



Malaysia Economic Monitor

Immigrant Labour

The MEM aims to support the GoM in its efforts to improve the management of foreign workers

Part I: Why is migration important to Malaysia's economy?

- The link between migration and economic development
- The structural factors behind immigration in Malaysia

Part II: Patterns of immigration

- Descriptive analysis using LFS and administrative data

Part III: Economic costs and benefits of migration

- Labor market impacts
- Other economic impacts

Part IV: Assessing the Malaysian immigration system

- Description of challenges and introduction of international practices

Part V: How can Malaysia improve its immigration management in line with its economic objectives?

Immigrant labour contributes to Malaysia's development

Immigrant workers have relaxed key constraints

- Relatively open immigration policy reassured investors they could benefit from Malaysia's infrastructure and business environment while accessing lower-cost labor
- Migrants have allowed manufacturing to remain relatively competitive even as the commodity boom put pressure on real effective exchange rate
- Locals' education has improved as immigrant workers have taken low-skilled jobs

Economic modelling suggests that immigration to Malaysia has direct positive impacts on GDP

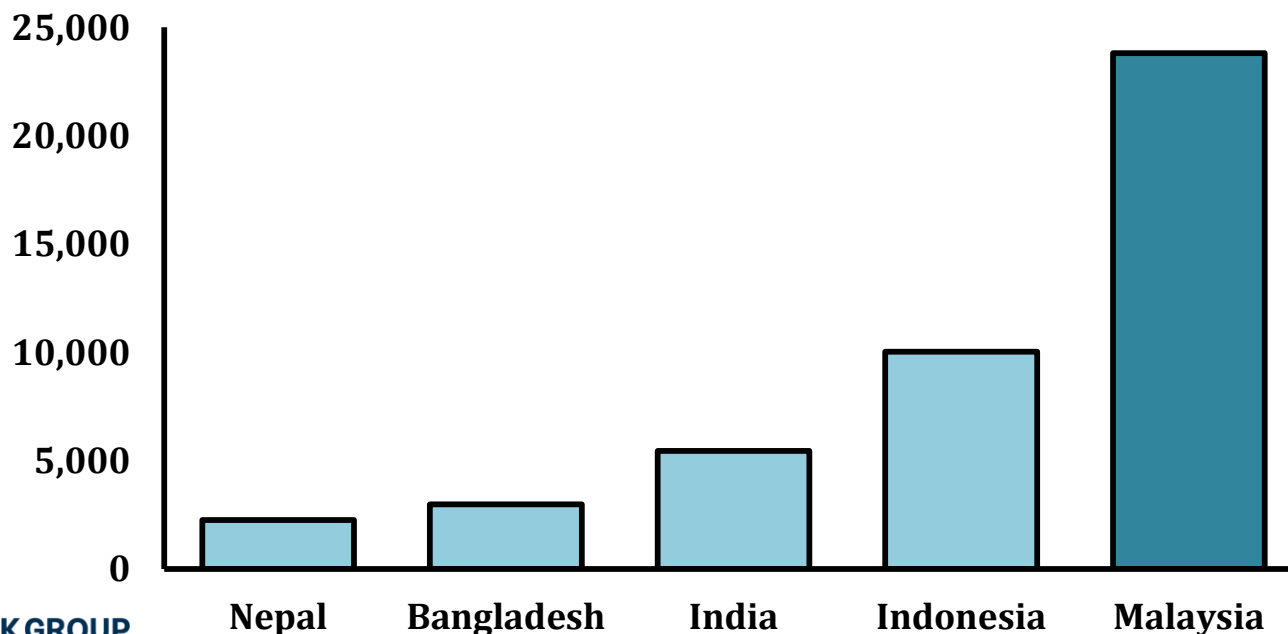
- A 10% net increase in low-skilled immigrant workers increases GDP 1.1%
- Potential channels: employment, wages, fiscal, technological change
- Similar evidence for Thailand and Singapore

Immigration to Malaysia is a structural phenomenon

Large intra-regional disparities drive migration

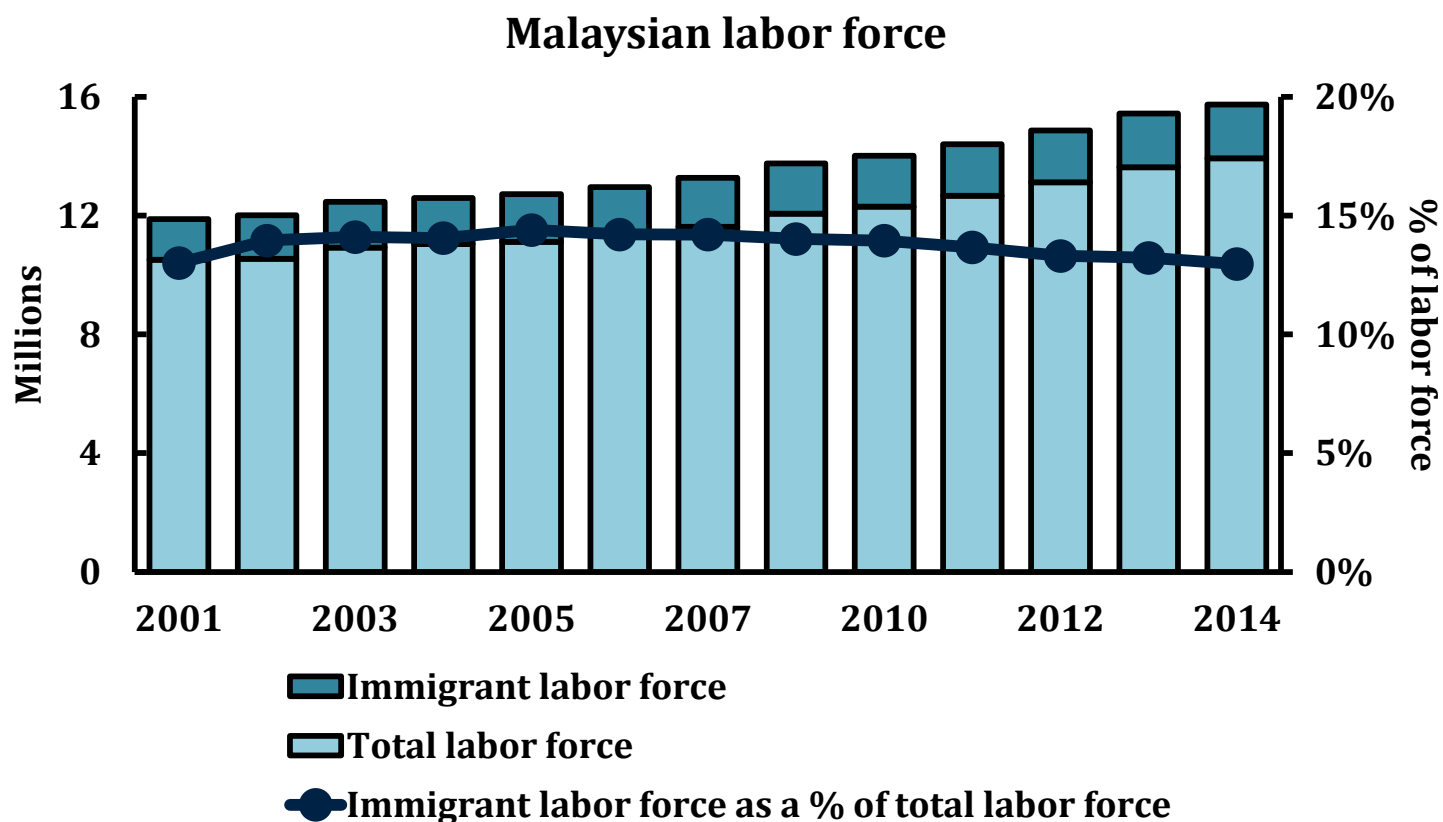
- GDP per capita
- Wages (USD609 monthly in Malaysia versus USD174 in Indonesia in 2011)
- Ageing (more important in the future)

GDP per capita (PPP) of Malaysia and its main sending countries



Foreign workers make up about 13% of the labor force

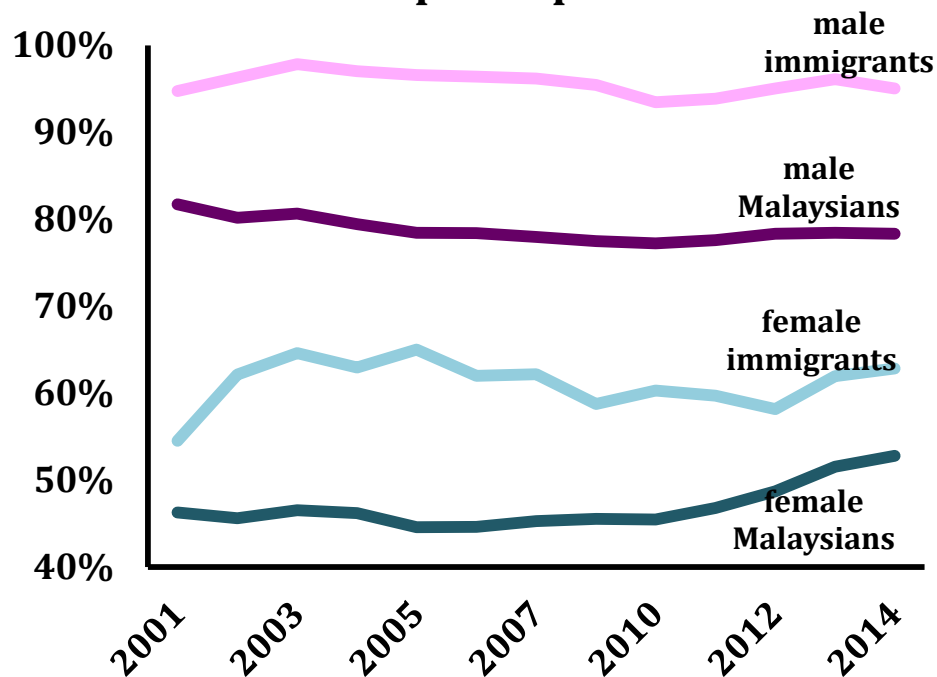
There are 2.1 million registered migrants and likely more than 1 million undocumented migrants in total



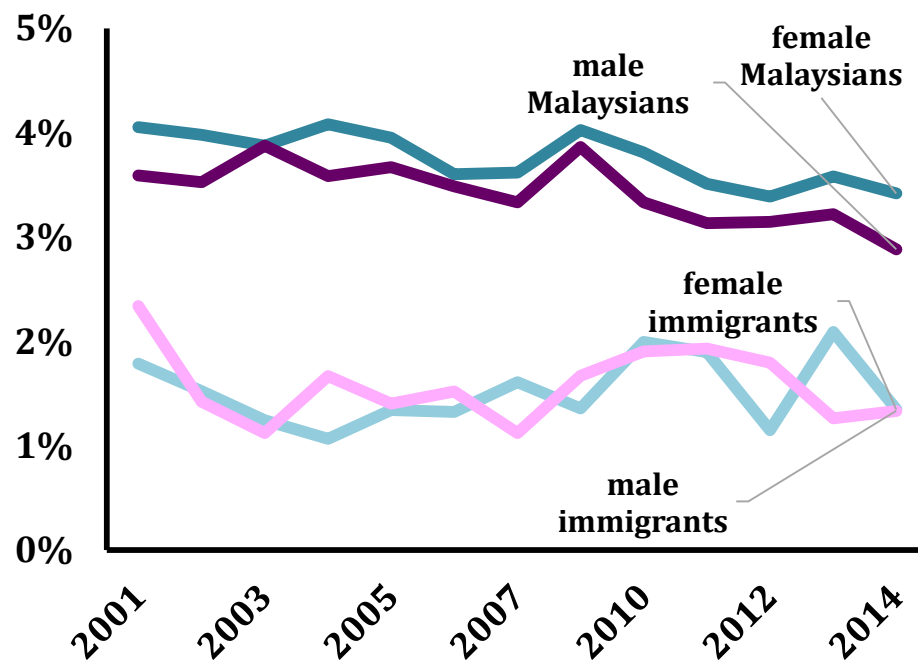
Immigration to Malaysia is mainly economic

Most immigrants participate in the labor force and are employed

Labor force participation rate

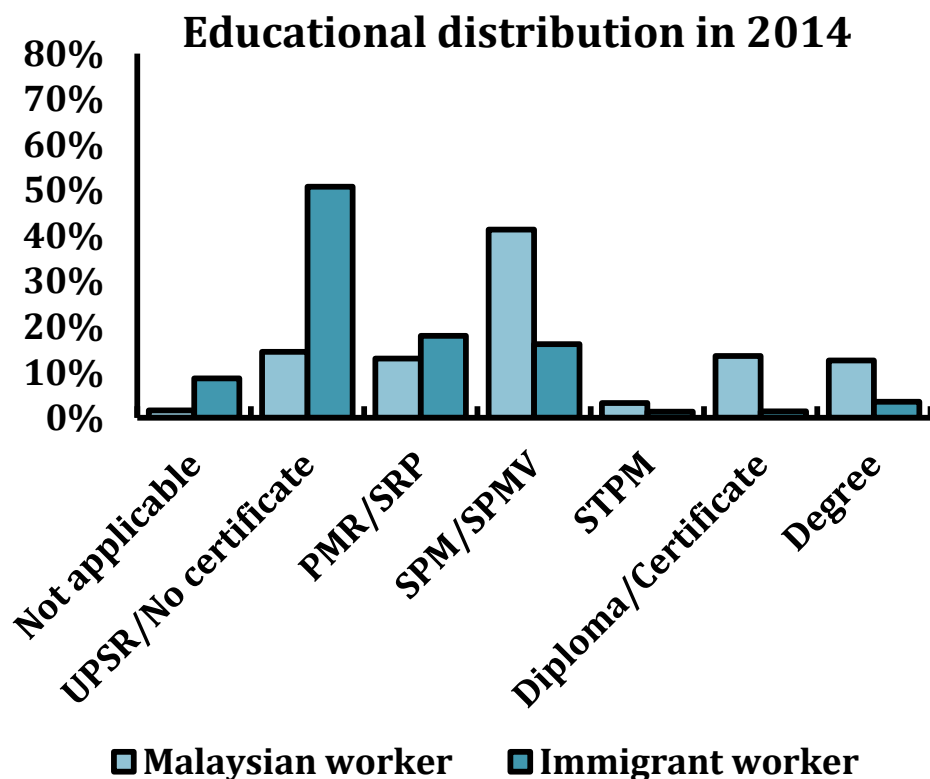
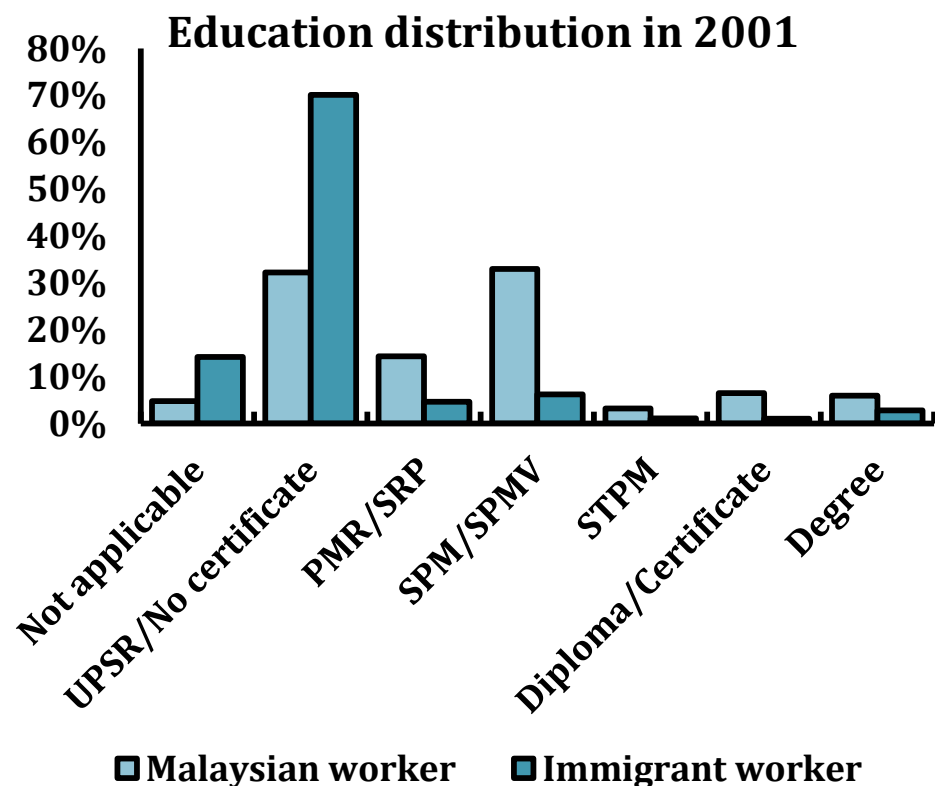


Unemployment rate



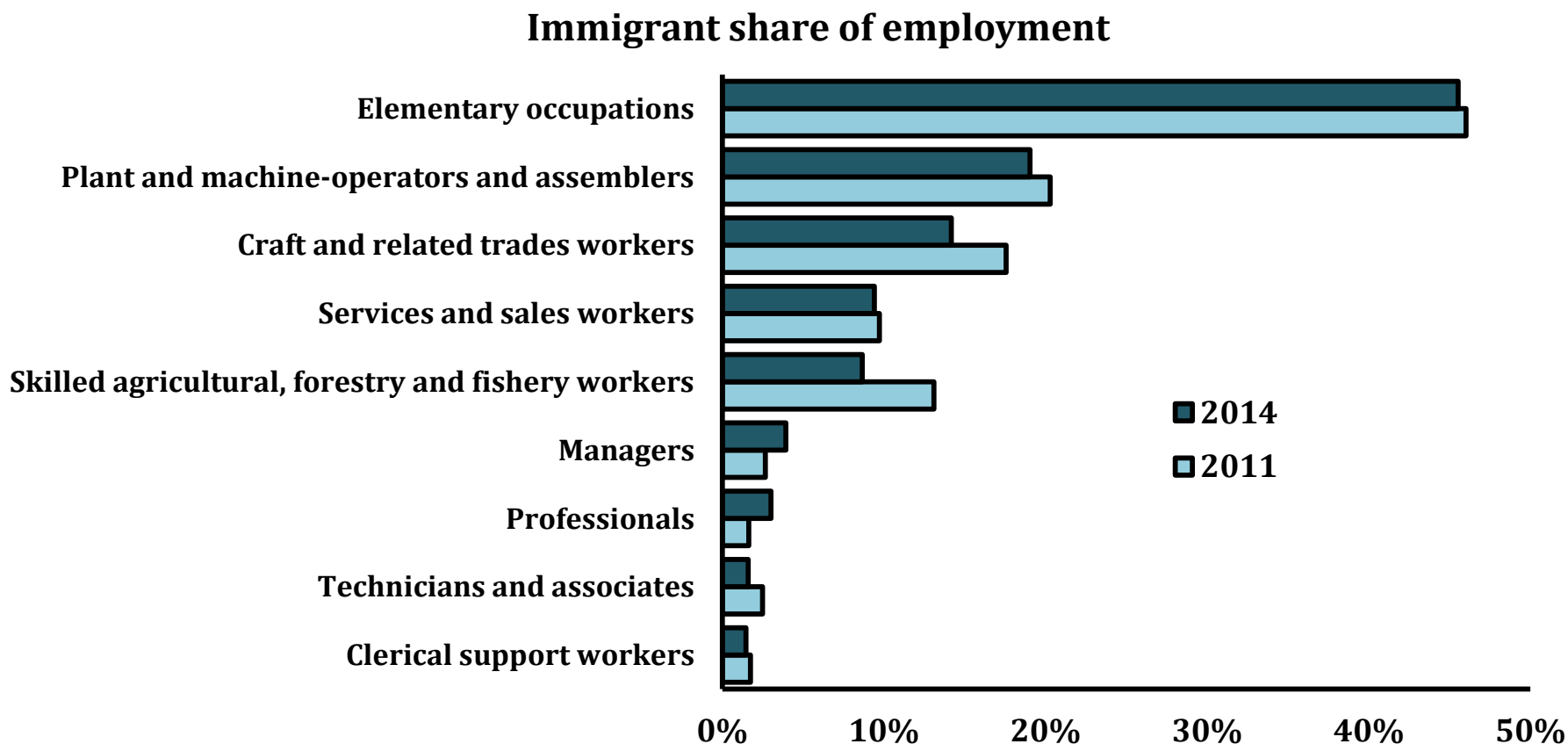
Malaysians are much better educated than immigrants and this gap has increased since 2001

Most Malaysian workers are now secondary- or tertiary-educated



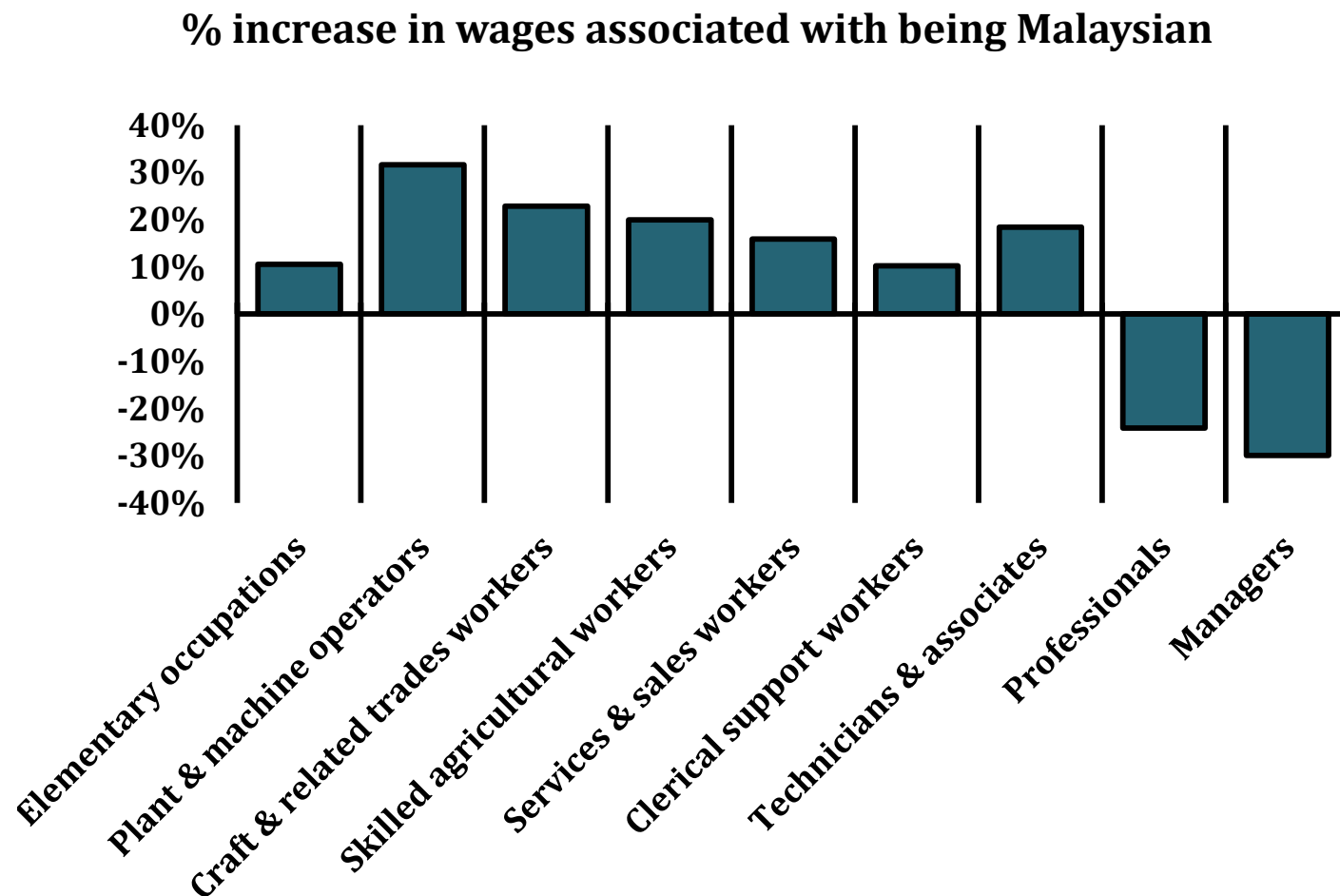
Immigrant workers are concentrated in low-skilled occupations

Immigrant workers represent just under 50% of workers in elementary occupations



Local workers earn a wage premium over immigrants

This is true for all but the highest-skilled occupations



The impacts of immigration to Malaysia

Economic modelling suggests that immigration to Malaysia has direct positive impacts on GDP

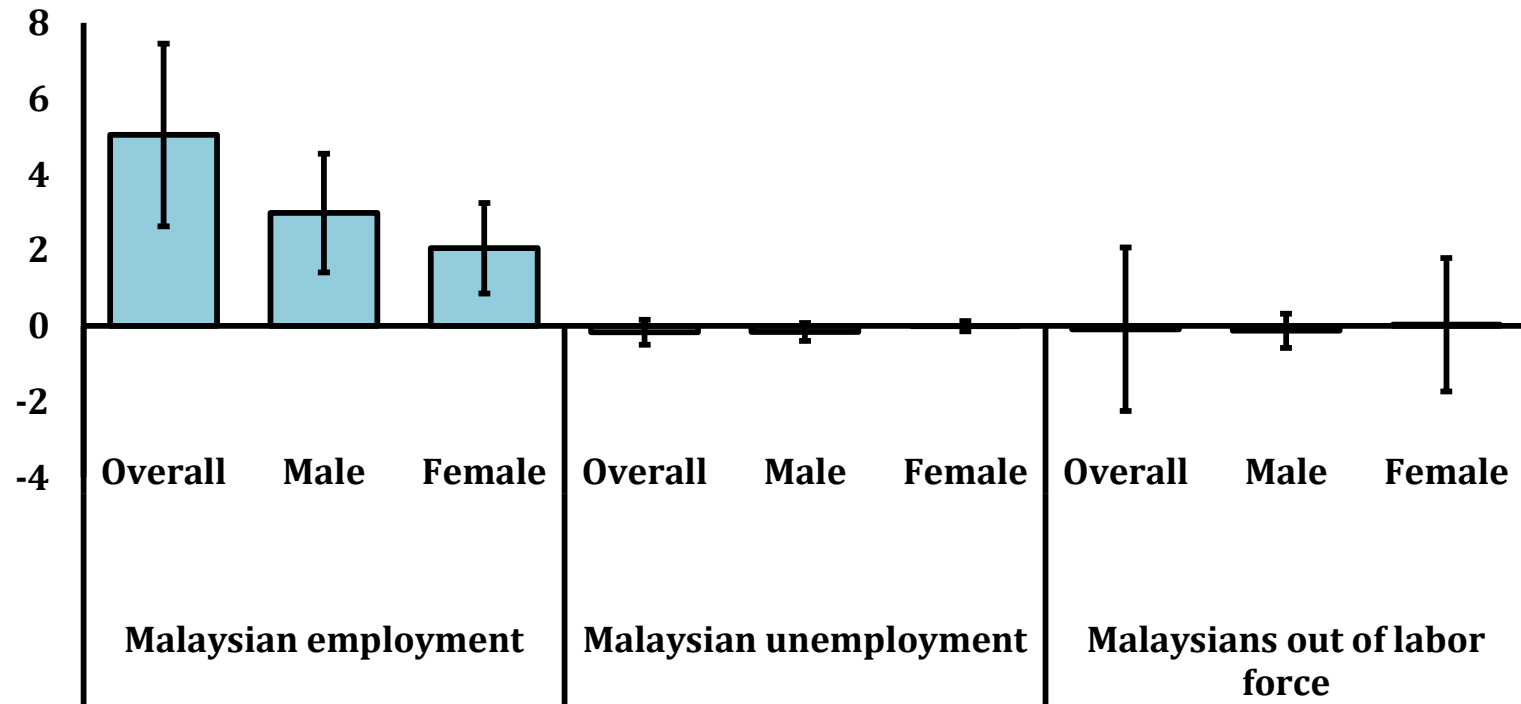
- A 10% net increase in low-skilled immigrant workers increases GDP 1.1%

Potential channels include employment, wages, fiscal effects, and technological change

Immigration leads to employment expansions in Malaysia

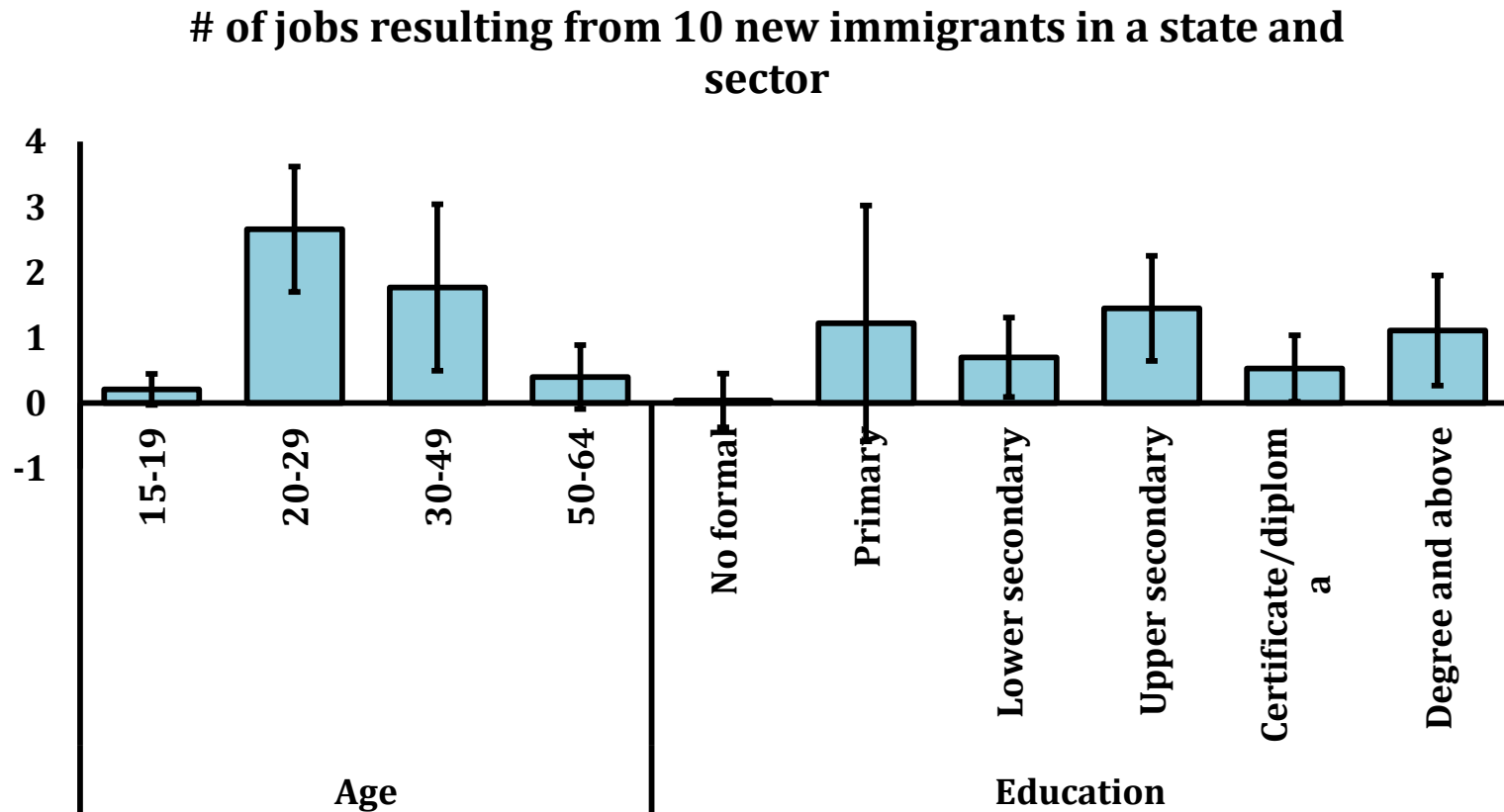
10 new immigrants to a state and sector lead to 5.2 jobs for Malaysians in that state and sector

of jobs resulting from 10 new immigrants in a state and sector



Immigration leads to employment expansions in Malaysia

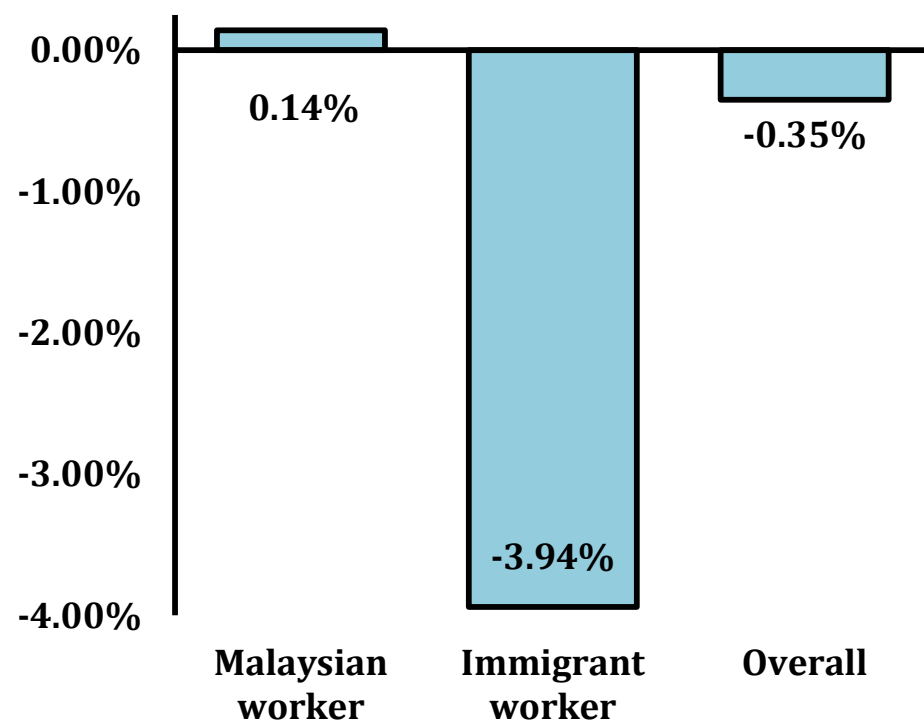
The impact is largest for the young and well-educated



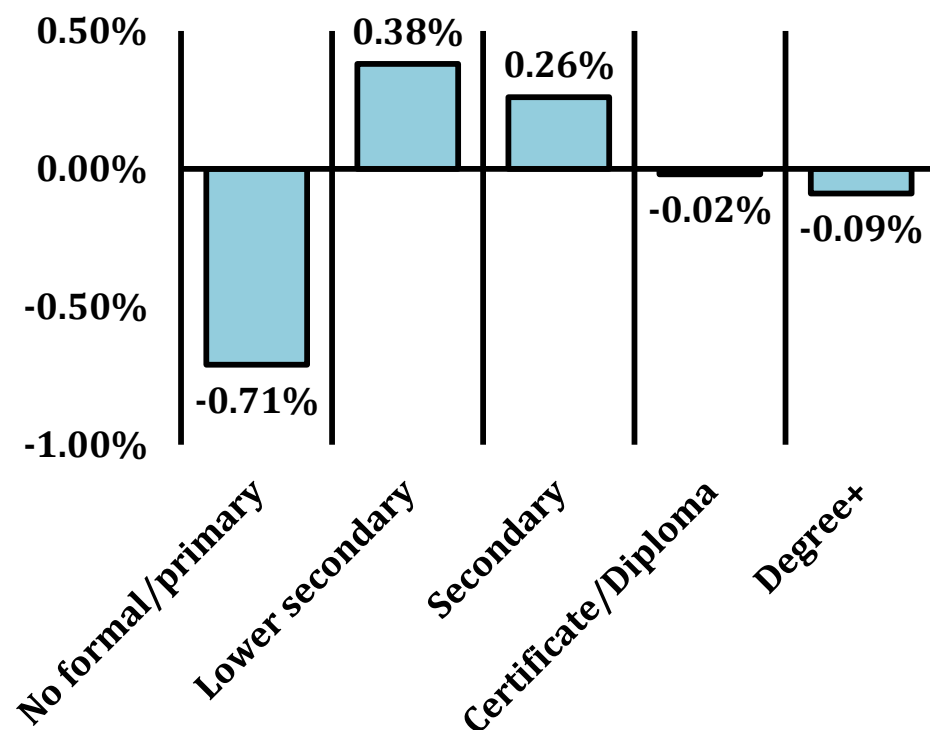
Immigration decreases the wages of *immigrants*

Immigration also reduces the wages of the least-educated Malaysians while increasing those of the medium-educated

% change in wages due to a 10% increase in immigration in a state and sector



% change in wages due to a 10% increase in immigration in a state and sector



Bringing these results together

Lower-skilled migrants facilitate the ability of Malaysians to work in mid-skilled occupations such as foremen or mid-level managers

- Immigration reduces production costs primarily by reducing the wages of existing immigrants
- This results in expansions in output
- This expansion in output counteracts the substitution effect normally associated with immigration
- The employment of Malaysians increases

The fiscal costs of immigration are generally low

Research from other countries finds a small impacts

- Around -0.3% of GDP on average in the OECD

There are reasons to believe this is true in Malaysia as well

- Fiscal impacts are smaller where labour migration dominates and where immigrant populations are relatively young
- Levies, consumption taxes, and the health insurance requirement all limit fiscal exposure
- Undocumented immigrants may have a larger impacts because they are not subject to the foreign worker levy or the health insurance requirement, but undocumented immigrants still contribute through consumption (taxes and growth)

***Defining a new immigration
system that leverages
immigrant contributions to
achieve Malaysia's
development goals***



Current immigration system has some challenges

Fragmentation

**Bilateral Labour
agreements and MoUs not
linked to labour market
needs**

**Quotas not linked
to market needs**

**Arbitrary wages
cut-offs, often
misreported**

**Third parties
intermediaries
raising costs**

**Uncoordinated
enforcement**

**Many of these policies translate into
higher undocumented workers**

Towards a immigration system in line with the economic and social objectives of the country

**Immigration
system linked to
HR system**

**Evidence-base
system**

**From Quotas to
Levies**

**From wages to
value added**

**Leverage technology
to improve
enforcement**

**Train Malaysians
low skilled**

**Adopt productivity –
enhancing technology**

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Terima kasih!

MAURO TESTAVERDE
mtestaverde@worldbank.org

HARRY MOROZ
hmoz@worldbank.org

