


DEVPULSE



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AEC

Demystifying ASEAN integration and the Philippine labor market

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NOTES FROM THE EDITORS

Demystifying ASEAN integration and the Philippine labor market



“There is nothing mystical about the ASEAN Economic Community (AEC), because the way to succeed there, internationally, is to do the things that we need to do anyway as a nation.”

This was the synthesis of Emmanuel Esguerra, NEDA Deputy Director-General for Policy and Planning, in a forum that gathered labor and regional integration experts to discuss the Philippine jobs challenge in line with the integration of the 10-member Association of Southeast Asian Nations (ASEAN).

By 2016, ASEAN—which covers only three percent of the Earth’s land area and eight percent of world population—will consolidate into an economic, political-security and sociocultural community. Currently, it is already a formidable economic bloc. Next to China and Japan, its combined gross domestic product (GDP) last year was the third largest in Asia, growing by more than 300 percent from 2001 to 2013. With freer trade and almost 90 percent compliance with integration commitments, the AEC is not just approaching: it is already here.

The AEC has consequences on the Philippine labor market. Ideally, having a single regional market and production base will spur domestic jobs generation. This, however, is not automatic. Unless structural and policy changes

are implemented locally, high unemployment and underemployment will persist.

This DevPulse issue tackles policy imperatives to improve the country’s labor situation in order to take better advantage of the opportunities in AEC, as recommended by experts who include an economics professor and former Cabinet official, researchers from the government’s think tank, and a labor department official.

The first article discusses policies addressing the “skills challenge” Filipinos will face due to free movement of ASEAN workers. The second story highlights the need to create an environment of openness and fair competition to allow freer flow of investments. Minimizing foreign equity restrictions continues as a theme in the third and final article, along with paradigm shifts for farmers and entrepreneurs, in seizing the advantages of free trade.

As Esguerra noted, most, if not all, recommendations in this issue’s articles are already outlined in the Philippine Development Plan (PDP) for 2011-2016. This only reaffirms the Plan’s importance as the overarching guide for every policymaker in attaining inclusive growth for all Filipinos. ■

‘Skills challenge’ seen with free flow of ASEAN professionals

Beginning 2016, professionals from ASEAN countries will have greater mobility to work within the ASEAN Economic Community (AEC). While experts do not foresee massive displacement of Filipino workers, they warn of a “skills challenge” that needs to be addressed through a strengthened educational system and professional regulation.

The Philippines as labor recipient

The entry of foreign professionals actually presents advantages for the Philippine labor market, according to Director Dominique Tutay of DOLE’s Bureau of Local Employment. She said foreigners bring new technologies and management systems that would raise professional standards, especially in the education and information technology (IT) sectors.

“When entry of foreign nationals is restricted, acquisition of knowledge also becomes limited. To eliminate intellectual inbreeding, we need to attract foreign professors who can teach post-graduate studies. We also noticed that applications for alien employment permits are mostly in IT, since companies claim there is an absence of Filipino specialists,” she said.

Entry of foreign professionals is currently prohibited by Philippine laws without a special permit to practice profession or unless allowed by reciprocity clause. The ASEAN Mutual Recognition Arrangements (MRAs), however, allow freer movement of professionals by standardizing regulations and procedures for employment.

So far, the ASEAN countries have signed MRAs for seven professions (see infographics in the next page).



AEC Blueprint on labor mobility

- Issue employment passes for professionals engaged in cross-border trade and investment-related activities
- Enhance cooperation among ASEAN University Network (AUN) members to increase mobility for students and staff
- Develop core competencies and qualifications for occupational and trainers skills in the services sectors
- Strengthen research capabilities in promoting skills, job placements and developing labor market information networks

Tutay did not totally discount the possible displacement of local workers, but she said there may only be a few affected workers because Filipinos are highly competitive.

“Services of foreign professionals are usually needed if their skills are not locally available. If some companies hire them even if there are Filipino talents, this might engender ill feelings and negative reaction from local practitioners,” said Tutay.

The Philippines as labor sender

Experts from the Philippine Institute for Development Studies (PIDS), however, noted that the Philippines is not a labor recipient but a sender of mostly unskilled workers.

“Migration to other countries is not dominated by professionals and our MRAs cover only seven professions,” said PIDS Research Fellow Aniceto Orbeta.

PIDS President Gilberto Llanto said that countries with aging populations, like Thailand, will welcome workers from sending countries, like the Philippines, and this will benefit the latter through remittances.

“But in the future, this can be reversed. With sustained economic growth and strengthened manufacturing and services, Filipino workers may choose to stay in the country,” said Llanto.


‘Skills challenge’ and social protection

With the expected technological and production shifts in regional integration, PIDS Research Fellow Ramonette Serafica said Filipino workers will face a “skills challenge.”

Continued on next page

QUALIFICATIONS FOR MUTUAL RECOGNITION OF ASEAN PROFESSIONALS

MUTUAL RECOGNITION OF PROFESSIONALS	=	LICENSURE AND CERTIFICATIONS	+	PROFESSIONAL EXPERIENCE	+	EDUCATION AND TRAININGS
 MEDICAL PRACTICE		Is granted a Medical Qualification		With valid license/certificate from country of origin		At least five (5) years of continuous active practice as general practitioner or specialist in country of origin
 ENGINEERING		With accredited engineering degree		With current and valid license/certificate from country of origin	 	At least seven (7) years after graduation At least two (2) years responsible of significant engineering work
 NURSING		Is granted a Nursing Qualification		With current and valid license/certificate from country of origin		At least three (3) continuous years prior to application
 ACCOUNTING		Meets the host country's requirements		With valid license required from government or regulatory body other than the professional regulations authority		Must meet the host country's requirements
 DENTISTRY		Meets the country of origin's qualification		With current and valid license/certificate from country of origin		At least five (5) years of continuous active practice as general practitioner or specialist in country of origin
 SURVEYING		Meets the host country's requirements		Passes the host country's examination		At least two (2) years after graduation May complete prescribed experience in host country prior to eligibility for recognition
 ARCHITECTURE		With accredited or equivalent architectural degree		With current and valid license/certificate from country of origin	  	At least 10 years of continuous practice after graduation At least five (5) years after licensure At least two (2) years responsible of significant architectural works

- 
- ### OTHER REQUIREMENTS

1

Complies with continuous professional development requirements

2

Is certified as not having violated any professional or ethical standards

3

With no pending investigation or legal proceeding

4

Complies with any other assessment or requirement as may be imposed by the host



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Skills challenge... (continued from page 3)

"Across all industries, shortage of applicants with the right competencies is the biggest recruitment challenge by our domestic employers. The policy response should always be to ensure that local workers have the right skills set," said Serafica.

Tutay agreed, saying that education and training institutions need to revise their curricula to adjust to the labor market demand not only within the country but of the ASEAN.

The labor official cited the following initiatives that will prepare the labor market:

- Skilled Occupational Shortage List (SOSL), a "positive list" of occupations with short supply of local workers and where entry of foreign experts are crucial, as identified by industry and labor groups, and the government;
- Philippine Qualifications Framework (PQF), a national policy that harmonizes the needed qualifications and procedures in employing foreign professionals, in line with the ASEAN Qualifications Reference Framework (AQRf);
- Philippine Services Coalition (PSC), a multisectoral working group revived to develop and implement a strategy for promoting Philippine services in the global markets; and
- Pending legislation that liberalizes the entry of foreign professionals.

Even with strengthened educational system and professional regulations, there are still workers who are not equipped for the competitive labor market. "They are easily laid off, bypassed, or trapped in low-paying jobs. In this respect, social protection schemes will be necessary to temper market aberrations," Llanto said.

Tutay said safety net programs are already in place for Filipinos affected by the integration. However, Orbeta said that the transferability of social protection from one country to another still has to be discussed in ASEAN.

"Besides transfer of financing, the bigger issue is what is creditable," said Orbeta, referring to social insurance contributions that can be credited to the worker across the region.

While it is not in the AEC Blueprint, establishing a network of social protection agencies for those affected by regional integration is an action item in the ASEAN Socio-cultural Community (ASSC) Blueprint. A committee currently drafts the instrument that recognizes the obligation of both sending and receiving countries in protecting migrant workers' rights.

Serafica emphasized that not all benefits are automatic with the integration of labor market in ASEAN. "We should continue to invest in training and education to address the country's present and future skills challenge," she said.■

'We could have attracted investments if only Philippines is more open'

Filipinos are strongly positioned to benefit from job opportunities of the ASEAN Economic Community (AEC). But the Philippines has to do more in terms of opening up to foreign investors and enabling an environment for fair competition.

Former Socioeconomic Planning Secretary Cielito Habito, who is Chief of Party of the USAID Trade-Related Assistance for Development, said that one of the possible reasons why the share of jobless workers in the Philippines is higher compared with other ASEAN countries is because our neighbors are more open to foreign direct investments (FDI).

Habito noted that the Philippines is the only ASEAN country where the constitution enshrines foreign investment restrictions in certain areas, including public utilities, educational institutions, mass media and advertising.

"For example, Johns Hopkins University is already established in Singapore and Malaysia. We could have

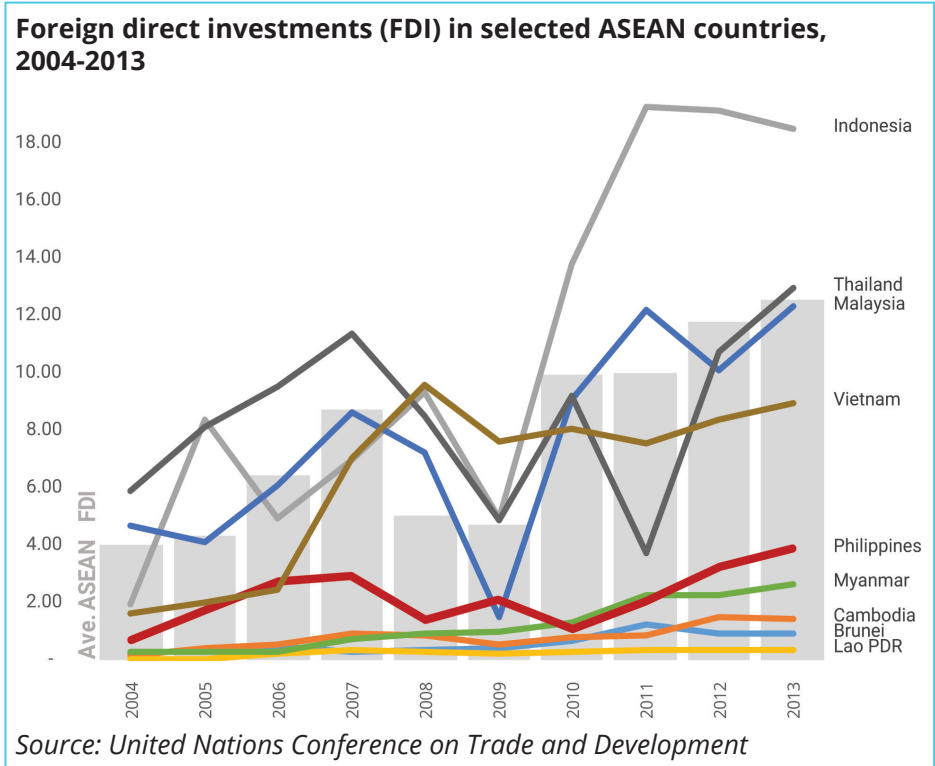
attracted similar investments if only the Philippines is more open," said Habito.

From 2001-2010, FDI to the Philippines averaged only at US\$1.5 billion annually. While it doubled to US\$3.9 billion in 2013, it continues to lag and the gap between the Philippines and those of other ASEAN countries in terms of FDI has widened (see graph).

The ASEAN Comprehensive Investment Agreement (ACIA) was signed to liberalize intra-regional investments. However, the Philippines listed 19 reservations or domestic measures that do not conform with some of ACIA's provisions. All 19 reservations cited the 1987 Constitution as among the legal bases.

Habito said that lifting or minimizing restrictions on foreign investments and capital will likely improve the quality of our services and workers. "It will also increase competition,

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AEC Blueprint on investments and capital

- Extend fair treatment to ASEAN investors and minimize, if possible eliminate, limited exceptions
- Reduce, if possible eliminate, investment restrictions in electronics; wood, rubber and agro-based products; automobiles; textiles and apparels; and fisheries
- Reduce, if possible eliminate, other investment impediments, including performance requirements
- Remove or relax restrictions on capital flows to facilitate current account transactions and support FDI and development of capital markets

Equity limits, agri policies among the remaining issues on free ASEAN trade

The ASEAN Economic Community (AEC) envisions the region to become a significant player in global trade by having a single production and market base within the ASEAN. This means that firms and individuals can freely transact business across countries within the region without being subjected to too many country rules, procedures, and duties.

Regional economic integration offers opportunities for the Philippine labor market, if the country eliminates restrictions that currently impede the flow of services and goods.

infographics). By the end of 2015, there will be no restrictions for Modes 1 and 2 as stated in the AEC Blueprint. For Mode 3, a maximum of 70 percent foreign (ASEAN) equity participation is allowed in establishing commercial presence within the region.

(More details on Mode 4 are discussed in the page 3 article "Skills challenge" seen with free flow of ASEAN professionals.")

Free flow of services is expected to increase investments and create more jobs, said Ramonette Serafica, Research Fellow of the Philippine Institute for Development Studies (PIDS). But for ASEAN suppliers to invest in the Philippines, Serafica said we need to improve infrastructure and eliminate further restrictions to strengthen our competitiveness.

Continued on next page

Trade in services

Trade in services is categorized into four modes: (1) cross-border supply, (2) consumption abroad (3) commercial presence; and (4) temporary movement of people (see

AEC Blueprint on trade in services and goods

- Remove substantially all restrictions to ASEAN services suppliers, subject to domestic regulations
- Liberalize restrictions in financial services
- Eliminate tariffs, quotas, and other restrictions in trade of ASEAN goods

TRADE IN SERVICES MODES

MODE 1
Cross-border supply

Supplier provides services across ASEAN from its territory (Ex: IT-BPO)

MODE 2
Consumption abroad

Supplier provides services to ASEAN consumers within its territory (Ex: Local tourism packages for ASEAN tourists)

MODE 3
Commercial presence

Supplier provides services by establishing branches across ASEAN (Ex: Banks and clothing lines)

MODE 4
Temporary movement of people

Supplier provides services by deploying workers from its territory to ASEAN (Ex: Intra-corporate transferees)

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'We could have attracted... (continued from page 6)

resulting in improved industry performance and productivity, with lower cost and higher efficiency."

Another imperative is to pass a unified competition/anti-trust law. Gilberto Llanto, President of the Philippine Institute for Development Studies (PIDS), said that this will address issues of monopoly, cartel, abuse of power and consolidation.

"There are existing sector-specific laws in the Philippines that bear the aspects of competition law, but these are not consolidated into a single and coherent policy or framework," said Llanto.

With about seven percent of the Filipino workforce unemployed, Habito said that any further opening on investment and capital flows can only benefit the labor market.

"We could probably bring our unemployment rate down to the normal level in ASEAN, which is only between two and three percent," said Habito. ■

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Equity limits... (continued from page 7)

"For example, the transportation and communication sectors, which are covered by the 60-40 (Filipino-foreign) equity rule, have low employment and negative labor productivity growths. If foreign investments are able to flow into these sectors, more workers could be employed across a range of skill levels," she said.

As to commercial presence in the region, Filipino firms are already "ASEAN-engaged" and not lagging behind, said former Socioeconomic Planning Secretary Cielito Habito. He added that local small and medium enterprises (SMEs) need to cluster together to be successful.

"SMEs are encouraged to team up to accommodate volume of orders in the ASEAN," said Habito, adding that the Department of Trade and Industry has pushed for shared service facilities that allow small producers to use them together.

Trade in goods

Almost all products are already freely traded in ASEAN, with tariffs as low as 0-5 percent as of 2010. In 2013, 16 percent of Philippine exports were sent to ASEAN, while 22 percent of imported goods came from ASEAN.

Sensitive agricultural products, including rice, are the remaining goods that need to be liberalized. Habito said the Philippines needs to be more open and start looking at approaches toward attaining food security at the regional level.

"We can have the greater Mekong Delta as the rice granary of AEC, as long as there is clear commitment that rice will be readily available to any other ASEAN country," he said.

PIDS President Gilberto Llanto noted that there are sporadic successes of small rice farmers transitioning to high value crops and being linked to the food chain industry.

Llanto said one other approach is for farmers to target minimarts or grocery stores that are now sprouting in growth centers. A group of farmers can collaborate so that they can regularly supply goods to be sold in these minimarts.

"Understanding the way the industry is organized should help farmers organize themselves. These are the things that need to be addressed in our labor market," he said. ■