to: (1) improve knowledge about labor migration in the GMS focusing on the socio-economic impact of migration on sending and receiving countries; (2) heighten awareness about these issues and their significance for poverty reduction at the highest levels of policy making and (3) strengthen the capacity of governments and development partners to refine and implement a regional system to facilitate and regulate labor migration.

In general, as I mentioned above some agreements and working programs on labor market integration exist in the ASEAN region at both regional and sub-regional level. However, I shall argue that these commitments

⁽³⁾ GMS: The Greater Mekong Sub-region Program was initiated by the Asian Development Bank (ADB) in 1992. The original members of the GMS Program were Cambodia, Lao PDR, Thailand, Myanmar, Vietnam and Yunnan Province of the People's Republic of China (PRC). In 2004, Guangxi Zhuang Autonomous Region of the PRC also joined the GMS.

bring both opportunities and obstacles for ASEAN, especially for CLMV countries. The five characteristics of the AEC as a single market and production base with a free flow of goods are: the free flow of services; the free flow of investment; the freer flow of capital; and free flow of skilled labor. It is likely therefore that the integrated ASEAN would be only for skilled and professional labor. Thus, this need of the AEC would make it hard for CLMV countries to deal with severe competition in the sending and receiving of labor forces in the near future once the AEC is established and an ASEAN integrated labor market is formed in 2015 and beyond.

1.2. The AEC and Integration of Labor Market in ASEAN

- Some theoretical arguments

We start by distinguishing between the concept of labor market interdependence and labor market integration. Labor market interdependence refers to the extent to which perturbation in one country's economy is felt in other countries' labor markets. Interdependence is thus promoted by the absence of barriers to factor mobility and trade. These barriers may be purely economic, for example, transportation costs, or they may be institutional, as in the case of legal restrictions on labor mobility and technology transfer or tariffs and quotas.

By contrast, labor market integration refers to the extent of factor mobility and trade between two or more economies. Thus, even if two economies are not integrated, perhaps because the structure of their economies is so similar that it eliminates the possibility of gains to factor mobility and trade, they may still be interdependent in the sense that a shock experienced in one economy creates incentives for integrated economic activity.

As we know, international trade is driven by comparative advantage, which in turn,

according to the standard Heckscher-Ohlin trade model, is determined by the relative stocks of production factors across countries. Countries export goods where they have a comparative advantage, resulting in the equalization of product and factor prices between trading partners. Assuming that production technologies are identical for all trading partners, a powerful implication of the Heckscher-Ohlin model is that trade can lead to full integration of product, capital, and labor markets even in the absence of international factor movement. International factor mobility reinforces the integrating effects of trade on factor and product markets.

In addition to the integration of markets, free international trade also results in increased income for all trading partners as well as improvements in their welfare. Recently, some industrial countries have argued that many domestic labor-intensive jobs have been washed away by newly industrializing countries in East and Southeast Asia. Changes in employment and relative wages are generally not attributable to evolving trade conditions. Despite employment declines in particular industries, the employment-creating effects of trade have outweighed the employment-displacing-effects.

Economic theory suggests that trade alone can potentially substitute for capital and labor mobility in integrating markets between trading partners, but empirically this situation is rarely found. Rather, high levels of factor flows are typically associated with high levels of trade flows. While movement of labor and capital has similar effects in promoting factor market integration, they should not be viewed as perfectly interchangeable.

- Towards an ASEAN Labor Market

As discussed above, in the theoretical argument section, building the AC in general and the AEC in particular in 2015 would be

viewed as a critical base for a fully integrated ASEAN as well as an ASEAN Labor Market. By the year 2015 and beyond, skilled labor in ASEAN countries would be free to move across countries as there will be free movement of goods and investment as well, making the region to be borderless for, among other factors, labor mobility.

In fact to the year 2015, the variations in the level of development of ASEAN countries will still be very large. Even though the implementation of many cooperation agreements towards the realisation of the AEC in 2015 actually implies that the labor markets of ASEAN countries are indirectly integrated through freer flows of goods and investment, and therefore, wages are expected to gradually converge according to the traditional theory of international trade. Even a few years from now, it is expected that the large variations in the level of development among ASEAN countries will remain. Thus, it is most unlikely that the labor market in ASEAN countries can become fully integrated as in the EU, as the Blue Print of the AEC also indicates a single market and production base in ASEAN with a free flow of skilled labor without any mention of movement of general labor.

Freer movements can be envisaged, however, at the top end of the labor market, in particular professions and for those with specific technical skills. These movements are complimentary to the freer movement of capital. With much industrial co-operation between ASEAN countries, and between ASEAN countries and foreign investors, expected as a result of various cooperation agreements and the AEC, it is natural to begin to explore how the labor market at the top end can become more fully integrated. Allowing freer movements of workers at the top end will, however, also imply the need for co-ordination

in social benefits and social insurance, so that workers can continue to be provided even though they may spend a temporary period working in another country. Thus, some of the same sets of issues that are now being explored by the EU may also need to be tackled, although only for a specific sub-segment of the labor market in ASEAN's case.

At the lower end of the labor market, presumably there will continue to be temporary migrations to work in various receiving countries. However, with the incentives inherent in large variations in levels of development, undocumented migration is likely to remain a serious problem for many countries. Developing a framework to deal with these issues at the ASEAN level would seem to be a fruitful way ahead. Indeed, the issue of labor migration in general appears to be an area that has not been sufficiently highlighted in the past and one that ASEAN should focus on much more in the future.

Many co-operative initiatives concerning the labor market are on-going ASEAN activities. These cover a broad range of areas, such as human resources development and planning, the self-employment and informal sector, industrial relations and improvement of working conditions. These should all be useful technical co-operation activities that all ASEAN member nations can benefit and learn from to improve labor market policies in their own countries. One additional area that should be focused upon concerns training programs for effective labor market adjustments. Many ASEAN countries will, of necessity, face some such issues in the ASEAN after the establishment of the AEC: Initiatives in Labor Market Co-operation and Integration adjustment problems for specific sectors as a result of AEC as well as rapidly changing competitive environment in the world economy.

Co-operative activities to share experiences and come up with effective models to implement labor market adjustments would be most useful given the dynamic environment of the future, especially in 2015 and beyond.

2. Prospects and challenges for CLMV's labor market

By 2015 and beyond, the AEC would make the Southeast Asian Region to be completely united and integrated in the sense of a community. Thus, there will be prospects as well as some challenges for markets of labor in CLMV countries as this group is considered to be lagging behind the ASEAN-6 countries in every aspect of social and economic development, including quality of labor and the labor market.

2.1. Prospects

- Skilled labor forces in CLMV countries have a chance to bridge gaps in sophisticated knowledge and skills with their colleagues in ASEAN-6 countries

For every nation, a high quality workforce is considered as one of the most important sources to develop their economy. In addition, globally there has been a net flow of highly skilled professionals and executives from the less developed countries to the more developed countries. As a consequence, developing countries generally have a scarcity of such skills due to the brain drain, which triggers adverse consequences and affects national economic development.

It is highly likely that when the ASEAN labor market is built in 2015, it will be able to bring many opportunities for narrowing the development gaps between CLMV countries and the ASEAN 6. We would expect this regional labor market to consolidate and

expand. Indeed, the further development of a well functioning labor market is in many ways a precondition for long-term equitable growth in the region, enhancing economic and social stability.

Bui and Vo (2007) present a "4-I" approach to address the development gaps in ASEAN, with the four "I"s referring to Income, Infrastructure, Integration, and Institutional Gaps. *In terms of the income aspect*, as we know, a great gap of income does exist within ASEAN countries, with member countries falling into three groups of per capita GDP. The high income group includes Singapore and Brunei; the middle income group includes Malaysia, Thailand, The Philippines and Indonesia, and the lowest income group is the CLMV countries. Nevertheless, by taking part in a common ASEAN labor market, and the effectiveness of promoting fair and appropriate employment protection, payment of wages, and adequate access to decent working and living conditions for migrant workers, CLMV countries' human resources can develop their skills and improve their salaries. For instance, workers who have few or low-paid employment prospects in the sending countries (Cambodia, Lao PDR and Myanmar) may find productive employment outside their community. Some of these workers may return home years later with money and skills to set up new businesses and help transform their economies and societies, while migrants, whether they return or not, may send remittances to families back home, contributing to increased consumption and reducing poverty in their communities of origin...

From another aspect, the "Integration Gap" should be considered in terms of labor cooperation procedures. As we know, all the ASEAN 6 members have been WTO members for a long time, while the accession of Cambodia, Vietnam and Laos occurred only recently. The ASEAN 6 members are also more

experienced in various regional and global economic arrangements, whereas the CLMV countries made their very first moves in regional and international integration within the last decade. However, in order to build an integrated labor market in 2015 as a commitment, CLMV and other ASEAN members have to make further efforts to accelerate the process of integration, and harmonization of procedures related to labor, migrants, etc.⁽⁴⁾

- Enhancing the quality of labor and the labor market

By establishing ASEAN's labor market in 2015, this will bestow positive effects upon CLMV's human resources. First, cooperation will improve the flow of information. Sending and receiving countries, employers and migrant workers can all benefit from better transparency and information exchange on the laws, regulations and procedures that govern the cross-border flows of workers. Information programs are needed to familiarize would be migrant workers with the laws and regulations, value systems and customs of their host countries to help them stay within the law and to assimilate.

Second, the integrated labor market would help CLMV's workers develop their skills and experiences through pre-employment training and on-the-job and off-the-job training or vocational training in ASEAN's member countries. For example, the Vietnamese government has adopted a policy to push job training and orientation for migrant workers before getting a job abroad. The pre-departure training program includes basic training and customs of recipient countries and topics on work discipline. In 2007, an allocation of US\$ 1 billion from the government budget was targeted at improving workforce quality to make Vietnamese labor exports competitive with those from other countries. Over 50 per cent of overseas workers have attended the vocational training courses. Huy (2008) argued that implementation of this policy has contributed to the improved quality of Vietnamese overseas workers. Furthermore, it is believed that the ASEAN's labor market will become more competitive due to the efficient allocation of resources and the competitive advantage of each member.

Third, ASEAN labor market integration promotes and protects the Rights of Migrant Workers. As we know, apart from the priorities set in the ALM Work Program, the ASEAN made a groundbreaking move to address the issue of migrant workers on 13 January 2007, when its leaders signed the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. The Declaration mandates ASEAN countries to promote fair and appropriate employment protection, payment of wages, and adequate access to decent working and living conditions for migrant workers. The adoption and implementation of this declaration can reduce the transaction costs and exploitation faced by migrant workers when seeking employment abroad such as – the high costs of passports and visas and other fees

⁽⁴⁾ Recently, the Ministers adopted the ASEAN Labor Ministers' Work Program (2010-2015) which will serve as a guideline for the labor cooperation to support the realization of the ASEAN Community by 2015 and the vision of the ASEAN Labor Ministers of a better quality of life, productive employment, and adequate social protection for ASEAN peoples. The new ALM's Work Program consists of four specific strategic priorities, namely (i) legal foundation (ii) institutional capacities, (iii) social partnership, and (iv) labor markets and workforce development, taking into account the unique circumstances of each Member State. The new Work Program sets strategies for Member States, either collectively or individually, to develop policies and mechanisms, allowing labor cooperation activities, which will be undertaken over the next five years to remain effective and responsive to the various ASEAN challenges.

charged by local governments and agencies; the reduction of abuses and exploitation at places of employment - these include non-compliance with the labor laws of the host country; the mistreatment of the workers, nonpayment of wages; and reduction of exploitation by unauthorized agents in sending and receiving countries in the sending of remittances.

Fourth, an integrated labor market would resolve the problem of illegal migrants. It can improve transparency and lessen the bureaucratic and documentary requirements for legal entry and employment; improve information flow about the penalties for irregular entry and employment (and also their employers); allow the exchange of information between governments on illegal migrants and joint action in the deportation of these workers and their return to their home country without prospects of circular migration.

- Strengthening labor cooperation with dialogue partners and international organizations

When the ASEAN labor market is formed in 2015, it will create opportunities for deeper and wider labor cooperation with dialogue partners and international organizations. With an abundant and skilled labor force, CLMV's labor will be an important source for developed countries where there are labor shortages. In addition, it is believed that the labor participation of CLMV will be at a deeper level with workers required at a higher level. However, in the early stages of the cooperation the focus should be on sending the CLMV experts to developed countries to learn and absorb new technologies.

2.2. Challenges

- Increasing competitive pressure for labor market in CLMV countries

Demographically, the average population growth of CLMV countries is higher than other ASEAN countries, with the former accounting for 2.1 percent while the latter was only 1.2 percent in 2005-10. To be specific, among CLMV countries, Cambodia and Laos stand at the highest rate (2 and 2.2 percent, respectively), followed by Vietnam (1.3 percent) and Myanmar (0.9 percent)⁽⁵⁾. Along with this, the age structure in CLMV countries is still youthful. Hence, these countries' governments are faced with a series of questions, such as, how to create new jobs, how to alleviate unemployment, and how to reduce the incidence of poverty, etc.

Economically, CLMV's labor will suffer competitive effects from others within the ASEAN region, especially high quality labor with a higher level of wages and better working conditions. In ASEAN-6, especially in Singapore and Malaysia as well as in Thailand, more and more skilled labors from CLMV countries would seek jobs in ASEAN-6 countries for higher paid and better working conditions. This would make the labor market more and more competitive by 2015 and beyond. According to some estimates by OECD, with the effects of the labor market integration, around 5-10 percent of the labor forces in CLMV countries could come from ASEAN-6 countries, making pressures on labor forces in CLMV countries more severe.

- Skilled migration and the brain drain

The facts have shown that the international labor migration of professional and skilled manpower has increased much over the past two decades, although their numbers are still small relative to semi-skilled and unskilled overseas workers. Developing countries, such as CLMV countries, generally have a scarcity

⁽⁵⁾ UN, World Population Ageing 2007.

of such skills and brain drain can adversely affect national economic development. Many of these skilled emigrants started the migration process when they left CLMV for more advanced-education providing countries to pursue university education and then stayed on to gain work experience and were attracted by the job opportunities and the better remuneration and working conditions. Some estimates by ADB reveal that, with the AEC, around 15-20 percent of the skilled labor force from CLMV countries would leave their home countries to seek jobs with higher wages and a better working environment in ASEAN-6 countries, making the wave of brain-drain more serious for CLMV countries. At the same time, following the commitments in the ASCC (ASEAN Social Cultural Community), liberalization of the 'movement of natural persons' has resulted in significant labor mobility of professionals and skilled workers from CLMV countries to more developed countries in the Southeast Asia region. Take The Philippines as a stark example. This country exports large numbers of its professional nurses to meet the rising demand in OECD countries for healthcare professionals (nurses and doctors). However, the continuing and rising exodus of experienced nurses is threatening the viability and productivity of the Philippines' healthcare sector. The strong external demand has also attracted Filipino doctors and other health professionals to take up nursing qualifications to improve their 'exportability'.

However, on the other side, it is predicted that the brain drain could also have positive effects on CLMV countries that are unable to efficiently absorb their own human resources because of a high unemployment rate, as emigrants can make a greater contribution to

development through their remittances⁽⁶⁾. Prospects of emigration for work can also lead to a higher level of human capital formation in the CLMV countries. Also, there are significant gains when the "brains" eventually return⁽⁷⁾ after they gain experiences from abroad. Some predictions show that around 60-70 per cent of labor working abroad would return after 8-10 years working in a foreign country.

- Social effects

The social consequences of the freedom of people mobility are a current theme of public debate in labor receiving countries. A common allegation is that migrant workers contribute to crime and various diseases. There is also an element of racism and cultural protectionism in the objections to a large foreign worker presence in the economy and society. For CLMV countries, which are considered as the top flag of protectionism in Southeast Asia region, it is believed that conflicts would happen as a consequence of unequal treatment for overseas workers by host countries, such as physical and mental abuse and breach of contract between employer and employee including non-payment of wages, as well as fraud and exploitation by recruiting agencies at home.

Furthermore, the facts have shown that the proportion of illegal workers in Asian developing countries is still standing at a high level, especially for CLMV countries where the number of illegal migrant workers is much higher than legal migrant workers. Illegal

⁽⁶⁾ Huy (2008) reports that in 2004, Vietnamese overseas workers remitted home some US\$ 1.6 billion, accounting for 3.3 percent of GDP.

⁽⁷⁾ Althukorala (2004) cautioned that the realization of these gains of skill formation depends on three preconditions: jobs open to the migrants in their host countries result in additional skill acquisition; these new skills are appropriate to the labor market conditions of the home country; and upon return the workers will employ these new skills.

migrant workers in Thailand mostly come from Myanmar, working in agricultural, industrial and manufacturing sectors. It can be said that one of the main reasons for this situation is the ineffectiveness of the migration management policies. In order to restrict illegal migrant workers, the Thailand's government has licensed to these people (Cambodian, Lao and Myanmar).

3. Some Concluding Remarks

Towards an ASEAN Integrated Labor Market. We are heading towards the accomplishment of the ASEAN Economic Community in 2015. This will be a milestone for labor movement and mobility across countries in Southeast Asia. As an integrated labor market for skilled labor forces only, we will see a big change in the movement of labor forces within ASEAN countries. However, there will be great prospects as well as challenges for the labor force from CLMV markets. They will be in position of severe competition with their counterparts in the ASEAN-6 countries. Nevertheless, it will also provide a good opportunity for CLMV

countries to improve the quality of their labor forces in order to help them integrate fully into the ASEAN labor market in future, once the AEC is formed.

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