**Free Movement of Skilled Labor Within the Asean Economic Community****Mita Adhisti**<sup>✉</sup>

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**Abstract**

This study discusses how the free movement of skilled labor policy under the ASEAN Economic Community (AEC) scenario enhances opportunities for labor mobility from low-skilled labor countries, what challenges will be faced, and how this policy impacts their economies. The implementation of the AEC's free movement of skilled labor policy is projected to face challenges such as mismatched labor qualifications, fulfilling ASEAN commitment, time for implementation of ASEAN commitments, and controlling the flow of illegal migrant workers. However, ASEAN leaders already set some supporting policies to overcome challenges from this system by improving labor market information, encouraging language and skills training, managing government and public supports, expanding mutual recognition arrangements and enhancing social protection for migrant workers. If these supporting policies can be implemented, the AEC's free movement of skilled labor policy will improve the quality of human resources in ASEAN, especially from lower-middle income countries including Indonesia, Cambodia, Laos, Vietnam, the Philippines, and Thailand. As the results, those six countries are expected to increase the high-skilled employment rates by 0.3 to 1.4 percent and the wage rates up to 10-20 percent in 2025. Thus, the projected increases in the employment and wage rates of ASEAN skilled labor will induce an expansion of the ASEAN economic growth to 7.1 percent in 2025.

## INTRODUCTION

At the Bali Concord II in October 2003, ASEAN leaders corresponded to establish the ASEAN Economic Community (AEC) by 2020. Based on the AEC blueprint (2008, p.5), the AEC is “the goal of regional economic integration to be a single market and production base with free movement of goods, services, investment, skilled labor, and freer flow of capital.” The realization of the AEC is intended to make the ASEAN economically more dynamic and competitive in the global market and increase the economic growth of the low- and middle-income member countries to enable them to catch up with high-income member countries. Each country focuses on improving the quality of human resources, and ASEAN leaders agreed to create the free movement of skilled labor policy to increase the economic competitiveness. However, ASEAN leaders need to set up a monitoring mechanism to ensure effective implementation of policies and face several challenges to achieving the economic integration. One of the ways to apply the AEC’s free movement of skilled labor policy is the leaders agreed to support and complement the Mutual Recognition Agreements (MRAs) based on national and ASEAN Qualification Frameworks (AQFs) (Sugiyarto & Agunias 2014).

According to Yue (2012), ASEAN leaders already signed seven key occupations in the MRAs: engineering, architecture, nursing, and accountancy services, medical and dental practitioners, and surveying qualifications (Grace 2012). However, the purpose of the AEC’s free flow of skilled labor policy does not support the fact that most intra-ASEAN migrants are low and semi-skilled workers. The percentage of low-skilled ASEAN migrants is 87 percent, which is dominated by Indonesia, Cambodia, Lao PDR or known as Laos, Myanmar, Vietnam, and the Philippines (Orbeta 2012). The high percentage of low-skilled migrant workers from these six countries indicates their economies are still less developed, so these workers seek to find better jobs in the higher income ASEAN countries. For

example, 85 percent of low-skilled workers from Cambodia, where GDP per capita is 50 times lower than Singapore (World Bank 2013), migrate to Thailand to find jobs in the agriculture and manufacturing sectors (Orbeta 2012). Besides, Manning (2003) states because of lack of skill, most of the migrant workers from those six countries work in the agriculture, manufacturing, and services sectors in the destination countries, which their occupations are not included in MRAs. From these problems, this paper will discuss how the AEC’s free movement of skilled labor policy enhances opportunities for labor mobility from low-skilled labor countries, what challenges will be faced, and how this policy impacts their economies. Therefore, to specify the objective of the analysis in this paper, ASEAN countries selected for discussion are Indonesia, Cambodia, Laos, Vietnam, the Philippines, and Thailand.

This study is structured as follows; Section 2 provides theories and studies regarding on international migration and economic integration. Section 3 defines the research method. Section 4 discusses the implementation of AEC’s free flow of skilled labor policy in the ASEAN labor market. Section 5 evaluates opportunities and challenges from this policy and also this policy impacts to low-skilled labor countries. Section 6 proposes policies should be taken in facing challenges. Section 7 concludes.

## THEORIES AND STUDIES

The natural desire for humans to maximize their necessity pushes them to earn money, and the amount of money they make depends on the type of jobs they do. Rationally, people want to consume more, so they want a job with higher income. This will be one of the push factors for workers to move from one company or area or country to another company or area or country (Sidhu & Kumar 2005). Further, in this section there are two parts; first, will discuss brief migration theories to know more factors are influenced people to migrate, especially for international migration case in ASEAN. Second,

economic integration theories related to the instance of the labor movement in the Eurozone.

**International migration theories**

There are several theories about migration: the socio-demographic theory and the macroeconomic theory. First, the socio-demographic theory explains the reasons behind the mobility of people from origin area to the destination area. Second, the macroeconomic theory explains more specifically international labor migration.

**Socio-demographic theory: pull and push factors migration theory**

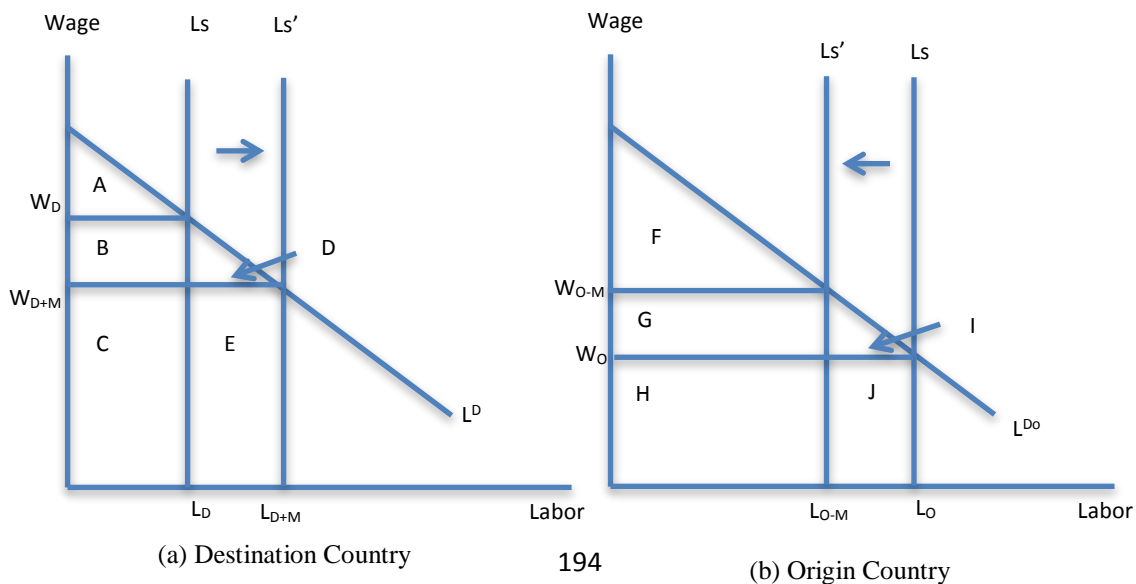
General theory in the decision-making process for migration described by Lee (1966) explained why people compare pull factors from destination areas and push factors from areas of origin, intervening obstacles, and personal factors. Furthermore, Sidhu and Kumar (2005) present more details of migration pull and push factors. Pull factors from destination area, for example, are opportunities for better employment and working conditions and higher incomes. While push factors are from areas of origin with low productivity, high rates of unemployment, and poor economic conditions.

**Neo-classical Economics: Macro theory**

International migration theory was developed from the labor movement concepts in the process of economic development (Massey et al. 1993). They also explained factors in international migration is geographic differences between countries. Labor moves from low-wage countries to high-wage countries, but for high-skilled workers mobility, they migrate from capital-rich to capital-poor countries to get a higher payment for their skills.

Bansak, Simpson, and Zavodny (2015) also explain wage differences across countries encourage labor to migrate that affects labor market equilibriums in the destination and the origin countries. Figure 1 shows labor market equilibriums before and after labor migration from the origin country to the destination country. Before labor immigration, labor market equilibriums in origin is  $L^O$  workers and wage  $W^O$ , and in the destination is  $L^D$  workers and wage  $W^D$ . After labor immigration, labor supply in origin decreases from  $L^O$  to  $L^{O-M}$ , but labor supply in the destination increases from  $L^D$  to  $L^{D+M}$ . Excess labor supply in the destination decreases wages from  $W^D$  to  $W^{D+M}$  whereas wages in origin rise from  $W^O$  to  $W^{O-M}$ . Thus, the origin country gains higher wages because of labor immigration, and the destination country is worse off because its wage falls.

**Figure 1.** The labor market in the destination and origin countries before and after immigration



**Table 1.** Intra-ASEAN Migration Corridors, 2013

Rank	Country Corridor	Intra-ASEAN Migrant Stock	Proportion of Total Intra-ASEAN Migrant Stock (%)
1	Myanmar to Thailand	1,892,480	29
2	Indonesia to Malaysia	1,051,227	16
3	Malaysia to Singapore	1,044,994	16
4	Laos to Thailand	926,427	14
5	Cambodia to Thailand	750,109	12

Source: Sugiyarto & Agunias (2014, p.7)

#### Study: migration patterns in ASEAN

For mapping migration pattern in ASEAN, Sugiyarto & Agunias (2014) analyze the United Nations data of migrants by origin and destination. The table above indicates the top five ASEAN migration corridors such as Myanmar to Thailand, Indonesia to Malaysia, Malaysia to Singapore, Laos to Thailand, and Cambodia to Thailand. This migration pattern shows that Myanmar, Laos, and Cambodia have similar main destination country, which is Thailand.

Thailand is the primary destination for migrant workers from those three countries as mentioned earlier because of the Pagan Declaration, which signed in 2003. The Pagan Declaration states the importance of partnership among those four countries. One of its memorandums is the legalization of sending migrant workers from Cambodia, Laos, and Myanmar to Thailand (Chantavanich 2007). Also, the second highest migration flow is from Indonesia to Malaysia. IOM (2010) states most of the Indonesian migrant workers choose Malaysia as the main destination country because of similarities in ethnicity, culture, and language. Additionally, Firdausy (2005) argues Indonesian migrant workers move to Malaysia to get jobs with higher wages due to weak economic growth, unemployment, and poverty problems after the Indonesian financial crisis in 1998.

This corridor migration table also provides a picture that intra-ASEAN migration dominated by the lower-income countries moving to the higher-

income countries. These movement patterns concur with the international migration theory explained by Massey et al. (1993). Table 2 provides details of the GDP per capita of ASEAN member countries with the income classification information from World Bank.

**Table 2.** GDP per capita of ASEAN member countries, 2013 (current US\$)

No	Country	GDP per Capita	Income Classification
1	Singapore	55,182	High income
2	Brunei Darussalam	38,563	High income
3	Malaysia	10,538	Upper middle income
4	Thailand	5,778	Upper middle income
5	Indonesia	3,475	Lower middle income
6	The Philippines	2,765	Lower middle income
7	Vietnam	1,910	Lower middle income
8	Laos	1,660	Lower middle income
9	Myanmar	1,125*	Lower middle income
10	Cambodia	1,006	Low income

Source: World Bank 2013 and \*Myanmar GDP per capita data from UN Data 2012

As of 1 July 2013, the World Bank income classifications by Gross National Income (GNI) per capita are as follows:

- Low income: \$ 1,035 or less
- Lower middle income: \$ 1,036 to \$ 4,085
- Upper middle income: \$ 4,086 to \$ 12,615
- High Income: \$ 12,616 or more

The table above presents Singapore has the highest GDP per capita in which attracts the lower-middle income countries to seek jobs in Singapore. Table 2-2-1 shows more than 1 million Malaysian work in Singapore. Foreign labor migration to Singapore has begun since the late 1970's because the rapid growth in Singapore has not supported by the enough number of domestic labor supply (Wong 1997). Further, Wong (1997) explains that the largest foreign workers in Singapore are from its closest neighbor, Malaysia, which widely engaged in the manufacturing, the services, and the professional sectors.

#### **Economic integration theories and lesson from the European Union**

The idea to create a single market in ASEAN comes from the European Economic Community (EEC) or known as the European Union (EU), which was initiated by the Treaty of Rome in 1957 (Llyod 2005). A common market concept in the Eurozone was designed for four freedoms concerning goods, services, capital, and labor movements. Even though, after labor markets in the Eurozone was integrated and there became a free flow of labor for the EU member countries, Mongelli (2008) explains the European labor market still lacks employment flexibility. This problem happens because of a mismatch between job seeker and vacancies, the minimum wage, taxes on labor, unemployment benefits, and other factors. Besides, Elsner (2013) finds that a mismatch between job seekers and vacancies because of foreign language barriers and skill requirements. Altogether, the integration labor market in the Eurozone has benefits and faces challenges as well.

#### **RESEARCH METHOD**

This study is developed by reviewing relevant previous studies to provide an overview about the opportunities and challenges for low-skilled labor countries in a subset of ASEAN that implementing the AEC's free flow of skill labor policy. Moreover, conducting literature reviews aims to build bridges between related topics and identify the central issues (Creswell 2014, p.28). Thus, we specifically discuss about the prospects of ASEAN labor market under the AEC's free flow of skill labor policy by comparing the opportunities and challenges to the economy of the countries.

#### **RESULT AND DISCUSSION**

Based on Mongelli's (2008) explanation that integrated labor market in the Eurozone still lacks employment flexibility because of mismatch worker qualifications, this is an expected problem that would be found in the ASEAN labor market because of similarities in language barriers and skill requirements. To address the challenge of mismatched migrant worker qualifications, ASEAN leaders signed the MRAs based on national and AQFs. As a result, completing the process of MRAs expects to accelerate the implementations of the AEC's free flow of skilled labor policy at the ASEAN labor market.

#### **The actions of AEC's free flow of skilled labor policy in MRAs and AQFs**

MRAs and AQFs are approaches to creating standardized qualifications and skill recognition for migrant workers in selected occupations. Based on the Yue (2012) explanation, Grace (2012) agrees there are seven occupations stated in the ASEAN MRAs that include: (1) Engineering services (2) Architectural services (3) Nursing services (4) Medical practitioners (5) Dental practitioners (6) Accountancy services (7) Surveying Qualifications.

These seven occupations are chosen as the top priority jobs based on the forward-looking analysis. ILO & ADB (2014) expects that the ASEAN market will dominate global economic activities, especially in the manufacturing and services sectors. Also, the

ASEAN leaders consider that in improving labor productivity, and there should be proper facilities to maintain the health of workforces. These factors are the reason behind medical practitioners being included in the top priority occupations that are stated in MRAs.

Furthermore, to facilitate mobility of skilled labor, The ASEAN Economic Community Blueprint (2008, p.15-16) states clearly the actions have to be taken by ASEAN leaders that include:

- i. Facilitate the issuance of visas and employment passes for ASEAN professionals and skilled labor who are engaged in cross-border trade and investment related activities.
- ii. Enhance cooperation among ASEAN University Network (AUN) members to increase mobility for both students and staff within the region.
- iii. Develop core competencies and qualifications for a job or occupational and trainers skills required in the priority services sectors (by 2009) and other services sectors (2010 to 2015).
- iv. Strengthen the research capabilities of each ASEAN Member Country regarding promoting skills, job placements, and

developing labor market information networks among ASEAN Member Countries.

According to Yue (2012), the process for completing MRAs requires several steps to be taken by which a host country examines training or professional qualification frameworks (Grace 2012). For instance, in the case of the Philippines, to implement MRAs for architecture, when foreign architects want to practice in the Philippines, they have to issue a special temporary permit under national law, and they are required to work in collaboration with local registered architects (Aldaba 2013). The difficulties when applying this process are to match various levels of worker competencies due to differences in education standards and language barriers.

#### ASEAN labor market

ILO & ADB (2014) estimates the ASEAN's population in 2010 is approximately 600 million and is expected to reach 694 million by 2025. They also estimate new entrants in the ASEAN labor market are around 68 million people in 2025. As a result, increased numbers of young workers in the next ten years is expected to accelerate ASEAN economic productivity faster (discussed in part 4.1.2).

**Table 3.** Selected labor market indicators in ASEAN, most recent year

	Labour force (000s) <sup>(a)</sup>	Education and skills development <sup>(b)</sup>			Average monthly wage (\$) <sup>(c)</sup>	Labour productivity (constant 2005 International \$) <sup>(d)</sup>
		Literacy rate, ages 15+ (per cent)	TVET enrolment as share of total secondary enrolment (per cent)	Tertiary gross enrolment rate (per cent)		
Brunei Darussalam	186	95.4	11.4	24.3	...	100 015
Cambodia	7 400	73.9	2.3	15.8	121	3 989
Indonesia	118 193	92.8	18.0	27.2	174	9 848
Lao PDR	3 080	72.7	0.8	16.7	119	5 396
Malaysia	13 785	93.1	6.8	36.0	609	35 751
Myanmar	30 121	92.7	...	13.8	...	2 828
Philippines	41 022	95.4	...	28.2	206	10 026
Singapore	3 444	95.9	11.6	...	3 547	98 072
Thailand	39 398	93.5	15.4	51.4	357	14 754
Viet Nam	53 246	93.4	...	24.6	181	5 440

Note: "... " = data not available. 2013 labour force data, except for Brunei Darussalam (2011), Cambodia (2012) and Lao PDR (2010).  
Source: (a) Official national sources; ILO estimates; (b) Chapter 4, Table 4-1; (c) Annex F, Table F1-8; (d) Annex F, Table F2-4.

Cited: ILO & ADB (2014, p.8)

However, ASEAN market still faces inequality income and inefficiency labor productivity problems, especially in the lower-middle income countries. First, labor market indicators shown in Table 3 identifies Singapore has the highest average monthly wage at US\$ 3547 with the lowest being Cambodia at US\$ 121. The average monthly salary in Singapore is almost 30 times greater than in Cambodia, which indicates a high-income gap among ASEAN members. Second, there is a huge gap in labor productivity between higher-middle-income countries with lower-middle income countries. From the table above, the labor productivity of Brunei and Singapore is 20 times more than Cambodia and Laos. This case has been influenced by lower rates of education and skills development in Cambodia and Laos.

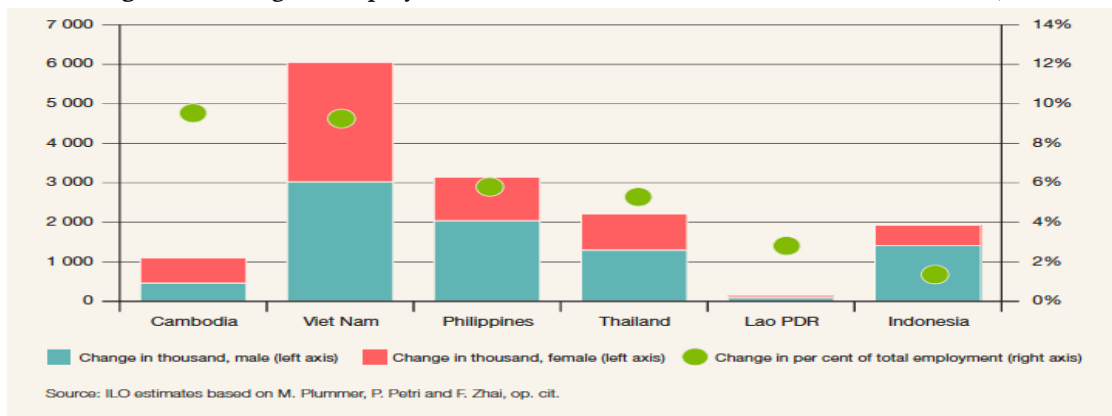
In contrast, middle-income countries such Malaysia, Indonesia, and Thailand show their rates of education and skills development are not much different from Brunei and Singapore, but these middle-income countries' labor productivity are a half lower than Brunei and Singapore. Kao (2013) explains the labor productivity can be measured by divided GDP (gross domestic product) over TR (total remuneration of all employees), which labor force and wage rates are important factors to calculate TR. Therefore, the lower productivity in middle-income countries is influenced by a significant number of the workforce.

Menon (2013) explains one way of reducing the high rates of income inequality and improving the quality of labor productivity among ASEAN members is through the AEC. It has been designed to create more job opportunities in each ASEAN country by giving "free movement of goods, services, investment, skilled labor, and capital" (ASEAN Blueprint 2008, p.5). Thus, the free flow of skilled labor policy intends to increase the probability of labor in ASEAN to find jobs in other ASEAN countries that offer higher wages.

**Projected total employment and occupations**

ILO & ADB (2014) estimates under the scenario of AEC in 2025 there will be significant changes in total employment in ASEAN countries as shown in Figure 3. Cambodia and Vietnam are expected to have the highest overall job growth in 2025 at 9.8 percent and 9.5 percent. One of the factors that increase both countries' economies is their greater dependency on labor markets on international trade. ILO & ADB (2014) identifies the total international trade of Cambodia and Vietnam is 87.8 percent and 155 percent of GDP in 2007 (the base year model). Additionally, Indonesia estimates to gain an additional 1.9 million-job employment in 2025. As a result, the rate of job growth increased by 1.3 percent.

**Figure 3.** Change in employment under the AEC Scenario about to the baseline, 2025



Cited: ILO & ADB (2014, p.40)

In the next ten years, the highest changes in demand for occupations in Cambodia, Indonesia, and Thailand are ‘manager in the retail’ and ‘hospitality services,’ which the percentage changes are over than six percent during 2010-2025 (ILO&ADB 2014). Differently, potential jobs in Laos, the Philippines, and Vietnam predicted to be growing faster are in the ‘crafts, woods, and shipping’ industries (ILO&ADB 2014). Hence, these estimated results present these six countries will gain better employment rate and job opportunities under the AEC scenario 2025.

**Estimated change in employment by skill levels**

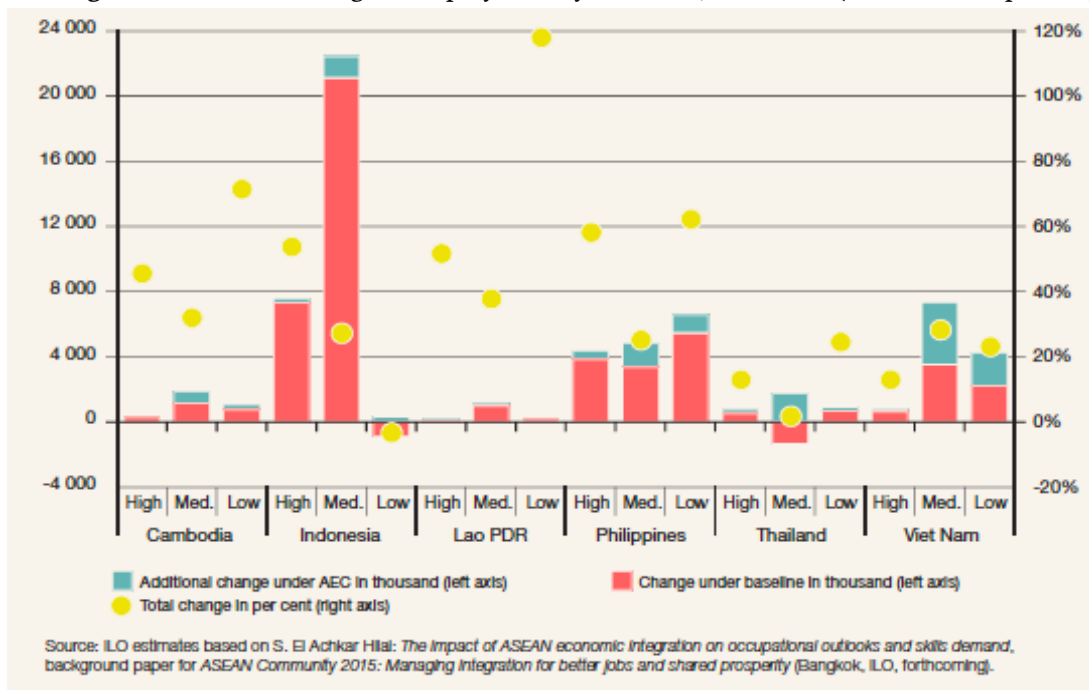
ILO & ADB (2014) provides data that can be seen in Figure 4 to show the expected change in employment by skill level under the AEC scenario. The Philippines, Indonesia, Laos, and Cambodia are expected to have the highest percentage change of high-skilled and semi-skilled labor demand because the increased number of young people in those

countries in the next ten years will receive improved education and training as a result of expected higher economic growth.

ILO & ADB (2014) also estimates increases in the total semi and high-skilled labor in six ASEAN member countries by taking assumptions that they implement AQFs to match the migrant worker’s qualification standards in 2025. Under the AEC scenario, Vietnam shows the greatest change in employment skill from low to semi-skilled that is around 400 thousand workers, and it is followed by Thailand, Indonesia, the Philippines, and Cambodia. Besides, total change high-skilled workers under the AEC scenario leads by the Philippines by 60 percent, Indonesia by 55 % and 40 % for Cambodia.

Therefore, in the next ten years, the ASEAN labor market has many opportunities to enhance low-skilled workers getting better jobs by improving their skills under the AEC scenario.

**Figure 4.** Estimated change in employment by skill level, 2010-2025 (thousand and percent)



Cited: ILO & ADB (2014, p.53)



## IMPACTS OF SKILLED LABOR MOBILITY IN SELECTED ASEAN MEMBER COUNTRIES

The projections of the ASEAN labor market were made by ILO & ADB (2014) under AEC scenario 2025 show there are several opportunities including job gains and an increase in output. These will enhance the movement of migrant workers from the ASEAN lower-middle income countries to the higher income countries. However, the sending countries have to face challenges from problems that will be found in the ASEAN labor market such as mismatched labor qualifications, fulfilling ASEAN commitment, time for implementation ASEAN commitment, and controlling the flow of illegal migrant workers. If the sending countries could rectify such challenges, this policy will have positive

impacts for the sending countries such as increased GDP growth and decreased poverty rates.

### Opportunities

Expected change of total employment under AEC scenario that is shown in Figure 3. ILO & ADB (2014) estimates Cambodia, Vietnam, and the Philippines are expected to have total employment growth in 2025 at more than 5 percent. Table 4 provides more details on employment rates in seven occupations stated in MRAs, and the salaries for those jobs shown in Figure 4. As a result, increases in employment and wage rates are expected to increase labor productivity and production outputs (ILO&ADB 2014).

**Table 4.** Employment in the seven occupations by ASEAN MRAs, various years

	Employment in the seven occupations (thousand)			Share of seven occupations in total employment (per cent)		
	Total	Men	Women	Total	Men	Women
Cambodia (2012)	70.1	45.5	24.7	1.0	1.2	0.7
Indonesia (2010)	355.3	203.9	151.5	0.3	0.3	0.4
Lao PDR (2010)	37.8	21.2	16.6	1.3	1.4	1.1
Philippines (2011)	454.5	209.5	245.0	1.2	0.9	1.7
Thailand (2010)	295.0	124.6	170.4	0.8	0.6	1.0
Viet Nam (2012)	735.7	345.2	390.5	1.4	1.3	1.6

Note: Sex-disaggregated figures may not add up to total due to rounding; the seven occupations refer to accountants, architects, dentists, engineers, medical doctors, nurses and midwives, and surveyors.

Source: ILO estimates based on official national sources.

Cited: ILO & ADB (2014, p.91)

### Job Gains

Table 4 estimates share of seven occupations in the total employment. Vietnam and Laos are predicted to have the highest employment rates in the seven jobs as mentioned earlier, which is 1.4 and 1.3 percent respectively because both countries under AEC are predicted to have the highest GDP growth (see Figure 7). In contrast, Indonesia has the lowest rate of employment under AEC at only 0.3 percent because of the minimum impact on its GDP growth

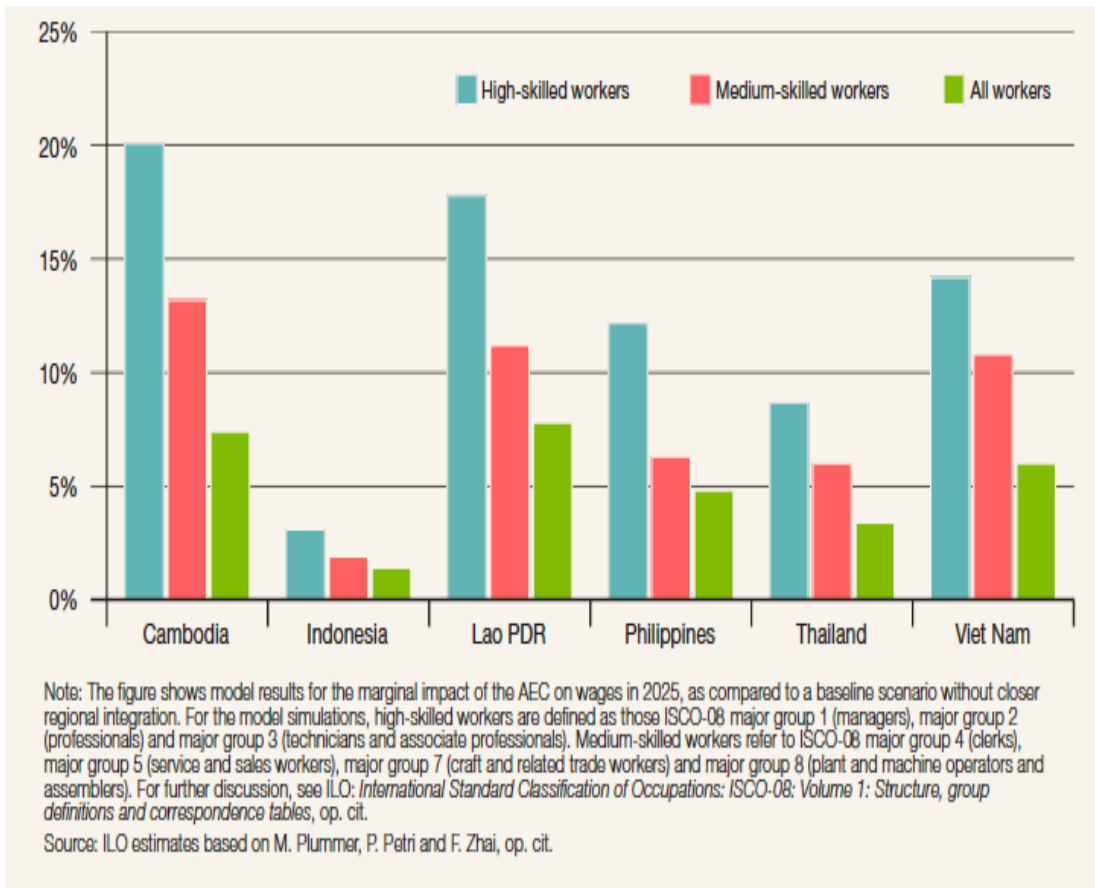
from AEC implementation. This discussion explains further in section 4-3.

However, gains from implementing AEC's free movement of high-skilled labor are not only increasing employment rates but also raising wage levels. Figure 5 (ILO&ADB 2014) shows the change in wages under the AEC scenario for high-skilled and semi-skilled workers. Economic restructuring towards technology and skill-intensive production drive the wage shifts. Results estimate that

Cambodia, Laos, and Vietnam are the top three countries that high-skill workers will get the highest increase in wages that are around ten to twenty percent. In contrast, Indonesia gets the lowest increase in wages that are less than 5 percent of all

workers. Hence, these results show free skilled labor movement could have a significant impact on the wages of skilled workers for these six countries (ILO&ADB 2014).

**Figure 5.** Change in wages under the AEC scenario about to the baseline, 2025 (percent)



Cited: ILO & ADB (2014, p.72)

**Increases in output**

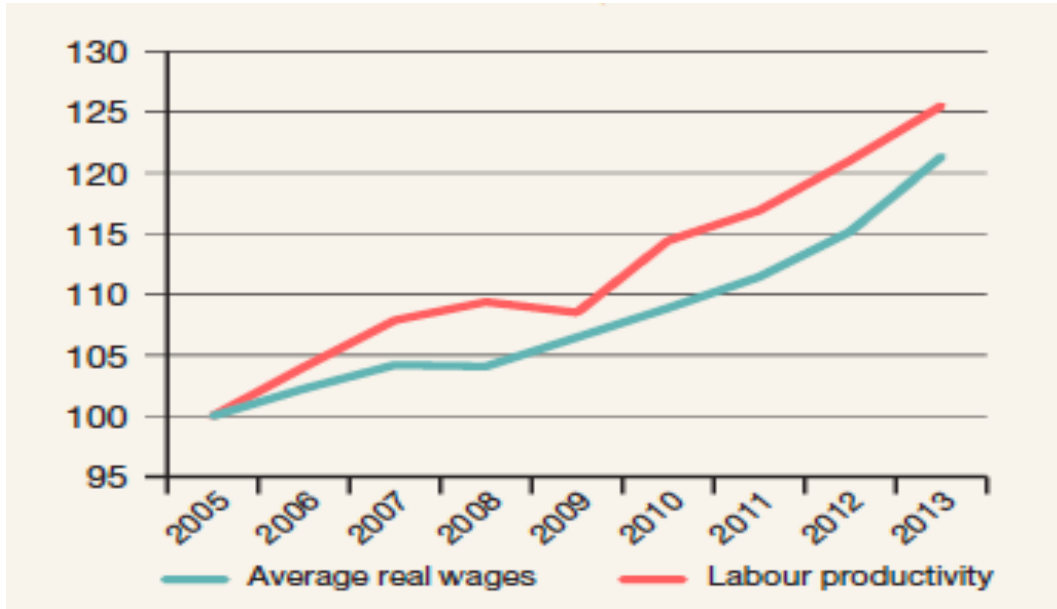
Based on a macroeconomic theory of production function that is mentioned by Williamson (2011, p.125):

$$Y = z F (K, N^d)$$

Y is output, z is the total factor productivity, F is an aggregate production function, K is the quantity of capital input, and N<sup>d</sup> is the quantity of

labor input. From this equation, we can see a correlation between the amount of labor and total output. Based on the production function stated previously, the AEC’s free mobility of high-skilled labor policy is predicted to increase total employment in six ASEAN countries, in where it would also increase their overall productivity.

**Figure 6.** Growth of labor productivity and real average monthly wages in ASEAN, 2005-13  
(Index 2005=100)



Cited: ILO & ADB (2014, p.70)

### Challenges

There are not only opportunities for free skilled labor movement policy, but also the countries might face challenges in the ASEAN labor market. For example, mismatched labor qualifications, fulfilling ASEAN commitment, and time for implementation ASEAN commitment, and controlling the flow of illegal migrant workers.

### Mismatched labor qualifications

Some scholars have predicted under the AEC; the six ASEAN countries could face a mismatch in high-skilled jobs that might be filled with lower skill workers (ILO & ADB 2014 cited from S. El Achkar Hilal). This case could eventuate because most current young employees in those six countries are low-skilled workers. Even though the provision of

training or other developmental skilled programs will enhance their qualifications, but they have inadequate skills for high-skilled jobs.

Another mismatched labor qualifications case is from differentiated priority development sectors for the domestic economy and regional area priority in mobility of high-skilled workers. Currently, ASEAN MRAs cover seven occupations in health, technology, business, and research development sectors. Table 5 (ILO&ADB 2014) shows most ASEAN countries priority areas are in agriculture, construction, transportation, infrastructure, and tourism. These diversities would be difficult to support the free flow of high-skilled labor from domestic labor markets to regional labor markets due to different job qualifications in the home country.

**Table 5.** Selected priority development sectors

CLMV		ASEAN-4	
Cambodia	Agriculture Garments and textiles Construction and infrastructure	Indonesia	Agriculture Food and beverages Transport and infrastructure
Lao PDR	Agriculture Tourism and hospitality Construction and infrastructure	Malaysia	Oil and gas Financial services Transport and infrastructure
Myanmar	Agriculture Forestry Energy	Philippines	Agro-industry Information technology and business process management Construction and logistics
Viet Nam	Agriculture Garments and textiles Transport and infrastructure	Thailand	Agriculture Automotive and electronics Tourism and hospitality
High-income ASEAN			
Brunei Darussalam	Social services (education and health) Transport and communications	Singapore	Financial services Biotechnology Transport and infrastructure

Source: ILO compilation based on official national sources; M. Aring, op. cit.

Cited: ILO & ADB (2014, p.61)

Furthermore, Aldaba (2013) explains mismatched labor qualifications in ASEAN are caused not only by various skill requirements but also language barriers. Multilingualism in ASEAN will influence imbalances of flexibility and adaptability in working in new environments. To address this problem, ASEAN leaders signed the ASEAN Charter, which reaffirms that English is the official working language of ASEAN (Shimizu 2011). English is chosen as a common language in ASEAN because it is a global language that is already familiar with the second language in some ASEAN countries that include Malaysia, Singapore, and the Philippines. However, Aring (2015) states other ASEAN countries still lack in English language proficiency shown by lower rankings for Thailand (53 of 54 countries), Vietnam (31 of 54 countries) and Indonesia (27 of 54 countries). Therefore, a lack of English language proficiency in most of ASEAN countries presents challenges to employers in the host countries in finding suitable candidates among migrant workers.

#### **Fulfilling ASEAN commitment**

MRAs remain involved in implementing for several reasons (ILO & ADB 2014). First, differences in education standards for granting professional

qualification as stated in AQFs. Second, anxiety from national professional associations is in adapting local standard criteria because of the lack of competitiveness. Third, each country needs to protect its domestic economic security that causes them to establish several conditions that have to be followed by migrant labor to work in their countries.

#### **Time for implementation**

To transform ASEAN into AEC needs a longer period to adapt regional commitments into national regulations. Bilateral labor migration agreement also varies among each ASEAN country, which it has the independence to change its rules to match AEC conditions. As a result, every country could take a different time frame to adjust to the process, and the impacts of implementation of AEC conditions could be seen differently for each ASEAN country.

#### **Controlling the flow of illegal migrant workers**

The implementation of AEC's free movement of skilled labor policy does not provide a guarantee to stop the movement of low-skilled workers because the number of them in most of ASEAN countries is significant (Firdausy 2005). The question is, what will happen with low-skilled workers under AEC's free flow of skilled labor policy if there is no a single

regulation to manage their mobility in the ASEAN labor market in the future? If the ASEAN leaders strictly reduce the movement of low-skilled labor among ASEAN countries, it would force them to migrate illegally, and increase the number of illegal migrant workers.

**For the economy**

The objective of the AEC is intended to make the ASEAN economically more dynamic and competitive in the global market and increase the rapid economic growth of the low and middle-income member countries. In the long run, it is predicted to increase the sustainability of economic growth and reduce poverty rates in the low and middle-income member countries.

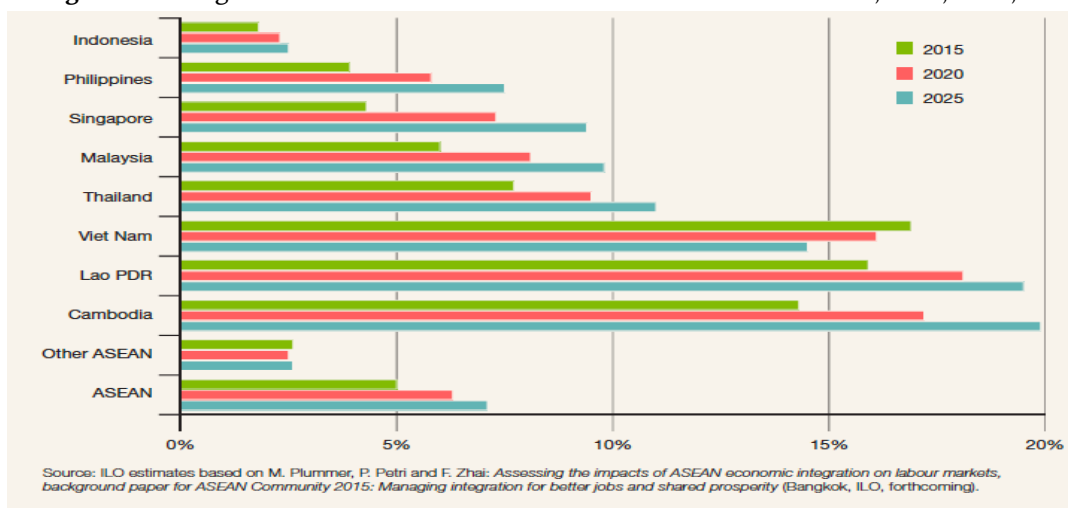
**GDP growth**

Estimated results in Figure 7 indicate that ASEAN GDP growth will increase 7.1 percent in 2025, which is higher than in 2015 (ILO&ADB 2014). A high growth rate of regional GDP is gained from international trade affects. The AEC’s policies in the removal of the remaining intra-regional tariffs, liberalization of non-tariffs barriers for good and services, and trade facilitation to reduce 20 percent fixed trade costs have the goal to enhance competitiveness in ASEAN exports. Cambodia, Laos,

and Vietnam expect to receive the highest benefits under the AEC’s scenario because these three countries have increased interest in investment from ASEAN trading partners. China is supposed to decline in future years as it shifts away from export-driven low-wage labor manufacturing (ILO&ADB 2014). There is a priority to develop garments and the textile industry to Cambodia and Vietnam. Additionally, Laos is expected to attract investment from Japan because of economic expansion in manufacturing, transport, agribusiness and construction sectors (KPMG 2015).

In contrast, Indonesia is predicted to get the lowest impact on its GDP growth from AEC implementation because Indonesia faces domestic challenges. Indonesia has struggled from the influx of lower-cost Chinese products because the economic growth has relied on a high demand towards imported goods. However, the supply side in Indonesia is still feeble (G20 2014). Other domestic challenges in Indonesia are the slow progression of infrastructure development, and the low rankings on providing a business friendly environment in which the ease of doing business rank is 120 out of 183 and the starting of business rank is 175 out of 183 (G20 & KPMG 2014).

**Figure 7.** Change in GDP under the AEC scenario relative to the baseline, 2015, 2020, and 2025



Cited: ILO & ADB (2014, p.38)

### Poverty reduction

In Figure 5, we can observe the high growth in wages in six ASEAN countries. Further, Menon (2013) analyzes this factor would increase the rapid GDP growth and lead to reductions in poverty. To support his analysis, Menon provides poverty data in selected ASEAN countries, and it is presented in Table 4-3-2. Based on World Bank world

development indicators in 2012, Menon compares poverty rates before 2005 and after 2007. At column 'poverty headcount ratio' shows reductions in poverty rates for those six countries, lead by Vietnam, Cambodia, Indonesia, and Laos where poverty had reduced more than 10 percent.

**Table 6.** Poverty in ASEAN, various years

No	Country	Poverty headcount ratio at \$ 1.25 a day (PPP) (% of population)	
		Initial	Final
1	Cambodia	37.69 (2004)	22.75 (2008)
2	Indonesia	29.31 (2002)	18.06 (2010)
3	Laos	43.96 (2002)	33.88 (2008)
4	The Philippines	22.45 (2000)	18.42 (2009)
5	Thailand	3.04 (2000)	0.37 (2009)
6	Vietnam	40.05 (2002)	16.85 (2008)

Source: Menon (2013, p.40) from the World Bank World Development Indicators, March 2012

### POLICIES IN FACING CHALLENGES FROM FREE FLOW OF SKILLED LABOR

To meet various challenges; mismatched labor qualifications, fulfilling ASEAN commitment, time for implementation of ASEAN commitments, and controlling the flow of illegal migrant workers, ASEAN leaders have already set some policies to overcome hurdles for AEC's free movement of skilled labor policy.

#### Improving labor market information

ASEAN leaders are concerned about improving research between member countries and development by enhancing cooperation among ASEAN University Network (AUN) members that are stated in MRAs. Cooperation among ASEAN University Network is expected to increase the mobility of students and academic staff and improve the quality of education levels and research that will improve information access in the regional labor market.

#### Language and skills training

To increase the competitiveness of ASEAN enterprises and governments in the global market, they have strategies to invest in better skills training for ASEAN migrant workers. For example, the government of the Philippines established the training for work scholarship program in 2006, which focuses on the Information Technology (IT) industry to provide educational grants for the business process outsourcing (BPO) applicants (ILO&ADB 2014). BPO sector is one of ten priority development areas in the Philippine Development Plan 2011-2016, which is expected to have the highest potential to contribute to economic growth and job creation.

Another way to improve labor competencies is by developing language skills, both in English and in ASEAN languages. ASEAN leaders have sharpened attention to this issue by encouraging each ASEAN government to focus on English language competencies for students and workers. For example, the Thailand government has begun to prepare Thai

youth for entering the AEC in 2015 by adjusting ASEAN curriculum sourcebook drafted by the ASEAN Secretariat and upgrading English teaching at all levels. The Ministry of Education in 2011 provided a budget of 300,000 baths for the initial year launching English language program in 54 model schools. The final goal of this program is expected to reduce language barriers for ASEAN potential workers to mobile to other ASEAN countries under AEC scenario (UNDP 2014).

#### **Government and public supports**

In the process of implementation of MRAs and AQFs, government and public supports are needed to monitor the process going in the right direction (Sugiyarto & Agunias 2014). For instance, government facilitates local industry sector by simplifying administrative procedures for sending their professional workers abroad and providing social protection for the domestic labor market to reduce anxiety from local professional workers to compete with foreign high-skilled workers (ILO&ADB 2014).

#### **Expanding mutual recognition arrangements**

Current MRAs that have been agreed by ASEAN leaders are not fully covered for providing permits for semi-skilled labor to move freely in ASEAN countries. The data show most of the workforce in ASEAN countries is low and semi-skilled labor. As a result, it is predicted in the next ten years the number of semi-skilled workers will be higher than low-skilled workers by following current AQFs. Also, Jurje and Lavanex (2015) predict in years to come there will be a score of medium-skill occupations such as construction, garment workers, and fishers in ASEAN markets. By expanding MRAs to cover free flow of semi-skilled labor in ASEAN countries, it is expected productivity could increase significantly regional economic competitiveness and reduce income disparities among ASEAN countries (ILO&ADB 2014).

#### **ASEAN declaration on social protection**

The ASEAN leaders commit to protecting the rights of migrant workers and other vulnerable

groups by providing equitable access to social security. The standard of social security for labor based on a rights-based/need-based, and life cycle approach as demonstrated by signing ASEAN declaration on social protection in 2013 and implementing the Cebu Declaration on migrant workers (ILO&ADB 2014). With high expectation, these statements can cover human rights issues for illegal migrant workers to reduce a discriminatory treatment regarding their social protection. Yue (2008) explains another way to protect the rights of illegal migrant workers is by developing the regularization programs to legalize the entry and employment of illegal workers without penalty and amnesty, which the Malaysian government has applied for these programs. The final goal of these programs is to reduce a large number of illegal migrant workers in ASEAN.

### **CONCLUSIONS**

The realization of the AEC is intended to make the ASEAN economically more dynamic and competitive in the global market and increase the economic growth of the low and middle-income member countries to enable them to catch up with high-income member countries. However, the AEC's free movement of skilled labor policy is confined to selected categories of workers, with limited market access. This limitation triggers several challenges to implementing the AEC's free movement of skilled labor policy in reflecting the ASEAN labor market as dominated by low and semi-skilled labor. Therefore, challenges include performing the AEC's free movement of skilled labor policy that involve mismatched labor qualifications, fulfilling ASEAN commitment, and time for implementation of ASEAN commitments and controlling the flow of illegal migrant workers.

To overcome challenges from this policy, ASEAN leaders already set some supporting policies. Firstly, improving labor market information, research, and analysis by developing ASEAN University Network (AUN). Secondly, encouraging language and skills training to reduce labor skill gaps

among ASEAN countries. Thirdly, managing government and public supports to facilitate structural change by simplifying administrative procedures for sending the skilled labor abroad. Fourthly, expanding mutual recognition arrangements for semi-skilled workers to fulfill future labor market demand for medium-skill occupations. The last policy is to enhance social protection for migrant workers to reduce a large number of illegal migrant workers.

If these supporting policies can be implemented, the AEC's free movement of skilled labor policy will enhance the quality of human resources in ASEAN, especially from lower-middle income countries including Indonesia, Cambodia, Laos, Vietnam, the Philippines, and Thailand. High-skilled labor from those six countries is expected to increase the employment rates in seven critical occupations by 0.3 to 1.4 percent, which Vietnam predicts to have the highest percentage change of high-skilled workers, but Indonesia has the lowest employment change. Also, increasing wages among the high-skilled labor in Cambodia, Laos, and Vietnam that are predicted to increase ten to twenty percent under AEC scenario, but the increase in wages for all workers in Indonesia is expected less than 5 percent. Even though the projections of increases in the employment rates and wages of ASEAN skilled labor vary, ASEAN GDP growth is supposed to rise by 7.1 percent in 2025. Therefore, applying the AEC's free movement of skilled labor policy is expected to face several challenges, but the supporting policies designed by ASEAN leaders are to overcome the challenges and enhance the opportunities for lower-middle income countries in improving the quality of their human resources and economic growth.

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