Getting ready for 'free flow' of opportunities in AEC

Resource: Bangkok Post, 12 January 2012

Global citizenship is linked to the relationship between an individual and the state. Since we now live in a virtual world connected by technology, today's global relationship should perhaps be better defined as an association with economic opportunities available to an individual, irrespective of physical presence.

Global citizenship also implies the shift from a domestic focus to a global focus, with the ultimate aim of attaining global standards in terms of operating environment and resource management.

However, it is unrealistic to think about global citizenship without first attaining regional citizenship. Naturally, we in Asia should see this regional citizenship linked to the economic opportunities available in our own region and to the degree of economic integration between Asia and the rest of the world.

Going forward, Thai and other Asean nationals need to put more emphasis on the growing Asean Economic Community or AEC, which will officially start in 2015.

As a major driving force of regional citizenship, the AEC is part of a larger plan for the Asean Community, which involves security, economic, and socio-cultural cooperation. It aims to transform Asean into a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated into the global economy.

To this end, the AEC blueprint focuses on free flow of goods, services, investment, and skilled labour, and freer flows of capital, to help minimise transaction costs and maximise trade gains.

On trade liberalisation, the ultimate target is not only to reduce all tariffs to zero, but also to eliminate non-tariff barriers including subsidies, restrictions and sensitive industry classification. And as of January 1, 2010, ASEAN+6 applied zero tariffs to 99% of goods, while the CLMV countries (Cambodia, Laos, Myanmar and Vietnam) plan to achieve the same goal by 2015. A unified trading region will facilitate development of production networks, bridge fragmented trade opportunities and allow Asean to become central to global supply chains. This model is supportive of Asia's new growth model of a regional production hub and increasing intra-regional trade. Moreover, it is a key development strategy for Asean to ride with rising Asia as part of an even bigger economic hub of ASEAN+3 and ASEAN+6. The +3 include China, Japan, and Korea, with the +6 expanding to cover India, Australia and New Zealand.

In addition to trade liberalisation in goods, liberalisation in services will also spur competition. This in turn would lead to lower prices and increased quality of services, as well as better transfer of know-how from outside and within the region, in areas such as business organisation and management, and risk management capacity through foreign participation in financial services, for example.

But since services liberalisation can involve short-term adjustment costs, its progress has been subject to domestic regulations, as a country's institutional and regulatory environment needs to be strengthened before and during liberalisation in order to reap eventual benefits.

A single market and production base for Asean cannot be complete without the free flow of skilled labour. It is also complementary to other freedoms, such as freedom of capital flows (particularly foreign direct investment) and services, and together they have important implications for productivity growth and investment. Indeed, it is logical to expect that Asean's integrated business organisations would be more effectively run by regional than local managers. This is because regional managers have incentives to optimise the economies of scale and scope through the use of regional factors of production to achieve competitiveness.

Moreover, regional managers are likely to promote more regional-oriented investment, which means outward investment, direct as well as portfolio, from one local economy into other local economies within and outside Asean.

On the question of readiness, Asean labour mobility pertains only to skilled labour at present. Various country-specific regulations continue to prevent completely free labour mobility.

While greater mobility should yield substantial economic benefits, especially for integration objectives, opponents of labour mobility tend to highlight the short-term potential threats, particularly the "brain drain" away from home countries.

Mobility also raises fears relating to immigration and cultural impact. What, then, can be done to improve readiness for labour mobility and thereby strengthen Asean citizenship? Let us consider a three-pronged strategy as part of a sustainable solution to this problem:

First, we should try to reduce short- and long-term obstacles to labour mobility. It is critical to recognise that greater labour mobility brings greater competition for local professionals. This means that, in the medium and longer term, the "brain drain" is usually offset by remittances and a "reverse brain drain", which brings wealth, skills, experience and their business and social networks back home. Actions are needed to further enhance the free flow of labour through increased use of mutual recognition of professional qualifications. Forging university and regional professional networks will surely be supportive of this endeavour. Visa, work permits, and regulatory requirements on foreign employment are all important issues that need to be quickly addressed to ensure that the investment environment is competitive.

Over the longer term, I also see it as very crucial that we address obstacles to integration at the root cause, which is the weak integration mindset. This integration mindset means that we need to assess the benefits and costs of integration more deeply and strategise how they fit with the overall economic development plans of individual Asean member countries.

There are dangers in allowing such an important assessment to remain vague. My concern is that many key stakeholders of Asean integration still view the AEC with cynicism _ that life will go on, with few changes to the status quo. This complacency is very dangerous because we may wake up and find that we are already too late to catch the rising wave of Asean.

The second part of this three-pronged strategy deals with human capital development to meet global competencies. My personal opinion as a CEO in the financial industry is that we need people, our human resources, in the next decade to be assertive, flexible, analytical and quantitative, technologically competent, as well as having strong leadership, people skills, foreign language proficiency, and cultural awareness.CEOs in other industries can add more qualifications to this list according to what they need to satisfy future business solutions.

To promote mobility, our local talent competency should also aim for a better fit with regional and global competency. In the case of Thailand, the broad statistical profile points to an above 50% share of education in social sciences, business, and law; with about 20% in engineering manufacturing and construction, and about another 10% in science. This means that we currently have a comparative advantage in terms of good quality social scientists, which should be augmented by English language and ICT skills. Having said that, we also need to put much more resources into education areas with a significant impact on wages and work flexibility, such as engineering and science.

The third part of the strategy relates to the market environment and government policy to support labour mobility and human capital development. In many Asean countries the labour market environment has been that of persistent shortage. With plenty of job opportunities at home, the lack of urgency to compete for jobs may have lessened the incentives for long-term planning to develop new skills and change the human capital profile to take advantage of global mobility. This problem has been amplified by the demographic trend of an ageing society with young talent becoming scarce in the future.

On the public policy front, public investment in education is particularly necessary for enhancing productivity gains for future growth. Moreover, as people become global citizens, we cannot always rely on rules and regulations, or market rules of the game to *bring about their right behaviour. In this regard, the educational curriculum needs to embrace elements on transparency, accountability, governance and ethics. This will help lessen the corruption problem which ranks high on the list of factors that can undermine the competitive strength of any economy.*

While the role of public investment in education is vital, I see increasing financial constraints in this area, as well as in public health and social safety nets, because of short-term fiscal limits and lack of long-term fiscal planning in a number of countries. For education, in particular, while in the short term private sector initiatives for in-house training or vocational educational support may help bridge the skills mismatch, this is unlikely to be a sustainable solution. Faced with fiscal limitations, the public sector will need to explore creative public-private partnerships to avoid undermining necessary developments in this important area.

I would like to conclude by emphasising that in the era of global citizenship, we should capitalise on the major driving force in advancing towards full global citizenship. For Thailand and Asean countries, we have the AEC as a natural stepping stone to embrace regional citizenship. Looking ahead, much work remains to be done for a number of countries to improve the readiness of human capital to evolve toward global citizenship. Our people must be developed to the degree that they possess similar competencies as those in the global workforce. I therefore hope that this conference will pave the way for further progress of this important agenda.

Dr Prasarn Trairatvorakul is Governor of the Bank of Thailand. This article has been abridged from a speech titled "Attributes of Quality Global Citizens in the Next Decade", which was delivered yesterday at the International Conference on General Education in Bangkok.