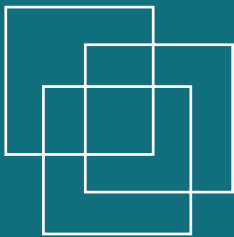




International
Labour
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ASEAN Community 2015:

Managing integration for better jobs and shared prosperity



ASEAN Community 2015:

Managing integration for better jobs and shared prosperity

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Foreword

The Association of Southeast Asian Nations (ASEAN) encompasses a dynamic and diverse region. It has enjoyed remarkable economic growth in recent decades but has also witnessed rising inequality and the persistence of poor quality jobs. By 2015, the ASEAN Economic Community (AEC), envisioned as a single common market and production base, will become a reality. This will lead to the freer flow of goods, services, investment capital and skilled labour in the region. Tariffs and non-tariff barriers will be reduced which will have implications for intra-regional trade and investment. New opportunities for growth and prosperity are likely to emerge, but the challenge is to ensure that growth is inclusive and prosperity is shared. To that end, understanding the impact of the AEC on labour markets will be critical in making sound policy choices that can shape the lives of the 600 million women and men in the region.

The President of the Asian Development Bank (ADB) and the Director-General of the International Labour Organization (ILO) signed a joint statement in December 2012, in which the two organizations pledged to strengthen their partnership to create decent work and address poverty, vulnerability and informal employment in the region. Exemplifying the spirit of that cooperation, this publication is a joint undertaking of the ADB and the ILO Regional Office for Asia and the Pacific. It reflects the high-level commitment of both organizations to support the ASEAN Secretariat and ASEAN Member States to build a people-centred ASEAN Community through better jobs and shared prosperity.

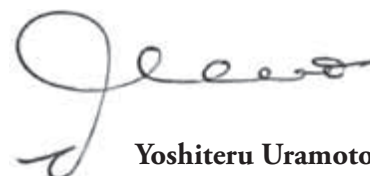
This publication provides an overview of recent economic and labour market trends in ASEAN, based on official national and international sources. It examines the impact of the ASEAN Economic Community on labour markets through model simulations and empirical and policy analyses, with the aim of offering evidence-based policy recommendations towards fostering better jobs and inclusive and balanced growth. The report highlights key priorities to address the challenges and opportunities of the AEC in terms of strengthening regional cooperation mechanisms, facilitating structural change and improving job quality, enhancing skills development, boosting productivity and wages, and managing labour migration.

We trust that readers will be inspired by this report, which presents the first ever analysis of the AEC impact on jobs, working conditions and lives of women and men in ASEAN. The recommendations in the report provide practical strategies and policy options that can assist policy makers in promoting inclusive and sustainable growth for women and men, not just in individual countries, but in the ASEAN region as a whole.

We also hope that this report will provide the basis for further policy dialogue and ideas that will advance social progress in the region.



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Executive summary

The ASEAN Economic Community (AEC) will create a single market and production base and new opportunities for prosperity for the region's 600 million women and men...

Strong economic performance has made ASEAN one of the world's most dynamic regions (Chapter 1). Since 2007, while annual average growth in the global economy has been 3.3 per cent, in ASEAN it has been 5.1 per cent. This has boosted living standards: between 1991 and 2013, 83 million workers moved out of poverty into the middle class. The region also has one of the world's highest foreign investment inflows – attracted by its workforce of 300 million, growing consumer markets and expanding networks of infrastructure.

Despite progress, challenges remain. In some countries, poverty persists and economic growth has been accompanied by rising disparities in income and opportunities. Too many workers are trapped in poor quality jobs. Approximately 179 million workers (or three in five) are in vulnerable employment and 92 million earn too little to escape poverty. Securing decent employment is particularly difficult for young people and women. These labour market concerns are exacerbated by limited commitments to labour standards and social protection.

...but unless managed properly the AEC may add to existing labour market deficits and increase inequality

The AEC has the potential to accelerate growth – by increasing flows of trade and investment, enabling the freer movement of skilled workers, and by strengthening institutions. This will necessarily change the composition and distribution of jobs

across the region. Consequently, ASEAN Member States will face challenges related to job gains and losses, skills development, wages and productivity, labour migration and social protection systems. Addressing these key issues will help ensure that more women and men benefit from deeper integration, and vulnerable groups are not left behind.

Building connectivity is key to the AEC vision of sustained growth and equitable development

Cross-border infrastructure has helped develop isolated areas and spread the economic benefits of integration more equitably (Chapter 2). Linking communities through physical networks facilitates the movement of goods, capital, labour and ideas and reduces overall transaction costs. Maximizing such benefits will require greater coordination among decision makers to provide the appropriate “hard” and “soft” infrastructure.

In this regard, previous integration agreements provide the momentum for further cooperation. A variety of subregional economic zones have emerged since the 1990s with the aim of transforming transnational but contiguous areas into attractive economic platforms. In addition, ASEAN has a series of trade agreements with prominent Asian partners such as Australia, China, India, Japan, Republic of Korea and New Zealand. As a result of these initiatives, ASEAN is in a dominant position to drive economic integration further.

The AEC will accelerate the pace of structural change...

The AEC has significant potential to spur

structural change from lower- to higher-productivity economic sectors (Chapter 3). Reaping the potential benefits will depend on putting in place policies to manage this transformation, including employment policies for high-quality jobs, robust measures for social protection and support to smaller enterprises.

One ongoing structural change is a decline in the significance of agriculture – which accounts for 40.0 per cent of total employment, having been overtaken by services at 40.6 per cent, with the remaining 19.4 per cent accounted for by industry. A challenge for some countries is that the bulk of job creation is taking place in sectors where levels of productivity are not significantly higher than in agriculture – and sometimes lower.

...and could generate 14 million additional jobs, but the gains will not be distributed evenly across countries or sectors, or between women and men

Model simulations suggest that implementation of trade measures under the AEC could lead to a significant increase in output. By 2025, GDP in the ASEAN region could be higher relative to the baseline by 7.1 per cent, with the largest gains for lower-income ASEAN Member States. The model also points to a net increase of 14 million jobs in six ASEAN economies, accompanied by the expansion and decline of specific sectors. However, some of the expanding sectors, such as trade and transport and construction, are often associated with vulnerable employment and the informal economy.

Changes in the sectoral distribution of employment in the region would lead to shifts in occupations that are in demand. The largest absolute demand will continue to be for low- and medium-skill jobs. Nevertheless the occupations projected to grow fastest in some economies are high skill.

Demand will increase rapidly for some skills, but decrease for others...

Chapter 4 examines employment growth for six economies where the labour market impact is modelled in detail (Cambodia, Indonesia, Lao People's Democratic Republic, Philippines, Thailand and Viet Nam). Overall, for these countries between 2010 and 2025, high-skill employment could grow by 41.0 per cent. Nearly one-half of those gains would be in Indonesia. However, growth in low-skill employment could also remain strong – notably in Cambodia, Lao People's Democratic Republic and Philippines – highlighting the continued importance of ensuring quality standards in basic education and training.

...which necessitates moving up the skills ladder and addressing skills gaps by strengthening education and training systems

Becoming a regional production centre driven by skills, innovation and creativity requires more relevant secondary and tertiary education and vocational training, particularly for young women and men from rural and poor households. Lacking job-related skills, too many young people face a difficult transition from the classroom to the workplace.

These challenges reflect broader skills shortages and mismatches throughout ASEAN. Employers are increasingly demanding a mix of technical competencies and core skills such as teamwork and communication. However, current trends indicate that by 2025 more than half of all high-skill employment in Cambodia, Indonesia, Lao People's Democratic Republic, Philippines, Thailand and Viet Nam could be filled by workers with insufficient qualifications. Robust skills certification mechanisms and stronger partnerships with employers' and workers' organizations would also help ASEAN Member States to address these skills gaps.

At the same time, enterprises will need to attract and retain skilled workers by offering better wages to compete on the basis of higher productivity...

When rising skills and productivity translate into higher wages, workers will want to spend their earnings – strengthening domestic demand and reducing the region’s dependency on exports (Chapter 5). Wages are also a key mechanism to ensure that growth translates into shared prosperity and equitable development. Across the ten ASEAN Member States, wages are now the main source of income for 117 million workers and their families. However, in many ASEAN Member States, while the purchasing power of wages has grown in recent years, the gaps between those at the bottom and at the top of the wage distribution have widened.

Furthermore, there are still large differences in wage levels between ASEAN Member States – ranging from US\$119 per month in Lao People’s Democratic Republic to \$3,547 in Singapore. These partly reflect substantial differences in labour productivity. But in some instances, these productivity gains have by-passed workers altogether.

...and stronger wage-setting institutions would help ensure that growth is inclusive and prosperity is shared

Model simulations indicate that between 2010 and 2025, productivity in a number of economies could double under the AEC. But past trends suggest that productivity increases do not translate into gains for everyone without stronger wage-setting institutions.

At present, in the private sector in most ASEAN Member States there is very little genuine collective bargaining between representative trade unions and employers. The main mechanism for setting wages has been the establishment of minimum wages – and if these are not adjusted regularly, industrial relations can erupt into conflict. To take due account of the interests of workers and employers alike, minimum wages should be assessed regularly through robust and evidence-based processes. By investing in their wage-setting institutions, ASEAN Member States

can counter rising inequality and encourage enterprises to upgrade and enhance productivity.

Economic and demographic disparities are driving labour migration, which is primarily low-and medium-skilled...

Between 1990 and 2013, intra-ASEAN migration increased from 1.5 million to 6.5 million, with Malaysia, Singapore and Thailand emerging as major migration hubs (Chapter 6). Most migrant workers are low- and medium-skilled, and the main drivers are economic and demographic disparities among Member States. Some countries of origin have expanding youth populations, which places pressure on the labour market to create jobs and can lead to outmigration of young women and men. In the destination countries the demand for migrants has increased due to population ageing, which can lead to labour shortages.

...but the AEC’s provisions for free mobility of high-skilled workers are likely to have limited impact in the short term...

Although most of the region’s migrant workers are low- or medium-skilled, current AEC policies for managing migration are confined to high-skill occupations. These have established mutual recognition arrangements (MRAs) in eight occupational categories. But since these together account for a tiny share of total employment the AEC’s provisions on labour mobility may have limited short-term impact.

...requiring a focus on skills recognition, social protection and safeguarding the rights of migrant workers

Migration of low- and medium-skilled workers is likely to continue and even increase. Policy makers could therefore make migration channels safer, and more manageable and transparent, by expanding the

scope of MRAs to encompass low- and medium-skilled workers, such as those in the construction, garment, fishing and plantation sectors.

If ASEAN Member States are to reap the benefits of labour mobility, they also will need to prioritize three other critical areas: ratifying, implementing and enforcing international Conventions; extending the coverage and portability of social security; and implementing the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers.

To realize the full potential of the AEC to deliver more and better jobs, decisive action is necessary, including better management of structural change...

As Chapter 7 highlights, Member States will need to facilitate and manage the structural change resulting from the AEC. These measures include enhancing industrial and sectoral policies, supporting smaller enterprises, strengthening employment and skills policies and improving connectivity and infrastructure. At the same time, it is critical to build effective social protection systems, including for workers in vulnerable employment as well as for women and men who are at risk of losing their jobs and incomes as some economic sectors decline. This should start with the establishment of social protection floors.

...and ensuring that economic gains lead to shared prosperity...

Deeper regional integration offers immense economic prospects, but translating these gains into shared prosperity and equitable development requires robust labour market institutions. Governments can use these to make growth more inclusive and balanced. They can strengthen the productivity-wage link through appropriate mechanisms for minimum wage setting and collective bargaining, promote gender equality and youth

employment through access to skills training, and protect migrant workers and ensure their equal treatment.

...while also strengthening regional cooperation and tripartite dialogue

Realizing the potential of greater integration will require deeper regional partnerships. This includes implementing landmark ASEAN agreements such as the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers and the ASEAN Declaration on Strengthening Social Protection. Other priorities for regional cooperation include expanding mutual recognition arrangements, completing the ASEAN Qualifications Reference Framework and strengthening labour market information and analysis to help monitor the impact of the AEC on labour markets.

Such regional cooperation efforts will need to be consistent with national policies. Each Member State will need to identify the most appropriate sequence of policies for their own circumstances, while creating a level field for competition, such as through ratification of international labour standards.

Ultimately, the success of ASEAN regional integration will depend on how it affects the labour market – and therefore on how it improves the quality of life of women and men in the region.

Abbreviations

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AKFA	ASEAN-Korea Free Trade Area
ALM	ASEAN Labour Ministers
APSC	ASEAN Political Security Community
AQRF	ASEAN Qualifications Reference Framework
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
ASEAN-6	Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area
BPO	business process outsourcing
CAFTA	China-ASEAN Free Trade Area
CARICOM	Caribbean Community
CGE	computable general equilibrium
CLMV	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam
COMMIT	Coordinated Mekong Ministerial Initiative against Trafficking
ECOWAS	Economic Community of West African States
EPS	Employment Permit System
FDI	foreign direct investment
GDP	gross domestic product
GMS	Greater Mekong Subregion
IAI	Initiative for ASEAN Integration
ICT	information and communications technology
ILO	International Labour Organization
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
ISCO	International Standard Classification of Occupations
LFS	labour force survey
Lao PDR	Lao People's Democratic Republic
MDGs	Millennium Development Goals
Mercosur	Common Market of the South
MNE	multinational enterprise
MOU	memorandum of understanding
MRA	mutual recognition arrangement
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization

NWC	National Wage Council / National Wages Council [of Singapore]
PISA	Programme for International Student Assessment
PPP	purchasing power parity
PWM	Progressive Wage Model
RCEP	Regional Comprehensive Economic Partnership
roro	roll-on/roll-off
SADC	Southern African Development Community
SIJORI	Singapore-Johor-Riau
SME	small and medium-sized enterprise
SRZ	subregional economic zone
TPP	Trans-Pacific Partnership
TVET	technical and vocational education and training
UCS	Universal Coverage Scheme
UNDG	United Nations Development Group
UNESCO	United Nations Educational, Scientific and Cultural Organization
WTO	World Trade Organization

ASEAN integration in the global context

Over the past 50 years the economic landscape of Southeast Asia has been transformed by rapid economic growth and demographic transitions. But countries in the region have also been shaped by institutions for regional cooperation. The oldest and best known is the Association of Southeast Asian Nations (ASEAN), which is now entering a new era as it reaches a major milestone in 2015 – the formation of the ASEAN Community.

Strong economic performance has enabled all ten ASEAN Member States to achieve significantly higher living standards for its 600 million women and men. Nevertheless, pervasive vulnerability, gender disparities and high youth unemployment persist in the region's labour markets. This contrasts with the overall purpose of the ASEAN Community to build a region with “sustained economic growth” accompanied by “lasting peace, security and stability as well as shared prosperity and social progress”.¹

An important part of the ASEAN Community vision is the establishment of a globally integrated and competitive single market and production base, built on the principles of equitable economic development and shared prosperity, through the ASEAN Economic Community (AEC).² The AEC reflects the contemporary economic challenges that Member States face including building resilience to global economic volatility, maintaining

competitiveness with the rise of China and India, promoting full and productive employment, and mitigating excessive inequality. However, ASEAN actions towards regional economic integration must not only respond to market-related changes in global and regional demand, investments, and supply chains. They must also constitute self-determined and coherent efforts in delivering on the social objectives of the ASEAN Community.

Whether or not the AEC accelerates social progress in the region will depend heavily on its labour market effects. The AEC will impact labour markets directly through the freer flow of skilled labour and indirectly through trade and investment liberalization measures. Increased openness will also have important implications for the structure of economies, jobs, skills, wages and labour mobility. Understanding this dynamic between the AEC and labour markets is critical in determining whether regional cooperation will benefit all women and men in ASEAN.

The ASEAN Economic Community

The AEC is an ambitious effort at deep market

1 ASEAN Charter, Jakarta, Jan. 2008, chapter 1.

2 ASEAN Economic Community Blueprint, Singapore, Dec. 2007. The AEC represents one of three pillars of the ASEAN Community, in addition to the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community.

integration, characterized by the free flow of goods, services and investment, a freer flow of financial capital, enhanced connectivity, and expanded opportunities for intra-regional labour migration. It can be seen as a significant step in the region's post-1997 reorientation – away from traditional economic partners, such as Japan, the United States and the European Union, and towards the region itself, as well as to emerging markets such as China and India.³

The current design of ASEAN regional economic cooperation has also been shaped by more recent global economic shocks, such as the collapse of the United States subprime mortgage market and the eurozone debt crisis. While ASEAN economies have weathered these storms, many of the world's leading industrialized countries are struggling to shake off the effects of recession.

Each pillar of the ASEAN Community has a corresponding Blueprint that states the objectives and the planned actions to which Member States have committed. The Blueprint for the AEC is a binding Declaration containing 17 core elements and 176 priority actions which rest on four pillars: (i) a single market and production base; (ii) a highly competitive economic region; (iii) a region of equitable economic development; and (iv) a region fully integrated into the global economy.⁴ Economic integration, as envisioned in the AEC Blueprint, is not limited to liberalization of trade and investment, but is rather a comprehensive and multifaceted effort which addresses disparities within and between countries, intra- and inter-state

3 The inward orientation of ASEAN has been described as a response to external shocks and a strategy to increase resilience. See G. Chin: "Asian regionalism after the global financial crisis", in G. Capannelli and M. Kawai (eds.): *The political economy of Asian regionalism* (New York and London, Springer, 2014), pp. 39-58. For further discussion on increased ASEAN integration with China, see: K. Gu, and Q. Zhang: *Prospects glimmer for China to be poised for CAFTA: Managing integration for shared prosperity and social progress*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

4 ASEAN Economic Blueprint, Singapore, 20 Dec. 2007.

infrastructure development, small and medium-sized enterprise development, as well as the mobility of skilled labour (Box 1-1). The AEC Blueprint also addresses new areas of regional economic integration dealing with "behind-the-border" measures and domestic regulation.

The AEC Blueprint includes a strategic schedule of priority actions to be undertaken over four biennials from 2008 to 2015, and progress is being monitored through a scorecard. Launched in 2008, this self-assessment tool tracks the actions that must be undertaken by ASEAN Member States, both individually and collectively, and registers the achievement of its milestones.⁵ Across the four components between 2008 and 2011, ASEAN achieved 67.5 per cent of the AEC targets (Table 1-1).

Table 1-1 Implementation of AEC Scorecard

AEC pillars	Completion rate (per cent)
1. Single market and production base	65.9
2. Competitive economic region	67.9
3. Equitable economic development	66.7
4. Integration into the global economy	85.7
Total across four pillars	67.5

Note: As of Dec. 2011.

Source: ASEAN: *ASEAN Economic Blueprint Scorecard: Charting progress toward regional economic integration phase I (2008-09) and phase II (2010-11)* (Jakarta, 2013).

Economic progress

As a whole, ASEAN's recent economic performance has been remarkable. In 2013, ASEAN's gross domestic product (GDP) stood at \$2.4 trillion, accounting for 3.3 per cent of the world's economy. During the period 2007-13, ASEAN economies, with the exception of Brunei Darussalam, grew faster than the global average, proving relatively resilient to successive international crises in the late-

5 ADB: *Asian Economic Integration Monitor – March 2013* (Manila, 2013).

Box 1-1 The state of the AEC

Single market and production base: According to the AEC Blueprint, the single market and production base will comprise five core elements: the free flow of goods, services and investment, a freer flow of capital and the free flow of skilled labour. In regard to trade liberalization, significant achievements have been made in terms of tariff reductions through the 2009 ASEAN Trade in Goods Agreement. More recently, trade facilitation efforts are underway, such as the pilot single window project in Indonesia, Malaysia, Philippines, Singapore and Thailand. Conversely, service sector trade liberalization has been modest and success in the removal of non-tariff trade barriers has been limited. In addition, despite the 2012 ASEAN Comprehensive Investment Agreement, only half the investment measures specified in the AEC Blueprint have been implemented. Finally, in terms of the free flow of skilled labour, Member States have adopted a framework for mutual recognition arrangements for eight high-skill professions – though their impact on current migration trends may be limited (see Chapter 6).

Competitive economic region: A single market and production base through the AEC will depend on fair competition, intellectual property policy, and infrastructure development. These elements contribute to the region's business environment, increase the attractiveness to foreign investment, and facilitate the establishment of production networks. Most countries have enacted national competition statutes and there are regional guidelines on competition. In addition, in 2011, Member States adopted the ASEAN Intellectual Property Rights Action

Plan 2011-2015 – though this lacks a harmonized enforcement system. Despite a number of agreements, many planned initiatives in the transportation sector remain incomplete.

Equitable economic development: The AEC Blueprint outlines objectives in terms of narrowing development gaps between Member States and underscores the importance of protecting and promoting small and medium-sized enterprises (SMEs). SMEs are important because they are prominent providers of employment and income, and contribute to gender and youth empowerment through business participation. However, increased competition may hinder SMEs if their specific needs and concerns (for example, access to information, markets, skills development, technology and finance) are not addressed. Initiatives aimed at increasing SME capacity to leverage ASEAN integration are guided by the Strategic Action Plan for ASEAN SME Development 2010-2015. To address intra-regional gaps and complement the Initiative for ASEAN Integration, in 2011, Member States adopted the ASEAN Framework for Equitable Economic Development which highlights the need to promote human development, private sector industrial collaboration, SME development, job creation and improve the quality and coverage of systems of social protection.

Integration in the global economy: ASEAN has concluded a series of trade agreements with regional partners, including Australia, China, India, Japan, Republic of Korea and New Zealand. ASEAN's international integration initiatives are discussed in detail in Chapter 2.

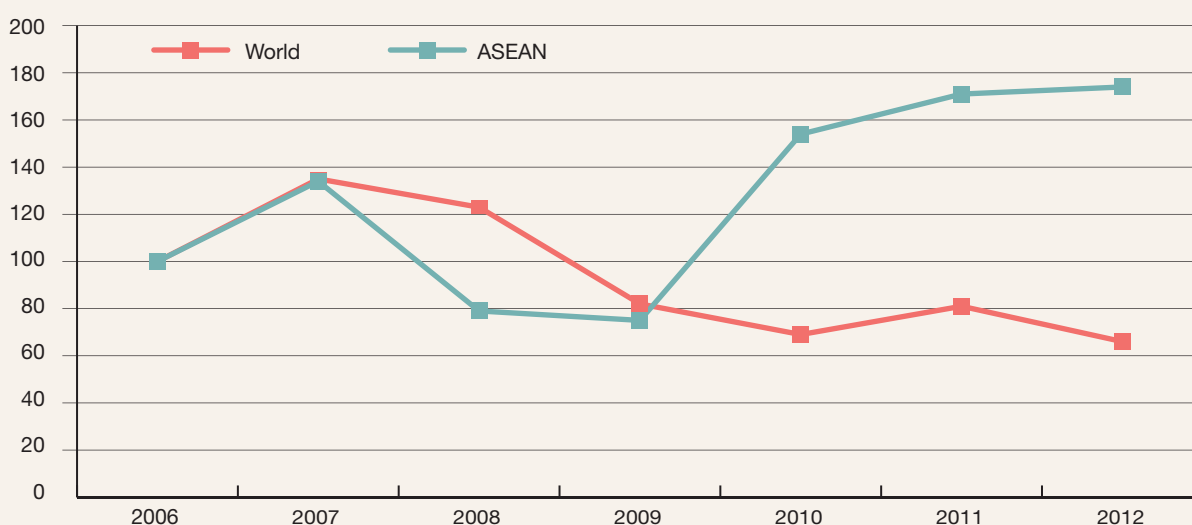
Source: ASEAN: *ASEAN Economic Blueprint Scorecard: Charting progress toward regional economic integration phase I (2008-09) and phase II (2010-11)*, op. cit.; ASEAN Economic Blueprint, op. cit.; ASEAN Strategic Action Plan for SME Development 2010-2015, Jakarta, 2010; S. Basu Das (ed.): *The ASEAN Economic Community Scorecard: Performance and perception* (Singapore, ISEAS Publishing, 2013); S. Basu Das et al. (eds.): *The ASEAN Economic Community: A work in progress* (Singapore, ISEAS Publishing, 2013).

Table 1-2 Intra-ASEAN trade, 2012 (\$ million and per cent)

Country	Intra-ASEAN exports		Intra-ASEAN imports		Intra-ASEAN trade	
	Value (\$ million)	Share of total exports (per cent)	Value (\$ million)	Share of total imports (per cent)	Value (\$ million)	Share of total trade (per cent)
Brunei Darussalam	1 564	13.1	3 021	45.2	4 586	24.6
Cambodia	1 319	16.8	8 974	58.6	10 293	44.5
Indonesia	41 831	22.0	53 661	28.0	95 492	25.0
Lao PDR	1 545	46.5	4 463	70.4	6 008	62.2
Malaysia	68 661	27.6	54 866	27.9	123 527	27.7
Myanmar	3 787	45.8	6 389	37.3	10 176	40.1
Philippines	9 801	18.9	15 523	22.9	25 324	21.1
Singapore	130 010	31.7	79 841	21.0	209 851	26.6
Thailand	56 155	24.6	40 603	16.1	96 758	20.2
Viet Nam	17 312	15.6	20 758	18.6	38 070	17.1
ASEAN	331 987	26.1	288 099	23.1	620 085	24.7

Source: International Monetary Fund (IMF): Direction of Trade Statistics Database.

Figure 1-1 FDI inflows to ASEAN and the world, 2006-12 (Index, 2006=100)



Source: ILO estimates based on UNCTAD: UNCTADstat Database.

2000s. In 2013, GDP growth for the world as a whole was 3.0 per cent, but for ASEAN it was 4.9 per cent.⁶

The recent lacklustre performance of the world's largest economies – the European Union,

Japan and the United States – has encouraged ASEAN Member States to look for other markets, particularly in developing Asia. Between 2000 and 2012, the combined share of ASEAN total trade with the European Union and the United States fell from 29.8 per cent to 17.9 per cent, while China's share rose from 4.4 per cent to 13.1 per cent. Moreover,

6 IMF: World Economic Outlook Database, Apr. 2014.

while India's share in 2012 was only 2.8 per cent it was still ASEAN's ninth biggest trade partner. Table 1-2 shows that in 2012 intra-ASEAN trade as a share of ASEAN's total trade was 24.7 per cent – a rise from 22.7 per cent in 2000. This is similar to the combined shares of other major trading partners: China, Japan and Republic of Korea (29.0 per cent); the European Union and United States (17.9 per cent); and the rest of the world (25.6 per cent).⁷ Among ASEAN Member States, trade with other ASEAN partners was the most important for Lao People's Democratic Republic but the least important for Viet Nam.

In recent years, ASEAN has seen a consistent surge in foreign direct investment (FDI) inflows, in contrast to the rest of the world (Figure 1-1). Following the crisis years of 2008 and 2009, world FDI inflows plateaued while those to ASEAN rose by two per cent to \$111.3 billion – an all-time high and a 30.0 per cent increase from the 2007 pre-crisis level. The share of ASEAN FDI inflows in world FDI inflows is now similar to that of China and substantially higher than that of India.⁸ In 2011, for the first time, the region's main source of flows switched from the European Union to ASEAN itself. Between 2000 and 2012, intra-ASEAN flows as a proportion of total FDI rose steadily from 4.0 per cent to 18.0 per cent – increasing in value by 23 times.⁹ By contrast, during the same period FDI from non-ASEAN partners increased only by a factor of five.

In the last five years, ASEAN received over \$400 billion in FDI – of which \$271 billion came from within Asia (\$68 billion of this was intra-ASEAN).¹⁰ In 2012, a large proportion of FDI going to Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Thailand, and Viet

Nam originated in Asia – shares of Asian FDI in total FDI ranged from 62.5 per cent (Myanmar) to 89.8 per cent (Malaysia). In contrast, FDI inflows to Brunei Darussalam, Philippines and Singapore came mostly from outside Asia.

ASEAN's role as an export base and its large domestic markets have also boosted other intra-regional financial linkages. Due in part to the Asia Bond Markets Initiative there has been an expansion in local currency bond markets, especially for corporate bonds – though intra-ASEAN bond and equity holdings are smaller than non-ASEAN investor holdings of ASEAN bonds and equities.¹¹ Since the global financial crisis there has also been an increase in intra-regional bank credit flows.

Another important factor in ASEAN economic growth has been labour mobility. Since the early 1990s, the number of intra-ASEAN migrants has increased from 1.5 million to 6.5 million.¹² This issue is discussed in detail in Chapter 6.

The social context

Deeper market integration and economic progress have spurred important social developments. ASEAN's middle-class workforce is rapidly expanding. Between 1991 and 2013, 83 million workers rose to middle-class status in Southeast Asia and the Pacific, and the share of middle-class workers in total employment increased from 12.4 per cent to 35.1 per cent.¹³ Strong investment and sustained growth are expected to lead to a continued expansion of the middle class to 144 million by 2017.

Nevertheless, there remain significant levels of poverty. In some countries, while a smaller

7 ASEAN Secretariat: ASEANstats Database.

8 UNCTAD: UNCTADstat Database.

9 ASEAN Secretariat: ASEANstats Database.

10 ADB estimates based on ADB: *Asian Economic Integration Monitor – April 2014* (Manila, 2014).

11 ADB: *Asian Integration Monitor – March 2013*, op. cit.

12 UN: Trends in International Migrant Stock: The 2013 Revision Database.

13 The middle class is defined as those living in households with per capita income of \$4 or more per day. Southeast Asia and the Pacific includes all ten ASEAN Member States as well as Fiji, Papua New Guinea, Solomon Islands and Timor-Leste. S. Kapsos and E. Bourmpoula: *Employment and economic class in the developing world*, ILO Research Paper No. 6 (Geneva, ILO, 2013).

proportion of the workforce is now living in poor households, their absolute numbers have risen. For instance, in Cambodia between 1994 and 2008 the share of workers living on less than \$2 per day declined from 75.3 per cent to 49.6 per cent of total employment, but the number of poor workers increased from 3.3 million to 3.7 million. In the Philippines between 1991 and 2009, the share of the working poor fell from 50.0 per cent to 37.2 per cent, but the number living on less than \$2 per day rose from 11.2 to 13 million. In addition, there has been an increase in both the share and the numbers of those living just above the poverty line, indicating that poverty alleviation gains may easily be reversed by sudden shocks and instability.

Furthermore, in some ASEAN Member States economic growth has been accompanied by significant disparities in income and expenditure. This is evident from the Gini coefficients which range from 35.6 to 46.2 across the seven economies for which data are available (Table 1-3). Another indicator of inequality is the quintile ratio – the ratio of the per capita expenditure of the top 20 per cent of households to that of the bottom 20 per cent. This ranged from 5.9 in Viet Nam and Lao People’s Democratic Republic in 2008 to 11.3 in Malaysia in 2009. Three out of the seven countries in the table experienced a rise in quintile ratios over the two decade period, indicating a rise in income inequality.

In the larger ASEAN economies, inequality is higher in urban areas. In Indonesia, for example, the 2011 Gini coefficient for rural areas was 34.0 while for urban areas it was 42.2.¹⁴ Inequality may lead to the misallocation of capital and hamper poverty reduction and growth, possibly eroding social cohesion, and institutional stability. It also runs counter to the AEC’s overarching goal of equitable growth with reduced development gaps between and within Member States.

Another major issue for ASEAN has been disparities between the six more developed Member States, namely Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand (ASEAN-6) and the CLMV countries (Cambodia, Lao People’s Democratic Republic, Myanmar and Viet Nam). To address these disparities, the Initiative for ASEAN Integration (IAI), launched in 2000, focuses on gaps in priority areas such as infrastructure, human resource development, information and communications technologies, capacity building, and poverty reduction. The IAI has been reasonably successful. Between 2000 and 2011, the ratio between the per capita income of the ASEAN-6 and that of the CLMV countries fell from 3.4 to 2.6. Similarly, between 2000 and 2010 the gap in primary school enrolment rates declined from 16.2 percentage points to 4.0 percentage points.¹⁵ There has been significant progress, however much remains to be done.

Table 1-3 Inequality in ASEAN, earliest year in 1990s and most recent year

	Gini coefficient		Quintile ratio	
Cambodia	38.3 (1994)	36.0 (2009)	5.8 (1994)	5.6 (2009)
Indonesia	29.2 (1990)	38.1 (2011)	4.1 (1990)	6.3 (2011)
Lao PDR	30.4 (1992)	36.7 (2008)	4.3 (1992)	5.9 (2008)
Malaysia	47.7 (1992)	46.2 (2009)	11.4 (1992)	11.3 (2009)
Philippines	43.8 (1991)	43.0 (2009)	8.6 (1991)	8.3 (2009)
Thailand	45.3 (1990)	39.4 (2010)	8.8 (1990)	6.9 (2010)
Viet Nam	35.7 (1992)	35.6 (2008)	5.6 (1992)	5.9 (2008)

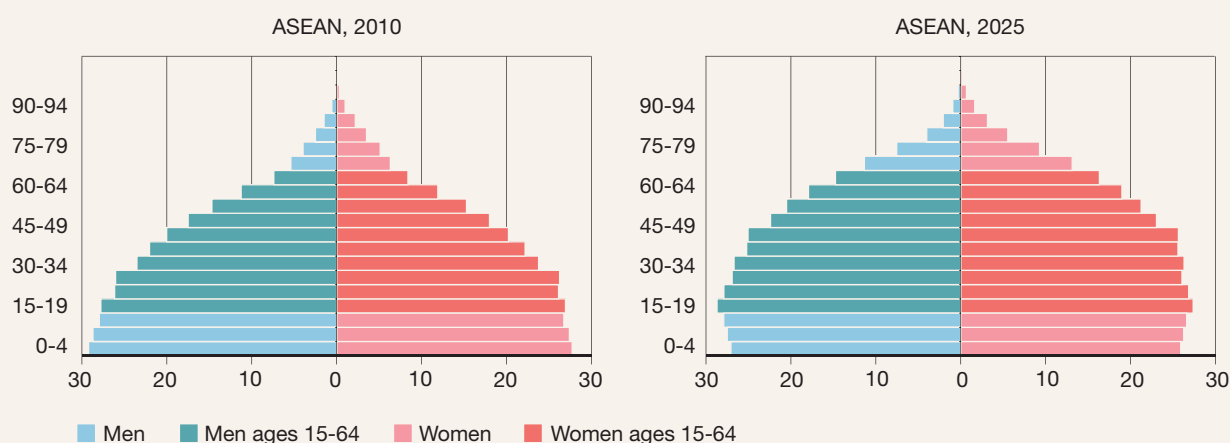
Note: Gini coefficients and quintile ratios are based on per capita expenditure, except for Malaysia which is income-based. The quintile ratio is the ratio of the per capita expenditure of the top 20 per cent of households to that of the bottom 20 per cent.

Source: ADB: *Asian Development Outlook 2012: Confronting rising inequality in Asia*, op. cit.; World Bank: PovcalNet, Apr. 2013.

14 ADB: *Asian Development Outlook 2012: Confronting rising inequality in Asia* (Manila, 2012).

15 ASEAN: *ASEAN brief 2012: Progress towards the ASEAN Community* (Jakarta, Mar. 2013).

Figure 1-2 Population by sex and age in ASEAN, 2010-25 (million)



Source: UN: World Population Prospects: The 2012 Revision Database.

Demographic trends

ASEAN's population of approximately 600 million people accounts for 8.6 per cent of the world total. This is equivalent to the combined populations of Latin America and the Caribbean (606 million), considerably larger than the population of the European Union (506 million) and double that of the United States (312 million). Since 1990, ASEAN's population has almost doubled, and by 2025 is expected to reach 694 million.

ASEAN is experiencing significant demographic change – at both ends of the age spectrum – with declining proportions of young people ages 15 to 24 and increasing proportions of elderly people ages 65 and above (Figure 1-2 and Annex F, Figure F2-1b). However, the profile differs from country to country. In Indonesia, Lao People's Democratic Republic, and Philippines in 2025 youth will account for more than 17 per cent of the population, while in Singapore and Thailand their share will be less than 11.5 per cent. Between 2010 and 2025, the Philippines will see its working-age population expand by 35.0 per cent. In Myanmar and Viet Nam, on the other hand, over the same period the working-age population will increase by only 14.0 per cent and 12.4 per cent respectively, while in Thailand it will contract by 1.1 per cent.

During this period, the proportion of the elderly in Thailand's population will have risen from 8.9 per cent to 16.1 per cent, and in Singapore from 9.0 per cent to 17.3 per cent. These varied ageing trends will affect the labour supply and social protection expenditure, as well as labour migration.

As indicated in Figure 1-2, in the near future, the ASEAN region as a whole will experience lower birth rates and a rising share of the working-age population, with 68 million new entrants to the labour force until 2025, suggesting a potential demographic dividend. However, the situation will vary by country. In Indonesia and Viet Nam, for example, if appropriate social and economic policies are in place, lower birth rates and decreasing dependency ratios could facilitate accelerated growth and increases in per capita income. Conversely, in rapidly ageing societies such as Thailand, this window of opportunity will slowly narrow.

Another important demographic issue is the unprecedented speed of urbanization taking place in the ASEAN. Between 1950 and 2011, the proportion of people living in urban areas rose from 10.0 per cent to 44.7 per cent – and by 2050 it is expected to reach 58.3 per cent.¹⁶ The mechaniza-

¹⁶ UN: World Population Prospects: The 2012 Revision Database.

Table 1-4 Selected labour market indicators in ASEAN, most recent year

	Labour force (000s) ^(a)	Education and skills development ^(b)			Average monthly wage (\$) ^(c)	Labour productivity (constant 2005 international \$) ^(d)
		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.

tion of agriculture and new industries in urban areas offering higher-paying jobs, are attracting people from the countryside. However, the opportunities from urban agglomeration do not necessarily translate into better working and living conditions. Urbanization is often accompanied by an expansion in informal and vulnerable employment, as urban labour markets struggle to absorb the rapidly increasing labour force.

The labour market

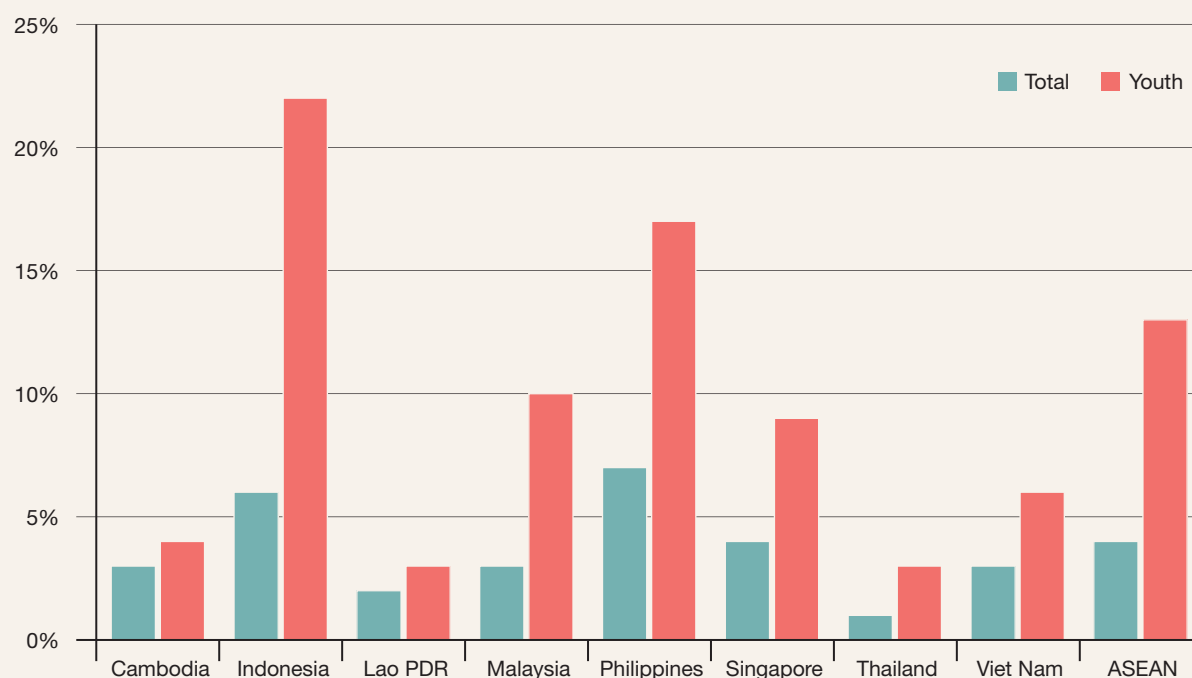
ASEAN Member States differ markedly in terms of labour supply, skills, wages, and productivity (Table 1-4). The labour force varies widely from 186,000 in Brunei Darussalam to 118.2 million in Indonesia. With respect to skills, most countries have high literacy rates among the working-age population. However, enrolment in technical and vocational education and training (TVET) programmes remains inadequate while increasing the relevance of higher education is a challenge in

many countries.

Productivity (the value added per worker) varies greatly and correlates with the skills of the workforce (see Chapters 4 and 5). Annual output per worker in Thailand, for example, is nearly four times the level in Cambodia. Disparities are also marked when it comes to wages. For instance, a worker in Malaysia earns, on average, more than three times the monthly salary of an Indonesian worker. These differences partly explain patterns of regional labour migration (see Chapter 6).

The region's labour market also has pronounced gender disparities. Between 2010 and 2013 labour force participation rates remained steady at slightly more than 70 per cent (Annex F, Table F1-2). However, the rate for women was around 59 per cent, while that for men was about 82 per cent.¹⁷ In

17 The gender gap in the labour force participation rates in ASEAN (23.0 per cent) is significantly higher than that in China (12.3 per cent), and developed economies and the European Union (14.5 per cent). Conversely, gender disparities in ASEAN are considerably lower than in India (54.0 per cent).

Figure 1-3 Unemployment rate, total and youth, most recent year (per cent)

Note: Preliminary 2013 data, except for Cambodia (2012), Lao PDR (2010) and Malaysia (2012).
Source: Annex F, Tables F1-4 and F1-5.

Malaysia and Indonesia, the gender gap exceeds 30 percentage points. Gender gap in wages is also stark. On average, women in Cambodia and Singapore, for instance, earn about one-quarter less than men (Annex F, Table F1-8). Moreover, as indicated in the next section, women in ASEAN are also at a disadvantage in securing decent employment.

Employment trends

In recent years employment growth has slowed in ASEAN. In 2012, employment grew by 1.9 per cent, and in 2013 by only 1.5 per cent – on par with the global rate of 1.4 per cent.¹⁸ This is notably faster than in East Asia, where growth in total employment was 0.8 per cent in 2012 and 0.7 per cent in 2013, but lower than in Latin America and the Caribbean, where it was 2.3 per cent in 2012 and 1.8 per cent in 2013.

ASEAN has also seen a decline in its

unemployment rate from 4.7 per cent in 2010 to 4.2 per cent in 2013 – in line with other Asian subregions, and lower than the global rate of six per cent. However, the situation is more concerning for young women and men (Figure 1-3). ASEAN's youth unemployment rate in 2013 was 13.1 per cent and higher in some larger economies – 21.6 per cent in Indonesia, for example, and 16.6 per cent in the Philippines. Although ASEAN's youth unemployment rate is similar to the global rate, it is higher than those in East Asia and South Asia (roughly ten per cent). High youth unemployment imposes social and economic costs and results in the loss of opportunities for economic growth.¹⁹

For those able to find employment, a major concern is poor job quality. Vulnerable employment, defined as own-account and contributing family workers, often entails less formal arrangements and

¹⁹ ILO: *The youth employment crisis: A call for action*, Resolution and conclusions of the International Labour Conference, 101st session (Geneva, 2012).

¹⁸ ILO: Trends Econometric Models, Jan. 2014.

Box 1-2 The ILO and the Millennium Development Goals

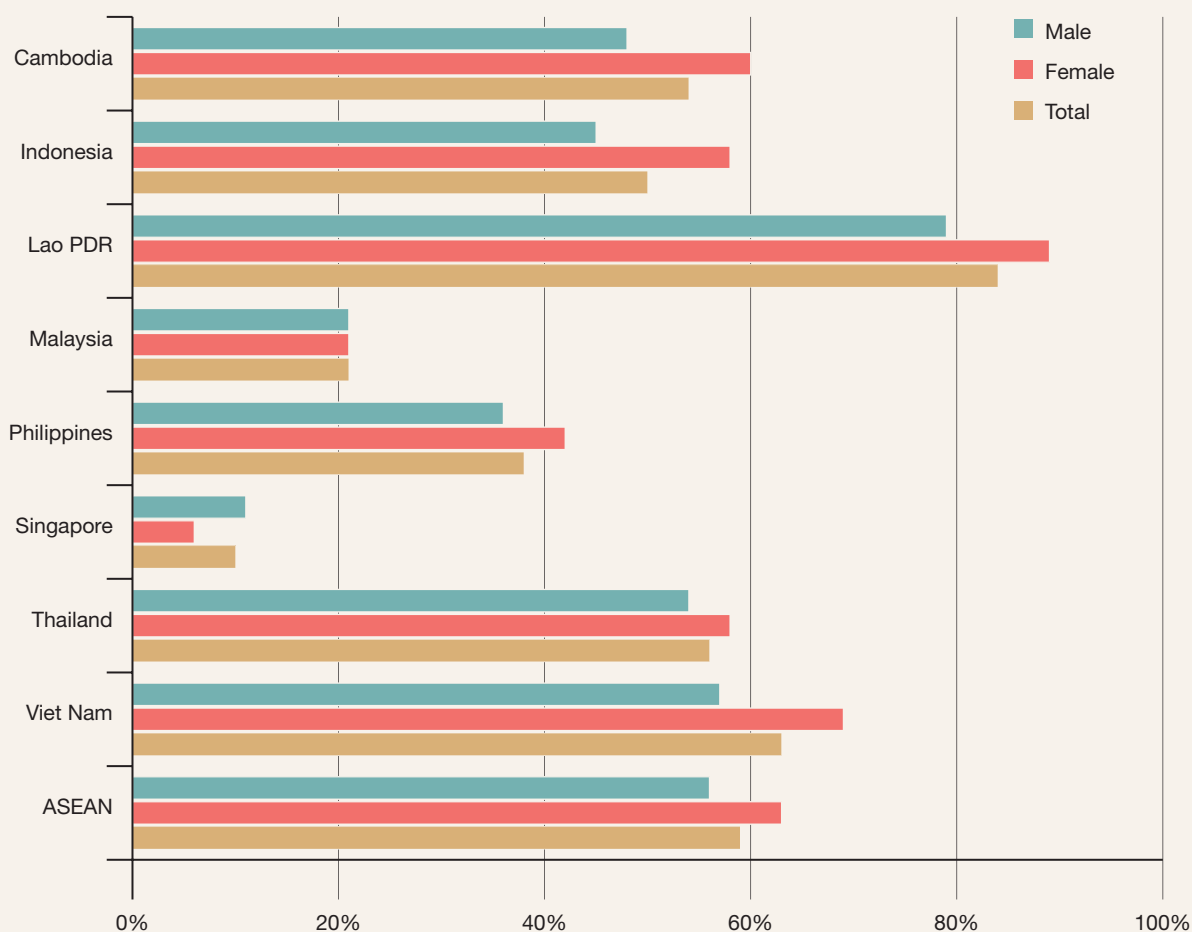
In September 2000, world leaders endorsed the Millennium Declaration, a commitment to work together to build a safer, more prosperous and equitable world. The Declaration was translated into a roadmap setting out eight time-bound and measurable goals to be reached by 2015, known as the Millennium Development Goals (MDGs).

The ILO takes the lead in reporting on the achievement of full and productive employment and decent work for all, including women and

young people. This is covered by target 1B under the first MDG, on the eradication of poverty and hunger. Target 1B indicators are: (i) growth rate of GDP per person employed, or labour productivity; (ii) employment-to-population ratio; (iii) proportion of employed people living under \$1 (PPP) per day; and (iv) proportion of own-account and contributing family workers, defined as those vulnerably employed in total employment.

Source: ILO: *The Millennium Declaration, the MDGs and the ILO's Decent Work Agenda: Overview* (Geneva, 2010).

Figure 1-4 Vulnerable employment as a share of total employment by sex, 2013 or most recent year (per cent)



Source: Annex F, Table F1-7.

Box 1-3 Improving job quality through regional cooperation

Labour issues span all pillars of the ASEAN Community. The labour components of the ASEAN Socio-Cultural Community (ASCC) intertwine with and complement the AEC's labour ramifications. These components include supporting decent work principles, ensuring adequate protection for migrant workers, and promoting investment in human resource and skills upgrading, particularly of vulnerable groups. Finally, labour issues in the ASEAN Political-Security Community (APSC) include the need to strengthen the criminal justice response to trafficking persons and provide better protection for victims of trafficking.

The ASEAN Labour Ministers' Meeting leads the work on regional cooperation on labour and oversees labour-related initiatives to the AEC and ASCC. According to the ASEAN Labour Ministers' (ALM) Work Programme 2010-2015, regional cooperation in labour aims at better equipping the labour force to benefit from and cope with the challenges from economic integration. The work programme identifies the legal protection of labour rights and working conditions as a strategic priority, and underscores the importance of workforce development, decent employment opportunities and labour law, among other areas.

In addition, ASEAN has adopted regional Declarations in a series of critical areas. The initiatives with labour market implications include:

Bandar Seri Begawan Declaration on Youth Entrepreneurship and Employment: Persistently high youth unemployment has been a growing concern and directly threatens the goals of

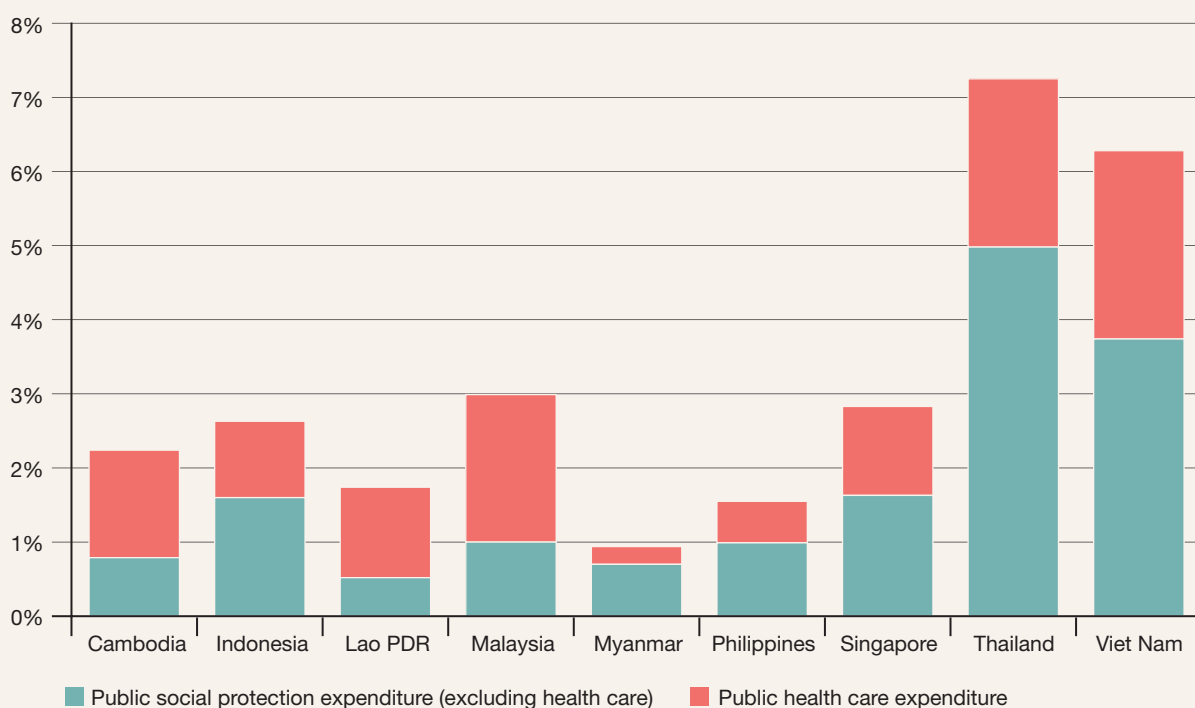
sustained growth, shared prosperity and equitable economic development of the ASEAN Community. In response, Member States adopted the Declaration at the 23rd ASEAN Summit, which recognizes the need to secure decent work and livelihood opportunities for young women and men.

Declaration on the Protection and Promotion of the Rights of Migrant Workers: In 2007, Member States adopted the Declaration, which determines that all countries should strengthen the political, economic and social pillars of the ASEAN Community by safeguarding the rights of migrants in accordance with national laws and regulations.

Declaration on Strengthening Social Protection: In 2013 ASEAN leaders adopted the Declaration, laying out concrete actions towards improving the quality, coverage and sustainability of social protection. The Declaration also refers to the ILO Social Protection Floor Recommendation, 2012 (No. 202), and the universal right to social security. However, it is important to note that the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), has not yet been ratified by any ASEAN Member State.

Statement on Human Resources and Skills Development for Economic Recovery and Sustainable Growth: Recognizing the importance of human resources and the current global economic challenges, ASEAN leaders in Ha Noi in 2010 adopted the Statement, which stresses the need to foster technical cooperation and capacity building to support the skill development of workers.

Source: ASEAN Bandar Seri Begawan Declaration on Youth Entrepreneurship and Employment, Bandar Seri Begawan, Oct. 2013; ASEAN Declaration on Strengthening Social Protection, Bandar Seri Begawan, Oct. 2013; ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, Cebu, Jan. 2007; ASEAN Labour Ministers' Work Programme, 2010-2015, Jakarta, Nov. 2013; ASEAN Leaders Statement on Human Resources and Skills Development for Economic Recovery and Sustainable Growth, Hanoi, Oct. 2010.

Figure 1-5 Public social security expenditure, most recent year (per cent of GDP)

Source: ILO: *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice*, op. cit.

inadequate working conditions and social protection. Their prevalence is associated with higher poverty, and therefore reducing vulnerable employment is critical towards achieving the Millennium Development Goals (Box 1-2). According to the most recent data, 58.8 per cent of ASEAN workers (179 million) were in vulnerable employment, compared to 48.0 per cent of the world's workers.²⁰

The significantly higher proportion of vulnerable employment in ASEAN is marked by gender differences. In seven of the eight ASEAN Member States for which there are available data, the share of women vulnerably employed surpasses that of men (Figure 1-4). Vulnerable employment in ASEAN may be explained by difficulties in transitioning from informal to formal employment. In Indonesia, Philippines and Viet Nam, approximately seven in ten non-agricultural workers are informally employed and lack basic social or legal protection

and employment benefits.²¹

Low-quality employment is linked to low earnings; hence, a considerable number of workers still earn too little to escape poverty. Approximately 92 million ASEAN workers live on less than \$2 per day – 30.3 per cent of all workers.²² By comparison, the global rate is 26.7 per cent of total employment and in East Asia it is only 11.2 per cent, though it is much higher in South Asia at 61.5 per cent. Enhancing the quality of employment requires not only sound national policies but also stronger regional cooperation efforts (Box 1-3).

Social protection

Although all ASEAN Member States have relevant institutions in place, the provision of social protection remains limited (Figure 1-5). Globally, public

²⁰ ILO: *Trends Econometric Models*, Jan. 2014.

²¹ ILO: *Statistical update on employment in the informal economy* (Geneva, 2012).

²² ILO: *Trends Econometric Models*, Jan. 2014.

Box 1-4 Thailand's universal health care system

By law, all Thai citizens belong to one of the country's social health protection systems, which include: (i) the Civil Servant Medical Benefit Scheme, for central government employees and other public servants; (ii) the Social Security Scheme, for private employees; and (iii) the Universal Coverage Scheme (UCS), which covers 76.0 per cent of the population, including those working in the informal economy. Thailand reached near-universal health coverage in 2002, shortly after the launch of the UCS.

The UCS provides a comprehensive benefit package, free at the point of service. Since its launch, the UCS has improved access to health

care and reduced health care costs, especially for the poorest quintile. Thai citizens pay only 13.7 per cent of total health care expenditure while the Government spends approximately \$93 per person per year on healthcare, which represents 14.5 per cent of the national budget.

Amidst economic recession, Thailand financed the UCS by re-allocating public spending and increasing taxes on luxury goods, alcohol and tobacco. Though there is still room for improvement, Thailand has demonstrated that investing in social protection need not wait for economic growth but can take place simultaneously.

Source: L. Tessier: *Thailand: Universal health coverage*, Social Protection in Action: Innovative Experiences (Geneva, 2014); T. Sakunphanit and W. Suwanrada: "Thailand: The universal coverage scheme", in UNDP, Global South-South Development Academy and ILO: *Sharing innovative experiences: Successful social protection floor experiences*, Vol. 18 (New York, UNDP, 2011), pp. 387-400.

investment in social protection programmes averages 8.6 per cent of GDP.²³ In ASEAN, the investment is much lower: the highest commitment is in Thailand, at 7.2 per cent of GDP, while the lowest levels are in Lao People's Democratic Republic, Myanmar and Philippines, at less than two per cent.²⁴ It will be important therefore to extend the coverage and level of benefits, especially to informal and rural workers. In the context of the AEC, social protection will play a particularly important role by compensating for the short-term loss of income in industries that lose competitive advantages. It can facilitate access to education and skills upgrading, with impacts on the overall productivity of the workforce and economic growth in the longer term, while also contributing to wider poverty reduction goals. In addition, social protection can contribute to resilience and facilitate quick recovery in the face of natural shocks.

23 ILO: *World Social Protection Report 2014/15: Building economic recovery, inclusive development and social justice* (Geneva, 2014).

24 This includes public social security and health expenditures.

Recognizing that social protection is important to combat poverty, inequality and exclusion, certain ASEAN Member States have recently included social protection in their respective national economic development plans – as in Cambodia, Indonesia, Thailand and Viet Nam. However, few countries have committed to ensuring basic and universal social protection, especially among the poor and those from rural areas (see Box 1-4). Furthermore, many people are left without social security coverage due to policy fragmentation and lack of institutional coordination. Ensuring access for all will mean extending the reach of social protection provisions.

Labour standards

ASEAN's challenge of poor job quality is linked to the limited adoption and enforcement of internationally recognized labour standards. Although there has been some progress since 1995, ASEAN Member States lag behind world ratification rates of fundamental ILO Conventions – including those on freedom of association and the right to

Table 1-5 Ratification of core labour Conventions, year of ratification

	Ratification of fundamental Conventions (year ratified)								Number of fundamental Conventions ratified (out of 8)
	Freedom of association		Forced labour		Discrimination		Child labour		
	C87	C98	C29	C105	C100	C111	C138	C182	
Brunei Darussalam	...	...	...	...	...	...	2011	2008	2
Cambodia	1999	1999	1969	1999	1999	1999	1999	2006	8
Indonesia	1998	1957	1950	1999	1958	1999	1999	2000	8
Lao PDR	...	...	1964	...	2008	2008	2005	2005	5
Malaysia	...	1961	1957	1958 ^(a)	1997	...	1997	2000	5
Myanmar	1955	...	1955	...	...	...	...	2013	3
Philippines	1953	1953	2005	1960	1953	1960	1998	2000	8
Singapore	...	1965	1965	1965 ^(a)	2002	...	2005	2001	5
Thailand	...	...	1969	1969	1999	...	2004	2001	5
Viet Nam	...	...	2007	...	1997	1997	2003	2000	5
ASEAN (number of countries per Convention)	4	5	9	4	8	5	9	10	54 ^(b)
World (185 Member States)	153	164	177	174	171	172	167	179	1357 ^(c)

Note: "..." indicates Convention not ratified; (a) C105 was denounced by Malaysia in 1990 and Singapore in 1979; (b) total number of ratifications out of 80; (c) total number of ratifications out of 1,480.
Source: ILO: NORMLEX Database, May 2014.

collective bargaining, the elimination of all forms of forced or compulsory labour, the abolition of child labour, and the elimination of discrimination in employment and occupation. Globally, 74.6 per cent of ILO Member States have ratified the eight fundamental Conventions, but only three of the ten ASEAN Members States have done so.²⁵

The future of ASEAN and the success of the ASEAN Economic Community will depend on economic development that is accompanied by decent working conditions. Commitments on labour standards would contribute to the AEC

in a number of ways.²⁶ First, labour standards promote social development, social cohesion and poverty alleviation by safeguarding the basic rights of workers and ensuring that all have an opportunity to benefit from the economic gains from integration. Second, international labour standards can guide the management of short-term negative labour market effects in national sectors that have comparative disadvantages within the AEC. Third, internationally recognized standards level the playing field for enterprises and help avoid a “race to the bottom”. Although labour standards are not subject to multilateral trade rules and disciplines at the World Trade Organization, labour standards have been increasingly included in regional and

25 C. Thamparipattra, *ASEAN Member States and international labour standards: An information note with particular emphasis on fundamental ILO conventions*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

26 C. Thamparipattra, *op. cit.*

bilateral trade agreements.²⁷

Conclusion

Despite significant progress, ASEAN may not achieve all AEC targets by the December 2015 deadline. Difficulties have arisen from structural differences among Member States and intra-regional conflicts, as well as from the changing global economic and political landscape.²⁸ Nevertheless, economic integration can be seen as a longer-term process for which ASEAN leaders have established a solid base. Continued progress will require sustained political will, coordination, capacity building, and the strengthening of national and regional institutions.

As this chapter and the rest of the report make clear, the AEC is likely to have far-reaching consequences for ASEAN workers given the breadth and depth of economic integration that has been planned and is being implemented. The AEC is expected to precipitate national and regional transformation of economies, which in turn will force ASEAN Member States to confront key issues related to job gains and losses, skills development, wages, labour migration and the strengthening of social protection systems.

The true success of the AEC, however, will not be reflected in either the AEC implementation rate at the end of 2015 or the extent that the AEC increases regional trade and investment. It will ultimately depend on how much each ASEAN citizen prospers from deeper economic integration. While the economic and political-security domains have taken precedence in prior ASEAN initiatives, the social and labour dimensions may now be critical

in determining the success of current and future ASEAN region integration efforts.

27 In the 1996 World Trade Organization (WTO) Ministerial Meeting in Singapore, the WTO recognized the importance of labour rights and standards, rejected the utilization of these for protectionist purposes and identified the ILO as the competent body.

28 S.Y. Chia: *The ASEAN Economic Community: Progress, challenges, and prospects*, ADBI Working Paper 440 (Tokyo, ADBI, 2013).

Connecting across borders

Countries across the region have benefited from a broad range of initiatives – ASEAN, ASEAN+ and non-ASEAN – that help share the benefits of economic growth within the region. The previous chapter presented the rationale and objectives of ASEAN. This chapter covers ASEAN+ trade agreements and ASEAN-led partnerships with key regional partners as well as major non-ASEAN regional integration initiatives. The latter includes regional cooperation programmes supported by the ADB that are based on growth triangles or economic corridors.

All these extra-block regional initiatives contribute to the AEC goal of full integration in the global economy by promoting trade and investment creation and diversification as well as facilitating ASEAN's engagement in global and regional supply chains. They also promote physical connectivity as a core strategy to lower barriers to trade and investment.

Building physical connectivity

Many of the poor in the ASEAN region live in remote or isolated areas, often in regions close to their borders. Such communities can be better linked through cross-border infrastructure. The aim should be to connect contiguous areas of neighbouring countries not just to commercial and industrial centres in their own countries but also to those in other countries and beyond. This kind of economic integration should however be carefully planned so as to ensure equitable distribution of the costs and benefits.

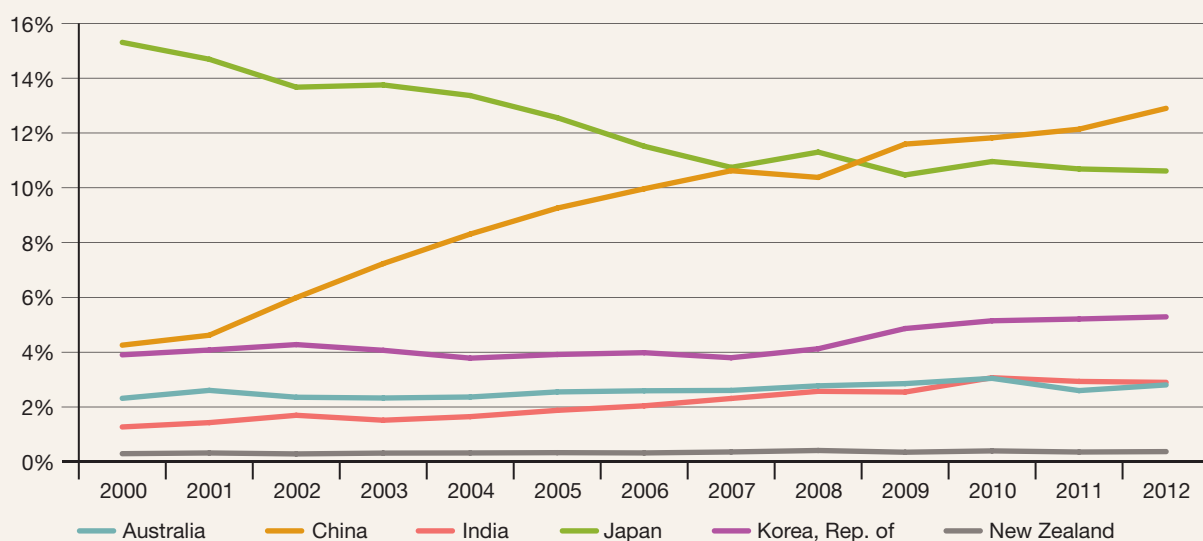
Better roads, railways, and airways as well as

telecommunications, facilitate the movement of goods, capital, labour, people and ideas among countries and reduce overall transaction costs. They also increase employment – either immediately through work on the construction of physical infrastructure or through the labour required for the manufacture of core inputs such as cement, asphalt and steel. In addition, there could be more employment in agriculture, if farmers can rely on better roads to deliver their products, and in industry if better-integrated transport infrastructure enables manufacturers to reduce delivery costs. Employment is also boosted in service industries whose workers become more productive because of access to faster broadband.

Maximizing such benefits will require coordination among national- or provincial-level decision makers, in providing not just the “hard” infrastructure but also the institutions that form the appropriate “soft” infrastructure. Planning and implementation also need to involve full consultations with local communities and stakeholders.

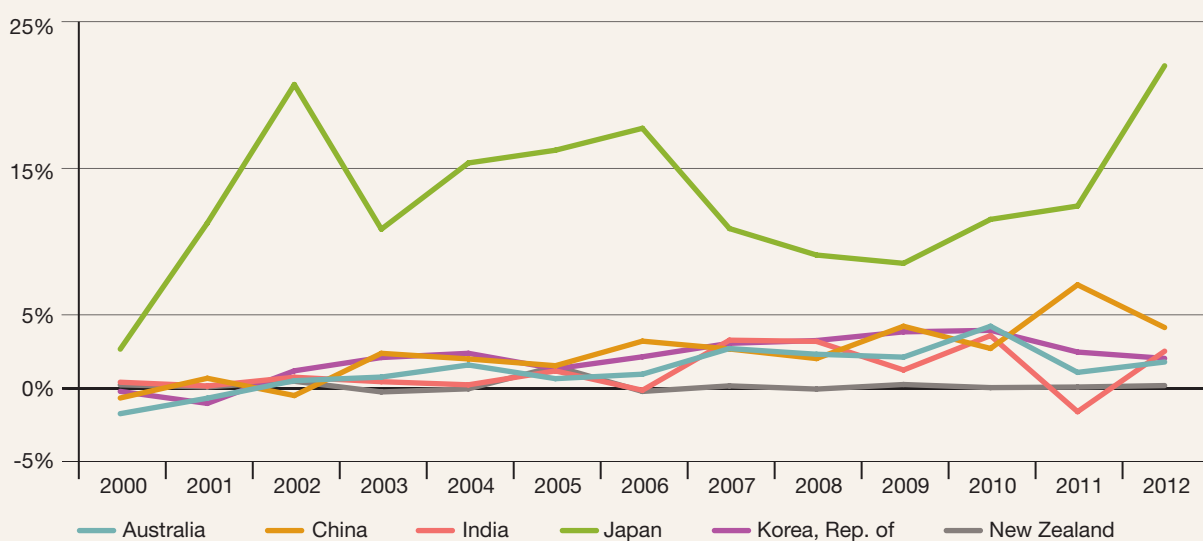
To help develop such infrastructure, in 2010,

Figure 2-1 Shares of total trade volume between ASEAN and selected partner countries, 2000-12 (per cent)



Source: ASEAN Secretariat: ASEANstats Database.

Figure 2-2 Shares of inward net direct investment to ASEAN from selected partner countries, 2000-12 (per cent)



Source: ASEAN Secretariat: ASEANstats Database.

ASEAN's leaders adopted the Master Plan on ASEAN Connectivity (MPAC) for the period 2011-2015.¹ This is designed to enhance physical infrastructure and strengthen institutional and people-to-people linkages at national and regional levels. It should also help synchronize ongoing

sectoral strategies and plans.

ASEAN's Strategic Transport Plan (Brunei Action Plan) falls under MPAC. This also contains strategic actions to be implemented in the period 2011-2015 towards the realization of the AEC. Notable achievements include: signing the ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services and its protocol, which

1 Master Plan on ASEAN Connectivity, Hanoi, Oct. 2010.

provide a framework for the full realization of ASEAN Open Skies; formulating a basic strategy to establish an ASEAN Single Shipping Market; completing an inventory of all national route components of the ASEAN Highway Network; and adopting the ASEAN ICT Master Plan 2015.

ASEAN+ and other major trade agreements

ASEAN integration through the AEC is expected to have an impact on relationships – with indirect effects on trade and FDI – with prominent Asian partners, including Australia, China, India, Japan, New Zealand, and Republic of Korea. The levels of trade and foreign direct investment into ASEAN from selected partner countries, 2000-12, are indicated in Figure 2-1 and Figure 2-2.

ASEAN has concluded a series of ASEAN+ trade agreements with prominent Asian regional partners, as follows:

China: Close cooperation between ASEAN and China was solidified with the 2001 China-ASEAN Free Trade Area (CAFTA). This covers the ten member states of ASEAN and China. The idea of CAFTA was first proposed in 2000 by China's former Prime Minister, Zhu Rongji. The initial framework agreement was signed in Phnom Penh in 2002 and CAFTA was formally established on 1 January 2010. CAFTA started by reducing to zero the tariffs on 7,881 product categories, covering 90.0 per cent of imported goods, between China and the six original members of ASEAN – Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand. The agreement will be applied to the four new ASEAN member states (the CLMV countries) by 2015.²

Prior to CAFTA, the Government of China had been encouraging foreign enterprises to invest in China and Chinese enterprises to invest abroad. This was expressed in China's "Go Out Policy" in 1999. Following CAFTA, ASEAN became a major beneficiary of this strategy. Between 2001 and 2012, total bilateral trade flows grew from \$32 billion to \$320 billion, making China ASEAN's largest trading partner. Between 2003 and 2012, FDI into ASEAN Member States grew from \$659 million to \$4,335 million.³ The removal of trade impediments has lowered costs of transactions and has helped in further increasing China-ASEAN trade volume (Figure 2-3). As a result, trade between China and ASEAN has been higher than that between China and the rest of the world. ASEAN has replaced Japan as the third-biggest trade partner of China, while China has become ASEAN's biggest trade partner. CAFTA is the world's largest free trade zone in terms of population and has the third-largest trade volume, behind the North American Free Trade Area and the European Union.

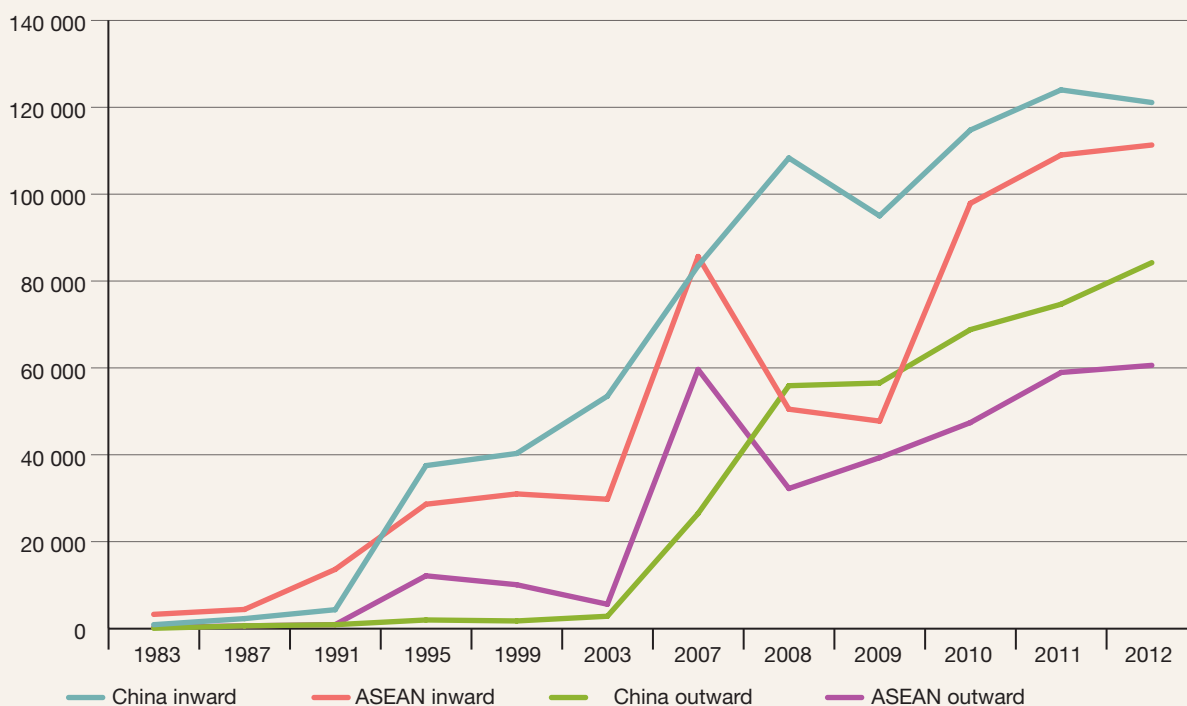
In theory, with access to a larger and more integrated market, private sector firms in ASEAN will become more competitive. The region can also expect considerably more inward investment from developed countries, creating employment and increasing economic welfare. Nevertheless, industrial restructuring is a long and difficult process. Facing an influx of lower-cost Chinese products, some manufacturing sectors in Indonesia and Thailand, for example, expressed reservations about the wide-ranging tariff cuts on Chinese imports under the CAFTA.⁴

² Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, Phnom Penh, Nov. 2002.

³ ASEAN Secretariat: ASEANstats Database.

⁴ S. Tong and C. Chong: *China-ASEAN Free Trade Area in 2010: A regional perspective* (Singapore, East Asian Institute, 2010).

Figure 2-3 Inward and outward FDI of China and ASEAN, 1983-2012 (\$ million)



Source: UNCTAD: UNCTADstat Database.

Since 2001, Chinese investment flows to ASEAN Member States have increased by a factor of 30; in turn, bilateral trade has increased ten-fold.⁵ These trends have been triggered by China's ongoing rapid structural transformation, which will assuredly impact ASEAN economies and labour markets. The absolute number of people aged 15-64 in China is expected to decline in the years to come, reducing the potential manufacturing workforce and narrowing the production base.⁶ Increasing land and labour prices have contributed to the development of a new Chinese growth model that is based on technological upgrading, increased productivity and stronger domestic consumption. China's shift away from export-driven low-wage labour-

intensive manufacturing, such as garments, towards domestic consumption and higher skill export industries, will raise competition with ASEAN in certain activities but induce more complementarity in others. This change creates opportunities for strategic partnerships to leverage China's changing profile, which may be crucial for ASEAN's long-term prosperity, employment and welfare as the region strives to move up the value chain.

As wages and land prices rise, and China's cheap labour advantage is reduced, countries such as Indonesia, Philippines, and Viet Nam, are emerging as attractive destinations for Chinese manufacturing. Closer bilateral relations also imply increased relevance of Chinese language skills. In recent years there has been a large surge in the number of ASEAN students studying in China, especially from Indonesia, Thailand, and Viet Nam.

5 ASEAN Secretariat: ASEANstats Database.

6 ILO: *Global Employment Trends 2014: Risk of a jobless recovery?* (Geneva, ILO, 2014).

Australia: The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) entered into force in 2009, effectively strengthening bilateral ties. The total trade volume between Australia and ASEAN experienced approximately 40 per cent growth (a \$17 billion increase) between 2009 and 2010. Apart from AANZFTA, Australia has also contributed to ASEAN's economic integration through the ASEAN-Australian Development Cooperation Program. From 2002 to 2008, the programme assisted ASEAN Member States in the development of goods, services, and investment markets, as well as on improvements to ASEAN labour market policies.

Japan: Beginning in the late 1980s, Japanese multinational enterprises (MNEs) aggressively invested in ASEAN Member States, effectively turning ASEAN into a production base for Japan's multinational firms. ASEAN integration will expand the region's internal market and encourage Japanese MNEs to relocate their affiliates, resulting in gains to Japanese multinationals from intra-industry agglomeration. Positive externalities associated with industry agglomeration will, in turn, result in specialization and enhanced competitiveness of Japanese firms. ASEAN integration is also projected to induce a resurgence of Japanese FDI in the region, as business environments in China wane and Japanese firms seek to diversify risk. Further removal of trade barriers will motivate Japanese MNEs to relocate unskilled, labour-intensive products to the CLMV countries which is expected to lead to technical and knowledge spillovers as well as skills upgrading.⁷

Republic of Korea: Economic cooperation

between ASEAN and the Republic of Korea reached a milestone in 2005 in the forging of the ASEAN-Korea Free Trade Area (AKFA). In the first five-year period following the implementation of the ASEAN-Korea Trade in Goods, bilateral trade volume increased over 114 per cent, from \$48 billion to \$103 billion. Subsequently bilateral trade volume increased over 23 per cent.⁸ By 2015, intra-trade and investment are projected to rise to \$150 billion.⁹

India: Mutually beneficial cooperation can be enhanced by further removal of ASEAN external tariff rates through the Free Trade Agreement in Goods. Given the importance of greater economic connectivity, Indian policy makers have made a concerted effort to "Look East". Of particular importance to India is its relationship with Myanmar due to the country's strategic location and its potential as a land bridge to Southeast Asia and southern China. In addition, the recent political and economic opening of Myanmar, coupled with the relatively low wages in the country, is likely to boost FDI inflows and technology transfers.¹⁰

New Zealand: In June 2013, responsible for 13.0 per cent of merchandise trade, ASEAN surpassed the European Union and became New Zealand's third-largest trading partner, behind only Australia and China.¹¹ Since the beginning of the 21st century, ASEAN's rapidly expanding middle class presents a booming

7 S. Hitoshi: *How can ASEAN and Japan mutually benefit from ASEAN integration*, background paper for ADB and ILO: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

8 ASEAN Secretariat: *ASEAN-Korea Free Trade Area*, 2012, <http://akfta.asean.org> [accessed 4 Apr. 2014].

9 Ibid.

10 S. Sen: *ASEAN-India integration*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming)

11 Analysis of New Zealand merchandise trade data, year ended June 2013. See New Zealand Ministry of Foreign Affairs and Trade, <http://www.mfat.govt.nz/> [accessed 4 Apr. 2014].

market for New Zealand's high quality products and services. Concomitantly, New Zealand, as a major trading partner, can play an important role in helping Southeast Asian countries sustain their high economic growth.

Implications for non-ASEAN Member States echo to a large extent distributional effects in the ASEAN region itself. As ASEAN Member States further liberalize and integrate, non-ASEAN Member States will have a greater ability to shift production networks and manufacturing into ASEAN, especially the CLMV countries, creating winners and losers in their respective national contexts.

In addition to CAFTA and other ASEAN+ initiatives, there are two major trade agreements – the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) – that stand to define the parameters of economic integration in Asia:

The Regional Comprehensive Economic Partnership (RCEP): The RCEP initiative was announced by the ASEAN leaders in November 2011. Negotiations started in 2013 and are expected to conclude at the end of 2015. This will be a 16-party ASEAN-led free trade agreement with Australia, China, India, Japan, New Zealand, and Republic of Korea. The RCEP aims at greater economic integration by supporting equitable economic development and strengthening economic cooperation. It will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. To help ensure a comprehensive and balanced outcome, the negotiations on trade in goods, trade in services, investment and other areas will be conducted in parallel. RCEP will create a free trade and investment area comprising over three billion people, with a combined GDP of roughly \$21 trillion and

27 per cent of total global trade.¹²

The Trans-Pacific Partnership (TPP): Launched in 2010, this is a proposed trade agreement which is still under negotiation. It has 12 members – Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Viet Nam. The TPP intends to enhance trade and investment, promote innovation, economic growth and development, and support the creation and retention of jobs. Through the TPP, the United States is seeking a trade and investment framework that will boost competitiveness, expand trade and investment with the robust economies of Asia and the Pacific, and support the creation and retention of United States jobs, while promoting core United States principles on labour rights, environmental protection, and transparency.¹³

Non-ASEAN subregional initiatives

The 1990s saw the creation of a number of other initiatives in the form of subregional economic zones (SRZs). Although these cross national boundaries they do not cover all the territory of every participating country. Generally, they aim at maintaining competitiveness in exports by transforming transnational but contiguous areas into attractive platforms for enhanced economic activity. ASEAN governments have embraced SRZs as a way of promoting regional integration without having to change national trade policies or integrate entire economies. SRZs can be established at relatively low cost within a short period of time.

SRZs are most effective when the participating regions are economically complementary – with

12 GDP data based on IMF: World Economic Outlook Database, Apr. 2014; trade data based on WTO: Trade Profiles Database.

13 Office of the United States Trade Representative: Trans Pacific Partnership, <http://www.ustr.gov/tpp> [accessed Apr. 2014].

sufficiently large differentials in factor endowments. They must also be geographically close, to take advantage of cultural or linguistic affinities and have good physical connectivity so as to reduce transport and transaction costs. Participating countries must also be ready to forego some measure of sovereignty and be prepared to distribute the economic benefits as equitably as possible.¹⁴

Another form of limited integration is through economic corridors. These have most of the characteristics of SRZs but encompass smaller geographic spaces. In most cases, they straddle a central transport artery such as a road, railway line, or canal.¹⁵ Along the corridor there are strategic nodes, especially at border crossings, that offer scope for regional cooperation. Corridors are more likely to be bilateral rather than multilateral and place greater emphasis on the careful spatial and physical planning of the corridor and its surrounding area, so as to concentrate infrastructure development.

Economic corridors involve both hard and soft infrastructure. Hard infrastructure provides physical connectivity through cross-border projects in transport and telecommunications. Soft infrastructure involves, for example, effective border and customs procedures and border processing and transport agreements. It also includes laws and regulations, and systems and procedures; and the institutions to make hard infrastructure work properly. Soft infrastructure should be complemented with mechanisms for involving local or provincial communities and other stakeholders.

Singapore-Johor-Riau Triangle

The first SRZ in Southeast Asia was the Singapore-Johor-Riau (SIJORI) triangle. This was based on the complementarity between Singapore, which has capital and technical capacity but very little land

or labour, and neighbouring areas in Malaysia and Indonesia which are relatively abundant in land and have ample supplies of low-wage labour. In the late-1980s, increased production costs, coupled with the appreciation of the Singapore dollar, diminished the competitiveness of Singapore's traditional, labour-intensive manufacturing firms – pushing them to relocate to the state of Johor in Malaysia and to the islands of Batam and Bintan in the province of Riau in Indonesia. At the time, land prices were \$4.3 per square metre in Singapore versus \$2.3 in Batam, and wages for unskilled labour were \$350 per month in Singapore versus \$90 per month in Batam.¹⁶ Some of the necessary physical infrastructure was already in place, with a causeway between Johor and Singapore, and it was easy to start ferry services to the Riau islands. Riau and Johor also had the advantage of good access to natural resources, particularly stable water supplies. Another important catalyst was Indonesia's unilateral decision in 1978 to make Batam a duty-free zone.

In 1994, the three participating countries signed a memorandum of understanding. But SIJORI does not have an official organization. It is viewed rather as an initiative involving two sets of ad hoc bilateral relations: Singapore-Indonesia and Singapore-Malaysia.

Nevertheless, 20 years later, the SIJORI region is one of Southeast Asia's major growth areas. There is no doubt that spillovers from Singapore are benefiting poorer neighbouring regions. Also, Malaysia has invested heavily, especially since 2006 and the launch in southern Johor of the Iskandar Development Region – which is three times the size of Singapore, with about a third of the population.

Greater Mekong Subregion

The Greater Mekong Subregion (GMS) is a natural

14 M. Thant: *Growth triangles in Asia: A new approach to regional economic cooperation* (Manila, ADB, 1998).

15 ADB: *Preinvestment study for the Greater Mekong Subregion, East-West Economic Corridor*, Vol. 1 (Manila, 2001).

16 R. Pomfret and S. Basu Das: "Subregional zones and ASEAN Economic Community", in S. Basu Das et al.: *The ASEAN Economic Community, A work in progress* (Manila, ADB and ISEAS, 2013), pp. 279-320.

economic area bounded by the Mekong River. It is made up of Cambodia, China (specifically Yunnan province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam. The GMS has an area of 2.6 million square kilometres and a combined population of about 326 million.

The GMS was established over a decade after hostilities ended in the region. It was intended to reinstate links between countries divided by conflicts and to facilitate reconstruction of infrastructure.¹⁷ In contrast to SIJORI, GMS has largely been a top-down, governmental undertaking whose key strategies are defined and implemented by a multilateral institution.

In 1992, to promote economic and social development, the six countries of GMS, with assistance from the ADB and other development partners, launched the GMS Economic Cooperation Program (GMS Program). This aimed to link GMS countries through better infrastructure, improved competitiveness, and a greater sense of community – and thereby promote trade and investment and stimulate economic growth. The countries also agreed to complement national efforts by jointly addressing, at the subregional level, other issues such as human resource development.¹⁸

In 1998, the GMS Program initiated the economic corridor programme – identifying five corridors along which the six participating countries would coordinate improvements in hard and soft infrastructure. They also agreed to prioritize a 1,600-kilometre East-West Economic Corridor connecting Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam.

In 2002, the GMS countries prepared the GMS strategic framework. This has five thrusts: (i) strengthening infrastructure linkages; (ii) facilitating

cross-border trade, investment, and tourism; (iii) enhancing private sector participation and competitiveness; (iv) developing human resources; and (v) protecting the environment and promoting the sustainable use of shared natural resources.

Subsequently, the GMS Program developed a transport sector strategy. Covering the period 2006-2015 this identified nine economic corridors along with priority infrastructure investments.¹⁹ The aim was to strengthen transport and logistics and to improve economic linkages with other countries and regions. The corridors are also expected to extend the benefits of improved transport linkages to remote and landlocked locations.

After slow progress in the first decade, the economic benefits of the corridors became more apparent following the upgrading and widening of major roads. Nevertheless, progress along the corridors has been uneven. The most dynamic is the North-South Corridor in the two richest GMS nations – linking Kunming to Bangkok via Chiang Rai. Progress has been slower in the East-West Corridor, the Southern Corridor and the Northern Corridor from Nanning to Ha Noi.

Over the past two decades, the GMS Program has mobilized more than \$15 billion in financing. Total resources mobilized were more than 3.5 times greater in the second decade than in the first. Most of this is for loan-financed projects in transport and energy. About one-third of the resources came from the ADB and the remainder from the GMS governments, official sources of development support, and private sector cofinancing.²⁰

One constraint to the GMS Program has been

17 Ibid.

18 ADB: *Greater Mekong Subregion Economic Cooperation Program: Overview* (Manila, Mar. 2012).

19 The six GMS countries have nine Corridors as follows: 1) North-South Corridor: Kunming to Bangkok; 2) Eastern Corridor: Kunming to Ca Mau; 3) East-West Corridor: Mawlamyine to Da Nang; 4) Southern Corridor: Dawei to Quy Nhon/Vung Tau; 5) Southern Coastal Corridor: Bangkok to Nam Can; 6) Central Corridor: Kunming to Sihanoukville/Sattahip; 7) Northern Corridor: Fangcheng to Tamu; 8) Western Corridor: Tamu to Mawlamyine; 9) Northeastern Corridor: Thanh Hoa to Bangkok/Laem Chabang.

20 ADB: *The Greater Mekong Subregion at 20: Progress and prospects* (Manila, 2012).

weak coordination. Although the GMS has seen major developments in physical infrastructure, improvements in trade and transport links have been hampered by bureaucratic or other restrictions.²¹ More attention will be needed on soft infrastructure such as trade facilitation. This should include further strengthening of the GMS Cross Border Transport Facilitation Agreement which has been signed by all the GMS countries, although Myanmar, Thailand and Viet Nam have not fully ratified its annexes.²²

The GMS has also been active in the fight against human trafficking. In 2004, ministers of all six GMS countries signed a memorandum of understanding which established the Coordinated Mekong Ministerial Initiative against Trafficking (COMMIT). The secretariat is the United Nations Interagency Project on Human Trafficking in the Greater Mekong Subregion. In combating human trafficking, the governments have committed to meeting international standards – highlighting the need for multilateral, bilateral, and government-NGO cooperation. They have also developed a follow-up subregional action plan and established the Coordinated Mekong Ministerial Initiative Against Trafficking (the COMMIT process) whose major strength has been its strong acceptance by governments.²³

Facilitating safe labour migration is a priority for the GMS. The following key issues in labour migration in the subregion have been identified:²⁴

- Transitioning toward a knowledge-based economy needs mechanisms to recognize the emerging skills and an environment attractive to highly skilled migrants. This will help

to ensure GMS competitiveness as a whole.

- Irregular migration should be limited by creating an environment in which regularization is sustainable to migrants.
- Rights and protection of migrant workers are not yet ensured, even if laws that address regular migrants exist.
- The feminization of migration should be mainstreamed into migration policies to protect women and children.
- Knowledge on labour migration is very inadequate. Research, including both quantitative and qualitative surveys, should be supported to gain a deeper understanding of how migration works within the subregion.

The recommendations of the GMS include the following:

- increase protection mechanisms for migrants in cross-border settings;
- strengthen capacity and legal framework in managing labour migration;
- enhance social protection for migrants and their families;
- promote ethical recruitment and employment;
- strengthen return and reintegration support to migrants;
- increase knowledge management mechanisms; and
- promote effective use of remittances.

The GMS aims to narrow the development divide in Southeast Asia. But in this respect progress has been limited. Lao People's Democratic Republic has benefited from the North-South Corridor, through completion of the North-South Highway and progress on the North-South Rail Link. But other than this the poorer nations have seen little practical impact.²⁵

Another concern is that, unlike in SIJORI,

21 R. Pomfret and S. Basu Das, op. cit.

22 ADB: *Regional investment framework sector report: Transport and related services* (Manila, 2012).

23 ADB: *Regional investment framework sector report: Facilitating safe labor migration in the Greater Mekong Subregion* (Manila, 2012).

24 ADB: *Facilitating safe labor migration in the Greater Mekong Subregion* (Manila, Apr. 2013).

25 R. Pomfret and S. Basu Das, op. cit.

Box 2-1 Myanmar's opening will affect migration flows to Thailand

The opening up of Myanmar to the international community, which started in 2012, has long-term implications for capital flows and labour migration in the ASEAN region and especially for Thailand. Thailand's economy is highly dependent on cheap labour from neighbouring countries, especially Myanmar, mostly employed in the agriculture and agriculture-related sectors as well as in construction and fisheries.

This pattern could change if enterprises in Thailand invest more in Myanmar to take advantage of its abundant raw materials and young workforce. Thailand's businesses currently face labour shortages, rising wage costs, environmental dangers, and increasing political risks that have prompted companies to consider relocating elsewhere, including to Myanmar.

Myanmar has the potential to become a prime transportation hub for the region as it shares land borders with Bangladesh, China, India, Lao People's Democratic Republic and Thailand as well as a coastline of 2,800 kilometres that provides access to sea routes through

the Bay of Bengal and to major inland waterways. China, India and multilateral institutions have already offered assistance to develop multimodal transport linkages across the country.

Myanmar's infrastructure programme is focused heavily on constructing deep sea ports along the coastline and strengthening north-south connectivity via roads, railways and inland waterways. Such developments are expected to facilitate increased trade with China and Thailand (particularly at the borders) and to a lesser extent with India. Major projects linked to the development of economic corridors will also affect local communities along the connecting roads. Nevertheless, the impact of these developments on labour migration is difficult to forecast, particularly in view of the lack of skilled construction workers in Myanmar. Since 1992, Myanmar nationals have been migrating undocumented to Thailand where wages are many times higher. This has left Myanmar with a significantly smaller pool of both high- and low-skilled workers.

there has been little participation from the private sector. The exception has been in air connectivity for which the improvements were driven mainly by entrepreneurs and firms based elsewhere in ASEAN or beyond – AirAsia, SilkAir or Jetstar.²⁶

The fast-changing economic and political landscape in the subregion is constantly affected by a complex interplay of factors, including economic disparities between countries and by demographic inequalities. This underscores the need to monitor the geopolitical situation in the GMS. Recent developments in Myanmar are expected to have a long-term impact on labour migration in the GMS

as indicated in Box 2-1.

Indonesia-Malaysia-Thailand Growth Triangle

In 1993, three rapidly-growing middle-income ASEAN Member States formed the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). The purpose was to accelerate the growth in poorer localities, especially in Sumatra in Indonesia, and in southern Thailand. Although IMT-GT was a governmental project, it was intended to be driven by the private sector, especially since Malaysian businesses were keen to trade with northern Sumatra. Since its formation, IMT-GT has grown in geographic scope and activities. It now encompasses more than 70

²⁶ Ibid.

million people in 32 provinces and states – 14 provinces in southern Thailand, eight northern states in Peninsular Malaysia, and 10 provinces of Sumatra in Indonesia.

Setting up the IMT-GT institutions was hampered by the 1997 Asian financial crisis. Interest was renewed only after the onset of economic recovery in early 2000. At the first summit meeting in Malaysia in 2005, member governments, with the assistance of the ADB, formulated a five-year roadmap covering the period 2007-11. As a focus for major economic activities, the roadmap identified IMT-GT connectivity corridors – aiming to improve transport facilities and linkages, as well as other supporting infrastructure. The roadmap stated that IMT-GT should not only be consistent with, but also contribute to, the realization of the AEC.

By 2009, however, the IMT-GT had shown only modest progress in sustaining economic exchanges and commercial ties among the participating states and provinces. The private sector had established well-functioning business networks that were helping to boost trade and investment in the subregion. But the IMT-GT participating states and provinces had achieved only zero or slow economic growth. Although the roadmap remained relevant, project implementation had been lagging.²⁷

The roadmap identified more than 50 measures, programmes and projects. Construction has started in several infrastructure projects, but some of the planned projects have been delayed by technical, financial, and legal impediments. Moreover, there has been insufficient attention to the software aspects of infrastructure connectivity. While the IMT-GT subregional zone has centres of economic dynamism, it is unclear how much can be attributed to the SRZ structure.

The IMT-GT roadmap has been succeeded by the Implementation Blueprint (2012-2016). This

reflects an action-oriented agenda with a more disciplined and better-informed process for identifying projects, based on well-defined concepts and rationales. The Blueprint identifies 11 priority connectivity projects in the transport (toll road, ports) and power sectors, amounting to \$5.2 billion.²⁸ As regards the maritime subsector, IMT-GT promotes the development of roll-on roll-off (ro-ro) services, especially across the Straits of Melaka and for ports in Sumatra and southern Thailand. A key strategic thrust is to develop human resources and skills and enhance labour mobility.

Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area

In 1994, member governments established the Brunei Darussalam-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA). The purpose was to address the socioeconomic development of less developed, remote and marginalized areas, and narrow the development gaps. The subregion covers: the entire Sultanate of Brunei Darussalam; nine provinces in Kalimantan and Sulawesi, the island chain of Maluku, and Papua (Indonesia); the Federal States of Sabah and Sarawak and the Federal Territory of Labuan (Malaysia); all 26 provinces of the island of Mindanao in the Philippines and the island province of Palawan in the Philippines. These areas are among the poorest in their respective countries, but have a long history of trade and other economic links.

BIMP-EAGA's long-term goal is to help local communities move away from livelihoods based on resource extraction and shift towards higher-order resource processing, as well as to non-resource-based activities. The engine of growth will be the private sector with the governments providing a conducive investment environment.

In 1996, at the request of member governments,

²⁷ ADB: *Mid-term review of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) roadmap for development 2007-2011* (Manila, Nov. 2010).

²⁸ Indonesia-Malaysia-Thailand Growth Triangle Implementation Blueprint 2012-2016, Phnom Penh, Apr. 2010.

the ADB commissioned a study, following which several national policies were modified. Among others, the four governments agreed to liberalize the transport sector. This resulted in the opening of new and direct commercial air and sea links. Several airport and seaport infrastructure facilities were upgraded to accommodate the expected increase in passenger and cargo traffic.

In 1997, however, the growth momentum was seriously disrupted by the Asian financial crisis as governments refocused on national issues. Interest in BIMP-EAGA cooperation was renewed only in 2001, but the programme had only a limited impact. In response, member governments, with ADB support, formulated the BIMP-EAGA Roadmap to Development 2006–2010 which established broad strategic thrusts as well as targets for implementation. The roadmap identified priority sectors in agro-industry and natural resources, tourism, transport, infrastructure and ICT – with an emphasis on the development of small and medium-sized enterprises. One of the key measures would be to improve infrastructure via air, sea, and land linkages.

In 2007, to complement improvements in physical infrastructure, BIMP-EAGA leaders signed MOUs to improve air linkages, sea linkages, and bus services.²⁹ These, for example, facilitated the expansion of ro-ro ferry services between Brunei Darussalam and Sabah, enabling container trucks and buses to travel smoothly from Pontianak to Kota Kinabalu or anywhere in Sabah, with a minimum number of border-crossing controls. There was also a positive response to these reforms from the private sector, especially among airlines and travel agencies, which significantly expanded air links.

According to a mid-term review, the roadmap achieved modest progress and its targets were more or less achieved.³⁰ However it was noted that a

number of important routes still had weak transport links – because of the lack of viable projects, and because governments had yet to formulate some important rules and regulations, including those for cross-border movement of buses and coaches.

The Implementation Blueprint covers the period 2012–16. It sets out a framework for better project planning, and implementation in line with national and subregional objectives – taking into account the AEC in 2015 and potential benefits from establishing closer linkages between the two programmes.

Conclusion

As a result of ASEAN, ASEAN+ and non-ASEAN initiatives, regional cooperation in Southeast Asia has been gathering momentum. Moreover, the fact that ASEAN Member States belong to different but related regional or subregional programmes gives ASEAN an overarching position in driving economic integration and regionalism in Asia. In many cases, such as the GMS, IMT-GT, and BIMP-EAGA, they have the support of the ADB.

Nevertheless the results of these subregional programmes have been mixed. Progress has been slow in soft infrastructure due in part to rigid institutional structures and mechanisms, lack of political commitment, or inadequate overall resources at national and regional levels. To ensure that the full benefits of integration will be equitably distributed, ASEAN and the ADB must promote awareness of human resource development, particularly labour issues, as a crosscutting theme consistent with regional and national strategies and priorities.

The development of transport and ICT infrastructure has helped reduce transaction costs and strengthen overall competitiveness. However, this does not automatically benefit labour – so these initiatives must be supported by reforms in the policy and institutional frameworks at the national and regional levels. In SIJORI, regional cooperation has been driven largely by the private

²⁹ Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area Roadmap to Development 2006-2010, Mar. 2012.

³⁰ Ibid.

sector. If private firms are to have similar roles in other regional integration initiatives – and provide more jobs, protection and opportunities for skills enhancement, especially for women – the roadmaps for these initiatives should include clear rationales for the involvement of the private sector and the promotion of a viable business environment.

The rapid and complex developments in Southeast Asia have long-term implications for the labour market. ASEAN and the ADB could help subregional initiatives keep pace with increasing needs for coordination by supporting mechanisms for sharing and discussing regional and subregional masterplans, roadmaps and priority projects. These initiatives will need flexible and interactive governance structures that reformulate strategies and action plans in response to major events that affect the labour market. These potential effects are the subject of the next chapter.

Managing structural change for decent jobs

The ASEAN Economic Community has significant potential to spur structural change from low- to higher-productivity sectors. This chapter models the potential labour market impact of increased trade integration – identifying the sectors and occupations likely to grow. Reaping the potential benefits will depend on putting in place policies to manage structural change, including employment policies for high-quality jobs, robust measures for social protection and support for smaller enterprises.

ASEAN economic integration will change the pace of structural change, with important implications for the region's 300 million workers and their families. As patterns of comparative advantage and production alter, so workers will move from one economic sector to another. Using an innovative computable general equilibrium model, this chapter assesses the potential impacts on economies and labour markets. It also uses an occupational employment projections model to identify occupations that are likely to grow as ASEAN integration progresses.

The changing structure of employment

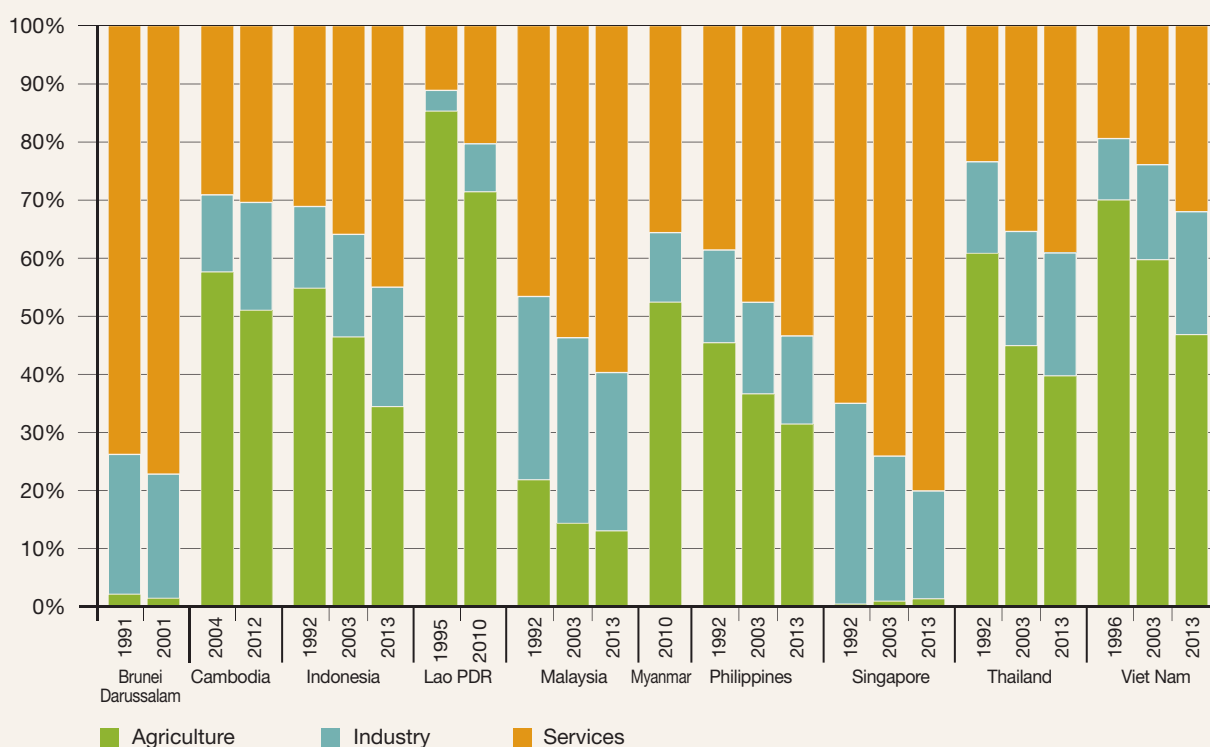
Since 1992 with the establishment of the ASEAN Free Trade Area, and 2003 when ASEAN leaders at the 9th ASEAN Summit resolved to establish the ASEAN Community, labour markets have undergone significant structural change. One consequence has been a decline in the significance of agriculture. Agriculture now accounts for 40.0 per cent of total employment, having been overtaken by services at 40.6 per cent – with the remaining 19.4 per cent accounted for by industry (Annex

F, Table F1-6). But the regional aggregates mask considerable cross-country variations (Figure 3-1). Agriculture is still the largest employer in half of the ASEAN Member States: Cambodia, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam. Moreover, the pace of change has varied among the countries, with the share of agricultural employment falling by more than 20 percentage points in Indonesia, Thailand and Viet Nam in the past two decades, whereas the Philippines experienced a slower pace of decline.

Some countries have seen a striking increase in employment in industry. In Viet Nam, for example, between 1996 and 2013, the share of employment in industry doubled from 10.6 per cent to 21.2 per cent. On the other hand, Malaysia and Singapore experienced deindustrialization in the past two decades. In ASEAN Member States, with the exception of Lao People's Democratic Republic, Myanmar and Philippines, industry accounts for between 18.0 per cent and 28.0 per cent of total employment.

Recent decades have also seen a striking

Figure 3-1 Employment by sector, circa 1992, 2003 and 2013 (per cent)



Source: ILO estimates based on national labour force surveys, with the exception of Brunei Darussalam (Population Census), Cambodia (Socio-Economic Survey), and Myanmar (Integrated Household Living Conditions Survey).

Table 3-1 Ratio of labour productivity by subsector to that of agriculture, 2012

	Manufacturing	Construction	Wholesale and retail trade, hotels and restaurants	Transport, storage, and communication	Finance, insurance, real estate and business services	Community, social, personal and other services
Cambodia	0.9	0.9	1.3	1.3	2.8	0.8
Indonesia	4.2	4.0	1.6	3.6	7.3	1.7
Lao PDR	4.8	5.4	5.0	8.0	10.6	3.0
Malaysia	1.7	0.5	0.8	1.2	1.9	0.7
Philippines	6.7	2.7	2.1	2.2	11.2	2.1
Thailand	7.4	1.6	3.0	8.5	15.1	4.0
Viet Nam	3.0	2.1	2.5	2.6	16.9	2.1

Note: Lao PDR figures refer to 2010.

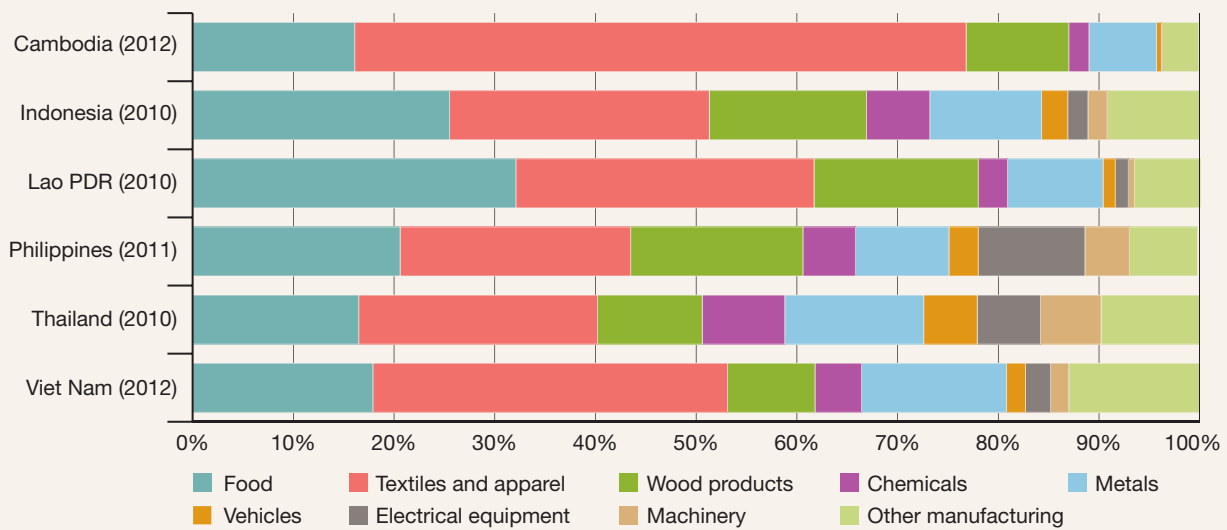
Source: ILO estimates based on official national sources.

increase in the share of services. In 2013, services accounted for the largest share of employment in Brunei Darussalam (77.2 per cent in 2001), Singapore (80.1 per cent), Malaysia (59.7 per cent), Philippines (53.4 per cent) and Indonesia (45.0 per cent). Whereas all ASEAN Member States have

seen their shares of services in total employment rise significantly in recent years, in Cambodia, the share has remained steady at 30.0 per cent.¹

¹ Data are based on the Cambodia Socio-Economic Surveys, which provide time-series data, rather than the labour force survey, the first of which was undertaken in 2012.

Figure 3-2 Share of total manufacturing employment by subsector, various years (per cent)



Source: ILO estimates based on official national sources.

One challenge for some countries is that while they have increased manufacturing employment, their manufacturing bases remain narrow. Textiles and apparel, for example, account for 60.7 per cent of total manufacturing employment in Cambodia, and in Viet Nam 35.2 per cent (Figure 3-2). In Lao People's Democratic Republic, a third of manufacturing employment is in food processing. These labour-intensive industries (textiles, apparel, and food) are critical in these countries to productively absorb jobseekers, including those leaving agriculture. Nevertheless efforts are also required to lay and strengthen the foundations for higher productivity manufacturing industries.²

Structural shifts in the labour market have played an important role in raising aggregate labour productivity. For seven countries, Table 3-1 compares labour productivity (GDP per worker) in each subsector with that of agriculture – showing that it is highest in finance, insurance and real estate. A key challenge for some countries is that

the bulk of job creation in recent years has taken place in subsectors where levels of productivity are not significantly higher than in agriculture – and sometimes lower. In the case of Cambodia, whereas labour productivity is highest in services subsectors, the bulk of job creation has taken place in manufacturing, where levels of productivity are marginally lower than in agriculture. In Malaysia, services have accounted for the bulk of job creation in recent years, but levels of productivity in wholesale and retail trade, hotels and restaurants and community, social, personal and other services are also lower than in agriculture or in manufacturing, whose share of total employment has declined. In Indonesia and the Philippines, the bulk of job growth has also been in wholesale and retail trade, hotels and restaurants and community, social, personal and other services, where levels of productivity are double that in agriculture, but a third of that in manufacturing: in the case of Indonesia between 2003 and 2013, the same two services sectors accounted for 71.9 per cent of additional jobs created, while in the Philippines they accounted for 54.8 per cent.

The wide differences in levels of productivity between sectors reveal opportunities for structural

² For a comprehensive discussion, see UNIDO: *Industrial Development Report 2013: Sustaining employment growth: The role of manufacturing and structural change* (Vienna, 2013).

Box 3-1 Agricultural productivity and off-farm employment

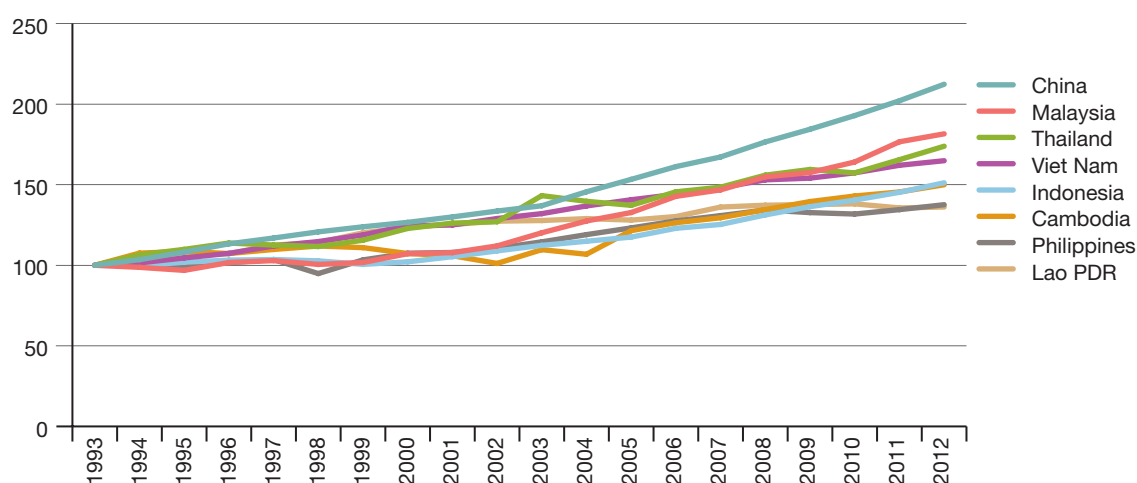
Poverty is predominantly rural and more than half of ASEAN's population reside in rural areas. The combination of agricultural productivity gains and off-farm employment opportunities can help reduce poverty and improve labour market outcomes, while at the same time supporting structural change in an inclusive manner.

As illustrated in Box Figure 3-1, value added per worker in agriculture in China more than doubled between 1993 and 2012, while the incidence of poverty at the \$2-a-day line fell from 78.6 per cent in 1993 to 27.2 per cent in 2009. Among the ASEAN Member States in the figure, Malaysia, Thailand and Viet Nam also experienced relatively

fast growth, with productivity rising by more than 50 per cent between 1993 and 2012.

At the same time, poverty can be reduced by off-farm employment opportunities, such as in agro-processing and tourism – by supplementing incomes from on-farm activities, while also drawing workers away from agriculture. In China for example, remarkable poverty reduction has come in tandem with a shift towards non-farm incomes and employment opportunities: between 1980 and 2001, the proportion of rural household incomes from on-farm activities, declined from almost 80 per cent to less than half (see Box Table 3-1).

Box Figure 3-1 Growth in value added per worker in agriculture (Index, 1993=100)



Source: ILO estimates based on World Bank: World Development Indicators, 2013.

Box Table 3-1 Composition of rural household incomes and headcount poverty in China (per cent)

	Proportion of income earned from				Headcount poverty (national poverty line)
	Agriculture	Industry	Services	Other	
1980	78.2	10.1	0.0	11.7	75.7
1995	63.2	18.2	12.4	6.2	20.4
2001	49.2	22.5	22.6	5.7	12.5

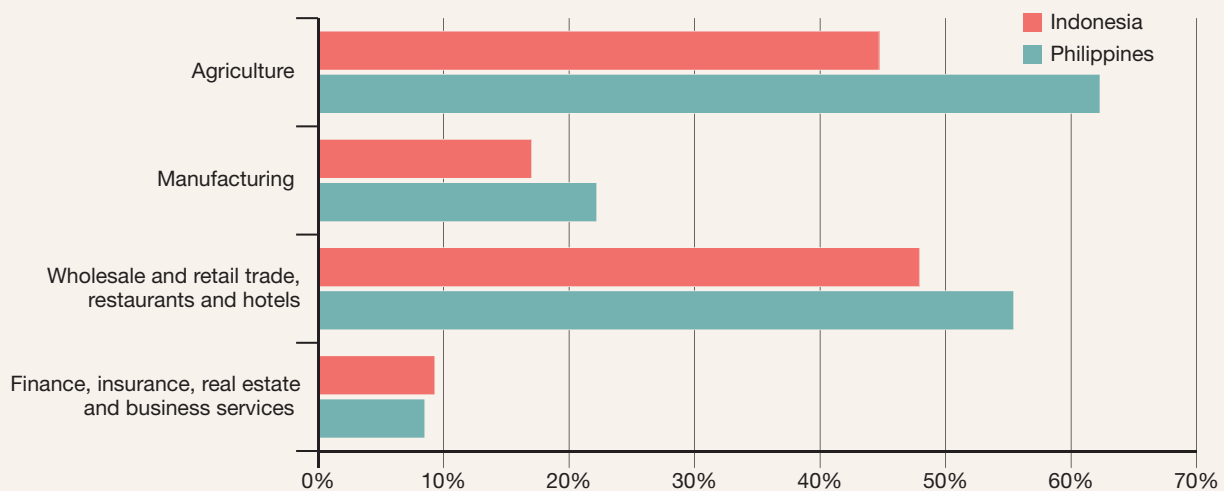
Source: Modified from A. de Janvry, E. Sadoulet and N. Zhou: *The role of non-farm incomes in reducing rural poverty and inequality in China*, CUDARE Working Paper 1001 (Berkeley, University of California, 2005), table 1.

Malaysia's Economic Transformation Programme recognizes the importance of increasing agricultural productivity, including through strengthening the skills of agricultural workers and enhancing farm efficiency – while at the same time better linking upstream primary production with downstream processing. The Rural Transformation Centres established in

two areas in Malaysia serve as centres for the collection, distribution and marketing of the processed agricultural products. These products are often produced by SMEs, and the Rural Transformation Centres also seek to provide the SMEs with better access to local markets and springboards into international markets.

Source: Malaysia Productivity Corporation: *Productivity Report 2012/2013* (Selangor, 2013).

Figure 3-3 Share of vulnerable employment by subsector, various years (per cent)



Note: Indonesia figures refer to 2013 and Philippine figures refer to 2012.
Source: ILO estimates based on official national sources.

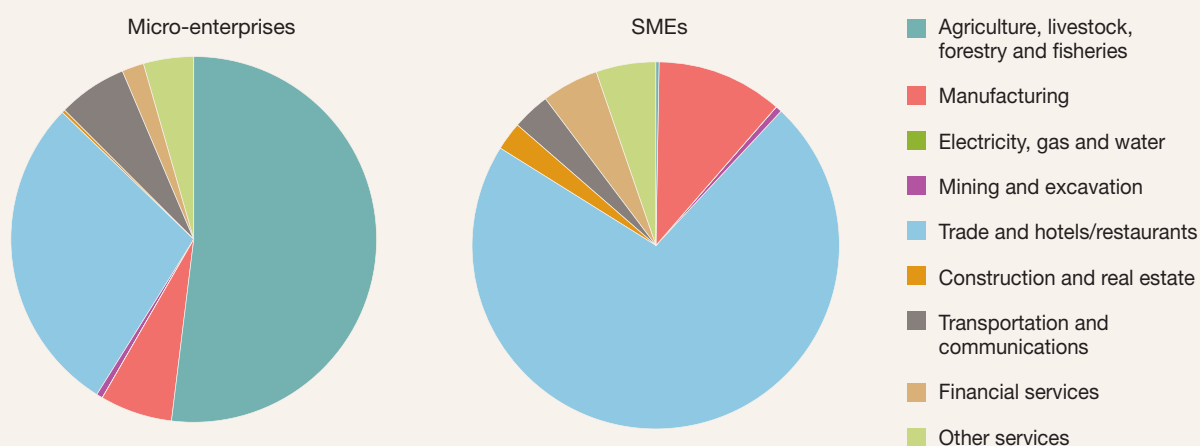
change to further boost productivity and competitiveness. Policymakers in the region, in consultation with employers' and workers' organizations, can facilitate such structural change. Further investment in agriculture, with a view to significantly accelerate agricultural productivity and promote off-farm activities in rural areas, is particularly important in the ASEAN Member States where the majority of labour and the poor are in agriculture (Box 3-1).³

³ On the importance of agriculture, see ILO: *World Employment Report 2004-05: Employment, productivity and poverty reduction* (Geneva, 2005); World Bank: *World Development Report 2008: Agriculture for development* (Washington, DC, 2007).

At the same time, it will be important to support the growth of manufacturing and services linked to agriculture (such as agro-businesses), in particular so as to provide a stepping stone for those workers leaving agriculture.

For the higher-income ASEAN Member States, concerted policy attention will be required to move to higher-value-added manufacturing activities – to ensure that the bulk of job creation is not concentrated in low-productivity services but is broad based. As illustrated in Figure 3-3, the likelihood of vulnerable employment (own-account workers and contributing family workers) in wholesale and retail

Figure 3-4 Distribution of micro-enterprises and SMEs in Indonesia by sector, 2008 (per cent)



Source: ILO estimates based on official national sources.

trade, restaurants and hotels is not significantly different to that of agriculture. Workers in vulnerable employment are less likely to have formal work arrangements, and are therefore more likely to lack elements associated with decent employment, such as adequate social security and a voice at work. Hence, structural change dominated by lower-productivity services is unlikely to make a significant contribution towards efforts to address the high rates of vulnerable employment (see Chapter 1, Figure 1-4) or to promote decent jobs.

ASEAN integration, bringing together a population of 600 million and a rapidly growing middle-class workforce, offers opportunities for countries to strengthen their manufacturing bases.⁴ As a result of rising wages and purchasing power, developing economies and regions are fast becoming centres of demand for manufactured products, rather than mere suppliers of the goods.⁵ The region is in a position to take advantage of such

trends as a result of the global trend towards “next-shoring” – companies re-allocating production less on the basis of lower labour costs and more on the basis of ready sources of demand and innovation.⁶

Furthermore, the productivity gaps between sectors reflect in part the characteristics of enterprises found in each sector. In ASEAN Member States, smaller firms account for a large proportion of total employment, but a significantly smaller proportion of value-added, pointing to substantial productivity gaps between smaller and larger firms. As illustrated in Figure 3-4, there are also clear differences in the sectors in which smaller and larger enterprises tend to operate. In the case of Indonesia, more than half of micro-enterprises operate in the primary sector (agriculture, livestock, forestry and fisheries), whereas another 28.4 per cent are found in trade and hotels/restaurants.⁷ On the other hand, less than one per cent of small and medium-sized

4 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 per cent (108 million) to around 44 per cent (144 million) between 2013 and 2017 in Southeast Asia and the Pacific. See S. Kapsos and E. Bourmpoula: *Employment and economic class in the developing world*, ILO Research Paper No. 6 (Geneva, ILO, 2013).

5 McKinsey & Company: “Shaping the future of manufacturing”, in *McKinsey Quarterly* (2014, No. 1).

6 For further information on “next-shoring”, see McKinsey & Company, op. cit.

7 In the case of Indonesia, micro-enterprises are defined as those with assets less than or equal to 50 million Indonesian rupiahs, small enterprises are defined as those with assets greater than 50 million Indonesian rupiahs but less than or equal to 500 million Indonesian rupiahs, and medium enterprises are defined as those with assets greater than 500 million Indonesian rupiahs but less than or equal to 2.5 billion Indonesian rupiahs.

Box 3-2 Strengthening capacities of SMEs to participate in global production chains

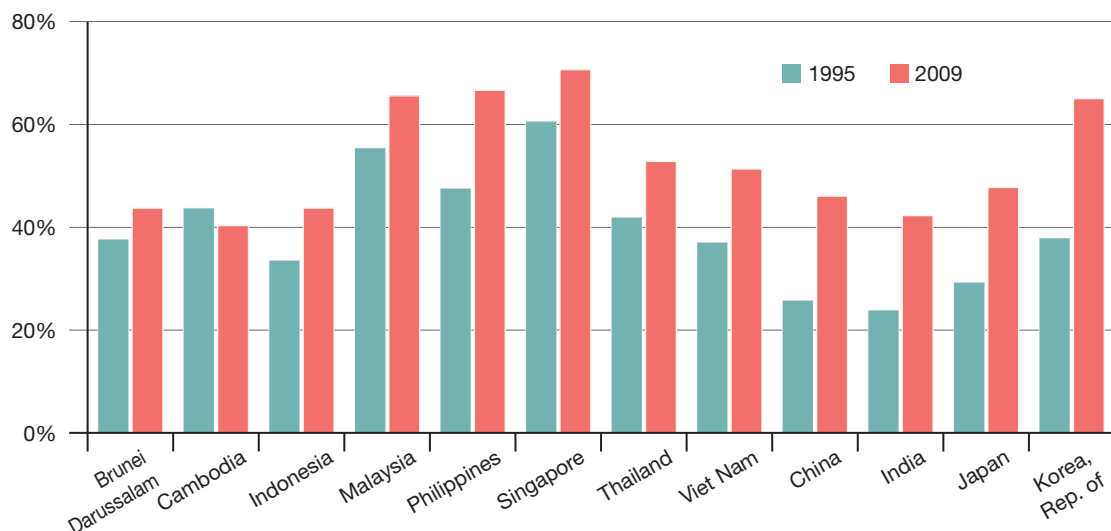
The global fragmentation of production activities across borders has become an increasingly important feature of global trade. The creation of global value chains, coordinated by multinational enterprises (MNEs), has allowed the entire production process to be split so that each activity is completed wherever the cost of factors of production is most competitive. Many ASEAN Member States participate actively in global value chains. In 2009, 40.0 per cent to 70.0 per cent of exports in the ASEAN region either used imported inputs or were used as inputs by other countries (see Box Figure 3-2). The demand for specialized intermediate goods and services has facilitated the growth of specific industries in the region including, for example, the electronics sector in Malaysia, the automobile sector in Thailand, footwear in Indonesia, and the garment sector in Cambodia.

Participation in global value chains can

provide opportunities for SMEs to grow, further contributing to a country's income, employment and exports. Nonetheless such participation is a challenge for many SMEs in ASEAN and other developing countries, whether as a result of lack of finance and skills or the inability to meet standards and certification requirements.

To help SMEs participate in the global value chain by improving productivity and working conditions, the ILO's Sustaining Competitive and Responsible Enterprises programme strengthens the capacities of SMEs in the areas of workplace cooperation, quality management, clean production, human resource management, and occupational health and safety. The Better Work programme, a partnership between the ILO and the International Finance Corporation, also aims to improve both labour standard compliance and competitiveness in global supply chains.

Box Figure 3-2 Global value chains participation index, 1995 and 2009 (per cent)

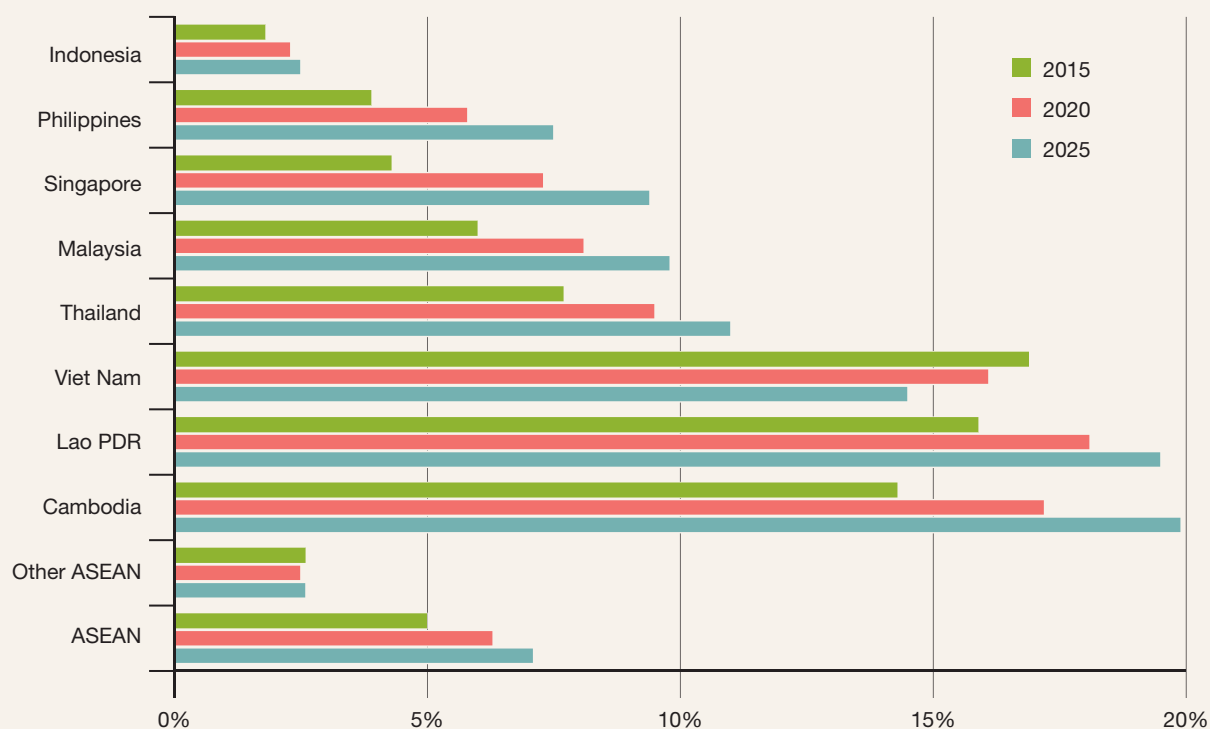


Note: The participation index is expressed as the share of foreign inputs and domestically produced inputs used in third countries' exports in a country's exports.

Source: OECD: Global Value Chains Indicators, 2013.

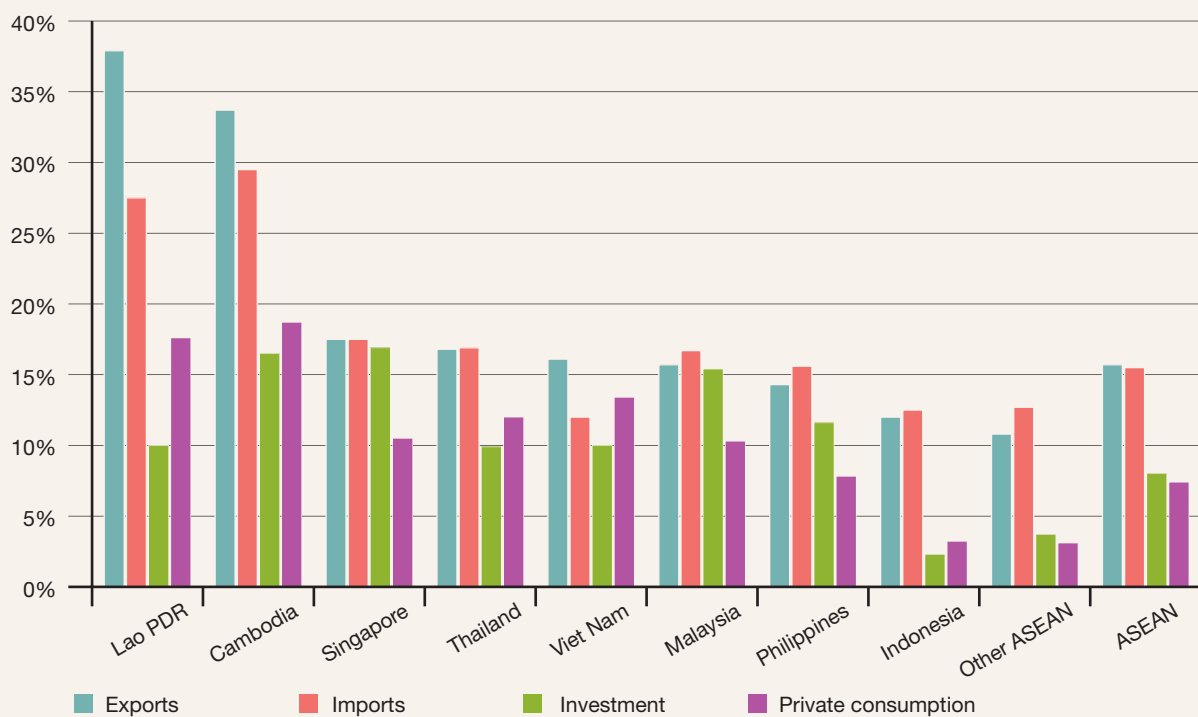
Source: United Nations Conference on Trade and Development (UNCTAD): *Integrating developing countries' SMEs into global value chains* (New York and Geneva, United Nations, 2010).

Figure 3-5 Change in GDP under the AEC scenario relative to the baseline, 2015, 2020 and 2025 (per cent)



Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai: *Assessing the impacts of ASEAN economic integration on labour markets, background paper for ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

Figure 3-6 Change in consumption, investment, exports and imports under the AEC scenario relative to the baseline, 2025 (per cent)



Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

enterprises (SMEs) are in agriculture while 71.9 per cent are in trade and hotels/restaurants. Facilitating structural change will consequently require strengthening the capacities of micro-firms and SMEs to seize opportunities in higher value added activities and sectors, including through good management and improved labour practices (Box 3-2), facilitated access to finance, tax incentives, business development services, partnerships with larger enterprises, and integration into the formal economy.

Impact of ASEAN trade integration on labour markets

ASEAN Member States have made substantial progress in realizing the ASEAN Economic Community (see Chapter 1). Nonetheless, as noted by the ASEAN Community Progress Monitoring System, there remain significant barriers to integration.⁸ In recognition, ASEAN leaders agreed at the 23rd Summit to intensify efforts to deepen and broaden economic integration.⁹ They also agreed to develop a post-2015 vision for the ASEAN Community.¹⁰

What are the economic and labour market implications of such deepening ASEAN trade integration? To answer this question, this report has used an innovative computable general equilibrium (CGE) model.¹¹ This simulates the economic and labour market impact of an AEC scenario that, over time, includes: (i) removal of the remaining intra-regional tariffs; (ii) liberalization of non-tariff barriers for goods

and services by 50.0 per cent; and (iii) trade facilitation in the form of a 20.0 per cent reduction in fixed trade costs.¹² The AEC scenario is then compared to a baseline scenario, which is what is expected to happen in the absence of the above policy measures. This model is novel in that it represents more realistically the way labour markets in developing ASEAN Member States operate. In particular, it decomposes the supply of labour according to skill levels, sex and industry. There are varying impacts on wage rates depending on the skill level (see Annex A for details of the model, including its assumptions).

As indicated in Figure 3-5, GDP in the ASEAN region would be 5.0 per cent higher than the baseline in 2015, 6.3 per cent higher in 2020, and 7.1 per cent higher in 2025.¹³ Nonetheless, the gains differ substantially by country. Cambodia, for example, stands to benefit the most by 2025 (19.9 per cent) and Indonesia and “Other ASEAN” the least (2.5 per cent).¹⁴ The lower-income ASEAN Member States in general see the largest increases in GDP relative to the baseline – in part as consumers and producers in these countries face relatively high trade barriers and costs, and thus stand to gain most from increased international trade.

Strong export growth underpins the expansion

8 ASEAN: *ASEAN Community Progress Monitoring System: Full report 2012: Measuring progress towards the ASEAN economic community and the ASEAN Socio-Cultural Community* (Jakarta, 2013).

9 Chairman’s Statement of the 23rd ASEAN Summit: Our People, Our Future Together, Bandar Seri Begawan, Oct. 2013.

10 Bandar Seri Begawan Declaration on the ASEAN Community’s post 2015 vision, Bandar Seri Begawan, Oct. 2013.

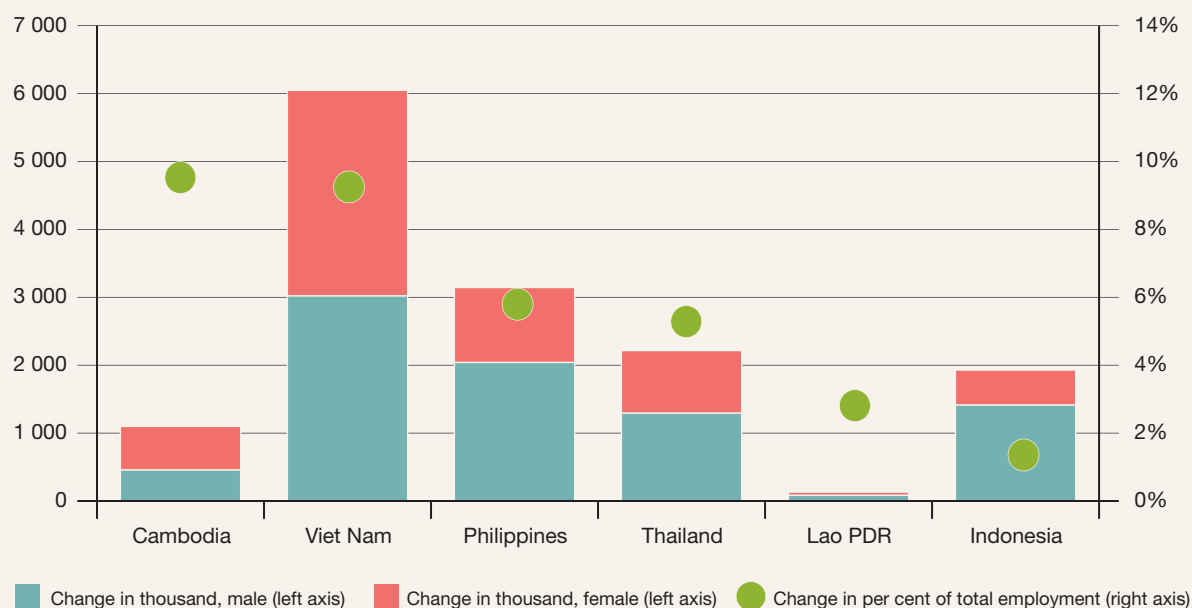
11 The CGE model employed in this study was developed by Michael Plummer, Peter A. Petri and Fan Zhai in collaboration with the ILO. More detailed results of the model simulations are available in M. Plummer, P. Petri and F. Zhai: *Assessing the impacts of ASEAN integration on Labour Markets*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

12 The model has been calibrated to 2007 data. For tariff rates, the status quo of applied intra-ASEAN tariffs as of 2007 has been applied. Non-tariff barriers are estimated via the disaggregated trade restrictiveness indexes constructed by the World Bank for goods and the Peterson Institute for International Economics for services, and modelled using both rent-generated tariff equivalent and “iceberg” costs approaches. Reductions are linearly implemented within the eight years of 2008-15. The policy shock induced in the model is limited to trade measures. Investment measures are also a core component of ASEAN integration but are not simulated explicitly while often there is a close nexus between trade and investment (see for example P. Athukorala and J. Menon: “AFTA and the investment-trade nexus”, in *World Economy* (1997, Vol. 20, No. 2), pp. 159-74.

13 Measuring changes in economic welfare using the equivalent variation technique, which measures the income equivalent of the increase in utility due to change in prices, yields similar results as those of GDP.

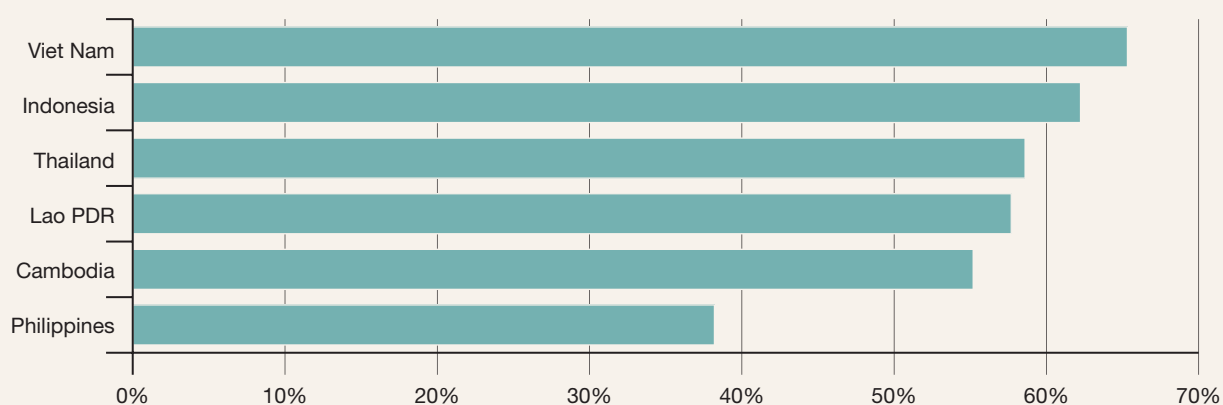
14 Due to data limitations, Brunei Darussalam and Myanmar are grouped under “Other ASEAN”. Furthermore, GDP is simulated to decrease in some non-ASEAN Member States relative to the baseline as a result of trade diversion, notably in Republic of Korea (by -0.3 per cent), China (by -0.2 per cent), India (by -0.2 per cent) and Japan (by -0.1 per cent).

Figure 3-7 Change in employment under the AEC scenario relative to the baseline, 2025 (thousand and per cent of total employment)



Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

Figure 3-8 Vulnerable employment as a share of the additional job gains under the AEC scenario relative to the baseline, 2025 (per cent)



Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

of output relative to the baseline. At the ASEAN aggregate level, exports would be 15.7 per cent above the baseline while imports rise by 15.5 per cent (Figure 3-6).¹⁵ Investment in the ASEAN region under the AEC scenario in 2025 is 8.0 per cent

higher than the baseline, while private consumption is 7.4 per cent above the baseline – though again with significant differences between countries. In essence, international trade allows for specialization based on comparative advantage, which leads to higher aggregate consumption and investment possibilities. Among the trade policy measures simulated, the removal of non-tariff barriers contributes the most

¹⁵ In this model, the trade balance is exogenous, and thus imports rise with exports to maintain the exogenously determined trade balance.

Box 3-3 Social protection floors

In 2013, ASEAN leaders adopted the ASEAN Declaration on Strengthening Social Protection, which reiterated their commitment to accelerate the extension of social protection. This should start with a social protection floor for all residents that will gradually expand towards more comprehensive social security systems.

The establishment of social protection floors has increasingly been recognized by all ASEAN Member States as an efficient approach to combating poverty, inequality, and exclusion and as a key element of national development strategies. Social protection contributes not only to the social dimension of sustainable development (it contributes to reducing poverty, social exclusion, and inequalities), but also to the economic dimension (it has a positive impact on human capital development, acts as a stabilizer in times of crisis, and facilitates economic growth) and to

the environmental dimension (it makes people more resilient to natural shocks and helps facilitate quick recovery).

The primary objective of social protection floors is to guarantee access to necessary goods and services (essential health care, maternity care, nutrition, education, and child care) and provide income security throughout the life cycle. To achieve this, countries need to combine interventions with measures to guarantee the availability, and acceptable quality, of social services.

The social protection floor approach calls for universal coverage of all residents and children, but specific support may be needed for disadvantaged groups and people with special needs. Once a floor has been established, countries should seek to provide higher levels of protection to as many people as possible, and as soon as possible.

to the gains; excluding this factor would indicate substantially smaller gains in output.

In addition to showing improvements in output, investment and consumption, the model also points to increases in total employment in 2025 relative to the baseline. This is illustrated in Figure 3-7 for the six ASEAN Member States for which sufficiently detailed labour market information is available – Cambodia, Indonesia, Lao People’s Democratic Republic, Philippines, Thailand and Viet Nam.¹⁶ In Cambodia, total employment in 2025 under the AEC scenario would be 1.1 million above the baseline. Such a gain represents 9.8 per cent of total employment in 2025. In Viet Nam, the additional jobs over the baseline are 6.0 million, representing 9.5 per cent of total employment. Indonesia gains

an additional 1.9 million jobs over the baseline, but this represents only 1.3 per cent of total employment. An important factor behind these variations across the countries is the degree of economic and labour market dependence on international trade, given that the model is simulating the economic and labour market impact of trade measures. In Cambodia and Viet Nam, total international trade (exports and imports) accounted for 87.8 per cent and 155.0 per cent of GDP respectively in 2007 (the base year of the model), whereas in Indonesia, the corresponding share was 43.8 per cent.¹⁷

There are also gender differences: in Cambodia and Viet Nam women account for half or more of potential job gains, but in Indonesia, Lao People’s Democratic Republic, Philippines and Thailand

¹⁶ For the decomposition of labour in the model, micro-data files of labour force surveys are required but such files were made available to the ILO only in the six ASEAN Member States.

¹⁷ ASEAN: *ASEAN Community in Figures (ACIF) 2010* (Jakarta, 2011).

Figure 3-9 Change in employment by sector under the AEC scenario relative to the baseline, 2025 (thousand)



Note: Agriculture includes paddy rice, other grains, other crops, livestock and natural resources.
 Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

Box 3-4 The automobile industry in ASEAN

The automobile industry in ASEAN is a cornerstone of the regional production network, contributing significantly to value added, exports and employment. In 2013, ASEAN's auto assemblers produced 4.4 million vehicles. Perhaps more importantly, investments and policies aimed at linking multinational manufacturers with suppliers have led to the development of domestic suppliers and support industries. Further improvements of customs and standards harmonization, transport and logistics, and investment liberalization and facilitation that are part of the AEC are expected to deepen regionalization of production networks and broaden regional supply chains, particularly to the CLMV countries.

The adoption of an ASEAN single market, with the entailing consolidation of production networks, also provides opportunities for the more developed ASEAN economies. Indonesia, for example, can build on the knowledge transfer between multinational enterprises, particularly Japanese firms, and domestic firms that has taken place in the past decades to further develop the capacities of domestic firms to participate in

regional production networks. Malaysia will need a new impetus in industrial upgrading and international competitiveness to nudge the industry towards a more strategic productive coalition with multiple stakeholders, including trade unions. The Philippines is already involved in the production of automotive parts and components, and further building of capacities is required to explore the wider market resulting from the AEC.

In Thailand, the AEC could induce suppliers to relocate manufacturing to countries bordering Thailand that have accessible road networks – while Thailand becomes a regional focal point, controlling satellite automobile production in the CLMV and neighbouring countries. The AEC thus presents opportunities to Thailand to produce higher-value-added products and become increasingly involved with process and product engineering as well as with research and development. Consequently, the Federation of Thai Industries is optimistic about the future of the automobile industry, with the Federation projecting total production output to rise to between 3.5 million and four million units by 2020.

Source: S.Y. Chia: *The ASEAN Economic Community: Progress, challenges, and prospects*, ADBI Working Paper Series No. 440 (Tokyo, Oct. 2013); D. Irawati and R. Rutten: "The Indonesian automotive industry in the global-local production networks of ASEAN", in D. Irawati and R. Rutten (ed.): *Emerging knowledge economies in Asia: Current trends in ASEAN 5* (New York, Routledge, 2014), pp. 75-94; M.A.D. Rosellon and E.M. Medalla: "ASEAN+1 FTAs and global value chains in East Asia: The case of the Philippine automotive and electronics sectors", in C. Findlay (ed.): *ASEAN+1 FTAs and global value chains in East Asia* (Jakarta, ERIA, 2011), pp. 275-320; K. Techakanont: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity: A case of Thailand's automotive sector*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming). P. Wad and V.G.R. Chandran Govindaraju: "Automotive industry in Malaysia: An assessment of its development", in *International Journal of Automotive Technology and Management* (2011, Vol. 11, No. 2), pp. 152-171.

they account for 40 per cent or less. Given women's low labour force participation rates across ASEAN Member States (see Annex F, Table F1-2), the results highlight the need to carefully monitor and manage the gender impacts of ASEAN integration and further support women's efforts to enter and stay in the labour force. Furthermore, vulnerable employment accounts for over half of the additional job gains in all six economies except in the Philippines

(Figure 3-8).¹⁸ The prospect of large gains in such jobs calls for coordinated labour market policies to improve working conditions and reduce vulnerability. Critical in this context is the establishment of social protection floors as highlighted in the ASEAN Declaration on Strengthening Social Protection (Box 3-3).

¹⁸ Results assume that the share of vulnerable employment in each specific economic subsector in the base year remains constant.

The model also indicates changes in the distribution of employment between sectors. In general, the additional jobs relative to the baseline are in agriculture, trade and transportation, and construction (Figure 3-9). Trade and transportation accounts for about half the increase in Viet Nam, around a third in Cambodia, Indonesia, and Philippines and around a fifth in Lao People's Democratic Republic and Thailand. Agriculture, on the other hand, accounts for the largest share of the job gains in Lao People's Democratic Republic, Philippines and Thailand.¹⁹ In Cambodia and Indonesia, the construction sector accounts for a relatively large share of the job gains, at around 20 per cent.

In addition, the simulation results point to relatively large gains over the baseline in other sectors: in textiles, apparel and chemicals in Cambodia; in metals, chemicals and textiles in Indonesia; in vehicles, metals and private services in Lao People's Democratic Republic; in private services, food processing and vehicles in the Philippines; in food processing, vehicles, machinery in Thailand; and in apparel and food processing in Viet Nam (see Box 3-4 for a discussion on the automobile industry in ASEAN). On the other hand, comparatively large job losses relative to the baseline could take place in food processing in Cambodia, Indonesia and Lao People's Democratic Republic. Such potential job losses suggest that the upstream and downstream linkages with agriculture remain relatively weak in these countries and call for support in strengthening these ties. In Thailand and Viet Nam, job losses relative to the baseline could take place in private services, while in the Philippines losses could be seen in chemicals and mining.

The potential job gains and losses relative to the baseline have the potential to slow or accelerate

19 Furthermore, there will be redistribution of employment within a sector. For example, in the Philippines, there is a concern about the decline in the sugar subsector as a result of the AEC. See S.B. Tabladillo: *Decent work in an integrated ASEAN context: The case of the Philippine sugarcane industry* (Geneva, Institute of Labor Studies, 2013).

structural change in the six ASEAN Member States (see Annex A, Table A1). In Cambodia, for example, under the baseline scenario the share of agriculture in total employment would decline from 55.0 per cent in 2010 to 50.0 per cent in 2025, but the implementation of the outlined AEC scenario measures has the potential to further reduce the share of agricultural employment to 48.3 per cent in 2025 (a further reduction of 1.7 percentage points). Despite the absolute gains in agricultural employment in 2025 in all six countries, the share of agriculture in total employment declines further in Cambodia, Indonesia, Lao People's Democratic Republic and Viet Nam – as job gains in non-agricultural employment are larger than those in agriculture. In Thailand and the Philippines, the share of agricultural employment declines between 2010 and 2025 but the implementation of the AEC trade measures is simulated to slow the pace of decline.

In Cambodia, between 2010 and 2025 under the baseline scenario, the share of industry in total employment increases from 14.9 per cent to 18.1 per cent, but under the AEC scenario it rises to 19.4 per cent (or by 1.3 percentage points). This growth is driven primarily by construction. For services the share increases under the baseline scenario by 1.8 percentage points, driven by trade and transportation; under the AEC scenario it rises a further 0.4 percentage points.

In Indonesia and Thailand, the share of industry and services in total employment continues to increase under the baseline scenario, driven by construction and by trade and transportation. In Indonesia, the situation does not change much under the AEC scenario. In Thailand, on the other hand, under the AEC scenario the share of employment in trade and transportation could decline by 0.7 percentage points, and in private services by 0.6 percentage points.

In Lao People's Democratic Republic structural change is slower. Between 2010 and 2025 under the baseline scenario the share of industrial employment

in total employment would increase by only 1.0 percentage point and under the AEC scenario by another half a percentage point. The largest growth is in wood products.

In both the Philippines and Viet Nam, the share of services employment continues to increase under the baseline scenario – by 5.4 percentage points in the Philippines and 7.8 percentage points in Viet Nam. In the Philippines, the AEC trade measures do not have a significant impact. In Viet Nam, however, they would increase the share of employment in trade and transportation by 2.0 percentage points in 2025, while the share of private services would decrease by 1.0 percentage point.

Taken together, these models highlight the potential rise and decline of specific sectors as a result of trade measures. But it is important to emphasize that ASEAN Member States also have at their disposal a wide range of policies to influence patterns of structural change, including industrial policies aimed at supporting the growth of specific sectors. Box 3-5 highlights the potential role of industrial policies to support structural change, higher quality jobs and growth.

Box 3-5 Industrial policy and the business process outsourcing sector in the Philippines

The business process outsourcing (BPO) sector in the Philippines has seen remarkable growth in the past decade. Export revenues from the sector grew ten-fold from \$1.3 billion in 2004 to \$13.3 billion in 2013, while employment in the sector grew nine-fold from around 101,000 in 2004 to around 900,000 in 2013, representing around three per cent of total employment. An industrial policy aimed at supporting the growth of the sector has played an important role in such developments.

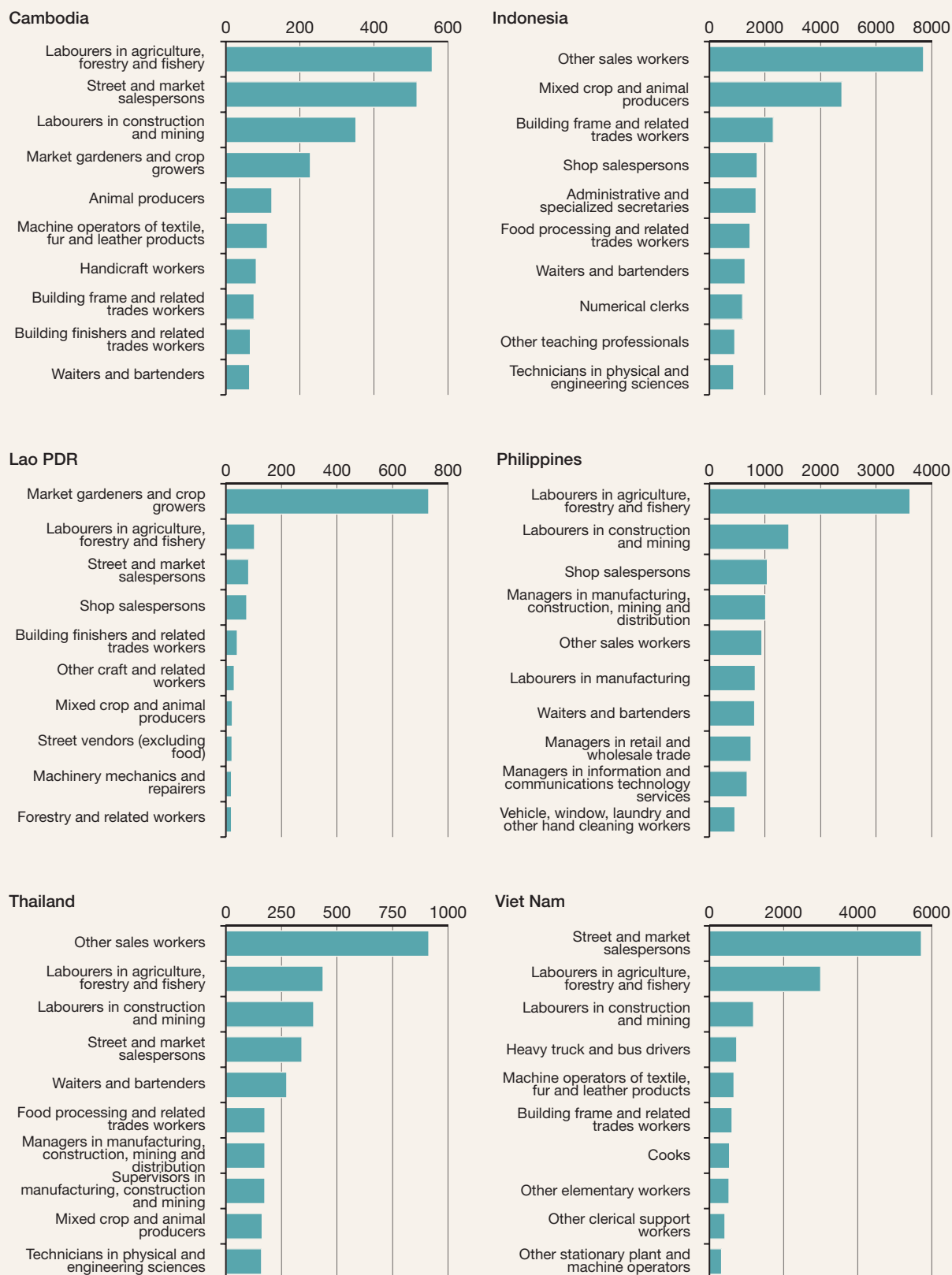
As the BPO sector in the Philippines began to grow, the Philippines Government in 2001 established the Information Technology and E-Commerce Council to develop the country as an E-services hub. In 2005, the Government also launched the Philippine Cyberservices Corridor, covering a number of urban centres. Furthermore, in 2006, the Training for Work Scholarship Program significantly focused on the IT industry to provide educational grants for the training of BPO applicants. The Government

has also worked closely with the Business Processing Association of the Philippines to highlight the Philippines as a prime destination for BPO investors and has provided a number of incentives including income tax holidays, tax and duty exemption on imported capital equipment, the ability to employ foreign nationals, and simplified export and import procedures. The Philippine Development Plan 2011-16 has also identified the BPO sector as one of the top ten priority development areas with the highest potential to contribute to both growth and job creation.

While call centres have contributed the most to the growth of the sector, the Government has recognized the need to nurture higher productivity segments including back-office services, design process delivery, and services for transcription, animation, and game development. This involves strengthening the skills base, developing infrastructure and offering targeted fiscal and non-fiscal incentives.

Source: "Economic update: The Philippines' revenues from BPO set to rise 15 per cent in 2014", in *Oxford Business Group*, 9 Feb. 2014; N. Magtibay-Ramos, G. Estrada and J. Felipe: *An analysis of the Philippine business process outsourcing industry*, Economics and Research Department Working Paper Series No. 93 (Manila, ADB, 2007); Philippines Development Plan 2011-2016, Manila, May 2011.

Figure 3-10 Projected ten occupations with highest demand under the AEC scenario, by absolute change, 2010-25 (thousand)



Note: Change reflects both expansion and replacement demand.

Source: ILO estimates based on S. El Achkar Hilal: *The impact of ASEAN economic integration on occupational outlooks and skills demand*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

Figure 3-11 Projected ten occupations with highest demand under the AEC scenario, by percentage change, 2010-25 (per cent)



Note: Change reflects only replacement demand.
 Source: ILO estimates based on S. El Achkar Hilal: *The impact of ASEAN economic integration on occupational outlooks and skills demand*, op. cit.

ASEAN economic integration and occupational demand

The changing structure of the labour market, spurred further by economic integration, will have an impact on the occupational composition of the labour market. Which occupations will grow or decline with the implementation of the ASEAN Economic Community? Figure 3-10 projects the potential occupational demand in six ASEAN Member States assuming the sectoral structure of the labour market under the AEC scenario in 2025, based on an occupational employment projections model developed for the report (see Annex B for details of the model).²⁰ The largest absolute demand is generally for low- and medium-skill occupations.²¹

Nonetheless, as illustrated in Figure 3-11, the occupations projected to grow fastest in some countries are generally medium- and high-skilled. For example in Cambodia, retail and wholesale trade managers and electrical equipment installers and repairers are projected to grow fastest, while in Indonesia, the highest growth rate is projected for hotel and restaurant managers, and locomotive engine drivers and related workers. In Lao People's Democratic Republic, wood treaters, cabinet makers and related trades workers and rubber, plastic and paper products machine operators are projected to be the fastest growing occupations while in the

Philippines the top five include ships' deck crews and related workers, sports and fitness workers, managing directors and chief executives, database and network professionals and librarians, archivists and curators. In Thailand, hotel and restaurant managers and waiters and bartenders are the two occupations that are projected to experience the fastest pace of growth while in Viet Nam, the fastest growth is for other craft and related workers and heavy truck and bus drivers.

Conclusion

Trade integration is expected to change the pattern of structural transformation. If this is towards productive economic activities, structural change can help raise living standards and increase aggregate labour productivity – decreasing working poverty and the incidence of vulnerable employment, and supporting the growth of decent jobs. ASEAN Member States will want to facilitate such changes but ensure that they take place in a fair and inclusive manner, and respect fundamental principles and rights at work. Furthermore, although ASEAN economic integration increases welfare, wages, and employment, the benefits are distributed unevenly among countries and sectors, and between men and women. Coordinated and coherent policies will be needed at both regional and national levels to ensure inclusive and fair outcomes (see Chapter 5).

The model results presented in this chapter highlight the prospects for specific sectors and occupations. Agriculture as a share of total employment is expected to decline, but agriculture will continue to be a dominant employer in some ASEAN Member States. Of particular concern is the potential of trade integration to weaken the food processing sectors in some of these countries, notably Cambodia, Indonesia and Lao People's Democratic Republic. Concerted policy efforts will be required to strengthen the value chains associated with agriculture.

Some countries will see a rise in trade,

20 The occupational employment projections model was developed by Souleima El Achkar Hilal in collaboration with the ILO. Occupational demand has two components: expansion demand attributable to growth in sectoral output and employment and/or shifts in the occupational structures of industries, and replacement demand, attributable to factors such as deaths, retirements, inter-occupational and geographical labour mobility. In this model the share of workers aged 65 years and older for each occupation is used as an estimate of replacement demand for each occupation. Detailed results of the model are available in S. El Achkar Hilal: *The Impact of ASEAN Economic Integration on Occupational Outlooks and Skills Demand*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

21 Skill level definitions are based on International Standard Classification of Occupations (ISCO) major groups. See Chapter 4 for further information.

construction and private services as a share of total employment. In developing ASEAN Member States, these sectors, and some occupations in these sectors, are often associated with vulnerable employment and the informal economy. Continued efforts will be required to strengthen labour market policies and institutions to address informality and protect vulnerable groups of workers. To absorb those leaving agriculture, as well as the five million new entrants to ASEAN's labour force each year, governments will need well-designed industrial and sectoral policies. These should be coordinated with employment policies and based on tripartite dialogue with a view to supporting employment growth in higher-productivity services and manufacturing. In some countries, this has involved expanding employment in textiles and apparel, but efforts are required to diversify employment to other manufacturing subsectors.

Structural change will entail considerable churning in the labour market. This brings risks for vulnerable workers, highlighting the need for implementation of the measures identified in the ASEAN Declaration on Strengthening Social Protection – to improve the quality, coverage, and sustainability of social protection, starting with the establishment of a social protection floor for all. Productive structural change will also depend on the ability of micro-firms and SMEs to seize opportunities in higher value-added activities, including in the regional and global production networks in the ASEAN region, underscoring the need to strengthen their capacities, including through good management and improved labour practices. With structural change pointing to an increase in the demand for higher skills – the fastest growing occupations are likely to be in semi- to high-skilled jobs – further investments in skills and training will be required. Chapter 4 considers the priorities as ASEAN Member States move to higher levels of skills.

Moving up the skills ladder

The ASEAN Economic Community will increase the demand for skilled workers. This will require stronger education and training policies, with curricula that match national development priorities and meet the needs of the most vulnerable, women and young people. Employers' and workers' organizations must be key partners in tackling the skills challenge. But governments in the region can also cooperate to address skills gaps by sharing best practices in the recognition of skills.

The ASEAN Economic Community has numerous implications for human resource development. The structural change it encourages will increase the demand for some skills while reducing that for others.¹ Countries will need labour market policies that not only ensure the relevance and quality of skills, but also offer a degree of social protection for those who lose their jobs – mitigating adjustment costs and helping sustain a dynamic development process.²

At the national level, the education and skills of the workforce are critical factors in attracting FDI, enabling structural transformation and providing a

pathway for the most vulnerable segments of the labour market to access better-quality jobs. For enterprises, being competitive depends heavily on the ability to attract and retain skilled human resources that can accelerate the adoption of innovative business practices and sophisticated technologies, boosting both productivity and profitability.

The ASEAN Leaders Statement on Human Resources and Skills Development for Economic Recovery and Sustainable Growth, adopted in Ha Noi in October 2010, provides a sound blueprint for regional cooperation and national action for upgrading skills.³ But priorities will vary according to each country's economic structure and goals and level of development. Some will still focus on primary education and literacy skills. Others will look to improve secondary education and vocational and technical training. And the more industrialized ASEAN Member States will aim to enhance the relevance of tertiary education and foster cognitive

1 In this report, unless noted otherwise, high-skill occupations are defined as International Standard Classification of Occupations (ISCO) groups 1 (managers), 2 (professionals) and 3 (technicians and associate professionals). Medium-skill occupations include ISCO groups 4 (clerks), 5 (service and sales workers), 6 (skilled agricultural and fishery workers), 7 (craft and related trade workers) and 8 (plant and machine operators and assemblers). Low-skill occupations consist of ISCO group 9 (elementary occupations). See ILO: *International Standard Classification of Occupations: ISCO-08: Volume 1: Structure, group definitions and correspondence tables* (Geneva, 2012).

2 ILO: *Skills for improved productivity, employment growth and development*, Report V, International Labour Conference, 97th Session (Geneva, 2008).

3 ASEAN Leaders Statement on Human Resources and Skills Development for Economic Recovery and Sustainable Growth, Hanoi, Oct. 2010.

and specialized skills in mathematics, science and engineering.

Skill-intensive economies

ASEAN Member States have already been moving towards more skill-intensive production and exports, reflecting higher labour productivity. But the pattern of change varies considerably across the region (Figure 4-1). In Singapore, the region’s high-skill production base, between 2000 and 2012, the share of high-skill and technology-intensive manufacturing exports increased from 36 per cent to 48 per cent. But Cambodia, at the other end of the scale, has made limited progress since 2000 in its efforts to diversify from agriculture and labour-intensive garment manufacturing.

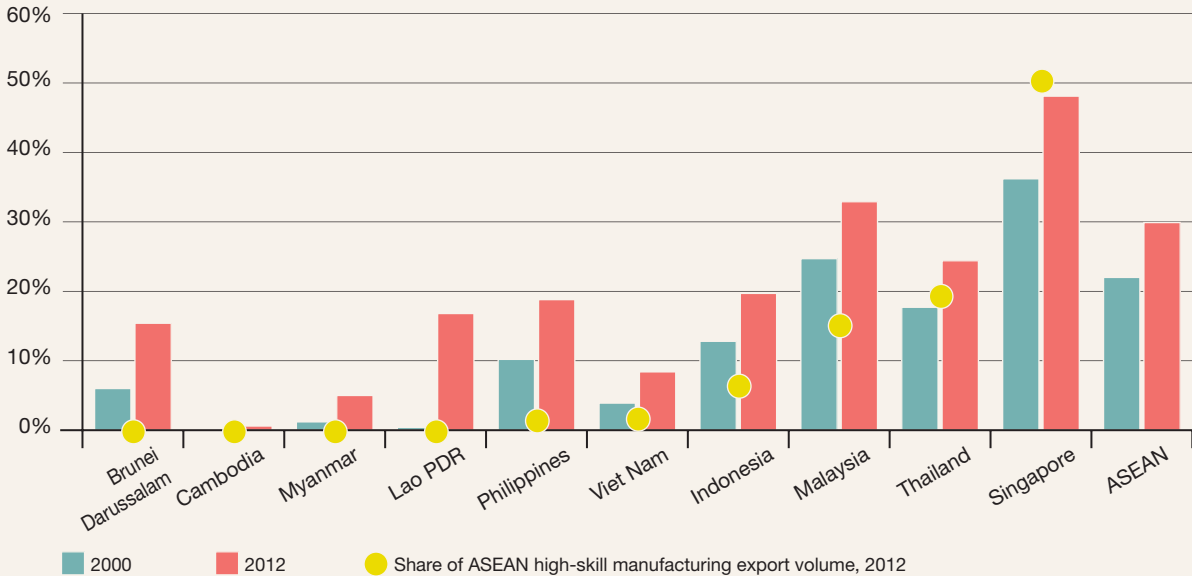
Singapore accounts for around half of ASEAN’s high-skill manufacturing exports, with Thailand and Malaysia respectively contributing 19.6 per cent and 15.7 per cent. Elsewhere, high-skill manufactured exports are limited. Brunei Darussalam,

Cambodia, Lao People’s Democratic Republic and Myanmar collectively account for less than one per cent of the ASEAN aggregate.

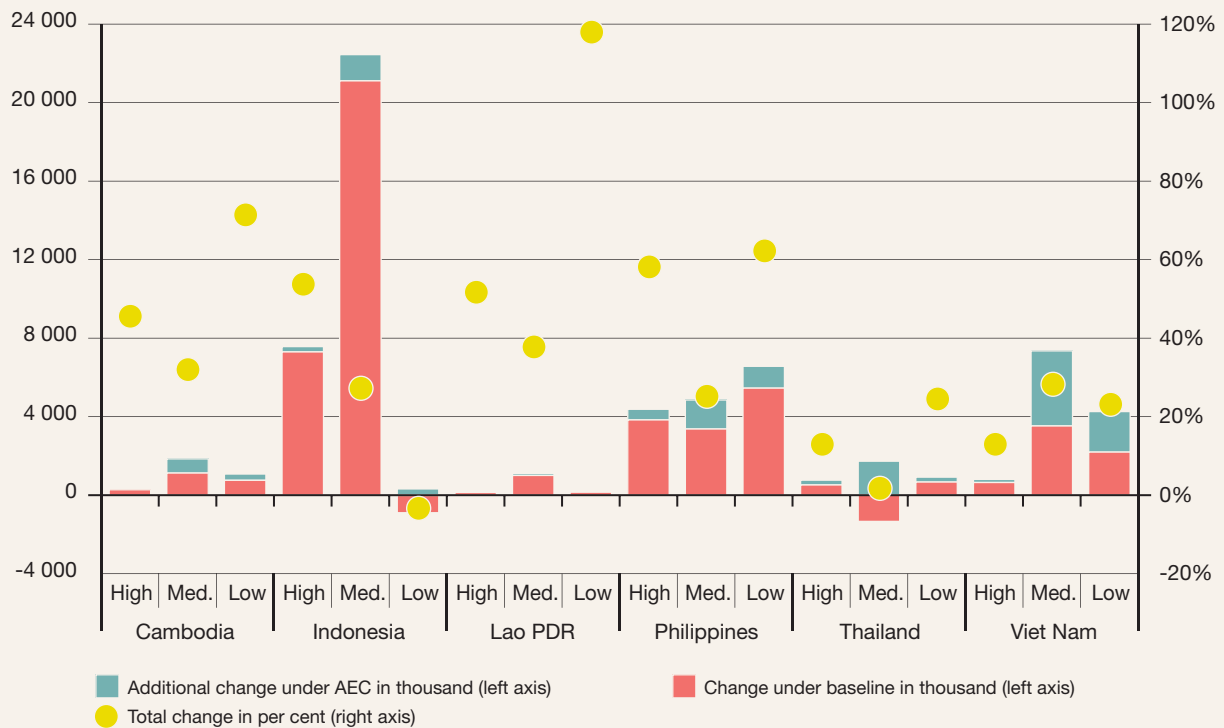
The demand for diverse skills

Structural change as a result of the AEC is likely to increase the demand for a mix of managerial, technical and core employability skills. A background paper for this report has estimated the scale of future demand for Cambodia, Indonesia, Lao People’s Democratic Republic, Philippines, Thailand and Viet Nam (Annex B). For high-skill employment the model indicates that in these economies between 2010 and 2025 demand could grow by 41.0 per cent, or 14 million workers (Figure 4-2). Nearly one-half of those gains would be in Indonesia. However there will also be significant expansion in the Philippines by 60.0 per cent (4.4 million). Cambodia and Lao People’s Democratic Republic too will see significant growth at 45.0 per cent and 53.0 per cent, respectively, though their

Figure 4-1 Share of high-skill and technology-intensive manufacturing in total manufacturing exports, 2000 and 2012 (per cent) and share of total ASEAN high-skill and technology-intensive manufacturing export volume, 2012 (per cent)



Note: Manufacturing corresponds to Standard Industrial Trade Classification (SITC), Rev. 3 major groups 5, 6, 7 and 8. High-skill and technology-intensive manufacturing corresponds to electronics, parts and components for electrical and electronic goods and other related goods (SITC 751, 752, 759, 761, 762, 763, 764 and 776). Source: ILO estimates based on UNCTAD: UNCTADstat Database.

Figure 4-2 Estimated change in employment by skill level, 2010–25 (thousand and per cent)

Source: ILO estimates based on S. El Achkar Hilal: *The impact of ASEAN economic integration on occupational outlooks and skills demand*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

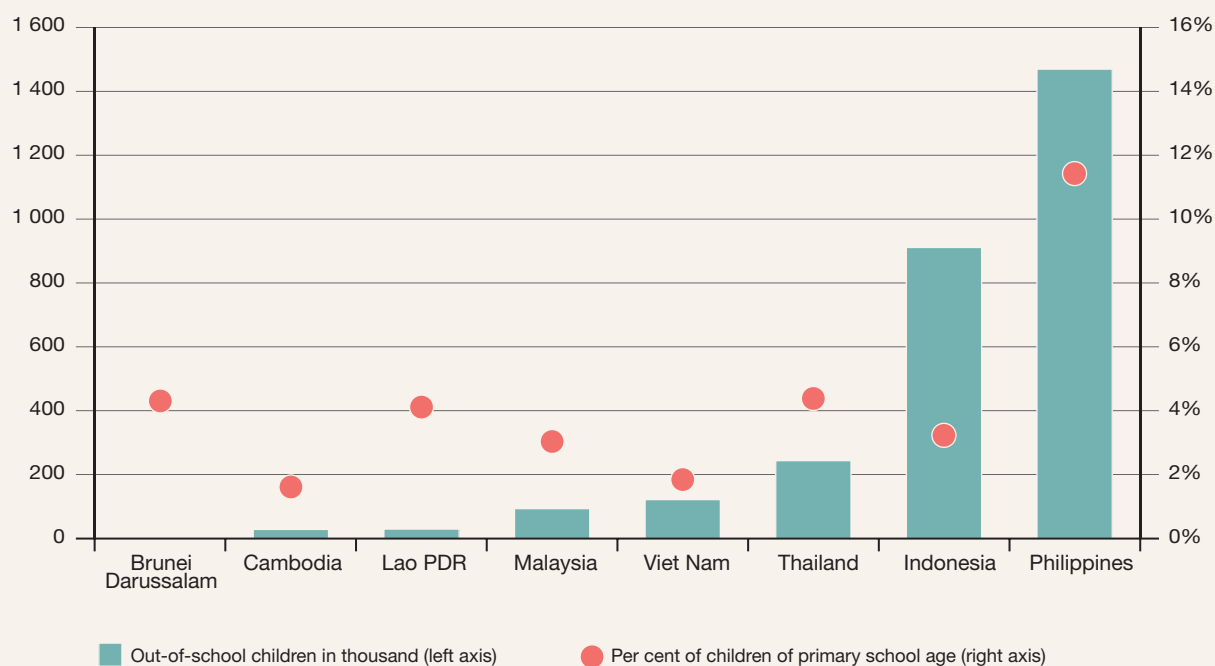
Table 4-1 Selected education, training and literacy indicators, 2012 or most recent year (per cent)

	Literacy rate, ages 15+	Primary net enrolment rate, total	Secondary net enrolment rate, total	TVET enrolment as share of total secondary enrolment	Female share of TVET enrolment	Tertiary gross enrolment rate, total	Public expenditure on education
Brunei Darussalam	95.4	91.7	94.7	11.4	49.6	24.3	3.3
Cambodia	73.9	98.4	38.2	2.3	47.0	15.8	2.6
Indonesia	92.8	93.7	74.8	18.0	42.0	27.2	2.8
Lao PDR	72.7	95.9	41.4	0.8	54.0	16.7	2.8
Malaysia	93.1	97.0	66.3	6.8	42.5	36.0	5.9
Myanmar	92.7	...	47.0	...	...	13.8	0.8
Philippines	95.4	88.2	61.4	...	...	28.2	2.7
Singapore	95.9	...	...	11.6	35.1	...	3.2
Thailand	93.5	95.6	79.5	15.4	41.5	51.4	5.8
Viet Nam	93.4	98.1	...	...	...	24.6	6.3

Note: "... " = data not available. Education expenditure figures refer to percentage of GDP.

Source: UNESCO Institute for Statistics.

Figure 4-3 Out-of-school children of primary school age, 2012 or most recent year (thousand and per cent)



Source: UNESCO Institute for Statistics.

absolute increases are smaller.

For demand in medium-skill employment the aggregate percentage growth is lower at 22.0 per cent though this would still represent 38 million jobs. Also, the estimated impact of the AEC is greatest on medium-skill jobs, particularly in Thailand where it would reverse decreases under the baseline scenario and in Viet Nam where it would more than double the expansion in medium-skill employment. For low-skill occupations the growth in demand would be 12.4 million or 24.0 per cent, driven partly by a contraction in Indonesia. Nevertheless such employment remains important in a number of countries. In Cambodia the demand will grow by 71.0 per cent, in Lao People's Democratic Republic by 119.0 per cent and in the Philippines by 62.0 per cent, highlighting the continued importance of ensuring quality standards in basic education and training.

The AEC can certainly generate higher-skill and more productive employment. This would allow low- and middle-income ASEAN Member States to

move up the productivity and skills ladder so as to be competitive and not rely on a low-skill workforce to drive exports and growth. But this process will not happen automatically. Realizing these opportunities requires strengthening national education and training systems and ensuring that the most vulnerable have the qualifications and competencies needed to compete for these jobs.

Sound education and training

Regardless of a country's stage of development, the foundation for this should be a sound basic education that provides the essential skills of literacy and numeracy. In this respect ASEAN Member States are in a fairly strong position. Literacy rates are quite high among the working-age populations – except in Cambodia and Lao People's Democratic Republic where they are less than 75 per cent (Table 4-1). Throughout the region, however, women consistently lag behind men in literacy, in part reflecting gender disparities in access to primary education.

Box 4-1 Advancing education and social policies in the Philippines

The Philippines can break intergenerational poverty cycles by increasing access to quality basic education and decent work. The country has had rapid population growth, persistently high poverty rates, and large numbers of out-of-school children and youth, particularly from the poorest households.

Recent measures to develop human capital will improve the education of the workforce and, as the AEC proceeds, should increase the resilience of domestic firms to external competition. An important reform is the K-to-12 programme. Enacted into law in July 2013, this extends basic education from 10 to 12 years and should enhance young people's cognitive and analytical skills and

improve trainability upon graduation. Another measure is the Responsible Parenthood and Reproductive Health Act. Signed in December 2012, this bill increases access to sexual health education, contraception and reproductive health services, with the aim of decelerating population growth and ultimately decreasing labour market pressure. These two measures are complemented by the Pantawid Pamilyang Pilipino Program. Established in 2008, this conditional cash transfer programme focuses on improving access to health and education services for infants and children from poor households and has yielded positive results.

Source: ILO: Key Indicators of the Labour Market, eighth edition, 2013; World Bank: *Philippines conditional cash transfer program: Impact evaluation 2012* (Washington, DC, 2013); J. Yap: *ASEAN Community 2015: Managing integration for better jobs and shared prosperity: The case of the Philippines*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

ASEAN Member States have achieved almost universal enrolment in primary education. Nevertheless in the region as a whole nearly three million children of primary school age are not in school – having never enrolled or having dropped out early (Figure 4-3). They risk becoming child labourers and are unlikely to acquire the literacy and numeracy skills to subsequently secure decent employment. More than 80 per cent of these children are in Indonesia and the Philippines. The Philippines also has the highest proportion of children out of school, at 11.4 per cent, though the rate is also more than four per cent in Brunei Darussalam, Lao People's Democratic Republic and Thailand. To address the remaining gaps in universal basic education, targeting early school leavers is critical as well as vulnerable boys and girls who have been left out of the formal school system. This would not only advance social development but also create the basis for a high-quality workforce (Box 4-1).

Beyond primary schooling, developing the future workforce in many low- and middle-income ASEAN Member States involves greater access to secondary education, as well as to technical and vocational education and training (TVET). This will be particularly important for young people from rural and poor households, providing them with the core employability and cognitive skills to move successfully from the classroom to the workplace.

The greatest secondary education deficits are in Cambodia, Lao People's Democratic Republic and Myanmar, where net enrolment rates are less than 50 per cent. In Indonesia, Malaysia, Philippines and Thailand participation is notably higher but still not universal. Vocational education enrolment is also weak in most ASEAN Member States, particularly among young women. TVET can provide students with practical alternatives that help develop job-specific competencies and increase employability (Box 4-2).

Box 4-2 Strengthening technical and vocational education and training

A responsive technical and vocational education and training (TVET) system is critical for workforce development and helps fill gaps in skills and competencies not provided by tertiary education. TVET provides pathways to develop knowledge, attitudes and skills from a variety of courses and training programmes that ease the transition from secondary education to the workplace. Completion of the more advanced technical courses can lead to a high-skill job or provide a bridge for students to pursue a tertiary education if they aspire to higher-level professions.

Throughout ASEAN, however, TVET accounts for a small share of secondary school enrolment, from 0.8 per cent in Lao People's Democratic Republic to 18.0 per cent in Indonesia (Table 4-1). TVET institutions in some countries face challenges related to the relevance of curricula, poor-quality instruction and infrastructure and the absence of certification frameworks that meet the standards of employers. Also, gender stereotyping hinders young women from choosing some vocational tracks.

In this regard, a focus on improving TVET quality and relevance through stronger linkages to

industry demand is paramount, as is expanding access for poor and rural populations, integrating core skills, developing tools for the recognition of continuous and prior learning, and enhancing the availability of reliable labour market information and vocational guidance. Lao People's Democratic Republic, for instance, is developing a Labour Market Information System and a TVET Education Management Information System that will enhance assessment of skills demand and strengthen employment services for TVET students and jobseekers.

Efforts to improve TVET would also be bolstered by enhanced skills standards and recognition systems. A robust quality assurance framework can promote the development of a transparent mechanism acceptable to private industry which can assess, certify and recognize prior learning and experience irrespective of where they are acquired.¹ Collectively, these measures would help ASEAN Member States reduce skill mismatches, facilitate mutual skills recognition in the context of regional labour migration and improve dialogue between employers, workers and training providers.

1 ILO Human Resources Development Recommendation, 2004 (No. 195).

Source: S. El Achkar Hilal: *Lao People's Democratic Republic: TVET assessment* (Bangkok, ILO, forthcoming); S. El Achkar Hilal: *TVET in Viet Nam: Situational assessment and inputs for the legal reform process* (Bangkok, ILO, forthcoming); Q. Huang: *Comprehensive research on the general assessment of the current skills systems and delivery: Research study on Thailand* (Bangkok, ILO, forthcoming); L. Lanzona: *A review of the TVET system in the Philippines* (Bangkok, ILO, forthcoming); LSE Enterprise: *Assessment study of technical and vocational education and training in Myanmar* (Bangkok, ILO, forthcoming); D. Lythe: *Assessment of the readiness of ASEAN Member States for implementation of the commitment to the free flow of skilled labour within the AEC from 2015* (Bangkok, ILO, forthcoming).

In this regard, Viet Nam has increased lower secondary enrolment among ethnic minorities and girls in disadvantaged regions by building new schools and teacher housing, developing classroom materials in ethnic minority languages and piloting a school feeding programme, among other measures.⁴ Likewise, Indonesia boosted lower secondary

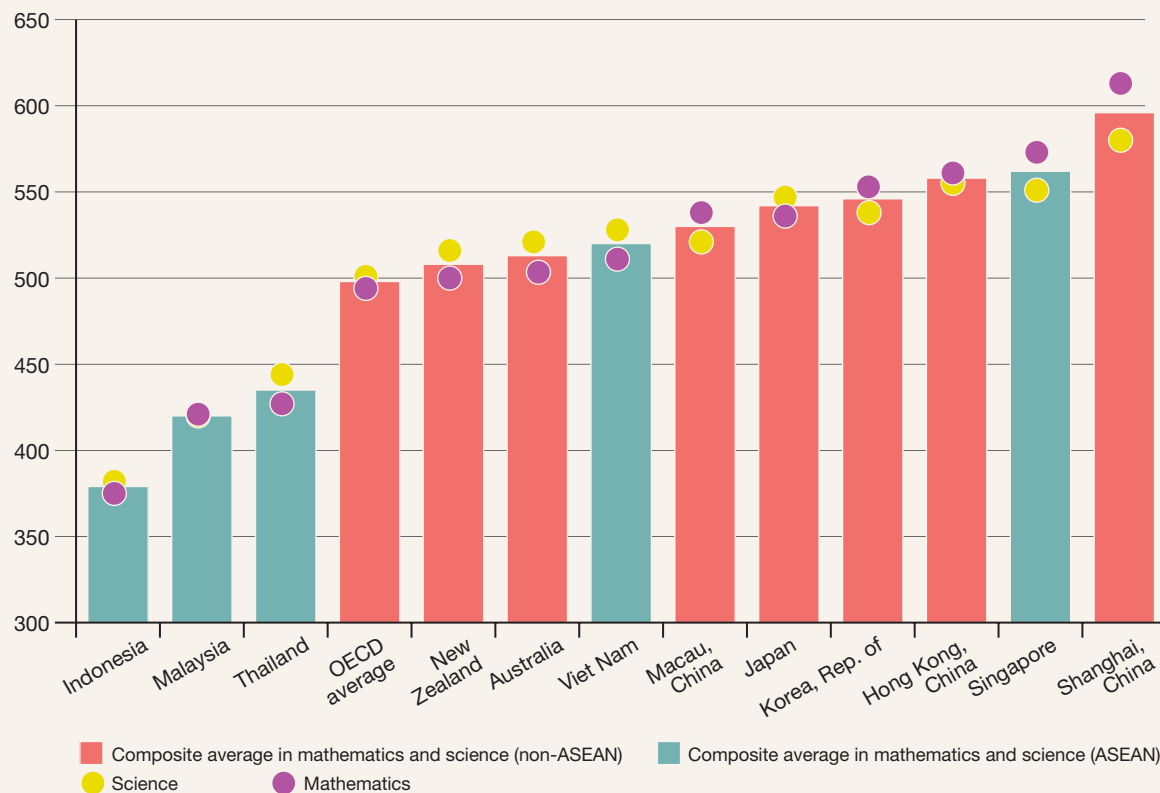
enrolment for girls in poor rural areas through grants managed by school committees that provided scholarships, supplementary feeding, assistance with transportation and separate sanitation facilities.⁵

In addition to access, it will be even more important for the future to improve the quality of education and make it relevant to fast-changing

4 ADB: *Viet Nam: Increasing girls' access to lower secondary education in the most disadvantaged regions – 2013*, Gender and Development Case Studies (June 2013).

5 ADB: *Indonesia: Reaching the unreached through the decentralized basic education project – 2010*, Gender and Development Case Studies (May 2013).

Figure 4-4 Mean score in mathematics and science, PISA, 2012



Note: Programme for International Student Assessment results from standardized international assessments in mathematics and science of 15-year-olds in 65 economies, including all 34 OECD member countries. Approximately 40 points is the equivalent of one year of schooling. Source: OECD: *PISA 2012 Results in Focus: What 15-year-olds know and what they can do with what they know* (Paris, 2013).

labour markets. ASEAN's move towards higher value-added industries calls for excellence in science, technology, engineering and mathematics.⁶ In this respect some countries are lagging. This is evident from the results of the most recent Programme for International Student Assessment (PISA) (Figure 4-4). In mathematics and science, for example, compared with the OECD average, Indonesian students scored 119 points lower – equivalent to almost three fewer years of schooling. Results for Malaysian students were 77 points lower, and Thai students 62 points lower. Singapore, by contrast, ranked second overall out of 65 economies, with a composite score that outpaced the OECD average

by 65 points – equivalent to 1.5 years of additional schooling. Viet Nam also did relatively well: 15-year-olds scored higher than the OECD average, indicating that even at lower stages of economic development it is possible to achieve strong educational outcomes.

Middle- and high-income ASEAN economies are also facing challenges related to the disconnect between tertiary education and the needs of employers.⁷ The share of tertiary graduates with a diploma in engineering, manufacturing and construction remains low overall – at 9.3 per cent in Brunei Darussalam, 15.6 per cent in Thailand and 27.3 per cent in Malaysia – and significantly lower for

⁶ C. Martinez-Fernandez and K. Choi: *Skills development pathways in Asia*, OECD Local Economic and Employment Development (LEED) Working Papers 2012/12 (Paris, OECD, 2012).

⁷ World Bank: *Putting higher education to work: Skills and research for growth in East Asia* (Washington, DC, 2012).

women.⁸ Thailand, for example, has an oversupply of social science graduates and too few specialists in science, technology, and health. As a result around 80 per cent of firms in Thailand experience difficulties in filling job vacancies because most graduates lack relevant technical skills.⁹

Investing in education reform

Various measures could help reform education systems and strengthen learning outcomes. Recent efforts in Thailand have helped improve the quality of secondary school instruction. These initiatives include establishing a teacher licensing system, extending pre-service and in-service training, recognizing outstanding teacher performance and improving teachers' compensation.¹⁰ Similarly, Malaysia bolstered the quality of its secondary education by establishing a benchmark system for quality standards, reorienting learning practices towards the information and knowledge economy, and teaching mathematics and science in English, as well as upgrading teachers' qualifications and pay.¹¹

Curriculum reform is also vital. Instead of requiring students to memorize content, curricula that nurture cognitive, problem-solving and job-relevant skills, and promote the versatility and relevance of vocational education would better prepare the ASEAN workforce. Fostering excellence in science and mathematics while being sufficiently flexible to accommodate other emerging topics will be increasingly important.¹² Viet Nam, for instance,

is adapting an innovative model from Colombia called *Escuela Nueva* which prioritizes group learning and problem-solving over memorization. The initial results in 1,500 pilot primary schools are promising, and plans are underway to advance the programme to lower secondary education.¹³

Achieving higher educational outcomes will require more efficient public investment. This entails directing expenditure to where it is needed most – targeting children and youth from poor and vulnerable households, improving the quality of instruction and institutional performance and motivating both girls and boys to study subjects that are relevant to employers, irrespective of stereotypes. In some countries greater fiscal resources are essential to this end. In Myanmar, for instance, public expenditure on education is less than one per cent of GDP, significantly lower than the three per cent in the majority of ASEAN Member States (Table 4-1).

From the classroom to the workplace

As economies generate insufficient demand, young people lacking job-related skills struggle to find decent work. Across the region the jobseekers most likely to be unemployed are young women and men. In 2013 general unemployment in ASEAN was 4.2 per cent while for young men the rate was 13.1 per cent and for young women it was 13.4 per cent. The highest unemployment rates for young people were in Indonesia, at 21.6 per cent, and the Philippines, at 16.6 per cent (Annex F, Table F1-5).

Education is a critical factor for employment. In Cambodia graduates with university degrees on average find satisfactory work within two years while those with a secondary education spend an average of nearly five years in this transition.¹⁴

8 UNESCO Institute for Statistics.

9 World Bank: *Thailand Social Monitor: Towards a competitive higher education system in a global economy* (Washington, DC, 2011).

10 R. Atagi: *Secondary teacher policy research in Asia: Secondary teachers in Thailand* (Bangkok, UNESCO, 2011).

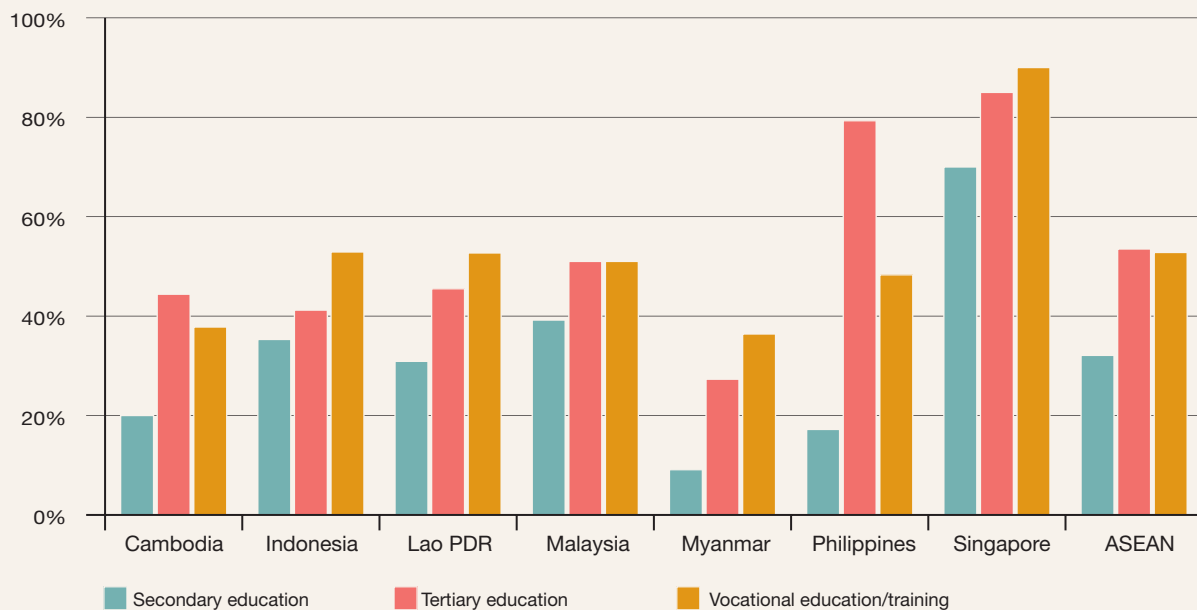
11 S. Eshah Mokshein, H. Haji Ahmad and A. Vongalis-Macrow: *Secondary teacher policy research in Asia: Towards providing quality secondary education: Training and retaining quality teachers in Malaysia* (Bangkok, UNESCO, 2009).

12 D. Bloom: "Getting past the basics: Pursuing secondary education", in World Economic Forum: *Education and skills 2.0: New targets and innovative approaches* (Geneva, 2014), pp. 59-63.

13 World Bank: *Vietnam Development Report 2014: Skilling up Vietnam: Preparing the workforce for a modern market economy* (Washington, DC, 2013).

14 H. Kanol, K. Khemarin and S. Elder: *Labour market transitions of young women and men in Cambodia*, Work4Youth Publication Series No. 2 (Geneva, ILO, 2013).

Figure 4-5 Share of respondents who agree that skills of secondary, tertiary and vocational graduates match enterprise needs, 2013 (per cent)



Note: ASEAN regional averages exclude Brunei Darussalam, Thailand and Viet Nam.
Source: ILO: Survey of ASEAN Employers on Skills and Competitiveness (2013).

Likewise, one-half of working Cambodian youth are in informal employment and two-fifths are undereducated for the job that they hold. In Viet Nam, only one-quarter of working youth are able to find formal employment, where wages are 45.0 per cent higher than earnings in informal employment.¹⁵

In some cases, young people are out of work because their education does not match industry requirements. But others may reject work that does not meet their aspirations; young people from wealthier families can afford to wait for the “ideal” job. Supporting the transition of young women into occupations and industries traditionally perceived to be male-oriented would help improve their employment opportunities and wages and decrease the gender pay gap. This strategy requires not only ensuring that women have the relevant skills but also lowering the resistance from employers, male

workers and consumers.¹⁶

In addition, many students also lack sound career guidance and reliable labour market information and statistics that could help identify the current needs of employers and the skills that must be cultivated to improve job prospects. They could also benefit from apprenticeships, particularly those that involve medium and high skills, which link education and training institutions with the private sector. Such systems are, however, underdeveloped and inadequately resourced, hampering the opportunities for students to complement classroom knowledge with practical, on-the-job experience.

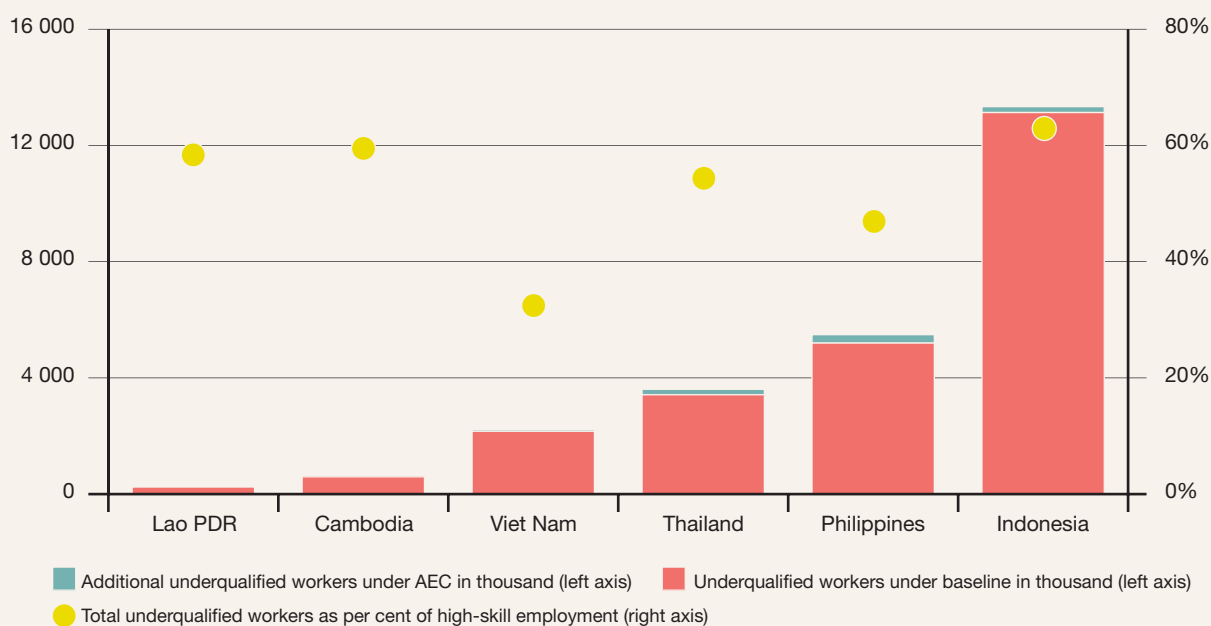
The skills gaps

The difficulties facing young women and men reflect broader skills gaps and mismatches. This was confirmed in a 2013 ILO survey of ASEAN enterprises and business associations (Annex C). Fewer

15 E. Shehu and B. Nilsson: *Informal employment among youth: Evidence from 20 school-to-work transition surveys*, Work4Youth Publication Series No. 8 (Geneva, ILO, 2014).

16 ADB and ILO: *Good global economic and social practices to promote gender equality in the labour market* (Manila, ADB, 2013).

Figure 4-6 Estimated skills and educational mismatch in high-skill occupations, 2025 (thousand and per cent)



Source: ILO estimates based on S. El Achkar Hillal: *ASEAN occupational projections: The impact of ASEAN economic integration on occupational outlooks and skills demand*, op. cit.

than one in three respondents agreed that secondary school graduates were equipped with the relevant skills needed by their enterprises, with scores ranging from less than one in ten in Myanmar to seven in ten in Singapore (Figure 4-5). By comparison, for tertiary graduates in ASEAN overall, the skills were viewed as better aligned with industry requirements (one in two respondents agreeing). In this case the most positive responses came from the Philippines and Singapore – around four in five. In terms of vocational education and training systems, around half the respondents felt that these met their business needs. The proportion was highest in Singapore (nine in ten) but significantly lower in Cambodia and Myanmar (fewer than two in five).

This employer survey also identified the greatest skills gaps. The training thought to be most widely needed was in management and leadership (29.0 per cent of responses) followed by vocational training (17.0 per cent) and customer service training (15.0 per cent). Separately, in Cambodia another survey of more than 500 enterprises found in addition to

vocation-specific competencies there were considerable shortages in communication and foreign language skills.¹⁷ Likewise, in Viet Nam a World Bank survey of employers identified gaps in job-related technical skills, as well as in cognitive skills such as problem solving and critical thinking, and core skills such as teamwork and communication.¹⁸ Unless these shortages are addressed, employers will face high staff turnover, recruit skilled workers from abroad and fill some hard-to-fill vacancies with less skilled professionals, which can reduce productivity.¹⁹

17 M. Bruni, L. Luch and S. Kuoch: *Skills shortages and skills gaps in the Cambodian labour market: Evidence from employer skills needs survey*, ILO Asia-Pacific Working Paper Series (Bangkok, ILO, 2013).

18 World Bank: *Vietnam Development Report 2014: Skilling up Vietnam: Preparing the workforce for a modern market economy*, op. cit.

19 M. Aring: *Enhancing competitiveness and employability through skill development*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

Table 4-2 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.

Addressing future demand

The extent of potential skills and educational mismatches has been estimated in a modelling exercise that matches the growth in the demand for high-skill occupations with historical patterns in workforce educational qualifications.²⁰ These results suggest that in 2025, under the AEC, in Cambodia, Indonesia, Lao People's Democratic Republic, Philippines, Thailand and Viet Nam more than half of all high-skill employment could be filled by workers with insufficient qualifications (Figure 4-6). These six economies collectively could face a mismatch in high-skill jobs of 25.6 million, of which the AEC scenario would account for around 800,000. Indonesia could face the challenge of having the largest number of under-qualified workers in high-skill jobs (13.3 million or 63.0 per cent). By comparison, in Cambodia and Lao People's Democratic Republic, the number of under-qualified managers, professionals and technicians combined could be fewer than 900,000, though in both countries this would represent around 59 per

cent of the 1.5 million high-skill jobs. These trends underline the importance of improving higher education and training to ease possible future constraints on growth and investment.

Moreover, these skills gaps may be exacerbated in countries such as Singapore and Thailand where the population is ageing and there is a decline in the growth of the labour force. These countries can retain older workers by promoting lifelong learning and providing other incentives. Enterprises can, for example, invest more in on-the-job training to ensure that mature workers remain adaptable and productive. They can also recruit and reskill mature workers and retirees for new roles, and leverage their extensive knowledge and experience to mentor and prepare younger workers.²¹ An older society will also accelerate demand for medical and health services, for instance, and for training workers in the necessary skills. The prospect of rapid ageing and widening skills gaps should also spur better management of regional labour migration (Chapter 6).

20 For further discussion on the methodology, see: S. El Achkar Hilal: *ASEAN occupational projections: The impact of ASEAN economic integration on occupational outlooks and skills demand*, op. cit.

21 P. Milligan and P. Sung: "Older and wiser: Tapping the full potential of the mature workforce", in *World Economic Forum: Education and skills 2.0: New targets and innovative approaches*, op. cit., pp. 70-77.

Aligning economic and workforce planning

Overall, closely aligning strategies for economic development with those for workforce development will be integral to meet the shifting demand for skills. This must be underpinned by stronger institutional coordination between relevant government agencies, such as ministries of labour, planning and statistics, commerce, and education and youth, and partnerships with employers and trade unions. ASEAN Member States already have national policy frameworks that identify priority economic sectors and stress the importance of human resources (Table 4-2). But achieving their bold economic and social development goals requires skills development in specific areas.

Despite the region's continued structural shift away from agriculture, it remains critical for food security and employment. In more than half of ASEAN Member States agriculture is a development priority. If countries are to raise agricultural productivity, competencies for adopting innovative farming processes and technologies are critical, particularly with the aim of upgrading and greening the sector. Thailand, for example, has organized training in the production and use of bio-fertilizers and better practices in packaging products with eco-friendly materials.²²

The majority of ASEAN Member States are also prioritizing transport, construction and infrastructure. This calls for expanding the supply of workers with sound competencies in engineering and construction skills such as welding, electrical wiring and bricklaying. Efforts towards environmental sustainability also require specialized engineers and architects with training in energy-efficient construction and in retrofitting and renewable energy.²³

In Cambodia and Viet Nam, upgrading skills in the garment and textile industry would help ensure the sector remains vital for exports and jobs. Many multinational clothing brands are making sourcing decisions based on improved product quality, labour productivity and compliance with labour standards. Enterprises that wish to remain competitive will therefore need specialized skills to allow them to supply more sophisticated apparel products and offer higher value-added services such as research, product design and marketing.²⁴

Middle- and high-income ASEAN Member States such as Malaysia, Philippines, Singapore and Thailand are targeting high-skill manufacturing (such as automotive parts and electronics) as well as knowledge-based services (including information technology and financial services). This necessitates investing in workforce qualifications in science, technology and mathematics. Achieving higher levels of teamwork, creativity and innovation also means fostering core employability or soft skills.²⁵

An estimation model for the occupational demands in six ASEAN economies for 2025 indicates the likely need for particular types of workers (Chapter 3, Figure 3-10). In all six, demand will increase for construction workers, 3.3 million in total, with two-thirds of that expansion in the Philippines and Viet Nam. Cambodia and Viet Nam will need more textile machine operators. Thailand will face strong demand for waiters and bartenders in the hospitality sector. In Indonesia, workers in food processing will see notable, albeit moderating, demand. These trends are consistent with their respective national development priorities.

Noteworthy is the sizeable increase in demand for street and market salespersons. They are often employed informally – which indicates scope for

22 O. Strietska-Ilina et al.: *Skills for green jobs: A global view: Synthesis report based on 21 country studies* (Geneva, ILO, 2011).

23 R. Maclean, S. Jagannathan and J. Sarvi (eds.): *Skills development for inclusive and sustainable growth in developing Asia-Pacific*, Technical and Vocational Education and Training: Issues, Concerns and Prospects Volume 19 (ADB and Springer, 2013).

24 G. Lopez-Acevedo and R. Robertson (eds.): *Sewing success? Employment, wages, and poverty following the end of the Multi-fibre Arrangement* (Washington, DC, World Bank, 2012).

25 L. Brewer: *Enhancing the employability of disadvantaged youth: What? Why? and How? Guide to core work skills* (Geneva, ILO, 2013); M. Aring, op. cit.

skills training and entrepreneurship education, along with improved access to finance and business support services. This would help them move into formal jobs or establish businesses that emphasize customer service. There will also be more demand for skilled and low-skilled agricultural workers; quality basic education and greater investments in rural infrastructure could improve their skills and productivity.²⁶ Supporting the introduction of agricultural enterprise development into school curricula, as witnessed in the Republic of Korea, could help to foster entrepreneurship and career interest in the sector among young people.

Certifying skills

Robust frameworks for certifying skills and quality assurance mechanisms that can be trusted by employers are critical for enhancing training systems. Skills certification schemes validate skills and competencies regardless of how they are acquired, allow employers to compare skills across the labour market, support occupational mobility, and promote lifelong learning. At present national qualifications frameworks in ASEAN have considerable gaps especially among the CLMV countries.²⁷ In this regard, countries could draw on the experiences of Brunei Darussalam, Malaysia, Philippines and Singapore, for example, in linking technical training systems to national development priorities and establishing unified qualifications arrangements.

This can be a long and costly endeavour. Some ASEAN Member States could therefore pursue a gradual approach by first certifying key occupations and skills. To that end, the ASEAN Secretariat, with technical expertise from the ADB and the ILO, can play a prominent coordination role. The Secretariat could help ensure that qualification frameworks are benchmarked incrementally with the ASEAN

Qualifications Reference Framework that is under development.²⁸ Technical assistance at the regional level should also focus on developing regional model competency standards as benchmarking tools for developing ASEAN Member States. Regional cooperation efforts could also promote growth sectors like construction and tourism and help protect vulnerable groups such as domestic workers, while expanding mutual recognition arrangements that would help facilitate intra-regional labour migration (Chapter 6).

Enhancing partnerships

All these efforts to better prepare ASEAN's workforce would be more effective if based on strong partnerships with employers' and workers' organizations. Collaboration between education and training providers and the private sector would help ensure that curricula are practical and aligned with market demand, for example if based on skills needs assessments of enterprises. Employers can also develop complementary apprenticeship schemes through which young people can gain practical experience and job-specific skills that would ease the school-to-work transition. In this regard, Singapore's Institute of Technical Education provides an effective model of leveraging public-private partnerships. Its governance structure is tripartite and close industry involvement in strategic planning helps enhance the relevance of curricula and integrate high-quality apprenticeships with coursework.²⁹

Increasingly, there has been a trend in ASEAN Member States towards establishing and developing

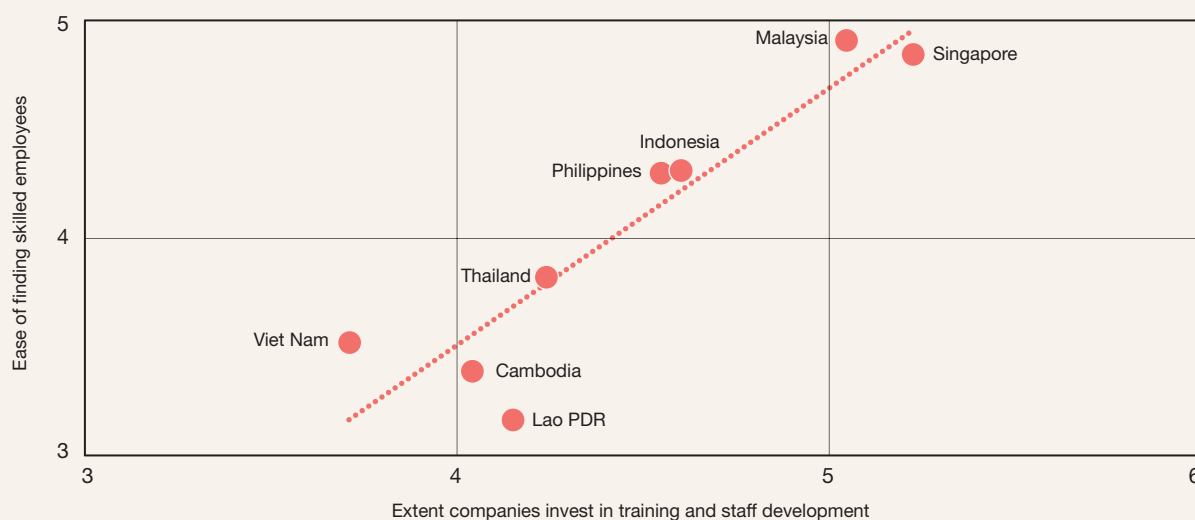
26 ILO: *Skills for rural employment and development*, Skills for Employment Policy Brief (Geneva, 2014).

27 D. Lythe, op. cit.

28 The ASEAN Qualifications Reference Framework aims to provide a common reference point while accommodating the diversity of national training and qualifications systems, promote good international policies and practices in human resources development and facilitate labour migration through fair and mutual recognition of skills, among other objectives. See: D. Lythe, op. cit.

29 L. Song Seng: *Case study on national policies linking TVET with economic expansion: Lessons from Singapore*, Paper commissioned for the Education for All Global Monitoring Report 2012 (UNESCO, 2011); Asia-Pacific Economic Cooperation (APEC): *Case study on Institute of Technical Education (ITE) Singapore* (2010).

Figure 4-7 Private investment in staff training and ease of finding skilled employees



Note: Ease of finding skilled employees is based on responses by business executives to the question, "In your country, how easy is it for companies to find employees with the required skills for their business needs?" Extent companies invest in training and staff development is based on the question, "To what extent do companies in your country invest in training and employee development?" The responses for both questions range from 1 (low) to 7 (high). Source: World Economic Forum: *Executive Opinion Survey, 2013–14* (Geneva, 2013); World Economic Forum: *The human capital report* (Geneva, 2013).

sectoral lead bodies (or sector skills councils) to formally bridge the gap between education and vocational training providers and the labour market. The goal is to create an environment which will increase employer participation and investment in skills, promote enterprise competitiveness and foster industry dynamism. In Malaysia, for example, 16 industry lead bodies covering sectors ranging from agriculture to financial services have helped codify industry-specific competencies expected of skilled workers at various occupational levels.³⁰ Notably, Myanmar plans to adopt a similar approach of establishing sector skills councils as mandated in its new Employment and Skill Development Law.

Moreover, encouraging businesses to expand firm-level training would reduce skills gaps, boost workplace productivity and support lifelong learning, given the significant positive association between increasing private investment in staff training and the easing of skills bottlenecks (Figure 4-7). The impact of such investments would be enhanced by working closely with workers' representatives who

can help identify crucial workplace training needs.

Conclusion

The prospects of deeper regional integration are vast. But whether the economic gains from deeper integration benefit all women and men will depend heavily on skills development policies. If the quality of education and training systems are enhanced and better aligned with national development objectives, ASEAN could become a regional production centre driven by skills, innovation and creativity. Strong partnerships with employers' and workers' organizations are critical in this process – helping ensure the relevance of curricula, improve apprenticeships systems and increase investment in firm-level training. Regional cooperation is also essential for developing and benchmarking skills recognition frameworks and for sharing best practices that can help address skills gaps.

As workers move to higher levels of skills and drive higher productivity, they should benefit through higher wages. This is the subject of the next chapter.

³⁰ D. Lythe, op. cit.

Linking wages to productivity

ASEAN Member States will increasingly compete in the global economy on the basis of a more productive workforce, and enterprises will need to attract and retain workers by offering better wages. Indeed the best way to ensure equitable development and to decrease dependency on exports is to link rises in productivity with increases in wages. To achieve this, ASEAN Member States can strengthen their wage-setting institutions.

The economic transformation of the ASEAN region has seen millions of people migrate from the rural areas and take paid jobs in factories and the service sector. As a result, across the ten ASEAN Member States wages are now the main source of income for 116.9 million workers and their families.¹ In Brunei Darussalam, Malaysia and Singapore, some three-quarters or more of all workers now depend on wages – a proportion typical of developed economies. Meanwhile, the share of wage employees in total employment has also been growing strongly in other countries such as Cambodia, Indonesia, Philippines and Viet Nam (Table 5-1).

Rising real wages

As more people depend on wages for their livelihoods, wages and their purchasing power assume greater significance – for workers as a source of income, and in turn for economies across the region as a source of demand. Overall, the picture has been positive: since 2005, there has been modest growth

in real wages (after allowing for inflation). In the past two years, driven partly by substantial increases in minimum wages, real wage growth has accelerated in a number of countries, notably Indonesia, Thailand and Viet Nam. This led to wage growth in excess of three per cent in 2012 and, according to preliminary estimates, also in 2013 (Figure 5-1).

Though wages have been growing across ASEAN, there remain large differences in levels between Member States (Figure 5-2). Lao People's Democratic Republic and Cambodia, for example, have the region's lowest wages, with only \$119 and \$121 respectively, while the average worker in Singapore earns \$3,547 per month. Between these extremes lie Indonesia (\$174), Viet Nam (\$181), Philippines (\$206), Thailand (\$357) and Malaysia (\$609). Although wages in the CLMV countries have been growing faster than in the more advanced ASEAN Member States in recent years, this catch-up process will not bridge the gap in the near future.

Wage differences will therefore continue to encourage labour migration, for example, to Malaysia from neighbouring Indonesia, and into

¹ ILO: Trends Econometric Models, Jan. 2014.

Thailand from next-door Cambodia, Lao People's Democratic Republic and Myanmar (see Chapter 6). These migration flows help destination countries to fill labour shortages, while source countries benefit from remittances. However, large migration flows can depress the wages of local workers

in labour-intensive industries. Governments can avoid such downward pressure on wages by setting a common wage floor for all enterprises in the form of minimum wages that apply to both local and foreign workers, hence preventing one group from undercutting the other.

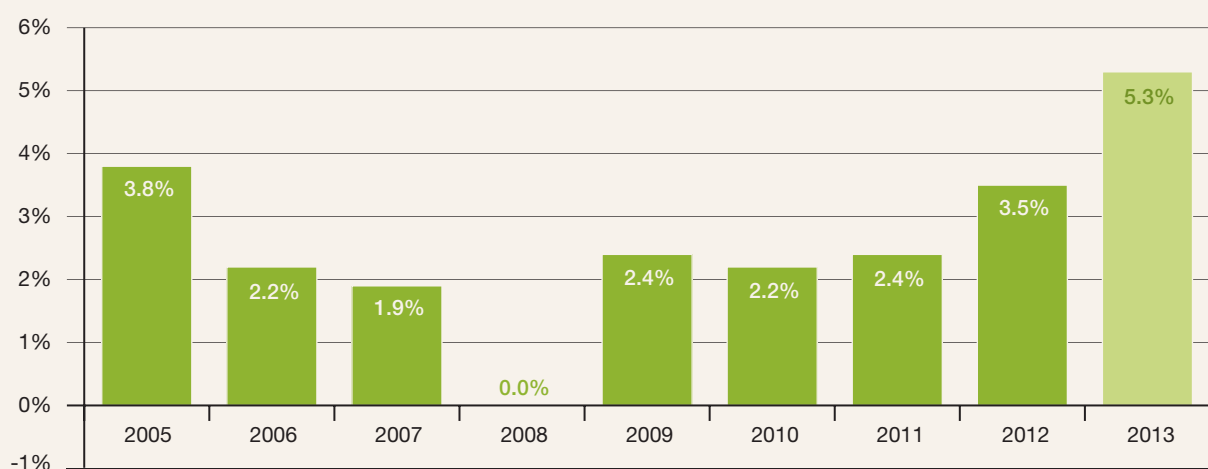
Table 5-1 Share of wage employees in total employment, 1993-2013 (per cent)

	Share of wage and salaried workers in total employment (per cent)			Percentage point change, 1993-2003	Percentage point change, 2003-13
	1993	2003	2013		
Brunei Darussalam	94.9	...	...	...	...
Cambodia	10.3	22.9	40.6	+12.6	+17.7
Indonesia	31.0	34.9	46.5	+3.9	+11.6
Lao PDR	9.7	11.7	15.6	+2.1	+3.9
Malaysia	71.4	76.2	73.9	+4.8	-2.4
Myanmar	...	...	36.5	...	...
Philippines	...	50.1	58.2	...	+8.1
Singapore	85.4	85.1	85.1	-0.3	±0.0
Thailand	34.3	40.5	41.4	+6.2	+0.9
Viet Nam	16.8	21.9	34.8	+5.1	+12.9

Note: "... " = data not available. Data are not always strictly comparable across time and between countries. The Brunei Darussalam figure refers to 1991; Cambodia figures are based on the Cambodia Socio-Economic Survey and refer to 1993/94 (ages ten and above), 2004 and 2013 (ages 15-64); Indonesia figures include casual employees; Lao PDR figures refer to 1995, 2005 and 2010, respectively; the latest figure for Myanmar refers to 2009/10 and covers regular employees and casual labourers; the latest figure for the Philippines refers to the first three quarters only; data for Singapore refer to permanent residents; data for Thailand refer to quarter three in all years; the first observation for Viet Nam refers to 1996.

Source: Official national sources; ILO: *Key Indicators of the Labour Market*, eighth edition, 2013.

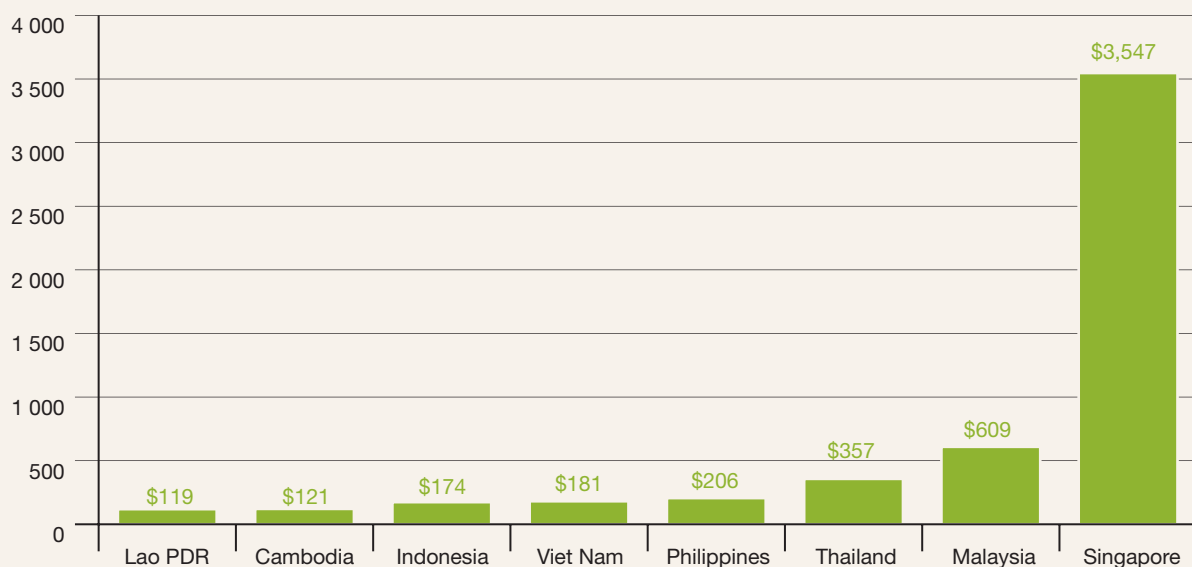
Figure 5-1 Annual real wage growth in ASEAN, 2005-13 (per cent)



Note: 2013 figure is a preliminary estimate based on available data that do not always cover the full year. For methodology, see ILO: *Global Wage Report 2012/13: Wages and equitable growth* (Geneva, 2012), appendix 1.

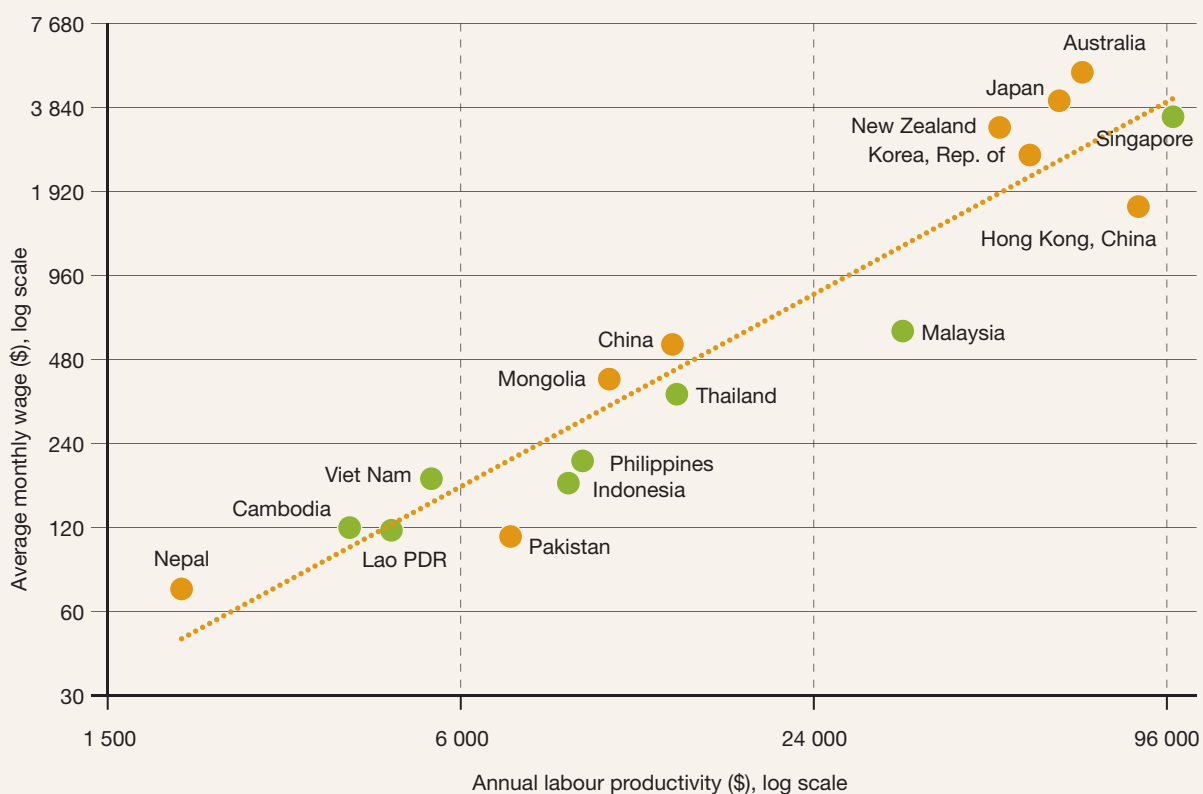
Source: ILO estimates based on ILO: Global Wage Database.

Figure 5-2 Average monthly wages, 2012 (\$)



Note: With the exception of Singapore, where data based on administrative records from the Central Provident Fund Board are used, only broadly comparable figures based on national labour force surveys have been included in the comparison. Data for Lao PDR refer to 2010 and to wage workers who receive monthly wages. No data are available for Brunei Darussalam and Myanmar. Source: ILO estimates based on official national sources; ILO: Global Wage Database.

Figure 5-3 Labour productivity and average monthly wages, 2012 or most recent year (\$)



Note: Only broadly comparable figures based on national labour force surveys have been included. All data are for 2012, with the exception of Lao PDR (2010), Nepal (2008) and Pakistan (2011). Source: ILO: Global Wage Database; ILO: Trends Econometric Models, Jan. 2014.

Increasing productivity

Large wage differences between ASEAN Member States partly reflect substantial differences in labour productivity – the value added per worker, or per hour worked. As countries adopt new technology, invest in infrastructure and improve the skills of their workforce, they lay the foundations for enterprises to become more efficient – and to move into activities with a higher value added. Efficiency gains and structural transformation jointly increase labour productivity, and hence the “economic pie” grows.

A slice of these gains will be retained by enterprises through rising profits, but workers are generally compensated for their contribution in the form of better working conditions, including through higher wages. Figure 5-3 shows for a selection of Asian economies a close correlation between labour productivity and wages. In the lower left-hand corner are the less-developed economies, which combine low labour productivity with low wages, while at the opposite end of the spectrum are Singapore and other advanced economies

which have high labour productivity and high wages. Several other ASEAN economies, including Thailand and Malaysia, have travelled a good part of the journey towards high-income status.

Linking wage growth to productivity growth is sound policy advice for two reasons: firstly, it ensures that economic growth benefits workers in the form of rising real incomes. Secondly, it ensures that enterprises can increase their gross operating surplus in line with productivity growth. This enables them to reinvest in their operations, for instance to replace outdated machinery and expand capacity. The National Wages Council of Singapore, for instance, follows the maxim that: “To enable our workers to benefit from their share of productivity improvements and at the same time allow our businesses to remain competitive, real wages should increase in line with productivity growth over the long term”.²

² See National Wages Council of Singapore: *NWC Guidelines 2012/2013* (Singapore, Ministry of Manpower, 2012), para. 10.

Box 5-1 Productivity and wages in Thailand's manufacturing sector

Thailand has successfully established itself as a regional hub for several key manufacturing industries, such as food processing and the manufacture of cars or chemicals. Manufacturing employed more than 5.4 million workers and in 2012 contributed 29.1 per cent of GDP – \$114 billion.¹ Crucial to the sector's success was an impressive increase in labour productivity which, since 2001, has risen by more than 50 per cent.

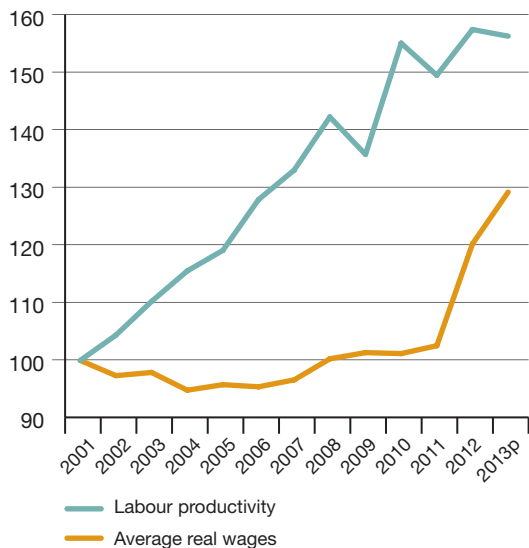
However, workers in the manufacturing sector have not seen corresponding gains: their real wages remained flat until 2011 (see Box Figure 5-1, Panel A). The result is a dramatic decline in the labour share, the proportion of value added received by workers in the form

of wages and employers' contributions to the social security system. Between 2001 and 2012, it declined from 45.3 per cent to 32.7 per cent (see Box Figure 5-1, Panel B).

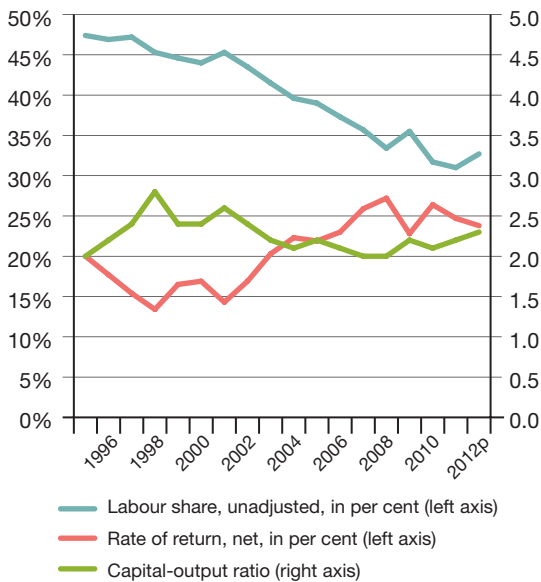
Why this disconnect between productivity and wages? One answer could be that manufacturing has become more capital-intensive. This would justify a smaller share of value added going to workers, and a greater share to the owners of capital. However, the data do not support this explanation. Panel B shows the trend in the net capital stock relative to value added, indicating that the capital-output ratio has fallen since the late 1990s.² Hence, manufacturing has in fact become less capital-intensive.

Box Figure 5-1 Wages, productivity and related indicators for manufacturing in Thailand

Panel A: Labour productivity and average wages, 2001-13 (Index, 2001=100)



Panel B: Labour share, rate of return and capital-output ratio, 1995-2012



Note: Real wages are nominal wages adjusted for purchasing power, using the consumer price index. Labour productivity is measured in real terms. The labour share is measured as the compensation of employees over value added; the net rate of return is measured as net operating surplus (including mixed income) over net capital stock at current replacement cost; the capital-output ratio is measured as net capital stock over GDP at factor cost. The labour share is presented in unadjusted form. However, since the proportion of paid employees has remained constant at roughly 75 per cent since 2000, the commonly used adjustment techniques would not change the trend. Source: Bank of Thailand, table EC_EI_029 and table EC_EI_027; National Statistical Office: Labour Force Survey (Bangkok, various years), table 14. National Economic and Social Development Board (NESDB): *Capital Stock of Thailand 2012* (Bangkok, n.d.) and NESDB: *National Accounts of Thailand 2012* (Bangkok, n.d.).

The orthodox explanation for falling labour shares therefore does not hold. Instead, gains in productivity have only boosted profits, rather than wages. Since the late-1990s, as measured by the net operating surplus (after allowing for depreciation of assets), annual returns on the net capital stock have increased from 15.0 per cent to around 25 per cent.³ In other words, the profits reaped from a given investment were two-thirds higher in 2011 than a decade earlier, whereas the real wages earned by workers remained virtually unchanged.

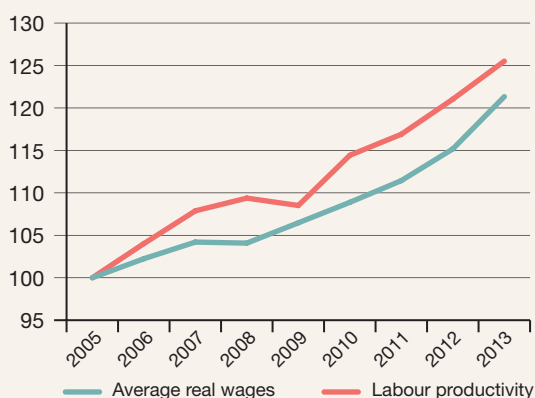
What accounts for this lopsided distribu-

tion of productivity gains? Researchers from Chulalongkorn University argue that the explanation can largely be found in Thailand's weak labour market institutions.⁴ Only a small fraction of the workforce is unionized and collective bargaining is virtually unknown. This enables employers to set wages unilaterally. It was only in 2012 and 2013 with an increase in the minimum wage, that they were forced to pass on some of the productivity gains to their workers. The bargaining power of workers is also weakened through the extensive use of subcontracting and the employment of foreign migrant labour.

1 See NESDB: *National Accounts of Thailand 2012* (Bangkok, NESDB, n.d.).
 2 An analysis by the National Economic and Social Development Board confirms this finding. The incremental capital output ratio, or the investment needed to increase GDP by one unit, has been below one since the beginning of the 9th national plan in 2002. In the two previous plans, the incremental capital output ratio was 1.7, signaling increasing capital intensity. See NESDB: *Capital Stock of Thailand 2012* (Bangkok, n.d.), table 4.
 3 While this figure includes the mixed income of owner-operated businesses the composition of the sector's employment has not changed significantly since 2000. Hence, the trend remains unaffected by possible adjustments.
 4 S. Boonyamanond, S. Sermcheep and J. Vechbanyongratana: *Wages, productivity, and the evolution of inequality in Thailand* (Bangkok, ILO, Sep. 2013), unpublished.

However, the correlation between labour productivity and wages is far from perfect, as countries differ in how they translate the fruits of economic progress into wage growth.³ Globally, wages have often lagged productivity gains over the past two decades, with China, Germany, and the United States being the most prominent examples.⁴ However, a similar trend can be seen in ASEAN Member States, where real wages have fallen behind productivity growth since 2005 (Figure 5-4). However, the gap becomes even more apparent in specific sectors, such as manufacturing in Thailand (see Box 5-1). It is clear that, while higher labour productivity growth is a precondition for sustainable wage growth, it does not guarantee parallel wage growth.

Figure 5-4 Growth of labour productivity and real average monthly wages in ASEAN, 2005-13 (Index, 2005=100)



Note: The figure for 2013 is a preliminary estimate, based on available data that do not always cover the full year. For the methodology, see ILO: *Global Wage Report 2012/13: Wages and equitable growth*, op. cit., pp. 67-75. Source: ILO estimates based on ILO: Global Wage Database.

The transition to high-productivity economies

As indicated in Chapter 3, this report has used a modelling exercise to examine the impact of

3 Under the System of National Accounts (SNA-2008), gross value added (or GDP) is distributed between compensation of employees, net taxes and subsidies, and gross operating surplus.

4 See ILO: *Global Wage Report 2012/13: Wages and equitable growth* (Geneva, ILO, 2012).

economic integration as a consequence of the ASEAN Economic Community. One of the key outcomes is the prospective rise in labour productivity. For the period 2010-25, for the countries with sufficient data, the model shows the potential for substantial progress – with an extra boost from the AEC. Under the scenario with deepened regional integration, Cambodia, Indonesia, Lao People's Democratic Republic and Viet Nam could at least double their output per worker, with the Philippines and Thailand not far behind (see Figure 5-5).

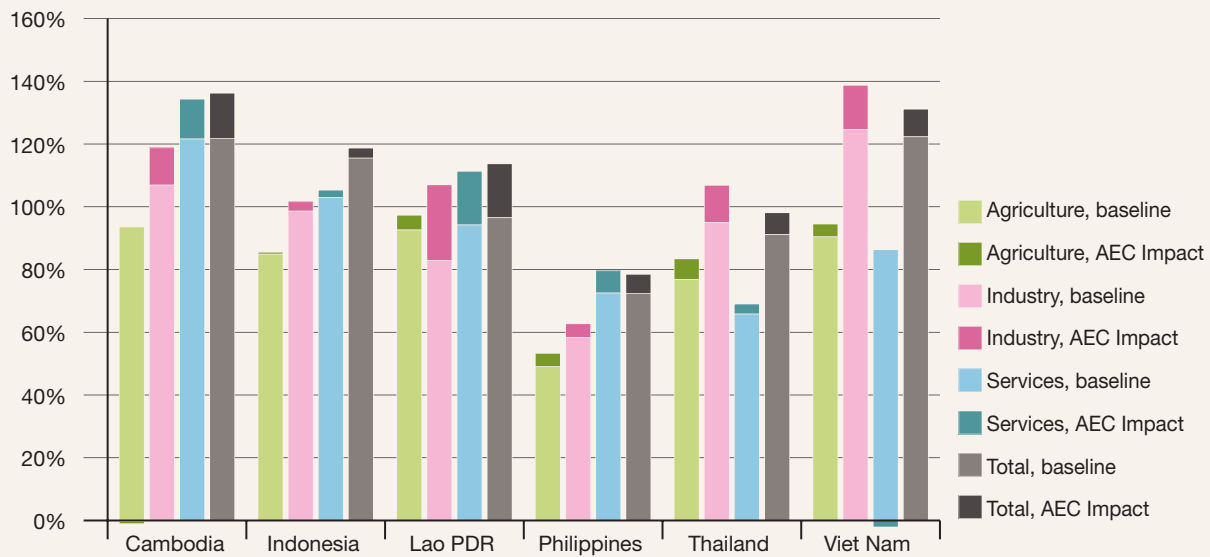
These gains reflect rising labour productivity in each of the three broad sectors – agriculture, industry and services. However, productivity growth is usually higher for the economy as a whole. This is because workers are moving from agriculture to higher-value-added activities in industry and services. As discussed in Chapter 3, the accelerated structural transformation under AEC imposes a cost on workers who lose jobs in declining sectors, but it also offers potentially large rewards if increased labour productivity translates into higher real wages.

For the more developed ASEAN Member States, such a transition offers an opportunity to avoid the middle-income trap. Thailand, for example, could join the ranks of the upper-middle income countries while Malaysia, which aspires to reach high-income status by 2020, could climb the next step in the development ladder and realize this ambition. Similarly, the CLMV countries should be better able to compete in global markets not only on the basis of low wages, but through higher productivity.

Strategies for higher productivity

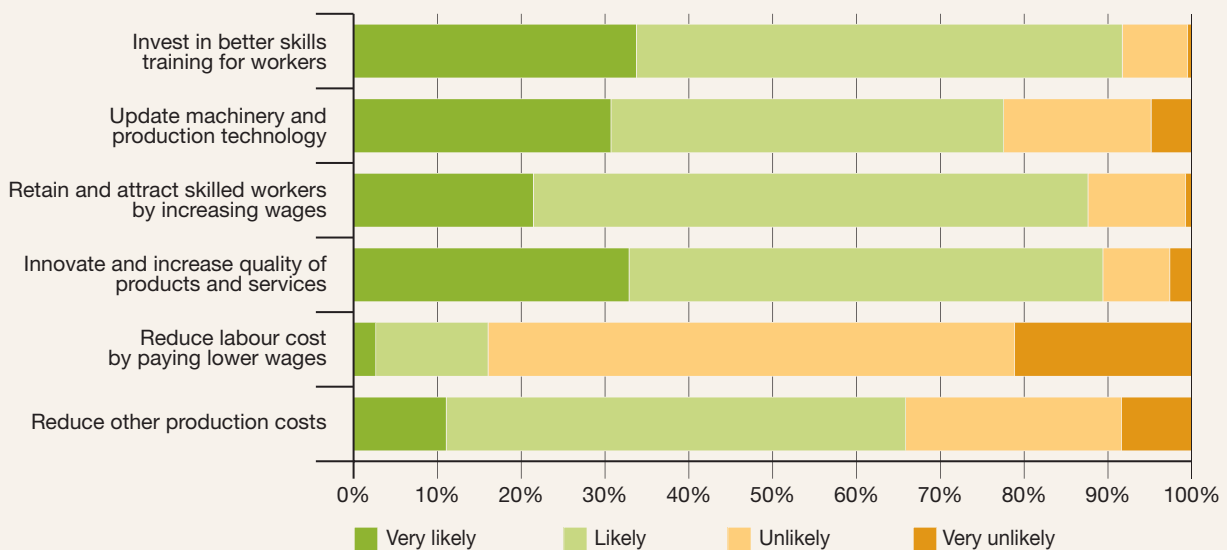
Realizing this potential will depend on supportive national and regional policies – as well as on investments in public infrastructure (Chapter 2) and the skills needed for a highly productive workforce (Chapter 4). For instance, a recent diagnostic study for Indonesia argued that improvements in infrastructure, better governance institutions and

Figure 5-5 Change in labour productivity under the AEC, 2010-25 (per cent)



Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

Figure 5-6 Strategies to increase competitiveness by ASEAN enterprises, 2013 (responses in per cent)



Note: Respondents were asked "To make your enterprise more competitive within ASEAN, how likely will your enterprise adopt the following measures?"

Source: ILO: Survey of ASEAN Employers on Skills and Competitiveness (2013).

broader access to high-quality education could help to unlock the country's full economic potential.⁵

But raising productivity will also demand

investments by enterprises and profound changes in the way they operate. The ILO survey among ASEAN business leaders (see Annex C) offers some insights into their preferred strategies to compete successfully in this new environment. These include: innovation to improve the quality of products and

⁵ ADB, ILO, and IDB: *Indonesia: Critical development constraints* (Mandaluyong City, ADB, 2010).

services; investments in skills training; and updating machinery and production technology. A majority of respondents considered these measures “likely” or “very likely” (Figure 5-6).

Interestingly, respondents from across the region also had a clear view on the impact on wages: 88.0 per cent said they were “likely” or “very likely” to increase wages to attract and retain workers, while only a small minority said they would reduce wages to cut costs. While the survey is not representative of the entire business community, it illustrates that business leaders share the view that successful competition in the future is likely to be based on a high-road strategy where higher productivity goes hand-in-hand with higher wages.

Competing for skilled workers

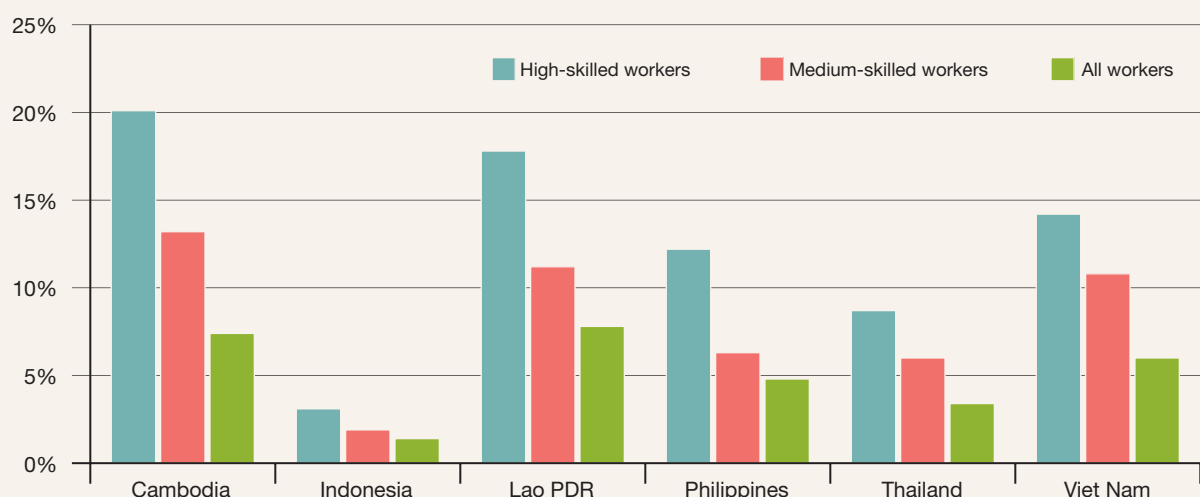
As companies upgrade their operations, they will compete more fiercely for scarce talent – giving a disproportionate boost to the incomes of those who have the right skills. As the simulations carried out for this report show, higher-skilled workers such as managers, professionals and associate professionals

are likely to see their wages rise the most as a result of closer economic integration under the AEC (Figure 5-7).

High-skilled workers in the CLMV countries are likely to see the greatest additional wage gain under the AEC scenario: in Cambodia by 20.1 per cent; in Lao People’s Democratic Republic by 17.8 per cent; and in Viet Nam by 14.2 per cent. However, it should be noted that in these countries all wages – including those for skilled workers – are starting from a much lower base than elsewhere (Figure 5-2). High-skilled workers in the Philippines and Thailand are also expected to benefit substantially, and, to a lesser extent, those in Indonesia. Likewise, medium-skilled workers should benefit from the AEC, though consistently less across all countries. The simulation assumes little upward pressure on the wages for low-skilled workers, but increased job opportunities in newly emerging sectors.

The wage shifts are largely driven by economic restructuring towards technology- and skill-intensive production. Interviews with experts in various fields confirm these likely trends – companies are gearing

Figure 5-7 Change in wages under the AEC scenario relative to the baseline, 2025 (per cent)



Note: The figure shows model results for the marginal impact of the AEC on wages in 2025, as compared to a baseline scenario without closer regional integration. For the model simulations, high-skilled workers are defined as those ISCO-08 major group 1 (managers), major group 2 (professionals) and major group 3 (technicians and associate professionals). Medium-skilled workers refer to ISCO-08 major group 4 (clerks), major group 5 (service and sales workers), major group 7 (craft and related trade workers) and major group 8 (plant and machine operators and assemblers). For further discussion, see ILO: *International Standard Classification of Occupations: ISCO-08: Volume 1: Structure, group definitions and correspondence tables*, op. cit.

Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

up to scramble for talent (see Box 5-2). Likewise, the ILO survey among ASEAN employers found that nearly half of enterprises expect that they will have to offer higher wages to retain skilled workers and to prevent them from pursuing opportunities in other ASEAN Member States (see Figure 5-8). Only 13.0 per cent anticipated that their ability to recruit skilled workers from other ASEAN Member States would result in falling wages. The remainder believed that mobility would not have a significant impact on the wages of skilled workers. Mobility is likely, however, to be limited to relatively few workers from selected occupational groups (see Chapter 6).

Wage inequality

If the wages of skilled workers grow faster than those at the bottom end of the wage ladder, this will widen wage disparities within countries. The findings therefore highlight the risk of greater inequality – an outcome that would run counter to the ASEAN objective of equitable economic development and inclusive growth.⁶ Many ASEAN Member States are already seeing rises in wage inequality. In Singapore, for instance, the wages of those near the bottom of the distribution have hardly risen in real terms over the past decade and a half, while top earners have seen substantial gains (see Box 5-3).

One way to measure wage inequality is to compare the monthly earnings of those near the top (90th percentile) to those near the bottom (10th percentile). This ratio has reached almost ten in Singapore, and roughly seven in Indonesia, Philippines and Thailand (see Figure 5-9). With ratios of around four, the wage distribution is still more compressed in Cambodia and Viet Nam. By comparison, earnings dispersion for full-time employees in OECD countries ranges from 2.3 (Belgium) to 5.2 (Israel) under this measure.⁷

⁶ See ASEAN Framework for Equitable Economic Development, Bali, Nov. 2011.

⁷ See OECD: *Divided we stand: Why inequality keeps rising* (Paris, OECD, 2011).

Box 5-2 Expert views on wages, skills and competitiveness in ASEAN

“Yes, companies will have to pay more and offer more training and internal growth to compete with regional companies, or go out of business.”

*Senior Education Specialist,
Regional Development Bank,
the Philippines*

“Companies will invest in what makes them grow, and minimum salaries are growing all across ASEAN. You want to capture the growth, so you need to increase everything related to productivity. Companies will be willing to invest in trainings, machinery and higher wages for talent, since these are the ones that increase production and growth.”

*Market Business Leader,
Multinational Human Resources Agency,
Singapore*

“Reducing wages and incentives will just kill enterprises. Skilled people are costly, so better invest in the people who are already in the enterprise. Hiring people with higher skill should apply only for a temporary period of time to train and transfer the knowledge.”

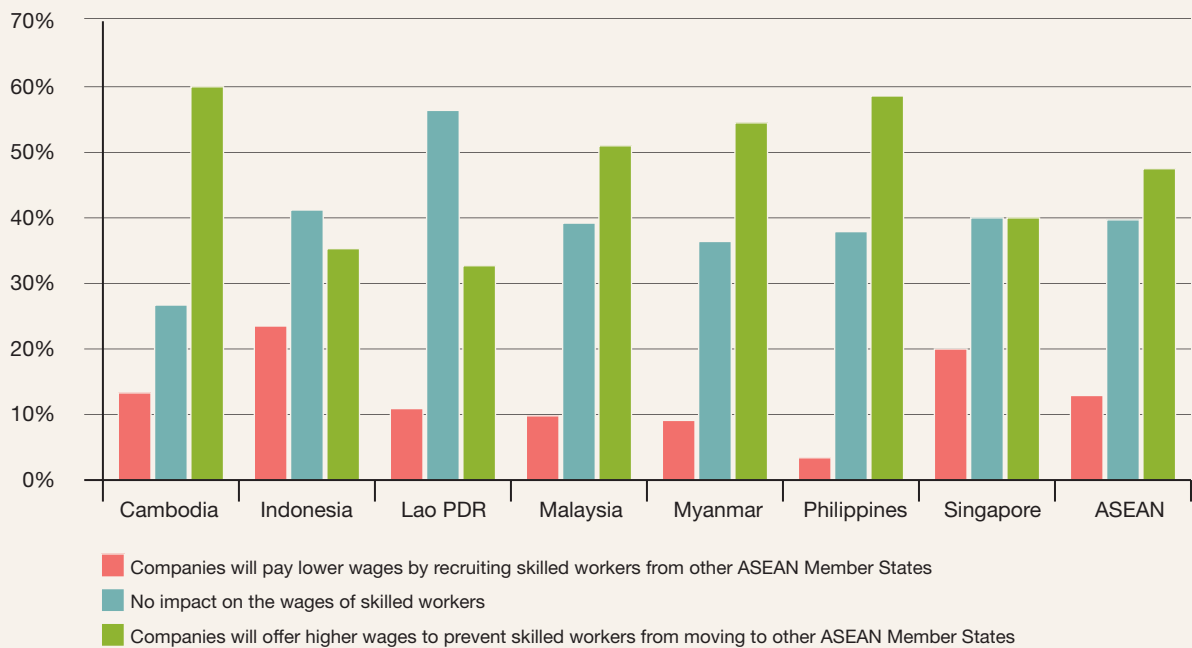
*Executive, Garment Industry Association,
Lao People's Democratic Republic*

Source: ILO: *Survey of ASEAN Employers on Skills and Competitiveness* (2013).

Gender disparities are one dimension of wage inequality. With the exception of the Philippines, women earn less than men in all ASEAN Member States for which data are available. The gap is modest in Malaysia and Thailand, but reaches ten per cent in Viet Nam and roughly one-quarter in Cambodia and Singapore (see Annex F, Table F1-8).

These gaps are caused by a number of factors, including differences in education and training,

Figure 5-8 Enterprise expectations on the impact of mobility on the wages of high-skilled workers, 2013 (responses in per cent)



Note: Respondents were asked "What is the likely impact of the greater mobility of high-skilled workers on the wages that your enterprise will pay?"
Source: ILO: *Survey of ASEAN Employers on Skills and Competitiveness* (2013).

work experience and working time.⁸ However, they also reflect differences in access to good jobs. For Cambodia, a recent ILO-ADB study found that women are more often in low-wage employment than men, and less likely to hold better-paid positions in the public service.⁹

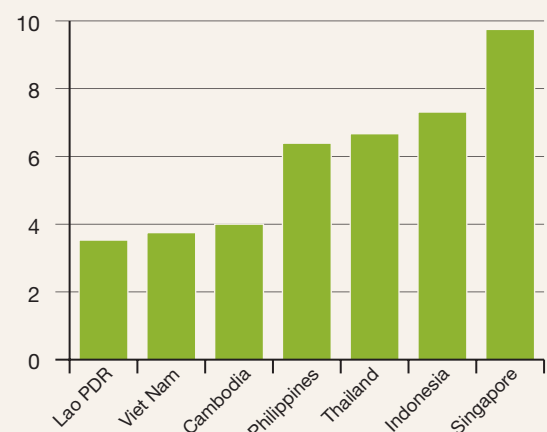
Various forms of discrimination can aggravate the problem. For instance, men and women who perform very similar tasks often hold different job titles and receive different remuneration. Ending such unfair practices and implementing the principle of equal remuneration for men and women for work of equal value is hence the primary objective of the ILO's Equal Remuneration Convention, 1951 (No. 100), which has been ratified by eight of the ten ASEAN Members States (see Chapter 1, Table 1-5).

8 M. Olez et al.: *Equal pay: An introductory guide* (Geneva, ILO, 2013).

9 ADB and ILO: *Gender equality in the labor market in Cambodia* (Mandaluyong City, ADB, 2013).

The twin objectives of containing inequality and linking wages to productivity call for stronger wage setting institutions, including collective bargaining and minimum wage setting.

Figure 5-9 Wage dispersion, various years (P90/P10-ratio)



Note: Only broadly comparable figures based on national labour force surveys have been included. Data refer to 2010 (Indonesia, Lao PDR, and Thailand), 2011 (the Philippines) and 2012 (Cambodia and Singapore).
Source: ILO estimates based on official national sources;
H.W. Tat and R. Toh: *Growth with equity in Singapore: Challenges and prospects*, Conditions of Work and Employment Series No. 48 (Geneva, ILO, 2014).

Box 5-3 Wage inequality in Singapore and the Progressive Wage Model

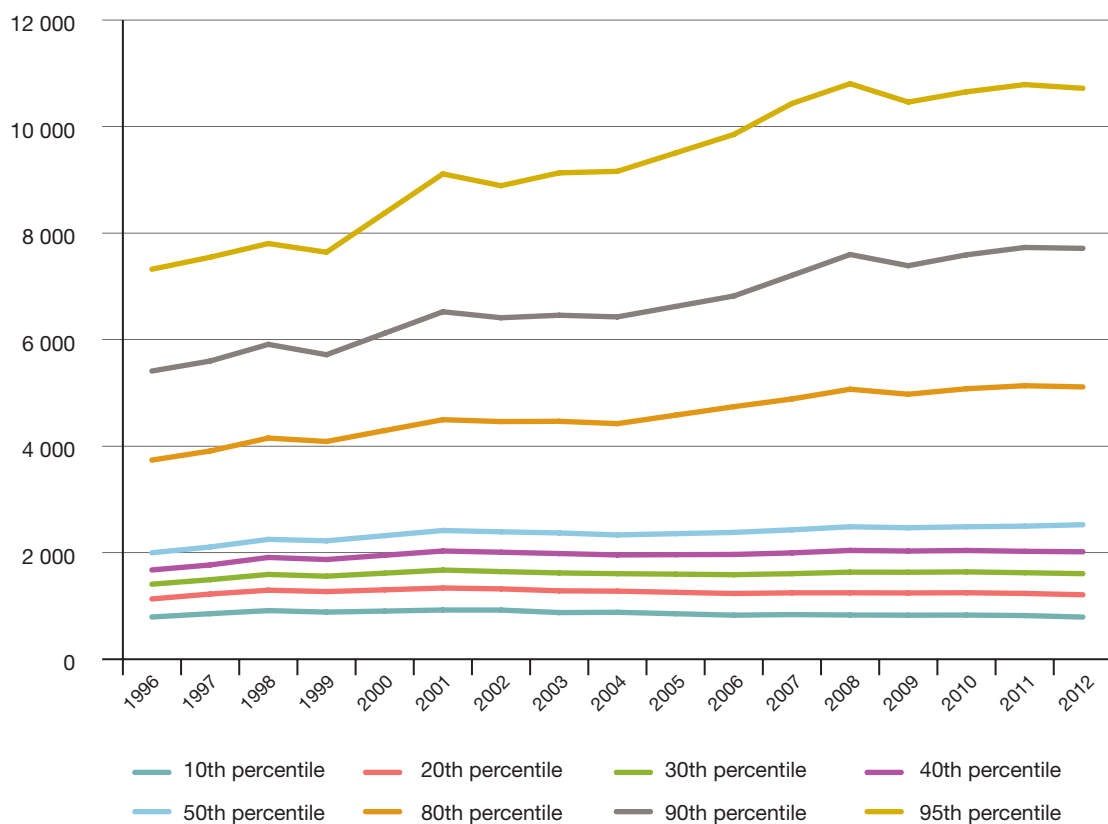
In many respects, Singapore is admired by workers and employers elsewhere in the region: the city state ranks high in international competitiveness rankings, unemployment is low, labour productivity is high, and average wages far exceed those elsewhere in ASEAN. However, on closer inspection, two of the adverse wage trends discussed in this chapter manifest themselves even in Singapore.

Firstly, workers' wages have been lagging behind productivity growth – despite Singapore's stated policy that real wages should increase in line with productivity growth in the long term. Over the decade from 2002 to 2012, real wages rose by 1.2 per cent per annum, short of the annual gains in labour productivity of 1.6 per cent.¹ While the

annual difference is small, the compound effect means that the gap between wages and productivity is opening up over time.

Secondly, wage inequality has grown rapidly, making Singapore the country with the largest wage gaps in ASEAN (see Figure 5-9). At the very top end of the distribution (the 95th percentile), real wages grew by 46.0 per cent between 1996 and 2012. The fortunate few now earn 10,711 Singapore dollars (SGD) per month (in 2009 prices). But those who occupy the bottom rungs of the labour market have hardly seen any gains: over the past decade, Singapore's economic success has by-passed the bottom 40 per cent of its residents (see Box Figure 5-3).²

Box Figure 5-3 Real wages of employed residents in Singapore, 1996-2012 (SGD, in 2009 prices)



Note: No data are available for 2000 and 2005 and values for these two years have been interpolated.
Source: H.W. Tat and R. Toh, op. cit.

Low wages are particularly frequent in some service occupations. Among employed residents who work as cleaners, labourers or related workers, more than 50 per cent earned less than SGD1,000 in 2013. Of those in other occupations, only seven per cent had such low wages.³ Given the high cost of living in Singapore, the problem of working poverty – defined as earning insufficient income despite having a job – has sparked a lively debate in one of the richest countries in the world.⁴

In its guidelines for 2012/13, Singapore's National Wages Council (NWC) therefore recommended that enterprises give all workers who earn less than SGD1,000 a wage increase of at least SGD50 per month.⁵ However, the NWC's guidelines are non-binding and only three out of every ten enterprises had followed them by December 2012.⁶ One reason is that many enterprises in low-wage sectors compete fiercely against each other on the basis of low costs, especially for outsourced services such as cleaning, security and landscape gardening.

Championed by the National Trades Union Congress, the Progressive Wage Model (PWM) aims to address this by establishing a common wage floor for enterprises in these three industries, combined with training and career progression. Pioneered as a voluntary initiative designed by the Tripartite Cluster for Cleaners, the minimum monthly pay of SGD1,000 for entry-level workers and the other elements of the PWM became mandatory in 2014 for cleaning companies under the licencing regime.⁷

By making specific wage rates compulsory for all enterprises in a sector, the PWM breaks with Singapore's tradition of non-binding recommendations. Hence, some commentators have wondered whether the PWM is a sectoral minimum wage in disguise.⁸ In fact, some economists have argued that "the context of the Singapore labour market provides a strong case for the introduction of a statutory minimum wage", which could help to raise productivity, lessen dependency on foreign labour and contribute towards greater equity at the same time.⁹

1 See National Wages Council of Singapore: *NWC Guidelines 2013/2014* (Singapore, Ministry of Manpower, 2013), para. 8.

2 For a more detailed discussion, see H.W. Tat and R. Toh, *op. cit.*

3 Calculations based on Ministry of Manpower: *Labour Force in Singapore, 2013* (Singapore, 2014), table 22. These figures exclude foreign domestic workers and other low-paid migrant workers without residency status.

4 See J. Donaldson et al.: "Measuring poverty in Singapore: Frameworks for consideration", in *Social Space* (2013, Issue 6), pp. 58-66.

5 See National Wages Council of Singapore: *NWC Guidelines 2012/2013* (Singapore, Ministry of Manpower, 2012).

6 *Ibid.*, para. 19.

7 Higher-skilled workers, such as supervisors, attract higher wage rates of up to SGD1,700 per month.

8 The mandatory nature of the pay floor in the PWM meets the ILO's definition of minimum wage as "the minimum sum payable to a worker for work performed or services rendered [...] which may not be reduced either by individual or collective agreement". See ILO: *General Survey of the reports on the Minimum Wage Fixing Convention, 1970 (No. 131), and the Minimum Wage Fixing Recommendation, 1970 (No. 135)*, Report III (Part 1B), International Labour Conference, 103rd Session, Geneva, 2014, para. 53. The closest parallel to the PWM might be found in Germany, where the Government has made collective agreements mandatory for all employers in the cleaning sector.

9 See W.T. Hui: "Economic growth and inequality in Singapore: The case for a minimum wage", in *International Labour Review* (2013, Vol. 152), pp. 107-123.

The value of collective bargaining

Effective collective bargaining can help to rebalance the gains from economic growth, reduce inequality, and ensure an orderly transition towards more productive economies. At present, most ASEAN Member States have some way to go to strengthen their systems for collective negotiations between employers and workers. The pay-offs from building stronger institutions have been demonstrated in

the OECD countries, where collective bargaining has facilitated economic restructuring – helping enterprises to cope with unexpected events and strengthen training and skill formation.

Collective bargaining can also standardize employment conditions across enterprises and reduce the potential for a downward spiral of wage competition between enterprises. This danger can be addressed by negotiations between union federations

and employers' organizations that set minimum conditions for an entire sector (multi-employer bargaining), and to a lesser extent through agreements between individual companies and company-level trade unions (single-employer bargaining).¹⁰

In some advanced countries, collective bargaining institutions cover more than half of the workforce. Collective bargaining coverage in most ASEAN Member States lags far behind, however, and such agreements apply to far fewer workers. A statistical overview by the ILO showed that in the Philippines in 2008, for example, only 2.2 per cent of wage workers were covered by collective bargaining agreements, and that in Malaysia in 2007 only 2.4 per cent of private sector employees were covered. By contrast, Singapore had a coverage rate of 17.3 per cent.¹¹

As a result of weak institutions for collective negotiations and dispute resolution, industrial relations often erupt into conflict. Genuine collective bargaining between representative trade unions and employers in the private sector is practically non-existent in countries such as Viet Nam and Lao People's Democratic Republic. In Viet Nam, workers have instead resorted to wildcat strikes to achieve improvements in wages and working conditions.¹²

In Indonesia, the inability of workers and employers to bargain over wages at the level of enterprises or sectors creates a strong incentive for unions to try to achieve all wage gains through the minimum wage-fixing system. The practice of most employers to link the wages of all workers to the minimum wage has added to the importance of minimum wages, and politicized industrial conflicts. In effect, the heads of local government

have the final say about most wages. Decisions are therefore often driven by political, rather than economic and social considerations. Strengthening collective bargaining and bipartite dispute resolution is an obvious option to avoid excessive reliance on minimum wage-setting.¹³

Cambodia offers an interesting control experiment. The country's minimum wage applies only to the garment and footwear sector, which is currently the largest private sector employer. Weaknesses of the minimum wage setting institutions have led to large-scale strikes and violence in the recent past. However, in Cambodia's large unionized hotels and airports, wages are fixed entirely through collective bargaining. The process has been largely peaceful and productive; strikes have only occurred in instances of alleged anti-union discrimination.

Setting minimum wages

In the absence of effective collective bargaining, the main mechanism for setting wages in ASEAN Member States has been the establishment of minimum wages. The core objective of such policies should be to protect workers who lack bargaining power – and help translate the benefits of closer regional integration into shared prosperity for all. Since some of the main beneficiaries of the AEC are likely to be skilled workers, minimum wages can reduce the risk that wage disparities grow further, leaving low-skilled workers behind.

In recent years, a number of ASEAN Member States have modernized their institutions for setting minimum wages. For example, in 2013, Viet Nam established a National Wage Council to give trade unions and employers' representatives a direct stake in minimum wage negotiations. Also in 2013, Malaysia introduced its first national minimum wage and the National Wages Consultative Council is currently undertaking its first review. In the

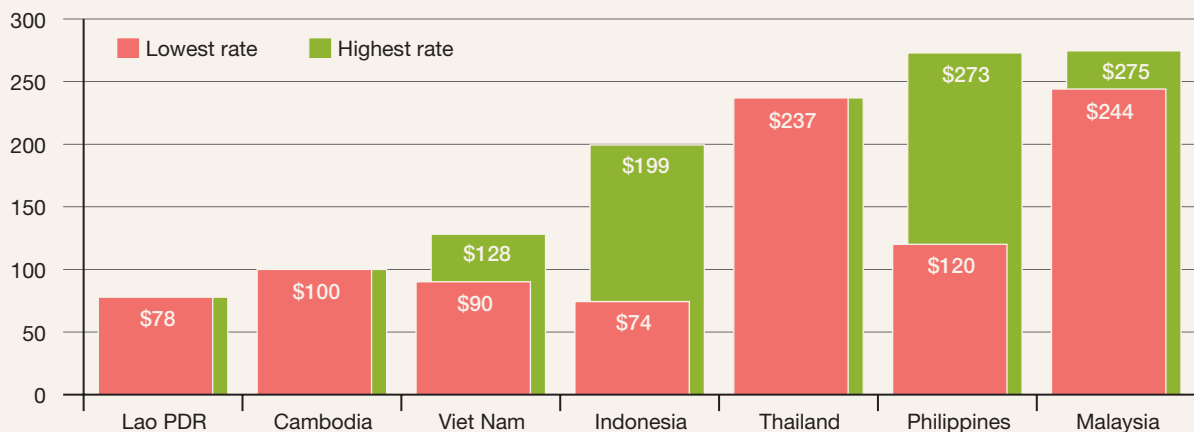
10 OECD: *OECD Employment Outlook* (Paris, 1994), pp. 167-188.

11 S. Hayter and V. Stoevska: *Social dialogue indicators: International statistical inquiry 2008-09* (Geneva, ILO, 2011).

12 Y. Yoon: *A comparative study on industrial relations and collective bargaining in East Asian countries* (Geneva, ILO, 2009).

13 See, for instance, the recommendations made in World Bank: *Indonesia jobs report: Towards better jobs and security for all* (Washington, DC and Jakarta, 2010), p. 115.

Figure 5-10 Monthly minimum wages, 2014 (\$)



Note: For countries with several different minimum wages, the chart presents the highest and lowest rate applicable to employees in the private sector as of 1 Jan. 2014. Cambodia's minimum wage applies only to workers in the garment and footwear sector and came into effect on 1 Feb. 2014. Rates for Indonesia refer to provincial minimum wages, and to regency minimum wages for provinces that do not set provincial minimum wages. Daily rates for the Philippines and Thailand have been converted into monthly equivalents based on the assumption of a six-day working week (by multiplying by six days and 52 weeks, and then dividing by 12 months). Brunei Darussalam, Singapore and Myanmar had no statutory minimum wage as of 1 Jan. 2014.

Source: ILO compilation based on official national sources; converted from national currencies into current \$ using IMF: Exchange Rate Archives: Representative rates for selected currencies (valid on 2 Jan. 2014), except for Lao PDR and Viet Nam which were converted using the official rates reported, respectively, by the Bank of Lao PDR and the State Bank of Viet Nam.

Philippines, the Regional Tripartite Wages and Productivity Boards have begun to implement a two-tier wage system that places greater emphasis on productivity-related pay. Likewise, Myanmar has created a tripartite National Minimum Wage Setting Committee that will recommend a new minimum wage during the course of 2014.

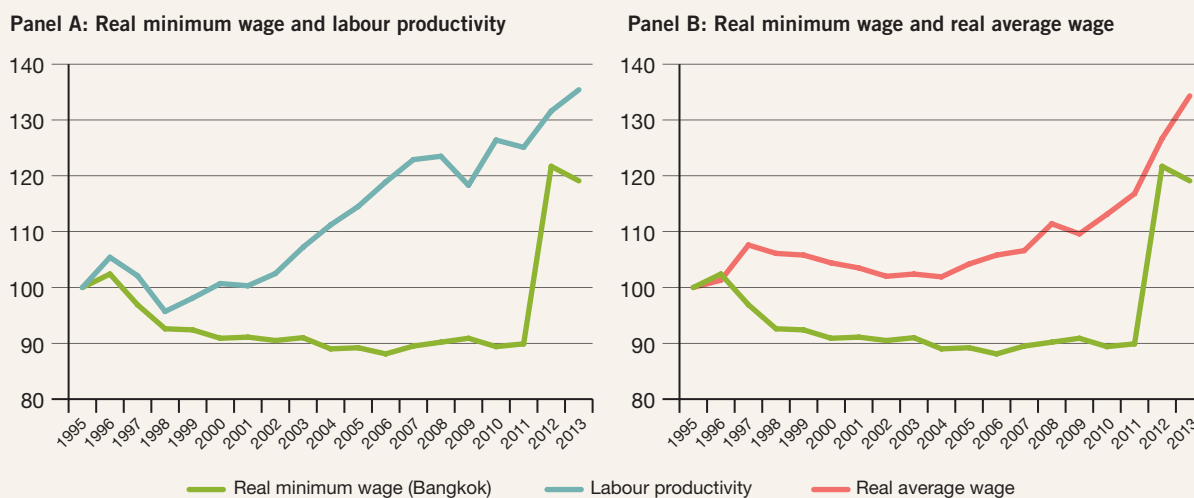
In total, seven of the ten ASEAN Member States now set minimum wages (Myanmar will bring the number to eight). The minimum wage rates differ substantially, both between and within countries. The lowest national minimum wage can be found in Lao People's Democratic Republic (\$78 per month), followed by Cambodia's minimum wage of \$100 for the garment and footwear sector (see Figure 5-10). Minimum wages in neighbouring Thailand are substantially higher (\$237), explaining some of the attraction of the country for migrant workers (see Chapter 6).¹⁴

¹⁴ However, Thailand's minimum wage does not cover domestic workers, an occupation that is dominated by migrant workers from Cambodia, Lao People's Democratic Republic and Myanmar.

Among the countries that set several minimum wage rates, the regional differences are relatively small in Viet Nam (ranging from \$90 to \$128) and Malaysia (with two rates of \$244 and \$275). Both countries have centralized minimum wage setting institutions. By contrast, the decentralization of minimum wage setting in Indonesia and the Philippines has led to large differences within these countries. For instance, minimum wages in Indonesia range from \$74 in the Purworejo regency to \$199 in Jakarta. Likewise, the Philippines has some of the lowest and highest minimum wages in ASEAN.

While countries have begun to address institutional weaknesses of minimum wage setting mechanisms, there are many remaining issues. In Cambodia early in 2014, for example, conflicts about minimum wage adjustments sparked industrial unrest, leading to violent clashes, the death of several demonstrators and the temporary closure of garment factories. This has raised concerns among major international garment buyers, and prompted the Government to collaborate with the ILO to

Figure 5-11 Growth of the real minimum wage compared to labour productivity and average real wages in Thailand, 1995-2013 (Index, 1995=100)



establish a more robust and evidence-based minimum-wage-setting process that takes due account of the interests of workers and employers.

Another concern is that minimum wages may not be adjusted regularly. In Thailand, for example, sizeable adjustments in 2012-13 followed a long period of stagnation. Despite strong economic growth and substantial gains in labour productivity, the purchasing power of minimum wages had remained practically unchanged over the 2000s, indeed it had fallen below the 1995 level (Figure 5-11, Panel A). Minimum wage earners also fell behind average wages (Panel B). In both respects therefore, the large increase in the minimum wage to 300 baht per day (roughly \$10) represented a catch-up after more than a decade of neglect.

How enterprises adapt to rising wages

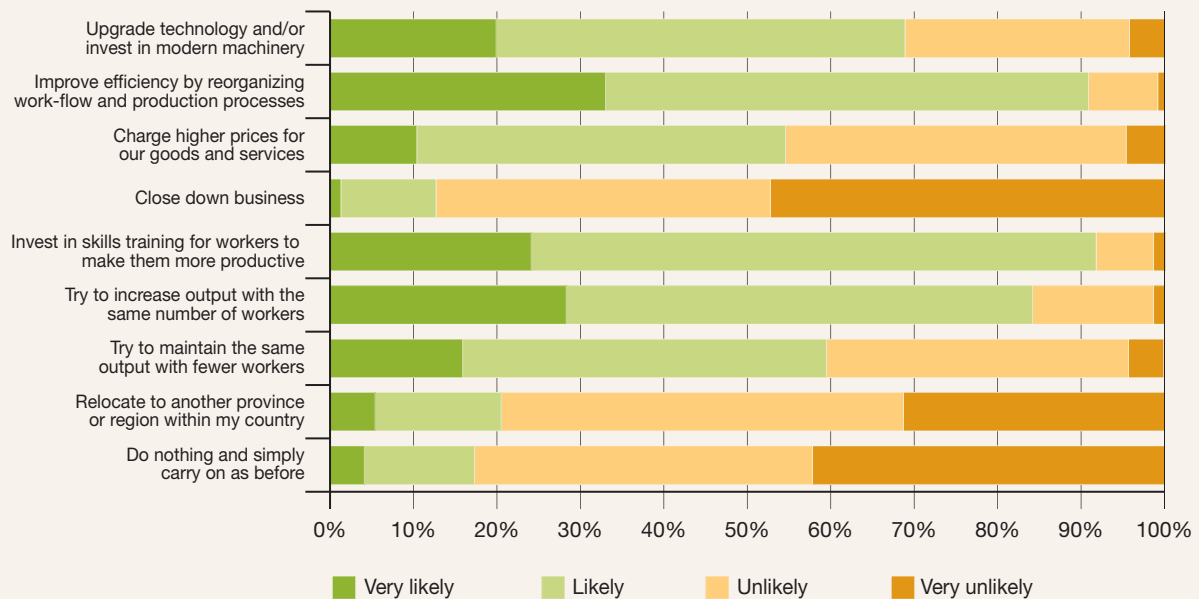
Wage increases help share the benefits of growth and productivity gains with workers, but how do they affect enterprises? From their perspective, wages are a major cost of doing business and increases in wages are likely to prompt them to re-examine their business models and staffing levels. Hence the academic literature has long discussed the impact

of minimum wages and general wage increases on employment. While the findings remain somewhat contradictory, a recent review suggests that the employment impact is usually modest and can go either way.¹⁵

Abrupt and unforeseeable wage increases can doubtless have adverse impacts, but if the changes are gradual and predictable then enterprises will be better able to adjust to the new conditions – and choose the best way to do so. When asked how they would respond to a ten per cent increase in the minimum wage, employers from ASEAN Member States predominantly opted for measures to enhance productivity, such as upgrading technology, investing in training, and reorganizing production processes to enhance efficiency (Figure 5-12). Very few thought it likely or very likely that they would close their business (12.7 per cent), relocate their business (20.5 per cent) or simply carry on as before (17.3 per cent).

¹⁵ G. Betcherman: *Labor market institutions: A Review of the literature* (Washington, DC, World Bank, 2012).

Figure 5-12 Likely enterprise reactions to an increase of ten per cent in minimum wages, 2013 (responses in per cent)



Note: Respondents were asked "In case minimum wages in your country increased by ten per cent, how likely is it that your enterprise will adopt the following measures?"
Source: ILO: Survey of ASEAN Employers on Skills and Competitiveness (2013).

Wages and economic growth

When wage pressure leads enterprises to upgrade and enhance productivity, this raises the potential for future growth. For Malaysia, for example, the new minimum wage policy envisaged investment in technology and increased productivity. But the economic role of wages goes beyond this: when the wages of workers grow, their spending power increases. Simply put, they are able to buy more goods and services, creating demand for what enterprises produce.

In line with this logic, Malaysia's new minimum wage policy explicitly aims to stimulate domestic demand.¹⁶ With continued weakness in their traditional export markets, ASEAN economies will have to look for new sources of growth – and internal demand is one crucial factor. When wages grow, workers will want to spend them. Producers within the region are best placed to satisfy the demand from

ASEAN's consumer base of 600 million people and the aspirations of the region's expanding middle class.¹⁷

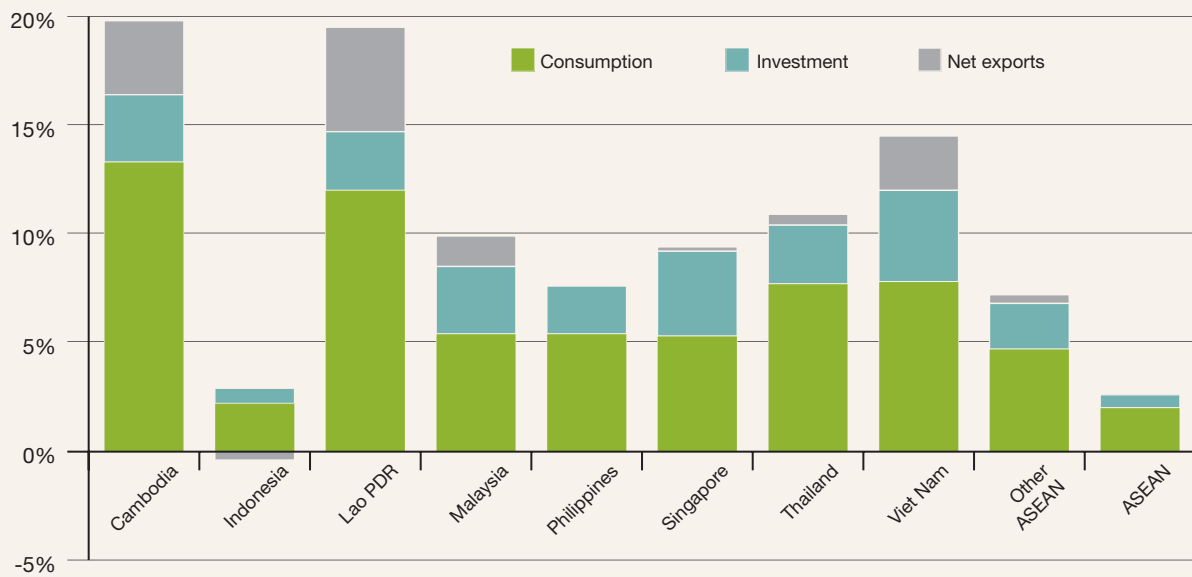
Foreign investors have recognized the potential of the ASEAN as a market. Traditionally, they have invested in the region to take advantage of low-wage labour, but evidence suggests that they are increasingly allocating investment on the basis of market opportunities.¹⁸ Indeed, the affiliates of multinational companies from Japan and the United States already present in ASEAN Member States are predominantly supplying local markets, followed by their home markets, rather than global markets.

¹⁷ As of 2013, some 35.1 per cent of the employed persons in Southeast Asia and the Pacific (which, to a large extent, overlaps with ASEAN) were classified as "middle class", using the criterion of per capita household income of \$4 and above. This share is expected to grow to 44.3 per cent by 2017. See S. Kapsos and E. Bourmpoula: *Employment and economic class in the developing world* (Geneva, ILO, 2013), p. 47.

¹⁸ S. Thomsen, M. Otsuka and B. Lee: *The evolving role of Southeast Asia in global FDI flows* (Paris, Institut Français des Relations Internationales, 2011).

¹⁶ Ministry of Human Resources: *Annual Report 2012* (Putrajaya, 2013).

Figure 5-13 Contributions to additional GDP growth under the AEC scenario relative to the baseline, 2025 (percentage points of baseline GDP)



Note: The figure shows model results for the marginal impact of the AEC on the components of GDP in 2025, as compared to a baseline scenario without closer regional integration. All figures are given in per cent of the GDP in 2025 under the baseline scenario. Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

The increasing role of consumption as a driver of aggregate demand, and hence growth, is also evident from the model simulations carried out for this report. The expansion of trade under the AEC scenario enables countries to specialize in those activities that they are best at, and hence accelerates structural change and boosts labour productivity (see Chapter 3). However, trade as such adds little to aggregate demand – rising exports (which add to final demand) are largely offset by rising imports (which subtract from it). Hence, it is not surprising that under the AEC scenario net exports contribute far less to GDP growth than additional investment and, in particular, consumption (see Figure 5-13).

Conclusion

As this chapter has argued, closer economic integration under the AEC offers ASEAN Member States the opportunity to make the transition from low-wage to high-productivity economies. Such rapid structural change does not come without cost. Workers in declining sectors will face job losses

and might find their skills ill adapted for emerging growth sectors. Adequate social protection mechanisms will therefore be required to accompany the transition – along with the education and skills policies needed to equip workers for seizing new opportunities.

But growing labour productivity offers an enormous potential for shared prosperity within ASEAN. Under the AEC Blueprint, the region aspires to become a region of equitable economic development as well as a highly competitive economic region.¹⁹ Productivity gains are a precondition to realize this ambition, but they do not guarantee shared prosperity. This will depend on whether the benefits of closer economic integration reach workers through rising incomes and higher wages, a key transition mechanism through which economic gains are spread.

As historical experience in ASEAN and beyond

¹⁹ ASEAN Economic Community Blueprint, Singapore, Dec. 2007.

has shown, where strong institutions are missing, wage growth often falls short of its potential. In addition, there is the risk of economic integration exacerbating the trends towards rising inequality. As enterprises expect to compete more fiercely for scarce talent, high-skilled workers are positioned best to benefit from rising wages – and low-skilled workers risk being left behind.

It is therefore essential that ASEAN Member States put in place sound wage-setting institutions. Well-designed and properly enforced, statutory minimum wages can help counter rising inequality and ensure that low-paid workers receive a just share of the fruits of progress. But in setting wages of skilled workers, governments should exercise restraint and should instead facilitate collective bargaining between those concerned – employers and workers.

While enterprises will have to adapt to rising wages by investing heavily into technology and skills training, they will also benefit from the increased demand that comes with rising purchasing power. Foreign investors are already positioning themselves to take advantage of ASEAN's consumer base of 600 million people. Workers in ASEAN can also seek opportunities to capitalize on their skills by migrating to other countries in the region. Intra-regional labour migration is the subject of the next chapter.

Reaping the benefits of labour mobility

ASEAN has become a centre for labour migration, with major countries of origin and destination. While the ASEAN Economic Community envisages measures to facilitate the mobility of high-skilled workers, most of the region's migrant workers are low skilled and many are undocumented. If ASEAN Member States are to reap the benefits of labour mobility they will need to manage all types of migration more effectively and provide sufficient protection for all migrant workers.

The ASEAN region has seen a rapid increase in migration – particularly among the Member States. Labour migration is affected by two groups of factors. One comprises differences between countries in their levels of economic and social development, and political stability. The second is connected to labour force growth and population ageing that affect the supply and demand of labour, producing additional challenges and opportunities.

Insofar as these factors are structural, not cyclical, labour migration will not diminish in the medium term and will probably continue to rise. The ASEAN region can look ahead by developing robust institutions to support labour mobility. This includes pathways for migration that are safer, more transparent and cheaper; adequate social protection to enable migrant workers to have a decent life and opportunities to upgrade their skills; and improvements to labour market information systems that can produce reliable and detailed data to better enumerate, profile and understand migrant stocks and flows. Developing such institutions under a long-term regional approach would benefit

destination and source countries in ASEAN alike as well as – and most crucially – current and future migrant workers themselves.

The rise of intra-ASEAN migration

Since 1990, the stock of intra-ASEAN migrants has risen substantially. As an absolute number, intra-ASEAN migrants increased from 1.5 million to 6.5 million between 1990 and 2013.¹ Over the same period, their share of ASEAN's total migrant stock climbed from 47.8 per cent to 68.6 per cent (Figure 6-1, Panel A). A corresponding rise is also observed among ASEAN nationals living abroad – for whom the intra-ASEAN share rose from 20.3 to 34.6 per cent over the same period (Figure 6-1, Panel B).

In the key destination countries in ASEAN more than half of the migrant stock comes from other ASEAN Member States – for Singapore 52.9 per cent; for Malaysia 61.2 per cent; and for

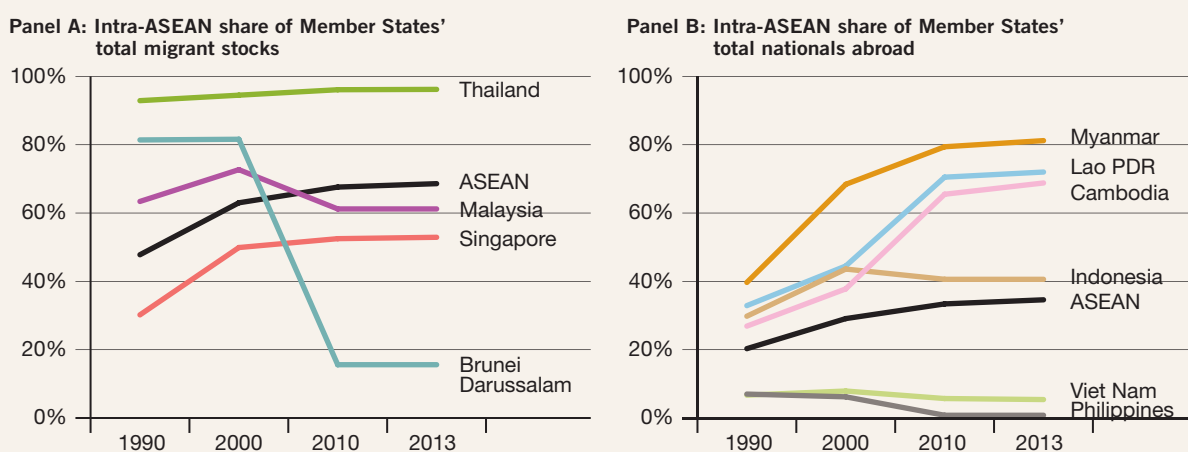
¹ UN: Trends in International Migrant Stock: The 2013 Revision Database. Several issues with these data and other harmonized sources attempting to provide an aggregate for the ASEAN region as a whole are discussed in Annex D.

Thailand 96.2 per cent. Similarly, the proportion of migrants heading for other ASEAN Member States has increased for the major countries of origin. Since 1990, intra-ASEAN migration from Myanmar, Lao People's Democratic Republic and Cambodia has risen in each case by around 40 percentage points in terms of their total nationals abroad. For Viet Nam and the Philippines, however, intra-ASEAN migration in 1990 accounted for only seven per cent of their total nationals abroad and has since declined

further; the main destination countries being in the Gulf Arab States, East Asia, Europe and North America.

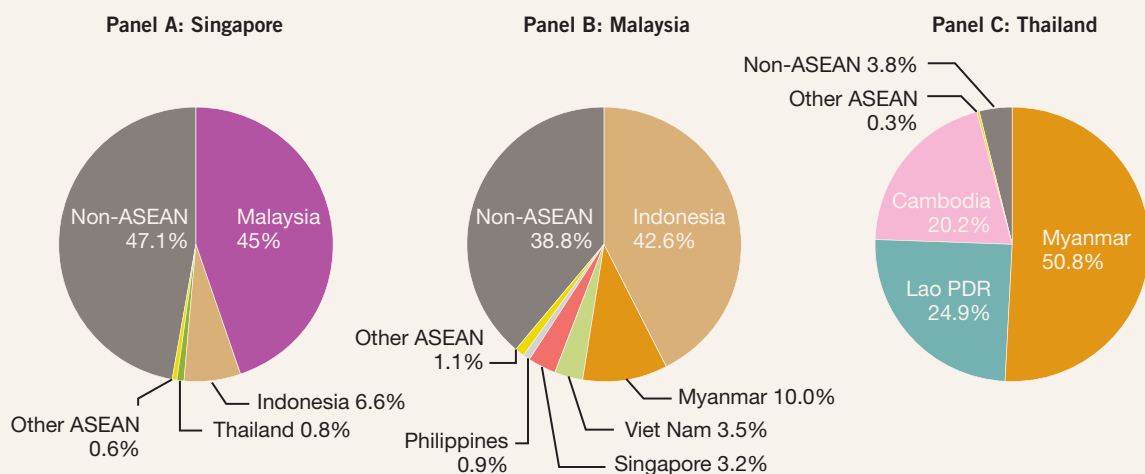
ASEAN has three main migrant destinations – Malaysia, Singapore, and Thailand. Together they account for approximately 90 per cent of the region's total migrants and 97 per cent of intra-ASEAN migrants. In all three, the migrant stock is dominated by a single country of origin: in Singapore, 45.0 per cent are from Malaysia; in Malaysia, 42.6

Figure 6-1 Intra-ASEAN migration shares, 1990-2013 (per cent of total)



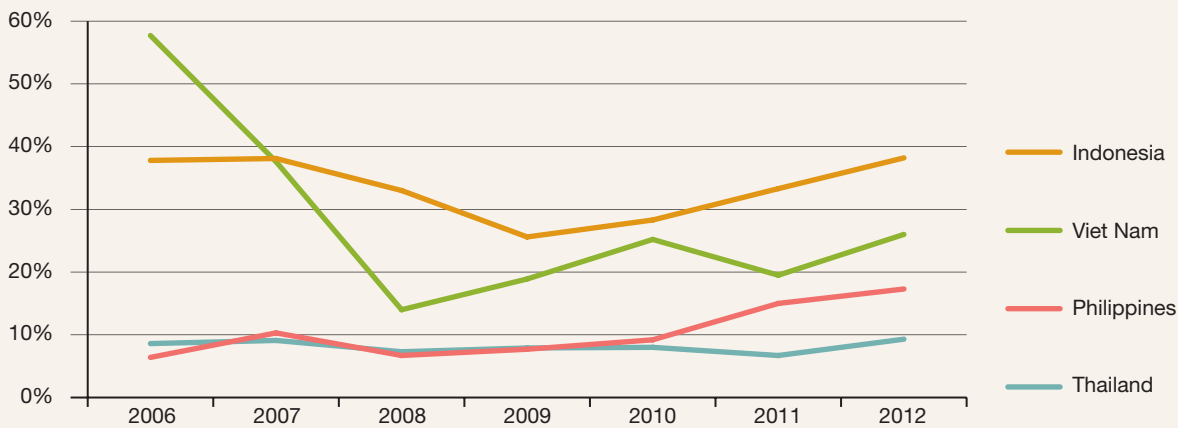
Note: Data on ASEAN give the aggregated shares for the region as a whole.
Source: UN: Trends in International Migrant Stock: The 2013 Revision Database.

Figure 6-2 Origins of international migrant stock in Singapore, Malaysia and Thailand, 2013



Source: UN: Trends in International Migrant Stock: The 2013 Revision Database.

Figure 6-3 Intra-ASEAN share of outflow of international migrant workers, 2006-12 (per cent of total)



Source: Indonesia: administrative records of the National Authority for the Placement and Protection of Indonesian Overseas Workers based on the annual number of workers placed abroad; the Philippines: administrative records of the Philippine Overseas Employment Administration based on daily departures of land-based overseas Filipino workers (including new hires and rehires); Thailand: administrative records of the Department of Employment, Ministry of Labour, including all registered workers; Viet Nam: administrative records of the Department of Overseas Labour, including only workers under contract-based employment.

per cent are from Indonesia; and in Thailand, 50.8 per cent are from Myanmar (Figure 6-2).

Dynamics of labour migration in ASEAN

In Malaysia, Singapore, and Thailand, migrants account for considerable shares of those employed (see Annex F, Table F1-9). In 2012 Singapore had around 1.3 million temporary migrants (excluding permanent residents) who accounted for 37.8 per cent of total employment.² Malaysia had 1.7 million migrant workers who made up 13.6 per cent of total employment in 2012, and Thailand had 1.1 million regular migrant employees in that year – though these exclude, among others, large numbers of undocumented workers such that the total share cannot be accurately known.³

For ASEAN's main source countries, the destinations for migrant workers differ. Indonesia and the Philippines send some 2 million migrant workers abroad each year predominantly to the Gulf Arab

States and to parts of China. From Thailand and Viet Nam, some 160,000-200,000 migrant workers each year go mostly to the more developed East Asian countries, including Japan and the Republic of Korea. However, as Figure 6-3 shows, the intra-ASEAN share of migrant workers has slowly been rising over the past five years or so in most of these countries.

The other main countries of origin are Cambodia, Lao People's Democratic Republic, and Myanmar. Many of the workers from these countries migrate through irregular channels and many find informal employment in Thailand and Malaysia. For the period 2009-10, the International Organization for Migration estimated there were 1,445,000 unregistered migrants in Thailand coming from Cambodia, Lao People's Democratic Republic, and Myanmar compared with just 79,000 regular entrants and 932,000 who were subsequently documented under the Nationality Verification process.⁴

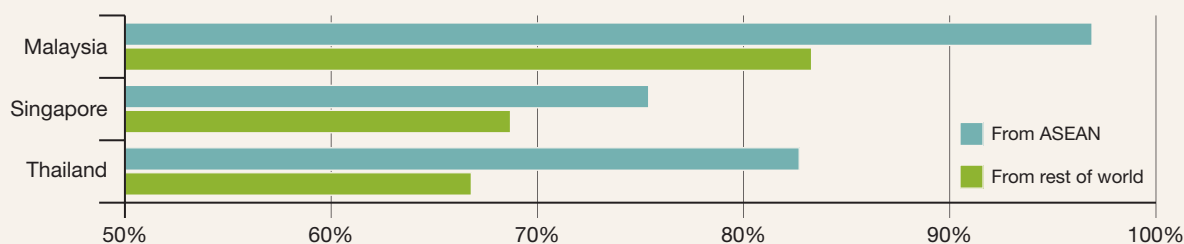
Most intra-ASEAN labour migration involves low- and medium-skilled workers. Indeed, for

² Singapore Ministry of Manpower: *Yearbook of Manpower Statistics* (Singapore, 2013).

³ Department of Statistics Malaysia: *Labour Force Survey* (Putrajaya, 2012); Thailand Department of Employment administrative records.

⁴ International Organization for Migration: *Thailand Migration Report 2011* (Geneva, 2011)

Figure 6-4 Estimated share of those with lower than tertiary education among the stock of migrant workers in Malaysia, Singapore, and Thailand, 2007 (per cent)



Note: The figures given for ASEAN include migrants from Timor-Leste, due to data limitations.

Source: A.C. Orbeta: *Enhancing labour mobility in ASEAN: Focus on lower-skilled workers*, Philippine Institute of Development Studies Discussion Paper Series No. 2013-17 (Makati City, Philippine Institute of Development Studies, 2013).

Singapore, Malaysia and Thailand, it is estimated there are disproportionately more workers without tertiary education among those coming from within ASEAN than among those from the rest of the world (Figure 6-4).

Figure 6-5 shows the annual flows of international migrant workers from all countries to Malaysia and Thailand according to their occupation.⁵ The majority of them enter into medium- and low-skill work. In 2012, high-skill occupations (managers, professionals and technicians) accounted for only 10.2 per cent of the overall flow to Malaysia and 3.1 per cent of that to Thailand.

Most of the new arrivals work at the lower (manual) end of medium-skill occupations – as plant and machine operators and assemblers and skilled agricultural, forestry and fishery workers – and in the low-skill elementary occupations. Disaggregating these same data according to migrants' educational attainment reveals much the same pattern, with the majority having attained lower than tertiary education and many having only achieved the primary level or below.

Large numbers of migrant workers in ASEAN from the low- and medium-skill groups are in informal employment. However, national policies

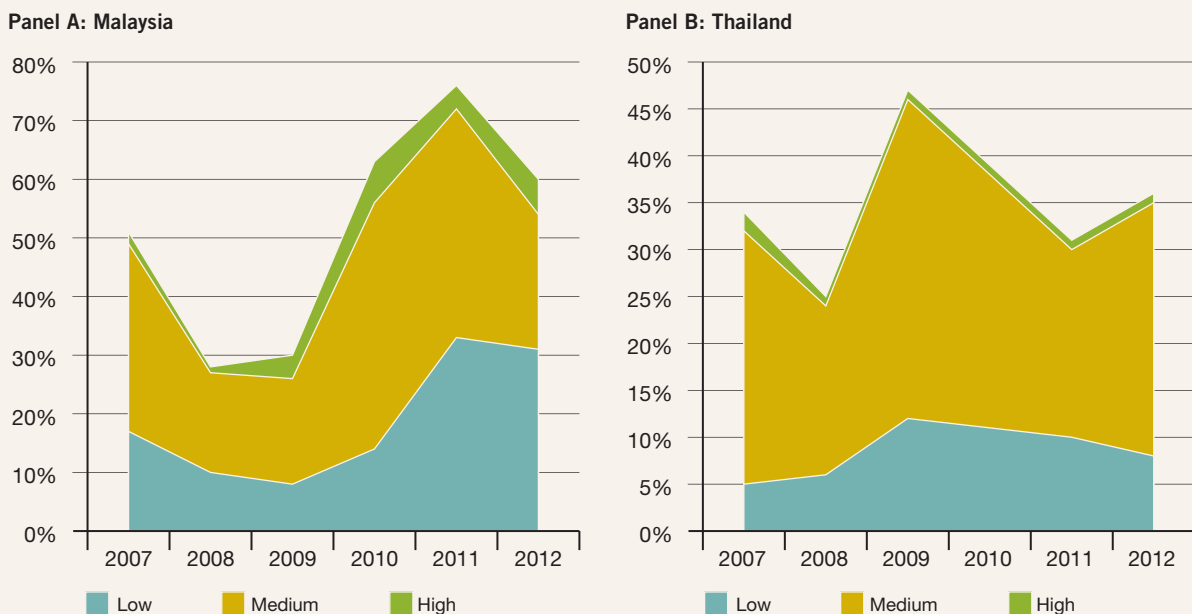
⁵ The figures are based on national data from migration surveys that are broadly representative of both regular and unregistered migrants. The alternative of using data from administrative records (where such data exist) would be likely to introduce a bias towards relatively higher-skilled formal jobs.

can play an important role in protecting and regulating their movements, as evidenced in Indonesia (Box 6-1).

Structural causes of migration

Changes in migration patterns in ASEAN are driven in large part by structural factors. One is demography. In the destination countries, the most significant demographic factor has been population ageing, which can lead to labour shortages. Some countries of origin, on the other hand, have rising youth populations that can place pressures on job creation, affecting unemployment and underemployment. Nevertheless, labour force growth is projected to slow down in every Member State between 2010 and 2025 and even to become negative in Thailand beyond 2021 (Figure 6-6). While the labour forces in Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, and Philippines will maintain relatively robust growth until 2025, the pace of that in Singapore, Thailand and Viet Nam is expected to slow down sharply by then. Between 2010 and 2025, the total ASEAN labour force will grow by some 68.2 million workers (or by 22.7 per cent). Of this, 29.5 million will come from Indonesia, which has a youth unemployment rate of 21.6 per cent, and some 15.1 million from the Philippines, where youth unemployment is 16.6 per cent (Annex F, Table F1-5). Many such young workers will consider migrating.

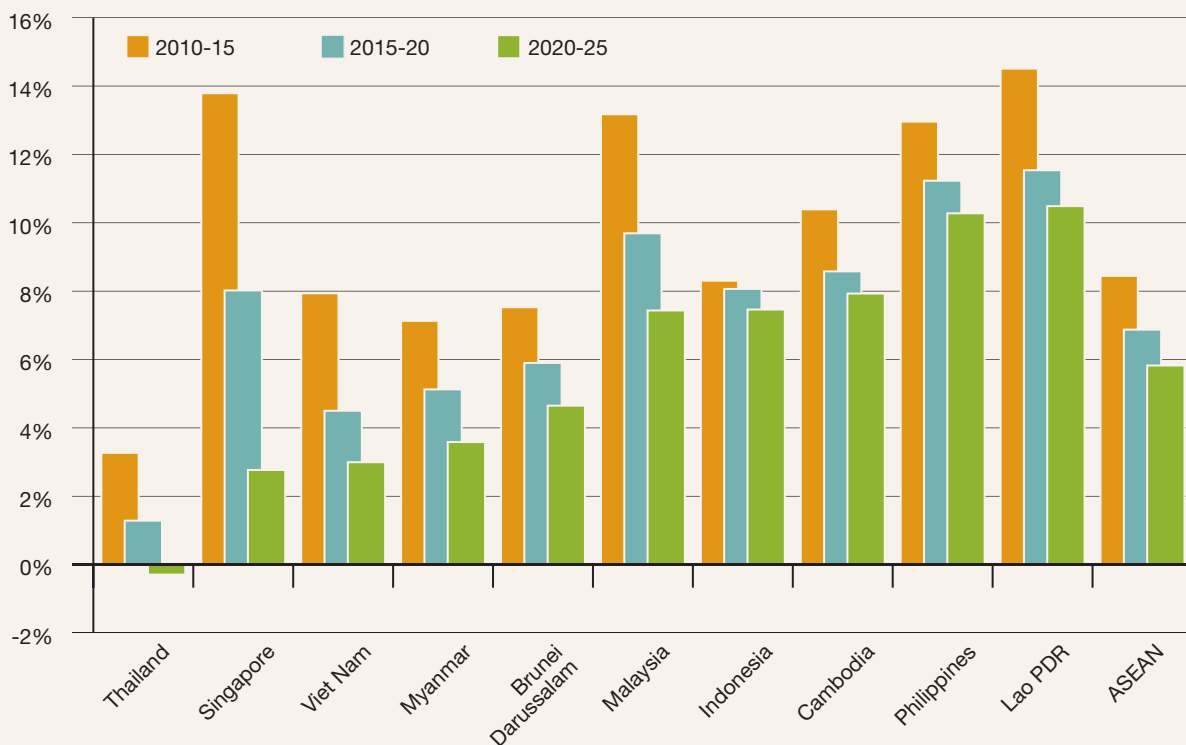
Figure 6-5 Annual inflow of migrant workers to Malaysia and Thailand by occupational skill level, 2007-12 (thousand)



Note: Skill level is defined according to the International Standard Classification of Occupations (ISCO-08), as outlined in Chapter 4. Malaysia covers those residing in private living quarters (this excludes persons living in institutions such as hotels, boarding houses and hospitals, among others). Thailand data measure those who migrated to Thailand within the previous year so may include some Thai-born or native return migrants; there is a series break between 2009 and 2011, where the figure for 2010 was interpolated assuming a linear trend.

Source: Department of Statistics Malaysia: *Migration Survey* (Putrajaya, various years); Thailand National Statistical Office, Ministry of Information and Communication Technology: *Thailand Labour Force Survey* (Bangkok, various years); Thailand National Statistical Office, Ministry of Information and Communication Technology: *Migration Survey* (Bangkok, 2011 and 2012).

Figure 6-6 Projected labour force growth, 2010-15, 2015-20, and 2020-25 (per cent)



Source: Official national source; ILO: Estimates and Projections of the Economically Active Population (EAPEP), Jan. 2014; ILO: ILOSTAT database.

Box 6-1 Indonesia: Rising formal employment for women migrants

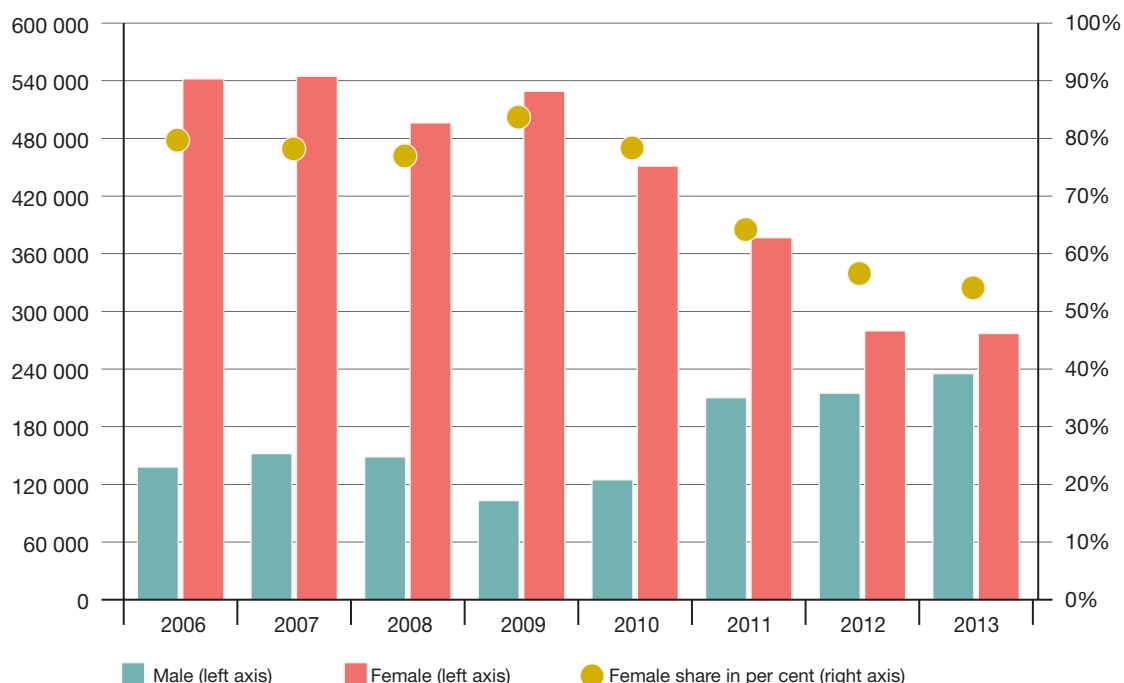
Indonesia is ASEAN's second largest country of origin for migrant workers. In 2013 it had almost three million nationals living abroad, nearly half of whom were women.¹ Every year between 2006 and 2009 more than half a million women registered to work abroad, making up around 80 per cent of the total flows (see Box Figure 6-1).

Since 2009, however, this profile has shifted and the share of women migrants has fallen as the Government begun to play a more active role in quality assurance on behalf of Indonesian migrant workers. This has included a moratorium against sending migrant workers without a formal, written employment contract from a registered employer, and additional regulations for protecting migrant domestic workers. The Government is also working to regulate migrant domestic workers' terms of

references abroad in order to better define and remunerate the tasks they are expected to carry out. Between 2010 and 2013 the Government cut back the share of workers entering employment abroad without a formal contract from 73.0 per cent to 44.0 per cent. In 2014, it aims to place at least 50 per cent of migrant workers in formal jobs and will continue to provide competency-based training, assessment and skills certification to support this.

Many of the remaining difficulties for protecting women migrant workers relate to the regulation of brokerage services and the capacity to respond to complaints – particularly for those in informal employment. This will require better coordination among countries and more responsive services.

Box Figure 6-1 Flow of workers from Indonesia to the rest of the world by sex, 2006-13



Source: National Agency for the Placement and Protection of Indonesian Workers.

1 UN: Trends in International Migrant Stock: The 2013 Revision Database.

As a demographic dividend continues in some of these countries in the medium term, a strong focus on education coupled with outward migration (driven by foreign demand) may provide a viable route for lowering unemployment and setting up foundations for future growth. Benefits would also come to such countries from personal remittances received, and when migrants return home with new ideas, skills and professional networks – representing a “brain gain via a brain drain”.⁶ Meanwhile, those countries whose demographic dividend has already expired may want to welcome and encourage international migrants into particular sectors in order to sustain their current levels of output.

Other structural factors behind changing migration patterns are economic – notably the large differences in output and wages between Member States. The GDP per capita for ASEAN as a whole is \$5,313 in 2013 (in constant 2005 prices, PPP), though individual country levels range from only \$1,611 in Myanmar to as high as \$54,139 in Singapore (Annex F, Table F2-3). The contrasts are significant for average monthly wages, and the available data show they range from \$119 in Lao People’s Democratic Republic to \$3,547 in Singapore (see Chapter 5, Figure 5-2). Average wages in Thailand are around three times those in Cambodia, while those in Malaysia are around three and a half times those in Indonesia.

Free mobility of professionals

Policies for managing migration flows under the AEC are confined to high-skilled workers. While this is the case more often than not among regional integration initiatives, the AEC can still learn from labour mobility policies and models developed in other parts of the world (Box 6-2).

The free movement of skilled professionals under the AEC is partly driven by the requirements

of the 1995 ASEAN Framework Agreement on Services, which includes provisions for the movement of natural persons. While this can in principle include any form of labour mobility, the current provisions mainly refer to business visitors for sales negotiations, natural persons on a temporary basis, and intra-company transfers of executives, managers and other high-skilled professionals accompanying FDI. Progress on labour mobility through the ASEAN Framework Agreement on Services has, however, been fairly slow.⁷

The main tools for achieving labour mobility under the AEC are likely to be the mutual recognition arrangements (MRAs). These establish the skills or experience relevant professionals need to gain certification in another country and ultimately to work abroad. In support of the MRAs, ASEAN is developing the ASEAN Qualifications Reference Framework (AQRF) that will enable qualifications to be compared across Member States while providing a coherent benchmark for current national qualifications frameworks. The AQRF and its implementation strategy are due to be finalized in 2014.

To date, MRAs have been completed for eight occupations: engineering services (signed in December 2005); nursing services (December 2006); architectural services, and surveying qualifications (November 2007); medical practitioners, dental practitioners, and accountancy services (February 2009); and tourism professionals (November 2012). Nevertheless, the MRAs differ in the approaches they employ. The MRA on nursing, for example, explicitly promotes the exchange of expertise, experience, and best practices while those on accountancy and surveying only lay down some broad principles and frameworks for negotiating agreements. Perhaps surprisingly – given their overall aim of facilitating regional labour mobility

6 T. Boeri, P. Garibaldi and E.R. Moen: *The labour market consequences of adverse financial shocks*, in IZA Discussion Papers No. 6826 (Heidelberg, 2012).

7 D. Nilomborirak and S. Jitdumrong: “An assessment of services sector liberalization in ASEAN”, in S. Basu Das (ed.): *ASEAN Economic Community Scorecard: Performance and perception* (Singapore, ISEAS, 2013), p. 47.

Box 6-2 Labour mobility under other regional integration agreements

Several regional integration agreements have assigned different provisions to promote or stem labour mobility of various kinds. Some examples are provided below as comparators to the current provisions provided under the AEC.

CARICOM – The 2006 Caribbean Community’s Single Market and Economy among 15 Caribbean nations and dependencies includes the free movement of goods, services, capital, business enterprise and certified skilled workers in six categories: graduates of approved universities, musicians, artists, sportspeople, workers in media and domestic workers (added in 2010). The agreement includes provisions on a Regional Qualification Framework, leading to a CARICOM Skills Recognition Certificate, the transferability of social security for wage workers and a register of self-employed providers of in-demand services as well as a regional social security agreement.

ECOWAS – The Economic Community of West African States’ 2010 Common Market Protocol (Article 10) includes a Protocol on the Free Movement of Persons. On 7 December 2012, ECOWAS adopted the General Convention on Social Security and reached a new milestone in the implementation of regional free movement protocols. It also adopted two action plans – one promoting youth employment and the other against child labour – as well as a draft supplementary act to create a three-party, regional ECOWAS Social Dialogue Forum.

European Union – The free movement of goods, capital, workers and services were founding principles of the European Economic Community in 1957, including (even then) the free movement of employees and job-seekers among its original six Member States (Treaty of Rome, Articles 48-51). Today, the European Union has 28 Member States whose citizens are entitled to equal treatment in access to employment,

working conditions and all other social and tax advantages.¹ Those working abroad for up to five consecutive years are also automatically entitled to permanent residency. The European Union works towards harmonization of labour regulations and policies, allowing “Member States considerable leeway in the social policy sphere, while aiming to prevent what are perceived to be some of the more deleterious effects of a ‘race to the bottom’”.²

Mercosur – In 1991, Argentina, Brazil, Paraguay, and Uruguay - later joined by Venezuela - created the Mercosur, which aims to achieve free trade in goods and services and the free movement of factors of production. The Mercosur Social and Labour Declaration, 1998, guarantees the fundamental rights of all workers in the region, including migrant workers. The 2002 Free Movement and Residence for State Party Nationals grants nationals of the signatory countries the right to reside and work in Mercosur Member States as well as Bolivia and Chile.

NAFTA – Established in 1994, the North American Free Trade Agreement aims to liberalize trade and investment between the United States and its two main trading partners – Canada and Mexico. It facilitates labour mobility through temporary entry for business visitors, traders, investors, transferees of multinational companies, and highly-educated professionals with a job offer in one of over 70 occupations. This latter group is able to migrate using the bespoke Trade-NAFTA visa that is valid for up to three years based on mutual recognition of skills and qualifications.

SADC – The Southern African Development Community is comprised of 15 countries which aim to promote, among other activities, regional cooperation through worker and student mobility, with a focus on achieving migration management through the harmonization of economic,

social and legal policies (including harmonization of skill systems). The SADC Charter provides a framework for regional cooperation in the collection and dissemination of labour market

information, the establishment and harmonization of social security standards, workplace health and safety standards, and the harmonization of labour laws.

1 The only explicit restrictions apply in the case of certain public sector jobs considered sensitive in the exercise of national sovereignty and in the case of the newest European Union Member States (though only for a limited period of up to seven years).

2 C. Barnard and S. Deakin: "Negative and positive harmonization of labour law in the European Union", in *Columbia Journal of European Law* (2002, Vol. 8), p. 389.

Table 6-1 Employment in the seven occupations covered 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.

– only the MRAs on architecture and engineering prescribe eligibility to apply for a license in another Member State, which they set out to coordinate through local regulatory bodies.⁸

Implementation of the MRAs remains difficult for several reasons. First, countries vary significantly in the education and testing they require for granting professional recognition, and professional associations are often reluctant to alter their existing standards or to admit potential competitors from abroad. Moreover, particular professions may be licensed in some countries but not in others. Second, some countries require such positions as

teachers, lawyers, civil servants or soldiers to be filled by citizens and explicitly exclude migrant workers from these. Third, differences in language, culture, and social acceptance can create practical barriers to labour mobility beyond any provisions that may be set down in law. Finally, MRA negotiations to date have generally been conducted bilaterally and most contain loopholes for implementation.

Seven of the occupations currently covered by MRAs account jointly for only between 0.3 per cent and 1.4 per cent of total employment in Member States (Table 6-1) (the eighth MRA refers to tourism professionals for which there is no single occupational category by which to calculate a corresponding share). They thus represent a negligible fraction of the total jobs held in ASEAN.

8 S. Basu Das et al. (eds.): *The ASEAN Economic Community: A work in progress* (Singapore, ISEAS Publishing, 2013).

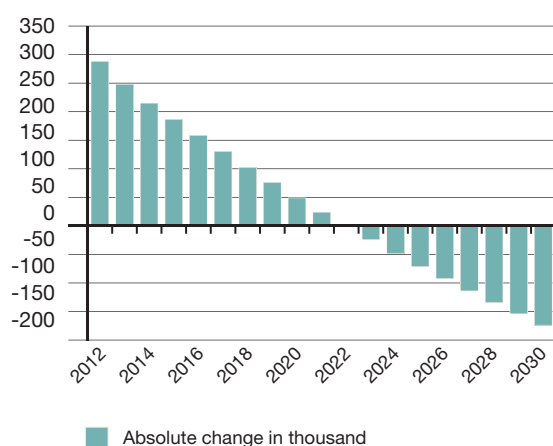
Box 6-3 Thailand: Heading towards labour shortage – the need for more migrant workers

Migration has been important for Thailand's labour force since the 1980s, especially for the construction, fishing, food processing, and garment industries and for domestic work. Thailand's ageing population and falling fertility rates are expected to contribute further to labour shortages that will amount to an estimated shortfall of some 4.7 million workers by 2020.¹ According to ILO projections, Thailand's labour force will start to shrink around 2022 and continue to do so at an increasing rate (see Box Figure

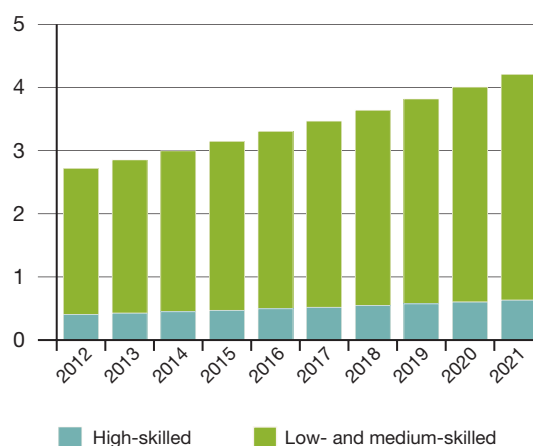
6-3 Panel A). Correspondingly, the demand for migrant workers is projected to increase over this period, with the greatest demand being for low- and medium-skilled workers (see Box Figure 6-3 Panel B). Based on these projections, labour migration will be an important feature of Thailand's sustained growth and development in the short and medium-term. As such, Thailand will have to implement adequate policies to better manage and truly benefit from labour mobility.

Box Figure 6-3 Projections of labour force growth and demand for migrant workers in Thailand

Panel A: Net labour force growth, 2012-30



Panel B: Demand for migrant workers, 2012-21 (million)



Source: Annex F, Table F1-1; ILO: ILOSTAT Database; NESDB: "Labour demand projection in Thailand", NESDB presentation based on the Labour Market Study for the Ageing Society Project (2014).

¹ Thailand Development Research Institute: *Designing manufacturing and labour force development strategies for industrial sector demand in 2015*, Research report submitted to the Ministry of Industry, Office of Industrial Economics (Bangkok, 2012).

It remains to be seen how much the AEC will add to the movements of skilled labour already taking place bilaterally.⁹ At most, it will enable professional services providers registered or certified in signatory countries to have their credentials recognized in other signatory countries. Who is

⁹ ADB: *Asian Economic Integration Monitor* (Manila, 2013).

actually allowed to migrate for employment will still, however, be determined by Member States' political will and by market supply and demand. National admissions and visa policies, the source countries' policies on outward migration, and the recruitment policies and preferences of employers in the private sector are likely to outweigh any changes to labour mobility that the AEC might introduce.

In the short-term, the AEC's provisions on labour mobility may therefore have very little impact.

Mobility of low-skilled workers

The AEC does not address movements of low-skilled workers. One justification sometimes argued is that closer economic integration can ultimately lead to more efficient production in all countries and cause wages to converge, thus removing a key incentive for migration.¹⁰ However, this “factor price equalization” among trading partners is seldom observed in practice and is unlikely to occur in ASEAN on any significant scale.¹¹

Economic integration may well contribute to greater concentration of economic activity in some of the more developed Member States, leading perhaps to an initial rise in regional disparities.¹² This would stimulate demand for low-skilled workers in specific sectors and create a temporary “migration hump”.¹³ ASEAN migration hubs such as Malaysia, Singapore, and Thailand could thus benefit early on from freer trade by employing more migrant workers. Trade and migration are thus likely to be complementary in these countries and may rise together in the short term.

Regardless of the AEC, flows of low-skilled

migrant workers are likely to continue in the short- and medium-term because of demographic factors and existing economic disparities. In Thailand, for example, the labour force is expected to shrink by 2022 and the demand for the low- and medium-skilled migrant workers will rise. Migrant workers will be needed to sustain production and raise Thailand's economic growth, unless productivity levels rise rapidly (see Box 6-3). This will require a strategy to manage migration and protect migrant workers through increased and affordable access to regular migration channels, clear incentives for migrant workers to use those channels, while ensuring against labour exploitation of migrant workers and trafficking in persons.

Over time, the formulation of mutual skills recognition arrangements for medium-skill occupations in ASEAN – including construction workers, garment workers, fishermen, and plantation labourers – may provide a more manageable, transparent, and safer channel for migrant workers. Such frameworks could help to legitimize and regulate much of the migration already taking place in ASEAN as well as to boost the overall calibre of the workers coming through. A relevant tool could be implemented under the AQR or through individual MRAs. Such frameworks would help to address the labour mobility that is already taking place in ASEAN – in a way the current AEC largely fails to do – while promoting a more sustainable mode of managing labour mobility and helping to address future needs linked to demographic and economic disparities among Member States, as discussed above.

Protecting migrant workers

Ensuring equal protection for migrant workers promotes economic equity and makes labour markets more efficient. Enforcing protection for migrant workers ensures that employers who do not comply with national labour standards cannot compete unfairly against those who do. It is

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- 10 P.A. Samuelson: “International trade and the equalization of factor prices”, in *Economic Journal* (1948, Vol. 58), pp. 163-184.
- 11 B.O. Hansen, and H. Keiding: *How likely is factor price equalization?*, University of Copenhagen Discussion Paper Series No. 08-10 (Copenhagen, 2008).
- 12 P. Krugman: “Increasing returns and economic geography”, in *Journal of Political Economy* (1991, Vol. 99), pp. 483-499; T. Venables and R.E. Baldwin: “Regional economic integration”, in G.M. Grossmann and K. Rogoff (eds.): *Handbook of international economics* (Amsterdam, Elsevier, 1995); P. Martin: “Trade and migration: NAFTA and agriculture”, in *Policy Analyses in International Economics* (1993, Vol. 38).
- 13 Trade can temporarily increase migration when technological and infrastructural differences between two trading countries make labour-intensive production in one uncompetitive against capital-intensive production in the other. See P. Martin and M. Abella: *Reaping the economic and social benefits of labour mobility: ASEAN 2015*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

Box 6-4 The Republic of Korea's Employment Permit System

In 1994, facing labour shortages in sectors that involved low-skill work, the Republic of Korea established an Industrial Training System. This enabled low-skilled migrants to be trained in the country for periods of up to two years but was replaced in 2004 by the Employment Permit System (EPS). This secures migrant workers equal treatment in labour rights and protection and currently includes 15 countries of origin across Asia.

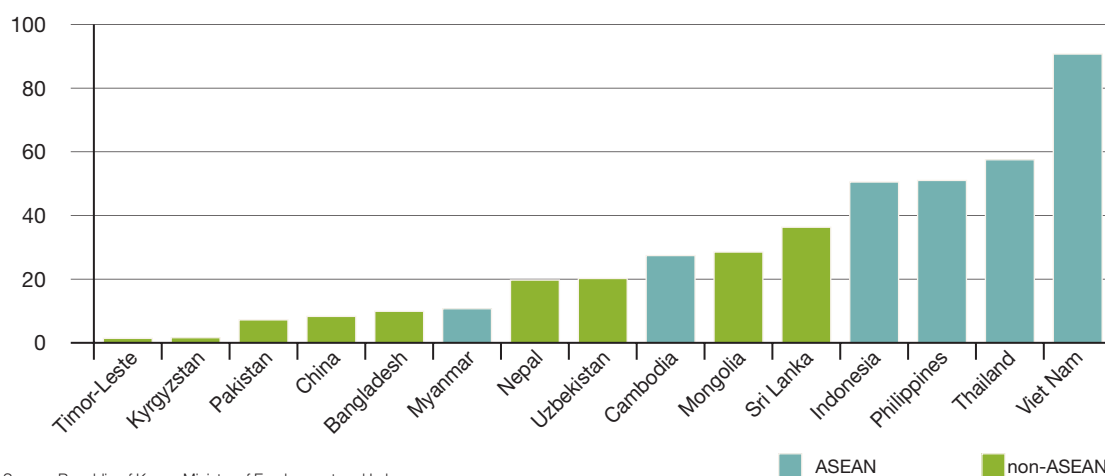
Under the EPS process, workers register their professional interests and background in their home countries and join a roster of potential workers. They also have to pass a Korean language test and have a medical check-up. Registered employers in the Republic of Korea then make job offers based on workers' profiles and issue contracts before departure. Employment can last for up to four years and ten months and under certain conditions can be renewed once. Throughout this period workers receive support and advice from the Republic of Korea's Human Resources Development Service,

which also oversees their return to their country of origin.

Since 2004, ASEAN Member States have sent some 288,000 workers to the Republic of Korea, accounting for 68.4 per cent of the total from all countries. Of the 15 countries that currently have memoranda of understanding to participate in the EPS, the top four are Viet Nam, Thailand, Philippines and Indonesia (see Box Figure 6-4).

Since its inception in 2004, the EPS has recruited over 420,000 migrant workers into some 44,000 registered enterprises. The scheme has greatly improved the transparency of the sending process and reduced the average cost of migration from \$3,509 in 2002 (under the Industrial Training System) to just \$927 by 2011. By providing productive employment and equal protection to migrant workers, the EPS has also reduced the overdue payment of wages, reduced industrial accidents, and improved workers' satisfaction over working hours and working conditions.

Box Figure 6-4 Total migrant workers received under the Employment Permit System by source country, 2004-13 (thousand)



Note: ADB recognizes "Kyrgyzstan" as the Kyrgyz Republic.
Source: Republic of Korea, Ministry of Employment and Labour.

Table 6-2 Ratification of Conventions related to migrant workers

	Migrant workers' rights			Equal treatment in social protection		
	Migration for Employment Convention (Revised), 1949 (No. 97)	Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143)	International Convention on the protection of the rights of all migrant workers and members of their families, 1990	Equality of Treatment (Accident Compensation) Convention, 1925 (No. 19)	Equality of Treatment (Social Security) Convention, 1982 (No. 118)	Maintenance of Social Security Rights Convention, 1982 (No. 157)
Brunei Darussalam
Cambodia	2004 ^(c)	...	...	...
Indonesia	2012	1950	...	...
Lao PDR
Malaysia	1964 ^(a)	...	...	1964	...	...
Myanmar	1927	...	...
Philippines	2009 ^(b)	2006	1995	1994	1994 ^(d)	1994
Singapore	1965	...	...
Thailand	1968	...	...
Viet Nam

Note: "..." indicates Convention not ratified; the information is valid as of 25 Apr. 2014; (a) only Malaysia-Sabah (also excludes the provisions of Convention No. 97, Annexes I to III); (b) excludes the provisions of Convention No. 97, Annex II and III; (c) signature only (not yet ratified); (d) includes branches (a)-(g) only.

Source: ILO: NORMLEX Database; Office of the United Nations High Commissioner for Human Rights.

particularly important to protect workers if governments apply foreign worker levies – since some employers may pass these on in the form of lower wages or benefits.

Using low-wage, low-skilled migrant labour may offer short-term gains. Nevertheless it can act as a disincentive for moving up the value chain and achieving higher productivity.¹⁴ Such technological stalling may not be due to the presence of migrant workers as such but to differences in how they are treated and the opportunities they have to invest in their education and become more productive. Only through adequate protection and sufficient opportunities for training and up-skilling will migrant

workers gain the chance to improve economic outcomes in their host countries, while assisting development and poverty reduction in their home countries through remittances. Member States' governments can do more to develop efficient and transparent systems for managing international migration flows in order to provide decent work and reduce the risks, costs and conditions placed on migrant workers. The opportunity for benefiting migrant workers and local employers mutually through a well-designed system for managing labour migration is evidenced in the Republic of Korea's Employment Permit System (Box 6-4).

To this end, government intervention is crucial in managing labour mobility in ASEAN. Specifically, Member States could benefit from actions in three key areas: ratifying and implementing international Conventions, extending the coverage and portability

¹⁴ Lee cites the abundance of low-skilled migrant workers in Malaysia's manufacturing sector as one of the reasons why its electronics industry remains relatively low skill and labour-intensive. H.A. Lee: *Developments in the Malaysian labour markets* (Mimeo, 2014).

of social security, and implementing the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (known as the Cebu Declaration on Migrant Workers).

Ratifying and implementing international Conventions

An important starting point for protecting migrant workers would be to ratify and implement international Conventions. In ASEAN, the only countries that have ratified all eight of the Fundamental Conventions are Cambodia, Indonesia and Philippines. All are net labour-sending countries. Conversely, none of the key ASEAN destination countries have ratified the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which prohibits distinctions, exclusions or preferences made on the basis of a person's race, colour, sex, religion, political opinion, national extraction (including nationals' place of birth, foreign origin, or ancestry) or social origin.¹⁵

Beyond the Fundamental Conventions, there are several that deal directly with migrant workers' rights, including the Migration for Employment Convention (Revised), 1949 (No. 97); the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143); and the United Nations' International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families, 1990, as well as several other key labour Conventions ensuring equal treatment for all workers in social protection (Table 6-2). Of the ASEAN Member States, only the Philippines has ratified all six; ratification remains especially weak

in the main countries of destination.¹⁶

To ensure sustainable integration through labour mobility, and harmonize labour policies, ratification and enforcement of international Conventions relating to migrant workers is critical. Building trust among the ASEAN Community will require common ground for the settlement of disputes and the oversight to ensure that workers and employers fulfil their responsibilities under national laws. It is also crucial that countries ensure domestic workers – who in ASEAN include many women migrants – are recognized as workers in their own right and are protected under national labour laws (Box 6-5).

Extending the coverage and portability of social security

In ASEAN, as elsewhere in the world, many migrant workers have no social protection – having forfeited their entitlements at home while facing highly limited and unequal protection abroad.

The right to social security is included in the Universal Declaration of Human Rights (1948), Article 22, and was recalled in the Cebu Declaration on Migrant Workers. Since the ILO's first session in 1919, there have been 31 Conventions and 24 Recommendations adopted to make social security a reality for all. The most recent instrument is the Social Protection Floor Recommendation, 2012 (No. 202), which Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Philippines, Thailand, and Viet Nam have already taken measures to implement.

Ensuring that migrant workers – in both formal and informal employment – enjoy equal access to social security benefits under contributory

15 ILO: *Equality and non-discrimination at work in East and South-East Asia: Guide* (Bangkok, 2012).

16 Note that Malaysia's implementation of the Equality of Treatment (Accident Compensation) Convention, 1925 (No. 19), has had some longstanding inconsistencies regarding migrant workers reported by the ILO: *Report of the Committee of Experts on the Application of Conventions and Recommendations*, www.ilo.org/dyn/normlex/en/f?p=1000:13100:0::NO:13100:P13100_COMMENT_ID:2698038 [accessed 27 June 2014].

Box 6-5 Protecting migrant domestic workers in ASEAN

Hundreds of thousands of migrants throughout ASEAN work in private households as cleaners, cooks, drivers, gardeners, gatekeepers, and caretakers for infants, the sick and the elderly. Although their work is seldom acknowledged as such, it allows other women and men to perform their own economic roles, thus contributing greatly to economic and social outcomes. Nevertheless, many ASEAN Member States continue to disregard domestic workers as workers and withhold from them the most basic rights and protections. This situation is worsened by the fact that some migrant domestic workers are undocumented and that many more work informally.

Malaysia currently has around 350,000 migrant domestic workers.¹ They are excluded from the Employment Act, 1955, and do not have access to basic rights including maternity provisions, termination benefits, annual and medical leave, and regular weekly rest.² Domestic workers are also excluded from the coverage of Malaysia's minimum wage. The Government is currently drafting a new regulation on domestic workers, but several of its elements unfortunately are not in line with the international standards set down in the Domestic Workers Convention, 2011 (No. 189).

Singapore had some 214,500 migrant domestic workers registered at the end of 2013.³ Similar to Malaysia, these workers have no coverage under the Employment Act, 2009, or the Work Injury Compensation Act, 2008, and thus have no guarantees on limits to working hours, overtime entitlements, or paid medical leave. The Government recently established a weekly day of rest for registered domestic

workers, replacing what had previously been a legal monthly day of rest.

Thailand's official figures recorded approximately 83,000 registered migrant domestic workers in 2011, though the actual figure (including undocumented migrants) is probably much higher.⁴ In 2012, a Ministerial Regulation extended several rights and protections to registered migrant domestic workers including a weekly day of rest, traditional national holidays, paid sick leave and annual leave, provisions on termination of employment, and new mechanisms to redress abuse or harassment. Nevertheless, the Regulation excludes limits on domestic workers' working hours, minimum wage and social security coverage, rights to paid maternity leave, and job security in case of pregnancy.⁵

While domestic work involves a significant share of migrant workers in ASEAN – especially women – much remains to be done to protect and empower them. One starting point would be to follow the Philippines in ratifying and applying the Domestic Workers Convention, 2011 (No. 189), and the Domestic Workers Recommendation, 2011 (No. 201). Another would be to acknowledge undocumented migrant domestic workers and seek ways to legitimize their status and decent working conditions. Skills recognition frameworks would also help to certify domestic workers' skills and experience in different work areas in order to better distinguish and remunerate them. Harmonized skills recognition on a regional scale would also facilitate labour mobility and promote formal employment within the sector.

1 P. Hangzo and A. Cook: *The Domestic Workers Convention 2011: Implications for migrant domestic workers in Southeast Asia*, NTS Insight (Singapore: RSIS Centre for Non-Traditional Security (NTS) Studies, Apr. 2012).

2 Asia Pacific Forum on Women, Law and Development (APWLD): *The right to unite: A handbook on domestic worker rights across Asia* (Chiang Mai, APWLD, 2010).

3 Singapore Ministry of Manpower: *Foreign workforce numbers*, <http://www.mom.gov.sg/statistics-publications/others/statistics/Pages/ForeignWorkforceNumbers.aspx> [accessed 27 June 2014].

4 ILO: *Thailand: New Ministerial Regulation offers better protection of domestic workers' rights* (Geneva, ILO, 2013).

5 Ibid.

Table 6-3 Coverage of migrant workers under social security by country and branch, 2014

Country	Branch of social security provided overall									Do these cover migrants?
	Medical care	Sickness	Unemployment	Old age	Work injury	Family	Maternity	Invalidity	Survivors	
Main destination countries										
Singapore	•	•		•	•		•	•	•	No
Brunei Darussalam	•	•		•	•		•	•	•	No
Malaysia	•			•	•			•	•	Yes ^(b)
Thailand	•	•	•	•	•	•	•	•	•	Yes
Main source countries										
Cambodia ^(a)	•	•		•	•		•	•	•	Yes
Indonesia	•	•		•	•			•	•	Yes
Lao PDR ^(a)	•	•	•	•	•	•	•	•	•	Yes
Myanmar ^(a)	•	•	•	•	•	•	•	•	•	Yes
Philippines	•	•		•	•		•	•	•	Yes ^(b)
Viet Nam ^(a)	•	•	•	•	•		•		•	Yes

Note: Information is based on social security laws and acts but does not consider any sub-level decrees or regulations that might hold relevant provisions; (a) Social security laws have been adopted though the implementing legal texts are still in draft form. (b) Excludes medical care. "Yes" means migrant workers are covered equally with non-migrants. "No" means only nationals and/or permanent residents are eligible. "•" indicates a branch of social security is provided within a given country.

Source: ILO compilation from official national sources.

and non-contributory schemes is important. Implementing bilateral social security agreements within this context could also enable migrant workers to maintain their entitlements to pension benefits and ensure these are transferrable across borders.

Social security laws in Brunei Darussalam and Singapore still do not cover migrant workers without permanent residency, withholding from them a number of key protections (Table 6-3).

The duty to protect migrant workers also extends to the countries of origin. Some countries already make efforts to do so. Social security laws in Indonesia and the Philippines, for example, encompass migrant workers under a range of protections, as do the current draft laws in Cambodia, Lao People's Democratic Republic, Myanmar and Viet

Nam. In Thailand, although the Social Security Act, 1990, does include migrant workers, it has incompatibility with existing migration laws and is thus often ineffective. Likewise in Malaysia, though migrant workers are covered under the Social Security Act, 1969, employers in practice are not obliged to register them under the national schemes and often outsource the responsibility to commercial providers.

Ensuring better protection for migrant workers will require reforms in three key areas. The first involves fulfilling the rights of documented migrant workers. They continue to face legal and administrative obstacles when registering for social insurance schemes, transferring entitlements across borders, and obtaining information on their rights and avenues for seeking redress for violation or abuse.

Even though they contribute taxes, migrant workers are often also excluded from social assistance and universal protection schemes.

Second, there is an urgent need to address the rights of undocumented migrant workers—including many seasonal workers, domestic workers, rural workers, and those in informal or hazardous work – who are excluded from social assistance and insurance schemes, compounding their vulnerability to exploitation and harm. In August 2013, Thailand’s Ministry of Health announced a new social health protection scheme that covers all migrant workers (including undocumented migrant workers as well as refugees). The scheme offers the same benefit package as under the Universal Coverage Scheme but on a contributory basis. It is aimed at migrant workers who work or live in Thailand without a work permit and therefore do not contribute to the Social Security Fund.

Third, ASEAN governments can take steps to harmonize their systems for social protection and social services. At present, uneven provisions lead to opportunism and “free-riding” across borders, whereby workers from countries with weaker services might place a burden on others. Much of this danger can be avoided through equitable and cohesive development under the ASEAN Community, coupled with fair and equal access to social security for all through national social protection floors.

Implementing the Cebu Declaration on Migrant Workers

The Cebu Declaration on Migrant Workers calls on both countries of origin and countries of destination to promote the “full potential and dignity of migrant workers in a climate of freedom, equity, and stability” in accordance with national laws (Article 1). In destination countries, the Declaration emphasizes “fair and appropriate employment protection, payment of wages, and adequate access to decent working and living conditions for migrant workers” (Article 8). The Declaration also mandates “the

relevant ASEAN bodies [...] to develop an ASEAN instrument on the protection and promotion of the rights of migrant workers” on which it monitors progress during the annual ASEAN Ministerial Meeting (Article 22).

The Cebu Declaration on Migrant Workers is a landmark, though non-binding, agreement. However more needs to be done to implement it and to align national policies with its principles. A coherent, functioning ASEAN labour mobility policy – with commitment from all Member States – is critical for a sustainable AEC. Coordinated action can also be targeted towards reducing the cost of migration (including employer’s recruitment costs) and the cost of remitting money while ensuring that the legal channels for migration are accessible and that the different responsibilities and rights associated with them are transparent, well known and clearly understood. In order to deal with labour supply bottlenecks, and respond to production demands, destination countries will need medium-skilled and low-skilled migration. Young workers from the countries of origin could take up these jobs provided there is a proper qualification framework and facilitated entry.

If the ASEAN region is to harness the full benefits of integration through the AEC, and transform into a single production base, Member States will need to cooperate through a continuous dialogue on labour resources and mobility.¹⁷ In this, procedures for implementation and enforcement should be decided upon in a time-bound and transparent manner.

Conclusion

Intra-regional migration is rising throughout ASEAN as its economies become more integrated. Driven primarily by structural factors – resulting from demographic and economic disparities among

¹⁷ A comprehensive table detailing the existing bilateral agreements on labour mobility among pairs of ASEAN Member States is included in Annex E.

Member States – labour mobility will most likely continue to rise after 2015. The region's continued and shared prosperity will depend on building safer, cheaper and more transparent pathways for migrant workers. Better management of labour mobility throughout ASEAN would help to address receiving countries' labour market needs while creating employment opportunities for migrant workers and bringing new skills, ideas and networks to sending countries.

Although the AEC provides for the free movement of some groups of highly-skilled professionals, its approach stands in sharp contrast with existing realities. Labour migration within ASEAN is mainly dominated by low- and medium-skilled workers in manufacturing, construction, fishing and domestic work and it is likely to remain so long into the medium term. Recognising additional occupations under multilateral frameworks could provide better channels for such workers, while promoting a more sustainable and legitimate mode of managing labour mobility, offering benefits for both source and destination countries.

Protecting migrant workers on an equal footing with nationals can promote both equity and efficiency. It reduces labour market segregation among national and non-national workers and ensures that some employers cannot compete unfairly. Developing adequate protections in this area requires further action on three fronts: ratifying and implementing international Conventions, extending the coverage and portability of social security to all migrant workers, and implementing existing multilateral commitments including the Cebu Declaration on Migrant Workers.

Policies for decent work in an integrated ASEAN

Integration through the ASEAN Economic Community will only be successful and sustainable if it delivers decent work to millions of workers across the region. Transforming ASEAN into a single production base and a common market will require corresponding adjustments and interventions in the labour market. This chapter highlights the report's main findings and policy conclusions.

How will the ASEAN Community change the structure of employment, the demand and supply of skills, productivity and wages, and the nature and pattern of labour mobility? How will this affect the lives of women and men through their jobs and the world of work?

These questions are particularly relevant because, despite impressive economic growth, the ASEAN region is not delivering sufficient quality jobs. These will be needed even more in the future for those workers leaving agriculture and for the new entrants to the labour force between 2010 and 2025 – estimated to be more than 68.2 million women and men, many of whom will be young, first-time job seekers.

The priorities differ from country to country. Cambodia, Indonesia, Myanmar and Philippines, for example, have expanding working-age populations and young labour forces, so face pressures on the labour supply side. Others, such as Singapore and Thailand, have ageing populations and are likely to face problems on the demand side through labour shortages. The AEC will affect these pressures of supply and demand.

How can the region best manage its human resources, estimated to be about 370 million in 2025? How can it, as noted in the AEC Blueprint, “achieve higher levels of economic dynamism, sustained prosperity, inclusive growth and integrated development of ASEAN”?¹

The impacts of the AEC on the labour market will be conditioned by factors both inside and outside of ASEAN. ASEAN factors include rising regional connectivity through the development of infrastructure, trade facilitation, MRAs on skills and qualifications and labour mobility. Particularly important for promoting regional cooperation and integration in ASEAN are sub-regional economic zones such as the GMS, IMT-GT, and BIMP-EAGA. Key issues outside of ASEAN relate to the volatile global economic context affecting FDI and exports, and the rising competitiveness challenges from China and India. At the same time, labour markets need to be responsive to the massive opportunities provided by the rapid growth of China and

1 Declaration on the ASEAN Economic Community Blueprint, Singapore, Nov. 2007.

India, including the existence of regional cooperation agreements such as CAFTA.

Main findings

This study assessed potential outcomes under the AEC by simulating various scenarios and analysing existing evidence. It has reviewed the AEC's existing policies, institutions and coordination mechanisms, as well as examples from other initiatives for regional integration. The main findings of the study are as follows:

- **Increases in output** – The AEC will accelerate structural change, and create new opportunities and challenges. Compared to the baseline trend, closer trade integration between the ten countries under the AEC could, by 2025, lift aggregate output by as much as seven per cent.
- **Job losses and gains** – The distribution of these gains will not be uniform across countries, sectors, skill groups or sex. Overall, around 14 million additional jobs could be generated by 2025, but jobs will be created in some industries and lost in others. Job gains for men could be greater than those for women. ASEAN Member States will therefore need to address existing problems of unemployment, informality and poor job quality while simultaneously dealing with challenges emerging from closer regional cooperation and integration.
- **Productivity gains** – Countries will witness significant productivity gains. In Cambodia, Indonesia, Lao People's Democratic Republic, Thailand and Viet Nam, for example, output per worker could double. This would help the CLMV countries compete in global markets through higher productivity rather than on the basis of low wages. Meanwhile, Malaysia and Thailand could climb to the next rung in the development ladder and reach high-income status, avoiding a middle-income trap.
- **Greater demand for skills** – The AEC will accelerate the demand for skilled workers.

Governments can prioritize education and training policies and align these with national development and employment policies to ensure that gains from integration benefit the most vulnerable, including women and young people. Otherwise, ASEAN Member States risk suffering persistent skills shortages and mismatches.

- **Little impact on skilled migration, but continuing medium- and low-skilled migration** – Labour mobility will be driven primarily by demographic and economic disparities between countries. Migration in ASEAN will continue in the low- and medium-skill segments, primarily in manufacturing, construction, fishing, and domestic work – often undocumented. In principle, steps to free up the movement of skilled workers in the AEC framework could lead to significant gains. However, current agreements on migration policies do not address existing realities – being confined to a restricted list of eight occupational categories which together constitute a tiny share of total employment in ASEAN.
- **The opportunity for shared prosperity** – Regional integration holds great promise for shared prosperity, but could also increase inequality. Member States will need to develop policies and institutions to ensure inclusive and fair outcomes.

Priority actions

To ensure that the AEC leads to greater prosperity for all women and men in ASEAN, Member States should prioritize the following actions:

A. Facilitate and manage structural change

In many ASEAN Member States, the AEC is likely to see increased employment in trade and transport, as well as in construction and private services. These are sectors often associated with vulnerable employment and the informal economy. There is also the risk that displaced workers will be unable to gain

employment in more productive sectors. To this end, governments can facilitate and manage structural change at both national and regional levels so as to steer the region towards equitable economic growth:

1. **Industrial and sectoral policies** – Facilitating the shift towards higher productivity sectors, and the diversification of employment in manufacturing, will require well-designed industrial and sectoral policies that are coordinated and developed in tandem with employment and skills policies.
2. **Education and training** – ASEAN's shift towards higher value-added industries calls for academic excellence in science, technology, engineering and mathematics, and fostering diverse career paths for young women and men. Workers need to be equipped with skills for present and future jobs and have the capacity to adapt to the requirements of fast changing technology. Education and training systems need to improve access and quality. Vocational and core skills should also be promoted, particularly those relevant to fast growing sectors.
3. **Social protection** – Effective social protection and other labour market policies can help mitigate the adjustment costs of structural change and address informality, especially for vulnerable groups. The extension of social protection should include building nationally defined social protection floors, along with extending the coverage and scope of social security systems to include migrant workers and other vulnerable groups. A sound framework for this purpose is the ASEAN Declaration on Strengthening Social Protection, adopted in October 2013.
4. **Small and medium enterprises** – Maximizing the benefits of regional integration will mean unlocking the potential of small and medium enterprises by strengthening the productivity and competitiveness of such firms through good management and improved labour practices,

simplification of administrative procedures, facilitated access to finance and business development services, partnerships with larger enterprises, and integration into the formal economy. SMEs in the region will also need information on the AEC and its implications, as well as on market opportunities in ASEAN. Particular attention needs to be paid to women's enterprises.

5. **Investing in infrastructure** – Better infrastructure would help accelerate regional connectivity and economic growth – and simultaneously reduce poverty and income disparities. This would narrow development gaps between and within ASEAN Member States by facilitating trade, building supply chains and developing financial links, which in turn can foster higher productivity. The completion of GMS economic corridors as well as the implementation of the Master Plan on ASEAN Connectivity will provide a huge boost to regional cooperation and integration.

B. Ensure that economic gains lead to shared prosperity.

The AEC has the potential to lead to higher output, trade, employment and productivity. But balanced and inclusive growth will need appropriate policies and labour market institutions.

1. **Strengthening the productivity-wage link** – If workers can benefit from growth, this will increase household consumption and drive domestic and regional demand as well as spur inclusive and sustained economic growth. This requires effective minimum wage institutions to help those at the bottom of the wage distribution, along with better mechanisms for collective bargaining – which would also minimize industrial conflict. Linking wage growth to productivity growth would ensure that workers share in the fruits of economic dynamism in ASEAN.
2. **Improving opportunities for better quality jobs** – Skills development initiatives should

equip and certify workers, particularly young women and men, with the skills demanded by employers, especially in high-growth productive sectors and occupations. This would provide a ladder to higher-skill jobs with better wages and working conditions and ease the transition for young women and men from the classroom to the workplace.

3. **Promoting gender equality** – Without appropriate policy action, job creation through the AEC could widen existing gender gaps in labour force participation and access to quality jobs – increasing the disadvantages faced by women. ASEAN Member States increasingly realize that it is smart economics to utilize all available human resources. It is therefore imperative to deal with the labour market discrimination faced by women. Further policy commitment is required along with practical measures based on analysis of sex-disaggregated data. This should aim to reduce gender disparities and promote gender equality in various dimensions – employment, education and training, wages and migration.
4. **Protecting migrant workers** – The ASEAN Multilateral Framework on Migration can guide migration policies, but the main mechanisms for facilitating labour migration are likely to be bilateral agreements. These need to be simplified and strengthened to ensure that migrant workers are protected and treated fairly. Female migration in ASEAN is dominated by domestic work so it is important that governments ratify the ILO’s Domestic Workers Convention, 2011 (No. 189), and extend the necessary rights and protections. It is also important to enforce labour laws based on principles of equal treatment of migrant workers. This would help reduce labour market segmentation and minimize dependence on cheap foreign workers, while creating a level playing field for enterprises.

C. Strengthen regional cooperation

Realizing the potential of the AEC for better jobs and social progress will necessitate deeper regional partnerships between governments, workers and employers. Regional and bilateral mechanisms can promote knowledge exchange and technical assistance, and draw on international best practices and policies. The necessary coordination and facilitation can be provided by the ASEAN Secretariat.

1. **Implementing the Cebu Declaration on Migrant Workers and ASEAN Declaration on Social Protection** – The Cebu Declaration on Migrant Workers calls on source and destination countries to “Promote decent, humane, productive, dignified and remunerative employment for migrant workers” in accordance with national laws. It is important to address the “legitimate concerns” of receiving countries and address issues that have hampered the implementation of this ASEAN Declaration while aligning national policies with its principles.² The 2013 ASEAN Declaration on Social Protection reaffirms the Member States’ commitment to build an ASEAN community that is socially responsible and people oriented by, notably, fostering national social protection floors in the region and recognizing the rights of migrant workers and other vulnerable groups to “equitable access to social protection that is a basic human right and based on a rights-based/needs-based, life-cycle approach”.³
2. **Expanding mutual recognition arrangements** – ASEAN-wide understanding and management of labour migration would benefit from an expansion of mutual recognition agreements on skills and qualifications. This would also reduce irregular migration. Initially this could

2 ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, Cebu, Jan. 2007, art. 15 and para. 7.

3 ASEAN Declaration on Strengthening Social Protection, Bandar Seri Begawan, Oct. 2013, principle 1.

involve medium-skill occupations for which there is high potential demand, with a view to managing labour mobility in the longer term. Towards this end, governments can complete the ASEAN Qualifications Reference Framework to strengthen and benchmark their national qualifications frameworks, while developing regional model competency standards in key sectors such as construction.

3. **Improving labour market information, research and analysis** – Regional technical assistance should focus on ensuring regular, at least annual, production of key sex-disaggregated labour market data for all ASEAN Member States. This should involve comparative indicators based on international definitions – improving the measurement of earnings and skills differentials and strengthening the information base on gender, informality and inequality, youth unemployment and labour migration. Data are also needed to address the needs of private sector enterprises and must be shared between countries as well as between public and private sectors to promote evidenced-based research and analysis of the AEC labour market impacts.
4. **Tripartite dialogue** – Regional tripartite dialogue will help improve any AEC monitoring system and the design and implementation of labour market policies to complement economic and trade policies. This should involve cooperating with the private sector and workers' organizations on the potential effects of the AEC on businesses and workers. Greater consultation, more effective business councils, and increased participation of the private sector and workers organizations, including those that relate to women and youth, in decision-making processes would also be beneficial.

Guiding principles

The AEC should help propel the region towards a prosperous and inclusive society – with positive

spillover effects on jobs and working conditions, and therefore on the quality of life of women and men. The ultimate success of regional integration in ASEAN will therefore depend very much on its effects on the labour market. The following guiding principles are relevant in making policy decisions:

1. **Fulfilling ASEAN commitments** – ASEAN leaders have met regularly over the past 40 years and established mutual trust and understanding as well as many useful programmes for cooperation. They have made landmark Declarations such as the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers and the ASEAN Declaration on Social Protection. Implementing these Declarations through a common understanding at the regional and national levels could be key to the AEC's success.
2. **Coherent regional and national policies** – ASEAN needs to arrive at a sense of the “collective” in synchronizing regional and national priorities and policies. This will be important for managing and nurturing human resources so as to boost skills and productivity – through a skills recognition framework along with measures to protect workers and enterprises. The starting point is the ratification and enforcement of international labour standards to ensure that the region creates a level playing field for all workers and enterprises, promotes fair competition as it turns into a single production base, and avoids a race to the bottom.
3. **Sequencing policies and labour market interventions** – Member States of ASEAN differ in many respects – in terms of levels of development, demographic transitions and political systems. In particular there are sizeable disparities between the CLMV and the ASEAN-6 countries. The appropriate policy mix will therefore depend on the specific needs of each country. Furthermore, there will need to be sequencing between short-term priorities related to integration, job losses

and enterprise sustainability and longer-term needs of building better labour market institutions. For the CLMV countries creating better jobs will mean increasing labour productivity in agriculture while other ASEAN Member States will aim to enhance labour productivity in services.

4. ***Initiating programmes and projects in newly connected areas*** – ASEAN may consider initiating pilot tests or focusing labour market programmes and initiatives in areas that are based on new economic corridors. These are tying the region together and are likely to intensify economic activity.

The AEC could have substantial and lasting implications for the labour market in the region. Forward thinking supported by an evaluation of the benefits and costs of labour market outcomes are needed to mitigate risks to workers and enterprises, in both the short and long terms, especially in the CLMV countries. The ADB and the ILO could support the ASEAN Secretariat in its regional initiatives which, in the context of the AEC, will require greater coordination by supporting mechanisms for sharing and discussing regional and national roadmaps and policy priorities and their labour market impacts. The two organizations could also provide technical assistance to countries to address their labour market concerns, supporting labour market monitoring capacity, and promoting dialogue between different stakeholders at national and regional levels.

Annexes

Annex A: The CGE model¹

The computable general equilibrium (CGE) model used in this report to assess the welfare and labour market impact of ASEAN economic integration initiatives is based on a global general equilibrium model developed by Dominique van der Mensbrugge and Fan Zhai.² The model has its intellectual roots in a long tradition of multi-country, applied general equilibrium models.³ A novel feature of the model is its incorporation of recent innovations in heterogeneous-firms trade theory into an empirical global CGE framework. The model features intra-industry firm heterogeneity in productivity and the fixed costs of exporting, enabling the investigation of the intra-industry reallocation of resources and the exporting decision by firms, and thereby capturing both the intensive and extensive margin of trade. The model is described in detail below.

A. Basics of the CGE model

1. Production and trade

Agriculture, mining and government services sectors are assumed to exhibit perfect competition. In each of these sectors, a representative firm operates under constant returns-to-scale technology. Trade is modelled using the Armington assumption for import demand. Manufacturing and private services are characterized by monopolistic competition, and their structure of production and trade follows the seminal Melitz approach.⁴ Each sector with monopolistic competition consists of a continuum of firms that are differentiated by the varieties they produce and their productivity. Firms face fixed production costs, resulting in increasing returns to scale. There are also fixed costs and variable costs associated with exporting activities. On the demand side, agents have Dixit-Stiglitz preference over the continuum of varieties. As each firm is a monopolist for the variety it produces, it sets the price of its product at a constant mark-up over marginal cost. A firm enters domestic or export markets if and only if the net profit generated from such sales is sufficient to cover fixed cost. This zero cut-off profit condition defines the productivity thresholds for a firm's entering domestic and exports markets, and in turn determines the equilibrium distribution of

1 This annex is based on M. Plummer, P. Petri and F. Zhai: *Assessing the impacts of ASEAN integration on labour markets*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

2 D. van der Mensbrugge: *LINKAGE Technical reference document: Version 6.0* (Washington, DC, World Bank, 2005); F. Zhai: "Armington meets Melitz: Introducing firm heterogeneity in a global CGE model of trade", in *Journal of Economic Integration* (2008, Vol. 23, No. 1, Sep.), pp. 575-604.

3 See for example J.B. Shoven and J. Whalley: *Applying general equilibrium* (Cambridge, Cambridge University Press, 1992); T. Hertel: *Global trade analysis: Modeling and applications* (New York, Cambridge University Press, 1997).

4 M. Melitz: "The impact of trade on intra-industry reallocations and aggregate industry productivity", in *Econometrica* (2003, Vol. 71, No. 6), pp. 1695-1725.

non-exporting firms and exporting firms, as well as their average productivities. Usually, the combination of a fixed export cost and a variable (iceberg) export cost ensures that the exporting productivity threshold is higher than that for production for domestic market, so that only a fraction of firms with high productivity export. These firms supply for both domestic and export markets. The number of firms in the monopolistic sectors is assumed to be fixed.

Production technology in each sector is modelled using nested constant elasticity of substitution (CES) functions. At the top level, the output is produced as a combination of aggregate non-energy intermediate demand and a value added-energy bundle. At the second level, non-energy aggregate intermediate demand is split into each commodity according to a Leontief technology. The value added-energy bundle is produced by a capital-land-energy bundle and aggregate labour. The capital-land-energy bundle is further decomposed into capital-land bundle and aggregate energy. Finally, at the bottom level, aggregate labour is decomposed into unskilled and skilled labour, and the capital-land bundle is decomposed into capital and land (for the agriculture sector) or natural resources (for forestry, fishing and mining sectors). The energy composite good is subsequently decomposed into various fuel components (for example coal, oil, and gas) where relevant. At each level of production, there is a unit cost function that is dual to the CES aggregator function and demand functions for corresponding inputs. The top-level unit cost function defines the marginal cost of sectoral output.

In the six ASEAN Member States for which micro-data files of labour force surveys were made available (Cambodia, Indonesia, Lao People's Democratic Republic, Philippines, Thailand and Viet Nam), at the second level of the production structure, the value-added cum energy bundle is decomposed into less-skilled aggregate labour on the one hand, and a capital-land-energy bundle on the other hand. The capital bundle is split into its human (or skilled labour) and physical capital components, and the less-skilled aggregate labour is composed of semi-skilled and unskilled labour.

2. Income distribution, demand and factor markets

Incomes generated from production accrue to a single representative household in each region. A household maximizes utility using Extended Linear Expenditure System (ELES), which is derived from maximizing the Stone-Geary utility function. The consumption/savings decision is completely static. Savings enter the utility function as a good and its price is set as equal to the average price of consumer goods. Investment demand and government consumption are specified as a Leontief function. In each sector a composite good defined by the Dixit-Stiglitz aggregator over domestic and imported varieties is used for final and intermediate demand.

There are five primary factors of production. Capital, agricultural land and labour are fully mobile across sectors within a region. In natural resource sectors of forestry, fishing and mining, a sector-specific factor is introduced into the production function to reflect the resource constraints. In each period the aggregate capital stock is predetermined by the investment and savings decision of the previous periods. The supply of land and sector-specific factors is assumed to be elastic, with response to the changes in their respective prices.

The model differs from most other CGE approaches, including an earlier work by Peter Petri, Michael

Plummer and Fan Zhai, in the treatment of labour markets.⁵ Usually the supply of labour is assumed to be fixed and its market is cleared through wage adjustment. However, for the six ASEAN Member States, persistent unemployment for some categories of workers is assumed. The ASEAN economies are differentiated from other regions by distinguishing three labour supply mechanisms according to different skill levels. Specially, in the six ASEAN Member States, the supply of skilled labour is fixed in each period, given the tight markets for skilled labour in the region. For unskilled labour, infinite supply and a fixed real wage rate is assumed to reflect the persistent large-scale underemployment in this category of labour in most ASEAN Member States. Semi-skilled labour falls between these extremes; hence, a constant-elasticity supply function with a unitary elasticity of labour supply with respect to its real wage is assumed.

In this specification, shocks that make ASEAN firms more competitive internationally, including the policy changes modelled, enable firms to expand with less binding labour constraints than are typically imposed by CGE models. The employment of unskilled workers can expand without limit at constant wage rates, and the employment of semi-skilled workers can grow with only moderate wage increases. Unskilled and semi-skilled workers can in turn be substituted, to some extent, for skilled workers and other inputs whose supply is subject to conventional limits. In the simulations of integration alternatives, this modelling approach typically yields solid increases in output, trade and employment, as well as overall benefits in excess of the usual gains from trade.

3. Macro closure

There are three macro closures in the model: the net government balance, the trade balance, and the investment and savings balance. It is assumed that government consumption and saving are exogenous in real terms. Any changes in the government budget are automatically compensated by changes in income tax rates on households.

The second closure concerns the current account balance. In each region, the foreign savings are set exogenously. With the United States GDP deflator being chosen as the numéraire of the model, equilibrium in the foreign account is achieved by changing the relative price across regions, in other words, it is the real exchange rate.

Domestic investment is the endogenous sum of household savings, government savings and foreign savings. As government and foreign savings are exogenous, changes in investment are determined by changes in the levels of household saving. This closure rule corresponds to the neoclassical macroeconomic closure in the CGE literature.

4. Recursive dynamics

The model is recursive dynamic, beginning with the base year of 2007 and solved annually through 2025. Dynamics of the model are driven by exogenous population and labour force growth, as well as capital accumulation and exogenous technological progress. Population and labour force projections are based on the United Nation's medium-variant forecast. Technological progress is assumed to be labour-augmented, so the model can reach a steady state in the long run.

⁵ P. Petri, M.G. Plummer and F. Zhai: *The Trans-Pacific Partnership and Asia-Pacific Integration: A quantitative assessment* (Washington, DC, Peterson Institute for International Economics, 2012).

Table A1 Employment by sector as a share of total employment under the baseline and AEC scenarios (per cent)

Cambodia				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	55.0	50.0	48.3	-1.7
Industry	14.9	18.1	19.4	1.3
Mining	0.2	0.3	0.3	0.0
Food processing	1.5	1.3	0.7	-0.6
Textiles	1.4	1.4	1.7	0.3
Apparel	5.1	4.8	4.7	-0.1
Wood products	0.3	0.3	0.4	0.1
Chemicals	0.5	0.8	1.0	0.2
Metals	0.4	0.5	0.5	0.0
Electrical equipment	0.1	0.2	0.2	0.0
Vehicles	0.2	0.3	0.5	0.2
Machinery	0.1	0.1	0.2	0.0
Other manufacturing	0.2	0.3	0.4	0.1
Utilities	0.2	0.2	0.3	0.0
Construction	4.7	7.6	8.5	0.9
Services	30.1	31.9	32.3	0.4
Trade and transportation	15.9	17.5	19.1	1.5
Private services	5.2	5.3	5.0	-0.3
Government services	9.0	9.1	8.2	-0.8
Total	100.0	100.0	100.0	0.0

Indonesia				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	37.2	28.6	28.5	-0.1
Industry	20.5	21.9	22.1	0.2
Mining	0.7	0.6	0.6	0.0
Food processing	3.3	3.6	3.2	-0.3
Textiles	1.3	1.1	1.2	0.1
Apparel	1.5	1.0	1.0	0.0
Wood products	1.0	0.7	0.7	0.0
Chemicals	1.7	2.2	2.3	0.1
Metals	1.7	1.5	1.5	0.1
Electrical equipment	0.2	0.3	0.4	0.0
Vehicles	0.5	0.3	0.3	0.0
Machinery	0.5	0.4	0.4	0.0
Other manufacturing	0.9	1.0	1.0	0.1
Utilities	0.2	0.1	0.1	0.0
Construction	7.0	9.2	9.3	0.1
Services	42.3	49.4	49.4	-0.1
Trade and transportation	29.3	35.6	35.6	0.0
Private services	3.2	3.9	3.9	0.0
Government services	9.8	9.9	9.8	-0.1
Total	100.0	100.0	100.0	0.0

Lao PDR				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	69.0	66.8	66.0	-0.8
Industry	8.5	9.5	10.0	0.5
Mining	0.0	0.0	0.1	0.0
Food processing	2.8	2.7	1.5	-1.2
Textiles	0.6	0.6	0.5	-0.1
Apparel	0.6	0.5	0.6	0.1
Wood products	0.2	1.1	1.4	0.3
Chemicals	0.1	0.1	0.1	0.0
Metals	1.5	1.5	2.0	0.5
Electrical equipment	0.0	0.0	0.0	0.0
Vehicles	0.1	0.1	0.8	0.7
Machinery	0.1	0.2	0.4	0.1
Other manufacturing	0.2	0.1	0.1	-0.1
Utilities	0.5	0.4	0.5	0.0
Construction	1.8	2.0	2.1	0.1
Services	22.5	23.7	23.9	0.2
Trade and transportation	12.1	12.4	12.7	0.3
Private services	3.5	4.1	4.5	0.3
Government services	6.9	7.1	6.8	-0.4
Total	100.0	100.0	100.0	0.0

Philippines				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	34.8	28.6	29.0	0.4
Industry	16.6	17.3	17.5	0.2
Mining	0.5	0.4	0.4	-0.1
Food processing	2.1	2.3	2.4	0.1
Textiles	0.4	0.3	0.3	0.0
Apparel	1.1	1.1	1.1	0.0
Wood products	0.9	0.7	0.7	0.0
Chemicals	1.1	1.0	0.9	-0.1
Metals	0.6	0.4	0.4	0.0
Electrical equipment	1.8	2.1	2.1	0.0
Vehicles	0.5	0.5	0.6	0.1
Machinery	0.8	0.6	0.6	-0.1
Other manufacturing	0.5	0.4	0.4	0.0
Utilities	0.6	0.6	0.6	0.0
Construction	5.6	6.8	7.1	0.3
Services	48.6	54.0	53.5	-0.6
Trade and transportation	28.3	32.8	32.7	-0.1
Private services	8.7	10.0	10.0	0.0
Government services	11.6	11.3	10.8	-0.5
Total	100.0	100.0	100.0	0.0

Thailand				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	38.3	33.7	34.9	1.1
Industry	21.5	23.5	24.1	0.6
Mining	0.3	0.2	0.2	0.0
Food processing	2.4	3.4	3.6	0.2
Textiles	1.0	0.6	0.6	0.0
Apparel	2.0	1.9	1.6	-0.2
Wood products	1.0	0.7	0.6	0.0
Chemicals	1.9	1.9	1.9	0.1
Metals	1.6	1.2	1.2	0.0
Electrical equipment	1.5	2.1	2.1	0.0
Vehicles	1.3	1.8	2.1	0.3
Machinery	1.3	1.6	1.8	0.2
Other manufacturing	1.1	0.7	0.7	-0.1
Utilities	0.6	0.5	0.5	0.0
Construction	5.4	6.9	7.2	0.2
Services	40.1	42.7	41.0	-1.8
Trade and transportation	27.4	31.7	31.0	-0.7
Private services	3.1	1.8	1.2	-0.6
Government services	9.5	9.2	8.7	-0.5
Total	100.0	100.0	100.0	0.0

Viet Nam				
	2010 Baseline scenario	2025 Baseline scenario (I)	2025 AEC scenario (II)	II-I (percentage points)
Agriculture	44.7	35.5	35.2	-0.3
Industry	21.9	23.4	23.5	0.1
Mining	1.0	0.6	0.5	0.0
Food processing	2.7	3.9	3.7	-0.2
Textiles	0.7	0.7	0.7	0.0
Apparel	3.8	4.9	5.0	0.1
Wood products	1.1	0.5	0.5	-0.1
Chemicals	0.9	0.7	0.7	0.0
Metals	1.6	1.0	1.0	0.0
Electrical equipment	0.3	0.3	0.3	0.0
Vehicles	0.5	0.4	0.4	0.0
Machinery	0.5	0.4	0.5	0.0
Other manufacturing	1.3	0.9	0.9	0.0
Utilities	1.8	1.3	1.2	-0.1
Construction	5.7	7.8	8.0	0.2
Services	33.3	41.1	41.3	0.2
Trade and transportation	18.4	26.7	28.7	2.0
Private services	6.6	6.6	5.7	-1.0
Government services	8.3	7.8	6.9	-0.9
Total	100.0	100.0	100.0	0.0

Note: Agriculture includes paddy rice, other grains, other crops, livestock and natural resources.

Source: ILO estimates based on M. Plummer, P. Petri and F. Zhai, op. cit.

Annex B: Occupational Projections Model⁶

The occupational projections model employed in this report follows the widely used Manpower Requirements Approach to project occupational imbalances, which involves three stages: (i) projecting occupational demand; (ii) projecting occupational supply; and (iii) comparing demand and supply to identify potential imbalances.

There are two components to occupational demand: expansion demand attributable to growth in sectoral output and employment and/or shifts in the occupational structures of industries, and replacement demand, attributable to factors such as deaths, retirements, inter-occupational and geographical labour mobility, among others. To project expansion demand by occupation, trends in the occupational distribution of industries over time, obtained from the labour force survey (LFS) micro-data files, are assumed to continue into the future. Specifically, the industry-occupation coefficients are allowed to change over time using two approaches (using a linear and a log-linear regression) whereby time is used as a proxy for technological change. The result of the two approaches, as well as the coefficients of the last year of available LFS are applied to the CGE model sectoral employment results to obtain a range of projected expansion demand (stock measure) by occupation in 2025. The difference between the projected stock measure in 2025 and the corresponding occupational employment in 2010 is calculated to obtain the projected flow measure of expansion demand over the forecast period.

Replacement demand, the second component of occupational demand, is not always included in occupational projections, due to difficulties in assembling the required data (labour market outflows and transitions, including retirements, occupational mobility, and others). There are methods with less restrictive data requirements, which for instance use age-cohorts to estimate retirements by occupation and exclude transitions from one occupation to another. For the purpose of this paper, a simplistic version of these methods is used, which involves using the share of workers aged 65 years and older for each occupation as an estimate of replacement demand for this occupation. Total occupation demand is then obtained as a sum of the two components.

On the supply side, trends in educational attainment of the labour force for each demographic group are applied to the estimated labour force figures in 2025, and education-to-occupation matrix coefficients (occupational share of workers for each level of educational attainment), which are also allowed to change over time using a similar approach as for the industry-occupation coefficients. This provides a range for the projected occupational supply (stock measure) in 2025. The difference between the stock measure of occupational supply in 2025 and the estimate of occupational supply stock in 2010 is obtained as a measure of the flow measure of occupational supply.

The range of projected occupational demand and supply flow measures are compared to identify occupations with projected labour market imbalances (excess labour demand/supply) for each country. Note that compared to the baseline, the projected occupational demand under the AEC differs due to a change in expansion demand (replacement demand is assumed to stay constant), and labour supply changes only because of the change in labour force size (participation rates). Two measures of skills mismatch are also obtained, to provide complementary information regarding labour imbalances.

⁶ This annex is based on S. El Achkar Hilal: *The impact of ASEAN economic integration on occupational outlooks and skills demand*, background paper for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO, forthcoming).

Annex C: Survey of ASEAN employers

The ILO, through its Bureau for Employers' Activities (ACT/EMP), commissioned a survey of employers, industry leaders and development experts throughout the ASEAN region to gather insights with respect to skills, labour mobility and enterprise competitiveness associated with integration under the AEC. The survey was conducted in October and November 2013 by the consulting firm Emerging Markets Consulting.

The survey methodology consisted of two parts. First, the quantitative survey aimed at capturing the perceptions of private sector companies and employers organizations on three dimensions: (i) needs of enterprises in terms of employee skill sets and how these needs are being met by local education providers; (ii) perceptions of ASEAN integration, in terms of their understanding of it, and of the opportunities and challenges employers believe they will face; and (iii) how enterprises think their competitiveness will change once the AEC is in place, and the strategic moves they will utilize to react to these changes.

The second part was a qualitative survey to supplement the quantitative data. The respondents of the qualitative survey included diverse experts and leaders from complementary backgrounds in the ASEAN region. The interview questions addressed the same dimensions investigated by the quantitative survey and questioned recipients on their opinions regarding primary findings extracted from the quantitative survey.

Some 240 business leaders from enterprises and business associations spanning all ten ASEAN Member States participated in the quantitative survey, while an additional five respondents were selected for the qualitative expert interviews. The majority of the respondents originated from Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, and Singapore. The response rates for Brunei Darussalam, Thailand, and Viet Nam were very low and therefore regional averages of survey responses do not include these countries.

Most of the respondents were active in the manufacturing industry (20.0 per cent), followed by services (17.0 per cent), finance and insurance (ten per cent) and information and communication (ten per cent). Over 80 per cent of these employers represented either privately owned domestic enterprises or wholly foreign-owned firms. The participants worked for mainly mature establishments with an average operational age of 22 years. Companies were contacted via their affiliation to industry associations, chambers of commerce, business directories and country-specific business networks. These types of establishments tend to be larger firms. Forty-one per cent of the organizations surveyed employed over 300 employees and 32.0 per cent employed between 50 and 300 staff members.

In sum, the survey consisted of a broad cross-section of respondents from different sectors and countries across the ASEAN region. However, while the findings give important insights into the perceptions of enterprises, they are not necessarily fully representative for the entire business community in ASEAN. They should therefore be treated as indicative of the views of only those who participated in the study.

Annex D: Using different bilateral migration estimates

Several valuable attempts have been made to estimate international migrant stocks among global pairs of origin and destination countries. Typically relying on national census data and other sources, the resulting bilateral migration matrices use various estimation, imputation and harmonization techniques to estimate intra-regional international migration.

Three such matrices are those of the United Nations Department of Economic and Social Affairs Population Division, the World Bank, and the Development Research Centre on Migration, Globalization and Poverty (Migration DRC)⁷ Using these to calculate the shares of intra-ASEAN migrants and nationals abroad produces a variety of estimates that are outlined below – ranging from 51.2 per cent to 68.6 per cent for migrants and 24.7 per cent to 34.6 per cent for nationals abroad.

Table D1 Estimates of ASEAN and intra-ASEAN international migrant stocks in 2000-13

Source	Year	Total migrants in ASEAN	ASEAN migrants from another Member State	Intra-ASEAN share of ASEAN migrants (per cent)
World Bank: Global Bilateral Migration Database	2000	4 517 322	2 729 908	60.4
UN: Trends in International Migrant Stock Database	2000	5 265 008	3 315 514	63.0
Migration DRC: Global Migrant Origin Database (v.4)	2000-02	4 888 742	2 504 719	51.2
World Bank: Bilateral Migration Matrix	2010	6 700 932	3 954 547	59.0
UN: Trends in International Migrant Stock Database	2010	8 683 940	5 871 325	67.6
UN: Trends in International Migrant Stock Database	2013	9 497 690	6 513 354	68.6

⁷ For the methodological papers of these three sources, respectively, see: UN: *Methodology for estimating the international migrant stock by sex, age and origin* (New York, 2013); D. Ratha and W. Shaw: *South-South migration and remittances*, World Bank Working Papers No. 102 (Washington, DC, 2007); C.R. Parsons et al.: *Quantifying international migration: A database of bilateral migrant stocks*, World Bank Policy Research Working Paper No. 4165 (Washington, DC, 2007).

Source	Year	Total ASEAN nationals abroad	ASEAN nationals in another Member State	Intra-ASEAN share of ASEAN nationals abroad (per cent)
World Bank: Global Bilateral Migration Database	2000	9 798 318	2 729 908	27.9
UN: Trends in International Migrant Stock Database	2000	11 400 146	3 315 514	29.1
Migration DRC: Global Migrant Origin Database (v.4)	2000-02	10 156 555	2 504 719	24.7
World Bank: Bilateral Migration Matrix	2010	12 852 027	3 954 547	30.8
UN: Trends in International Migrant Stock Database	2010	17 556 607	5 871 325	33.4
UN: Trends in International Migrant Stock Database	2013	18 835 748	6 513 354	34.6

Source: ILO compilation based on various databases listed in the table.

Evaluating the individual figures underpinning these estimates, large differences become clear in the values they place on certain groups of migrants. For example, Migration DRC (2000-02), the World Bank (2010) and UN (2010) respectively estimate the stock of Myanmar migrants in Thailand to be 0.1 million, 0.3 million and 1.6 million.⁸ Similarly, the respective sources estimate the number of Philippine citizens in Malaysia to be 308,000, 103,000 and just 20,000.⁹

Such wide discrepancies highlight some of the problems in using migration data – especially where attempts have been made to harmonize observations from multiple countries into a single source. These instances emphasise the need for ASEAN Member States to ensure standardization and robustness of the data they collect.¹⁰ In time, more accurate data can be used to disaggregate migrant stocks and flows by sex, age, labour force participation and various other aspects conducive to evidence-based policymaking on labour mobility.

In general, weak or incomplete labour market information systems present problems for cohesion and integration – especially when it comes to measuring regional trends in labour mobility. Weak data can render certain groups “politically invisible” to the detriment of both source and destination countries.

8 The corresponding figure is 1,292,862 according to the Thailand National Statistics Office: *Report of the Population and Housing Census 2010* (Bangkok, 2010).

9 The corresponding figure for 2012 is 686,547 according to the Department of Foreign Affairs, Commission on Filipinos Overseas: *Stock estimate of overseas Filipinos* (Pasay City, 2012).

10 The ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, article 18, also recommends that ASEAN Member States “Facilitate data-sharing on matters related to migrant workers, for the purpose of enhancing policies and programmes concerning migrant workers in both sending and receiving states”.

Annex E: Intra-ASEAN bilateral agreements on labour migration

Table E1 summarises the current provisions in various intra-ASEAN bilateral agreements concerning migrant workers that are currently in force or under discussion.

Table E1 Overview of existing intra-ASEAN bilateral agreements on labour migration

Countries ^(a)	Name of agreement	Sector	Signed	Summary of conditions specified
Cambodia – Malaysia	Memorandum of understanding on recruitment procedures for Cambodian nationals for employment in Malaysia	Excludes domestic workers	1999	Workers must be aged 21-40, cannot bring family, and must not marry in Malaysia. They are responsible for paying for the levy, pass, visa, processing fee, medical exam, and travel documents. Employers must cover the cost of workers' transport to Malaysia, workers' salary must be clearly stated in the employment contract and agreed upon in advance, and coverage must be provided for each worker under the Foreign Workers Compensation Scheme.
Cambodia – Malaysia	Memorandum of understanding on the recruitment of Cambodian domestic workers sent to Malaysia (draft)	Domestic workers	Final draft stage (Q1, 2014) / ongoing discussion...	Migrant domestic workers will be guaranteed a minimum wage and for contracts to be signed before departure. Employers will guarantee health insurance as well as a safe, private and secure bedroom.
Cambodia – Thailand	Memorandum of understanding on cooperation in employment of workers (Cambodia and Thailand)	All low-skilled workers	2003	Authorized agencies must ensure applicants have fulfilled requirements for a visa, work permit, health insurance, contribution to a savings fund, and taxes (as required). A contract with terms and conditions of employment must be signed and copies submitted to both Cambodian and Thai authorities. Employment must not exceed two years (though with a possible two-year extension followed by a minimum three-year break). Workers pay 15.0 per cent of their monthly salary into a savings fund and are fully reimbursed within 45 days of returning to their permanent address. Workers receive wages and benefits to the same extent as national workers.
Indonesia – Brunei Darussalam	Memorandum of understanding on labour cooperation (draft)	Domestic workers	Working group review (Q2, 2013) / ongoing discussion...	Migrant domestic workers will be guaranteed a minimum wage; one day off per week; limits to working hours and the right to retain their passport. Regulations concerning fees or other charges made by placement companies will also be included.

Countries(a)	Name of agreement	Sector	Signed	Summary of conditions specified
Indonesia – Malaysia	Memorandum of understanding on the recruitment of Indonesian workers	Excludes domestic workers	2004	Migrant workers must be aged 18-40, demonstrate knowledge of Malaysian or English language, pass a medical examination, cover the costs of entry visa and levy, and sign an employment contract with the employer at arrival. Employers pay for transport from Malaysia entry-point to the workplace, make a security deposit to the migration authorities and cover any recruitment agency costs. Employers may keep workers' passports and must provide coverage for workers under the Workmen's Compensation Act, 1952. Migrant workers are granted equal terms on employment conditions as nationals and have equal pay for equal work as nationals.
Indonesia – Malaysia	Memorandum of understanding on the recruitment and placement of Indonesian domestic workers and Protocol amending [the former]	Domestic workers	2006 / additional protocol in 2011	Migrant domestic workers must be aged 21-45, able to communicate in Malay or English, have knowledge of local laws, culture and society, sign an employment contract, and keep their passports. They must cover the expense of their visa, travel documents, medical exam, and accommodation. Employers must cover the cost of workers' transport to Malaysia, security deposits, levy and processing fees, work pass, medical examination (for renewal of the work pass) and provide accommodation with basic amenities and adequate rest. Recruitment agencies must also provide information and contacts to workers and maintain records on all parties.
Indonesia – Philippines	Memorandum of understanding concerning migrant workers		2003	Sets a framework for cooperation in the promoting and protecting migrant workers' welfare and rights.
Lao PDR – Thailand	Memorandum of understanding on Employment Cooperation	Excluding domestic workers	2002	[Same conditions apply as under the Memorandum of understanding on cooperation in employment of workers between Cambodia and Thailand (see above).]
Myanmar – Thailand	Memorandum of understanding on Cooperation in Employment of Workers	All low-skilled workers	2003	[Same conditions apply as under the Memorandum of understanding on cooperation in employment of workers between Cambodia and Thailand (see above).]
Viet Nam – Malaysia	Bilateral Agreement on Labour Cooperation	Manufacturing, construction, services workers	2003	Knowledge of English or Bahasa is not required for Vietnamese workers seeking work in Malaysia.

Note: (a) Source countries are given first, followed by the destination country. ADB recognizes "Vietnam" as Viet Nam.

Source: ILO: *Migrant workers in the ASEAN region: Compendium of bilateral agreements, standard employment contracts, complaints mechanisms and policies and legislation* (Bangkok, forthcoming).

Annex F: Statistical tables and figures

F1 – Labour market indicators

Table F1-1 – Labour force by sex, 2010, 2015, 2020 and 2025 (thousand)

Table F1-2 – Labour force participation rate by sex, 2010-13 (per cent)

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Table F2-3 – Gross domestic product per capita, PPP, 2007-13 (constant 2005 international \$)

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Table F2-5 – Output per employed person, annual growth rate, 2007-13 (per cent)

Table F2-6 – Foreign direct investment inflows, 2007-13 (per cent of GDP)

Table F2-7 – Imports and exports of merchandise, 2007-13 (per cent of GDP)

Table FI-1 Labour force by sex, 2010, 2015, 2020 and 2025 (thousand)

	Total				Male				Female			
	2010	2015	2020	2025	2010	2015	2020	2025	2010	2015	2020	2025
ASEAN	301 071	326 909	349 279	369 141	172 655	187 303	200 191	211 749	128 416	139 606	149 088	157 393
Brunei Darussalam	186	205	217	227	110	122	130	136	76	83	88	91
Cambodia	7 400	8 915	9 680	10 447	3 905	4 473	4 893	5 313	3 495	4 442	4 787	5 135
Indonesia	116 528	124 406	134 330	143 867	71 882	77 014	82 925	88 616	44 646	47 392	51 405	55 252
Lao PDR	3 080	3 591	4 005	4 425	1 546	1 803	2 033	2 262	1 534	1 788	1 972	2 163
Malaysia	12 304	13 677	15 003	16 118	7 956	8 385	9 163	9 815	4 348	5 292	5 840	6 303
Myanmar	...	32 268	33 922	35 138	...	16 237	17 152	17 847	...	16 031	16 770	17 292
Philippines	38 893	44 210	49 175	54 229	23 729	26 684	29 545	32 419	15 164	17 526	19 630	21 810
Singapore	3 136	3 210	3 468	3 564	...	1 792	1 937	1 996	...	1 418	1 531	1 568
Thailand	39 093	40 051	40 567	40 448	21 129	21 680	21 958	21 908	17 964	18 372	18 609	18 540
Viet Nam	50 837	56 375	58 912	60 677	26 125	29 113	30 455	31 437	24 712	27 262	28 458	29 240
China	783 880	819 110	826 056	825 385	...	462 806	469 002	470 136	...	356 304	357 054	355 249
India	391 985	498 110	539 081	577 103	289 949	376 865	406 676	434 203	102 036	121 246	132 405	142 900
Japan	65 900	64 460	63 804	63 197	38 220	37 157	36 618	36 131	27 680	27 302	27 186	27 065
Korea, Rep. of	24 748	25 973	26 837	27 011	14 492	15 189	15 696	15 842	10 256	10 784	11 141	11 168

Note: Ages 15 and above; Cambodia 2010 figure refers to 2012 data; Brunei 2010 figure refers to 2011 data; 2015 figures indicate a series break and are not strictly comparable to 2010 figures; Thailand figures refer to quarter three and include the seasonally inactive labour force. "..." = data not available.

Source: Official national sources; ILO: Estimates and Projections of the Economically Active Population (EAPEP), Jan. 2014; ILO: ILOSTAT Database.

Table F1-2 Labour force participation rate by sex, 2010-13 (per cent)

	Total				Male				Female			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
ASEAN	70.3	70.4	70.5	70.5	82.1	82.2	82.2	82.2	59.0	59.1	59.1	59.2
Brunei Darussalam	...	...	...	...	...	...	...	...	...	...	...	...
Cambodia	...	...	68.8	...	...	...	75.8	...	...	...	62.4	...
Indonesia	67.7	68.3	67.9	66.9	83.8	84.3	84.4	83.6	51.8	52.4	51.4	50.3
Lao PDR	79.2	...	...	...	80.8	...	...	...	77.8	...	...	...
Malaysia	63.7	64.4	65.5	67.0	79.3	79.7	80.5	80.7	46.8	47.9	49.5	52.4
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	64.1	64.6	64.2	63.9	78.5	79.0	78.5	78.1	49.7	50.4	50.0	49.9
Singapore	66.2	66.1	66.6	66.7	76.5	75.6	76.0	75.8	56.5	57.0	57.7	58.1
Thailand	73.0	73.3	73.0	71.6	81.2	81.1	81.2	80.5	65.3	65.9	65.3	63.3
Viet Nam	77.4	77.0	76.8	77.5	82.0	81.7	81.2	82.1	73.0	72.6	72.5	73.2
China	71.2	70.8	70.7	...	...	...	...	...	...	...	...	...
India	38.4	...	37.7	...	55.0	...	54.9	...	20.7	...	19.6	...
Japan	59.6	59.3	59.1	59.3	71.6	71.1	70.8	70.5	48.5	48.2	48.2	48.9
Korea, Rep. of	61.0	61.1	61.3	61.5	73.0	73.1	73.3	73.2	49.4	49.7	49.9	50.2

Note: Ages 15 and above; 2013 figures are preliminary estimates, may indicate a series break and are not strictly comparable to figures from previous years; Indonesia figures refer to the August period, and 2013 figures are revised estimates based on new population weights; Thailand figures refer to quarter three; "... " = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-3 Employment by sex, 2010-13 (thousand)

	Total				Male				Female			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
ASEAN	286 873	293 148	298 867	303 536	164 952	168 362	171 522	174 189	121 921	124 786	127 345	129 347
Brunei Darussalam	...	183	...	...	...	108	...	...	...	74	...	...
Cambodia	...	...	7 197	...	...	...	3 797	...	...	...	3 400	...
Indonesia	108 208	109 670	110 808	112 760	67 462	67 990	69 069	70 330	40 746	41 680	41 739	42 430
Lao PDR	3 021	...	...	...	1 518	...	...	...	1 504	...	...	...
Malaysia	11 900	12 284	12 723	13 210	7 708	7 890	8 094	8 237	4 192	4 395	4 630	4 973
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	36 035	37 192	37 600	37 917	21 921	22 573	22 849	23 023	14 114	14 619	14 751	14 894
Singapore	1 963	1 999	2 041	2 056	1 107	1 119	1 138	1 142	856	880	903	914
Thailand	38 692	39 317	39 578	39 112	20 909	21 149	21 367	21 349	17 783	18 169	18 212	17 763
Viet Nam	49 494	50 679	51 422	52 208	25 536	26 194	26 499	26 830	23 958	24 485	24 923	25 378
China	761 050	764 200	767 040	769 770	...	...	...	...	...	...	...	...
India	378 025	...	395 648	...	280 395	...	296 425	...	97 631	...	99 224	...
Japan	62 980	62 890	62 700	63 110	36 430	36 360	36 160	36 100	26 560	26 530	26 540	27 010
Korea, Rep. of	23 829	24 244	24 681	25 066	13 915	14 153	14 387	14 573	9 914	10 091	10 294	10 494

Note: Ages 15 and above; 2013 figures are preliminary estimates, may indicate a series break and are not strictly comparable to figures from previous years; China figures include only urban units; Indonesia figures refer to the August period, and 2013 figures are revised estimates based on new population weights; Singapore figures include only the resident labour force; Thailand figures refer to quarter three. "..." = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-4 Unemployment rate by sex, 2010-13 (per cent)

	Total				Male				Female			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
ASEAN	4.7	4.4	4.2	4.2	4.5	4.2	4.0	4.1	5.1	4.6	4.3	4.4
Brunei Darussalam	...	1.7	...	...	...	1.3	...	...	...	2.4	...	...
Cambodia	...	...	2.7	...	...	...	2.7	...	...	...	2.7	...
Indonesia	7.1	6.6	6.1	6.2	6.2	5.9	5.8	6.1	8.7	7.6	6.8	6.5
Lao PDR	1.9	...	...	...	1.8	...	...	...	2.0	...	...	...
Malaysia	3.2	3.1	3.0	3.1	3.2	3.0	2.9	2.9	3.4	3.3	3.2	3.4
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	7.4	7.0	7.0	7.1	7.6	7.3	7.2	7.3	6.9	6.6	6.7	6.8
Singapore	4.1	3.9	3.7	3.9	...	...	...	...	...	...	...	...
Thailand	0.9	0.7	0.6	0.8	0.9	0.6	0.6	0.8	0.8	0.7	0.5	0.8
Viet Nam	2.9	2.2	2.0	2.2	2.4	1.8	1.7	2.1	3.4	2.7	2.3	2.2
China	4.1	4.1	4.1	4.1	...	...	...	...	...	...	...	...
India	3.6	...	3.7	...	3.3	...	3.5	...	4.3	...	4.2	...
Japan	5.1	4.6	4.3	4.0	5.4	4.9	4.6	4.3	4.6	4.2	4.0	3.7
Korea, Rep. of	3.7	3.4	3.2	3.1	4.0	3.6	3.4	3.3	3.3	3.1	3.0	2.9

Note: Ages 15 and above; 2013 figures are preliminary estimates, may indicate a series break and are not strictly comparable to figures from previous years; China figures include only urban units; India figures include those who did not seek work but were available for work; Indonesia figures refer to the August period, and 2013 figures are revised estimates based on new population weights; Singapore figures are not seasonally adjusted and include only the resident labour force; Thailand figures refer to quarter three. "..." = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-5 Youth unemployment rate by sex, 2010-13 (per cent)

	Total				Male				Female			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
ASEAN	14.7	13.0	12.8	13.1	14.1	12.8	12.7	12.9	15.3	13.3	13.0	13.4
Brunei Darussalam	...	...	...	...	...	...	...	...	...	...	...	...
Cambodia	...	...	3.8	...	...	...	3.9	...	...	...	3.6	...
Indonesia	21.4	20.0	19.6	21.6	21.0	19.3	19.4	21.3	22.0	21.0	19.8	22.1
Lao PDR	3.1	...	...	...	3.2	...	...	...	3.1	...	...	...
Malaysia	11.4	10.0	10.3	10.4	11.0	9.4	9.8	12.0	12.0	10.8	11.0	9.3
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	17.6	16.3	16.2	16.6	16.5	15.2	14.9	15.2	19.5	18.3	18.3	19.0
Singapore	9.9	9.2	8.9	9.4	7.6	6.6	6.4	6.1	12.5	12.0	11.8	13.3
Thailand	3.9	2.9	2.7	3.4	3.7	2.2	2.4	2.8	4.2	3.8	3.1	4.4
Viet Nam	7.0	5.2	5.5	6.2	5.9	4.3	4.6	5.4	8.3	6.2	6.6	7.1
China	...	...	...	...	...	...	...	...	...	...	...	...
India	10.2	...	10.7	...	9.8	...	10.4	...	11.6	...	11.6	...
Japan	9.2	8.4	7.9	6.8	10.4	9.4	8.8	7.7	8.0	7.3	7.1	6.0
Korea, Rep. of	9.8	9.6	9.0	9.3	11.2	12.1	9.7	9.8	9.0	8.1	8.5	9.0

Note: Ages 15-24; 2013 figures are preliminary estimates or refer to a quarterly period, may indicate a series break and are not strictly comparable to figures from previous years; India and Malaysia: ILO calculations based on official national data. "..." = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-6 Employment by major economic sector and sex, most recent year (per cent)

	Total			Male			Female		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
ASEAN	40.0	19.4	40.6	40.6	21.6	37.8	39.2	16.4	44.4
Brunei Darussalam	...	...	...	...	...	...	...	...	...
Cambodia	33.3	25.2	41.5	33.7	24.6	41.6	32.7	25.9	41.4
Indonesia	34.4	20.6	45.0	...	...	...	...	...	...
Lao PDR	71.3	8.3	20.4	69.2	9.9	20.9	73.5	6.7	19.9
Malaysia	12.7	27.9	59.3	15.4	32.8	51.8	8.3	19.8	71.9
Myanmar	...	...	...	...	...	...	...	...	...
Philippines	30.9	15.6	53.4	37.9	19.2	42.9	20.1	10.0	69.9
Singapore	~	18.6	81.4	~	22.2	77.8	~	14.0	86.0
Thailand	41.9	20.3	37.8	44.1	22.6	33.3	39.3	17.7	43.1
Viet Nam	46.8	21.2	32.0	45.0	25.1	29.9	48.8	17.0	34.2
China	33.6	30.3	36.1	...	...	...	...	...	...
India	47.1	24.8	28.1	42.9	26.1	31.0	59.7	20.9	19.4
Japan	3.7	24.9	71.4	4.0	32.9	63.2	3.3	14.1	82.5
Korea, Rep. of	6.1	16.8	77.2	6.0	20.2	73.8	6.2	12.0	81.8

Note: Ages 15 and above; Figures refer to 2013 except Cambodia, China, and India (2012) and Lao PDR (2010); “~” indicates figures are negligible; China figures include only urban units; Singapore figures include “others” in services. “...” = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-7 Employment by status in employment and sex, most recent year (per cent)

	Total					Male					Female					
	Wage and salary workers	Employers	Own account workers	Contributing family workers	Wage and salary workers	Employers	Own account workers	Contributing family workers	Wage and salary workers	Employers	Own account workers	Contributing family workers	Wage and salary workers	Employers	Own account workers	Contributing family workers
ASEAN	38.5	2.7	40.5	18.3	40.6	3.6	44.8	11.1	35.7	1.4	34.8	28.1	...	...	...	...
Brunei Darussalam	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Cambodia	46.0	0.4	33.6	20.0	51.5	0.5	34.5	13.5	39.9	0.3	32.6	27.2	...	...	...	...
Indonesia	46.5	3.4	34.2	15.9	...	...	...	...	...	...	...	...	...	...	...	...
Lao PDR	15.6	0.5	49.1	34.8	20.4	0.8	54.4	24.5	10.9	0.2	43.7	45.2	...	...	...	...
Malaysia	73.9	4.0	17.4	4.7	73.4	5.3	18.8	2.5	74.6	1.7	15.3	8.4	...	...	...	...
Myanmar	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Philippines	58.2	3.4	28.3	10.1	59.7	4.2	28.8	7.4	55.9	2.1	27.6	14.4	...	...	...	...
Singapore	85.1	6.3	8.1	0.5	81.5	7.9	10.3	0.3	89.5	4.2	5.5	0.8	...	...	...	...
Thailand	41.4	2.5	33.5	22.6	42.0	3.5	38.4	16.1	40.7	1.3	27.5	30.4	...	...	...	...
Viet Nam	34.8	2.5	45.5	17.2	39.9	3.4	44.7	12.0	29.4	1.5	46.5	22.6	...	...	...	...
China	47.3	4.0	46.4	2.4	50.5	5.0	43.5	1.0	43.4	2.6	49.9	4.1	...	...	...	...
India	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Japan	88.0	2.2	7.0	2.8	87.2	3.2	8.7	0.9	89.1	0.9	4.8	5.3	...	...	...	...
Korea, Rep. of	72.6	6.0	16.5	4.9	71.0	7.9	19.9	1.1	74.7	3.4	11.8	10.1	...	...	...	...

Note: Ages 15 and above; Figures refer to 2013 except Cambodia and China (2012) and Lao PDR (2010); Indonesia wage and salary workers include casual employees in both agriculture and non-agriculture, own account workers include the self-employed working alone or the self-employed working with casual or temporary labourers, and employers are formal sector workers that hire permanent workers; Philippine figures refer to quarter three. "..." = data not available.

Source: Official national sources; ILO: ILOSTAT Database; ILO: Trends Econometric Models, Jan. 2014.

Table F1-8 Average monthly wages by sex, most recent year (national currency unit and \$)

	National currency	Exchange rate (NCU per \$)	Total			Male			Female		
			Average wages (NCU)	Average wages (\$)	Average wages (NCU)	Average wages (\$)	Average wages (NCU)	Average wages (\$)	Average wages (NCU)	Average wages (\$)	
ASEAN	...	...	...	...	...	...	...	...	...	...	...
Brunei Darussalam	Brunei Dollar	...	...	...	...	...	...	...	...	...	...
Cambodia	Riel	4 033	487 583	121	516 816	128	396 253	98			
Indonesia	Indonesian Rupiah	9 387	1 630 193	174	...	...	...	...
Lao PDR	Kip	8 259	981 020	119	1 036 675	126	879 670	107			
Malaysia	Ringgit	3.09	1 881	609	1 906	617	1 838	595			
Myanmar	Kyat	...	...	...	...	...	...	...
Philippines	Philippine Peso	42.2	8 707	206	8 550	202	8 948	212			
Singapore	Singapore Dollar	1.25	4 433	3 547	4 964	3 972	3 650	2 921			
Thailand	Baht	31.1	11 101	357	11 251	362	10 917	351			
Viet Nam	Dong	20 828	3 762 200	181	3 928 200	189	3 519 500	169			
China	Urban units	6.31	3 897	617	...	...	...	...
	Urban private enterprises	6.31	2 396	380	...	...	...	...
India	Indian Rupee	...	...	...	...	...	...	...
Japan	Yen	79.8	325 600	4 081	362 300	4 541	249 700	3 129			
Korea, Rep. of	Won	1 126	2 955 471	2 624	...	...	...	...

Note: NCU = national currency unit; Lao PDR data: ILO calculations from the LFS 2010. "..." = data not available.
Source: ILO estimates based on official national sources.

Table F1-9 Migrant population and employed migrants, most recent year

Year	Migrant population			Employed migrants			Nationals abroad		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Brunei Darussalam	2012	113 300	...	87 110	69 570	17 540	...	...	...
Cambodia	2012	68 434	27 207	41 227	22 433	27 743	133 269	60 541	72 728
Indonesia	2010	73 217	45 353	27 864	...	...	...	...	...
Lao PDR	2005	13 577	7 046	6 531	...	...	...	...	...
Malaysia	2012	2 342 200	1 421 700	920 400	1 245 100	481 900	...	...	...
Myanmar	2010	72 363	36 553	35 810	...	...	...	...	...
Philippines	2010	177 365	100 602	76 763	...	...	2 109 000	1 098 000	1 011 000
Singapore	2012	1 494 200	...	1 268 300	...	...	200 000	...	...
Thailand	2010	2 702 164	1 494 095	1 208 069	675 644	469 515	1 039 032	...	...
Viet Nam	2009	10 044	6 293	3 751	2 389	1 232	...	...	...

Note: Migrant population includes ages 0 and above; employed migrants include ages 15 and above. "..." = data not available.

Source: Preliminary estimates based on ILO: Statistical Inquiry on Labour Migration Statistics in the ASEAN Member States, Mar. 2014.

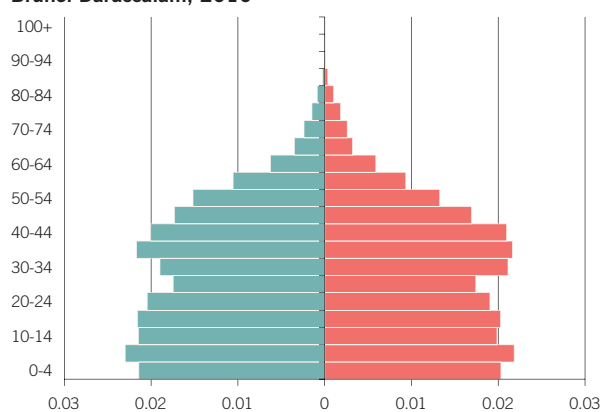
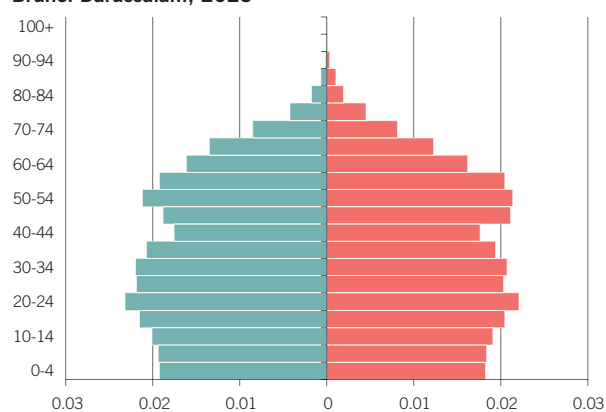
Table F2-1a Population, 2010, 2015, 2020 and 2025 (thousand)

	2010	2015	2020	2025
ASEAN	596 018	631 858	664 824	694 732
Brunei Darussalam	401	429	454	478
Cambodia	14 365	15 677	16 947	18 120
Indonesia	240 676	255 709	269 413	282 011
Lao PDR	6 396	7 020	7 651	8 253
Malaysia	28 276	30 651	32 858	34 956
Myanmar	51 931	54 164	56 125	57 650
Philippines	93 444	101 803	110 404	119 219
Singapore	5 079	5 619	6 057	6 334
Thailand	66 402	67 401	67 858	67 900
Viet Nam	89 047	93 387	97 057	99 811
China	1356 707	1404 610	1431 221	1451 219
India	1206 000	1283 000	1353 000	1417 000
Japan	126 921	126 344	125 836	123 322
Korea, Rep. of	48 454	49 750	50 769	51 602

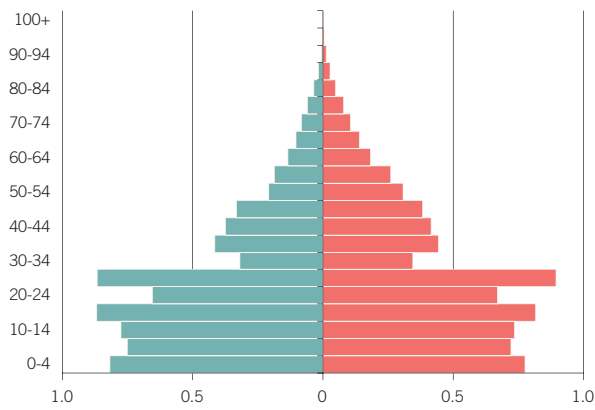
Source: UN: World Population Prospects: The 2012 Revision Database.

Figure F2-1b Population pyramids by age and sex, 2010 and 2025 (million)

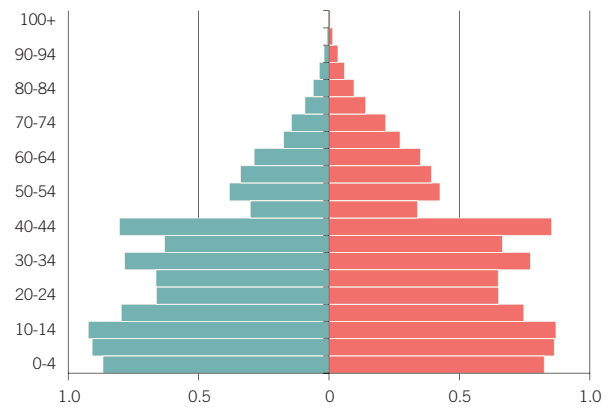
Men Women

Brunei Darussalam, 2010**Brunei Darussalam, 2025**

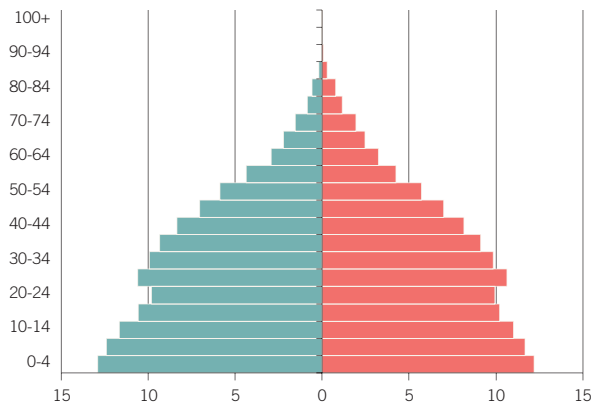
Cambodia, 2010



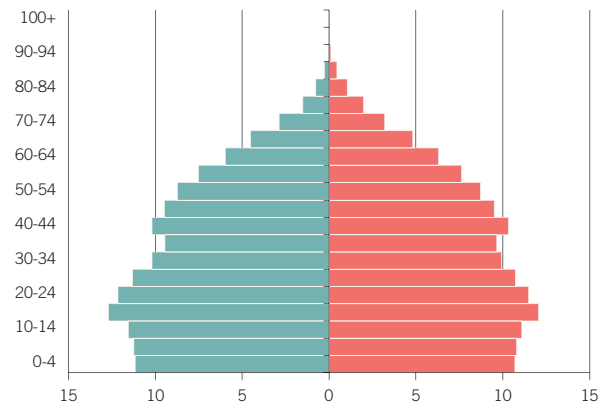
Cambodia, 2025



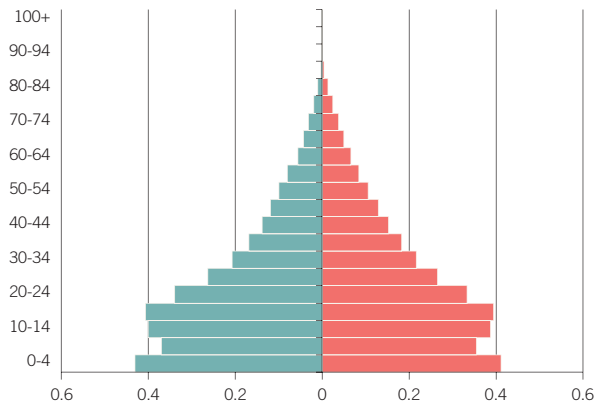
Indonesia, 2010



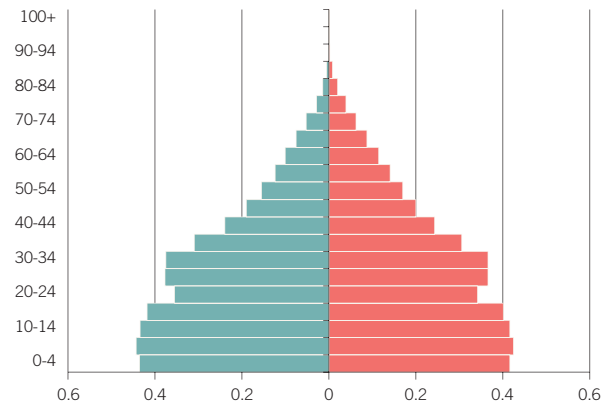
Indonesia, 2025



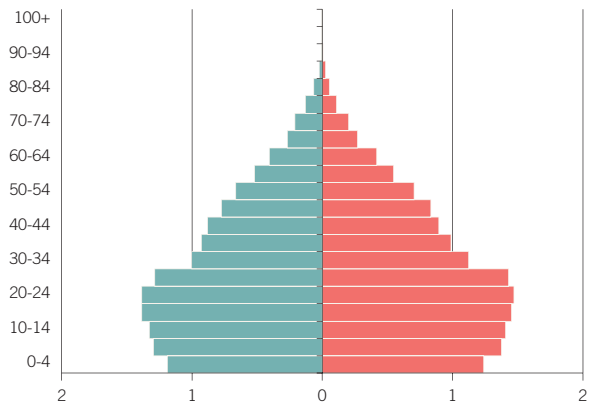
Lao PDR, 2010



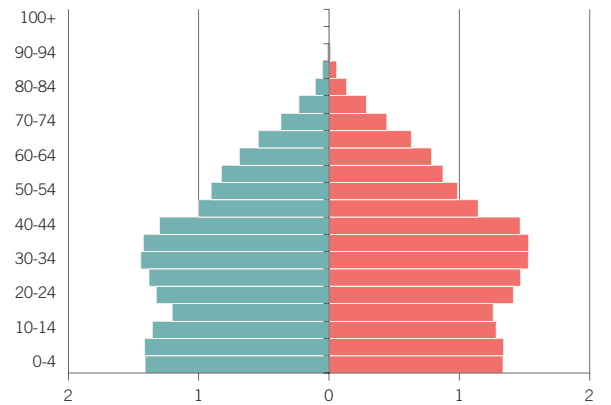
Lao PDR, 2025



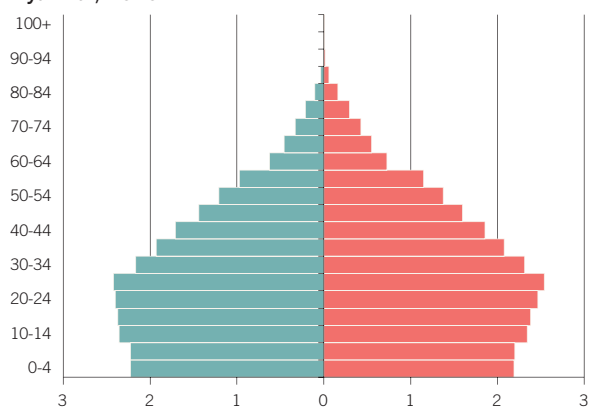
Malaysia, 2010



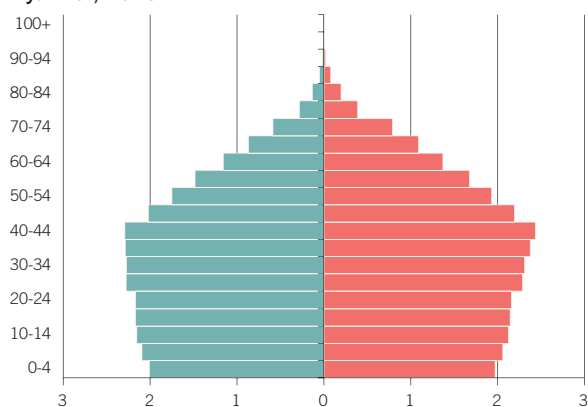
Malaysia, 2025



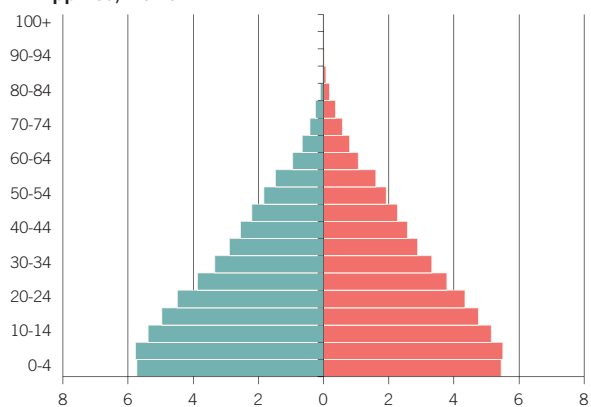
Myanmar, 2010



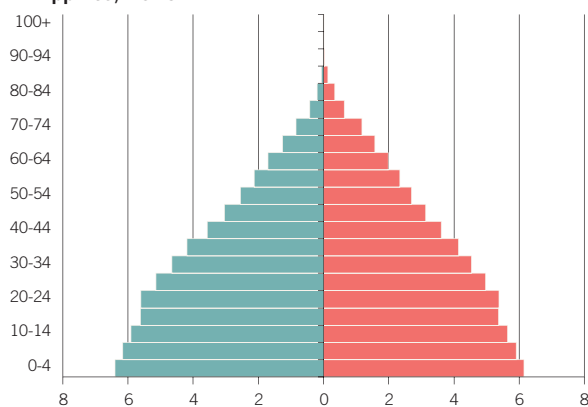
Myanmar, 2025



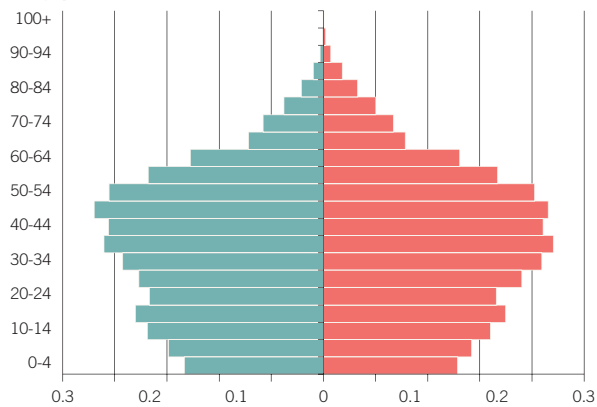
Philippines, 2010



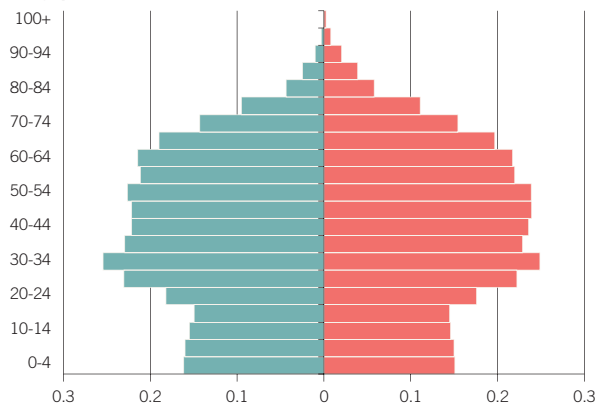
Philippines, 2025



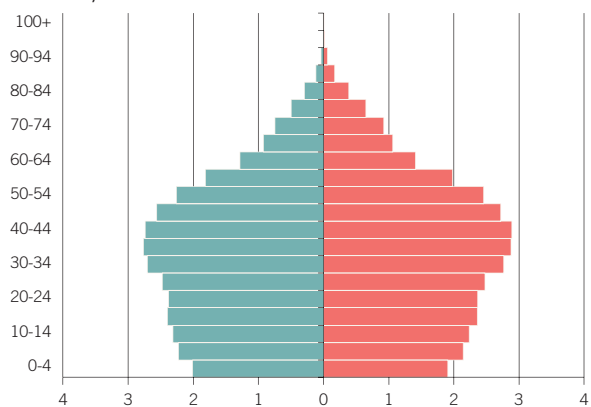
Singapore, 2010



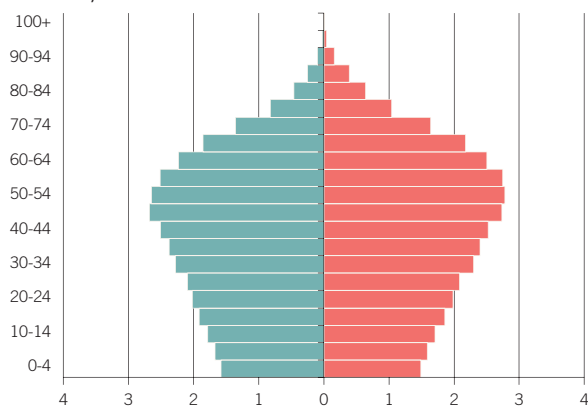
Singapore, 2025



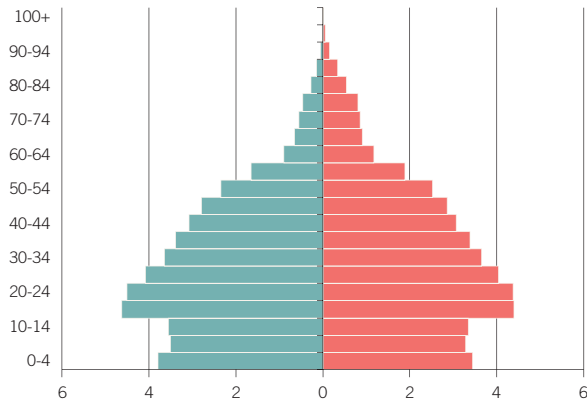
Thailand, 2010



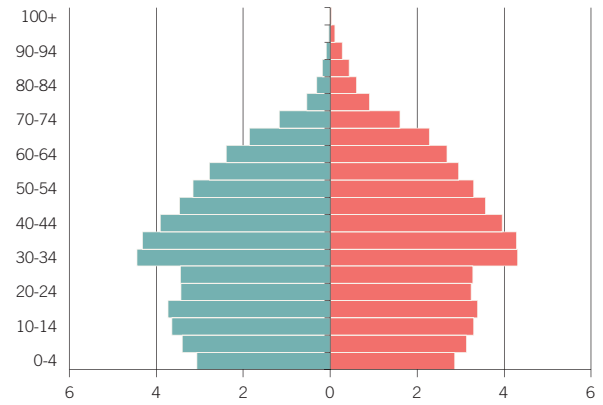
Thailand, 2025



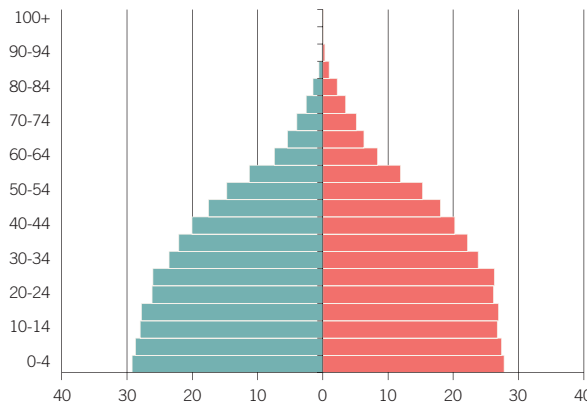
Viet Nam, 2010



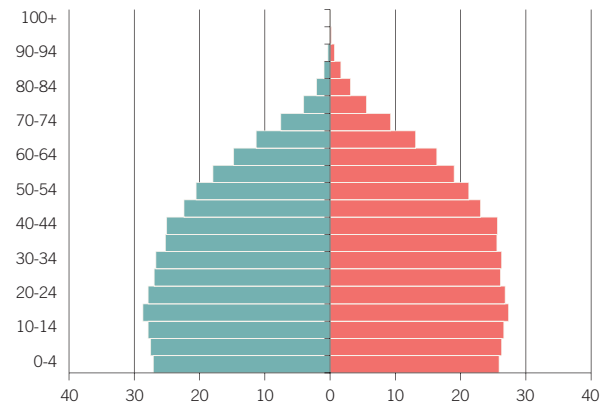
Viet Nam, 2025



ASEAN, 2010



ASEAN, 2025



Note: Y-axis refers to ages and X-axis refers to population in million.
Source: UN: World Population Prospects: The 2012 Revision Database.

Table F2-2 Gross domestic product, annual growth rate, 2007-13 (per cent)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	6.6	4.4	1.6	7.6	4.7	5.7	4.9
Brunei Darussalam	0.2	-1.9	-1.8	2.6	3.4	0.9	-1.2
Cambodia	10.2	6.7	0.1	6.1	7.1	7.3	7.0
Indonesia	6.3	6.0	4.6	6.2	6.5	6.3	5.8
Lao PDR	7.8	7.8	7.5	8.1	8.0	7.9	8.2
Malaysia	6.3	4.8	-1.5	7.4	5.1	5.6	4.7
Myanmar	12.0	3.6	5.1	5.3	5.9	7.3	7.5
Philippines	6.6	4.2	1.1	7.6	3.6	6.8	7.2
Singapore	9.0	1.9	-0.6	15.1	6.0	1.9	4.1
Thailand	5.0	2.5	-2.3	7.8	0.1	6.5	2.9
Viet Nam	7.1	5.7	5.4	6.4	6.2	5.2	5.4
China	14.2	9.6	9.2	10.4	9.3	7.7	7.7
India	9.8	3.9	8.5	10.3	6.6	4.7	4.4
Japan	2.2	-1.0	-5.5	4.7	-0.5	1.4	1.5
Korea, Rep. of	5.1	2.3	0.3	6.3	3.7	2.0	2.8

Note: 2013 figures are preliminary estimates.

Source: IMF: World Economic Outlook Database, Apr. 2014.

Table F2-3 Gross domestic product per capita, PPP, 2007-13 (constant 2005 international \$)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	4 317	4 455	4 468	4 750	4 907	5 125	5 313
Brunei Darussalam	48 154	46 420	44 862	45 319	45 643	45 979	46 026
Cambodia	1 789	1 882	1 857	1 937	2 040	2 150	2 260
Indonesia	3 425	3 581	3 695	3 873	4 071	4 271	4 458
Lao PDR	1 896	2 002	2 108	2 242	2 376	2 522	2 682
Malaysia	13 122	13 510	13 072	13 767	14 223	14 775	15 192
Myanmar	1 223	1 258	1 313	1 373	1 443	1 521	1 611
Philippines	3 295	3 375	3 357	3 554	3 620	3 801	3 991
Singapore	48 438	48 099	46 609	52 291	53 790	53 358	54 139
Thailand	7 438	7 610	7 423	7 987	7 972	8 463	8 663
Viet Nam	2 415	2 543	2 654	2 807	2 945	3 063	3 195
China	5 174	5 635	6 115	6 708	7 286	7 805	8 356
India	2 606	2 672	2 861	3 122	3 277	3 341	3 444
Japan	31 766	31 417	29 673	31 054	30 885	31 502	32 058
Korea, Rep. of	25 486	25 911	25 833	27 302	28 146	28 563	29 219

Note: 2013 figures are preliminary estimates.

Source: UN: World Population Prospects: The 2012 Revision Database; World Bank: World Development Indicators, 2013.

Table F2-4 Output per employed person, PPP, 2007-13 (constant 2005 international \$)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	9 173	9 396	9 366	9 868	10 097	10 467	10 812
Brunei Darussalam	104 964	100 995	97 758	98 831	99 362	100 051	100 015
Cambodia	3 333	3 427	3 334	3 460	3 619	3 797	3 989
Indonesia	7 952	8 253	8 439	8 763	9 130	9 486	9 848
Lao PDR	4 029	4 216	4 399	4 636	4 865	5 115	5 396
Malaysia	31 907	32 868	31 899	33 344	34 056	35 018	35 751
Myanmar	2 229	2 282	2 364	2 454	2 560	2 683	2 828
Philippines	8 841	8 920	8 795	9 152	9 168	9 571	10 026
Singapore	92 260	90 987	88 751	97 151	98 775	96 573	98 072
Thailand	12 994	13 205	12 922	13 813	13 666	14 446	14 754
Viet Nam	4 322	4 516	4 669	4 896	5 082	5 239	5 440
China	9 227	10 119	11 008	12 092	13 093	14 003	14 985
India	6 746	7 021	7 596	8 359	8 832	9 073	9 307
Japan	63 245	62 746	60 055	62 681	63 018	64 351	65 511
Korea, Rep. of	52 314	53 226	53 514	56 106	57 129	57 262	58 298

Note: 2013 figures are preliminary estimates.

Source: ILO: Trends Econometric Models, Jan. 2014; World Bank: World Development Indicators, 2013.

Table F2-5 Output per employed person, annual growth rate, 2007-13 (per cent)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	4.3	2.4	-0.3	5.4	2.3	3.7	3.3
Brunei Darussalam	-1.7	-3.8	-3.2	1.1	0.5	0.7	0.0
Cambodia	6.0	2.8	-2.7	3.8	4.6	4.9	5.1
Indonesia	3.5	3.8	2.3	3.8	4.2	3.9	3.8
Lao PDR	4.5	4.6	4.3	5.4	4.9	5.1	5.5
Malaysia	4.2	3.0	-2.9	4.5	2.1	2.8	2.1
Myanmar	10.4	2.4	3.6	3.8	4.4	4.8	5.4
Philippines	4.6	0.9	-1.4	4.1	0.2	4.4	4.8
Singapore	4.7	-1.4	-2.5	9.5	1.7	-2.2	1.6
Thailand	2.8	1.6	-2.1	6.9	-1.1	5.7	2.1
Viet Nam	6.5	4.5	3.4	4.9	3.8	3.1	3.8
China	13.2	9.7	8.8	9.9	8.3	6.9	7.0
India	9.1	4.1	8.2	10.0	5.7	2.7	2.6
Japan	1.6	-0.8	-4.3	4.4	0.5	2.1	1.8
Korea, Rep. of	3.6	1.7	0.5	4.8	1.8	0.2	1.8

Note: 2013 figures are preliminary estimates.

Source: ILO: Trends Econometric Models, Jan. 2014; World Bank: World Development Indicators, 2013.

Table F2-6 Foreign direct investment inflows, 2007-13 (per cent of GDP)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	6.4	3.3	3.1	5.2	4.9	4.8	...
Brunei Darussalam	2.1	2.3	3.5	5.1	7.4	5.1	...
Cambodia	10.0	7.9	5.2	7.0	7.0	11.0	...
Indonesia	1.6	1.8	0.9	1.9	2.3	2.3	0.3
Lao PDR	7.7	4.3	3.4	4.1	3.7	3.2	1.5
Malaysia	4.4	3.1	0.7	3.7	4.2	3.3	3.9
Myanmar	3.9	3.3	3.0	3.0	4.0	3.9	...
Philippines	2.0	0.9	1.2	0.7	0.8	1.1	2.4
Singapore	26.5	6.4	13.4	23.6	21.5	20.9	21.6
Thailand	4.3	2.9	1.7	2.7	2.1	2.2	3.8
Viet Nam	9.4	10.5	7.8	7.5	6.0	6.0	3.9
China	2.4	2.4	1.9	1.9	1.7	1.5	1.3
India	2.1	3.6	2.7	1.3	1.9	1.4	1.2
Japan	0.5	0.5	0.2	0.0	0.0	0.0	0.6
Korea, Rep. of	0.9	1.2	1.1	1.0	0.9	0.9	1.8

Note: 2013 figures are preliminary estimates; 2013 figures for Lao PDR, Thailand and Viet Nam include only quarters one and two; 2013 figures for Philippines and Thailand refer to approved FDI; India figures refer to equity FDI. "..." = data not available.

Source: Official national sources; IMF: World Economic Outlook Database, Apr. 2014; UNCTAD: UNCTADstat Database.

Table F2-7 Imports and exports of merchandise, 2007-13 (per cent of GDP)

	2007	2008	2009	2010	2011	2012	2013
ASEAN	126.9	129.0	102.7	108.9	112.6	108.9	...
Brunei Darussalam	79.8	89.6	89.9	91.9	94.0	100.0	...
Cambodia	110.3	108.4	96.4	106.2	126.7	136.5	...
Indonesia	47.1	45.8	43.1	53.0	56.1	54.8	41.5
Lao PDR	48.8	52.4	39.6	41.4	44.5	43.1	24.0
Malaysia	167.0	154.3	139.1	147.2	144.3	139.7	139.1
Myanmar	...	...	...	...	...	...	...
Philippines	72.6	63.1	50.1	55.1	49.8	46.9	43.3
Singapore	333.4	367.7	265.6	305.1	316.4	286.9	264.9
Thailand	119.0	131.0	108.5	118.0	130.6	130.5	122.5
Viet Nam	156.6	157.4	130.7	147.6	164.7	161.2	154.9
China	62.3	56.7	44.2	50.1	49.7	47.0	45.4
India	30.6	42.1	30.9	33.7	41.0	42.5	41.7
Japan	30.7	31.8	22.5	26.6	28.5	28.3	30.2
Korea, Rep. of	69.4	92.0	82.3	87.9	96.9	94.5	82.4

Note: 2013 are preliminary estimates; ASEAN figures exclude Myanmar; Lao PDR 2013 figure includes only quarters one and two. "..." = data not available.

Source: Official national sources; IMF: World Economic Outlook Database, Apr. 2014; World Bank: World Development Indicators, 2013.

Background papers

- Aring, M. Forthcoming. *Enhancing competitiveness and employability through skill development*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO).
- El Achkar Hilal, S. Forthcoming. *ASEAN occupational projections: The impact of ASEAN economic integration on occupational outlooks and skills demand*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO).
- Emerging Markets Consulting. Forthcoming. *ASEAN Employer Survey: The role of employers' organizations in matching skills and increasing mobility across the ASEAN region*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO).
- Gu, K.; Zhang, Q. Forthcoming. *Prospects glimmer for China to be poised for CAFTA: Managing integration for shared prosperity and social progress*, background paper prepared for *ASEAN Community 2015: Managing integration for better jobs and shared prosperity* (Bangkok, ILO).
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ASEAN Community 2015: Managing integration for better jobs and shared prosperity

The ASEAN Economic Community (AEC) will create a single market and production base and new opportunities for prosperity for the region's 600 million women and men. This will have implications for job gains and losses, skills development, wages and productivity, labour migration, social protection systems and building connectivity. However, unless managed properly, the AEC may not translate into benefits for everyone and could increase existing inequalities.

To realize the full potential of the AEC to deliver more and better jobs, decisive action is necessary, including better management of structural change, ensuring that economic gains lead to shared prosperity while strengthening regional co-operation and tripartite dialogue. Ultimately, the success of ASEAN regional integration will depend on how it affects the labour market – and therefore on how it improves the quality of life of women and men in the region.

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