

PASCN Discussion Paper No. 99-01

Labor Mobility Issues in the Asia-Pacific Region

Gonzalo Jurado



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For comments, suggestions or further inquiries, please contact:

The PASCN Secretariat
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street
Legaspi Village, Makati City, Philippines
Tel. Nos. 893-9588 and 892-5817

LABOR MOBILITY ISSUES IN THE ASIA-PACIFIC REGION

By Gonzalo M. Jurado *

I. Background

The works on international trade of the classical economists (David Hume, Adam Smith, David Ricardo, and John Stuart Mill, among others) were built on the assumption that factors of production (i.e., labor, capital, and land), while mobile within countries, were immobile between them. The modern factors proportion account of trade (associated with the names of Eli Heckscher and Bertil Ohlin) also rested on this assumption, saying that it is differences in factor endowments that give rise to trade among nations. However even when factors are internationally mobile trade is still possible. In fact if trade is unrestricted, i.e., free, such free trade and factor mobility lead to the equalization of commodity prices and factor prices (Samuelson).

The factor price equalization theorem rests on a number of rigorous assumptions which are not satisfied in the real world. In reality, trade is never completely free (WTO still has a long way to go) nor are factors universally mobile. For this reason, commodity prices never equalize across nations and differences in factor prices persist.

It is the persistence of higher wages abroad than at home that provides a powerful stimulus to Filipino members of the labor force to prefer to work in foreign countries or under foreign auspices. Until wages in the Philippines rise to such level that they become competitive with external rates, temporary labor migration from the Philippines will continue. Nor is this phenomenon of temporary labor migration undesirable from an economic point of view. On the contrary, the removal of barriers to factor mobility clearly results in an improvement not just of the welfare of the sending country but of the welfare of the receiving country as well.

II. Benefits and Costs of Labor Mobility

The theoretical view of factor movement focuses on the net, not the gross, impact of factor mobility. In reality, factor mobility has costs as well as benefits, to both the sending and the receiving countries. With respect to labor, these benefits and costs are not limited to economic considerations alone. They spill over into the social and political arenas as well. Some of these benefits and costs of temporary labor

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migration (TLM) can be enumerated, if only to provide a basis for a balanced appreciation of the matter, as follows:

To the sending country –

Benefits:

- increased income to family/household of temporary labor migrant
- multiplier effects to community
- at national level, positive impact on balance of payments
- easing of unemployment problem

Costs:

- weakening of centripetal forces in family/household of TLM
- loss of skilled workers, bottlenecks in economic activities
- increase in reservation wages of those left behind
- lengthened periods of recruitment among firms resulting from the absence of appropriately skilled workers

To the receiving country –

Benefits:

- immediate access to skills
- slowing down of wage rise that can abort development
- technology transfer to local workers
- reduced cost of preparing local labor force for technical/skilled positions

Costs:

- infringements of local laws and customs by TLMs arising from ignorance by workers of alien cultures
- increased costs of administrative services (enlarged immigration bureaus, beefed up police forces, for instance)

There is no doubt that, as theory suggests, the net benefits-costs of international labor mobility are positive, and substantially so, for both sending and receiving countries.

In the Philippines, the major economic contributions of TLMs can be gleaned in a number of areas. In the field of employment, an average of 600,000 Filipinos a year over the last 10 years have worked in foreign countries, mainly in Hongkong and Singapore within APEC and in Saudi Arabia and other middle eastern countries outside APEC, and in sea-based enterprises. See Table 1. If these Filipinos had not gone abroad they would have added to the intensity of our already serious unemployment – and poverty – problem.

Table 1. Deployed Overseas Contract Workers, 1985-1996

Year	Total	Land-based	Sea-based
1985	389,200	337,754	51,446
1986	414,461	357,687	56,774
1987	496,854	425,881	70,973
1988	477,764	381,892	95,872
1989	522,984	407,974	115,010
1990	598,769	468,591	130,178
1991	701,762	554,476	147,286
1992	723,594	564,947	158,647
1993	738,958	572,096	166,862
1994	760,091	587,871	172,220
1995	662,294	481,349	180,945
1996	667,669	475,337	192,332

Source: POEA

The precise way TLMs are related to Philippine employment has not been unambiguously described because of the way the statistics are organized. As labor statistics currently stand, TLMs are not included in the labor force and among the employed. This is a serious deficiency for in fact they are employed members of the labor force. Including them in the labor force and the employed will change the employment picture to a certain extent.

(In a reorganization of the data in which TLMs were added both to the labor force and to the employed (not shown in this paper), the rates for employment expectedly came out uniformly higher than in the unrevised version, although only by a small fraction, typically by 0.2 percentage points, while the rates for unemployment conversely emerged uniformly lower than in the unrevised presentation.)

More readily measurable is the contribution of TLMs to the country's balance of payments and to the incomes of their own families. TLMs remitted some US\$3.0 billion in 1994, some US\$4.9 billion in 1995, and some US\$4.2 billion in 1996 – amounts that contributed to the financing of import bills bloated by development demands, the increase of our international reserves and, to a certain extent, the unwanted strengthening of our currency. See Table 2. These remittances are on the low side because they do not include amounts directly brought home by TLMs themselves and amounts transmitted though informal door-to-door couriers. These amounts when cleared through local banks become undistinguishable from foreign exchange emanating from other sources.

Reckoned at the household level, the impact of these remittances to the income of TLM families can also be estimated. The average per worker remittances were US\$1,594 in 1987, US\$3,044 in 1992, and US\$6,356 in 1996. For land-based workers, the corresponding figures were US\$1,576, US\$3,111, and US\$8,400, while

for sea-based workers, they were US\$1,697, US\$2,806, and US\$1,306. On the assumption that an average of US\$3,000 was remitted to TLM families a year, every TLM family or household received the equivalent of some P78,000 per annum from a relative working abroad. This is equal to a salary or wage of some P6,500 a month if worked in the Philippines, an amount about 45 percent higher than the minimum wage measured on a monthly basis. Little wonder that two or three years after the departure of the TLM, his or her family already exhibits an accumulation of television sets, washing machines, and other home appliances.

Table 2. Remittances of Overseas Contract Workers, Philippines, 1987-1996

Year	Remittances (in \$'000)			Average Remittances (in US dollars)		
	Total	Land-based	Sea-based	Total	Land-based	Sea-based
1987	791,902	671,422	120,480	1,594	1,576	1,699
1988	856,803	683,301	173,502	1,793	1,789	1,809
1989	967,026	755,211	211,815	1,849	1,851	1,842
1990	1,181,075	893,402	287,673	1,972	1,906	2,209
1991	1,628,274	1,253,048	375,226	2,320	2,302	2,547
1992	2,202,382	1,757,363	445,019	3,044	3,111	2,806
1993	2,229,582	1,840,296	389,286	3,017	3,217	2,332
1994	2,940,272	2,560,925	379,347	3,864	4,341	2,205
1995	4,877,513	4,666,999	210,514	2,365	5,697	1,163
1996	4,243,641	3,992,397	251,244	6,356	8,400	1,306

Source: POEA

This is the sunny side of the mountain. The twilight side of the hill is this. Many families of TLMs break up some years into the separation, because of the prolonged absence of the TLM. Lacking parental guidance, the children of such families become prone to anti-social behavior, creating burdens of control on the communities in which they live. In the economic sphere, the rise in the reservation wages of those left behind tend to raise the unemployment rate, since these people prefer to go unemployed rather than accept wages they consider lower than those they can receive in foreign countries. Finally, the depletion of the pool of skilled workers lengthens the period of recruitment among firms, raising the costs of operating their business.

On occasions in the past some observers have expressed outrage at the deployment of Filipino workers abroad and have held the government responsible for it. This is cheap posturing, if not a clever device for the execution of a hidden ideological agenda. Even the simple-minded would know that the government is no more responsible for temporary labor migration than it is for the country's underdevelopment. Typical governments bungle in their attempts to take the leadership in overcoming underdevelopment but they do not bring it about. The same can be said of temporary labor migration. Governments do not create the unemployment that drives TLMs to find work abroad although they take unduly long in motivating the creation of jobs that will accommodate all members of the

labor force. Although impelled by circumstances partly brought about by misguided government action, the decision to work abroad is the TLM's alone. When governments extend assistance to TLMs they deserve applause rather than condemnation.

The only way to deal with temporary labor migration, on the assumption that its continuation is repugnant to our collective preference, is to decisively improve the economy (by substantially increasing the growth rate of GDP, accelerating employment generation and raising wages, among other measures) so that TLMs can persuade themselves that it is in their interest to come home.

What to do to in order to bring this about is precisely the whole point of development policy.

Looking now at our APEC neighbors, if the situation in the Philippines is as described above, that in the other sending country in APEC – Indonesia – cannot be too different (except perhaps in the publicized attitudes of various sectors to TLM). Impacts on both the plus and minus sides, even if possibly differing in width and depth from those in the Philippines, will be in the same direction.

With respect to the receiving countries (Singapore, Malaysia, Hongkong, Australia, Canada, the U.S., among others), their continued acceptance of TLMs is a tacit indication that these countries are enjoying positive net benefits from this particular form of international labor mobility.

III. Labor Mobility Issues in the APEC Region

Notwithstanding the advantages that accrue to participating countries from international labor mobility, labor mobility continues to be impaired across countries, including those comprehended by APEC. Some of the specific impediments were identified in the APEC Informal Meeting of Senior Officials in Tagaytay, Philippines in April 1996, and discussions on ways to eliminate them are continuing. However, in the Second APEC Ministerial Meeting held in Seoul, Korea last September, the discussions focused on national experiences in human resource development rather than on the international mobility issues raised the previous year.

The impediments to labor mobility in APEC arise from the following ¹:

- differences among countries of skills qualifications for jobs
- lack of common standards for various skills
- absence of mutual recognition of skills standards
- discrimination on the basis of citizenship or national origin

In the April meeting, each of the several countries attending described its own national situation on the points described above. The descriptions served to highlight

¹ See "Notes of the Chair", APEC Informal Meeting on the Mutual Recognition of Skills Qualification, Tagaytay City, Philippines, 17-18 April 1996.

the countries' wide differences on the issues considered and suggested the length of the road that needs to be traversed before the differences can be ironed out..

These problems imply their own solutions. These consist of the adoption and observance of measures as follows:

- the harmonization of job requirements
- the use of common standards for various skills
- the mutual recognition of skills certificates
- obviously, at the political level, the abolition of any form of citizenship or racial discrimination

The implementation of these measures require action at two levels:

At the university level—

- establishment of more or less common curricula or syllabi
- use of faculty of more or less common qualifications
- mutual recognition of degrees and other academic qualifications

At the level of technical schools—

- establishment of more or less common syllabi
- installation of instructors of more or less common qualifications
- mutual recognition of skills certificates

IV. Reciprocity and National Treatment

Along with the specific measures described above at the educational and training levels, barriers to international labor mobility can be overcome by the adoption of reciprocity and national treatment as policy approaches to labor mobility issues. Reciprocity means the undertaking of any action similar to that undertaken in the foreign country in question. In the labor field, it means liberalizing the labor market for the citizens of that country that had liberalized its labor market for our workers. National treatment means extending to foreign workers the same treatment as we extend to our own workers.

As innocent as they sound, these policy thrusts have profound implications in the Philippines. As an official of the Department of Labor and Employment (DOLE) puts it, these policy initiatives will require the amendment and possibly repeal of at least 30 laws and regulations in our legal system, including some provisions of the Constitution. At the very least they will call for the re-orientation of labor unions that seem to suffer from an inordinate fear of foreign labor and of some professional organizations that do not hesitate to wave the flag each time a foreign professional appears to best them in a fair contest.

We have no information on reciprocity and national treatment in other APEC countries but there is little doubt that they too will need to make wide-ranging adjustments in their political orientation and practice once they adopt these processes as parts of their policy thrusts. It goes without saying that the dismantlement of

impediments to labor mobility in APEC is necessary if the countries of the region are to maximize their participation in the benefits of regional cooperation. Such maximum participation can be attained sooner the earlier efforts at dismantlement and liberalization are carried out and completed.