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The Limited Impact of the ASEAN Economic Community on Skilled Labour Migration

By Sukti Dasgupta and Sanchita Basu Das***

EXECUTIVE SUMMARY

- With the deadline of 31 December 2015 looming ever closer, there are increasing discussions on the form and bearing of the ASEAN Economic Community (AEC) on labour markets.
- AEC's impact on the region's employment prospects comes from two channels—first from the structural changes in domestic economies; and second from the AEC's promotion of free movement of skilled labour through the establishment of Mutual Recognition Arrangements (MRAs) of professional services.
- With structural change overtime, the AEC can potentially boost the region's GDP by 7.1 per cent by 2025 and generate 14 million jobs in the process. However, the gains will not be evenly distributed across countries, sectors or skill groups. It should be noted that structural shifts in domestic economies and their impact on labour markets will take time to materialize and it is expected to

happen only when other AEC measures of trade, investment and connectivity have been carried out effectively.

- As for the MRAs, although they have been signed for seven professions, their effectiveness in promoting greater flows of professional services within the region is negligible, as the individual economies are yet to align their domestic rules and regulations to the regional initiative.
- Although the changes in the labour market will take time to materialise, policy makers need to start preparing for them now. No doubt, AEC will result in higher welfare, wages, and employment, but the benefits will be distributed unevenly, increasing existing inequalities. To address this, coordinated and coherent policies will be needed at both regional and national levels to ensure inclusive and fair outcomes.
- For MRAs to work effectively, much will depend on unilateral actions of member economies and their willingness to change domestic laws to facilitate the movement of professionals. Even if these happen, policy makers will subsequently need to clearly communicate their policy directions and convince their professional bodies to share the same objective and vision.

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INTRODUCTION

With the deadline of 31 December 2015 looming ever closer, there are increasing discussions on the form and bearing of the ASEAN Economic Community (AEC). Citizens in general are concerned not only about more choices of consumer products but also about employment prospects. This is because the AEC envisions ASEAN as a single market and production base characterized by free flow of goods, services, and investments, as well as freer flow of capital and skilled labour.

AEC's impact on the region's employment prospect comes from two channels. First, from the structural change in the domestic economies - trade integration is expected to bring changes in resource allocation across sectors as a result of shifts from less productive to more productive economic activities. Second, from the AEC provision of free movement of skilled labour through the establishment of Mutual Recognition Arrangements (MRAs) of professional services. This issue of *ISEAS perspective* discusses the impact of AEC initiatives on ASEAN's labor market through these two channels.

This paper concludes that the impact of AEC on the labour market through the channel of structural change, skills, productivity and wages will take place over a long period of time, perhaps over 10 to 15 years. Its direct and immediate impact through labour mobility provisions of the AEC Blueprint will be minimal, again in the immediate future.

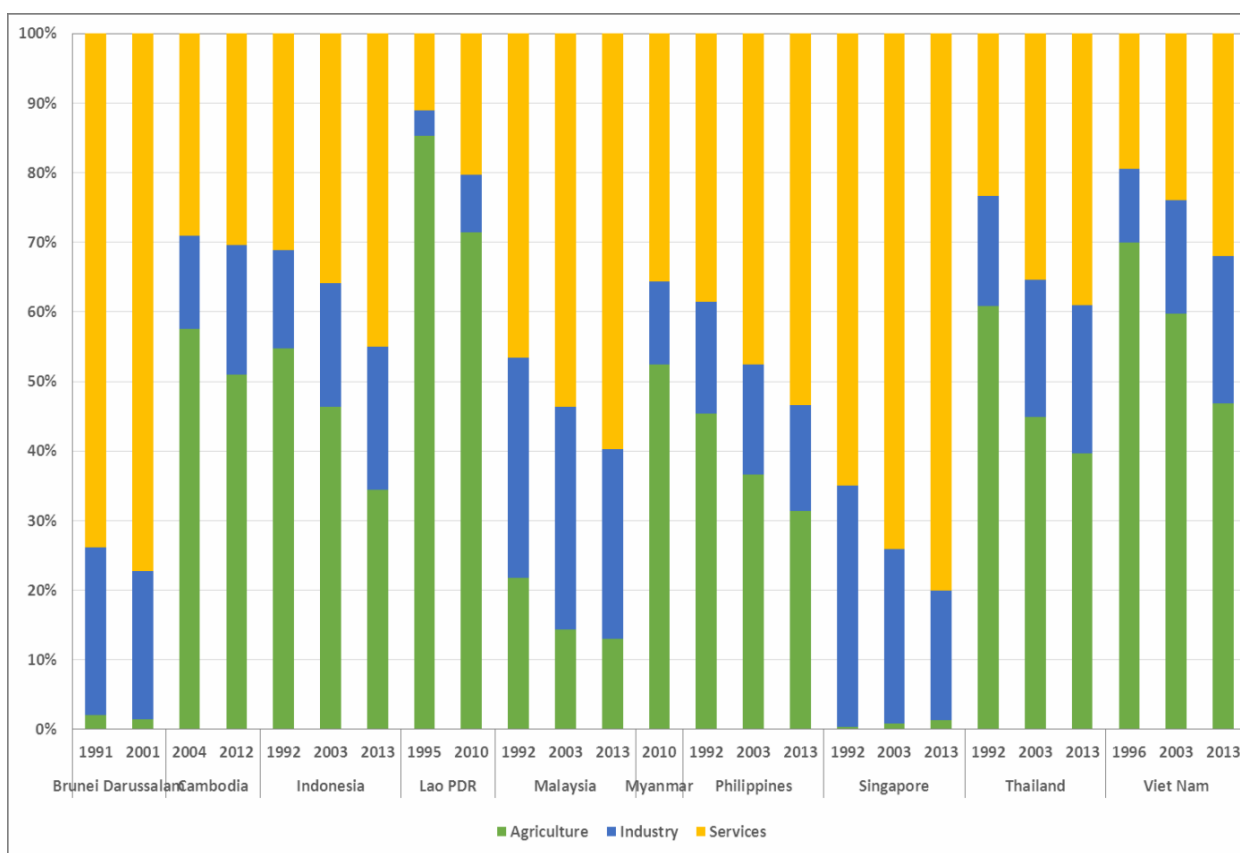
AEC AND STRUCTURAL CHANGE IN DOMESTIC ECONOMIES¹

As for structural change, AEC has the potential to influence the production process in the future, and may lead the region's 300 million workers to move from one economic sector to another. There may be some sectors and occupations that are likely to grow as the ASEAN integration process matures overtime. This has been observed in the past, no doubt, but the AEC could accelerate the pace of structural change.

¹ This section comes from a recent publication by the Asian Development Bank and the International Labor Organization - *ASEAN Community 2015: Managing Integration for Better Jobs and Shared Prosperity, 2014* (<http://www.adb.org/publications/asean-community-2015-managing-integration-better-jobs-and-shared-prosperity>)

In the last two decades, ASEAN saw a decline in agriculture employment, which was mainly compensated for by the services sector. Currently, while agriculture accounts for 40 per cent of total employment, industry accounts for 19 per cent and services for 41 per cent. However, a regional generalization masks the cross-country variation. Country-wise, even today, agriculture remains the largest employer for Cambodia, Laos, Myanmar, Thailand and Vietnam. Services sector employment plays an important role only in Singapore, Brunei, Malaysia, the Philippines and Indonesia (Figure 1).

Figure 1 – Employment by sector, 1992, 2003 and 2013 (per cent)



Source: ASEAN Community 2015: Managing integration for better jobs and shared prosperity, ADB-ILO (2014)

However, some service sub-sectors, especially in the trade sector, have incomes and productivity (measured by value added per worker) which are not much higher than those found in the agricultural sector, and in some cases are even lower, often implying large shares of vulnerable jobs.

A recent publication by the Asian Development Bank and the International Labour Organization (ADB-ILO) estimates that by 2025 (with AEC in place and for the six ASEAN countries for which detailed labour market data is available, i.e. Cambodia, Indonesia, Laos, Philippines, Thailand and Vietnam) a total of 14 million new jobs could be created, compared to the baseline scenario without the AEC in place. Vietnam would gain by 6.0 million additional jobs, Indonesia by additional 1.9 million and Cambodia by another 1.1 million. For the distribution of employment between sectors, the six countries would gain jobs in agriculture, even though agriculture will decline in relative terms. The other sectors that will witness job gains are trade and transportation, construction and manufacturing. However, some of these sectors are known to be vulnerable and informal. In Vietnam, for example, two thirds of the new jobs created because of the AEC in 2025, could be vulnerable.² Job losses, on the other hand, could be felt in food processing, private services and mining industries for some of these economies.

The impact on the labour market could also be felt in shifts in occupational demand. The largest absolute demand is likely to be for low- and medium- skill occupations such as service and sales workers, skilled agriculture and fishery workers, plant and machine operators, craft and related trade workers, though the demand for high-skill occupations such as managers, professionals and technicians will grow at the fastest rate. This could worsen existing skill mismatches, as forecasted by the ADB-ILO study.³ As for gender impact, women are likely to lose out to men in their share of new jobs, especially in Indonesia, Thailand, Philippines and Laos. The AEC, however, has potential to increase productivity, especially in the less developed CLMV countries,⁴ which could be translated into wage gains, provided relevant wage setting mechanisms are in place.⁵

² See ADB-ILO (2014) 'Vietnam Country Brief'. Vulnerable employment is defined as employment in own account work and unpaid family work.

³ See ADB-ILO, page 60.

⁴ CLMV countries here denote Cambodia, Laos, Myanmar and Vietnam

⁵ Currently, the ASEAN region presents significant gaps between rate of growth of productivity and rate of growth of wages (ADB-ILO 2014 study, pages 69-70)

⁶ This is explained in detail by Deunden, Nikomborirak and Jitdumrong, Supunnavadee (2013) 'ASEAN Trade in Services', in Sanchita Basu Das, Jayant Menon, Omkar L. Shrestha and Rodolfo Severino (Eds.), *The ASEAN Economic Community: A Work in Progress*, Singapore: ISEAS, pp. 95-140 (<http://www.adb.org/publications/asean-economic-community-work-progress>).

AEC AND THE MUTUAL RECOGNITION ARRANGEMENTS (MRAS)⁶

In the AEC Blueprint, with regard to the freer flow of skilled labour, member states have adopted a framework for mutual recognition agreements (MRAs) and have agreed on these for seven professions – engineering and architecture, nursing, accountancy and surveying services, medical and dental profession. This allows each member country to recognise education, experience, licenses and certificates granted in another country. But it is only engineering and architectural services that provide recognition of the skills of registered ASEAN architects and engineers. The rest are frameworks for negotiating bilateral and multilateral MRAs. Hence, these could be viewed as ‘tools’ for ASEAN economies to promote mobility of professionals within the region on a voluntary basis, rather than under binding commitments.

For the MRAs, effective movement and subsequent benefits will be very limited. First, as the ADB-ILO study notes, the current employment in seven of the eight professions⁷ together account on average for only 1 percent of total employment in the six ASEAN countries⁸ studied.

Second, while MRAs are a regional initiative, domestic rules and regulations governing these professions still apply. For example, although the Thai Engineer Act 1999 does not explicitly impose a nationality requirement for granting professional engineer license, it stipulates that applicants for such a license must be a ‘regular’ or ‘irregular’ member of the Council of Engineers. It further mentions that regular members need to be Thai citizens. Hence, foreign registered engineers qualify only as ‘irregular’ members who have to again satisfy conditions defined by the Council. Similarly, in Malaysia, foreign engineers have to be licensed by the Board of Engineers for specific projects and must be sponsored by the Malaysian company carrying out the project. The Malaysian company must further demonstrate to the Board of Engineers that it has been unable to find a domestic engineer for the job. Lastly, a foreign engineer in Malaysia must be a registered engineer in his or her home country, have a minimum of 10 years of experience and must have a physical presence in Malaysia of at least 180 days in one calendar year.

⁷ The eighth profession is ‘tourism professionals’ for which a single occupational category is not available.

⁸ These are Cambodia, Indonesia, Philippines, Lao, Thailand and Vietnam.

For architects, most countries impose restrictions on residency or nationality to become fully licensed architect. Foreign architects are often allowed to work on a project-based basis and in most cases, employers have to show proof that an equivalent national professional is not available. Under nursing, again the domestic regulations are not addressed, leading to limited cross-border movement in this profession. For example, in order for a Filipino nurse to practice in Thailand, the candidate must pass the national licensure exam in the Thai language. As for surveying, the MRA only provides the enabling framework of broad principles for further bilateral and multilateral negotiations among ASEAN member states.

CONCLUSION AND POLICY RECOMMENDATION

To conclude, the advent of AEC by the end of next year is not going to result in immediate changes in the ASEAN labour market. As economic integration progresses overtime, the region may observe structural changes that enhance employment prospects. But those changes will take time. However, policy makers will need to start preparing for such changes now.

Quality education and training will remain a key public policy issue not only because of the need to address the mismatch between skills supply and demand, but also for ASEAN economies to remain competitive in the future. Besides, while AEC is expected to result in higher welfare, wages, and employment, the benefits are likely to be distributed unevenly among countries, sectors and gender, leading to increased inequalities. In order to address this, governments would need coordinated and coherent policy measures at the regional and national levels. Such policies should relate to implementing social protection mechanisms, including portability of migrant social security, extending the MRAs to medium skill occupations that dominate migration flows in ASEAN, ratifying ILO core labour standards⁹ to create a level playing

⁹ Labour standards are legal instruments, internationally agreed and drawn up by the ILO's constituents (governments, employers and workers) who set out basic principles and rights at work. The ILO's Governing Body has identified eight conventions as "fundamental" or "core", and they relate to: freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

field in the region for workers and enterprises, protecting migrant workers in line with the ASEAN Cebu declaration,¹⁰ promoting gender equality, and ensuring quality labour market information in the region to ease the monitoring of the impact of AEC on labour markets. The architecture for regional cooperation already exists – the challenge is to ensure that mechanisms for implementation are in place.

Since MRAs do not address the domestic rules and regulations of ASEAN economies, there will be barriers to cross-border movement of professionals, preventing any significant regional impact in the short-run. In the future, much will depend on unilateral actions by member economies and on their willingness to change domestic laws to facilitate the movement of professionals. Even if these happen, policy makers will subsequently need to clearly communicate their policy directions and convince their professional bodies to share the same objective and vision.

¹⁰ The ASEAN declaration on the protection and promotion of the rights of migrant workers, adopted in 2007, is commonly referred to as the CEBU declaration.

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