

# CHALLENGES FOR VIETNAM'S PARTICIPATION IN AEC: FREE FLOW OF SKILLED LABOR AND LESSONS LEARNED FROM EUROPEAN UNION

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## Abstract

The formal establishment of the ASEAN Economic Community (AEC) at the end of 2015 will ceremonially mark a milestone in the process of economic integration in Southeast Asia. AEC will open new chapter in ASEAN countries when it promotes four main free flows: capital, goods, skilled labor and services. Apparently, skilled labor mainly contributes to the economic growth nationally and regionally. Vietnam has a segment of the work force with low or medium skill level which has restricted economic value through the work performed. This is considered as Vietnam's challenging matter in context of integration. This paper is dedicated to analyze the theoretical basis of free flow of skilled labor in AEC, Vietnamese current situation and some lessons from European Union to suggest in the further application. The scientific methodologies used by group author are descriptive, explanatory, comparative, observable researches to complete this paper.

**Key words:** AEC, labor mobility, Vietnam

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## 1. Theoretical basis of free flow of skilled labor in ASEAN Economic Community

Currently, ASEAN is the region defined as the middle class in economic growth and also obtains the approachable methods for further economic restructuring and transformation. The roles of skilled labor in the economic growth are emphasized clearly (Klump, R., and O. de La Grandeville, 2000: 282-291). In fact, a government could choose to make human capital central to its economic



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development strategy, on the theory that where the best talent resides, innovation will thrive and investment capital will flow to support all kinds of economic activity (James M. et al, 2012, 13-20). In addition, the free flow of skilled labor has important implications for services trade, FDI and productivity growth (Chia S, 2011, 206). Apparently, the skilled labor is playing a prominent character to enhance the economic cooperation due to the fact that it creates the flow of human resources from the developed countries to the rest ones and vice versa.

The ASEAN Economic Community (AEC) is the aim of the region's economic integration by 2015. *The main aspect of cooperation in ASEAN countries implies in the development of human resources, performance-enhancement in communications connectivity, integrations to promote free movement of goods, services, capital investment, skilled labor, etc* (ASEAN S, 2008). Meanwhile, each country in the aforementioned area has the movement by Chinese labor in some labor intensive industry, which is considered as the threats and risks for all members. This leads to the cooperation among 10 economies to boost free flow of skilled labor in AEC so as to improve the quality of this factor mentioned in the treaty which was signed by the Prime Minister from specific nations.

The free flow of skilled labor is coming into force as one of the integration pillars in the AEC treaty in 2015. The term 'free flow of skilled labor' can be understood that people who have outstanding background on their career in every country in ASEAN easily move to another place for working. This means that ASEAN Economic Community need to take actions immediately to promote

above-mentioned process, for example, the visa clearance, the services provision when it comes to a search of job as well as the university connection, etc. However, it is incomplete procedure to execute process regarding these countries in 'flow of unskilled or semi-skilled labor' in AEC. These human resources are considered as the majority of factors in this region and it's definitely the most challenging issues which need to be figured out in not-too-distant future so as to maintain the stable development.

## **2. The requirement of free flow of skilled labor and current situation in towards ASEAN Economic Community**

### **2.1. Requirements for this free flow of skilled labor and overall flow of human resources in ASEAN countries**

According to the prevailing regulations of the receiving countries, there are 4 main factors to promote the free flow of skilled labor under AEC treaty. *Firstly*, all nations need to be joint-hand to facilitate the issuance of visas and employment passes for ASEAN professionals and skilled labor. In order to perform this agreement, the regulations relating to the number of staying days have to be amended. This will encourage them in travelling cross-border in purpose to not only work but also invest in the other countries. This is prerequisite condition to start enforcing them into reality. For instance, in Cambodia, Thailand, Myanmar and the People's Democratic Republic of Laos employers hiring foreigners have to guarantee that knowledge is transferred to locals and the foreign employee will eventually be replaced by a local (Yue C. S., 2011, 205-279).

Secondly, developing and facilitating the free flow of services, especially in

educational system such enhancement of core competencies, diversification in qualifications for jobs, provision of training skills in some priority sectors are efficient policies to boost high quality human resources.

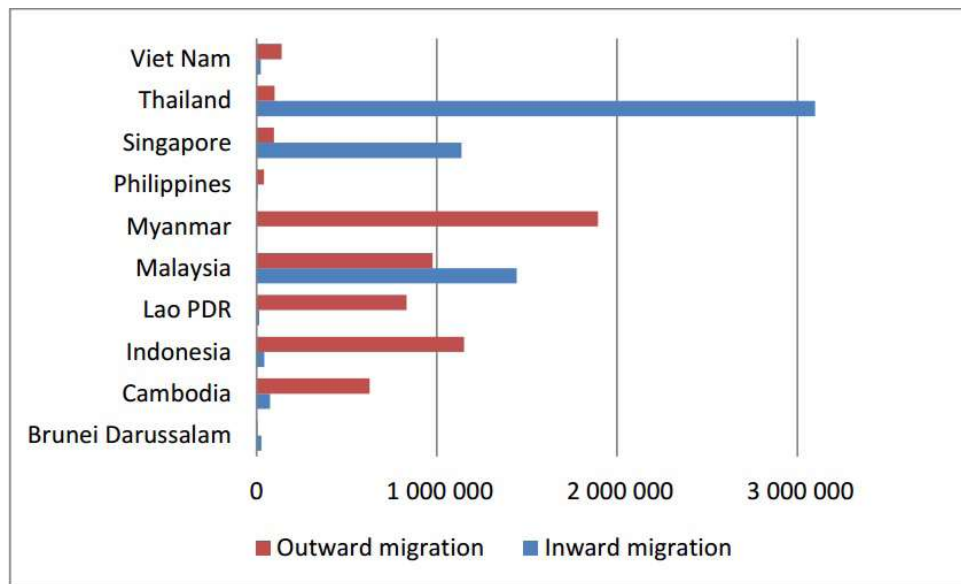
*Thirdly*, enhancing cooperation among ASEAN University Network (AUN) members, approximately 30 educational institutions, might increase this mobility or the share between students and staffs from other universities within ASEAN countries will help skilled labor who can easily move among the region. It could be plausible to suppose that some students are able to approach the modern educational system in the-top-high-quality-countries such as Singapore, Malaysia so as to qualify the recruitment's demand in the other countries. In addition, this cooperation could help the technological and scientific transferring process among these universities when this above-mentioned work will discover new things. This suggestion not only promotes the studying field in ASEAN students but also

creates opportunities in obtaining more and more patterns.

*Lastly*, it is necessary to strengthen the research capabilities of each ASEAN member countries because it will improve labors' productivity in both farming and industries. Clearly, the skilled labor will move when they can find the right and essential information in working with the best employers in ASEAN who possess the highest fund in research and development. Therefore, each ASEAN member country should apply the market hubs (this means the labor information market or labor channels for recruitment of middle-high position for employees) into reality for them to search in their demands.

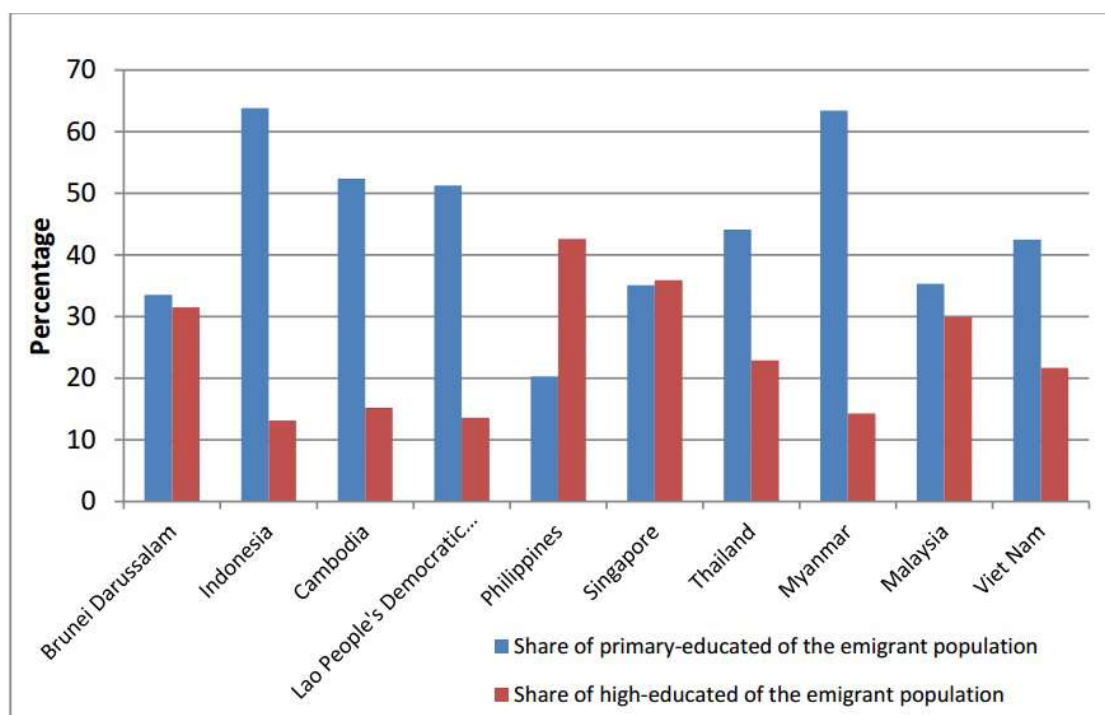
From the chart above, the inward migration are focused on 3 countries: Thailand, Malaysia and Singapore, which have good policy on attracting skilled labor in many sectors. In contrast, labor in Myanmar, Lao PDR, Indonesia and Cambodia tend to move to other nations for working. ASEAN is

**Chart 1: Intra-ASEAN migration: stock of total migrants, 2013**



*Source: UN DESA, Global Migration Database) cited in Sarah H., Adam H., 2014, 2*

Chart 2: Educational attainment of migrants



(Source: OECD Database DIOC-E)

committed to the achievement of “Free Flow of Skilled Labor” under Pillar A (“Single Market and Production Base”) (ASEAN S., 2008, 15). Throughout the chart, there are huge demands in the citizen movement including skilled labors who want to find the premium job to work. However, the concern for this phenomenon is that these nations could not have ability to distinguish between skilled labor and unskilled labor/semi-skilled labor when applying the visa for permanent residence for living and working under immigration regulations. Hence, the defined requirement of free flow of skilled labor is facing some difficulties.

According to above-given chart, the percentage of highly-educated of emigrant population comes from Singapore, Malaysia, Philippines and Brunei. It is noted that the gap between primary-educated group and the counterpart

are quite large among these countries in ASEAN. This leads to the challenges for people who have desire to move easily for working under agreed conditions in AEC Blueprint.

## 2.2. Current situation of skilled labor in Vietnam

The human resources in the Vietnam Economy is mainly in agricultural sectors in comparison with industrial or services ones. Particularly, although this percentage in farming fields decreased from nearly 70% to 46.8% (in 2010 to 2011) (ILO, 2014, 2), this figure has been quite high. Apparently, the majority of population in Vietnam is farmers, who are unskilled labor or semi-skilled labor forces. It is considered as the most challenging problems when the free movement will start in AEC. Meanwhile, the portion of workers who can operate the machines or has good

background on technology accounted for nearly 30% (in 2013) in Vietnam (ILO, 2014, 2). From the past, there are no official policies for farmers under regulations of welfare and social fund. This leads to an imbalance among many sectors in the economy when AEC will require the big demand on garment, food production, services provision and heavy industry. Therefore, this phenomenon will cause the shortage of the skilled labor in Vietnam in present, which used to be known as low cost labor and unskilled one.

The shortage of necessary skills for Vietnamese laborers is much more serious than those from other ASEAN countries like Singapore, Malaysia and Thailand. The lack of skilled engineers and top managers can be recognized in most fields in Vietnam. Simultaneously, Vietnam had some 53 million workers in 2012 and 83.54% of them were manual laborers without any vocational certificates or professional training (Nguyen, 2013).

Many universities in Vietnam are not qualified by their issued qualifications or degrees due to the fact that the universities' quality does not meet real demand. Most universities in Vietnam have not listed in the top ranking in both regional and international area. This means that the majority candidates

who obtain the Vietnamese issued degree might face difficulties to apply job in other countries such as Singapore, Malaysia, etc. in comparison with same competitiveness. The Ministry of Education and Training does not focus on training course (practical course to train people in working specific jobs with high techniques), which could create the huge number of skilled workers.

The foreign language is also one of the most barriers for labor in the integration period. In comparison with European Union region, these labors from EU countries have double languages or triple languages (English, French, and German); therefore, they might earn their advantages to work in multinational company or cross-border places. Meanwhile, Vietnamese labor forces are mainly familiar with Vietnamese language. Their foreign communication skills as well as soft-skills are quite weak.

Another concern in this current situation is the low wage in total economy. Apparently, this is the stumbling block for employees to re-invest their salary to improve their skill as well as knowledge. As the chart 3 below, the average income which Vietnamese employees receive around \$1002 per year is the lowest number.

**Chart 3: Average wage per year (USD) in some ASEAN countries compared to Vietnam**



Source: IMF World Economic Outlook, 2011 <sup>cited in</sup> PwC, 2012



### 3. Labor mobility in EU

#### 3.1. European Union's labor mobility barriers

On an approach to European Union single market, the free flow of persons is said to play a very crucial role in sense of cross-border effective allocation of human capital, appropriate adjustment to fluctuating demand and especially in European Monetary Union (EMU) context as “an important adjustment mechanism” for economic fluctuations and asymmetric shocks (Frigyes F.H. and Melanie W., 2006, 6). On basic term, the idea of labor mobility is the free movement of European Union citizens to another European Union country for employment, residence and even the enjoyment of any social benefits in the same way of natives (Martin K., 2012).

Since 12 new member states (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria and Romania) joined European Union in the 2000s, there has been a significant increase in labor mobility in the region. However, the increase is claimed to be “temporary” and still labor mobility in European Union is not comparable to that of the United States or Russian Federation (Martin K., 2012).

An explanation for this low intra-European Union labor mobility is the remaining obstacles to the free movement of labors within European Union which include “transitional arrangements restricting migrants from the European Union + 2 (Bulgaria and Romania); administratively complex transfer and exercise of social-security and health-insurance rights; taxation issues and practical difficulties with

recognition of foreign qualifications” (Martin K., 2012).

*Firstly*, transitional arrangements can be considered an important legislative barrier in terms of the restrictions on free movement of migrants from new member states. Recently, there are transitional arrangements towards European Union -2 countries which are Bulgaria and Romania. The duration for the restrictions is 7-year period with the main aim of facilitating old member states to gradually accept the access of workers from European Union -2 countries up to 7 years through three phases in which old member states could remove their restrictions at any stages.<sup>1</sup> For those old member states which are open their labor markets at early stage, it is said that transitional arrangements do not have great impacts. Besides, there are many other member states with their own reluctance and hesitation that do not want to open their labor markets. A striking example for this group is Germany (Martin K., 2012).

*Secondly*, another administrative barrier is in relation to the procedures of transferring labors' rights of social benefits and health care. Incomplete transferability and/or complex procedures in transferring rights are claimed to be non-trivial hurdles for labor mobility (Bonin et al., 2008, 32). In practice, European Health Insurance Card (EHIC) is still a problem as some European Union member states such as Spanish, Greece in general and their hospitals in particular still find ways to refuse EHIC because of the possibly large administrative cost for this insurance as their burden (Liz P., 2013).

<sup>1</sup> Commission report on transitional arrangements regarding free movement of workers from Bulgaria and Romania (2011): Internet source.

*Thirdly*, with respect to taxation, there would be chances for “double taxation” due to “non-harmonized tax codes”. More specifically, with German tax system as an example, when coming up with the amount of tax income of spouses, their joint income should be taken into consideration. Therefore, if one of them work and earn their living abroad, they have to pay not only their foreign tax income but also an additional amount of tax income in Germany which leads to “double taxation” (Martin K., 2012, 32).

*Fourthly*, despite much effort in reaching the full recognition of qualifications among European Union member states, there are still lots of difficulties and challenges, especially in some sectors such as medical and engineering sectors. In some cases, in order to negatively influence the incentives of new migrants, member states even require licensing and formal qualification (Martin K., 2012, 32). Moreover, training requirements and programs still vary among European Union countries. Thus, facing these difficulties, the European Union has come to a solution which is the European Union Professional Card in an attempt to harmonize their professional recognition of qualification. However, there are still many questions to be clearly answered as “to which professions are regulated, partially regulated or not regulated”(FEANI 2011 and Martin K., 2012, 35).

Additionally, language, cultural and job barriers should also be carefully taken into account. According to Bonin et al. (2008), based on their study’s statistical results, these three barriers have significant independent power in explaining for the future mobility (Bonin et al., 2008, 81). This result also implied an important fact that individual barriers have far much stronger effects on ones’ mobility

decision than institutional or administrative barriers (Bonin et al., 2008, 81).

### **3.2. European Union’s labor mobility trend and its effects**

An important observation for EU labor mobility is the migration trend from EU-8 countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) to EU-15 countries (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom). In other words, there appears to be East-West labor mobility trend. In the short term, EU-8 countries as the sending countries are said to suffer from the “labor market bottlenecks” to some greater extent. However, depending on the nature of labor migration to be either temporary or permanent, it would lead to very different balance of effects. If migrants come back to serve their home country, their return is believed to help promote the country’s economic growth with their new skills and ideas (Frigyes F. H. and Melanie W., 2006, 4).

Chart 4 below draws a general overview of potential impacts of labor mobility. As being clearly shown in the figure, migration may lead to various outcomes affecting every household and even the national economy as a whole. At the household level, despite the fact that migrants must leave behind their family, especially their parents and children, migration can help them earn their livings and send back to their family an amount of remittances. At the level of the economy as a whole, labor shortage with brain drain phenomenon for sending countries and labor gain with brain gain for receiving countries should not be neglected. Besides, governments also have to deal with social issues. Both sending and

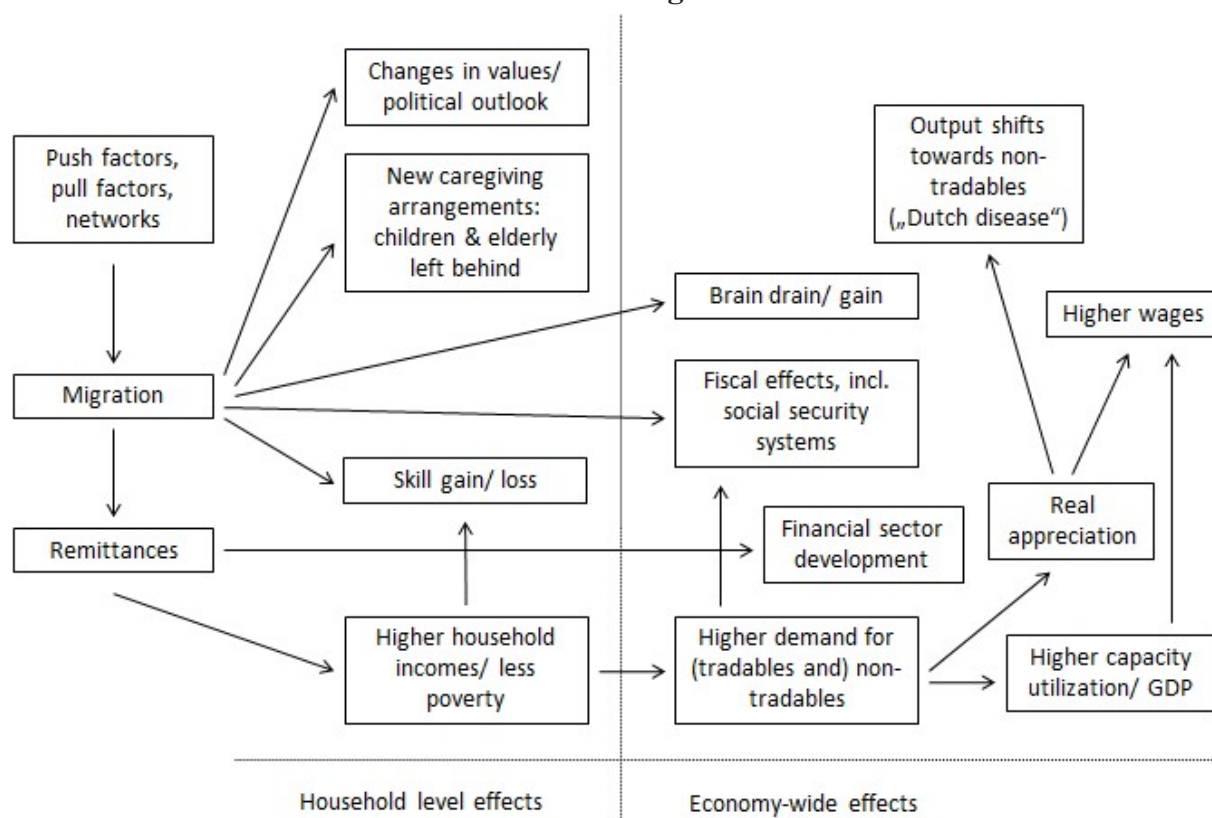
receiving countries are required to further improve their social security. Better social security will help sending countries in labors attraction. While receiving countries should expand their social security in order to meet the more required needs of their larger workforce. With this thinking in mind, governments are expected to have adjustments and changes for their fiscal policies to effectively handle their social security expansion.

**4. Lessons learned from EU and implications for Vietnam situation**

With all of the abovementioned barriers to labor mobility in EU countries, one very first lesson is that the free movement of labors is obviously a challenging way to go. Especially with an attempt to remove institutional, legislative and administrative barriers, it

would take a considerable amount of time for all member states to sit back, discuss and finally come up with their mutual agreement and consistency in some certain regards as recognition of professional qualification, taxation, health care system, etc. When there have already been harmonization solutions such as the EU Profession Card, the European Health Insurance Card, a lot of other questions still arise for challenging member states in their implementation of these “harmonization solutions”. Therefore, when it comes to ASEAN Economic Community, it can be expected that there are lots of challenges and barriers with respect to institution, legislation and administration which require not only time but also effort from all member states to bring an end to all these barriers and fully facilitate

**Chart 4: Potential cost and benefits of migration and remittances: overview**



(Source: Barbone, Kahanec, Kureková, Zimmermann, 2013)



the free movement of labors in the region. Vietnam as an active member of ASEAN community should actively participate in the progress of discussion and harmonization legislation for better movement of labor among member states.

The main thing is that individual barriers are far more important than institutional and administrative barriers. Here at this point, there is another lesson for Vietnam in particular and other ASEAN member states in general that is to focus on individual barriers to labor mobility, especially with regard to language, job and culture hurdles. In this sense, education should be in charge of playing such an important and decisive role in removing these sorts of barriers. By this it means that governments are encouraged to further develop their education system in order to meet higher and stricter requirements of international labor markets. To be more specific, the present status quo of many Vietnamese labors lacking professional and other necessary skills such as language and soft skills requires Vietnamese educators to put more effort into their teaching and training process concentrating more on skills development. Furthermore, based on the expectation of labor market demand in AEC integration, the quality of high school education and technical vocational education and training (TEVT), especially for textile, construction and transportation sectors with an aim at particular professional skills as well as scientific and technical research promotion are of the essence (ADB, 2014, 2).

In addition, the ASEAN Blueprint is only the general agreement among these countries. Clearly, it needs more guidance for steps by steps which are done by many leaders from countries. The authors suggest to establish

Labor Institution which will get involved in spreading publicly all the necessary information for ASEAN citizens, especially those who are in need. Labor Institution is believed to make it more convenient for ASEAN citizens to follow all the news related to AEC as well as its progress in order to make themselves always ready for all those expected upcoming challenges. For Vietnam in particular, one of the most important issues to carefully consider is foreign language, especially English. The importance of English in the school curriculum should be paid much more attention so as to create the labor forces who are good at foreign languages besides technical knowledge. This lessons will be applied from Singapore strategy to promote English to second language and popular in this country.

For the labor mobility trend, due to low wage and domestic working conditions and job qualities, Vietnamese labors tend to work abroad, such as in Japan or Korea. However, it is observed that there is an increase in the percentage of Vietnamese labors working in ASEAN countries in the most recent five years. More specifically, the number of workers for these labor markets constitutes up 26% of Vietnamese working migrants in the year of 2012. The point is that this source of labors from Vietnam to ASEAN countries is mostly low-skilled or medium-skilled workers. However, AEC aims for the free flow of skilled labors in several particular sectors as dentists, accountants and engineers. This number of skilled labors in these sectors, however, only takes account of 1% of the labor force in Vietnam. At this point, it is expected to have an expansion of the free movement of labors at low- and medium-

skilled level (ADB, 2014). What Vietnam can do as preparation for this is to improve and develop social security and welfare system for accommodating potentially increasing social needs as well as for attracting more skilled labors. For low- and medium-skilled labors, Vietnam should cooperate with the regional stakeholders to implement the arrangements set out in the Cebu Declaration on Migrant Workers, set up national qualifications frameworks and systems associated with the referential framework of the ASEAN aiming to create conditions for the recognition of skills of workers migration (ADB, 2014).

As regards Vietnamese actions from government from current situation, it is sensible to improve educational system to have skilled labor forces in not-too-distant future. Investing education system is one of possible solutions to build up Vietnamese skilled labor first. Furthermore, Vietnamese government could amend present regulations relating to visas and issuance of visas mechanism. It could be easy and facilitated by the governance operation to promote the inward or outward flow.

## 5. Conclusion

ASEAN Economic Community AEC with the orientation of free movement of labors among countries brings not only opportunities but also challenges that requires all members to be joint-hand with the hope to remove both institutional, legislative, administrative and individual barriers; overcome further potential challenges and facilitate labor mobility in the region.

Based on lessons from European Union with regard to free movement of labors, it can be significantly learned that individual barriers are even more considerable and influential

than institutional and administrative barriers (to some extent). Therefore, with Vietnam current situation lacking of skilled labors with high working capacity, governments should pay more attention to promote and develop the national education system as a whole focusing on high school education as well as vocational training. English and soft skills development for effectiveness in working are also in centre of labor improvement and enhancement for meeting higher requirements of integrated labor market in ASEAN. Besides skill development, information of AEC and the free flow of skilled labors should be widely spread to raise awarenesses of Vietnamese workers and labors in particular and Vietnamese citizens in general in terms of this important milestone of the region as well as every member country. Furthermore, facing with the inflow and outflow of labor as reaching AEC and the free flow of skilled labors, it is required Vietnamese government to further expand and improve our current social security and welfare system for meeting the increasing social needs and attracting a larger source of skilled labors from the region. Additionally, it is expected to have much more timely effort in working with regional stakeholders and reaching mutual agreements for our low- and medium-skilled labors. Regulations should also be carefully considered for amendment to adapt social changes as AEC is fully achieved.

Last but not least, the authors strongly believe in Vietnam comprehensive abilities to take advantage of this challenging but promising opportunity with regard to AEC and the free flow of skilled labors for an aim to further promote our labor forces and also our national economy. □

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