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# Development & Transformation in Southeast Asia: The Political Economy of Equitable Growth

**Terence Gomez, Pietro Masina  
& Silvia Vignato**



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## OBJECTIVES

The core objectives of Work Package “(WP2) – **The Economy: Competing Models and Practices of Capitalism** – are two-fold: to assess development models adopted in ASEAN economies and to determine the impact of locally – as well as globally – driven economic change on the legitimacy of these models and the political framework that underpins them. Three modules are planned under WP2:

*Module 1: Competing models of developmental capitalism*, an assessment of the varieties of capitalism employed in specific institutional contexts, structured by the state, domestic enterprises of different sorts and global engagements;

*Module 2: Special Economic Zones (SEZs) and FDI-led industrialization*, a review of regional production networks to determine the extent to which integration has supported or hampered Southeast Asian countries from pursuing industrial upgrading and the impact of this in terms of working conditions in the manufacturing industry; and

*Module 3: Labour mobility across different regimes and social security frameworks, an appraisal of “circulatory migration”*, the lives of female industrial workers after they cease to participate in it, and the consequences and implications for social security policy of the ‘precarization’, or lack of stability and predictability, of labour, also in the so-called formal sector.

WP3 will adopt different disciplinary approaches to produce an integrated and inter-disciplinary interpretation of current issues. This inter-disciplinary endeavour will shape the research of each module within WP2. Furthermore, the three modules will operate in close dialogue and some research activities will cut across the module’s boundaries so to strengthen internal coherence.

## DEBATING DEVELOPMENT

In the immediate period after the Second World War, the countries of Southeast Asia were in need of industrialization and socioeconomic change, mired as they were in poverty. The countries of multi-ethnic Southeast Asia – with the exception of Thailand – had embarked on a struggle for independence while also determining the direction of their growth in the post-colonial period. One common feature of under-developed Southeast Asian countries was their need to create a new domestic entrepreneurial industrial base, a factor that precipitated debates about the role of the state to expedite structural changes and the nature of the links between government, business and labour (Weiss & Hobson 1995).

The state’s role in economic development has been at the centre of multiple debates in the last three decades in industrializing Asia. Studies by Wade (1990), Amsden (1989) and Haggard (1990) detailed the fundamental role of state policies in achieving structural change

and high economic growth in East and Southeast Asia, through a model described as the 'developmental state'. However, more recent studies have argued that, although Southeast Asian countries were inspired by the developmental state model, they had not implemented its fundamental tenets consistently (Booth 2001; Khan 2000; Weiss 2000; Masina 2006) for reasons ascribed to historical context, the evolving regional division of labour and underlying institutional differences (Jomo 2001; Chang 2006; Masina 2018).

The question of state intervention in the economy to cultivate domestic companies in order to drive industrialization is not unique to Southeast Asia. Similar debates had occurred in the industrializing East Asia which in turn were deeply influenced by debates in the West. This history is one that can be traced back to Alexander Hamilton's disputes with Thomas Jefferson in the United States, after the country's independence in 1776, on the role of the state in nurturing and protecting infant industries so as to catch up with other industrializing countries. Jefferson's primary concern with Hamilton's argument, about instituting state-business ties to develop infant industries, was that this would involve selective patronage resulting in wealth concentration with the creation of huge enterprises. As it turned out, state intervention eventually led to the emergence of a vast US industrial base comprising large, medium and small firms, many with the ability to compete internationally (Chang 2002).

A similar debate transpired in Germany in the late nineteenth century when the government pondered the prudence of state intervention to develop a vibrant domestic industrial sector. The argument revolved around political economist Friedrich List's contention that systematic, but temporary, protection of Germany's infant industries was imperative to develop companies that could sustain industrialization as the economy evolved. When Meiji Japan embarked on its own industrialization endeavour in the late nineteenth century, List's arguments were enlisted to justify the creation of a similar state-business compact. This system of state support of domestic enterprises was actively promoted in the immediate post-World War period as Japan began rebuilding its decimated economy. In the mid twentieth century, when economies in East Asia began developing at an unprecedented rate – with the World Bank (1993) referring to its rapid growth as a "miracle" – similar state-business linkages were constructed that focused on priority sectors that would advance industrialization, cultivate domestic capital and foster structural change, including to reduce poverty.

Following its defeat in the Second World War, a conscious effort emerged among different segments of Japanese society to collectively reconstruct the country's economy. In this collective national desire to rebuild an economy in tatters, a compact involving state, business and labour was forged, contributing to the development of an industrialized economy second only to the largest in the world, that of the United States; this remarkable and unprecedented development occurred within a span of about three decades. In other East Asian economies that developed rapidly, collectively referred to as second-tier (South Korea, Taiwan and Singapore) and third-tier (Malaysia, Indonesia and Thailand) newly-industrialized countries, pathways to development were determined by a state that controlled financial institutions responsible for funding growth (Amsden 1989; Haggard 1990; Pepinsky 2009).

In countries that have rapidly industrialized by employing a model of development involving state intervention, the nature of the state differed significantly while enormous transformations have also occurred since the mid-1980s with growing democratization in the region. Industrializing Indonesia, Malaysia and Thailand were under the control of dominant leaders or institutions that dictated the content of industrial policies. Today, Southeast Asia is also interesting as a focus of study, as it is characterized by different forms of political regimes. Malaysia<sup>1</sup> and Cambodia – Singapore too – are governed by hegemonic single dominant parties, Laos and Vietnam have one-party communist systems, Brunei is under monarchical rule, while Thailand, after a period of democratic rule is now under the control of the military. Indonesia, the Philippines and Timor-Leste are democratic states, though they are still far from consolidating democracy, while Myanmar is reportedly in transition to a functioning democracy though the army remains a *de facto* autonomous power holder. In all these countries, development agendas were dictated, not merely by extensive state intervention, but also the active employment of neoliberal-based policies.

## **COMPETING MODELS, MIXED DEVELOPMENT: THE DEVELOPMENTAL STATE AND NEOLIBERALISM**

As Johnson (1982) notes, a defining characteristic of the developmental state model is its high degree of government intervention in the economy.<sup>2</sup> A developmental state had certain core features including an autonomous government with a highly competent bureaucracy to conceive and deliver policies; a coherently structured industrial development plan to foster through selective patronage entrepreneurial private firms; state-controlled financial institutions to fund this development; and a well-functioning education system that groomed human capital to work in the economy. Countries adopting this model instituted an export-oriented industrialization (EOI) strategy to expose private enterprises to competition, as well as to encourage research and development (R&D) to ensure consistent technological upgrading. State intervention in economies employing this model is exemplified through the use of terms such as “governed markets”, “governed interdependence” and “embedded autonomy” (Amsden 1989; Wade 1990; Evans 1995).

Southeast Asian countries did not share all these features. The state in Japan had a relationship with labour that respected trade unions and included workers in discussions with business managers on the mode of development of a firm, a feature not seen in Southeast Asia. A characteristic feature of most developmental states was the presence of a strong state that firmly controlled trade unions and other non-governmental institutions, including the opposition.

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1 At least till May 2018, when the longstanding Barisan Nasional (National Front) coalition unexpectedly lost power during a general election.

2 See Woo-Cumings' (1999) edited volume on the developmental state for a range of perspectives on this model of development.

Labour was subjected to heavy restrictions as it was imperative to control wages as this served as an important incentive for a greater volume of foreign direct investments (FDI). A core feature of Southeast Asian countries was their heavy reliance on FDI to drive industrialization.

What was common in developmental states was an effective bureaucracy that planned the direction of the economy and created a close nexus between the financial and industrial sectors to advance industrialization. While this configuration of industrial-financial capital ties facilitated East Asia's rapid industrialization (Whitley 1992), the forms of state-business-labour ties were patently different from country to country in Southeast Asia. What the ASEAN countries did have in common, particularly during the 1990s, was that they grew rapidly, incubated new entrepreneurs and uplifted the middle class. However, they did not necessarily improve the quality of life of industrial workers. One reason for this was that while there was clear adherence by them to features of a developmental state, by the mid-1980s, most governments of these countries were inspired by a vastly different model of development, namely neoliberalism.

In the 1970s, a major economic ideological shift occurred, first in Britain and then in the United States with the ascendance to power of Margaret Thatcher and Ronald Reagan respectively. Neoliberal policies, based on ideas developed by Friedrich von Hayek and Milton Friedman were actively pursued through the influential Thatcher and Reagan governments, with strong backing from large enterprises, advocated the virtues of allowing the private sector to drive economic growth (Harvey 2005: 19-31).

The neoliberal model entailed an attempt to relieve the state of its responsibilities to watch over its subjects as economic actors, a process referred to as the "de-governmentalization" of the state and the "de-statalization" of government (Gordon 1991; Ferguson & Gupta 2002). Neoliberalism endorsed universal-type policies in an open economy - with minimal state intervention to privilege the fittest and most equipped - in the belief that these factors would engender an efficient employment of resources. Policies and programmes seeking to privatize the public sector, liberalize trade, deregulate the economy and decentralize administrative functions also sought to gradually release the state from its role of championing social development and the betterment of its people.<sup>3</sup> The assumption is that through 'trickle-down' economics, the market forces of a robust economy and an increased circulation of capital would solve social problems and reduce inequities (Harvey 2005).

In ASEAN, the active adoption of policies that concurrently attempt to deregulate national economies and liberalize trade, investment and labour flows has facilitated the capacity of multinational corporations to assertively expand their operations in the region. Meanwhile, the privatization of public agencies, assets and services, as well as major new infrastructure projects resulted in numerous new and serious problems, including the creation of private monopolies in sectors previously under state control, and an escalation of in the level of poverty. Of much concern is the issue that privatizing public services concentrated ownership of utilities, services and resources in the hands of private individuals, while government oversight in these

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<sup>3</sup> Harvey (2005) provides an incisive discussion of the history of neoliberalism. For a review of the implementation of neoliberal policies in Asia, see Hadiz (2006).

sectors was also reduced considerably. The privatization of public services such as healthcare and energy and the water supply has been particularly contentious as it further marginalized the poorer and more vulnerable sections of the population.

Although the ideas on which the developmental state and neoliberalism respectively are built appear on opposite ends of the policy spectrum, both models have deeply influenced policy-planning in Southeast Asia. As in the case of the developmental state, the ideas behind neoliberalism were not applied in their full form, showing how selective the state has been when planning and implementing policy. A common feature of both models was the close nexus between state and business, ostensibly to promote domestic enterprise, though neoliberalism involved reducing, even ending, government intervention in the economy. Another shared trait in both models was the role of the financial sector, but how it functions in these development modes is fundamentally different, specifically in terms of "ownership and control" (Scott 1997). The structure of control and/or ownership of the financial sector is important for determining the nature of state-business ties, including providing insights into the issue of "corporate concentration" (Scott 1997), a core factor contributing to the rapid emergence of huge business groups or conglomerates in Southeast Asia.

In most countries, there is great flexibility and consideration shown by ruling regimes towards the adoption and execution of policy options. Malaysia and Indonesia were widely seen as pragmatic states that have had a mix of developmental state and neoliberal-type programmes, a policy planning route that was similarly adopted by Singapore. In Malaysia, partial privatization has been practiced through the public-listing of major government-owned enterprises, allowing the state to retain control of key sectors, such as the main utilities. In Thailand, a similar mix of neoliberal and interventionist-type policies led to a growing nexus between state and private firms, with increasing evidence of state capture by business, which has continued to influence policy-making and contributed to growing class inequalities (Pongpaichit & Baker 2004).

Neoliberalism has resulted in the shift from pro-poor to pro-business strategies and the growing influence of capital, both domestic and foreign, in terms of policy advice. The spread of democracy from the late 1980s in Southeast Asia led to transitions where power was relocated, from politicians to business elites, further expanding the role of business in policy-making, a factor contributing to a decline in the influence of bureaucratic elites. Neoliberalism weakened the relationship between business, labour and social protection. There was growing emphasis on target-based initiatives to control social expenditure, leading to less social protection. The ascendancy of capital arose mainly with the introduction of neoliberalism, and its implementation in tandem with state-led industrialization contributed to income inequalities with immense corporate concentration.

There is, however, no simple divide between the rise of business and the retreat of the state, as the latter can still be involved in the economy in different ways. Moreover, neoliberal rule touts, not merely the importance of freedom but, also, and increasingly, deregulation. Regulation, however, stifles neoliberal market restructurings such as privatization, practiced by all Southeast Asian governments. Another issue is that in respect of private property, a core

dimension of neoliberalism. However, private property debates serve as a mechanism to justify the securing of state-generated concessions, or rents. Notions of development have become new processes of capital accumulation.

But, here too, fundamental differences prevail in terms of how development plans are dictated and implemented. Powerful states in Singapore and Cambodia can control how neoliberalism functions. The situation in Malaysia, classified as an 'electoral authoritarian state', is more complex because the government and the opposition advocate neoliberal policies, while espousing interventionist policies as well as Islamic-based values, to deal with the repercussions of this economic agenda. Thailand's business elites promote neoliberalism, but are deeply split and at loggerheads with each other over access to state rents, a situation that also prevails in the Philippines. Indonesia is an anomaly as business elites have failed to consolidate control over the state, partly due to the influence of NGOs. These differences have also influenced the forms of business enterprises that have emerged in Southeast Asia.

## **PRACTICES OF CAPITALISM: ENTERPRISE DEVELOPMENT AND STATE-LABOUR RELATIONS**

In Hall and Soskice's (2001) conception of the idea of the varieties of capitalism (VoC), there were only two major types of economies, the Liberal Market (LMEs) and those seen to have Coordinated Markets (CMEs). Countries with an LME framework included Britain, the United States, Canada, Ireland, Australia and New Zealand. The CME countries included Germany (with its social market economy), Japan (characterized by heavy state intervention), the social democracies of the Nordic countries and Switzerland. The primary areas of interest in the VoC literature were issues such as corporate governance, access to finance, inter-firm relations, vocational training and education and employer-employee relations.

This perspective opened a distinctive way for VoC authors to determine the impact of institutions on economic performance. By doing so, they proposed a powerful dichotomy to model the different practices of capitalism. In this approach, co-ordination is the core mechanism that interlocks the relevant actors of the economy – individuals, firms, producer groups and governments. The main institutions of a political economy frame, condition, constrain and define the strategies and the activities of companies from which economic performance will be determined. This led them to argue that comparative advantage was primarily institutionally determined and therefore politically constructed. However, their firm-centred political economy approach regards companies, whose activities aggregate into overall levels of economic performance, as the crucial actors in a capitalist system. These companies serve as the key agent of modification, or adaptation, faced with technological change or international competition.

Those who followed through with a critique of the VoC literature argued that the division of the economies of the world into just two blocs was inadequate. Amable (2003),



for example, identified five models of capitalism, i.e., market-based, social democratic, Asian, continental European and south European. In Amable's (2003) focus on Asia, he noted the idea of a "dominant social bloc" and institutional power conflicts. But even here, inadequate attention was given to the economies of Southeast Asia. In our view, two empirical issues require greater attention in this debate: first, as noted above, a more informed discussion is required about how models of development are conceived and employed by ASEAN countries. Second, how these models that inform forms of enterprise development, modes of industrialization and state-business-labour relations have to be restructured over time. This is imperative, as a variety of business enterprises have emerged in the region. The nature of the state in Southeast Asia determined the primary type of domestic capital to be developed, i.e. large business groups or conglomerates, small- and medium-scale enterprises (SMEs) or state-owned enterprises (SOEs), also known as government-linked companies (GLCs) in some parts of the region. Crucially too, development models have had to change with industrial development and in response to crises. In 2008, following the onset of a global economic crisis that also severely undermined the ASEAN economies, discourses about new development models emerged. Among the issues that also required thoughtful analysis was the need to deal with the problem of an economy stuck in a high middle-income trap. Debates also emerged about education, and curriculum reforms, to equip the young with the skills they required when they entered the labour force in an economy that was subjected to constant, even rapid, transition.

The VoC typology, however, as Witt and Redding (2013: 268), adopting a business systems approach, astutely note, was not designed to encompass Asian countries and that "none of the existing business systems typologies adequately categorises the institutional variations visible in Asia and the West." About Southeast Asia's own diversity, they contend that "compared with the differences between the West and the East, the variations inside the West seem to be minor," and conclude that "the VoC framework clearly falls short" when it comes to understanding this region (Witt and Redding 2013: 299). This variance among ASEAN economies was well-noted by Harada and Tohyama (2012: 246-254) who, having analysed the degree of liberalisation in different markets and the contrast of trade dependence and domestic social protection, classified Malaysia and Thailand as having a system of "Trade-led Industrialising Capitalism" because "liberalization and industrialization steadily advanced and the countries are articulated in the network of world trade". Given their dependence on external trade, in these two countries, public expenditure on education was relatively high, but there was less rigidity of employment and in hours worked. Indonesia and the Philippines were seen as "Insular Semi-agrarian Capitalist" economies, given their lower degree of market liberalisation and were considered as less heavily damaged by the economic crises.<sup>4</sup> Importantly too, as Harada and Tohyama (2012) have stressed, there has been no institutional convergence between these ASEAN countries, with no common orientation about modes of development with, for example,

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<sup>4</sup> These models are distinctive from other Asian capitalisms, namely the "City Capitalism" of Hong Kong and Singapore, the "Innovation-led Capitalism" of Japan, South Korea and Taiwan and the "Continental Mixed Capitalism" of China.

Indonesia and the Philippines having had what they see as “peculiar transitions”.<sup>5</sup> Whitley and Zhang (2013) similarly contend that Malaysia and Thailand have had varying patterns of state intervention with it taking both different forms and, also, different degrees of business coordination of economic activities, including for business groups, SMEs and SOEs in the region.

### **Business groups**

In Southeast Asia, large firms share a number of characteristics such as being dominated by authoritarian entrepreneurial figures and family members, although salaried managers are increasingly common. Other common features prevail: their capital comes predominantly from bank borrowing, much of it from state-owned banks; they have access to selective patronage; and they resort to a conglomerate-style pattern of growth, involving acquisitions and takeovers, and an over-dependence on loans to expand. Though they are conglomerates, these Southeast Asian firms differ considerably from their Northeast Asian counterparts, particularly in Japan and South Korea: in the former there is a lack of capacity to develop an adept technological base and a reputation for branded products. In Southeast Asia, enterprises owned by minority ethnic Chinese could have contributed much more to the region's industrial progress had governments given them greater support, rather than promoting state-owned enterprises as well as a dependence on foreign capital to generate growth.

### **State-owned enterprises (SOEs)**

SOEs are also among the leading private as well as publicly-listed firms, in terms of market capitalisation, in the region. However, the relatively poor presence of Southeast Asian SOEs in manufacturing raises questions about the capacity of the state to cultivate large and competitive enterprises in this sector. As a result, these countries have cultivated foreign capital to encourage manufacturing. SOEs, however, appear to have shown little ability to deal with foreign firms, with whom joint-ventures in the industrial sector have been created. It also appears that in the involvement of these SOEs in joint-ventures, their primary concern was only with advancing industrialisation, not developing entrepreneurial capacity.

### **Small- and medium-scale enterprises (SMEs)**

SMEs have a huge and key presence in all ASEAN economies. State support for SMEs has been a core public policy primarily because small firms across the globe have shown that they are capable of being more responsive to market demands since they are far more flexible and better equipped to engender and adopt innovations. Taiwanese SMEs, for example, offer an outstanding model of small entrepreneurial firms that are highly capable of competing globally. SMEs also serve as key drivers of employment. Given the ASEAN economies dependence on FDI to generate growth, multinational firms have long been seen as a crucial avenue to

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<sup>5</sup> See also Witt and Redding (2014) who note similar trends in these ASEAN countries.

enhance domestic SME development, through beneficial ties such as increasing the purchase of local supplies, upgrading SME management skills, transferring technology, facilitating SME access to capital and markets, and assisting local SMEs to internationalize their business. These linkages would presumably benefit SMEs by lowering transaction costs and providing for greater flexibility to spur local adaptations.

### ***China's rise and changing state-business-labour ties***

Another recent development has to be factored in when discussing Southeast Asia's mode of development and how it shapes enterprise development. This is China's growing trade and investments in the region. Moreover, with China's active implementation of its One Belt-One Road (OBOR) initiative since 2013, this factor also shows how the state functions in an economy. Current ways of doing business involving state-private business ties are changing with the emergence of state-state business ties. Among the key actors in the Southeast Asian economy are China's state-owned enterprises (SOEs) which operate in a diverse range of sectors including in infrastructure development, in industrial parks, in ports and in financial services. These **state-state**-based business ties are being created by strong states, that is China as well as those in Vietnam, Cambodia and Malaysia. Simultaneously occurring in other parts of this region are **state-private** business ties, as well as joint-ventures involving SOEs from China and Southeast Asia and large business groups in this region. New state-business alliances inform how state-generated rents are being created and distributed, suggesting also new processes of capital accumulation and capital inputs. The implications of these different forms of state-business linkages are serious as they can go either way. While some are programmatically driven to foster economic growth, others may be predatory in nature serving the interests of powerful political and business elites. In many cases, both predatory and programmatic modes of development may occur simultaneously. Concomitant with these variations in transnational business links is the role of new types of financial institutions, including the China-based Asia Infrastructure & Investment Bank (AIIB). AIIB has been playing a key role in promoting the OBOR initiative by funding key development projects, another mechanism to link Southeast Asia to China. Abetting this process is the continued heavy reliance of Southeast Asian economies on foreign investments to generate growth, a clear indication that models of development employed in the region require thoughtful review.

## **FDI-LED, EXPORT-ORIENTED INDUSTRIALIZATION AND THE IMPACT ON LABOUR**

Southeast Asian integration in a Japan-led regional division of labour strongly intensified after the 1985 Plaza Accord as labour costs increased, both in Japan, and in the first generation

Asian Newly Industrialized Economies (NIEs). An indicator of the growing importance of Southeast Asia in the regional production system was the substantial increase in FDI flows, particularly to Malaysia, Thailand and Indonesia, from Japan, South Korea and Taiwan (Bernard and Ravenhill 1995; Hart-Landsberg and Burkett 1998; Felker 2003). The inclusion of new countries also represented a qualitative shift in the functioning of regional supply chains. During the previous phase, the relocation to South Korea and Taiwan of labour-intensive production was accompanied by technology transfer from Japan a factor that contributed to industrial intensification and upgrading. FDI flows played a rather limited role, in the regional expansion of the production system especially when compared with the post-Plaza Accord regime (Masina 2018). Since the late 1980s, FDI flows have instead become the primary channel of regional economic integration. From the perspective of the recipient countries, higher reliance on FDI was a coherent outcome of the convergence with neoliberal policies. While Southeast Asian countries did not completely renounce developmental state practices, privatization, deregulation and trade openness became essential elements of a neoliberal policy shift for which attraction of foreign capital was of paramount importance. From the perspective of foreign investors, a higher reliance on FDI allowed for the application of new managerial and technical strategies, i.e. total quality manufacturing, just-in-time lean management of stock, etc. Lead firms moved to industrial parks in Southeast Asia followed by their traditional suppliers, often replicating within an industrial park, or Special Economic Zones, the supply chains they had created at home.

Large FDI inflows in the late 1980s and early 1990s contributed to high GDP growth, helping to create the expectation that the region had embarked on a process of sustainable growth that would replicate the successful experience of the first generation Asian NIEs. Indeed, a famous World Bank study not only suggested that Indonesia, Malaysia and Thailand were part of an *Asian Miracle*, but even proposed that they could be a better model for other developing countries than market-distorting South Korea and Taiwan (World Bank 1993). The arguments presented by the World Bank in its study were immediately called into question by a number of authors and from different perspectives (Krugman 1994; Amsden 1994; Wade 1996). However, it was the regional economic crisis of 1997-98, and the lower growth rates experienced since then, that shattered the *miracle* dream for Southeast Asia. The same World Bank that had promoted the development model based on FDI-led industrialization had to propose an explanation for the lower-than-expected economic outcomes.

This explanation was provided in terms of a *middle-income trap* faced by those countries that had previously been presented as role models. Although the middle-income trap argument was never translated into a coherent theory (Glawe & Wagner 2016), its main thrust was that these countries had come to be exposed to competition from other nations with lower labour costs, while being unable to move to more value-added production (Gill & Kharas 2007). This argument, however, risks obscuring the root causes of the problem as it intentionally does not address the conditions of dependency that an industrialization model that is highly reliant on foreign capital inevitably produces (Masina 2018). In fact, the experience of thirty years of close

engagement of Southeast Asia in regional production networks reveals a strong dependence on foreign capital, technology and management that constrains the ability of national firms to climb the value-added chains in production networks. This dependence was certainly made more severe by the inability of national governments to promote industrial upgrading policies; in other terms, to pursue transformative projects similar to those successfully implemented by first generations Asia NIEs (Weiss 1995). However, the model based on FDI-led industrialization proved to be inherently inimical to industrial upgrading: backward and forward linkages with national firms remaining in general very limited, to the point that FDI was seen as an *alternative to, rather than a channel of,* technology spill over (Masina & Cerimele 2018). While significant variations existed across countries and industrial sectors, a general trend emerged: Southeast Asian countries remained trapped into labour-intensive and low value-adding production.

This project explores two important outcomes of Southeast Asian FDI-led/ export-led development models. The first outcome involves the process of industrialization itself. A close integration in regional production networks has resulted in the establishment of significant industrial bases in practically all countries. The model has been replicated to transform Vietnam into a major manufacturing hub in garment, footwear and more recently electronics. Cambodia has become an important location for garment manufacturing, while Laos and Myanmar are following the same path. The FDI-dependent model, however, has contributed to less-than-desirable results, both in terms of *quantity* and *quality* of industrial development. Southeast Asian countries, with the exception of Singapore and to a certain extent Malaysia, have not succeeded in closing the gap with the North to achieve industrial maturity. The weight of manufacturing on GDP never attained levels that characterized the transformation of a country into an industrialized one. The same pattern is revealed by the percentage of workers engaged in industry: ILO statistics indicate that this percentage remained at around 20 percent in Thailand, Indonesia and Vietnam. The Philippines never surpassed 15 percent. Only Malaysia went beyond a 35 percent rate, thanks also to the presence of a large number of international migrant workers (Masina & Cerimele 2018).

As the figures quoted in the preceding paragraph suggest, there is a need to further investigate the nature of so-called industrial development in the region and the type of employment it creates. Our focus is, therefore on the second outcome of the current development model involving the quality of industrial employment and the livelihoods of industrial workers. From a historical perspective, working and living conditions have never been idyllic in the early stages of industrial development. Hard exploitation and harsh working conditions were significant features of late industrialization in the Asian NIEs. However, as these countries climbed the ladder in the value-added chains, benefits 'trickled down', typically in paternalistic forms, to industrial workers. Nevertheless, a large number of people were permanently lifted out of poverty. New industrial workers settled permanently in fast expanding industrial towns and were able to raise their families there. Increase in productivity also translated into higher industrial wages, which in turn supported the expansion of national markets and a further expansion of the economy. The FDI-led industrialization model adopted by Southeast Asia after the Plaza Accord

seems to have departed from the industrialization pattern that characterized the experiences of Western countries, Japan and the Asian NIEs. Industrial production was concentrated in industrial parks and special economic zones normally located in peri-urban areas. A large part of the industrial labour force was – and still is – composed of migrant workers (foreign migrants, as in Malaysia and Thailand, or national migrants, as in Vietnam and Cambodia) that only remained in industrial areas (and indeed in industrial employment) for a limited number of years; industrial employment was a temporary phase in life trajectory.

As industrial parks were remotely located away from major cities, industrial employment did not engender an experience of urban life (Rigg 1997). This pattern was clearly confirmed by the research conducted during the previous SEATIDE project through a large-scale study of working and living conditions in the industrial parks of the Red River Delta (Do 2015; Cerimele 2018). Further comparative research is needed to evaluate to what extent this model has remained a characteristic feature of industrial development in Southeast Asia. The hypothesis here is that a model involving workers moving in and out of industrial employment is highly compatible with FDI-led, export-oriented industrialization. As living costs tend to be higher in industrial areas, a disjunction between industrial production and reproduction of the labour force, militates in favour of a practice of maintaining wages at a minimal level. The workers' limited savings allow them only to support their households in rural areas (or in poor home countries, for international migrants) given that raising a family in industrial areas would be far too expensive. Circulatory migration in and out of industry contributes to a pattern of semi-proletarianization that is quite consistent with semi-industrialization in peripheral countries (Masina & Cerimele 2018).

## **LABOUR MOBILITY ACROSS DIFFERENT REGIMES AND SOCIAL SECURITY FRAMEWORKS**

At all its stages of development, implementation and transformation, industrial labour is intrinsically connected to human mobility. In contemporary Southeast Asia, in different times and through diverse local and global industrial policies, migrant industrial work has created a vast array of life settlements and social organizations. They range from now gentrified but former industrial cities, like Penang (Malaysia), to isolated industrial parks such as those studied by Cerimele in Vietnam (Cerimele 2018), to dedicated hubs such as Batam (Lindquist 2009), to large portions of a megalopolis such as Greater Jakarta (Warouw 2008, Tabacco 2014). Parts of Southeast Asia are also familiar with de-industrialization, especially when related to extractive plants, as in Lhokseumawe (Indonesia), or to model urban conglomerations like Penang. Patterns of mobility can lead to permanent settling but, increasingly often in neo-liberal economies industrial workers, agribusiness labourers included, are supposed to be conventionally and adequately employed only during the most productive part of their lives (Vignato 2018b, Cerimele 2018). They then, subsequently, disappear from the industrial, or regular, working scene afterwards. “Circulatory migration” (village to industrial settings/agribusiness and back,

city to working site and beyond) can thus be regarded as a typical life-cycle as it typifies a large part of salaried unskilled workers throughout the region (Lin, Lindquist, Xiang, & Yeoh 2017). The term, “circulatory”, describes the movement as a constant or anyhow intentional “going back to origins”, but this too is an ideal often denied by the grassroots reality. Research has shown that material and moral poverty in rural settings often causes migration (Alcano 2018, Masina & Cerimele 2018, Vignato 2018b). Nevertheless, a high ‘precarization’ of residence and employment is often justified in public discourse and policies by the idea that “villages”, as hypothetical native sites of tradition, solidarity and kinship. They are therefore places where the migrant workers’ “real” life is steadily happening, where they will eventually “go back” to when sick, old, pregnant or too poor to survive alone. “Village” welfare has indeed been an important segment of overseas migration with remittances being an important feature, but the situation varies enormously across the region. In many countries, including Malaysia, Indonesia and Thailand, a second to third generation working class now live side by side with foreign labourers. Nooteboom (2016), moreover, has shown how, for Indonesia, “informal welfare” even at the village level requires long-term investment in order to function optimally.

As Langer and Højlund have underlined, welfare is not “a static or monolithic concept but (...) a set of shifting and diverse practices of disparate agents that include individuals, communities and organisations” (2011: 1). These authors suggest that welfare needs to be analysed as a space of security that a person creates by moving discontinuously through his/her life while, giving the impression of a continuous trajectory, if only because the individual concerned stays alive. From such a perspective, a bottom-up qualitative research method is appropriate in order to enquire about the unseen parts of unskilled workers’ life practices and ideals of a good life. Seen closer-up, their lives are more complicated, organised and creative (or destructive) than they appear, if observed only through the lens of their working status or work place. Research has shown that workers plan their well-being, or welfare, through time and space and their industrial or other formal job are most often just a part of this whole (Warouw, 2008; Noteboom, 2016). It is vital, then, to gain a grounded and long-term, trans-generational view of their practices of welfare.

Based on this hypothesis through extensive fieldwork, we will focus on how unskilled workers - groups of workers, unemployed people, former workers, retired or old workers, formal workers, informal workers, migrant workers, “illegal” workers, unpaid workers - conceive of their personal security and well-being, as well as that of their kin (ascendants-descendants-differently related). The purpose is to examine an inter-face with any kind of available welfare, whether state organized, charity-based or grounded in networking, individualized or kinship-based and kinship-oriented. The idea at the foundation of “welfare states” is that of trans-generational solidarity. The symbolized link between generations is what makes kinship an excellent informal structure of welfare, too. Questioning the practices that inform unskilled labourers’ long-term welfare plans is then at the basis of this ethnographic section. Southeast Asian countries have a varied historical experience when it comes to the ideological inspiration of their welfare policies (Croissant 2004). All of them are, at present, working on liberal-



oriented welfare structures. In a bottom-up approach, it is important to include the main local ideas inspiring such policies, particularly as countries like Indonesia and Malaysia are centring a large part of their political discourse and development on systems of universal health care and active anti-poverty strategies.

## **WHAT THIS STUDY PROPOSES TO DO**

Each module of WP2 includes research activities carried out by individual scholars or research groups. Some of these research activities address themes covered by more than one module.

### **Edmund Terence Gomez (University of Malaya)**

#### ***Southeast Asia: Development models and the rise of China (module 1)***

This study will focus on two core issues: models of development employed in the region and the growing presence of China's SOEs and private firms in Southeast Asia after the implementation of the Belt-Road Initiative (BRI) in 2013. The development models that have been adopted have undoubtedly led to major transformations in Southeast Asia, including the rapid industrialization of the region and the growth of a vibrant middle class. These transitions have, however, begun to be re-shaped by the growing presence of China in the region. The focus of one aspect of this study is on foreign investment by China in Southeast Asia and the implications of this for economic and technological development. Another segment of this study traces the employment of SOEs by the governments of China and the Southeast Asian countries, specifically in Vietnam, Malaysia, Thailand and Indonesia, to facilitate investment flows that include privately-owned ethnic Chinese capital. This study will devote much attention to business development and the methods deployed by the state to link private and public capital, including through SOEs, in order to raise investments for infrastructure and technological development projects.

### **Hege Merete Knutsen (University of Oslo) and Do Ta Khanh (VASS)**

#### ***Vietnam: The corporatization of State-Owned Enterprises (module 1)***

Their study reviews the transitions occurring within a major component of Vietnam's corporate sector, the SOEs. What is obvious here, is that with the corporatization of SOEs there is an associated attempt to introduce neoliberal modes of enterprise development within the state's economic and enterprise development agenda, drawing attention again to the creation of a 'socialist market economy'. Through this review of the SOEs, insights are sought into the institutional transformations occurring within the state, as well as the contradictions emerging from a mix of interventionist and market-driven models of growth.



**VGR Chandran (University of Malaya)**

***Malaysia: Models of development in the process of industrialization (module 1)***

This study deals with models of development, from neoliberal to interventionist, during the process of industrialisation and driven by ties created between domestic and transnational enterprises. In this study, the focus is on the role of the state, through policy interventions, to achieve economic growth that is equitable from a spatial dimension. This study involves a review of the regional economic corridors actively promoted by the state in Malaysia. These corridors also serve to achieve socioeconomic and enterprise development objectives, including by drawing in FDI that will nurture global production networks - and reduce the spatial divide - by linking rural SMEs to foreign markets.

**Arve Hansen (University of Oslo)**

***Vietnam: Agricultural policy and the emergence of an 'industrial grain-oilseed-livestock complex' (modules 1 & 2)***

This research project covers issues straddling Modules 1 and 2, beginning with an assessment of the Vietnamese state's endeavour to mechanise and upgrade the agriculture sector with a focus on the meat and livestock sub-sector. This study, employing the concept of 'meatification', seeks to determine if an 'industrial grain-oilseed-livestock complex' is emerging. This issue is then linked to changing agricultural policies aimed at fostering the rise of corporate large-scale farming comprising also shareholders, an issue that is tied to that of private land accumulation. This could lead to new inequities, in terms of inequitable distribution of land. The implications of this mode of enterprise development is assessed within the context of the state's 'socialist market economy', an important mode of socioeconomic development. The tenets of the 'socialist market economy' require thoughtful analysis given the need to consider equitable models of development.

**Pietro P. Masina (University of Naples L'Orientale)**

***Indonesia, Malaysia, Thailand and Vietnam: FDI-led industrialization and working conditions in comparative perspective (module 2)***

An expansion and intensification of the regional division in Southeast Asia transpired after the mid-1980s (after the Plaza Accord). Thailand, Malaysia, Indonesia, and later on Vietnam, were increasingly integrated in regional production networks on the basis of FDI-led, export-oriented industrialization strategies. The impact of these strategies was different in different countries and industrial sectors. However, previous research suggests a number of critical elements that require further investigation from a wider comparative regional perspective. First, the involvement in regional production networks gave a more limited contribution than expected to industrial upgrading and structural change. Foreign investors generally replicated their traditional supply chains within new industrial parks in host countries, with a very limited involvement of local firms. Second, in the post-Plaza regime, industrial employment did not result

in a permanent movement to industrial centers but remained largely limited to a temporary phase of workers life trajectory. The proposed research will explore the modalities of industrial diffusion in Indonesia, Malaysia, Thailand and Vietnam through the study of a selected panel of industrial parks / economic zones. The work will be based on the study of secondary literature, primary data providing key indicators for each park, and interviews with key informants.

**Michela Cerimele (University of Naples L'Orientale)**

***Vietnam: Labour and labour conflicts in industrial parks (module 2)***

Since the 1990s, Vietnam has increasingly relied on an export-oriented industrial development strategy, one largely dependent on FDI. This strategy led to the creation of industrial parks aimed at attracting FDI in labour-intensive production of garments, footwear, food processing, and, in recent years, electronics. Previous research has revealed two main features of this strategy. First, while industrial parks contributed to employment for redundant rural labour, they did not support a sustainable structural transition towards an industrial society. Second, while FDI-led industrialization occurred with modalities that were intrinsically inimical to labour, the space for contestation (such as strikes) remained much more significant than in other countries of the region. This study will be based on further investigation in a selected panel of industrial parks in the main industrial areas of North, Centre and South Vietnam. This panel will be identified selecting parks created at various stages of the national economic reforms to study how different legal and institutional frameworks had an impact in terms of industrial development models and working conditions.

**Evelyn S. Devadason (University of Malaya)**

***Malaysia: FDI, industrialization and labour market (module 2)***

This study reviews the nexus between FDI, labour and industrialization on the important grounds that there is still no consensus on the underlying causes of the change in the structure of labour demand across countries. The impact on labour demand more specifically, however, varies across countries, depending on the nature and structure of the market. A study is provided of the Malaysian labour market, one which is highly integrated through FDI and labour flows, while also riddled with problems such as the presence of a huge migrant worker force, low labour absorption, wage stagnation and poor quality of labour. These issues are reviewed within the manufacturing sector through an assessment, in particular, of industrial policies and the emergence of trade agreements such as the proposed Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) which include labour provisions that can shape differently FDI-labour-employment practices. This study seeks to provide crucial policy insights into the outcomes of international and regional trade agreements on the well-being of labour.

### **Nguyen An Ha (VASS)**

#### ***Vietnam: Impact of FDI and trade agreements on occupation and working conditions (module 2)***

This study of the impact of FDI, as well as bilateral and multi-lateral trade agreements, on labour in Vietnam, covers issues under module 2. Bilateral and multi-lateral trade agreements involving ASEAN, the United States, Japan, China, South Korea and Chile will be assessed. A comparative analysis of FDI provisions in these different agreements will be undertaken through a case study of one province, Hai Duong. Such a study offers important insights into the impact they have in changing outcomes through a sectoral focus, covering areas from agriculture to manufacturing, which in turn has simultaneously led to rising incomes and growing unemployment. Such outcomes have resulted in new inequities including widening income disparities. From this review, policy and regulatory recommendations involving FDI should emerge, specifically in terms of promoting policies aimed at increasing employment.

The research will aim at reconstructing the recent history of Vietnamese FDI-led industrialization through a bottom-up compilation of micro-histories of a selected number of industrial parks. The focus will be on the processes and policies that led to their establishment, their evolution over time, employment patterns, working conditions, and the nature of industrial disputes. The research will be based on an initial literature review, primary data, and interviews with key informants.

### **Tuan Pham (VASS)**

#### ***Vietnam: Labour legislation and working conditions in foreign-invested companies (module 2)***

This study will analyse the impact of labour legislation in foreign-invested firms with a specific focus on the garment and electronics sectors. Based on case-studies in industrial zones, the research will assess how current legislation is able to mitigate working conditions that previous studies have demonstrated to be particularly harsh by international standards. The case-studies will enable, not only an assessment of the quality of the current legislation, but also its concrete application. The industrial workers' limited awareness of their legal rights and widespread violations of legislation (e.g., on the maximum amount of extra-time to be worked) are major areas of concern, especially given that the vast majority of industrial workers in the garment and electronics industries are young migrant women with little or no previous exposure to formal employment.

### **Vu Ngoc Quyen (VASS)**

#### ***Vietnam: Circulatory migration from rural areas to factory work – and beyond (module 2 and 3)***

This study reviews the mobility of workers from rural areas to the foreign-controlled firms typically found in industrial parks. Previous studies, both on Vietnam and other countries in the region, indicate that for many workers the period of industrial employment is limited to

about a decade, after which these workers move again in a process of “circulatory migration”. So far very limited information is available on the livelihoods of these workers after they leave industrial employment. Are they able to return to their villages and find new job opportunities there? Does their experience as factory workers provide them with skills that they can use in non-farming activities in rural areas? Or do they migrate again to find jobs in the informal urban sector? These questions regard not only the ability to secure an income for the present but also the search for longer-term well-being, including the intra-generational dimension.

**Dennis Arnold (Universities of Amsterdam & Naples L’Orientale)**

***Cambodia: Stunted Development and the Labour Geographies of Debt (modules 2 & 3)***

Across much of the Global South, low-value added manufacturing remains central to development planning and employment opportunities. For many, the transition to well remunerated work options remains elusive. Furthermore, a startling trend is that many workers in developing countries increasingly accumulate debts in order to participate in labour markets in light manufacturing, finding sufficient livelihood options in neither industrial employment nor in agriculture. Indeed, the wage labourers’ footholds in rural areas continue to take precedence over the apparent economic attractions of leaving the countryside altogether, and the precarity of wage work, the absence of comprehensive social protection/social welfare systems, and cultural attachment to homelands all figure prominently. Smallholders thus tend to supplement household incomes via labour migration, yet, due to the seeming perpetuity of precarious, low-value added economies, earnings are insufficient and small landholdings persist. Building on these lines of inquiry, the project addresses the ways in which precarious employment in key manufacturing sectors (i.e. in non-farm work) ripples back to the farm not only spatially and sectorally, but also socially in terms of the inter-generational transmission of livelihood risk. Focusing on case studies in Cambodia, the limited positive (individual, familial, national) developmental impact via labour market participation is the line of inquiry guiding the project. The objective is to study spatially extended labour regimes that comprise workplaces and households.

**Silvia Vignato (Università di Milano-Bicocca and Naples L’Orientale)**

***Indonesia: Unskilled labour, sexuality and the onset of a Universal Health Scheme (BPJS) in Aceh***

The first research project builds on a previous study and seeks to analyse how unplanned pregnancies are dealt with by young unskilled precarious labourers in Banda Aceh. It looks into the articulation between informal and formal welfare and takes into account medicalized and traditional ideas of pregnancy, abortion and life responsibility.

### ***Deindustrialization and reindustrialization in North Aceh: a visual approach***

The second research project, which also takes as the focus of its case study, labour and life plans in Aceh seeks to analyze the friction between large-scale extractive industries (gas plants) in North Aceh and the small local industries such as fish-drying, brick kilns and garments. The subject is addressed through filming as the most potent way of addressing landscapes and individual life solutions. The result will be a 52 minutes ethnographic film which will be made available online on the project website.

### **Giuseppe Bolotta (ARI, NUS & University of Naples L'Orientale)**

#### ***Thailand: Fish, children & faith-based welfare: Politics of life in Samut Sakhon (module 3)***

This study will focus on the relationship between global capitalism, irregular ethnic labour and religion-based welfare in the Thai coastal province of Samut Sakhon, Thailand's capital of the fishing industry: a multi-billion-euro business shipping cheap tuna and shrimps to European, American and Japanese middle-class-oriented markets. Migrants from Myanmar, Cambodia and Laos are involved in slave-like working conditions in Samut Sakhon's factories and processing plants. Ethnographic research will be undertaken to study workers and their children's everyday life, as well as inter-generational care, strategies of self-protection and ethno-linguistic adjustments. The research will examine the role of faith-based organisations and informal welfare in Thailand's maritime landscapes of "exception" and "partial citizenship". The objective is to trace how the life of migrants is differently configured at the crossroad of Thai nationalism and seafood markets, international humanitarian concerns and religious predicaments.

### **Lai Wan Teng (Universities Sains Malaysia & Naples L'Orientale)**

#### ***Malaysia: Informal networks of migrant workers (module 3)***

This is a two-fold study. The first part entails a novel review of the everyday lives of migrant workers in the highly industrialized state of Penang in Malaysia. A review is provided here of the informal networks created by these migrants, as a means to sustain their well-being in a foreign environment while also attempting to integrate into local society. These modes of mutual support include forming ad-hoc-based groups for the monthly rotation of savings, helping each other in times of need and sharing information about potential jobs as well as opportunities to secure a second job. A second study analyses the phenomenon of 'airplane jumping', a term used in reference to Malaysians who have worked abroad illegally, in highly industrialized countries in North America, Britain, Australia and more recently in South Korea. These people - working class and lower-middle class Malaysians with little higher education - similarly rely on informal networks when abroad though attention is given here to their reintegration strategies.

**Giacomo Tabacco (Universities of Naples L’Orientale & Milano Bicocca)**

***Indonesia: Labour, health and socio-ecological transformation in Batam (module 3)***

This study has a three-fold focus involving an assessment of the intersections between capital, work and the circulation of workers; the relationship between work and health; and socio-ecological transformations. This study is situated in the province of Kepulauan Riau in Indonesia, chosen because it constitutes part of the “Indonesia–Malaysia–Singapore Growth Triangle” and includes Batam, an important industrial centre and an established regional “mobility hub” for Indonesian migrant workers and FDI. What is important to note is that while processes of industrialization prevail in Riau, this province should be seen as a “mixed hub” featuring also stop-and-go projects by the state and companies, a factor contributing to temporary employment, progressive informalization of labour, shadows of illegal work, rising poverty and socio-ecological degradation.

**Antonia Soriente (University of Naples L’Orientale)**

***Indonesia: Impact of ‘development’ in Punan villages in Kalimantan (module 3)***

This research revolves around the lives of two groups of former hunter-gatherers, the Punan Semeriot and Punan Dulau, belonging to the same group, the Punan Bulusu’ as they are defined in ethnolinguistic way. In both cases these Punan have left most of their culture and habits of nomadic people and practice basic agriculture. Despite the fact that they have been provided with some government aid, they have not been able to be totally integrated and do not have the economic power to engage in business, or to improve their social status. This study assesses how much, and to what extent, the proximity of these two Punan groups to the city and to new means of economic growth have changed their social structure. Women are the second point of interest in this study as they are the only inhabitants, together with elderly people and children, in the village as men have moved elsewhere to look for temporary jobs in logging companies or in the informal sector.

## **CONCLUSION**

Underpinning the strengths of WP3 is its inter-disciplinary nature, involving researchers in the disciplines of economics, political economy, anthropology and history. Our understanding of development departs from the observation that it is embedded in complex legal, political and economic structures. These structures are often forged with the hand of corporate influence, although the situation is becoming more complex with the presence of increasingly strong states, coupled with China’s growing influence in the region. At the same time, social processes are also shaped by the grassroots actions of people trying to cope with challenges and opportunities in different ways, including through migration and complex livelihoods strategies. This WP explores

the impact of national policies and regional processes on economic development and poverty reduction. It involves an assessment of macro practices from a micro perspective, for instance, by looking at working conditions and labour rights in new regional manufacturing hubs.

Southeast Asian countries share two interrelated features: the desire to develop entrepreneurial domestic firms, with the state intervening in the economy to achieve this goal. However, and crucially too, changes in the model of development are occurring, a factor that will recalibrate the arena of struggle involving state, business and labour. The demand for increased FDI is further contributing to these struggles that are occurring in the region, leading to what is seen as an 'uneven development trap', one that traps the labour force in precarious circulatory migration and, thus, undermining social stability. Multinational firms differentially engage with the state as well as with domestic firms and labour, depending also upon where they come from, a core factor that can determine a country's ability to effect industrial upgrading and improve its firms' position in global production chains. For example, the way state-led enterprises from China operate in the region varies remarkably from the way firms from the rest of East Asia, as well as North American and Europe, function in Southeast Asia.

What our research will strive to uncover is how an equitable model of development can be created, one where the role of domestic firms such as business groups, SOEs and, in particular, SMEs, can be harnessed to help nurture a process of progressive change, one that acknowledges and respects labour rights. Our comparative analysis of ASEAN countries with differing levels of development will, firstly, allow us to assess the developmental role of the state. Secondly, we will determine and review how the heterogeneity of firms that operate in the region shapes industrialisation and rural transformation. The focus on development models will also, thirdly, allow us to assess how countries deal with the new challenges for social security, contributing to the debate on new policies and instruments to protect the well-being, and rights, of labour.

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