

ASEAN Beyond AFTA: Initiatives in Labor Market Co-operation and Integration*

Chalongphob Sussangkarn**

SENSITIVITY OF LABOR MARKET CO-OPERATION AND INTEGRATION ISSUES

This paper sets out some thoughts on the issues of labor market co-operation and integration in ASEAN. These are certainly delicate and sensitive issues in light of the fact that ASEAN has been particularly concerned with issues of labor standards and attempts to link trade to labor standards. As stated in the Joint-Communiqũ of the recently concluded Thirtieth ASEAN Ministerial Meeting held in Subang Jaya, Malaysia from 24-25 July 1997:

"The Foreign Ministers welcomed the consensus reached at the WTO Ministerial Conference in Singapore which renews members' commitment to the observance of internationally recognized core labor standards, and recognizes the International Labour Organisation (ILO) as the competent body to deal with those standards. They reiterated the position taken by the ASEAN Labor Ministers that trade access should not be linked to workers' conditions or the levels of implementation of labor standards in a particular country..... The Ministers also affirmed their support for the statement of the Non-Aligned movement which called upon the ILO to assist in the progressive attainment of higher standards of labor welfare by giving due regard to the stage of socio-economic development reached by individual member status."

In fact, the concern over the imposition of labor standards that are too high for a country's level of development and possible links to restrictive trade practices has a long history in ASEAN activities. Examining the Joint-Communiqũ of the various ASEAN Labor Ministers Meetings, the followings can be found:

The Third ASEAN Labor Ministers Meeting (Kuala Lumpur, 26-27 May 1980): "....the Meeting reiterated the need for ILO conventions and standards to be made flexible and attainable by developing countries."

The Fifth ASEAN Labor Ministers Meeting (Manila, 8-9 October 1984): "....the Ministers observed that international labor standards have been formulated and implemented in the context of concepts and values of Western countries..... The Ministers reiterated the need to review the powers and composition of the ILO supervisory bodies and the need for these bodies to take into account social and economic conditions obtaining in developing countries in the determination of their compliance with ratified ILO conventions."

The Sixth ASEAN Labor Ministers Meeting (Bandar Seri Begawan, 27-29 November 1986): "....The Meeting reiterated its grave concern over the increasing protectionist barriers and practices which adversely affects industrial relations, employment and productivity. It also noted with regret the emergence of new forms of labor protectionism experienced by most ASEAN member countries."

The position of ASEAN is welled summed up in the Joint-Communiqũ of the Tenth ASEAN Labor Ministers Meeting in Singapore in 1994: "the Ministers emphasized that they are not opposed to the application of labor standards and are committed to improving the economic and social well-being of workers. However, they are concerned with the rigid imposition of labor standards and the use of rigid standards to stifle free trade and economic development which constitutes a new form of protectionism."

With the recent admittance of Laos and Myanmar, and presumably Cambodia in the future, ASEAN will have attained the goal of comprising all the ten countries of South-East Asia as envisioned by the original signatories of the ASEAN Declaration (Bangkok Declaration) 30 years ago. The implementation of the ASEAN Free Trade Area (AFTA) and other economic co-operation schemes such as the ASEAN Industrial Co-operation (AICO) Scheme and ASEAN Investment Area (AIA) will make ASEAN a significant economic force, in which all members can benefit through freer trade and investment and greater competitiveness. However, freer flows of goods, services and investment in the region facilitate not just greater economic co-operation and the ability of ASEAN as a group to compete in the world market, but also freer access to each other's market and more intra-ASEAN competition. While the net gain from AFTA is likely to be very high, particular industries in each country may be adversely affected with consequences for those employed in these industries. Thus, discussions concerning labor market co-operation and integration, particularly the latter, touching possibly on some common frameworks for labor market policies may easily be regarded as attempts to move toward the imposition of indirect impediment to full utilization of each member's comparative advantage or disguised form of protectionism, especially by the newer members of ASEAN. This is similar to the situation where the developed countries are accused of trying to link trade to labor standards precisely at a time when the world is moving toward a freer trade regime as an outcome of the Uruguay Round of GATT negotiations.¹

FEW CONCERNS FOR LABOR MARKET ISSUES IN SETTING UP AFTA

In the process of agreeing to set up AFTA, there was very little discussion on labor markets. The view appears to be that freer trade will lead to greater intra-ASEAN trade and investment flows, strengthen ASEAN's economic competitiveness vis-à-vis the rest of the world, increase the attractiveness of ASEAN as a destination for large scale foreign investment, foster faster economic development for all member countries, and benefit the labor market and the population at large.² This is very different to the North American Free Trade Agreement (NAFTA), where a "Supplemental Agreement on Labor Cooperation" was essential for concluding NAFTA. The Supplemental Agreement avoided setting common standards, but encourage the members to promote many areas of labor market policies and enforce laws and regulations pertaining to these areas:

1. Freedom of association and protection of the right to organize;
2. The right to bargain collectively;
3. The right to strike;
4. Prohibition of forced labor;
5. Labor protections for children and young persons;
6. Minimum employment standards, such as minimum wage etc.;
7. Elimination of employment discrimination;
8. Equal pay for women and men;
9. Prevention of occupational injuries and illnesses;
10. Compensation in cases of occupational injuries and illnesses;
11. Protection of migrant workers.

For the European Union (EU), of course, labor market and social protection issues are very prominent as free movement within the EU is allowed so that the labor markets of the various member countries are closely integrated. With the recent signing of the Treaty of Amsterdam on June 17, 1997, the EU moved a

step further "to place employment and citizens' rights at the heart of the Union; and to sweep away the last remaining obstacles to freedom of movement and to strengthen security."³ Currently, moves are underway in the EU to explore modes of policy co-operation and co-ordination that will lead to a convergence of social protection objectives and policies.⁴

The socio-economic conditions in ASEAN are very different to those in NAFTA countries and the EU (see [Table 1](#)). First of all, the average per capita GDP in ASEAN-10 (assuming that Cambodia is admitted in the future) was only about US\$ 1,121 in 1994. This compares to an average per capita GDP of US\$ 20,468 for the EU, and US\$ 20,181 for NAFTA member countries. Secondly, there is much more variation in per capita GDP among ASEAN-10 countries compared to that for EU and NAFTA. The coefficient of variation of per capita GDP for ASEAN was about 1.60 in 1994, compared to about 0.32 for EU and 0.55 for NAFTA. Even if Singapore and Brunei Darussalam, who are clearly outliers at the top end, are excluded, the coefficient of variation of per capita GDP for the other eight ASEAN countries was about 1.01.

For the EU, as the countries are fairly similar in terms of development level, and the EU is capable of meeting most of its own needs (92% of demand is met by EU supply, with only 8% covered by imports from outside), the establishment of fairly extensive integration with common rules and standards for various socio-economic aspects is fairly natural. As the countries are fairly similar, they have similar comparative advantages. Thus, great variations in standards, for example labor standards, would presumably give too much of an unfair advantage to the countries with low standards. Further, with the EU being mostly self-sufficient, internal competition is very significant, so that similar standards are again important. Also, as already mentioned, free labor movement within the EU implies the need for close co-ordination of labor market and social protection policies.

For NAFTA, the large difference in per capita GDP between Mexico on the one hand and the U.S. and Canada on the other, can give the impression that Mexico will take away jobs from her northern partners, and hence concerns over labor standards and fair competition. However, precisely because Mexico is much less developed than the U.S. and Canada, the differences in comparative advantages are complimentary. While some investment diversion presumably occurs, with access to a cheaper labor force in Mexico, U.S. and Canadian companies will be able to invest in projects that would not have been economically feasible had the investment taken place in the U.S. or Canada. Thus, NAFTA members as a whole will be in a better position to compete with countries outside, and this should lead to higher growth and employment. Nevertheless, the labor groups in the U.S. and Canada will obviously put pressure for some form of labor market standards, and this may well be true also for those who would object to low labor standards purely on moral grounds.⁵ Thus, the "Supplemental Agreement on Labor Cooperation" appears to be a compromise to appease the labor pressure groups in the U.S. and Canada, while allowing a fair degree of flexibility in terms of labor standards.

For ASEAN, the average per capita GDP for the group as a whole is far lower than the EU and the NAFTA countries. Apart from Singapore and Brunei Darussalam, who have small populations and very high incomes, the other ASEAN countries have a long way to go to attain the standards of the developed countries. Most of ASEAN workers are employed in the agriculture sector (54.4%), with large differences in GDP per head between non-agriculture and agriculture ([Table 2](#)). The large differential between GDP per head in agriculture and non-agriculture normally leads to a large gap between earnings in agriculture and non-agriculture.⁶ Thus, with still over half of all workers employed in the agriculture sector, there is still a large supply of workers who could be drawn into the industrial sectors. This dampens any tendency toward strong unions. The fact that most workers in export industries in Southeast Asia are female also tend to lessen union influence. Thus, pressures from labor groups against adverse impacts from AFTA on labor in industries that are likely to be adversely affected are weak. In fact, industrialists in industries likely to be adversely affected by AFTA are the ones to lobby for special treatment for their industries, in the form of delayed entry into the Common Effective Preferential Tariff (CEPT) Scheme or slower schedule of tariff reduction. These facts appear to explain why the labor market was hardly mentioned at all in the setting up of AFTA.

AFTA'S IMPACTS ON LABOR MARKET ADJUSTMENTS

As already mentioned above, ASEAN members are very diverse in terms of levels of development, ranging from Singapore, who is a developed city state, to countries in Indo-China, which are still very poor. Thus, the group is very complimentary in terms of having countries with a large range of comparative advantages. In theory, the potential gain from establishing a free trade area can be much larger than for groups who are fairly similar. However, potential adjustment problems could also be much bigger, if the industrial structures of countries in the group are very different than what they should be to fully exploit their comparative advantages after implementation of the free trade area.

However, looking at the variation in non-agriculture GDP per head in Table 2, it can be argued that labor market adjustment problems arising from AFTA is not likely to be serious. From Table 2, it can be seen that the countries in ASEAN-10 can be divided into four distinct groups, who can complement each other very well. The first group consists on Brunei Darussalam and Singapore. These are very small countries with incomes comparable to developed countries. Brunei Darussalam is resource-based and a rather special case. Singapore has very limited labor and land area, and is becoming too high cost for manufacturing activities. Thus, her future lies in high technology and services, particularly financial, trading and transportation. Singapore's labor market will continue to demand very highly skilled workers, with some low skilled imported workers for menial jobs.

The next group of countries consists of Malaysia and Thailand, with GDP per worker in non-agriculture of about US\$ 8,000-9,000 (in 1994). These countries are no longer competitive in labor intensive manufacturing and need to move up to medium-high technology industries. Malaysia seems to have made better adjustments than Thailand, focusing now on technology and skilled intensive products. Thailand is experiencing economic difficulties recently partly because of sharp declines in exports of medium- to low-end labor intensive exports. Fortunately, Thai export of medium-high technology manufactured products is now larger than export of labor intensive manufactured products, so the production base has already shifted significantly from the situation of a few years ago. The key labor market issue for the Thai government now concerns labor upgrading, in order to prepare those workers with relatively low education for work in the medium-high technology industries and to increase the supply of technical workers.⁷ Adjustments to the production structure and the labor market are on-going in Thailand and are not really related to AFTA as such. These adjustments are necessary because Thailand can no longer compete with other countries with much lower per capita income than Thailand in the medium- to low-end labor intensive manufactured products. These countries include ASEAN members, such as Indonesia and Vietnam, as well as countries outside ASEAN, such as China. By 2003, most of Thailand's manufacturing sector would have shifted to medium-high technology products. Labor market problems may remain, however, as most people in the workforce still possess only primary education or less.

The next group consists of Indonesia and Philippines, with GDP per worker in non-agriculture of about US\$3,500 in 1994. Indonesia still remains competitive in labor intensive products and has a large pool of workers in agriculture that she can draw upon. Philippines is now showing signs of solid growth after many years of economic adjustments. These countries should have good prospects well into the early part of the first decade of the next century. However, each will eventually have to make the transition that Malaysia and Thailand are trying to make. They need to continue to strengthen the required infrastructures (both physical and human) for medium-high technology industries.

The last group consists of the three Indo-China countries, Cambodia, Laos and Vietnam, and Myanmar, with non-agriculture GDP per worker of about US\$900-1,400. Among this group, Vietnam has made the most progress in embarking on the development of labor intensive exports. She should be able to retain success with this strategy for at least another decade. The other countries need to build up their infrastructures, physical and social, but eventually they are also expected to be able to successfully develop their labor intensive export industries.

Labor market adjustments in ASEAN will also be helped by the fact that, unlike the EU, intra-ASEAN trade is still a small proportion of total ASEAN foreign trade (see [Table 3](#)). While the proportion of intra-ASEAN

trade to total trade increased from about 18.9 percent in 1989 to about 23.0 percent in 1994, there is still a tremendous scope for increase. AFTA will facilitate the increase in intra-ASEAN trade. The investment climate in ASEAN will also become much more attractive. Different stages of production of a product can be located in different ASEAN countries, with each stage of production being located in the country most suitable for it. Sourcing of parts can be done with no tax penalty. The attractive investment climate will further facilitate intra-ASEAN trade, as well as make ASEAN more competitive internationally. These developments should lead ASEAN on a reasonably high economic growth path with benefits to the labor market.

One development in the labor market which needs careful monitoring is labor movement within ASEAN. Because there is such a wide disparity in development levels among ASEAN countries, the incentive for labor mobility in ASEAN is large.

A particularly serious problem is that of undocumented migration. It is estimated that almost one million undocumented migrants are working in Thailand. Most of these are from Myanmar. Because of the large size of this underground market, with obvious economic rents involved, the problem has been very difficult to solve. Over the past year, the government tried to manage the problem by opening a window so that migrants can register and be given permission to work for 2 years. This is to try to reduce the size of the underground market, and also manage potential social and health problems of these migrants. So far, about 300,000-400,000 have come forward. Compounding the difficulty is the fact that most of the migrants from Myanmar are from the ethnic minorities opposed to the central government. This creates further diplomatic problems. Malaysia has also been faced with similar problems. With Malaysia's very high reliance on foreign workers, it is easy for a sizeable number of undocumented migrants to emerge.

IMPLICATIONS FOR LABOR MARKET CO-OPERATION AND INTEGRATION

The variations in level of development of ASEAN countries are very large. Even though the implementation of AFTA actually implies that labor markets of the 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, the process is likely to take a long time. Even two decades 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 can become fully integrated as in the EU. Freer movements can be envisaged, however, at the top end of the labor market, particular professions and 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 AFTA, 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 for even though he/she 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 much more on 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

adjustment problems for specific sectors as a result of AFTA 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.

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