



# CROSS - BORDER WORKFORCE IN ASEAN

*Second Lieutenant Paramate Boonayanan\**

## ■ ABSTRACT

This article examines the impact of trade liberalisation on labour mobility in the Association of South East Asian Nations (ASEAN). As a result, flow of goods, services, investments, capital and work force among the 10 member states will be freed from any trade barriers from 2015. This integration is expected to diversify job opportunities in the region.

## ■ Introduction

“Barter Trade System” was historically applied to help people exchange goods. However, at the present times, we are generally making exchanges of merchandise all around the world using the international trade systems. After the General Agreement on Tariffs and Trade (GATT) held at Uruguay in 1994, the World Trade Organization (WTO) was set up by GATT to promote trade liberalisation. Member countries are encouraged to voluntarily eliminate tariff and non-tariff barriers such as quota limitations, and unfair competition (Monahan, J. 2000). Moreover, GATT contracting parties are also involved in the process by exchange and import controls. The importance of trade

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\* LL.B.;LL.M. (Chulalongkorn University); LL.M. (University of London), Thai Barrister  
Legal Officer Provisional Level, Legal Affairs Bureau, Office of the Permanent Secretary, Ministry of Justice Thailand.

liberalisation norm has varied during the trade evolution. Since it has done a credible job of reducing barriers to the cross-border movement of good within the multilateral trading regime, richer industrialized countries can then move resources to less developed ones under the international trade laws to make significant profits.

The Association of South East Asian Nations (ASEAN) has been encouraging regional integration and cooperation based on the unique modes of governance privileging consensus and non-interference. ASEAN countries markets are also large enough to facilitate labour mobility. With the commencement of the ASEAN Economic Community from 2015 onwards, the cross-border labour market will definitely increase population movements throughout Southeast Asia. Population in each member countries would be given extensive occupational opportunities. However, they must be equipped with skills to meet the standards of employment and increase productivity, competitiveness and, in turn, prosperity. In order to be working in other ASEAN countries, workforce from Thailand has to face this challenge to gain a full benefit from AEC.

This essay will evaluate the advantages and disadvantages of trade liberalisation on cross-border workforce in developing countries.

## ■ Concept of labour movement

John D. Daniels, Lee H. Radebaugh and Daniel P. Sullivan (2012)<sup>i</sup> identified globalisation as the ongoing social, economic, and political process that deepens the relationships and broadens the interdependencies amongst nations. All components from people, firms, organisations and governments have expanded their accesses to resources, goods, services and markets across wider geographical areas. In terms of international business, components involved are all commercial transactions - private and governmental - between parties of two or more countries. Global events and competitions affect almost all firms deeply - large or small - in both positive and negative ways since they are more complex and diverse than a firm's domestic environment. Among these diversities, labour mobility that creates the opportunities for people to work in other countries is the most influential.

However, the success of globalisation is a difficult concept to measure. It can be suggested from relevant information. According to Lorenzo CALIENDO, Maximiliano DVORKIN and Fernando PARRO (2015)<sup>ii</sup> about 25 percent of the world's production is sold outside of its country of origin, At the same time, restrictions on imports continue to decline while foreign ownership

of assets continues to increase and the world's trade continues to grow more rapidly than production. That is said, on a value basis, only a few countries (mainly very small nations) either sell more than half of their production abroad or source more than half of their consumption from foreign countries. Furthermore, the principal source of capital in almost all nations is still domestic.

There are seven interrelated factors that have been contributing to the spiraling growth in globalization. Firstly, the general improvements in transportation and communications technology - including the development of the Internet - have significantly increased the effectiveness and efficiency of international business operations. Secondly, the liberalisation of cross-border trade and resource movements has lowered restrictions on trade and foreign investment in respond to the expressed desires of their citizens and producers. Thirdly, the General Agreement on Tariffs and Trade (GATT), the development of economic blocs such as the European Union, and other such facilitative mechanisms has provided the increasing access to many foreign markets. The fourth factor is the development of services provided by government, banks, transportation companies, and other businesses. They greatly facilitate the process and reduce the international risks. In addition, General

Agreement on Trade in Services (GATS) as the fifth factor that has an importance role in the liberalisation on trade. For example, the liberalisation of services sectors as the largest and fastest-growing sector of the world economy that provides more than 60 percent of global output and even larger share of employment in many countries around the world would definitely support the economic growth and the relief of poverty.

As the sixth factor, innovations in transportation and communications technology encourage the well-informed consumers to access foreign products. Thus competitors the world over have been forced to respond to consumers' demand for increasingly higher quality, more cost-competitive offerings. The pressures of increased foreign competition often persuade firms to expand internationally in order to gain access to foreign opportunities and to improve their overall operational flexibility and competitiveness.

The transformation of the political and economic policies of the former Soviet Union and the People's Republic of China has led to immense increase in trade between those countries and the rest of the word. Lastly, the improvements in national infrastructure and the provision of trade-related services by governments the world over have further led to substantial increases in foreign trade

and investment levels.

Governments nowadays have increasingly entered the cross-national treaties and agreements in order to gain reciprocal advantages for the countries, to attack problems jointly that one country cannot solve alone, and to deal with areas of concern that lie outside the territory of all countries. Often, such cooperation occurs within the framework of international organisations such as the United Nations, the International Monetary Fund, the World Trade Organisation, and the International Bank for Reconstruction and Development (World Bank).

#### ■ **Benefit from trade liberalisation**

In general, trade liberalisation could be beneficial for developing countries in three ways: *specialisation, economies of scale and aid from developed countries*. First of all, trade liberalisation enables both developed and developing countries to exchange goods and services between individuals, regions and nations. In addition, trade liberalisation can efficiently provide commodities to people who live in other countries with variation in costs and conditions. Lipsey, R.G. and K. Ohngstal (1995) as well as Sloman, J (2000) called this effect of trade “Specialisation”<sup>iii</sup>. As a

result, developed countries can gain more profits from trading especially industrialized products and services to foreign countries. For example, developed countries would employ technology and turn low-priced raw materials like coffee beans into the added-value instance coffee to be sold at higher price anywhere including developing countries.

Secondly, trade liberalisation usually decreases manufacturing costs in vast quantity. According to Lipsey, R.G. and K. Ohngstal (1995), it is called the “Economies of scale”.<sup>iv</sup> For example, the production of one hundred computer units per day using advanced technology in industrialized countries is so much cheaper than the production a computer unit per day in developing countries due to the fixed cost materials. Therefore, smaller countries should aim to specialize and produce few products in bulk to other countries in order to gain benefits from economies of scale.<sup>v</sup> Lastly, trade liberalisation encourages developed countries to support the developing ones in time of crisis including financial loan foods and devices for producing products.

From the points discussed above, it seems that trade liberalisation also significantly contributes to the growth of developing countries.

### ■ The management of cross-border workforce

According to Hugo (2014), trade liberalisation imminently causes the expanding of production and distribution networks leading to labour shortage. The problem has been sufficiently managed through short-term movement of service providers, temporary guest worker programmes or even permanent migration. However, demand for streamlined rules and procedures for cross-border employment has increased. Therefore, labour market regulations have to be primarily amended to remove barriers such as tariffs and quantitative restrictions.

The Havana Charter is the one of international instruments to deal with labour mobility without market disruptions and maintain stable employment levels (Hart, 1995). This Charter helps to reduce unfair labour conditions and distortions created by international trade that only focuses on service, intellectual property and investment. International Labour Organisation (ILO) is another instrument to manage workforce. However, the application and enforcement has been much less successful than the General Agreement on Trade in Service (GATS) that includes the provisions on temporary movement of natural person or labour from countries

that enter the World Trade Organisation agreement. There are four modes of international service supply management in GATS regulations. Mode 1 refers to cross-border trade defined as the delivery of a service from the one territory to another. This mode of service supply is similar to the cross-border of goods movement. Mode 2 refers to consumption abroad when a service is supplied to someone who travels to another territory to receive it. Mode 3 refers to commercial presence when a service supplier establishes a base in another territory and supplies services from that base. Mode 4 refers to the movement of natural persons who travel to another territory to deliver services. It should also be noted that GATS covers only temporary movement and not citizenship, residency or employment on a permanent basis in the foreign country. It is the national government that has power to manage or regulate this mode of service by granting or refusing visas to the prospective service providers.

### ■ Trade Barriers and Trade Restriction

Although trade liberalisation could be positive for developing countries, it also has three disadvantages, namely protectionism theory, imbalance of profit, and trade restriction. The first problem of trade



liberalisation comes from theory of trade competition which many countries, especially developing countries, need to protect their domestic markets from foreign goods. If they could not protect their domestic industries, they cannot produce certain products as cheaply as other countries do. The result of trade liberalisation enables to developed countries and developing countries to export their products to foreign countries. Lipsey, R.G. and K. Ohngstal (1995) called this effect of trade "Protectionism Theory"<sup>vi</sup> and indicated that "Protectionism could allow some people to obtain a large share of a small world output so that they would benefit even through the average person would lose".<sup>vii</sup> Moreover, protectionism could be achieved by tariffs and limit quotas in foreign commodities such as adding taxation in foreign products or limiting import foreign goods. For instance, Elliott, L. (2002) indicated that the United States pretended to implement trade liberalisation but the fact that the United States imposed high tariffs on imported steel to protect domestic steel sector. Moreover, according to Sen, A (2002) pointed out that China has already benefited from trade liberalisation. China changed policies to protect domestic industry.

Secondly, the imbalance of profit is one of the results of protectionism problem. It can be seen, developing countries

concentrate on agricultural industry due to the basic element. They do not need any innovative technology to complete their industrialized products as developed countries do. In other words, Monahan (2000) argue that developing countries export their raw materials such as metal ore and coffee beans, whereas they import expensive products such as cars, electronic devices from other countries. However, developing countries tend toward drawbacks in term of imbalance profits due to the industry structure.

Lastly, the trade restriction is limited trade liberalisation in developing countries. For example, developed countries do an agreement with developing countries to limit the amount of a good to sell by exporting countries. Lipsey, R.G. and K. Ohngstal (1995) called the limitation of goods "Voluntary Export Restriction (VERs)".<sup>viii</sup> For example, the VERs has been used thoroughly, especially the Japan cars, in the case of Japan versus the European Union and the United States. The European Union and the United States negotiated with Japan to do several agreements in order to limit Japanese cars for sale. Moreover, exporting countries sell their goods in foreign countries with lower prices than domestic products. It is called "Dumping"<sup>ix</sup>. The import products find out a solution to protect their domestic goods called "Anti – Dumping"<sup>x</sup> to

against unfair trade from foreign countries. Unfortunately, this measure becomes barrier to trade liberalisation automatically due to developed countries using this measure to protect their domestic markets.

### ■ **Market accessibility of workforce**

Market accessibility of workforce is largely relevant to Mode 4 of GATS: the Movement of Natural Persons Supplying Service. It is determined by the commitments in a positive list format. Member countries including Thailand must specifically define what sectors they wish to liberalise (Dawson, 2012). The movement of natural persons is expected to be temporary. Furthermore, the GATS Council for Trade in Services already decided that the commitments set out for individual. No further multilateral work is, therefore, necessary. However, this provision applies only to service provider but not cross-borders workforce seeking employment, permanent residence or citizenship. Bhatnagar and Maning (2011) also suggested that trade agreements do not consider all kinds of labour flows. However, since labour flows usually links to the provision of services, the global welfare can be increased immensely if restrictions to the movement of workers are removed to ensure fast growth without facing the

shortage of workers in the host country.

According to Grynberg and Qalo, (2007), the first reason of limited accessibility is labour mobility for services providers is a new area of trade regulation. It definitely takes times to work out every detail. The second reason is the ability of the multilateral trade regime to open global labour markets is partial at best. The last reason is while labour mobility could be applied to any skill level; it tends to be specific to the highly skilled professional labour. Mwai (2004) also noted other obstructions to the efficiency application of Mode 4 of GATS particularly in developing countries where most of the workforces are lower-skilled workers. These include:

1. Economic Needs Tests (ENTs) meaning that entry is conditional on local job vacancies.
2. Quotas and other quantitative restrictions on entry.
3. Nationality, residence or establishment requirements in the host country.
4. Barriers to professional certification in the host country.

### ■ **AEC and the change of labour market**

According to the Asian Development Bank (ADB) and the International

Labour Organisation (ILO) study,<sup>xi</sup> the commencement of AEC in 2015 is expected to change the structure of labour market in the region. In the next 15 years, from 2010 to 2025, most of the ASEAN country members will be largely in need of low and medium skilled workforce under the implementing the economic integration. However, the study does not cover the critical issues of non-skilled workers and illegal migration. In Cambodia, high demands of workforce will be in agriculture, forestry and fishery; street and market salesperson; construction and mining; market gardens and crop growers; animal producers and machine operators of textile fur and leather products. In Laos, demands will be in market gardens and crop growers. Indonesia workforce demands will be in sales workers; mixed crop and animal producers; and building frame and related trades workers. Workforce demands in The Philippines will be in agriculture, forestry, fishery, construction, and mining; shop salespersons; and managers in manufacturing, construction, mining and distribution, among others. In Vietnam, workforce is needed in street and market sales and agriculture, forestry, and fishery sectors.

Thailand workforce demands will be in agriculture, forestry, fishery, construction, and mining; street and market salespersons; and waiters and bartenders. The impact

from the unskilled labour movements at the commencement of ASEAN Economic Community (AEC) will also be obvious. The high and increasing salary tends to attract the lower –skilled workforce from other ASEAN country members. On the other hand, the movement of skilled labour in 8 areas such as engineers, surveyors, architects, medical services (doctors, nurses and dentists), accountants and tourism services will boost up the salary level. Tatcha (2014) stated that engineers who move from other countries to Thailand must get higher salary than in the country of origin otherwise they better stay in their countries. Moreover, discrepancy between salaries paid to expatriates and to local people will encourage the local ones to ask for the raise. Furthermore, local workers may relocate to other companies in AEC countries to get the higher salary paid to expatriates.

#### ■ Approaches to promote free flow of trade in services and skilled labour in Thailand

Although AEC blueprint<sup>xii</sup> states five core elements (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and free flow of skilled labour to create an ASEAN economic integration and a single market by 2020, this essay will only mention two out of



five core elements: the free flow of trade in services and the free flow of skilled labour to achieve no restriction for ASEAN suppliers to provide services across national borders within the region subject to domestic regulation

First of all, free flow of trade in services can only be achieved through rounds of negotiation mainly under the Coordinating Committee on Services. ASEAN is currently working towards recognition of professional qualifications to facilitate the free flow of labour movement within Southeast Asia region by 2015. Thailand has already removed some restrictions on trade in service especially fourth priority services sectors like air transport, e-ASEAN, healthcare and tourism since 2010. The aim is to remove all restrictions on trade in all other service sectors by 2015. To complete free flow of skilled labour, the second elements, ASEAN is working to facilitate the issuance of visas and employment passes for ASEAN professionals and skilled labour who are engaged in cross-border trade and investment related activities subject to the prevailing regulations of the receiving country. Harmonisation and standardisation to enhance cooperation among ASEAN country members to increase competencies and qualification for occupational and trainers skills are planned to achieved by 2015.

## ■ Conclusion

Trade liberalisation is undoubtedly beneficial for developing countries. However, at the moment they only focus on producing a large number of products to gain benefit from economies of scale and receiving aid from developed countries. There are a lot of issues like trade barriers and trade restriction in the form of high tariffs or quota limitations as well as imbalance of profit created by richer industrialized countries to protect their internal markets and domestic industries that have not been addressed for sustainable solutions. Developing countries, therefore, should improve their capabilities to be able to compete with global competitors in the world market. First of all, low and unskilled labour migration or undocumented migrations have to be properly addressed among ASEAN country members at the same level as skilled labour and professionals. ASEAN should establish the registration of skilled foreign labourers unit. This unit is designed to enable the foreign workers to acquire knowledge and skills that workforces are required by the national occupational standards to be able to perform a particular job. Any other less competitive industrial sectors such as service and agricultural sectors have to be convinced to join trade liberalisation. The need to challenge capitalism that opposes

free flow of labour workforce to favour capital mobility has to be highlighted to initiate economic integration. Moreover, non – profit public sector that provides goods and services based on people’s needs has to be protected. There are appropriate instruments to be used in the current structure of ASEAN to discuss and act upon the migration issues that should become a regional social agenda.

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## Notes

- <sup>i</sup> John D. Daniels, Lee H. Radebaugh and Daniel P. Sullivan "Business and Globalization" Prentice Printing pp 3-5.
- <sup>ii</sup> Lorenzo CALIENDO, Maximiliano DVORKIN, Fernando PARRO "Trade and Labour Market Dynamic" Research of Economy, Trade and Industry Japan pp 5.
- <sup>iii</sup> Lipsey, R. G. and K. Ohngstal (1995) "The gains from trade" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 462.
- <sup>iv</sup> Lipsey, R. G. and K. Ohngstal (1995) "The gains from trade" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 463.
- <sup>v</sup> Lipsey, R. G. and K. Ohngstal (1995) "The gains from trade" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 466.
- <sup>vi</sup> Lipsey, R. G. and K. Ohngstal (1995) "The theory and practice of commercial policy" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 477.
- <sup>vii</sup> Lipsey, R. G. and K. Ohngstal (1995) "The theory and practice of commercial policy" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 478.
- <sup>viii</sup> Lipsey, R. G. and K. Ohngstal (1995) "The theory and practice of commercial policy" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 482.
- <sup>ix</sup> Lipsey, R. G. and K. Ohngstal (1995) "The theory and practice of commercial policy" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 484.
- <sup>x</sup> Lipsey, R. G. and K. Ohngstal (1995) "The theory and practice of commercial policy" in An Introduction to Positive Economic (8<sup>th</sup> Edition). Oxford: Oxford University Press pp 484.
- <sup>xi</sup> Philippines News Agency (2014) "ASEAN integration and job opportunities". Asian-Pakistan p.15
- <sup>xii</sup> ASEAN Secretariat (2008) "ASEAN ECONOMIC COMMUNITY BLUEPRINT" pp 6-7.