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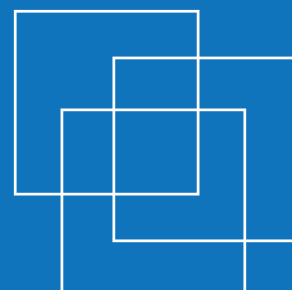


ACT/EMP
The Bureau for Employers' Activities

The road to the ASEAN Economic Community 2015:

**The challenges and opportunities for enterprises
and their representative organizations**

Gary Rynhart and Jae-Hee Chang
May 2014



Bureau for Employers' Activities (ACT/EMP)
ILO Regional Office for Asia and the Pacific

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Preface

This report synthesizes two bodies of research addressing the challenges and opportunities that face the labour market as the Association of Southeast Asian Nations (ASEAN) embarks on a process of deeper integration through the ASEAN Economic Community (AEC). The recommendations outlined in this report encourage national employers and business organizations in ASEAN to pursue two general goals:

- Reinvigorate efforts to help guide their constituencies towards regional integration; and
- Substantively increase their inputs into the policy discourse.

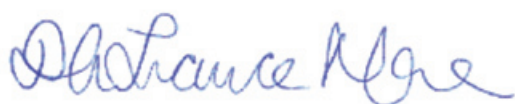
Organizations linking private-sector enterprises to Government can bridge the gap between the micro- and macro-economy. On a macro level, national employers and business organizations provide important information on markets that enables policy-makers to identify constraints on enterprise growth; create or improve public goods and infrastructure; and target improvements in human capital, information technology, and finance. On a micro-level, they play a critical role in improving productivity, boosting competitiveness, and ensuring sustained job creation.

With this in mind; and as ASEAN moves towards a more integrated future; national employers and business organizations throughout the region must recognize the following imperatives:

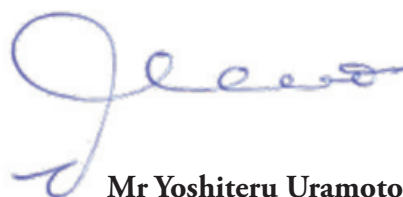
- They must remain relevant, responding effectively to changing needs within their countries in terms of real demands on the ground, ensuring they can adapt to changing economic, technological, structural, and social environments.
- They must remain representative, seeking broad, inclusive memberships that deliver voice, influence, and legitimacy to constituents. To this end, they must speak for all sectors of the business community and all types of enterprise, both large and small.
- They must be able to formulate relevant, credible, and timely policy inputs to help deliver growth, jobs, and shared prosperity. They must establish a reputation for clear, reliable and robust analysis, anticipating emerging risks as well as opportunities in shaping the business agenda while putting enterprise needs at the forefront of development strategies. In this, they must promote constructive policy agendas, consistently focusing on what they stand for, rather than what they oppose.

The ILO will continue to provide timely research, expertise and policy advice to its constituents in realising the region's goals under all three pillars of the ASEAN Community. One noteworthy effort is the forthcoming ILO-ADB joint report 'ASEAN Economic Community 2015: Managing integration for better jobs and shared prosperity', which looks into the broader impacts the AEC will have on ASEAN labour markets, including sectoral transformation and skill needs, issues that are critical for enterprises in the region. As time draws closer to 2015, the ILO remains committed to help managing the transition in all member states.

We feel that this report is a significant contribution towards assisting national employers and business organizations as they lead their enterprise members in meeting the challenges and opportunities that the ASEAN Economic Community presents.



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- Cambodia Federation of Employers and Business Associations (CAMFEBA)
- Employers' Association of Indonesia (APNIDO)
- Lao PDR National Chamber of Commerce and Industry (LNCCI)
- Malaysia Employers' Federation (MEF)
- Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI)
- Employers' Confederation of the Philippines (ECOP)
- Singapore National Employers' Federation (SNEF)
- Employers' Confederation of Thailand (ECOT)
- Viet Nam Chamber of Commerce and Industry (VCCI)

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Abstract

While significant progress has been achieved along lines set out in the AEC Blueprint, the evidence suggests that enterprises are neither fully aware of the challenges the AEC will present nor are they prepared to capitalize on concomitant opportunities.

Skills mismatches are a major concern across the region. Management and leadership training skills are most needed, followed by vocational and technical skills and customer service. Yet secondary-school graduates are not acquiring the skills required for their businesses, according to nearly 50 per cent of ASEAN employers, while enrolment in tertiary education remains low.

Most enterprises are optimistic that greater labour mobility, lower trade barriers, and freer investment flows will boost their competitiveness, particularly where these developments are coupled with investments in training and education. Nevertheless, they remain unprepared to face the competitive pressures of regional integration. Only 46 per cent of ASEAN employers indicated they fully understood the impact the AEC will have on their enterprise. While a series of mutual recognition arrangements (MRAs) provides the main mechanism by which equivalent skills can be recognized across the ASEAN after 2015, the report indicates that a lack of awareness of the MRAs itself may act as a further impediment. Enterprises need to scale up their engagement with the MRAs, especially in the ASEAN Qualifications Reference Framework (AQRF).

Increasing labour mobility in ASEAN will have different impacts depending on business size and respective enterprise sector, but freer mobility is seen in a largely positive light, with 54 per cent of respondents believing worker mobility (irrespective of skill levels) would have a positive or very positive impact on their enterprise. Only 14 per cent foresaw a negative or a very negative impact. Enterprises from across sending countries, however, are concerned about the outflow of skilled personnel, such concerns appearing strongest in the Philippines, perhaps because of relatively advanced English-language skills among Filipino workers.

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The responsibility for opinions expressed in articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them, or of any products, processes or geographical designations mentioned.

Acronyms

ACE	ASEAN Confederation of Employers
ACF	ASEAN Constructors' Federation
ACT/EMP	Bureau for Employers' Activities
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AHTN	ASEAN Harmonised Tariff Nomenclature
AIA	ASEAN Investment Agreement
APINDO	Employers' Association of Indonesia
APSC	ASEAN Political-Security Community
AQRF	ASEAN Qualifications Reference Framework
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of Southeast Asian Nations
ASW	ASEAN Single Window
AWF	Asian Welding Federation
BIAC	Business and Industry Advisory Committee
CAMFEBA	Cambodia Federation of Employers and Business Associations
CWCS	Common Welder Certification Scheme
ECOP	Employers' Confederation of the Philippines
ECOT	Employers' Confederation of Thailand
EO	Employers' organization
GDP	Gross domestic product
IAI	Initiative for ASEAN Integration
IGA	ASEAN Agreement for Promotion and Protection of Investment
ILO	International Labour Organization
IOE	International Organisation of Employers
Lao PDR	Lao People's Democratic Republic
LNCCI	Lao PDR National Chamber of Commerce and Industry
MEF	Malaysia Employers' Federation
MNE	Multinational enterprise
MOS	Manpower optimization system
MRA	Mutual recognition arrangement
OECD	Organisation for Economic Co-operation and Development
SME	Small- or medium-sized enterprise
SNEF	Singapore National Employers' Federation
UMFCC	Union of Myanmar Federation of Chambers of Commerce
TVET	Technical and vocational education and training
UNDESA	United Nations Department of Economic and Social Affairs
VCCI	Viet Nam Chamber of Commerce and Industry

1



Introduction

Introduction

The ASEAN Economic Community (AEC), scheduled to come into full operation in 2015, presents many challenges and opportunities for enterprises across the region. This report looks at ways to promote greater understanding among national business and employers' organizations (EOs), and their enterprise members, of the forces that are driving change, especially as these relate to how greater integration will impact workforces and enterprise operations and competitiveness. At this critical juncture, where new priorities and needs are emerging, the report seeks to guide EOs in remaining representative and relevant.

The report proceeds from two research projects commissioned by the Bureau for Employers' Activities (ACT/EMP) and the International Labour Organization (ILO) Regional Office for Asia and the Pacific, and from a round of national consultations comprised of three regional meetings in the last quarter of 2013.

The first of the research projects, conducted by Emerging Markets Consulting,¹ produced the Survey of ASEAN employers on skills and competitiveness (ILO Survey). It captures employer perceptions of regional integration and its expected effects on human resources, labour mobility, enterprise development, and business competitiveness. It clarifies employer attitudes, offers insights into prevailing market sentiments, and pinpoints focuses for national and regional policies. It includes interviews with a sample of 240 privately owned enterprises (domestic as well as foreign owned) from across various sectors in all 10 member States.²

The second research project was conducted by Professor Richard F. Doner of Emory University (USA), producing an analytical assessment of private-sector associations in Cambodia, Indonesia, the Philippines, and Thailand.³ It includes some 70 semi-structured, open-ended interviews conducted in September and October 2013 with EO officials and constituents, government officials, and representatives of research organizations and civil society groups in the four countries.

Three regional meetings provided additional original inputs. The first meeting was held in Bangkok in October 2013, and dealt mainly with migration and mobility frameworks in ASEAN. The second, held in Bali in November 2013, focused on skills needs related to the AEC. The third, held in Bali in November 2013, dealt more broadly with labour market issues and anticipated AEC effects on EOs and their members. Contributors to these meetings included the ASEAN Confederation of Employers (ACE), the ASEAN Secretariat, the Asian Development Bank (ADB), the Business and Industry Advisory

1 See <http://emergingmarkets.asia/>. For the full survey questionnaire, see Annex 1.

2 The responses from Brunei Darussalam, Thailand and Viet Nam were very limited, however, and had to be excluded from the final regional findings, though additional research has since addressed several gaps.

3 Doner, R.F. *forthcoming*. "Employers and business organizations in ASEAN: Responses to challenges of regional integration".

Committee (BIAC) to the Organisation for Economic Co-operation and Development (OECD), the International Organisation of Employers (IOE), the World Bank, several academic and non-academic research institutions, recruitment specialists, and partners from across the ASEAN region.

Chapter 1 presents a broad overview of the AEC within the context of regional integration and expected AEC impacts on economic and labour market outcomes in 2015 and beyond. Chapter 2 focuses on skill shortages, evaluating business perceptions regarding training needs within the context of the AEC. Chapter 3 evaluates the challenges and opportunities of rising labour mobility in the region and the impact this will have on employers. In conclusion, Chapter 4 presents policy recommendations for employers and EOs in the run-up to the establishment of the AEC in 2015.

2

ASEAN economic integration:
Context and progress towards 2015

ASEAN economic integration: Context and progress towards 2015

Since the early 1990s, the Association of Southeast Asian Nations (ASEAN) has made economic integration a policy priority. A new geopolitical order, globalization, and the 1997 Asian financial crisis have all helped to push the agenda for increased macroeconomic stability and deeper regional integration.

In its current form, the ASEAN Economic Community (AEC) involves a range of treaties, agreements, and declarations among its 10 current member States: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. In December 1997, the member States adopted a vision for 2020, one that would transform ASEAN into a “stable, prosperous, and highly competitive region with equitable economic development, [reducing] poverty and socio-economic disparities.”⁴ In 2007, they adopted the AEC Blueprint as a roadmap to establishing a “single market and production base” by 2015, aiming at a free flow of goods, services, investment, capital, and skilled labour⁵ across four pillars of regional integration:

- A single market and production base
- A highly competitive economic region
- Equitable economic development
- Integration with the global economy

Beyond the AEC, a broader roadmap for an ASEAN Community was adopted in 2009, one that included the ASEAN Political-Security Community (APSC) and the ASEAN Socio-Cultural Community (ASCC).

2.1. The AEC and economic performance

The ASEAN member States have achieved impressive economic and social development over the past two decades. As a whole, the region weathered the 2008 global financial crisis very well, maintaining robust growth and strong domestic demand.⁶

Member States have made significant social progress and reduced poverty, though it has been uneven and many gaps remain.

4 Signed by ASEAN leaders in Kuala Lumpur, December 1997.

5 Signed in Singapore, November 2007 (see: www.asean.org/archive/5187-10.pdf).

6 Arguably, however, this was partly the result of a massive economic stimulus from China after 2009 and partly due to Indonesia's resilience as the region's biggest economy, factors that helped to outweigh losses made in some of the smaller, more export-oriented countries. See *ASEAN Annual Report 2012–2013* (ASEAN Secretariat, Jakarta, 2013), p. 37.

Economic diversification has opened the region to international trade and foreign direct investment. Member States have taken advantage of export opportunities in agricultural commodities including rice, sugar, and rubber; labour-intensive manufactures such as footwear and apparel; and high-technology manufactures such as automobiles and electronics. Exports in particular have risen since the 1997 Asian financial crisis, both within the region itself and with large partners such as China, India, and Japan.⁷

Member States have already made significant progress with reducing intra-regional trade tariffs (to less than 1 per cent on average) and external trade barriers. Although multilateral trade agreements, bilateral preferential trade agreements, and similar schemes have also facilitated greater participation in global production networks, ASEAN trade and investment are said to have been driven more by market forces.⁸

Nevertheless, despite these varied and important advances, ageing populations (especially in Thailand and Singapore) and youth inactivity and unemployment (most starkly, perhaps, for Indonesia and the Philippines, but also elsewhere) pose mounting problems.⁹ Income, wealth, and wage disparities among member States also present obstacles to increased integration, while driving greater labour mobility within the region.

2.2. The AEC and working conditions

Trade liberalization can serve as a key factor in improving working conditions — directly, through the rise of common standards among competing countries; and indirectly, through rising productivity, job creation, and technological change. Experience shows, however, that market openness may be linked to better working conditions. For this to come about, a strong foundation for income and employment growth must be established through investments in education and physical infrastructure, as well as through policies for improving capital flows and the business climate.¹⁰

According to the ILO Survey, nearly 90 per cent of enterprises said they were likely, with the advent of the AEC, to invest in a variety of activities to increase their competitiveness and output (Figure 1). Reducing wages was by far the least popular proposed measure. Conversely, increasing wages, investing in workers' skills, and boosting the quality of products and services through innovation were reported to be the most likely strategies.

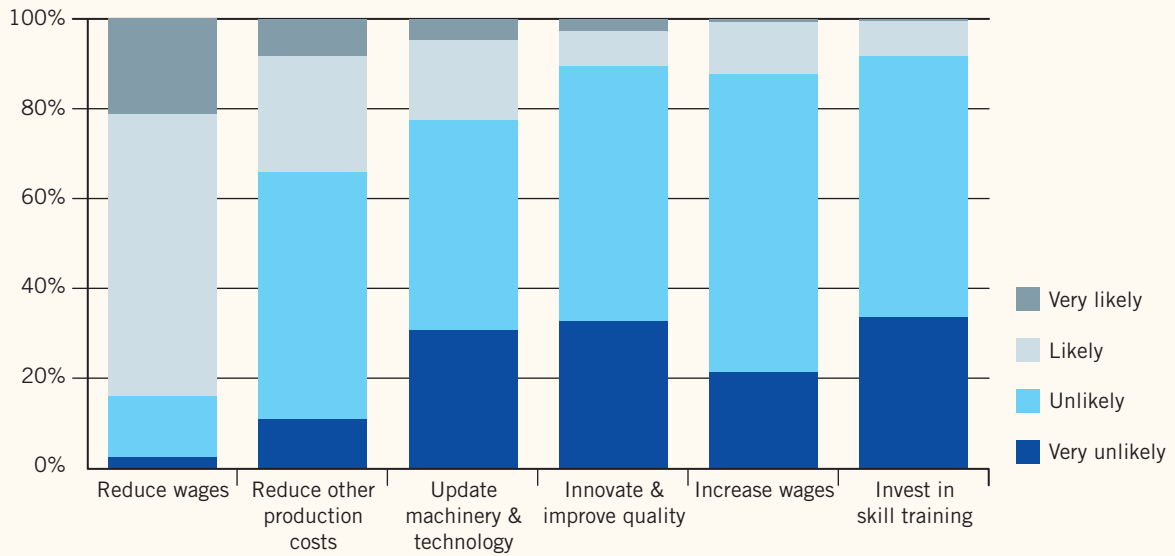
7 M. Okabe and S. Urata, "The impact of AFTA on intra-AFTA trade", *ERIA Discussion Paper No. 2013-5* (2013).

8 Institute of Southeast Asian Studies and ADB, "Preface", in Das et al. (eds.), *The ASEAN Economic Community: A Work in Progress* (2013).

9 World Bank, *East Asia and the Pacific at work* (2014).

10 OECD, *Trade and Development Commission (5th session): The impact of trade on employment and poverty reduction* (2013).

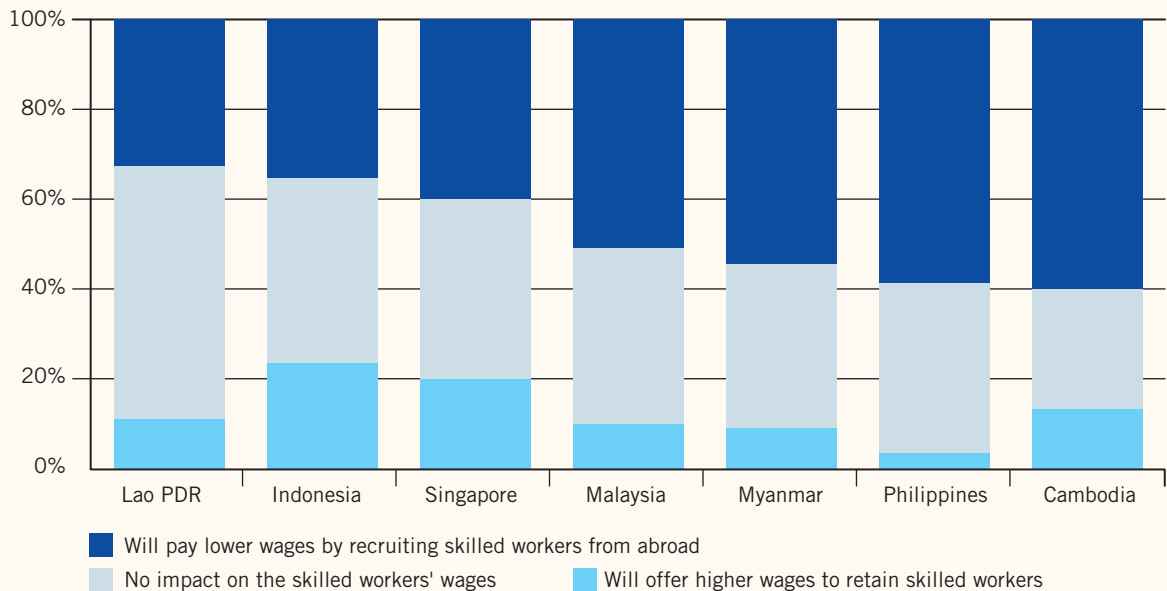
Figure 1. Expected enterprise responses to increase competitiveness within ASEAN



Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

Those enterprises surveyed also reported they would increase wages to attract and retain skilled workers, further indication that greater openness within the AEC could lead to improved working conditions (Figure 2).

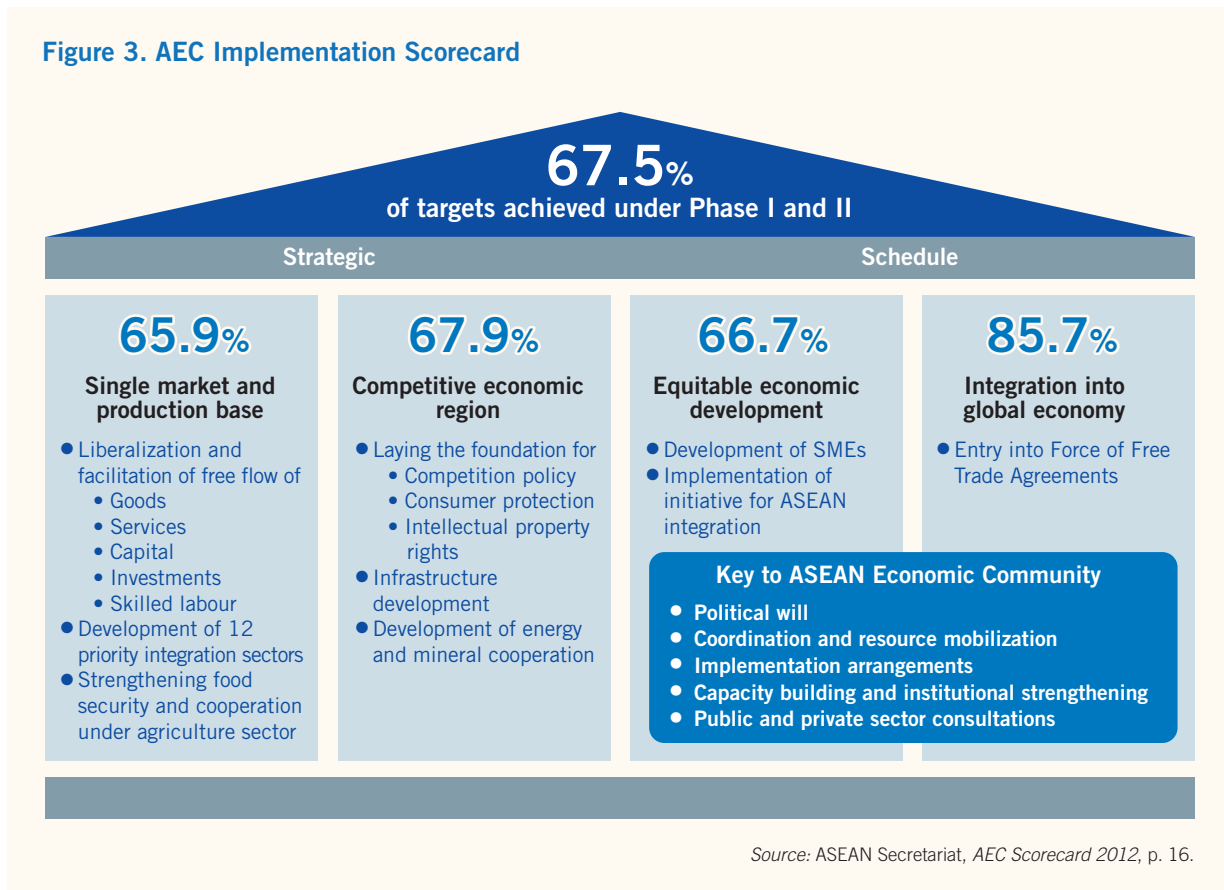
Figure 2. Impact of greater mobility of high-skilled workers on enterprise wages



Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

2.3. Progress towards 2015

The ASEAN Secretariat monitors progress regarding AEC implementation through the ASEAN Community Progress Monitoring System as well as through a separate scorecard mechanism. Figure 3 (below) illustrates and summarizes progress in implementing the AEC during its second, most recent phase (as of December 2011).



Pillar I: Single market and production base

A goods-trade facilitation framework was adopted to reduce customs procedures and address similar issues, establishing the ASEAN Single Window (ASW). The ASW aims to enhance preferential tariff certification procedures and harmonize standards by 2015. Meanwhile, the ASEAN Harmonised Tariff Nomenclature (AHTN) introduces a single framework for categorizing goods for customs purposes.

The process of liberalizing services trade is based on the ASEAN Framework Agreement on Services (AFAS), under which countries undertake biennial rounds of negotiations within each service sector. Originally set for the start of 2014, disagreements led to a preference instead for the “ASEAN Minus X” approach, whereby two or more countries reach a trade agreement in a specific sector to which others can then sign up or not as they will.

Investment liberalization, facilitation, promotion and protection under the AEC is based on the ASEAN Investment Area (AIA), which grants foreign investors equal treatment among the original six member countries and which is scheduled to include the others by 2015.

Under the AEC, the free flow of skilled labour is to serve as a key driver of knowledge transfer and competition. The original deadline for facilitating visa procedures and employment passes for major services professionals was 2012, though most member States still maintain protectionist policies and legal barriers.

Pillar II: AEC as a competitive economic region

Several measures promoting competition in ASEAN have been implemented, including the formation of the ASEAN Experts' Group on Competition, the ASEAN Regional Guidelines on Competition Policy, and a Handbook on Competition Policy and Laws in ASEAN for Business. They collect member State experiences and good practices regarding international competition, and outline the relevant laws regulating such competition.

While the new framework on the protection of intellectual property rights has benefited richer and poorer member States alike, conflict remains among member States regarding provisions for international branding and patenting by large corporations.

The strategic goals regarding infrastructural development under the AEC are summarized in the 2010 Brunei Action Plan, though member countries have yet to ratify all its relevant requirements.

Pillar III: Equitable economic development

Measures to develop small- and medium-sized enterprises (SMEs) have aimed to mitigate the dominance of large foreign players in the market and foster local entrepreneurship, innovation, and job creation. The ASEAN SME Advisory Board was created to develop policies to address some of the challenges SMEs face in gaining access to finance and technology, and ASEAN has published an SME guidebook to help prepare them for AEC 2015.

The Initiative for ASEAN Integration (IAI) also offers a platform for technical assistance and capacity building in the newest member States, and includes activities on human resources development, information and communications technologies, tourism development, poverty reduction, and improvements in quality of life.

Pillar IV: Integration into the global economy

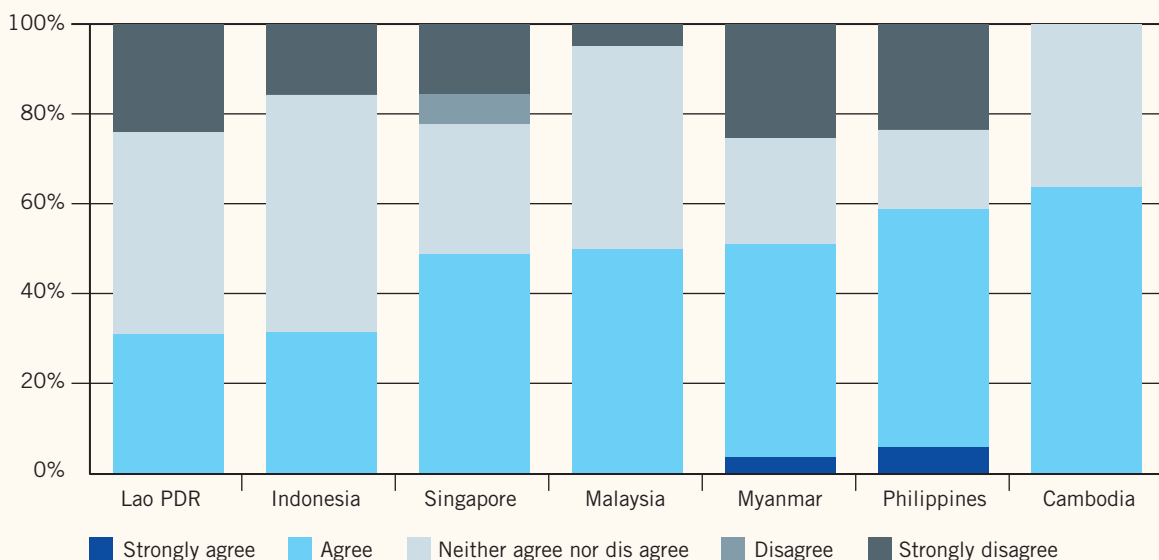
The AEC aims to balance the centrality of intra-regional integration with additional economic opportunities arising externally. Current policies are based on free-trade agreements and comprehensive economic partnerships with third countries. Initiatives are also underway to enhance the region's participation in global supply networks through international standards and good practices, and to provide technical assistance on developing industrial capabilities among some of the less-developed member States.

2.4. The AEC and enterprise-level awareness

In general, preparations for the AEC have accomplished much, but the evidence suggests businesses are neither fully aware of the accompanying challenges nor ready to capitalize on associated opportunities.

The ASEAN Business Advisory Council recently conducted a survey of SMEs in the region, and found that 41 per cent of respondents had limited or no knowledge of ASEAN policy initiatives.¹¹ A set of focused interviews conducted for ILO in 2013 in key enterprises from across the region indicated that four out of five global enterprises exhibited little knowledge of the AEC and its implications.¹² Of the local and regional enterprises interviewed, all were aware of the integration process, but only 34 per cent were preparing for it in any way. This may be explained in terms of their failure to see the value of investing in the changes coming from the AEC or, alternatively, of their not understanding what they can do to take advantage of these changes.¹³

Figure 4. Understanding of the impact the AEC will have on businesses



Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

The ILO Survey also found that only 46 per cent of respondents indicated they fully understood the impact AEC will have on their enterprise. Aside in Myanmar, enterprises generally responded that they had no understanding of the AEC's upcoming impact or that they neither did nor did not understand it. Around 70 per cent of respondents in Malaysia and the Philippines indicated they neither understood

11 M. Heong Wong and A. Wirjo, *Findings from the 2011–12 ASEAN BAC Survey on ASEAN Competitiveness*, Jakarta: ASEAN Business Advisory Council.

12 Interviews conducted by Richard Evans in October 2013 and presented at the ILO (ACT/EMP) "Experts meeting on AEC 2015" (Bali, Indonesia, November 2013).

13 R. Evans, "AEC talent mobility: Recruitment industry trends", presentation to the ILO Experts Meeting on AEC 2015, (Bali, November 2013).

nor knew what to think about the upcoming AEC, signifying a prevailing mood of uncertainty regarding the looming effects of integration.

“The government should communicate the impact of AEC on the domestic economy and formulate policies and programs to assist SMEs to enhance competitiveness and productivity.”

- Enterprise respondent, Malaysia

“There should be more information campaigns on the effects of ASEAN integration on local manufacturers and businesses.”

- Enterprise respondent, the Philippines

“The current communication channels are speaking to companies that want to listen, not necessarily to the ones who would need it.”

- Senior economist, Multinational Development Bank, Lao PDR

2.5. Summary

The AEC may not be fully realized by 2015.¹⁴ Meanwhile, existing policies are culminating in a “noodle bowl” of different free-trade agreements for the region wherein attention is being diverted from the AEC process.¹⁵ Furthermore, as one recent analysis concludes, “too much political opposition and inadequate institutional infrastructure lie in the way of effective implementation”.¹⁶

Nevertheless, ASEAN nations will need to prepare for the changes that will happen and plan how best to embrace them. In general, businesses need to understand the implications the AEC have for their operations, and then take advantage as best they can of opportunities arising from the intensified movements of goods, services, capital, investment, and skilled labour.

Following integration, businesses are likely to encounter new challenges in the labour market. In particular, concerns are surfacing with respect to mismatches between worker demand and supply, the AEC’s unclear impact on the informal economy, and the benefits that will be realized by SMEs.¹⁷ Given the substantial uncertainty felt by businesses, more efforts should be devoted to creating private-sector awareness regarding the overarching impacts that ASEAN integration will bring.

¹⁴ S. Razeen, “ASEAN FTAs: State of play and outlook for ASEAN’s regional and global integration”, in Das et al. (eds.), *The ASEAN Economic Community* (2013), pp. 320–381.

¹⁵ H.E.S. Nesudurai, “Enhancing the institutional framework for AEC implementation: Designing institutions that are effective and politically feasible”, in Das et al. (eds.), *The ASEAN Economic Community* (2013), pp. 411–441.

¹⁶ T.C. Tiong, “Foreword”, in Das et al. (eds.), *The ASEAN Economic Community* (2013), pp. vii–viii.

¹⁷ ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

3

Skills:

A major policy concern for enterprises

Skills: A major policy concern for enterprises

The goals of developing a skilled workforce and expanding human capacities presuppose measures to (a) help workers to find productive employment and (b) help enterprises to identify the talent they need. As ASEAN member States transition towards more productive manufacturing and service industries, employers increasingly demand a highly qualified and competent workforce.

Although some uncertainty does prevail with regard to the impact the AEC will have on businesses after 2015, the ILO Survey shows that employers are largely optimistic. They generally agree that greater labour mobility, lower trade barriers, and freer investment flows will boost their competitiveness, particularly if coupled with investments in education and training.

Numerous reports have consistently highlighted skill deficits as a major ASEAN concern. A 2009 World Bank survey showed that the foremost obstacle for enterprises was the shortage of adequate skills.¹⁸ The Economist Intelligence Unit also recently reported that labour shortfalls and skill shortages in Indonesia, the Philippines, Thailand, and Viet Nam were posing increasing problems for employers.¹⁹ Likewise, the World Bank's most recent Investment climate assessment report reported that low skills are the greatest barrier to investment in Lao PDR. Recent ILO research also revealed that skill shortages were inhibiting growth in several key sectors, among them mining, trade, hydropower, hotels and restaurants, telecommunications, information technology, and garments.²⁰ Similarly, a recent survey in Cambodia revealed that more than 75 per cent of businesses felt that skill shortages were negatively affecting their growth trajectories.²¹

As economies become more productive, skill shortages are expected to become an even more pressing issue for employers. Services alone already engage about 34 per cent of workers in ASEAN, having risen by 10–20 percentage points in many countries over the past two decades. The mounting role of services in creating jobs makes it inevitable that countries experience friction from structural change in the medium term.²²

On the whole, human resources in ASEAN are fast becoming more competitive. Educational attainment and literacy are high, with particular improvements in secondary enrolment (except in Cambodia and Myanmar). Nevertheless, tertiary enrolment remains very low in some countries (Figure 5); this is especially evident in occupations such as accounting, business management, engineering, legal practice,

18 World Bank Enterprise Survey (2009).

19 Economist Intelligence Unit, "Skilled labour shortfalls in Indonesia, the Philippines, Thailand and Viet Nam" (2012).

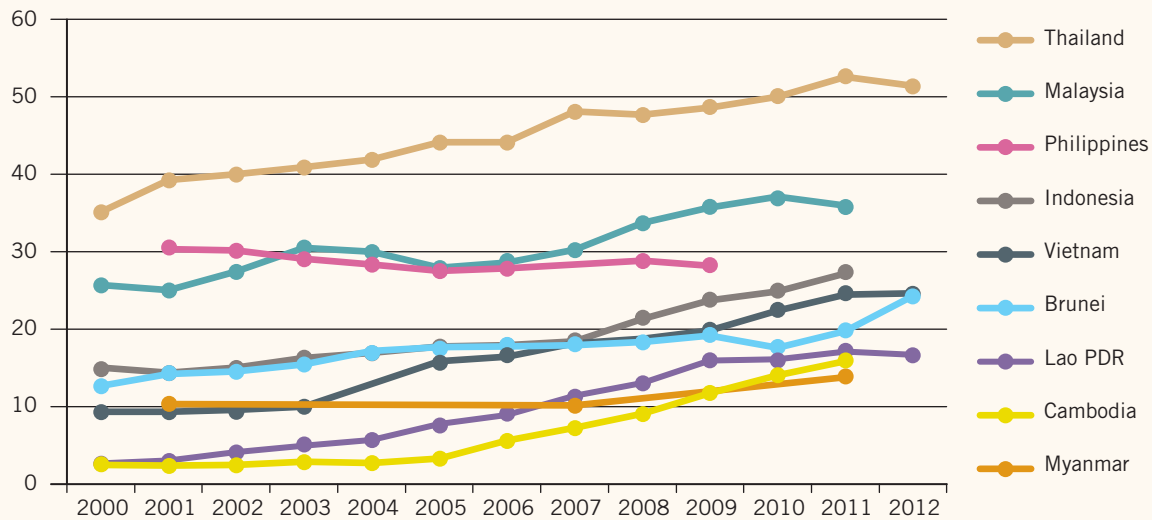
20 ILO, *Lao PDR TVET assessment: Better matching and anticipating of skills* (2013).

21 CAMFEBA, "Pathways to prosperity: Policy priorities to create an enabling environment for sustainable enterprise development and creation in Cambodia", *Business Vision 2020* (2014), p. 9.

22 D. Park, "Service sector as an engine of growth for Asia and ASEAN and its implications for occupations and skills requirement", a presentation on an ILO meeting (2013).

medical science, and software design.²³ Proactive educational reform efforts on the part of EOs are urgently needed to ease such deficits, especially by way of technical and vocational education and training (TVET) mechanisms to fill the gaps experienced by modern services and manufacturing industries.

Figure 5. Enrolment in tertiary education, 2000–2012 (per cent)



Note: Gross enrolment ratio is the ratio of total enrolment (regardless of age) to the population of the age group that officially corresponds to the level of education shown.
Source: UNESCO Institute for Statistics, "School enrolment, tertiary (% gross)".

3.1. Skills needs in ASEAN

Nearly half the ASEAN employers recently surveyed believed that secondary-school graduates lacked the right skills for their business (Figure 6). More than half of the Cambodian enterprises surveyed felt that existing vocational training programmes failed to meet the needs of the business community, and that shortages of skilled workers were one of the greatest challenges facing the economy.^{24,25}

While enrolment in tertiary education remains low in ASEAN, over 50 per cent of employers surveyed agreed that university graduates both added value to the workplace through their professional skills and met the changing needs of employers and industry (Figure 7). Employers in Myanmar responded most negatively, with only 27 per cent agreeing (or strongly agreeing) that university graduates have appropriate skills. In contrast, 79 per cent of enterprises surveyed in Indonesia and 85 per cent of those in Singapore agreed university graduates had the necessary skills to meet their needs.

Stronger TVET institutions can also help integrate young people into the labour market, nurturing practical skills, including teamwork and communication, while providing an alternative route to

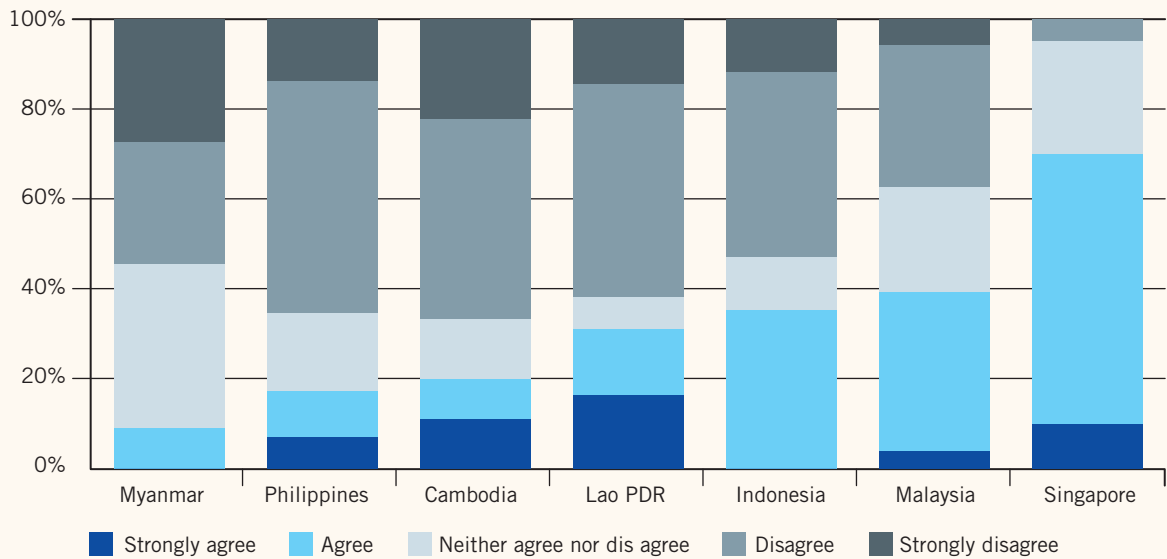
²³ ADB, *Outlook 2012: Services and Asia's Future Growth* (2012).

²⁴ ILO, *Enabling Environment for Sustainable Enterprises in Cambodia* (Geneva, ILO, 2014).

²⁵ ILO, *Skills shortages and skills gaps in the Cambodian labour market: Evidence from employer skills needs survey* (Geneva, ILO, 2013).

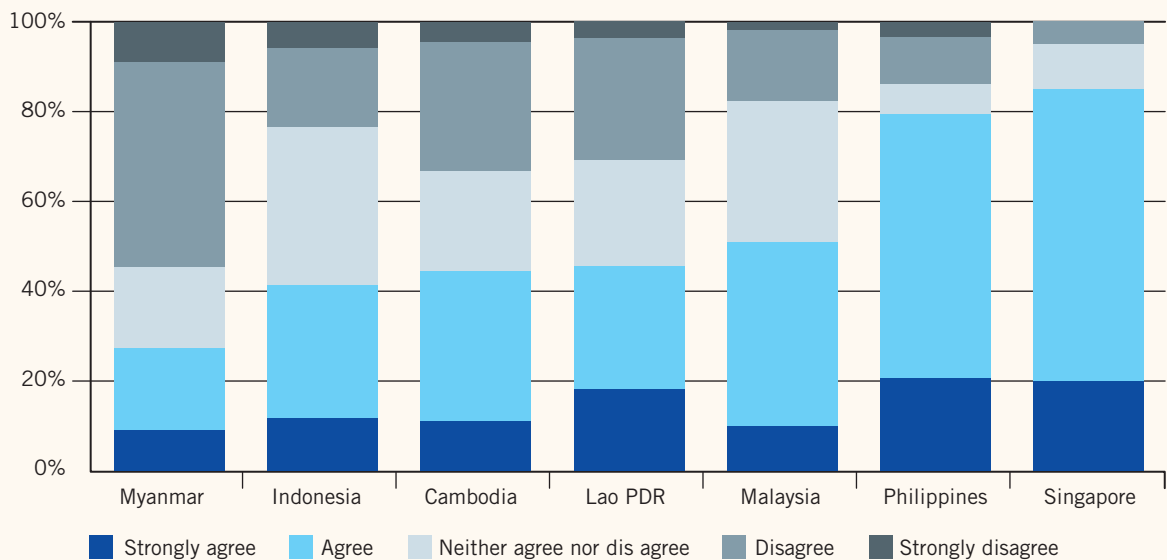
traditional education. Critical policy action is needed across the region to take better advantage of the increasing availability of conveniently located training options that can prove time and cost effective for smaller businesses. To ensure that the skills of both secondary and tertiary graduates better meet employer needs, EOs and industrial bodies should engage more with policy-makers in reviewing and addressing skills needs.

Figure 6. Skills of secondary graduates match enterprise needs



Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

Figure 7. Skills of university graduates match enterprise needs



Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

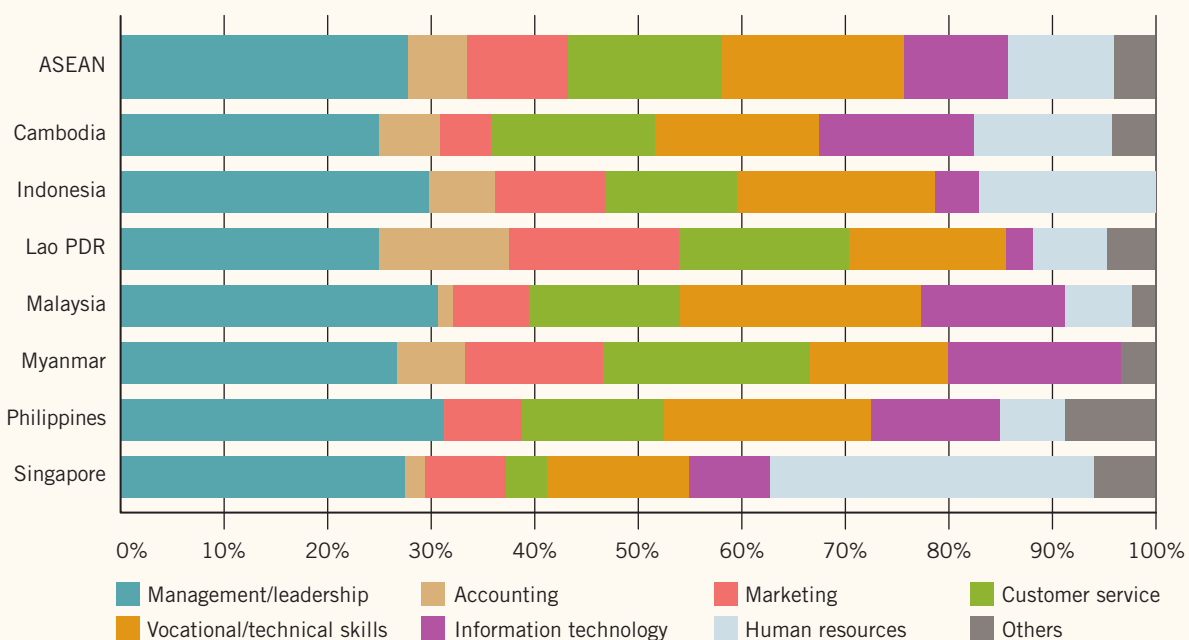
In the Philippines, the Chamber of Commerce and Industry has helped design a roadmap for education as part of a multi-sectoral initiative from the Government. ECOP has also been involved in improving trade certification for new skills and in the establishment of mutual recognition arrangements (MRAs) in ASEAN.²⁶ In Indonesia, the Employers' Association of Indonesia (APINDO) is working with the Ministry of Manpower and Transmigration to alleviate skill shortages by developing a clear picture of labour market demand while establishing regional vocational training centres to address geographical job mismatches and national competitiveness.²⁷

3.2. Training needs in ASEAN

To ensure that education policies, systems, and institutions serve business requirements, EOs must understand the training needs of employers. Given the extent of current skill shortages in ASEAN, furthermore, EOs must develop both national and regional policies on training.

According to the ILO Survey, employers in ASEAN believe the greatest needs are for management and leadership training, followed by vocational and technical skills and customer service (Figure 8). Accordingly, EOs should promote training for critical reasoning and other fundamental skills for managers.

Figure 8. Training typologies needed



Notes: Figures for ASEAN give the un-weighted average of all the survey responses; shares bigger than 5 per cent are labelled in the diagram.
Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

Beyond those needs outlined above, language skills remain a particular issue for employers in the run-up

²⁶ Doner, R.F. *forthcoming*. "Employers and business organizations in ASEAN: Responses to challenges of regional integration".

²⁷ *Ibid.*

to the AEC. Language barriers within ASEAN and the increasing internationalization of the jobs market, both within and among member States, make these skills ever more vital.

“To prepare for AEC, we must try to develop more skills among our employees, including ASEAN language skills, cross-cultural working skills, and management skills.”

- Respondent, Thailand

“High school graduates have almost no skills that make them attractive to private-sector recruiters, and employers need to train them from scratch. Language is possibly one of the biggest barriers.”

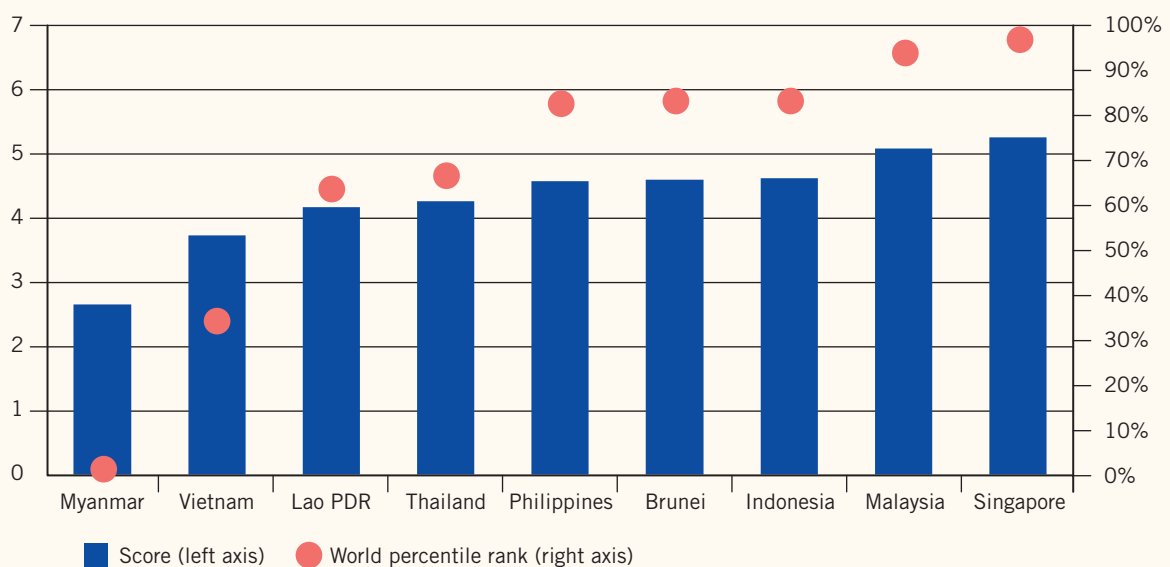
- Respondent, Singapore

3.3. Enterprise-level training

In principle, the free flow of skilled workers promoted under the MRAs should be welcomed as at least a partial solution to the skill shortage.

In 2013, the World Economic Forum’s annual Executive Opinion Survey asked business leaders whether the “general approach to human resources” among their country’s enterprises was “to invest little in training and employee development” (score of 0) or “to invest heavily to attract, train, and retain employees” (7). Compared to scores from 148 countries worldwide, ASEAN member States ranked anywhere from the bottom 2 percentile (Myanmar) to the 96th percentile (Singapore), as shown in Figure 9. Scores from Myanmar and Viet Nam indicated that much more might be done in these countries to better train and to help retain skilled workers.

Figure 9. WEF executive opinions on the extent of staff training (7=best), 2013



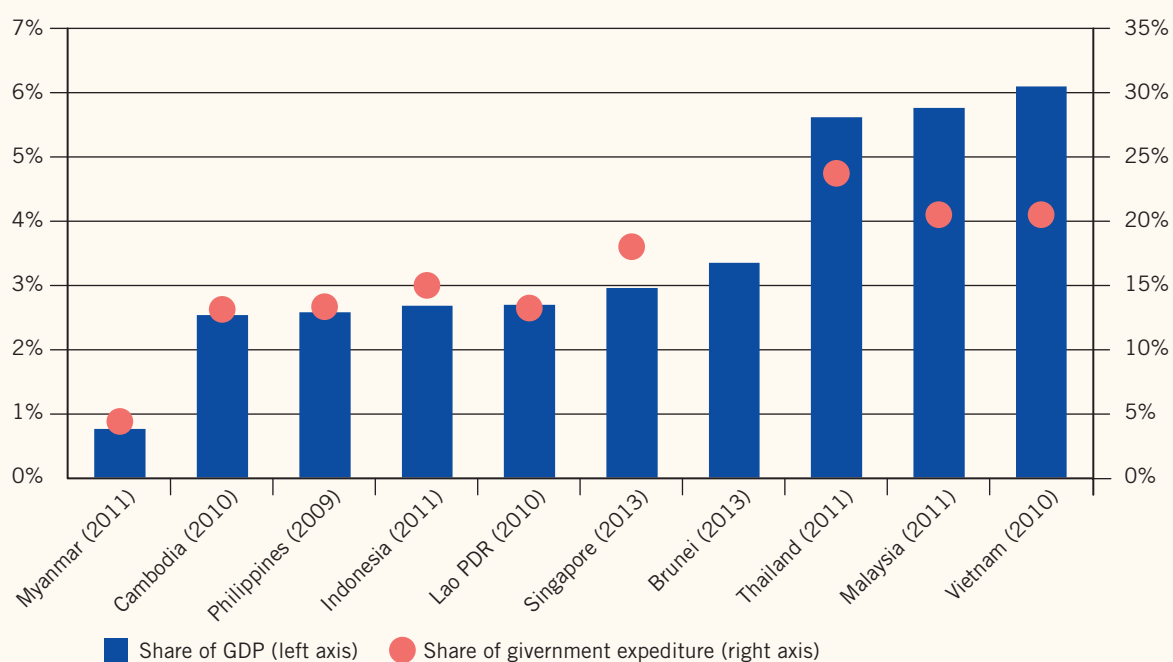
Note: No data are available for Cambodia.
Source: World Economic Forum, “Extent of staff training”, *Global Competitiveness Report 2013–14*.

The ILO Survey indicates that enterprises are most likely (92 per cent likely or very likely) to increase investment in skills and training for workers to make them more productive. Moreover, nearly 90 per cent of enterprises said they were likely, following the AEC, to invest in a variety of activities to increase their competitiveness and margins (see Figure 1). Among these, according to those surveyed, reducing wages was by far the least popular measure for increasing competitiveness. On the other hand, investing in worker skills was seen as the most likely strategy (92 per cent likely or very likely) that employers would take following the AEC.

3.4. Public spending on education: Quantity and quality

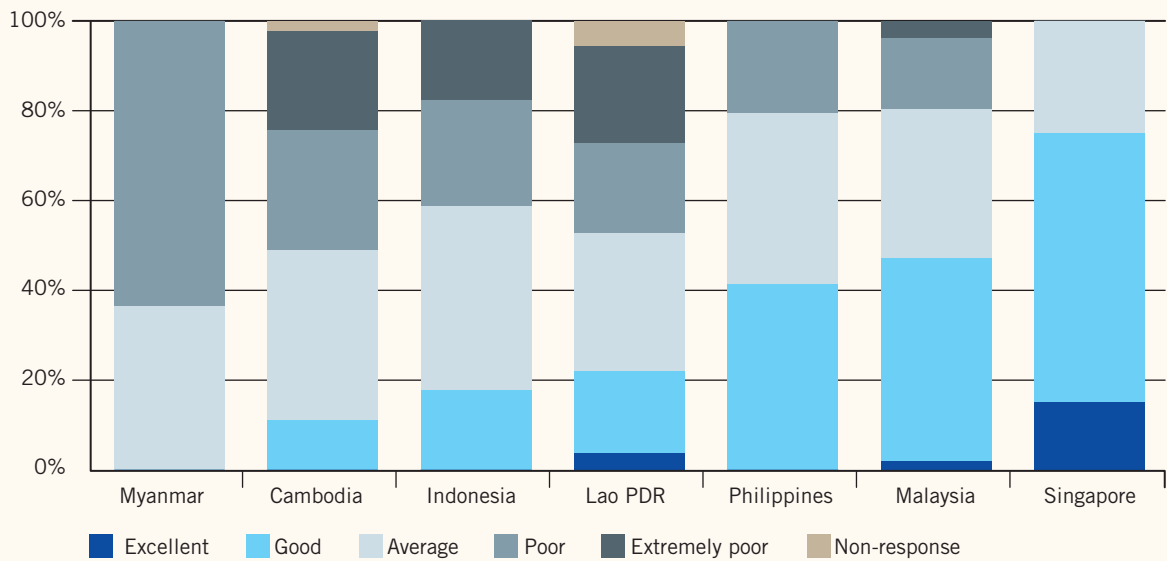
Levels of public spending on education vary greatly across ASEAN. Malaysia, Thailand, and Viet Nam invest about 6 per cent of their total output in education, accounting for some 20–25 per cent of all government expenditure (Figure 10). By contrast, the other member States spend around 3 per cent of their gross domestic product (GDP) or less on education, with Myanmar spending less than 1 per cent.

Figure 10. Public spending on education as a share of GDP and as a share of total government expenditure in ASEAN, latest available year



Source: UNESCO Institute for Statistics.

The quality of public education greatly influences the availability of skilled labour in a country. Across ASEAN, only 31 per cent of employers surveyed in the ILO Survey considered public education providers to be good or excellent (Figure 11). In Myanmar, 64 per cent of respondents said public education was poor or extremely poor, as did more than 40 per cent of those in Cambodia, Indonesia, and Lao PDR.

Figure 11. Quality of public education providers

Source: ILO, *Survey of ASEAN employers on skills and competitiveness* (2013).

Expert interviews indicate that key constraints on the quality of public education are a shortage of good teachers and, where they exist, difficulty retaining them. This is in part due to weak regulation of teaching standards and requirements for educational providers.

In May 2010 a joint ASEAN, Australia, and New Zealand task force began developing an ASEAN Qualifications Reference Framework (AQRF) that will incorporate national qualifications frameworks into mutually comparable professional standards.²⁸ This AQRF will include secondary and tertiary education as well as TVET, and will promote the development of more MRAs in future.

Aligning education and training curricula is critical to the success of the AEC. The AQRF enables comparisons of qualifications across member States that will both support recognition of qualifications and encourage the development of national approaches to validating learning gained outside formal education. The AQRF offers guidance in setting standards for skills and wider personal and professional competencies, and presents a broader regional standard of quality assurance regarding training, student assessment, and certification.²⁹

3.5. Summary and policy objectives

Shifts in the geography and composition of trade entail major consequences for skills demand in member

²⁸ A.T.R. Manzala, Chairperson, Professional Regulation Commission, “Task Force-ASEAN Qualifications Reference Framework”, presentation at ILO-ACT/EMP Regional Meeting (October 2013).

²⁹ D. Lythe, *Preparing for the mobility of skilled and professional workers through the ASEAN Economic Community* (2013).

States. Structural changes across economic sectors (typically in industry and services) and within them (typically with higher value-added production) demand new skills and greater specialization of services in all regions. Increasing intra-regional migration poses additional challenges for designing education and training curricula and ensuring equivalent skills are formally recognized and commonly accredited.³⁰

ASEAN needs greater investment in human resources underpinned by stable, effective labour-force institutions. As part of this, EOs and their members can participate more in education, training, and skills development, as well as in the regional alignment of qualifications frameworks. To this end, improved matching of education and training systems with the needs of the private sector — including better targeting of anticipated skill shortages, especially in sectors of priority after the AEC is in force — will be critical in enabling enterprises to take advantage of AEC opportunities. Sectoral skills councils may provide the necessary mechanisms for more focused dialogue between enterprises and stakeholders.

Addressing current skills gaps will also require systematic analysis and projection of labour market and demographic trends. Improved data collection should better match jobseekers with employers, and help to establish education systems that respond effectively to the evolving needs of economies.


In particular, enterprises and their representative organizations should apply the following measures:

- Develop, monitor, and evaluate skills development policies as they affect enterprises and programmes.
- Improve and promote analysis of skills gaps, including projections of skill shortages and industry needs, by region and by sector.
- Coordinate targeted policy dialogues between business and education policy-makers.
- Establish mechanisms with universities and training institutions through joint councils (perhaps on a sectoral basis) of academia and business representatives to develop and help promote university-business partnerships.³¹
- Promote access to education and training and a culture of lifelong learning.
- Ensure that training systems incorporate a keen awareness of productivity needs.
- Promote open competition principles to diversify the supply of education and explore greater future roles for private-sector providers.

³⁰ ILO, *A skilled workforce for strong, sustainable and balanced growth: Proposals to G20 leaders for a training strategy as per their request in Pittsburgh* (2010).

³¹ These initiatives can facilitate strategic industrial development through grassroots cooperation in a range of fields, including curriculum development, work placements, technical exchange, and the like while maximizing the potential for cooperation and partnership in research and development.

4



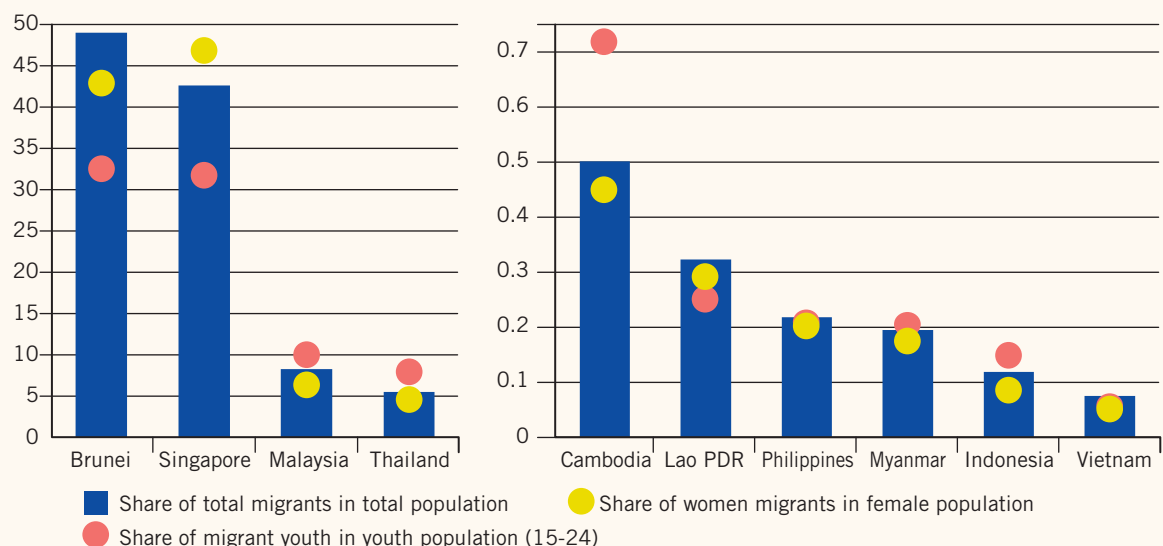
Intra-regional labour mobility:
Impediments and possibilities

Intra-regional labour mobility: Impediments and possibilities

Enabling the free flow of skilled labour is a central component of ASEAN integration. After several decades of rapid economic development and improvements in education and wages, Brunei Darussalam, Malaysia, Singapore, and Thailand have become attractive hubs for migrant workers of all skill levels.³² The number of intra-ASEAN migrants has increased from some 1.5 million in 1990 to some 6.5 million today,³³ and labour mobility is expected to intensify after 2015 and beyond, presenting both opportunities and challenges for employers.³⁴

International migrants make up almost 50 per cent of the population in Brunei Darussalam and Singapore, and some 6–8 per cent in Thailand and Malaysia (Figure 12, left panel). By contrast, international migrant stocks account for less than 1 in every 200 people in the other ASEAN member States and as few as 1 in 1,700 in Viet Nam (Figure 12, right panel). Women migrants tend to account for somewhat lesser shares of the female population than is the case for men, except in Singapore, where they hold a disproportionately larger share. Young migrants (those aged 15–24), tend to account for somewhat smaller shares of the youth population compared with the total, except in Cambodia, Malaysia, and Thailand, and where they account for a relatively larger proportion.

Figure 12. Estimated international migrants' shares of the total, female, and youth populations in ASEAN member States, 2013



Note: The scale on the vertical axis is different between the left and right panel.

Source: United Nations Department of Economic and Social Affairs (UNDESA), *Trends in International Migrant Stocks* (2013).

32 M. Abella, *Discussion paper: Key issues with labour mobility in ASEAN* (2012).

33 UNDESA, *Trends in international migrant stocks* (2013).

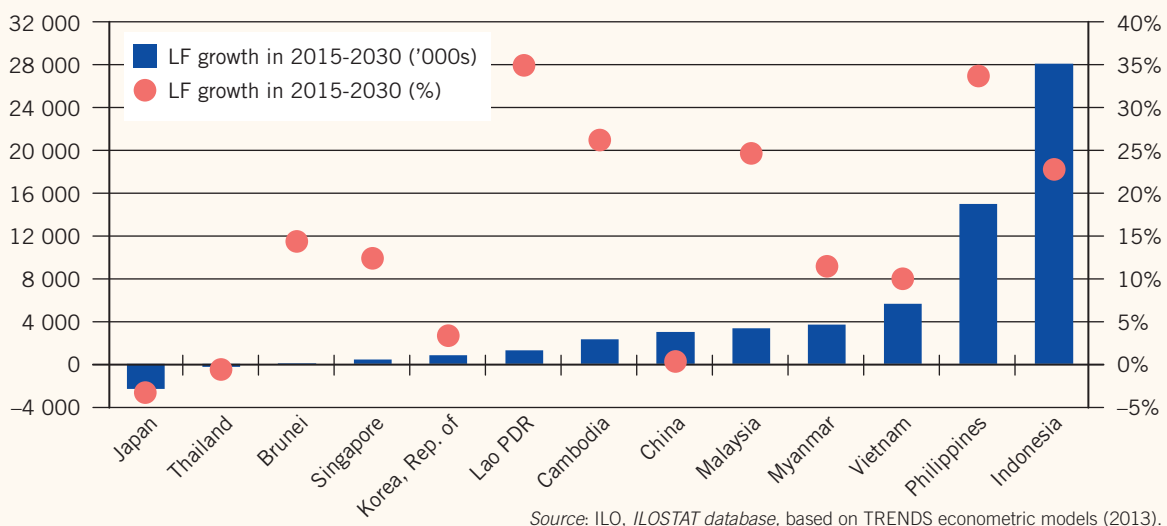
34 D. Lythe, *Preparing for the mobility of skilled and professional workers through the AEC* (2013).

The main bilateral migration flows in ASEAN are from Myanmar to Thailand, from Indonesia to Malaysia, and from Malaysia to Singapore. While most migrant workers from Cambodia and Lao PDR also go to Thailand or Malaysia, those from Viet Nam and the Philippines tend to migrate to countries in North America and, respectively, to East Asia and the Gulf States.

Precise numbers for migrant workers in ASEAN countries are difficult to determine, and the region still lacks harmonized definitions and coherent measurement tools. Nevertheless, individual sources in the four key ASEAN receiving countries shed light on the significance of migrant workers. Brunei Darussalam's Statistical yearbook 2011 records about 87,000 migrant workers in 2010, accounting for an enormous 48.9 per cent of total employment. In 2012, Singapore's Yearbook of manpower statistics reported about 1.3 million temporary migrants (i.e. excluding permanent residents) in the country, accounting for 37.8 per cent of the total workforce. According to Malaysia's Labour force survey 2012, its 1.7 million migrant workers comprised 13.6 per cent of those employed, while, in 2012, administrative records from Thailand's Department of Employment showed 1.1 million registered migrant employees (this discounts an unknown number of undocumented migrant workers).³⁵

Demographic factors are also driving migration in the ASEAN region. For example, the ILO forecasts that, due to population ageing, labour force growth will slow in every country until 2030. Nevertheless, between 2015 and 2030 ASEAN's total labour force will grow by an expected 59.3 million workers, with almost half of these coming from Indonesia (Figure 13). Over the same period in Cambodia, Lao PDR, Malaysia, and the Philippines, the labour force is expected to grow by 25–35 per cent. By contrast, virtually no growth or negative growth is forecast in China, Japan, the Republic of Korea, and Thailand.

Figure 13. Projected labour force growth in ASEAN+3, 2015–2030



³⁵ The International Organization for Migration estimated there were 1,445,000 unregistered Burmese, Cambodian, and Lao migrants living in Thailand, compared with some 1,090,000 regular migrants or those who had been verified under Thailand's Nationality Verification System. Respectively, they account for 41.1 per cent and 28.8 per cent of Thailand's total estimated migrant stock of 3.5 million. For more details, see International Organization for Migration, *Thailand migration report 2011, migration for development in Thailand: Overview and tools for policymakers* (IOM Thailand, Bangkok, 2011).

While such factors may contribute to job-creation pressures and high youth unemployment in some countries, they will also produce labour shortages in others. Both will increase incentives for individuals to migrate.

4.1. High- and low-skilled labour mobility under the AEC

In contrast to liberalized policies towards high-skilled workers under the AEC framework, ASEAN Governments have mostly adopted more restrictive policies for low- or medium-skilled migrant workers, limiting residence to short or temporary stays. Low-skilled foreign workers are usually employed on one- or two-year renewable work permits, which often do not allow migrants to change employers until their contract expires.

Most ASEAN migrant workers pursue low-paying jobs in sectors such as domestic services, construction, agriculture, fisheries, and manufacturing. Migrant-worker employment contracts are often short term, and the temporary nature of the jobs can reduce worker productivity, which may prove a disincentive for employers who might otherwise devote more time and resources to workplace integration and skill upgrading.³⁶ Indeed, overreliance on migrant workers in Malaysia has been cited as one reason that its electronics industry, compared with those of other countries, has remained relatively low-skilled and labour intensive.³⁷

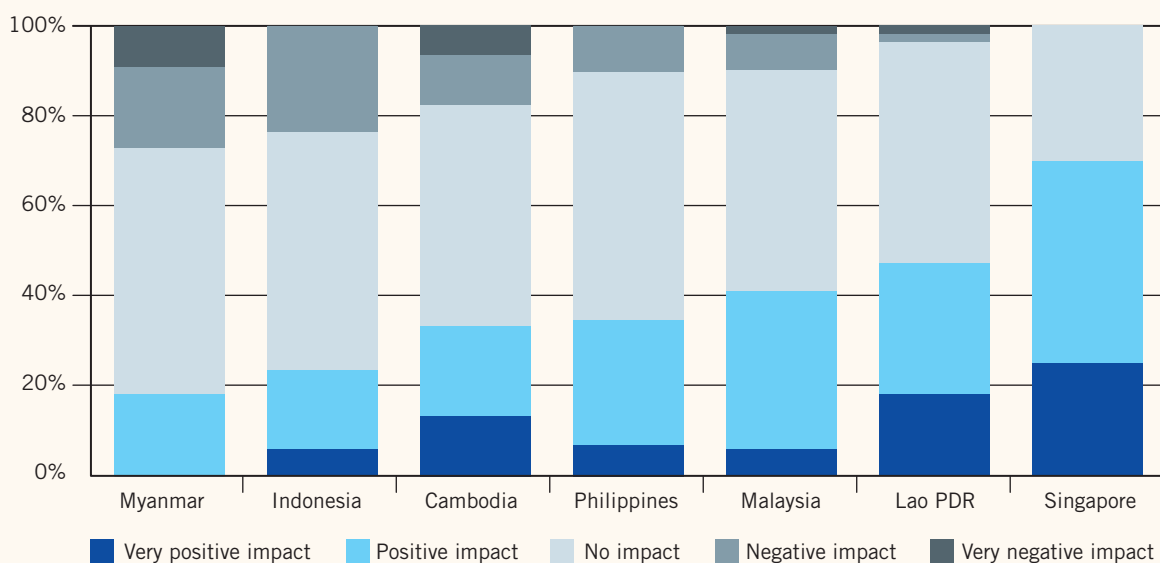
The AEC will introduce free regional labour mobility, yet intra-ASEAN labour mobility will probably remain dominated by low-skilled workers. The AEC does not affect such existing barriers to low-skilled labour migration as those mentioned above. But low-skilled migration may be increased by freer trade and investment that leads to economic opportunities and scale economies which create certain jobs and displace others. Over the short to medium term, this could result in a “migration hump”, with migration acting as a complement to freer trade, rather than a substitute for it.³⁸

The ILO Survey reports that 54 per cent of respondents believed that, as a result of the AEC, worker mobility (irrespective of skills) would exert a positive or very positive impact on their enterprise, while only 14 per cent foresaw a negative or a very negative impact. Meanwhile, 39 per cent of respondents believed that low-skilled labour mobility, specifically, would have a positive to very positive impact, while 49 per cent indicated that it would exert no impact. The survey results suggest that mobility in ASEAN may not fluctuate once AEC integration takes effect, since workers may not have the appropriate skills or languages (see Chapter 2, above).

36 Statement by employers' representative at Sub-regional Advisory Committee Meeting (SURAC), Bangkok, 2013.

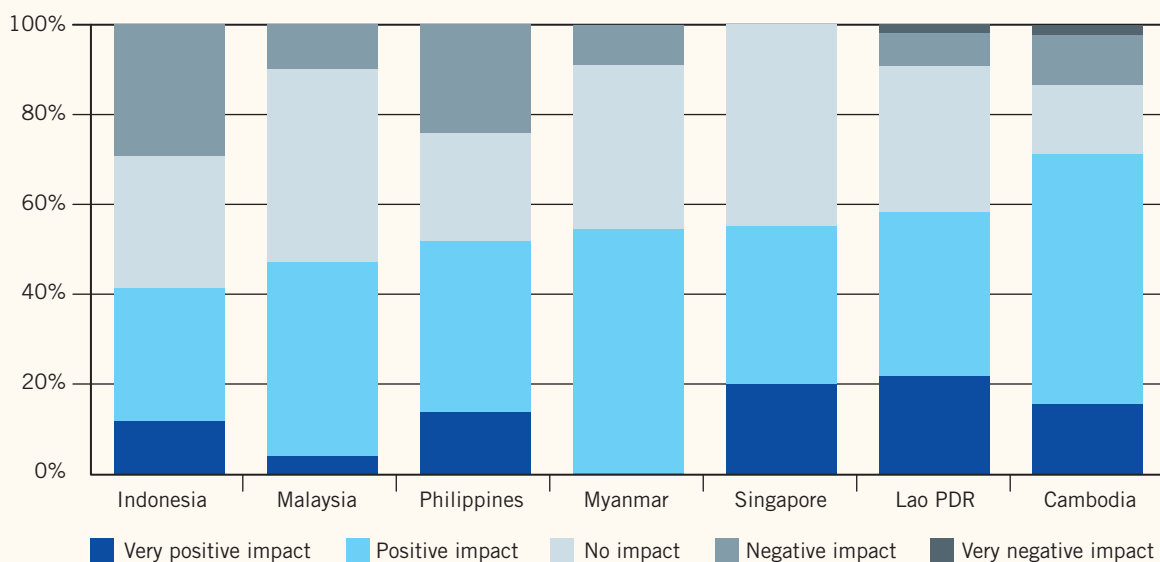
37 Lee, H.A. 2014. “Developments in the Malaysian Labour Markets”, Mimeo.

38 P. Martin, “Trade and migration: NAFTA and agriculture”, in *Policy analyses in international economics*, Vol. 38 (1993).

Figure 14. Impact of greater low-skilled labour mobility on enterprises

Source: ILO, Survey of ASEAN employers on skills and competitiveness (2013).

Nevertheless, respondents in general agreed that high-skilled labour mobility as a result of the AEC would exert the biggest impact, with 54 per cent forecasting a consequent positive or very positive impact.

Figure 15. Impact of greater high-skilled labour mobility on enterprises

Source: ILO, Survey of ASEAN employers on skills and competitiveness (2013).

4.2. Mutual skills recognition

The AEC Blueprint designates MRAs as the main mechanism by which, after 2015, equivalent skills will be recognized across ASEAN. It also recommends streamlining mechanisms for issuing visas and employment passes; benchmarking equivalent skills and qualifications in service sectors; and enhancing cooperation among ASEAN universities to increase mobility for students and staff. In 2012, the ASEAN Agreement on the Movement of Natural Persons was also introduced to facilitate the movement of skilled professionals.

MRAs concluded to date have covered service providers under eight professional occupations: accounting, architecture, dentistry, engineering, medical practice, nursing, surveying, and tourism. Nevertheless, several commentators have suggested the MRAs will little affect the mobility of these groups following 2015, given regional differences in language and training, as well as in licensing systems and professional practice requirements.³⁹

Given the many prevailing legislative constraints, furthermore, domestic regulations and practices among member States may not change in time to enable employers to hire non-national professionals. In Thailand, employment and immigration laws also impede foreign workers through both direct and indirect measures, among them lengthy and complex certification requirements and short-term limits on work permits.⁴⁰

Lack of awareness regarding the MRAs may itself present an additional impediment, given that businesses have already displayed a general lack of awareness of their development and implementation status.⁴¹ For example, in 2012 a survey of Thai professionals found that only 30 per cent of engineers and 20 per cent of nurses knew about the AEC and understood its implications.⁴²

In addition to the AQRF, several pan-regional sectoral organizations, drawing on their respective expert knowledge and current needs, have established their own skills-recognition frameworks and facilities. Box 1 and Box 2, below, present case studies of two such initiatives.

39 . Martin, *The Road to 2015: Skills and mobility* (2013).

40 C.S. Yue, *Free flow of skilled labor in the AEC* (Singapore Institute of International Affairs, 2011).

41 MEF, *Issues and challenges faced by employers in the effective governance of labour migration in the ASEAN* (2012).

42 University of the Thai Chamber of Commerce, *Thailand Economic and Business Review* (2012).

Box 1: ASEAN Constructors' Federation (ACF)

The ACF promotes the harmonization of construction skills standards across ASEAN countries to increase workforce productivity, competition, and jobs matching. It advocates a proactive approach among sectoral EOs in aiming to mainstream skills recognition within the region. It sets a positive example in encouraging all EOs, particularly at the national level, to leverage their industry-specific knowledge and good practices in achieving these aims.

As early as 1990, the ACF called for industry to work with ASEAN Governments to encourage the free flow of construction professionals; promote the exchange and supply of building materials and harmonize quality standards; encourage construction cooperation and assistance in ASEAN; and promote fair contract conditions and healthy competition. More recently, its activities have sought to create a construction industry development authority; to develop ASEAN-wide skills standards and certification; to standardize member-State codes of practice; and to bring about a common ASEAN construction policy and market.

Source: www.aseanconstructorsfederation.org.

Box 2: Asian Welding Federation (AWF)

The AWF represents seven ASEAN member States (all except Brunei Darussalam, Cambodia, and Lao PDR), and has developed a sophisticated industry-led system of skills recognition and certification. The Common Welder Certification Scheme (CWCS) defines mutual certification arrangements for participating member States to evaluate and recognize workers, and provides for regular checks by specially trained auditors.

Under the scheme, member countries establish a certification body in line with CWCS requirements which then submits for approval to the AWF Governing Council its qualifications management system. Once approved, the certification bodies establish centres — including personnel and training centres — that test and certify professional welders with reference to the common AWF rules. The CWCS is supported by the manpower optimization system (MOS), an online tool for guidance in registration, testing, assignments, worker performance monitoring, and reporting and billing. It assists employers and workers with resource planning and upgrading and maintenance of skills to enhance enterprise and worker reputations.

The AWF is currently seeking critical support from EOs to take its scheme forward with Governments in the region. It presents an important practical opportunity for EOs to demonstrate their relevance and to drive reform with evidenced-based policy options.

Source: www.awf-online.org.

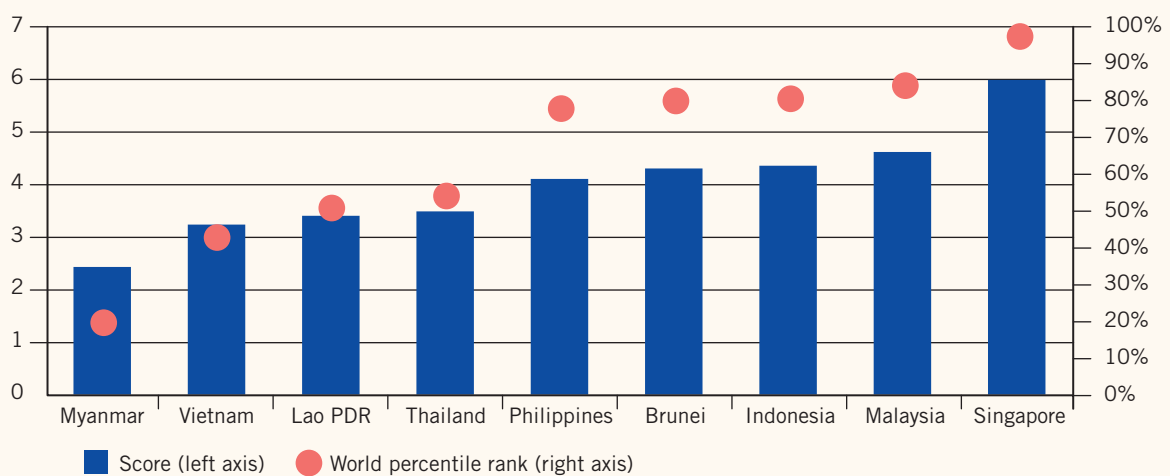
4.3. Potential for brain drain after the AEC

The free movement of high-skilled professionals under the AEC will open up opportunities for enterprises. At the same time, concern arises about concomitant new challenges among some of the poorer sending countries.

The issue of “brain drain” presents a notable example. The past two decades have seen a significant and increasing net outflow of highly skilled workers from ASEAN member States to third countries. During 2011, according to the latest available OECD figures, some 385,000 people moved from ASEAN to the OECD. Many OECD countries impose restrictions, deliberately or otherwise, on migrants — i.e. in terms of the high costs of moving to these countries, as well as in terms of stringent work and visa regulations — so migrant labour likely comprises a significantly greater number of relatively affluent and high-skilled workers than others. Indeed, 40–45 per cent of the annual flow from ASEAN to OECD countries comes from the Philippines, and 20–25 per cent comes from Viet Nam. Between 2000 and 2010, however, the number of migrants from Cambodia, Lao PDR, and Myanmar has steadily increased from about 8,000 to 32,000.

Such flows present problems for domestic employers who need to recruit adequately skilled staff. Indeed, brain drain can impose a serious problem for entire countries seeking greater competitiveness in higher value-added activities, aiming to graduate to middle- and higher-income status. Since human capital is the basis of any high-income economy, Governments must develop policies that not only attract but retain talented workers.⁴³ Figure 16, below, presents data from the World Economic Forum that describe perceptions among business leaders in ASEAN countries regarding their ability to attract and retain suitable talent.

Figure 16. WEF executive opinions on countries' capacity to attract talent (7=best), 2013



Note: No data are available for Cambodia.

Source: World Economic Forum, “Country capacity to attract talent”, *Global competitiveness report 2013–14*.

⁴³ World Bank, *Malaysia Economic Monitor: Brain Drain* (2011).

The ILO four-country assessment of EOs reveals that, in the Philippines, employers in certain industries have expressed considerable concern about losing, as a result of intensified mobility under ASEAN 2015, their “mission critical personnel” (i.e. personnel performing critical tasks such as production engineering).⁴⁴

Rising labour mobility in ASEAN will generate different impacts depending on enterprise size and sector. With labour-intensive sectors such as the garment industry, for example, concerns have been raised regarding possible scarcities of local workers and consequent rises in labour costs.⁴⁵ With capital-intensive sectors, on the other hand, given that greater mobility might increase poaching by foreign recruiters, concerns instead arise regarding shortages of workers with the needed technical skills.

Employers across the sending countries expressed concern about the outflow of skilled personnel. Such concerns appeared strongest in the Philippines, perhaps because of their workers’ generally advanced English language skills. Some Cambodian respondents, on the other hand, hoped the situation would enable them to attract mid-level professionals.⁴⁶ The ILO *Survey* supports this finding, given that 54 per cent of its respondents felt there will be a positive or very positive impact from high-skilled labour mobility (see Figure 15, above).

“There is little incentive for people in the region to move within ASEAN. Language barriers and work opportunities would make them rather move to Europe or the United States.”

- Business leader, Multinational Human Resources Agency, Singapore

“I don’t expect semi-skilled and low-skilled to have any impact, since mobility has been restricted to eight skilled labour categories. More developed countries like Singapore will have the possibility to get trained skilled workers from less developed countries. On the other hand, less developed countries will have more ease in getting skilled workers in the country, creating knowledge transfer. An additional effect is that, in less developed countries, private companies will have raised the level of prices to compete with richer international companies.”

- Senior education specialist, Regional Development Bank, Philippines

4.4. Summary and policy objectives

Inevitably, many of ASEAN’s fast-growing economies will continue to depend on migrant workers to address labour shortages.

Although significant progress has been made in preparing for the AEC, both sending and receiving

⁴⁴ Doner, R.F. *forthcoming*. “Employers and business organizations in ASEAN: Responses to challenges of regional integration”.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

countries face challenges. This chapter has focused on some of these, while also addressing such issues as limited awareness of MRAs among the business community and, following 2015, likely outflows of high-skilled professionals.

The AEC will affect some countries more than others and experiences will vary widely depending on their respective labour market institutions, availability of skilled labour, and economic structure. The overall impacts experienced by enterprises, meanwhile, will vary in part according to respective enterprise type and sector.

In seeking optimal advantage from intra-regional labour mobility in ASEAN, employers and their representative organizations should apply the following measures:

- Conduct analyses (across both enterprises and sectors) to better anticipate the mobility of workers of different skill levels, and to seek a better understanding of the impact of population ageing and other demographic factors on labour-force shortages and job creation.
- Improve enterprise awareness of the MRAs and their implementation status.
- Promote sectoral approaches to developing skills recognition frameworks such as those already undertaken by the ACF and the AWF (see Box 1 and Box 2, above).
- Anticipate possible challenges arising from brain drain, calling for remedial interventions from government bodies, training institutions, and other policy actors, at the same time promoting the opportunities that intra-regional labour mobility presents for boosting personal remittance flows and bringing new skills, ideas, and professional networks into countries of migrant-worker origin.
- Address issues related to informal employment, which discourages employers from investing in training and fosters reliance on low-skilled migrant workers.

5

Recommendations for national employers
and business organizations

Recommendations for national employers and business organizations

The private sector is not a passive recipient of change but rather an important determinant of the current and future shape of economic and social development and policy. This is perhaps the most fundamental role of EOs in ASEAN and has likewise been the focus of this report. Indeed, this role remains vital both to EOs wider membership and to public policies that generate growth and shared prosperity. This chapter presents four recommendations for EOs in ASEAN.

5.1. Raise the level of policy dialogue regarding skills

Harmonizing future labour market supply with demand is one fundamental prerequisite for effective longer-term labour market planning. Yet, although the business community is the foremost client of the education system, consultations between the two are often too limited. This situation needs to be addressed.

To ensure that the skills of both secondary and tertiary graduates meet employer needs, EOs and industry bodies need to build mechanisms to ensure that information regarding changing skills demands and needs in different sectors is maintained and properly disseminated. While many EOs engage in effective policy dialogue on skills issues, sharing their analyses and providing insights and recommendations on fiscal and policy measures, more can be achieved through the forthcoming AEC. To that end, this report proposes the following measures:

- Systematically track, analyse, and disseminate information regarding the supply and demand of skills, while promoting processes that ensure curricula are continuously revised in the light of such data and projections.
- Engage fully and openly with the AQR process and in the design of future MRAs. MRAs should be combined with other national policies aiming at facilitating high-skilled labour mobility.
- Encourage sector-level initiatives on achieving mutual skills recognition.
- Improve communication with the public regarding skills needs, and help raise awareness of those profiles and skill sets needed from youth through media and education programmes.
- Raise the level of partnerships with both policy-makers and education and training providers to improve the relevance of curricula and strengthen apprenticeship systems.

5.2. Promote more effective labour market governance and institutions

Strong labour market institutions will be critical to the success of the AEC. While EO engagement with

government agencies over labour market policy formulation and implementation has been uneven in ASEAN, employers' views must be promoted at the highest levels.

The region has generally been characterized by weak tripartism (though Singapore offers an encouraging exception). For tripartism to work, social partners must be well organized. While robust trade unions may require more compromise on the part of EOs, weak or fragmented unions can reduce the predictability of negotiations and encourage wildcat strikes. Strengthened legal environments should aim to create more cohesive unions that offer longer-lasting tripartite partnerships, ultimately enabling social partners to better address labour market and other challenges.

Many labour market institutions in ASEAN countries, for example skills development bodies, have tripartite consultative mechanisms. Many EOs, however, do not take full advantage of the opportunities these institutions present. To ensure effective engagement with tripartite partners under the AEC — when such engagement will become increasingly important — EOs should undertake the following:

- Ensure that policy recommendations are always underpinned by rigorous evidence and research that supports employers' positions and enables them to bring more to tripartite debates, generating more effective outcomes for enterprise members.
- Build relationships with Ministries and teachers' unions aimed at upgrading teachers' capacities to focus more strongly on practical training and learning tools.
- Make better use of the power of social dialogue in establishing policy agendas and ensuring sound and stable labour market institutions.

5.3. Create stronger, more cohesive EOs

EOs in ASEAN face new competitive pressures. From a demand perspective, while many are adapting well to changing demands from their members, others struggle to provide relevant responses and guidance. Some are based on models designed for less relevant and current policy environments while some face structural challenges. From a supply perspective, the market for EO services is becoming more and more crowded as existing members shift to other providers such as law firms, consultancies, and other professional services firms that can offer tailored solutions. Some large enterprises, on the other hand, have the resources, influence, and flexibility to exceed and surpass EOs, potentially enabling them to act unilaterally. Moreover, many enterprises (especially small or new ones) have yet to be convinced of the value of EO membership. National-level EOs thus need to understand the needs of all enterprises, regardless of membership, and respond accordingly.

EOs in the region have also experienced mixed success in attracting and retaining multinational enterprises (MNEs), which sometimes prefer to operate directly through foreign chambers of commerce, investment boards, or specific government agencies and officials. The fact that MNEs account for significant shares of exports in many ASEAN countries only contributes to the difficulties EOs face in helping local enterprises

benefit from regional integration.⁴⁷

Traditional partners such as trade unions are also undergoing reform, and EOs should modernize with renewed vigour, embracing new paradigms and building new relationships while keeping their core values intact.⁴⁸

To remain relevant for their members, EOs need also to expand their mandates to address wider policy areas, seeking a holistic connect between all factors and issues affecting enterprises.

EO engagement with policy-makers at the sectoral level seems more robust across the region, but such bonds need reinforcement. Sectoral associations have the advantage of being much more closely focused and responsive to their members' needs and, critically, connecting more effectively with small- and medium-sized enterprises. Sectoral associations also tend to represent more cohesive interests, which can sharpen their purpose of engagement, gearing them more surely towards producing direct market consequences.

EOs seeking more influence and relevance after the AEC is operational should adopt the following measures:

- Develop specific strategies to strengthen links with sectoral associations and do much more to reach out to SMEs.
- Promote a broad and inclusive communications strategy regarding the effective use of media — including social networking, mobile technologies, television, and radio — to better engage with members, policy-makers, unions and civil society actors, and the general public.
- Support broader, more diverse business networks that can reach out to smaller enterprises and to those outside capital cities, while building stronger partnerships between large and small businesses and mitigating socioeconomic exclusion.
- More effectively engage MNEs through a proactive information strategy, making them aware of the policy channels and influence available to EOs and the impact they can exert on policy-making.
- Consider better coordination, alliances, and mergers with other business associations.

5.4. More effective regional employer representation and leadership

The AEC augurs more intensified political, social, and economic integration, which will have resounding impacts on businesses throughout the region. While member States have made concerted efforts to disseminate knowledge about the AEC, many of their key stakeholders — the business community among these — still lack a basic understanding of its opportunities and challenges.

⁴⁷ E.D. Ramstetter, “Recent downturns and foreign multinationals in East Asian manufacturing,” *Working Paper Series*, Vol. 11 (Graduate School of Economics, Kyushu University, 2011), pp. 17–35.

⁴⁸ ILO, “The role of employers’ organizations in growth and sustainable enterprise promotion”, in *Bureau for Employers’ Activities Working Paper*, No. 4 (2010).

Enterprises must provide more guidance to policy-makers at the regional level in identifying (i) key AEC gains; (ii) priority action areas; and (iii) policy choices likely to provide maximum positive impact. The private sector can provide such guidance through its representative organizations, together with the information needed to make informed policy decisions at the national level. A stronger regional voice from the private sector can also help direct policy and ensure that AEC gains are maximized.

For its part, the business community needs effective leadership in promoting strong values in a more integrated market. Such leadership should advocate for diverse, flourishing economies that build enterprises and create jobs under well-designed regulatory frameworks. Transparent and timely leadership will enable the private sector to undertake new approaches in new situations.

Larger business and economic actors in member States with under-diversified economies and fledgling democracies may gain relatively better access to government decision-makers and have a stronger influence on the policy agenda. While they may play very positive roles, this group does not necessarily represent the wider private sector.⁴⁹ Under such circumstances, there are real opportunities for policy leadership, involving new and innovative thinking that can translate into positive policy outcomes.

In light of these considerations, EOs should aim to achieve the following:

- Strengthen multilateral, pan-regional business organizations such as the ASEAN Confederation of Employers so that the voice of business can be heard at the regional level, engaging with and helping to influence policy discourse.
- Improve communication channels with regional business leaders, aiming to foster ongoing dialogue to gather periodic inputs from the business community and tailor strategic efforts to align them with current perceptions of the labour market.
- Strengthen leadership in shaping future policy decisions and innovative approaches for the fast-approaching AEC.
- Promote sustainability and ethics as fully-integrated elements of business models throughout their membership.
- Intensify efforts to communicate the essentials of the AEC process and its likely consequences to stakeholders.

Concluding remarks: Looking beyond 2015

The AEC 2015 is unlikely to meet all its targets and the pathway to a fully integrated market economy, akin to other regions of the world, such as the European Union, is still some distance away. But it does signal a further intensification of the regional integration process, politically, socially, and economically. The trend is definite and the policy implications are already being felt around the region at firm-level.

⁴⁹ L. Alexander, C. Gündüz, and D.B. Subedi, “What role for business in ‘post-conflict’ economic recovery? Perspectives from Nepal”, in *International Alert* (2009).

This report has argued that, under the AEC, “business as usual” presents a dangerous path for EOs. Labour and social policies matter — especially as they relate to skills and education, intra-regional labour mobility, and improved legislation for inclusive and sustainable growth.

EOs should continue to promote this agenda confidently and compellingly, while broadening their policy portfolio to adopt a more holistic view of how policies affect the private sector and its broader operating environment.

The AEC will be a driver of growth across the region enabling the private sector to access bigger markets and strengthen its market presence, but it is a process that needs to be managed. A strong voice of the private sector at national and regional levels can help guide policy direction and ensure gains are maximized.

Annex



Survey Questionnaire

ANNEX 1. Survey Questionnaire

Which country are you based in?

- | | |
|-----------------------|-----------------|
| 1 = Brunei Darussalam | 6 = Myanmar |
| 2 = Cambodia | 7 = Philippines |
| 3 = Indonesia | 8 = Singapore |
| 4 = Lao PDR | 9 = Thailand |
| 5 = Malaysia | 10 = Viet Nam |

Part 1. Skills and training

Developing human resources is vital for business productivity and competitiveness. Please share your perceptions of skills and training systems in relation to your enterprise.

1. To what extent do you agree with the following statements concerning education and skills training in relation to your enterprise?

	1 = Strongly agree	2 = Agree	3 = Neither agree nor disagree	4 = Disagree	5 = Strongly disagree
a) High school graduates in my country have the necessary skills to meet the needs of my enterprise.					
b) University graduates in my country have the necessary skills to meet the needs of my enterprise.					
c) The vocational education and training system in my country meets the needs of my enterprise.					
d) Addressing performance gaps is one of the most important reasons for my enterprise to invest in training.					
e) Business expansion is one of the most important reasons for my enterprise to invest in training.					
f) Continuous development of my workforce is one of the most important reasons for my enterprise to invest in training.					
g) Improving productivity is one of the most important reasons for my enterprise to invest in training.					
h) My enterprise has no real need for investment in training.					

2. How would you rate the quality of the local education and training providers currently?

	1 = excellent	2 = good	3 = average	4 = poor	5 = extremely poor	6 = not applicable
a) Private education and training providers.						
b) Public education and training providers.						

3. What is the type of training that your enterprise needs the most? (Select up to three answers)

- | | |
|---------------------------|---------------------------------|
| 1 = Management/leadership | 5 = Vocational/technical skills |
| 2 = Accounting | 6 = Information technology |
| 3 = Marketing | 7 = Human resources |
| 4 = Customer service | 8 = Other: _____ |

4. What areas of training are most widely available? (Select up to three answers)

- | | |
|---------------------------|---------------------------------|
| 1 = Management/leadership | 5 = Vocational/technical skills |
| 2 = Accounting | 6 = Information technology |
| 3 = Marketing | 7 = Human resources |
| 4 = Customer service | 8 = Other: _____ |

5. What are the main constraints to enterprise-level training? (Select up to three answers)

- | | |
|----------------------------|---|
| 1 = Lack of funds | 4 = Workers lack of motivation / low level of participation |
| 2 = High employee turnover | 5 = Lack of resources, such as training material and trainers |
| 3 = Lack of time | 6 = Workers unable to apply training into their daily work |
| | 7 = Other: _____ |

Part 2. ASEAN economic integration and competitiveness

Regional economic integration provides new opportunities and challenges for enterprises in ASEAN. Please share your perceptions of how ASEAN integration will likely impact your enterprise.

6. To what extent do you agree with the following statements concerning the ASEAN Economic Community 2015?

	1 = Strongly agree	2 = Agree	3 = Neither agree nor disagree	4 = Disagree	5 = Strongly disagree
a) I fully understand how the ASEAN Economic Community 2015 will affect my enterprise.					
b) My enterprise will be more competitive in the context of the ASEAN Economic Community 2015.					

7. What would be the likely impact on your enterprise of the following measures as a result of ASEAN economic integration?

	1 = Very positive impact	2 = Positive impact	3 = No impact	4 = Negative impact	5 = Very negative impact
a) Reduced barriers to trade in goods and services					
b) Freer flow of investment and capital					
c) Greater mobility of high-skilled labour (e.g. doctors, dentists, nurses, engineers, architects, accountants, surveyors)					
d) Greater mobility of semi-skilled labour (e.g. clerks, restaurant workers and salespersons)					
e) Greater mobility of low-skilled labour (e.g. construction workers, machine operators, food processing and garment workers)					

8. To make your enterprise more competitive within ASEAN, how likely will your enterprise adopt the following measures?

	1 = Very likely	2 = Likely	3 = Unlikely	4 = Very unlikely
a) Invest in better skills training for workers.				
b) Update machinery and production technology.				
c) Retain and attract skilled workers by paying higher wages.				
d) Produce more innovative and higher quality products and services.				
e) Reduce labour cost by paying lower wages.				
f) Reduce other production cost.				

9. What is the likely impact of the greater mobility of high-skilled workers on the wages that your enterprise will pay?

1 = My company will be able to pay lower wages by recruiting skilled workers from other ASEAN countries.

2 = There will be no impact on the wages of skilled workers for my company.

3 = My company will have to offer higher wages to prevent skilled workers from moving to other ASEAN countries.

10. In case minimum wages in your country increase by 10 per cent, how likely will your enterprise adopt the following measures?

	1 = Very likely	2 = Likely	3 = Unlikely	4 = Very unlikely
a) Upgrade technology and/or invest in modern machinery				
b) Improve efficiency by reorganizing work-flow and production processes				
c) Charge higher prices for our goods and services				
d) Close down business				
e) Invest in skills training for workers to make them more productive				
f) Try to increase output with the same number of workers				
g) Try to maintain the same output with fewer workers				
h) Relocate to another province or region within my country				
i) Relocate to another country				
j) Do nothing and simply carry on as before				
k) Other: _____				

Part 3. Background on your enterprise

Please share some background information on your enterprise.

11. In which ASEAN country is your enterprise located? (Please specify your country of operation which may be different from your company headquarters.)

- | | |
|-----------------------|-----------------|
| 1 = Brunei Darussalam | 6 = Myanmar |
| 2 = Cambodia | 7 = Philippines |
| 3 = Indonesia | 8 = Singapore |
| 4 = Lao PDR | 9 = Thailand |
| 5 = Malaysia | 10 = Viet Nam |

12. What year was your enterprise established?

13. In which industry does your enterprise primarily operate?

- 1 = Agriculture, forestry and fishing
- 2 = Mining and quarrying
- 3 = Manufacturing, excluding garments, textiles and wearing apparel
- 4 = Manufacturing of garments, textiles and wearing apparel
- 5 = Electricity, gas, steam and air conditioning supply
- 6 = Water supply; sewerage, waste management and remediation activities
- 7 = Construction

- 8 = Wholesale and retail trade; repair of motor vehicles and motorcycles
 9 = Transportation and storage
 10 = Accommodation and food service activities
 11 = Information and communication
 12 = Financial and insurance activities
 13 = Real estate activities
 14 = Professional, scientific and technical activities
 15 = Administrative and support service activities
 16 = Public administration and defence
 17 = Education
 18 = Human health and social work
 19 = Arts, entertainment and recreation
 20 = Other service activities
 21 = Not classifiable

14. What is the ownership structure of your enterprise?

- 1 = Private ownership (foreign invested) 4 = State-owned enterprise
 2 = Private ownership (domestic) 5 = Other: _____
 3 = Joint partnership (mixed foreign and domestic)

15. How many workers does your enterprise have?

- 1 = Less than 10 4 = 100-299
 2 = 10-49 5 = 300 or more
 3 = 50-99

16. In general, what is the level of employee retention in your company?

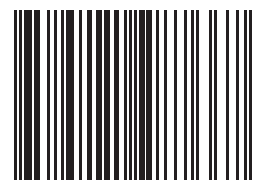
- 1 = Very high (more than 5 years) 4 = Low (1–2 years)
 2 = High (3–5 years) 5 = Very low (less than 1 year)
 3 = Moderate (2–3 years)

Comments:

THANK YOU!

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