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Social Security and Labor Migration in ASEAN

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Gloria O. Pasadilla



1 ■ Introduction

In 2007, the 12th Association of Southeast Asian Nations (ASEAN) Summit held in Cebu, Philippines resulted in the Leaders' Declaration on the Promotion and Protection of the Rights of Migrant Workers. The Declaration recognized the important contribution of migrant workers in both home and host countries and underscored that efforts are needed to protect the fundamental human rights, promote the welfare, and uphold the human dignity of migrant workers. The Declaration is a statement of aspirations and principles which yet need to be operationalized. One way of addressing the needs of ASEAN migrant workers is to look at their retirement income security.

One particular aspect of social security that is relevant for cross-border workers is its “portability”, defined as the ability to preserve the actuarial value of accrued pension rights when moving from one country to another or from one job (within the same country) to another (Forteza 2008; Avato et al. 2010). Portability of social security affects key decisions of migrant workers, for example whether to retire early and where to spend their retirement—in their home or host country.

Social security portability also has important economic implications for host and home countries. If labor-receiving countries are keen to see foreign workers go back home, portability of social security would help facilitate such a politically desirable outcome. On the part of labor-sending countries, they also benefit from circular migration flows



through enhanced human capital of and increased investments from returning migrants. With portable social security returning migrants minimize the burdens on their home countries' social services. Significantly, for regions that aim at deeper economic integration like the ASEAN, social security portability can facilitate a more orderly labor movement within the region, foment greater social cohesion and more "buy-in" for the integration efforts.

This policy brief takes a preliminary look at portability of social security in ASEAN, particularly old-age, retirement, and survivor benefits. The next section discusses the growth of intra-ASEAN labor migration. Then it tackles the general issue of how social security benefits are lost through migration and makes an assessment of ASEAN countries' social security portability. The final section provides policy recommendations.



2. Growth of Intra-ASEAN Labor Mobility

In the 1970s, the oil price boom and expansion of the Middle East attracted a lot of Asian labor, but starting in the 1980s, other Asian countries became the major destination for migrant workers from Asia—particularly Japan; the Republic of Korea; Hong Kong, China; Taipei, China as well as ASEAN countries like Singapore, Malaysia, and Thailand. The growth in cross-border labor mobility within ASEAN has two distinguishable patterns (Manning and Bhatnagar, 2003). One pattern is centered around the Mekong river states with Thailand as the hub and the four countries of Myanmar, Lao PDR, Cambodia, and Viet Nam as labor suppliers. Another is the Malay migration region, with Singapore, Brunei Darussalam, and Malaysia as the major destination countries for workers from Indonesia and the Philippines. Most of these intra-ASEAN migration flows involve unskilled labor for construction, agriculture, and domestic work.

While no annual intra-ASEAN labor flows data is available for all countries, the general perception is that the trend has been increasing. Country presentations given at an Asian Development Bank Institute (ADBI)-Organisation for Economic Co-operation and Development (OECD) conference on labor migration¹, that are summarized below provide a glimpse of the growth in intra-ASEAN labor migration.

¹ ADBI-OECD Conference on Labor Migration: Recent Trends and Prospects in the Postcrisis Context, 18–20 January 2011, ADB Institute, Tokyo. Presentation materials may be obtained from <http://www.adbi.org/event/4186.roundtable.labor.migration.asia/agenda/>



Malaysia. In Malaysia, the number of foreign workers grew from less than 250,000 in 1990 to more than 2 million in 2007. While it dipped below 2 million during the global financial crisis, the stock of foreign workers remains high. As of 2010, they constitute 16% of Malaysia's labor force, up from 3% in 1982. ASEAN labor constitutes most of Malaysia's foreign workers, about 67% of total, while South Asian countries (India, Nepal, and Bangladesh) take the remaining 33%. Among ASEAN labor in Malaysia, Indonesians are the largest group, accounting for about 51% of all foreign workers, followed by Myanmar 7%, Viet Nam 4%, and the Philippines, Thailand, and Cambodia, accounting for a combined 5%.

Malaysia is dependent on cheap migrant labor for its rubber plantations. Thus, 23% of foreign workers are engaged in agriculture, second to manufacturing's share of 38%. Almost all foreign workers (about 93%) are semi-skilled or unskilled, and 63% have primary education or less.

Thailand. Most labor inflows to Thailand are undocumented (illegal), coming mainly from neighboring countries like Myanmar (the highest number of migrants), Lao PDR, and Cambodia. In contrast to increasing inflows, outward migration from Thailand decreased by 15.9% from 2008 to 2009.

Philippines. Philippines is a major labor exporter, but the majority of Filipino labor migrants go outside the ASEAN region. Its top migration destination is the United States, partly owing to former colonial ties, with more than 2 million permanent migrants. Other major host countries for Filipino permanent migrants are Canada (over 500,000), Australia (more



than 200,000), and Japan (more than 100,000). For temporary migrants, a major destination of Filipino labor is the Middle East, especially Saudi Arabia where more than a million Filipinos have fixed contracts, followed by the United Arab Emirates, Qatar, and Kuwait, in descending order.

Of the ASEAN countries, Malaysia and Singapore have a significant presence of Filipino temporary workers—with more than 80,000 and 60,000, respectively. For the Philippines, ASEAN is not the most important labor market.

Cambodia. In contrast to the Philippines, Cambodian migrants move mainly within ASEAN, in particular to Thailand and Malaysia.

From these country overviews, it is clear that intra-ASEAN labor mobility is asymmetrical, with some countries like Singapore, Malaysia, Brunei Darussalam, and Thailand being net labor recipients, while the rest are net labor-sending. Using the World Bank's bilateral matrix of migrant stocks² to compute intra-ASEAN labor migration, Table 1 confirms these asymmetrical intra-regional labor movement. It shows the major labor importing countries—Singapore, Malaysia, Brunei Darussalam, along with Cambodia and Thailand—have greater stock of labor from ASEAN than they send to ASEAN. Thailand and Malaysia have a ratio of labor outbound-to-inbound migration that is close to 1.0, which suggests relatively

² See <http://go.worldbank.org/JITC7NYTT0>. Some caveats on this data are warranted. The migration data was put together using national surveys (taken at different years for different countries), supplemented by various estimating assumptions to arrive at the migration figures which, incidentally, do not always match some countries' own collected labor information. However, to date, this data is the most comprehensive data source that tracks the bilateral labor mobility throughout the world.



symmetric two-way labor mobility (Table 1, column 4). Brunei Darussalam, Singapore, and Cambodia have ratios that are well below 1.0, indicating significantly more inward migration from other ASEAN countries than outward migration. Among ASEAN countries that are net labor exporters, Myanmar and the Philippines host the smallest number of ASEAN migrants.

Table 1: Intra-ASEAN Migration Data

	Intra-ASEAN			Total Migration			Share of Intra-ASEAN to Total Migration(%)	
	Outward Migration	Inward Migration	Ratio of outbound/inbound	Outward Migration	Inward Migration	Ratio of outbound/inbound	Outward Migration	Inward Migration
Brunei D.	9,313	120,578	0.08	24,343	148,123	0.16	38.26	81.40
Cambodia	53,722	320,573	0.17	350,485	335,829	1.04	15.33	95.46
Indonesia	1,518,687	158,485	9.58	2,504,297	397,124	6.31	60.64	39.91
Lao PDR	82,788	10,134	8.17	366,663	18,916	19.38	22.58	53.58
Malaysia	1,195,566	1,882,987	0.63	1,481,202	2,357,603	0.63	80.72	79.87
Myanmar*	321,100	814	394.47	514,667	98,008	5.25	62.39	0.83
Philippines	335,407	9,096	36.87	4,275,612	435,423	9.82	7.84	2.09
Singapore	122,254	1,162,960	0.11	297,234	1,966,865	0.15	41.13	59.13
Thailand	262,721	448,218	0.59	811,123	1,157,263	0.70	32.39	38.73
Viet Nam	221,956	21,511	10.32	2,226,401	69,307	32.12	9.97	31.04
TOTAL	4,123,515	4,135,357	1.00	12,852,027	6,984,461	1.84	32.08	59.21

Notes: * means that the data was based on earlier estimates by the World Bank, i.e. 2007, while the rest are from the 2010 released data. Brunei D.= Brunei Darussalam.

Source: Author's computation based on migration data from <http://go.worldbank.org/JITC7NYTT0>. Accessed 23 February, 2011

Compared with global labor migration, the numbers of ASEAN migrants are large in Singapore, Malaysia, Brunei Darussalam, and Cambodia (column 9). In Malaysia, for example, of the more than two million foreign workers, 80% are from ASEAN³; the share is similar in Brunei Darussalam; while in Singapore, the share is lower, at 59%, because of the presence of a large number

³ This figure differs from the country presentation from Malaysia that provided an estimate of 67% share for ASEAN migrant labor. This is one example of how estimates based on the World Bank labor data diverge from a country's estimates.



of non-ASEAN expatriate workers. In terms of outward migration, workers from Malaysia, Myanmar, and Indonesia are mostly destined to work within the region, while in the rest of ASEAN countries, out-migration to the rest of the world takes the larger share. For example, of the more than 4 million out-migrants from the Philippines, only 8% go to other ASEAN countries, the lowest ratio of all ASEAN countries.

Such asymmetrical labor mobility is hardly surprising given the disparate levels of development in the region. Unlike the relatively homogeneous western European nations that formed the early European Community, ASEAN is a bevy of high-income, upper-middle income, lower middle-income, and low-income countries. Singapore leads the pack with US\$37,000 per capita gross national income (in purchasing power parity terms), while Cambodia has a meager US\$610. The disparate income level likewise reflects the employment opportunities in the respective ASEAN countries, making the richer ones an attractive destination for surplus labor from ASEAN.

Apart from economic factors, however, labor is being driven out of some ASEAN countries because of political reasons. For example, of the stock of permanent migrants in Cambodia (and to a certain extent Lao PDR), it is highly probable that many of them are remnants of displaced citizens that fled from conflict countries like Viet Nam and Myanmar. Once migrants have settled in their host countries, they are likely to stay even when peace returns to their home countries.



3. How Migrants Gain and Lose Social Security Benefits

The increasing intra-ASEAN labor flows behooves ASEAN leaders to address migrant workers' labor conditions. In this context, the 2007 ASEAN Leaders Summit Declaration is a big step. Particularly in terms of retirement income security, migrant workers in ASEAN and elsewhere normally stand to lose some or all of the acquired social security benefits if they return to their home countries. The discussion below shows how.

Before losing social security benefits, migrant workers must be allowed access to the host country's social services, but in some cases, they are not permitted to participate.⁴ Some countries either have nationality conditions or minimum residency requirements for participation in the host countries' social security schemes⁵ that affect the recent arrivals (Sabates-Wheeler and Koettl 2010).

Migrant workers who have satisfied the residency requirements and are paying into the system may still be unable to enjoy the full benefits if they fail to satisfy the minimum required periods for contribution. Or, even if they have made the minimum number of contributions, the social security benefits may not be exportable. Or, the government may allow export of social

⁴ In cases where host countries do not allow temporary workers' participation in the social security scheme, a voluntary contribution scheme in the home country is a useful safety net. For example, the Philippines provides for voluntary membership by overseas Filipino workers in its social security system (see SSS).

⁵ Labor market models such as that put forward by Borjas (1987) justify such delays or limited access as generous social protection systems tend to attract low-skilled immigrants through unintended self-selection.



security benefits but with significant reductions. For example, Germany and the United Kingdom apply reduced rates to exported pensions and remove inflation adjustments from retirement benefits (Avato, et. Al 2010).

Apart from exportability features, the retirement scheme design can lead to lower accumulated benefits for migrant workers. For example, if a migrant's final wage when he leaves the host country is lower than the final wage of his career, his computed pension benefit would be significantly lower. Similarly, if the computed final wage on which computation of benefits is based is not adjusted for inflation, the migrant worker also incurs a final wage-related loss. Furthermore, if the pension's accrual rates increase with seniority and if migrants choose to spend the last years of his career in another country, he can incur "backloading losses" (Forteza 2008).

Some of the above social security losses may be prevented through portability features that may be either built into the design of the social security or through coordination of pension policies via social security agreements.

1. Portability and Social Security Design

Multi-pillar pension systems face different portability challenges. Tax-funded social assistance or safety nets (so-called zero-pillar pension schemes) are the least portable of the systems because the benefits are usually intended to alleviate domestic poverty based on the standard of living and minimum conditions in the country providing the benefit (Pigeon 2004; Holzmann and Koettl 2011). For example, in the European



Union (EU) which has the greatest degree of benefits portability, social assistance like unemployment benefits are not as portable as pension benefits.

Portability may be also affected by whether the contribution system is pre-funded or unfunded or partially-funded. Pre-funded contributory systems are more portable than unfunded or partially-funded ones because funds are readily available. There is also a portability difference between defined benefit (DB) and defined contribution (DC) schemes. Defined contribution (DC) systems act like individual savings, hence are more portable, unless they are subjected to discriminatory tax rules when benefits are exported abroad.

2. Portability and Social Security Arrangements

Another option for improving the portability of mobile labor's pensions is via social security agreements. Social security agreements can be between two countries (bilateral), or among a regional grouping, e.g., as in the EU, or multilateral. They are usually designed to coordinate the operation of social security systems by establishing mechanisms through which social security systems of different countries can work together to achieve mutually agreed objectives (ILO 2007). Social security agreements, typically, cover some or all of the following:

- Equality of treatment, which addresses nationality-based restrictions for access. Countries may agree to do away with residency or nationality requirements for access, for example;



- Export of benefits, which addresses questions like whether export of benefits to another country (non-party to the agreement) is allowed, whether social assistance is excluded from the benefits, and other related concerns;
- Dealing with double coverage or dual tax;
- Administrative assistance for facilitating claims and verification of eligibility; and, very importantly,
- “Totalization” or the adding together of periods of contribution or affiliation in all the countries that are parties to the agreement to allow the migrant worker to meet the qualifying period. This part of the agreement may contain third-state totalizing provisions even if it is a bilateral agreement.

The totalization features of the social security agreement allow migrants to enjoy any accrued benefits they would have otherwise forfeited because of their inability to meet the minimum qualifying period.

In addition, social security agreements may prevent final wage and backloading losses if the parties agree to calculate the benefits after the periods of contribution have been totalized and if the benefit formula and indexation are adjusted for this purpose (Forteza 2008).



4. Existing social security and portability in ASEAN

Noting how migrants, in general, can lose acquired benefits, how do intra-ASEAN migrants fare? Do ASEAN countries' social security systems have generous exportability features? Do they extend access to their country's social security to other ASEAN migrant workers?

1. Assessing Portability of ASEAN Social Security

Table 2 summarizes the ASEAN schemes for social security protection along with the provisions that are relevant for migrant workers.⁶ The table shows whether access is limited to nationals or permanent residents, whether benefits are exportable or payable outside the country, and whether there are minimum contribution periods to be eligible for benefits.

Table 2 shows that ASEAN countries allow the export of social security benefits, the exception being Brunei Darussalam's universal pension coverage. The defined benefit schemes in the Philippines, Thailand, Viet Nam, and Malaysia have minimum periods of contribution ranging from five to 15 years. In terms of access, the Philippines and Thailand provide for no restriction of access; Indonesia and Malaysia allow voluntary contributions of

⁶ The discussion is limited to pension benefits because other social protection schemes like health benefits or unemployment insurance have much more limited portability. Even in the EU, which perhaps has the most portable health care scheme, the provision of cross-border health services is tightly regulated, especially for non-retirees and non-emergency cases. Bilateral social security agreements on healthcare are also more difficult to conclude, although some EU member countries have agreements with acceding countries on reimbursements of health services cost (Pigeon 2004; Holzmann and Koettl 2011).



foreign workers to their provident fund; Singapore and Brunei Darussalam only allow access for nationals and permanent residents.

Table 2: Social Protection in ASEAN

Type of program	BN	ID	LA	MY	PH	SG	TH	VN
Social insurance			*	*	*		*	*
Provident fund	*	*		*		*		
Universal	*							
Branches covered								
Old age	*	*	*	*		*	*	*
Invalidity	*	*	*	*	*	*	*	*
Survivor	*		*	*	*	*	*	*
Coverage limited to nationals and/or permanent residents	Yes	Yes	No	?	No	Yes	No	Yes
Export of benefits allowed	Yes	No	Yes	?	Yes	Yes	Yes	Yes
With minimum qualifying period for eligibility (years)	No	Yes	No	Yes (5)	No	Yes	Yes (10)	No
							Yes (15)	Yes (15)

Notes: BN=Brunei Darussalam; ID=Indonesia; LA=Laos PDR; MY=Malaysia; PH=Philippines; SG=Singapore; TH=Thailand; VN=Viet Nam

Source: Table 2 of ILO (2007) with minor modifications by author

2. Migrants and Social Security Regimes

Holzmann et al. (2005) classify migrants' social protection into four regimes. Regime 1 is the most advantageous for migrants. Under this regime, migrants have access to the social security and social services in the host countries, and home and host countries have social security agreements that preclude losses when migrants return to their home countries. Examples of countries in regime 1 are the EU countries and other developed countries that have bilateral social security agreements with other economies. Regime 2 is where migrants have access to host country social services and social security, but their host countries have no social security agreement with their countries



of origin. Most of the world's migrants fall under such a regime. Regime 3 is where migrants have no access to social security and no social security agreement exists between their host and home countries. Examples are many Middle East countries where the generous oil revenue-funded social security benefits exclude foreign workers, but neither are they required to contribute into the pension system. Regime 4 is for all undocumented migrants who have limited access to social security and whose work conditions are unregulated.

Table 3 classifies ASEAN social protection for migrants using the above regime categories. Migrant workers in the Philippines and Thailand have access to these countries' social security regimes by law, while migrants in Malaysia and Indonesia may voluntarily contribute to the employee provident funds of these countries (see Table 2). However, because there is no social security agreement among ASEAN countries, the ASEAN migrants going to these four countries—60% of intra-ASEAN labor migrants—therefore fall under Regime 2. This proportion is roughly in line with the global situation of migrants in that 55% have nominal access to social protection (column 6).



Table 3: Social Protection of Migrant Workers

Social Protection Regime	Intra-ASEAN migrant stock estimates	% of intra-ASEAN migrants	% of global migrants from East Asia and Pacific	% of global migrants from OECD	% of global migrants
I. With access to social protection and with social security agreement	0	0	14	86	23
II. With access but without social security agreement	2,498,786	60 *	67	13	55
III. Without access to social protection	1,283,538	31 **	4	1	5
IV. Undocumented migrants	n.a.	n.a.	16	1	18

Notes: * destination countries are Malaysia, Indonesia, Philippines, Thailand;

** destinations are Singapore and Brunei Darussalam. Percentage does not add up to 100 due to undetermined social security access in other ASEAN countries.

Source: Author's calculations based on <http://go.worldbank.org/JITC7NYTTO>. Accessed 23 February, 2011 and information on ASEAN regime based on ILO(2007); OECD information from Avato, et al. (2010).

No intra-ASEAN migrants are classified under regime 1 since, as mentioned above, countries in ASEAN have not signed any bilateral, let alone regional, social security agreements. In contrast, 86% of migrants from OECD countries are in regime 1 because they work in countries where bilateral or multilateral social security agreements are established. Most OECD migrant workers go to other OECD countries (mostly in EU destination countries) where social protection agreements are in place (Avato, et al. 2010).

Singapore and Brunei Darussalam do not allow migrant workers to contribute to their provident funds unless they are permanent residents. Migrants in these countries constitute about 31% of total ASEAN migrant workers. Assuming that none of the migrant stocks in these two countries are permanent residents, this proportion constitutes intra-ASEAN migrant labor that are



in regime 3. In reality, though, some of these ASEAN migrant workers are permanent residents and are thus mandated to contribute part of their earnings to the provident fund. In other words, the 31% proportion of ASEAN migrants in regime 3 is a maximum estimate. The remaining 9% of ASEAN migrants are those in countries like Lao PDR, Cambodia, Viet Nam, and Myanmar, which either have no social security system even for their citizens or provide no information on migrants' access to social security.

In contrast, about 4% of global migrants, a much smaller proportion than for intra-ASEAN mobile labor, are in regime 3. This represents workers in the Gulf countries where foreign workers are excluded from social security contribution and benefits (Avato et al. 2010). This small share of global migrants must arrange their social protection either from their countries of origin or through private insurance schemes. In the case of Filipino migrant labor (in the Middle East and elsewhere), the Philippines provides a voluntary social security scheme to take care of their retirement income when they finish their work contract (SSS).



5. Conclusion and Policy Recommendations

The ASEAN Summit Declaration on the Protection and Promotion of the Rights of Migrant Workers need not be an empty paean to the significant contribution of mobile labor in the region. Rather, it should serve as a framework to develop workable programs to better their condition. One way in which their income security can be improved is through social security benefits that are accessible and portable. Where minimum contributory periods are necessary to obtain pension benefits, a totalization agreement should be worked out, either bilaterally, or regionally.

In terms of the ASEAN integration goal, it is worthwhile to look at the efforts of other regional economic blocs to facilitate social security portability. For example, in the Caribbean Community (CARICOM), Forteza (2008) points to portability gains due to "frontloading" of the accrual rate or by applying a higher accrual rate to the initial years of contribution, not to the final ones.⁷ In Mercosur, member countries agreed to improve their administrative coordination to facilitate processing of pension benefits claims.

While ASEAN countries need to improve the depth, effective coverage, and benefits of their social security program for their

⁷ "Frontloading" provides higher benefits to mobile workers because the higher accrual rate is applied to the early periods of contribution instead of the final ones (as in "backloading"). Thus, under a "totalized" benefit system, even if a migrant worker chooses to spend the last years of his career in his home country, there is no loss in his accrued benefits arising from the way the accrual rate is applied.



citizens, they should embark on their reform agenda taking account of the welfare of migrant workers, i.e., the portability features, in any re-design plans. In future social security schemes, it is important to ensure built-in portability and exportability of benefits for the growing number of mobile workers in ASEAN.



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