

# Shifting Global Production Systems, Labour Market Flexibility and the new Precariat in Southeast Asia

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## Abstract

Researchers writing on the subject of technological automation, job substitution and the rights of low-waged migrant workers in Southeast Asia have linked the continuing exploitation of these workers to labour market flexibility and workers' declining share of national income. Moreover, the establishment of the Association of Southeast Asian Nations (ASEAN) and the ASEAN Economic Community (AEC) has also resulted in reduced labour protections, vanishing labour contracts, inadequate social security provisions and workers' recruitment via outsourcing arrangements. In contrast, the migration governance schemes for foreign skilled workers have facilitated these workers' freer movement through the establishment of Mutual Recognition Arrangements (MRAs) of professional services. This paper examines ASEAN's shifting economic policies as a reaction to the opening up of China and diminishing investment by multinational corporations in the region. It then reviews ASEAN's strategy to develop industrial clusters through growth triangles, ASEAN and the AEC. This strategy has led to an expansion of skilled and low-skilled labour migration in the region, consistent with the reform program developed following the Asian Economic Crisis of 1997-8. Generally, the future of work for low-skilled, low-waged workers has not changed, reflecting the workers' economic polarisation in society.

## Introduction

Prior to the outbreak of the Second World War, trans-Asian labour migration was an essential feature of Asian globalisation. During the colonial period, foreign low-skilled labour migration (particularly from India and China) was central to the transformation of Malaya/Malaysia, Singapore and Thailand (Kaur, 2004). After Malaya and Singapore became independent, they (and Thailand) grappled with three major immigration policies that centred on the establishment of legal migration channels and migrant workers' employment conditions. The first policy in Malaya and Singapore (introduced after 1957) discontinued the recruitment of low-skilled foreign workers and shaped new legislation for recruiting

skilled migrants. The second policy incorporated the recruitment of both skilled and low-skilled migrants and amendment of immigration regulations to meet short-term labour shortages. This policy also corresponded with the design of circular temporary migration programs for low-skilled workers for the construction, manufacturing and services sectors. These programs were created on the basis of binational labour agreements with labour-sending states (and emphasising the connection between remittances and development). The third policy incorporated the harmonisation of legal channels for recruiting foreign labour, crackdowns on irregular migrants, and new strategies to reduce the brain drain and lure skilled diasporas to return home.

Concurrently, the globalization of production associated with multinational corporations (MNCs) and foreign direct investment flows (FDI), together with fragmentation and locational separability of production processes, facilitated Southeast Asia’s industrialization and greater integration into the world economy. Alongside this, the Cold War united the market economies of Indonesia, Malaysia, Philippines, Singapore and Thailand against communism and they established the Association of Southeast Asian Nations (ASEAN) in 1967. The

founding members also held the door open for other Southeast Asian states, providing they subscribed to ASEAN’s policies. In 1984 Brunei Darussalam joined ASEAN soon after receiving independence from Britain. Then, against the background of the changing global production system and diversion of FDI flows to China and other developing countries, ASEAN leaders endorsed the formation of regional growth triangles or industrial clusters to take advantage of co-locational synergies and undertake industrial upgrading.

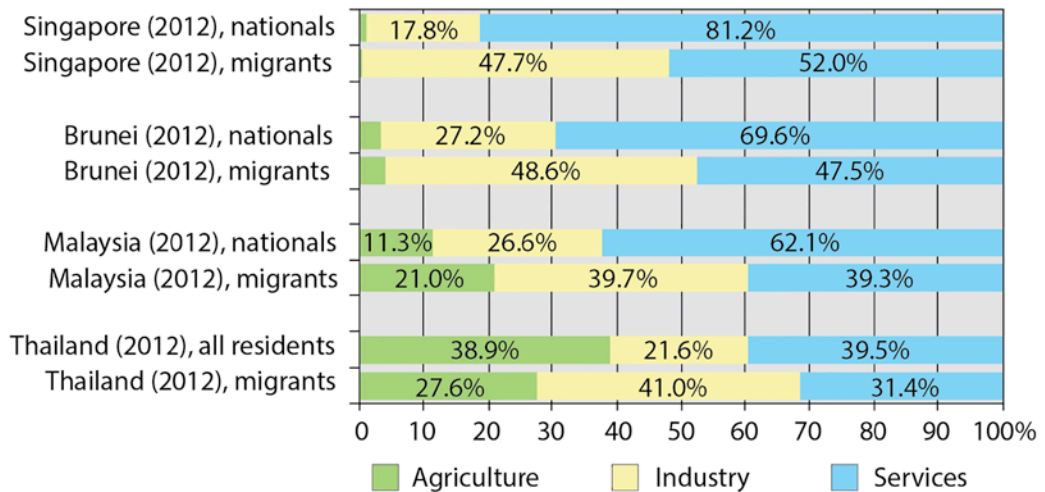


Figure 1: Employment of nationals (citizens)/migrant workers by sector in the main labour-importing countries

Between 1989 and March 1994 ASEAN leaders established three growth triangles, namely, the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), linking Singapore with the Indonesian provinces of Riau and West Sumatra and Johor in Malaysia; the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA), linking Brunei Darussalam with East and West Kalimantan and North Sulawesi in Indonesia, Sabah, Sarawak and Labuan in Malaysia and Mindanao and

Pahlwan in the Philippines; and the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) connecting the southern provinces of Thailand, the northern Malayan States, and the North Sumatra Province and Aceh. The Growth Triangles (GT) were envisioned to stimulate the development of outlying or peripheral regions via foreign and regional capital investment and promote low-skilled labour mobility within the ASEAN framework. Similar to the European Union scheme of using quotas for legal migration via

bilateral labour agreements or Memoranda of Understanding (MOU), ASEAN states also implemented new temporary labour migration programmes to facilitate low-skilled labour mobility. The region's commitment to temporary labour migration programs corresponded with simplification of employment regulations and easing of controls on labour mobility within the growth triangles in particular, and ASEAN in general (see Figure 1).

Both Singapore and Malaysia amended their regulatory employment structures for both categories of foreign workers, i.e. high-value/skilled migrants and low-skilled migrants. High-value migrants included those who had exceptional talent, or skilled net-worth investors and entrepreneurs. Skilled workers included those whose jobs might not be filled by citizens.

Professionals and skilled workers subsequently encountered relatively fewer challenges in the three major destination countries in ASEAN. The new geography of “managed” migration, especially in Malaysia and Singapore, made it mandatory for migrant workers to be in possession of job offers and work permits with recognized employers. Of the two, only Malaysia signed Memoranda of Understanding (MOU) with labour-sending states to recruit workers and secure the co-operation of sending states. Quotas for recruiting low-skilled migrants thus became negotiable, depending on the demand for these workers.

The labour recruitment programs included fixed-term employment contracts and a range of restrictions, including workers' repatriation upon completion of contracts. Crucially, private recruitment agencies and intermediaries were therefore entrusted with recruitment and placement processes.

Subsequently, as labour outsourcing became widespread in Malaysia, well-connected recruitment agencies too became involved in the trade in labour. These policies not only reduced migrant workers' freedoms but also led to the entrenched exploitation of low-skilled workers in particular.

In 1991, ASEAN members made a commitment to move towards an ASEAN Free Trade Area in 1992. This policy shift corresponded with the reorganization of the General Agreement on Tariffs and Trade (GATT) into the World Trade Organization and the establishment of the European Union in 1991. Following the creation of the North American Free Trade Agreement (NAFTA) in 1994, the world's largest free trade area, the other Southeast Asian states subsequently also joined ASEAN. Vietnam joined in 1995, followed by Lao PDR and Burma (Myanmar) in the same year. Cambodia joined in April 1999, thus making up the present ten member states.

The subsequent Asian Economic Crisis of 1997-8 (alleged to have been caused by deregulation and privatisation and the rise of entrenched patronage networks) made it unlikely that ASEAN leaders could sustain the region's competitiveness for foreign direct investment (Felker 2003; Robinson *et al.* 1987). Clearly, a revised approach was needed to facilitate further mobility in the value-added regional chains in ASEAN.

In 2003, ASEAN states established the ASEAN Economic Community (AEC) and decided to accelerate regional integration to 2015, following the endorsement of an ASEAN Economic Community Blueprint at the 13th ASEAN Summit in Singapore in November 2007. (See Figure 2 for a map of ASEAN countries).

### **The AEC, Labour Mobility and the New Precariat**

In 2007, ASEAN member states agreed to fast track the establishment a single market and production base in the region to promote greater skilled labour mobility. Thus selective admission policies for professionals and highly skilled foreign workers, alongside migrants' educational qualifications, skills and networks, have become important factors in their projected movement within ASEAN. Freedom of movement will be limited initially to accountants, architects, dentists, doctors, engineers, nurses, surveyors and tourism industry workers. Importantly, no provision has been made for greater mobility of low-skilled workers under the proposed arrangements, despite the fact that currently intra-ASEAN migration flows comprise mostly unskilled migrants, about 87 per cent of whom are low-skilled workers.

According to an Indonesian commentator, migration flows between ASEAN countries also mirror the growing inequality among the member countries. Malaysia and Singapore recruited 1.8 and 1.2 million workers respectively from the other ASEAN countries in March 2015 while Indonesia had 1.5 million Indonesians employed in other ASEAN countries. Nevertheless, although the lead economist at the Asian Development Bank has advised that "more attention is needed on a low-skilled migration policy", such a policy is not considered a priority of the AEC.

Crucially, the AEC's new employment model has led to greater precarity for low-skilled

migrant workers in the region. Loopholes, including enlarged roles for middlemen, lack of oversight by government bodies, non-unionization and the increasing role of labour-hire companies (through outsourcing arrangements) have increased the vulnerability of these workers. The ILO states that there is little provision for investment in better education and vocational training systems for low-skilled migrants. Thus, low-skilled migrants may not benefit from the "shared prosperity" goal, or achieve true gender equality, or experience equitable development. Furthermore, despite the existence of regional declarations and bilateral agreements, there is no regional regulatory framework for low-skilled migration, nor any agreement to halt irregular migration in the region.

Singapore's immigration policy has concentrated on achieving longer-term goals of industrial-upgrading and technological change, while maintaining competitiveness in the shorter-term. These guidelines are aligned with its national population policy, and a human capital investment strategy, to develop the skills sector by increasing the professional and skilled migrant category intake. The state's strategy includes incentives to encourage them to take up permanent residency. Foreign migrant workers are admitted under Employment Pass P1, P2 and Q1 programs which ensure permanent residency, eligibility for dependents' subsidized healthcare, dependents' education, and housing incentives.



Figure 2: ASEAN states.

In Singapore, foreign workers recruited for low-skilled occupations are classified as temporary workers and are employed in designated sectors for specific periods. They are hired under the Work Permit (R Pass) program, which is restrictive and designed to prevent settlement of the workers. There is also an S Pass category meant for mid-level skilled workers who have a trade qualification and relevant work experience. Employers in Singapore are required to pay a monthly levy on foreign workers employed in their firms/companies under both the Work Permit or S pass categories. Additionally,

employers are expected to abide by official employment regulations if they want to continue employing foreign workers. They are also liable to be penalised if they allow surplus to requirement/sacked workers to remain in the country. To forestall this, Singapore has endorsed the establishment of private repatriation firms that act on behalf of employers in Singapore to “forcibly” repatriate sacked workers or those who have completed their contracts and are no longer required by a company (Kaur, 2010a).

The Singapore government has signed labour accords with Bangladesh, India, the

Philippines and Sri Lanka for the recruitment of low-skilled foreign workers in the state’s manufacturing, construction and domestic service sectors. Unlike Malaysia, the Singapore government does not utilize the MOU instrument to manage low-skilled labour migration or deal with migrant workers’ affairs. The government has also introduced dependency ceilings or upper limits for hiring of low-skilled workers in the various low-skilled occupations. These ceilings stipulate the maximum number of migrant workers approved for employment by the state.

In 1980, Singapore citizens comprised 91 per cent of the total population but this figure dropped to 74 per cent in 2000. In mid-2013, more than 38 per cent of the population comprised foreign-born permanent residents or temporary residents. Statistics on the number of foreign workers employed in the different employment categories in Singapore from 2007 to 2015 are presented in Table 1.

The number of domestic workers employed in the country also rose from 201,400 in 2010 to 227,100 in June 2015. Nonetheless, they have limited rights and few enjoy a weekly day off.

Table 1. Singapore: Documented Foreign Workers by Employment Pass Classification, 2007-15

Pass Type	Dec. 2007	Dec. 2009	Dec. 2011	Dec. 2013	Jun. 2015
Employment Pass <sup>1</sup>	99 200	114 300	175 400	175 100	180 800
S Pass <sup>2</sup>	44 500	82 800	113, 900	160 900	173 800
Work Permit <sup>3</sup> (Total)	757 100	856 300	901, 000	974 400	993,900
Total Foreign Workforce	900 800	1 053 500	1 197 900	1 321 600	1 368 200

- 1 Foreigners employed on the Employment Pass are classified as professionals and are not subject to quotas; they receive a fixed monthly salary of at least S\$3,300 and have acceptable qualifications.
- 2 The S-Pass is for mid-level skilled workers possessing a trade qualification and relevant work experience; they receive a fixed monthly wage of S\$2,200.
- 3 The Work Permit is for foreign semi-skilled workers employed in the construction, manufacturing, marine, or services sectors (excluding domestic workers who are employed under the Work Permit for Foreign Domestic Workers).

Sources: Singapore, Ministry of Manpower, <http://www.mom.gov.sg/documents-and-publications/foreign-workforce-numbers>; <http://www.mom.gov.sg/pass-and-permits>; Lim, H; Aw, Bernard, Loke H., “AEC Scorecard Phase IV... The Singapore Country Report, June 2015 (ERIA Discussion Paper Series) <http://www.eria.org/ERIA-DP-2015-47.pdf>

Malaysia’s recruitment programs for foreign professionals/skilled workers and low-skilled migrant workers have some similarities with the current migrant worker schemes in Singapore. Nevertheless, Malaysia continues to have problems reconciling its demand for human talent with its race-based affirmative action policies, Malay nationalism and foreign worker quota system. The state originally utilized labour accords in the 1980s to recruit foreign low-skilled workers, and subsequently developed MOUs with most labour-sending countries to negotiate employment conditions. MOUs are considered less formal and nonbinding, and can respond flexibly to changing economic conditions. The government’s preoccupation with ethnicity, nationality and gender also underline its

governance arrangements for highly skilled and low-skilled migrant workers. The former (covering the professional, technical and kindred category), are conceptualized as *pegawai dagang*, or expatriates, while the latter are categorized as *pekerja asing* or foreign contract workers. There are correspondingly two types of employment agreement/work visas: an employment pass (*Pas Penggajian*) for expatriates; and a work permit or visit pass (*Pas Lawatan Kerja Sementara*) for low-skilled workers, including domestic workers.

The country’s continuing dependence on mainly low-skilled migrants during the period 1985-2010 is shown in Table 2.

Table 2. Malaysia: Percentage of Migrant Workers in the Main Economic Sectors, 1985-2010

Sector	1985	1990	2000	2005	2009	2010
Agriculture*	50.1	37.7	24.8	26.0	26.1	20
Manufacturing	6.9	8.8	38.1	32.1	34.6	39
Construction	15.0	34.4	8.5	15.5	15.6	19
Services (non-domestic)	20.3**	19.1	6.7	8.8	10.6	10
Domestic service	–	–	22	17.6	13.1	12
Total (per cent)	95.3	99.5	100	100	100	100
Total '000	212	441	807	1815	1918	1900

Notes: \* Includes forestry, fishing, mining and plantations  
 \*\* Includes Domestic service

Sources: [1985-2009] Devadason E.S. and Chan Wai Meng, “A Critical Appraisal of Policies and Laws Regulating Migrant Workers in Malaysia”, [www.wbiconpro.com/210-DEVADASON.pdf](http://www.wbiconpro.com/210-DEVADASON.pdf) - C; [2010] *Malaysian Insider* “Foreign worker levy hike in 2011”, 20 May 2010  
<http://www.themalaysianinsider.com/malaysia/article/foreign-worker-levy-hike-in-2011/>

Against the backdrop of greater regional labour mobility, Malaysia also introduced tougher measures to oversee an increase in low-skilled migrant labour. In 1995, the government established a Special Task Force on Foreign Labour, which then became the sole agency responsible for the recruitment of foreign labour (excepting domestic workers and shop assistants). Additionally, the government aimed at halting unauthorized migration and the task force took over the processing of foreign labour applications from the Immigration Department. Nevertheless, the Immigration Department has continued to oversee regulation of foreign labour recruitment, the identification of “appropriate” labour-source countries, and monitoring of the eligibility of sectors/firms wanting foreign workers. The government also depends on a non-state actor – the Ikatan Relawan Rakyat Malaysia (RELA) or Peoples’ Voluntary Corps – to control irregular migrants arrivals (including refugees and asylum seekers).

In 2005 the government introduced a new “model” of labour brokerage/outsourcing arrangements for firms employing fewer than 50 workers. Contractor-based labour arrangements have created vulnerabilities for workers, including non-existence of appropriate documentation for the workers or employment in non-designated sectors. Then, in 2013 the Malaysian government implemented a new policy that placed the burden of paying immigration and employment authorization fees on foreign workers rather than their employers. The employers were also allowed to retain the workers’ passports.

Several United States multinationals involved in the Malaysian electronics sector have been accused of involvement in the ‘sale of jobs’ to Bangladeshi workers through labour brokers. According to Verite (a US-based NGO), 73 per cent of the workers also “displayed ‘some characteristics’ of forced labour” [http://www.verite.org/sites/default/files/images/VeriteForcedLaborMalaysianElectronics\\_2014\\_0.pdf](http://www.verite.org/sites/default/files/images/VeriteForcedLaborMalaysianElectronics_2014_0.pdf)

Employers in the plantation and construction sectors also operate as both speculative labour contractors and *de facto* employers and this pervasiveness has also exacerbated human trafficking and exploitation of workers. But the government’s migrant labour policy has fundamentally vacillated between ensuring an uninterrupted supply of cheap labour and instigating crackdowns on undocumented migrants. Consequently, this policy has led to a huge increase in the inflow of regular and irregular low-skilled foreign migrants.

It is also well known that workers’ irregularity occurs in tandem with flexible labour markets, and companies who are not able to remain in business without the low-cost flexibility, resort to sacking workers *en masse*. In 2014, the Malaysian Human Resources Minister reported that there were an “estimated 6.7 million foreign workers in the country, despite the fact that only 2.1 million had valid work permits”. Moreover, about 93 per cent of foreign workers in Malaysia are low-skilled (Figure 3).



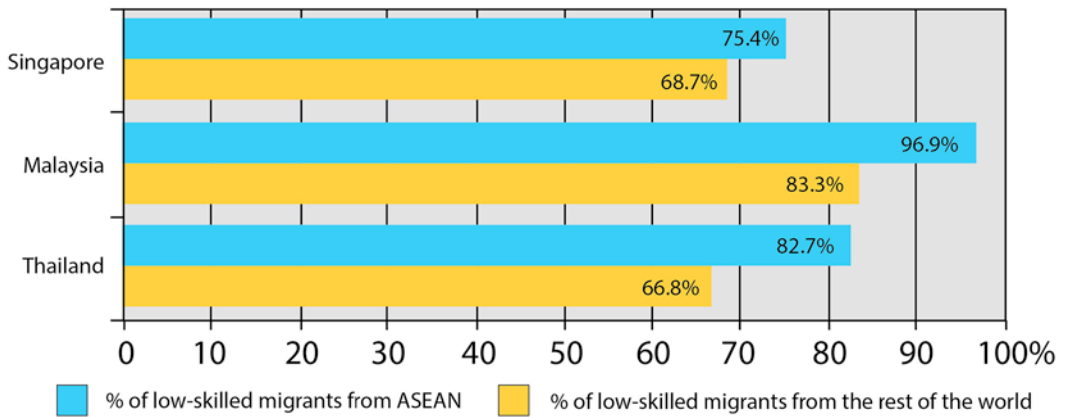


Figure 3: Low-skilled Migrant Workers in ASEAN.

Thailand warrants a cautious scrutiny owing to its large number of low-skilled workers, estimated at between 2 to 3 million in 2014 (most being undocumented), the existence of bonded labour practices, and inherent disparities in labour recruitment systems. Since the 1970s, Thailand's industrial parks and factories have not been restricted to Bangkok and its environs but have spread inwards and upwards to its borders with Burma, Cambodia and Laos, in search of 'cheaper' labour for manufacturing and agriculture. Initially, the government decided against establishing a legal employment channel for low-skilled temporary workers. But the state continues to utilize an employment strategy based on worker regularization and annual registration schemes to manage the employment of low-skilled migrant workers.

Effectively, the system of registering low-skilled migrant workers through annual cabinet resolutions was "primarily concerned with controlling migrants, knowing their whereabouts and allowing for the deportation of any migrant who was not registered". The annual registrations were a financial burden on migrant workers, and the brokerage

systems that provided jobs, documentation and remittance facilities were exploitative, dangerous and paralleled human trafficking. The situation improved only after the launch of the United Nations' Inter-Agency Project on Human Trafficking in 2000, which delivered a stronger and more coordinated response to human trafficking in the Greater Mekong sub-region (GMS).

Subsequently, the Thai government accepted the MOU strategy and between 2002-4 signed individual MOUs with Cambodia, Laos and Burma to promote cross border "cooperation for the employment of workers". This policy approved employment of low-skilled undocumented foreign workers on two-year contracts, following the registration and the provision of documentation (proof of identity) by employers. Employers were permitted to deduct registration costs from the workers' pay. Migrant workers were forced to leave Thailand upon completion of two-year contracts, when the entire process began again.

In 2009, the Thai government made it mandatory for low-skilled migrant workers to submit to a nationality verification process

organized by representatives from their country of origin and acquire passports into which the work visas could be inserted. Despite these measures for enabling regular migration, the abuse and trafficking of migrant workers has continued (Kaur, 2010b; A 2010 study of migrant workers in Thailand, *From the Tiger to the Crocodile. Abuse of Migrant Workers in Thailand*, drew attention to migrant workers' tribulations in the country. Then, in 2014 the Thai government established One Stop Service Centres in the country to provide options for legal migration (under MOU arrangements) and regularization of foreign workers. Essentially, this policy was introduced primarily to "inform importers of Thai products overseas" that Thailand was serious about rectifying foreign "labour problems" in the country.

Irregular migration and human trafficking have been a persistent challenge in the region. In Singapore, undocumented workers are typically "over-stayers", who enter on tourist visas and subsequently remain in the country. The government's mechanisms for monitoring the movement of low-skilled workers; the provision of "mega-dormitories" for construction and marine sector workers in designated zones; and stringent immigration regulations have ensured that irregular migration does not become a major issue.

This is not the case in Malaysia and Thailand, where, in addition to the illicit activities of unscrupulous intermediaries, the evolving border control systems of both countries, has become diffused within and outside the countries, and has contributed to this state of affairs. A 2010 study of migrant workers' human rights violations in Peninsular Malaysia, *Trapped: The Exploitation of Migrant Workers in Malaysia*, concluded that individual recruitment agents perpetrated labour trafficking but the government of Malaysia

facilitated the abuse with its 'loose regulation of agents, abusive labour laws and policies and the practice of allowing employers to confiscate their workers' passports'.

Labour exploitation continues to thrive and the United States' Department of State Annual Trafficking in Persons (TIP) Reports for the period 2000 – 2014, placed Malaysia in Tier 3 for 2000, 2001, 2007, 2009 and 2014, while Thailand was placed in Tier 3 in 2014. Singapore was placed in Tier 2. Interestingly, in 2015, while Singapore and Thailand's ranking remained unchanged, Malaysia was upgraded to the Tier 2 Watch List (despite the discovery of mass graves of potential trafficking victims at the Thai-Malaysian border).

It is alleged that Malaysia was upgraded to allow the country to participate in the Trans-Pacific Partnership, following passage of the Trade Promotion Authority which tie a country's eligibility to participate in trade agreements to its TIP ranking (*The Guardian*, 27 July 2015). Thus although the protection of low-skilled migrant workers has been included as an objective in the ASEAN Socio-Cultural Community (ASSC) Blueprint, and the 2007 *Declaration on the Protection and Promotion of the Rights of Migrants*, implementation of their recommendations has been slow.

### **Shifting Global Production Systems and Migrant Workers: Everything Changes and Nothing Changes**

During the colonial period, when Southeast Asian states were divided into labour-surplus and labour-shortage states, colonial authorities resolved the problem of labour shortages in their colonies by expediting the recruitment of migrant workers from India, China and Indonesia. These workers typified

the first major cohort of proletarian workers (the original precariat) in colonial production systems associated with Industrialization in Europe. A significant number of Chinese, Indians and Javanese also settled in the country on expiry of their contracts. This pattern of labour migration from essentially the same source (now independent) countries to wealthier Southeast Asian states (e.g. Malaysia and Singapore) has been replicated in the contemporary global production system (agriculture and manufacturing), with one caveat. Since a large number of women in Singapore, Malaysia and Thailand have been absorbed into administration, the professions or government jobs, a whole army of foreign women domestic workers from the traditional (now independent) source countries have been hired for housework and child-minding jobs. Essentially, both male and female migrant workers have become the new precariat, with few benefits, pensions and security. The foreign workers are also allowing wealthier Southeast Asian states to cope with stagnant or declining populations. These workers do not currently make up a permanent precariat since they are employed on a contract basis

and are dismissed and repatriated when their services are no longer required.

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*Received: 16 October 2015*

*Accepted: 29 October 2015*

