

ASEAN Economic Integration Demand of Unskilled Labours

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Abstract

ASEAN leaders have declared officially the formation of ASEAN Community in 2015, with ASEAN Economic Community (AEC) as one of its pillars. The formation of AEC was intended to have an integrated economy of ten member countries of ASEAN to become a single market and production based. This ASEAN region would have been characterized with free flow of goods, services, investment, skilled labor, and capital. ASEAN has selected some economic sectors as priorities in gaining high productivity and joining the global value chain. Selecting and absorbing potential skilled labor force capacity into ASEAN production base program can achieve a high productivity. ASEAN has agreed on 8 selected professionals that can move freely within ASEAN region by utilizing MRA mechanism. This article discusses the ASEAN commitment toward this agreed agenda and reviews its implementation in the ASEAN member countries. This article argues that ASEAN has failed to maximize its potential labor force, as ASEAN has not included low-skilled labor in its programs. ASEAN free flow of skilled labor is not really a free movement of labor.

Keywords: *AEC, skilled labor, single market, ASEAN*

I. Introduction

Many countries have joined the economic integration pact in order to gain some economic benefits from globalization era. In Southeast Asia, the integration of economic and politics have yet to be accomplished due to the complex political and historical background. Therefore, the Association Southeast Asian Nations (hereinafter ASEAN) and ASEAN Member Countries (AMCs) tried to seek for unity in the form of economic, political and security, as well as the socio-cultural community to create a stabilized region and achieve prosperous people of AMCs.

ASEAN has actively promoted some regional values and strived to solve region's problems. Year of 2016 has witnessed ASEAN's new era as ASEAN established ASEAN Community (hereinafter AC) which comprised of three communities, namely ASEAN Economic Community (AEC), ASEAN Political Security Community (APSC) and ASEAN Socio-Cultural Community (ASCC). Under the economic integration context, 'ASEAN 2025: Forging Ahead Together' the ambitious AEC vision is stated as follows,¹

"We ASEAN Economic Community by 2025 shall be highly integrated and cohesive, competitive, innovative and dynamic; with enhanced connectivity and sectorial cooperation; and a more resilient, inclusive, and people-oriented, people-centered community, integrated with the global economy".

It is clear that the AMCs would like to create a highly integrated and dynamic community by focusing on people of ASEAN (people-centered) and this will lead to the sustained high economic growth in the region as trade, investment will increase and many jobs will be created. In addition, the AEC vision also consists of goals, one of them is "a more seamless movement of investment, skilled labor, business persons, and capital".² With the establishment of the AEC in the end of 2015, ASEAN achieved a significant milestone in the region's growing politic, economic and cultural integration.

With an ASEAN overall workforce of more than 300 million people, the AEC has strong implications in terms of labor migration and human resource development. Structural change as a result of the AEC is likely to increase the demand for a mix of managerial, technology and care employability skills. AMCs has agreed on the Mutual Recognition Arrangements (MRA) which recognize education, experience, licenses, or certifications obtained in one of the AMCs for eight professions, namely engineering, nursing, surveying, architecture, medicine, dentistry, tourism, and accounting. However, these eight professions represent only 1.5 percent of a total ASEAN workforce of over 300 million, dominated by unskilled and low-skilled workers. Ironically, the ASEAN MRAs this far have not included the vast majority of the ASEAN workforce, despite the high demand for the mobility of these workers in a number of industries. Indeed, among the professions that have been agreed, unskilled workers are not included in the list, yet most of the remaining workers seeking jobs in the other nations within ASEAN have low qualifications. This article discusses the absence of unskilled workers as these labors have the important role in the attainment of the AEC as unskilled worker is also an asset for all of the AMCs and ASEAN Priority sectors.

II. Free Flow of Skilled Labour in ASEAN

The implementation of the AEC requires labor's skills across countries and sectors, based on evolving patterns of comparative advantages. In result, labor migration expects to increase, both within and outside the region.. Although the AEC increases welfare, wages,

¹ ASEAN, ASEAN Community Vision, ASEAN 2025: Forging Ahead Together, the ASEAN Secretariat, Jakarta, p. 15

² ibid

⁹ and employment, the benefits are distributed unevenly among countries and sectors, and between men and women.

AMCs have signed several agreements in order to realize the single market and production base. Three important agreements are (1) the Mutual Recognition Arrangements (MRA) which recognize education, experience, licenses, or certifications obtained in one of the AMCs for engineering, nursing, surveying, architecture, medicine, dentistry, tourism, and accounting; (2) streamlined visa and employment regulations for professionals and skilled laborers engaged in cross-border trade and investment; and (3) enhanced cooperation among universities in the ASEAN in order to increase the mobility of students and staff.³

The AEC can certainly generate higher-skilled and more productive employment. This would allow low-and middle-income AMCs to move up the productivity and skill ladder to be competitive and not relying on a low-skilled workforce to drive exports and growth. But this process will not happen automatically as the AMCs need to have structural change by strengthening their national education and training systems as well as ensuring that the most vulnerable have the qualifications and competitiveness needed to compete for these jobs. This is not an easy task, especially for AMCs that have unstructured education and training system and have more unskilled or low-skilled than high skilled labor in their local workforce.

A considerable benefit from the AEC is the free movement of skilled labor. Through mutual recognition arrangement (MRA), the AMCs have allowed laborers ¹⁴ eight professions to seek employment freely within the bloc.⁴ The objective of MRA is to set up accreditation procedures and mechanisms for equivalency while recognizing the inter-country differences in education and training experience and licensing requirement for the practice of professions.⁵ It will lead to the movement of labor (eight professions) freely within the region. For example, the ASEAN Mutual Recognition Arrangement on Architectural Services (2007) sought to establish a standard mutual recognition arrangement for architectural services to facilitate mobility of architects within ASEAN. The Agreement provided that the relevant professional regulatory authority in each AMC consider applications to practice as a registered foreign architect and monitor and assess successful applicants, reporting to 'relevant local and international bodies' on implementation.⁶

There are difficulties in implementing these eight MRAs due to the varieties of national regulations of AMCs as well as the existence of regional standards ¹ regulating various industries. Indeed, the implementation of these MRAs varies greatly from one to the others. Engineering and architecture have achieved well-established competency standards and registration systems both at the national and regional levels. On the other hand, nursing, medical and dental services have not established a regional registration system and the implementation of these MRAs has been dependent on national regulatory adjustments. Since national regulations related to the health sector in most ASEAN countries restrict foreign professionals, the free flow of health professionals in the region is unlikely to materialize in the near future. Even for engineering and architectural services, with their advanced competency standards and registration systems in ASEAN, the number of engineers and

³ Heru Sudarmanto, Sumarna F Abudurahman, Indonesia and AEC: Free Flow of Skilled Labors, 20 January 2016, Indonesia – Investment, see at <https://www.indonesia-investments.com/news/todays-headlines/indonesia-asean-economic-community-free-flow-of-skilled-labor/item6405?>

⁴ ASEAN Agreement on MRAs.

⁵ Tereso, S. Tullao, Jr and Michael Angelo A. C. ²⁰, 2006, Enhancing the Movement of Natural Persons in the ASEAN Region: Opportunities and Constraints, Asia Pacific Research and Training Network on Trade Working Paper Series, No. 23, Dec 2006

⁶ ASEAN Mutual Recognition Arrangement on Architectural Services, done at Singapore, 19 November 2007, art.4.1; see also Simon Chesterman, 2015, From Community to Compliance?, the Evolution of Monitoring Obligations in ASEAN, Integration Through Law, the Role of Law and the Rule of Law in ASEAN Integration, Cambridge Univ Press, p.22

¹ architects who are interested in registering with ASEAN is way below expectations. After the MRA on engineering services was signed, the number of ASEAN chartered professional engineers that come from different countries in the region has only reached some 1,400.⁷ The ASEAN registered architects have much less number than engineering. Furthermore, the MRA framework for surveying qualifications that was signed in 2007 has not yet been translated into a more detailed and operational MRA due to different perspectives among AMCs in this field. The only ASEAN MRA that has made speedy progress² is the one on tourism.

The dearth of effective labor mobility programs is also a symptom of the need for regional standards regulating various industries.⁸ ASEAN's aviation industry, for instance, does not have common regulations for personnel licensing, training, safety and maintenance, flight operations, and air traffic management.⁹ Establishing common guidelines for industries across ASEAN could facilitate the growth of regional businesses and industries, build a larger and more qualified labor force, and promote interconnectivity. In order to mitigate this obstacle, ASEAN has established ASEAN Qualification Framework (AQF) to create universal measures of qualifications and to harmonize regulations. It includes the attempt to encourage universities to cooperate and develop a common standard. Due to lack of specific targets deadline and numbers, this initiative remains far away.

In the individual AMC, like its neighbor, Singapore, Brunei Darussalam maintains a relatively open regime when dealing with the free flow of skilled labor. One of the underlying factors for having an open regime is that there remains a significant imbalance between the skills of the domestic labor force and the labor skills that are required.¹⁰ Similar with Singapore, Brunei Darussalam has a relatively small population, considered highly educated workforce small and developing, Singapore and Brunei are relatively open towards trade and foreign direct investment where needs more workers to fill in the employment gap, particularly the blue-collar jobs which the local workers do not want to do as this type of work is demeaning, dangerous, and dirty.¹¹ From Vietn⁷m's perspective as a low middle-income economy, some major challenge remains as the country has to take full advantage of labor/resources while moving up the value chain for higher value-added and avoiding the 'low-cost labor trap'. In ASEAN region, increasing economic disparities among the AMCs have further segmentation in the changing regional division of labor. While the developed member countries look to cheap labor (primarily female) for its emerging national industries as replacements for the high cost of domestic labor, higher growth industrializing economies in turn look to least developed countries for industrial (both male and female) and domestic labor (all female). Indeed, as economic activities globalize, capital flows create new conditions for the mobility of labor.

In term of mobility of labor, the sending states and the receiving states have different characteristics but have mutual interests in relation to their type of demographic. From the sending states, lethargic economic performance and rapid population growth have created an excess supply of labor. To mitigate the growing internal underutilization of labor, the international market and overseas employment can serve as a vent for excess labor. From the

⁷ Mohammad Faisal, AEC at² Congested Labor Mobility, the Jakarta Post, January 18, 2016

⁸ Alexander Chipman Koty, Labor Mobility in ASEAN: Current Commitments and Future Limitations. ASEAN Briefing, May 13, 2016

⁹ Ibid

¹⁰ Lin²³ck Hoi, 2012, Achieving the AEC 2015: Challenges for Brunei Darussalam, in Sanchita Basu Das (Ed), Achieving the ASEAN Economic Community 2015: Challenges for Member Countries & Businesses. ISEAS, p. 28

¹¹ Koesrianti, An Overview of Indonesia's Protection on Women Migrant Workers, Asian Yearbook of International Law, Vol 18 (2012), 2016, p. 124

receiving state. however. rapid economic growth, slow population growth and other effects of the demographics dividend create an excess demand for labor. One response to this critical labor market disequilibrium is sourcing labor from overseas.

III. ASEAN Economic Integration needs Unskilled Labours

As part of economic integration, in 2004 ASEAN Framework Agreement for the Integration of Priority Sectors, (Framework Agreement) signed by AMCs has an objective to identify measures to be implemented, with clear timelines in a mutually beneficial manner by Member States in respect of the priority sectors identified in the Framework Agreement so as to enable the progressive, expeditious and systematic integration of these sectors in ASEAN. The Priority Integration Sectors (PIS) cover sectors as follows:¹²

1. Agro-based product
2. Air travel
3. Automotive
4. E-ASEAN
5. Electronics
6. Fisheries
7. Health care
8. Rubber-based products
9. Textiles and apparels
10. Tourism
11. Wood-based products
12. Logistics¹⁹

¹⁷ These sectors were selected on the basis of comparative advantage in natural resource endowments, labor skills and cost competitiveness, and value-added contribution to ASEAN economy.¹³ This arrangement has led to job creation in the AMCs as this is in line with the aim of the AEC which is envisaged as a single market and production base with free flow of goods, services, investment, skilled labor and freer flow of capital. The dynamic division of labor amongst ASEAN countries will result from sustained flows of direct investment, including the relocation of industries from more developed to less developed ASEAN countries and the continuous expansion and upgrading of regional production networks.¹⁴ Related to this division labor, a single production base means that production activities in each one of the ASEAN countries will become (more) regionalized, if not internationalized at the same time.¹⁵ In relation to job creation, in the ASEAN region, the agricultural, trade and transportation and construction sectors will see the most jobs generated overall.¹⁶ These sectors however are not included in the PIS.

⁹ ILO research found that if the AEC programs managed well within a decade, it could boost the region's economies by 7.1 percent by 2025, increase investment, and generate 14 million additional jobs.¹⁷ It however, warns the AMCs that the gains will not be distributed evenly unless decisively managed and this could increase inequality and worsen existing labor market deficits, such as vulnerable and informal employment including unskilled

²² The 2004 ASEAN Framework Agreement for the Integration of Priority Sectors, (Framework Agreement) has been amended 8 December 2006, with logistic as the 12th priority integration sector.

¹³ Framework Agreement, *ibid*

¹³ Jacques Pelkmans, 2016, *The ASEAN Economic Community: A Conceptual Approach, Integration Through Law, the Role of Law and the Rule of Law in ASEAN Integration*, Cambridge University Press, p. 97

¹⁵ *Ibid*

¹⁶ International Labour Organization (ILO) and Asia Development Bank (ADB), 2014, *ASEAN Community 2015: Managing integration for better jobs and share prosperity*, p. 23

¹⁷ *Ibid*.

workers, and working poverty. Labor migration across AMCs occurs largely in informal sectors and focuses on low- and medium-skilled employment groups. The existence of development gap and structural factors in the AMCs, such as population aging, growth in the labor force, and political stability mostly have affected labor migration within the region.¹⁸ Each AMCs has its own structural factor and this lead to the various pull factors across the countries as a source or destination for migrant labor. For example, most migrant from Malaysia, Lao People's Democratic Republic, and Cambodia tend to go to other AMCs. Migrant workers from the Philippines and Vietnam prefer to move outside the region. Thailand attracts migrant labor mostly from other ASEAN countries, while more than 80 percent of workers who migrate to Brunei Darussalam come from outside the region.¹⁹

It should be noted that while some sectors will flourish, others are likely to see job losses, and some workers will not necessarily have the right skills to seize the new opportunities created by the AEC. Coordinated and coherent policies will be needed at both regional and national levels to ensure inclusive and fair outcomes. The governments of the AMCs need well-designed industrial and sectoral policies. Unskilled labors, however, do not have access to gain some benefits from improved productivity that may bring income increases only for some, particularly high-skilled workers. The AEC's provisions on a free flow of skilled labor are likely to have little impact as it will affect less than one percent of workers in AMCs, limited to high-skilled labor, while medium and low-skilled migration will continue to increase. In other words, the AEC would not be benefited for majority people in the region and this contradicts with the AEC's vision that put more to programs that people-centered and people oriented.

ASEAN integration bringing together a population of more than 600 million and rapidly growing middle-class workforce, offers opportunities for countries to strengthen their manufacturing bases. The share of middle-class workers defined as workers living in households with per capita income of \$4 and above is projected to increase from 35.1 percent (108 million) to around 44 percent (144 million). It is happen on 2013 to 2017 in Southeast Asia and Pacific region.²⁰ This risk for vulnerable workers, highlighting the need for implementation of the measure identified in the ASEAN Declaration on Strengthening Social Protection to improve the quality, coverage, and sustainability of social protection was started with the establishment of a social protection floor for all.²¹

Moreover, as a result of rising wages and purchasing power, developing economies and regions are fast becoming centers of demand for manufactured products, rather than mere suppliers of the goods.²² As centers of demand for manufactured products, the ASEAN region needs more workers, in particular, workers with low-qualification or unskilled labors. In this context, ASEAN should add a provision on unskilled workers. This should be coordinated with employment policy and based on tripartite, dialogue with a view to supporting employment growth in higher productivity service and manufacturing. Yet efforts are required to diversify employment to other manufacturing subsectors.

In addition, the demand for specialized intermediate goods and services has facilitated the growth of specific industries in the region including, for example, electronic sectors in

¹⁸ The AEC needs to Include Unskilled Labor Migration Provisions, see at <http://www.economywatch.com/features/The-AEC-Needs-to-Include-Unskilled-Labor-Migration-Provisions.12-19-14.html> (Accessed 30/01/2018)

¹⁹ ibid

²⁰ S. Kopsos and E Bourmpoula, 2013, Employment and Economic Class in the Developing World, ILO Research Paper No. 6 (Geneva, ILO, 2013)

²¹ ILO and ADB, ibid

²² McKinsey & Company: "Shaping the future of manufacturing", in McKinsey Quarterly (2014, No.1)

Malaysia, the automobile sector in Thailand, footwear in Indonesia and garment sector in Cambodia. All of these sectors have absorbed abundant low-skilled workers.

The ILO Research Paper has projected ten occupations with the highest demand under the AEC scenario, in the period of 2015-2025, are among others, mix crop and animal producers, shop salespersons, laborer in agriculture, forestry and fisheries (Lao PDR, Philippines, Thailand and Vietnam), laborer in construction and mining, market gardeners and crop growers, machine operators of textile, fur and leather products, handicraft workers, etc. From this data, one can assume that the largest absolute demand is generally for low and medium-skill occupation.

IV. Conclusion

By 2015, the AEC envisioned as a single market and production base became reality. The establishment of the AEC aimed to get benefits from the global fragmentation of production activities across borders as an important feature of global trade. The AEC has an ambitious vision to integrate the region as a single market and production base which is characterized by the free flow of goods, services, investment, capital and skilled labor in the region. ASEAN integration bringing together a population of 600 million and a rapidly growing middle-class workforce, offers opportunities for AMCs to strengthen their manufacturing basis.

In terms of labor mobility, the AMCs has signed eight of MRAs for the facility of free flow of eight professions within the region. Nonetheless, there remain significant barriers to skilled labor integration. This has happened as there was a significant imbalance between the skills of the domestic labor force and the labor skills that are required. In order to have a more integrated economic region, the AMCs have signed the PIS agreement which they agreed to integrate twelve sectors that would create employment within the region. This agreement based on its substance was designed to boost economic activities and productivity in the AMCs and create jobs especially for low-skilled labor and/or unskilled labor. This type of labor however is not included in the ASEAN labor mobility agreement. Unskilled labors have a significant role in the supporting employment growth in higher-productivity services and manufacturing, in some countries development of economic growth of ASEAN region, since the manufacturing activities rely on unskilled labors. Thus ASEAN should have a provision on the protection and mobility of unskilled labors. Coordinated and coherent policies are needed at both regional and national level to ensure inclusive and fair outcomes and more importantly, continued efforts still are required to strengthen labor market policies and institutions to address informality and protects the vulnerable group of workers.

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