

# International Migration and Development

## in East Asia and the Pacific

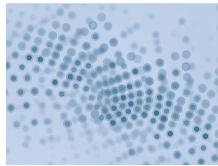
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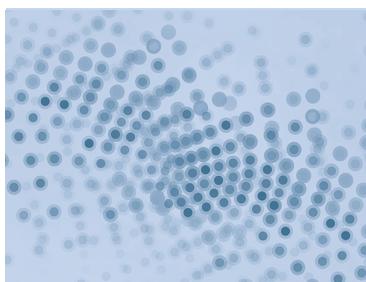


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Ahmad Ahsan, Manolo Abella, Andrew Beath,  
Yukon Huang, Manjula Luthria, and Trang Van Nguyen



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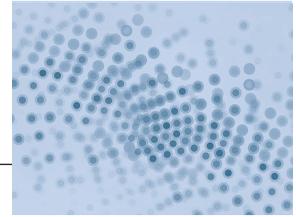
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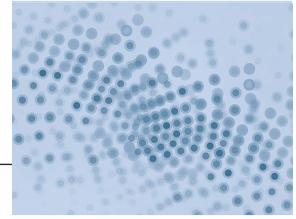
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## FOREWORD

International migration has been an important force for economic development in the dynamic East Asia and Pacific region. This role has to some extent been obscured by the region's high growth, booming manufacturing exports, and robust capital flows, but it is very real. Both labor-sending countries and labor-receiving countries in the region depend significantly on migrant workers and remittances for boosting household incomes, supporting macroeconomic stability, and enhancing economic competitiveness. Currently the region has nearly 22 million international emigrants who remitted an estimated US\$112 billion to their home countries in 2013, a far larger sum than official development assistance.

This report shows that in labor-sending countries, remittances help reduce poverty significantly by increasing income for migrants' families, loosening credit constraints for migrants, and insuring migrants' households against shocks. At the economywide level, remittances help finance trade deficits and bolster reserves. This impact depends on the size of remittance flows relative to the economy. In the region, these flows range from 23 percent of gross domestic product (GDP) for small Pacific Island economies such as Samoa to 7–10 percent of GDP in large economies such as Vietnam and the Philippines. For some receiving countries such as Hong Kong SAR, China; Malaysia; and Singapore, migrant workers form a significant part of the work force, especially in labor-intensive manufacturing, construction, plantation agriculture, fishing, and household services, and thus help relieve acute labor shortages, boost growth, and maintain competitiveness.

International migration in East Asia and the Pacific is set to become an even more important policy issue for two reasons. First, along with intraregional trade and finance, international migration will become part of the drive toward “deep” economic integration taking place in the region.

The role migration plays is clearly recognized in the ASEAN Economic Community Goals, which include the free movement of skilled workers within ASEAN by 2015. Second, the East Asia and Pacific region is facing the onset of one of the most rapid demographic changes in history. Rapidly aging labor-receiving countries—such as Japan, the Republic of Korea, and over time even Thailand—will have to manage a reduction in the domestic labor supply, while rising demand for services will increase labor demand. Taken together, these two forces will create important labor shortages in labor-receiving countries, which, if unmet, will lower economic growth and sharply increase fiscal and health costs. Although countries such as Japan can increase their labor forces by raising female labor market participation, migration will also likely be part of the solution for the issues caused by aging populations. Given these factors, the key question concerning international migration in East Asia and the Pacific is not whether it is desirable but how it should be managed in the future.

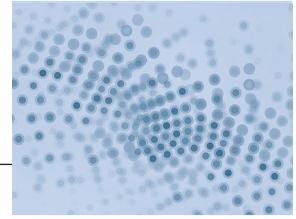
Good policies are needed for managing future migration. The evidence presented in this report suggests that although the short-term benefits of migration and remittances are significant, the long-term impact of migration and remittances is well below its potential because the migration industry is marked by deep market failures and implementation challenges. Large income differentials and porous borders in the Mekong region and between Malaysia and Indonesia create powerful economic forces for migration. Unequal and inadequate access to information for workers in particular, but also for employers, could give rise to fraudulent and abusive recruitment practices on the part of agencies and brokers. Transactions costs and fees are high and more so for documented workers than undocumented ones, creating incentives for irregular migration. And sending remittances can be costly, and workers often lack access to savings instruments and other financial services that could enhance the development impact of remittances.

This report suggests options for improving policies in three areas in labor-sending countries to increase the contribution of remittances to increasing investment and growth: (1) the migrant worker recruitment process, (2) the protection of worker welfare during employment abroad, and (3) the management of remittances to increase their welfare impact. On the regulatory side, the key will be to devise disincentives for rent-seeking and fraud among recruitment firms. Providing migrants with better information, financing facilities, and predeparture training can improve the management of remittances and channel them through formal financial systems. Furthermore, monetary policies to mitigate the appreciation of the real exchange rate caused by remittances flows are needed to maintain external

competitiveness in these countries. In labor-receiving countries, governments should consider adopting policies for equal treatment of migrant workers to avoid creating incentives for employers to displace local workers with cheaper foreign ones. Programs to upgrade the skills of local workers can offset negative distributional consequences and increase the gains from migration. Particularly important will be to recognize that greater support for the rights of migrant workers through fair wages and safe working conditions can benefit all concerned. These policies, if implemented, will ensure that migration will continue to benefit migrants, sending countries, and receiving countries alike across East Asia and the Pacific.

Axel van Trotsenburg  
*Vice President*  
*East Asia and Pacific Region*  
*The World Bank Group*





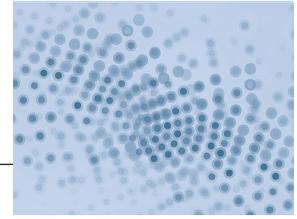
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This report was written by a team consisting of Ahmad Ahsan (World Bank), Andrew Beath (World Bank), Yukon Huang (consultant, Carnegie Endowment), Manjula Luthria (World Bank), Trang Van Nguyen (World Bank), and Manola Abella (consultant and formerly a director of the International Migration Programme of the International Labour Organization). Katherine Patrick (formerly World Bank and now at Cornell University) and Rohan Dinnath Singh (formerly World Bank and now at University of Pennsylvania) provided valuable research assistance, and Mildred Gonsalvez (World Bank) processed this document. Other current and former World Bank staff members, including Daniel Mont, Piriya Phorphirul, and Ririn Purnamasari, contributed by writing background papers and providing comments. Richard Adams (consultant) provided extensive comments on all chapters. Peer reviewers Fabio Baggio (Scalabrini International Migration Institute); Pablo Acosta, Hana Bixi, Xubei Luo, and Dilip Ratha (all World Bank); and Chia Siow Yue (Singapore Institute for International Affairs) provided helpful comments on the report. Vikram Nehru (formerly chief economist, East Asia and Pacific region, and currently with the Carnegie Endowment) and Bert Hofman (chief economist, EAP) provided overall direction and comments while James Adams (former vice president, EAP) provided important guidance as the chair of the review meeting of the report.

This report draws substantially on 17 background papers commissioned as part of this work, several of which are being published as a companion volume titled *Managing International Migration for Development in East Asia*. The report has benefited extensively from comments provided by the participants in a conference on the background papers held at the Institute of Policy Studies, Lee Kuan Yew School of Public Policy, National University of Singapore, in June 2010.





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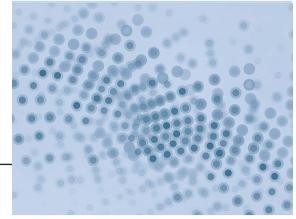
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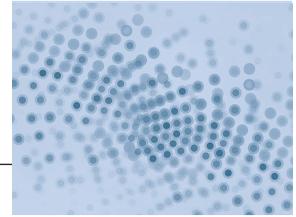


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## ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BLA	bilateral labor agreement
CGE	computable general equilibrium
CIETT	International Confederation of Temporary Work Agencies
EAP	East Asia and Pacific
EPS	Employment Permit System
EU	European Union
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GNP	gross national product
IFLS	Indonesia Family Life Survey
ILO	International Labour Organization
ILSSA	Institute of Labor Science and Social Affairs
IOM	International Organization for Migration
KODCO	Korean Overseas Development Corporation
MFI	microfinance institution
MOA	memorandum of agreement
MOLISA	The Ministry of Labor Invalids and Social Affairs
MOU	memorandum of understanding
MTO	money transfer operator
NGO	nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OWWA	Overseas Workers Welfare Administration
PEA	private employment agency
POEA	Philippines Overseas Employment Administration
S\$	Singapore dollar
SAR	Special Administrative Region

TMP	temporary movement of persons
US\$	United States dollar
UN	United Nations
VHLSS	Vietnam Household Living Standard Survey
WTO	World Trade Organization



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## Overview

International migration in East Asia and the Pacific (EAP) has historically been extraregional. During the 19th and early 20th centuries, numerous Japanese and Chinese migrants left for the Americas in search of better economic opportunities. Today, economic opportunities sustain large cyclical flows of temporary labor migrants from Indonesia and the Philippines to the Middle East. Rapidly growing and relatively wealthy economies in EAP have also long sustained inflows from other regions. Malaysia and Singapore, for instance, received substantial numbers of migrants from countries in South Asia during the British colonial period, a process that continues today.

In recent decades, divergence in income and demographic profiles within EAP has spurred increased intraregional migration. Currently, more than 7 million of the 22 million East Asian migrants are hosted in the region, with Hong Kong SAR China; Malaysia; the Republic of Korea; Singapore; and Thailand being among the top 10 destinations for migrants from EAP countries.<sup>1</sup> Migrants from EAP are predominantly unskilled and increasingly female,<sup>2</sup> with undocumented migration—facilitated by porous borders and migrant restrictions—accounting for a significant portion of the flows.<sup>3</sup>

Asymmetric demographic trends in EAP will create substantial opportunities for countries in the region to mutually gain through increased intraregional migration. Higher-income countries in EAP—such as Japan, Korea, and Singapore—are projected to age rapidly during the coming

decades, which will likely bring with it a reduction in the supply of domestic workers.<sup>4</sup> The aging population will, however, also likely increase demand in these countries in labor-intensive sectors, especially health care. If not mitigated, these twin trends will lower economic growth and worsen fiscal imbalances. However, working-age populations in many low- or middle-income countries in the region, such as Cambodia, Indonesia, and the Philippines, are expected to at least remain stable during the coming decades.<sup>5</sup> If managed correctly, increased intraregional migration flows can offer substantial economic benefits to both sets of countries.

Liberalization of migration flows within EAP may occur both bilaterally and multilaterally. Relaxation of migration restrictions is being spurred multilaterally in Southeast Asia through the Association of Southeast Asian Nations (ASEAN) and ASEAN Plus agreements. In addition to other measures to increase “deep” economic integration, the creation of the ASEAN Economic Community in 2015 is scheduled to bring with it liberalized labor mobility for skilled workers. In addition, the ASEAN heads of state have issued a declaration in support of migrants’ rights and employment opportunities within the region. Relaxation of flows of low-skilled workers and those between north Asian and Southeast Asian countries are expected to occur in parallel through bilateral agreements.

For labor-sending countries, remittances sent by migrants provide significant benefits to migrant households. In 2013, East Asian migrants remitted US\$112 billion to their home countries.<sup>6</sup> These remittances flows are huge, not just for small Pacific Island countries such as Tonga and Vanuatu, but also for large economies such as the Philippines and Vietnam. At the household level, migration and remittances contribute to rising income and consumption and to poverty alleviation in the short term. Housing conditions improve. Migrant households invest significantly more in education in countries such as Indonesia and the Philippines.<sup>7</sup> Other research suggests the impact on actual enrollment is more modest in Vietnam and Indonesia, perhaps because enrollment is already high in these countries. When migrants are female, remittances can also lead to a decline in child labor, but not necessarily if the migrants are male. Temporary migration in the region does not automatically lead to strong knowledge and technology transfers that could raise productivity in the labor-sending country. Overall, sound policies that enhance growth and the domestic business environment would likely play an important, complementary role for creating opportunities for households to reap longer-lasting benefits from short-term migration.

At the macroeconomic level, remittances help finance trade deficits and bolster financial reserves for labor-sending countries, but may also cause

real exchange rate appreciation and erode competitiveness. Empirical evidence tends to show that the link between remittances and economic growth, investment, and saving rates is tenuous. The impact of remittances particularly depends on the policy environment and investment climate: the better the environment, the more productive the impact. Generally, though, the development impact of migration and remittances flows is well below potential, providing scope for policies to increase the impacts of migration and remittances.

Increased migration also brings substantial benefits for labor-receiving countries in EAP. Research indicates that firms employing migrant labor enjoy higher profits arising from lower wages, which more than compensate for any decline in labor productivity. Although concerns exist about the effects of migration on local labor markets, migration generally has minimal impacts on domestic wages and employment. Unskilled local workers competing directly with unskilled migrants ordinarily suffer limited wage reductions from migrant flows, and unskilled migrants often work in industries in which they complement skilled local workers, thereby increasing overall economic productivity.<sup>8</sup> In the long term, migrant workers enable local workers to become more educated and attain more productive jobs, such as has happened in Malaysia. Concerns that low-skilled migration may forestall adoption of labor-saving technologies and associated productivity gains are also generally unsupported by evidence from the region.<sup>9</sup>

The overall benefits of migration within EAP are, however, less than their potential because of policy weaknesses and market failures. The market for international migration generally does not properly account for differences between the high private returns for migrant workers and the firms that employ them and the lower returns for labor-sending and-receiving countries. In many sending countries, markets do not account for the costs of publicly financed education received by migrant workers or of domestic production displaced by absent migrant workers. In labor-receiving countries, markets do not account for the costs of wages lost by domestic workers who compete with migrant workers or other social costs of migration. These problems are often aggravated by the incentives to recruiting firms of creating an oversupply of migrant workers. Therefore, policies and regulations that ensure the interests of both sending and receiving countries and the interests of employers and migrant workers are recognized as important.

Inadequate information is another cause of market failures. Migrants are not well informed about jobs, and employers may not be well informed about the qualifications of migrants. Improved information and training

are important for enhancing the overall economic impact of migration and minimizing exploitation. Migrant Information Centers, created by the government of the Philippines in provincial centers, serve as a model for how governments can improve the transparency of the migration process. These centers provide information on foreign labor markets, visa policies, status of licensed agencies, and likely costs of securing work. Information can also be conveyed via the Internet, as well as by traditional media such as television and radio. Well-designed predeparture training—such as that offered in the Pacific Islands, the Philippines, and Vietnam—that explains employment contracts, increases financial literacy, and appraises migrants of sources of assistance abroad are important means of enhancing the economic impact and lessening the emotional costs of migration.

Migration policies must be informed by local labor market conditions and the location of labor shortages. Migration policies should be backed up with rigorous enforcement of quantitative restrictions and labor standards, but should also incorporate incentives such as requiring bonds and applying levies on employing firms and recruiting agencies to discourage excessive and fraudulent use of migrant workers. Revenues from such measures can then be used to offset costs incurred by migrant workers and to fund the upgrading of domestic workers' skills while also allowing firms to use migrant workers flexibly based on costs.

To optimize the volume of migration flows, recruitment firms and worker contracts need to be properly regulated and monitored. Recruiting firms must be required to be sufficiently capitalized, and countries should develop adequate monitoring and dispute-resolution systems. Although the recruitment industry is not capital intensive, firms with the best track records are generally those that have developed deep knowledge of labor market conditions and regulations in destination countries. Governments should also set performance standards and monitoring mechanisms with clear criteria for contracts, penalties for noncompliance, and public dissemination of violations. Governments may also adopt regulations similar to the Philippines, which introduced benchmarks that restrict migrant workers from accepting wages that are below the prevailing minimum rate in the host country, the standards fixed by bilateral agreements or international conventions, or the prevailing wage in the Philippines.

Well-designed and regulated migrant worker contracts better serve not just migrants, but also sending and receiving countries. Effective enforcement of minimum standards for migrant contracts reduces incentives for employers to use migrant workers excessively and for migrants to

become undocumented workers. Regularizing undocumented migrants, who currently account for a quarter of foreign workers in the region, can confer benefits on both employers and workers. Undocumented flows can also be discouraged—and existing undocumented migrants regularized—by simplifying procedures for registration, reducing the fees and levies assessed on regular migrants, allowing migrant workers the option of seeking other jobs for a specified duration, and applying stiff sanctions on employers who employ irregular workers. Improved information and training are important to enhance the overall economic impact of migration and minimize cases of exploitation. Inadequate and unequal access to information about jobs and workers inhibits the efficient matching of properly qualified migrants to skill shortages, thereby reducing the overall economic impact of migrant flows to all parties.

To increase the economic impacts for labor-sending countries, policies should be designed to reduce remittances costs and channel them into high-yielding investment opportunities. Remittances volume can be increased by reducing the cost of sending remittances, which currently averages about 16 percent of the amount remitted in EAP.<sup>10</sup> Arrangements to bundle remittances and encourage completion through competition among remittances service providers can yield cost reductions. Other options include providing migrants with opportunities to channel remittances through banks, microfinance organizations, and savings cooperatives, as well as regulating transaction costs, securitizing remittances flows, and issuing diaspora bonds. The channeling of remittances through the formal financial system can be further encouraged by offering lending services before departure. Such predeparture loans and credit lines, offered against expected remittances, can also mitigate the need for migrants to resort to the hurried sale of assets and to high-cost, informal sources of finance.

To liberalize and regularize migration flows in EAP, multilateral and regional processes are generally preferable to bilateral agreements. However, the application of core principles of multilateral agreements, such as “most favored nation” and reciprocity, often presents insurmountable political challenges with respect to migration. Regional charters, such as the ASEAN Declaration on the Protection and Promotion of Migration, provide constructive guidelines and have promise, but, as yet, they remain mainly aspirational. Accordingly, bilateral labor agreements currently offer the most practical means for liberalization given their flexible nature and the ease with which they can be renegotiated in the event of changing economic and political conditions.

## Notes

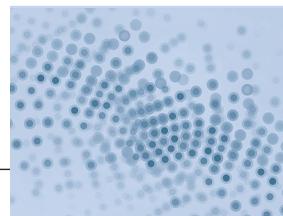
1. The data are from *Migration and Remittances Factbook* (World Bank 2011), which in turn is based on UN Population Division estimates and the April 2013 update (<http://esa.un.org/migration/index.asp?panel=5>). The 22 million migrants refers to the stock of the *emigrant* population that resides in other countries within EAP or outside the region. Migrants are defined as those born outside their country of residence. The EAP region is defined here to consist of developing EAP. The Organisation for Economic Co-operation and Development members China, Japan, the Republic of Korea, Singapore, and Taiwan, China, are excluded. However, as will be seen shortly, this report includes Singapore and to a lesser extent Korea in the analysis of economic impact and the migration industry.
2. For example, 97.9 percent of the migrants from Indonesia and about 73 percent of the migrants from Vietnam have less than a secondary school education. In 2000, the number of female migrants surpassed male migrants for the first time: 5.0 million females versus 4.9 million males. These female migrants tend to work as domestic helpers in such countries as Hong Kong SAR China; Malaysia; Saudi Arabia; and Singapore.
3. In the early 2000s, it was estimated that more than 1.6 million undocumented migrants originated from the Philippines, and that more than half of all Indonesians migrating abroad were undocumented.
4. The Japanese labor force has already started to decline, and the labor forces of China; Hong Kong SAR China; Korea; Singapore; and Taiwan, China will begin shrinking from 2016 onward.
5. The labor forces of Cambodia, Indonesia, and the Philippines will either increase or remain stable until 2025.
6. Remittances flows are also growing rapidly. Between 1989 and 2013, for instance, remittances to EAP grew at an average annual rate of 15 percent, as compared with 8 percent for the developing world as a whole. In 2012, the Philippines, Vietnam, and Indonesia received US\$24 billion, US\$10 billion, and US\$7 billion in remittances, respectively, and remittances in the Pacific Islands accounted for as much as 30 percent of gross domestic product.
7. In Indonesia, for instance, the receipt of international remittances reduces the probability of a household being poor by 28 percent. There is also evidence of significantly higher investment in housing in the Philippines among remittances-receiving households.
8. Work done on Thailand for this report shows that immigrant workers actually help increase wages of skilled native workers, have no effect on wages of native unskilled workers, but do adversely affect wages of migrant workers who had arrived previously. A recent study on Malaysia finds even stronger results: for every 1,000 migrant workers that are employed in a sector in a state, 410 new full-time jobs are created for Malaysian workers in that state. Wages also go up by 0.14 percent for every 10 percent increase in immigrant workers (Özden and Wagner 2014).

9. Although some evidence indicates that firms in Malaysia can use more labor-intensive techniques if they are not using migrant workers, wages are not significantly lowered for native workers. Offsetting this, as noted above, is the opportunity that migrant workers provide to native workers to become more skilled and educated.
10. Costs are also determined by the nature of the bilateral corridor. In World Bank (2011), three factors influencing the cost are seen as significant: (1) the number of migrants suggests a scale effect; (2) corridors with higher per capita income in both sending and receiving countries exhibit higher charges, which suggests the influence of higher prices for nontradable goods; and (3) competition lowers remittances costs, but corridors with a higher share of banks are more expensive.

## References

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# International Migration in the East Asia and Pacific Region: Stylized Facts and Context

*International migration has been an important force for growth and development even in the dynamic East Asian region, although this role has been obscured by high growth, booming manufacturing exports, and robust capital flows in the region. This chapter presents key facts on international migration in the region, some of their implications, and their context. Both labor-sending countries and labor-receiving countries in the region depend importantly on migrant workers and remittances for boosting household incomes and supporting economic management and competitiveness. The region is a migration hub consisting of both migrant receiving and sending countries, both of which have gained significantly from migration. The region receives one of the largest and fastest-growing flows of remittances in the world. Most of the migrants are unskilled, many are undocumented, and nearly half are women. Remittances have helped macroeconomic management of both large and small economies of the region, but the impact of migration can be ambiguous in the medium to long term. This suggests that the benefits of international migration are not fully tapped and that better policies are needed. The chapter also discusses how migration will be an important response to the rapid aging facing many countries in the East Asia and Pacific region. The message is that whereas international migration is already an important economic issue for*

*both labor-sending and labor-receiving countries, it will become even more so in the future. Given this backdrop, the key question concerning international migration in East Asia is not whether it is desirable, but how it should be managed to increase the welfare gains for migrant workers and migrant-sending and -receiving countries.*

## **Introduction**

The East Asia and Pacific region has an international migrant population of about 22 million people, more than a third of whom are regional migrants working in other countries within the region. These migrant workers remitted an estimated US\$112 billion annually to their home countries (World Bank 2011b, 2014).<sup>1</sup> These remittances flows are huge, not just for the small Pacific Island countries but also for the large economies of the Philippines and Vietnam. The wide disparities in average incomes across the countries in the region—on the order of 5 to 10 times—make East Asia and the Pacific home to both “labor-receiving” (or destination) countries and “labor-sending” (or source) countries. Table 1.1 shows the sizable stock of emigrants and immigrants in East Asia and the Pacific, which increased even over the short period 2005–10 for many countries. For these reasons, international labor mobility is emerging as an important development issue in the region. Public interest is strong, as is evident by the publication in 2013 of more than 3,000 articles and stories on East Asia and the Pacific Island migration. The Association of Southeast Asian Nations (ASEAN) leaders declared migration a key regional issue in their 2007 Declaration on the Protection and Promotion of the Rights of Migrant Workers.

The objective of this report is to analyze how international migration should be managed in the region and how countries and organizations in the region can identify policies and institutions to manage migration in a way that supports development goals while simultaneously protecting the rights of migrants. The report has four parts:

- Presentation of stylized facts concerning overarching macroeconomic and demographic issues related to international migration in East Asia and the Pacific (chapter 1)
- Discussion of the economic impact of migration on labor-sending countries (chapter 2)
- Development of an understanding of the economic impact of migration on labor-receiving countries (chapter 3)

**Table 1.1 East Asia and the Pacific, Including High-Income Countries, Migration and Remittances Estimates**

Labor-sending countries	Stock of emigrants, thousands		Stock of emigrants as percent of population, 2005	Stock of emigrants as percent of population, 2010	Emigration rate (percent) of tertiary-educated population, 2000	GDP per capita, 2012 (US\$)	Inward remittances flows (US\$ millions)		
	2005	2010					2003	2009	2012
Indonesia	1,736.7	2,502.3	0.8	1.1	2.1	3,556.8	1,489	6,793	7,212
Philippines	3,631.4	4,275.2	4.4	4.6	13.7	2,587.0	10,243	19,766	24,641
Vietnam	2,225.4	2,226.4	—	2.5	27.1	1,755.2	2,700	6,629	10,000
Kiribati	4.8	6.4	4.9	6.5	23.1	1,734.2	7	8	9
Samoa	101.0	120.4	54.6	67.3	76.4	3,619.7	45	124	139
Tonga	51.6	47.4	50.4	45.4	75.2	4,493.7	60	87	72

Labor-receiving countries	Stock of immigrants, thousands		Stock of immigrants as percent of population, 2005	Stock of immigrants as percent of population, 2010	Females as percent of immigrants, 2010	GDP per capita, 2011 (US\$)	Outward remittances flows (US\$ millions)		
	2005	2010					2003	2009	2012
Korea, Rep.	551.2	534.8	1.2	1.1	52.7	22,590.2	1,853	3,120	10,084
Malaysia	1,639.1	2,357.6	6.5	8.4	45.2	10,432.1	3,464	6,800	2,305
Singapore	1,843.0	1,966.9	42.6	40.7	56.0	51,709.5	—	—	—
Thailand	1,050.5	1,157.3	1.6	1.7	48.4	5,479.8	—	—	2,683
Japan	2,048.5	2,176.2	1.6	1.7	55.0	46,720.4	1,773	4,069	4,043
Hong Kong SAR, China	2,998.7	2,741.8	42.6	38.8	57.0	36,795.8	317	402	603
Australia	4,097.2	5,522.4	20.3	25.7	43.8	67,555.8	1,779	3,000	4,073
New Zealand	642.2	962.1	15.9	22.4	52.4	37,749.4	561	871	101

Sources: World Bank 2008, 2011b, 2013a, 2013b, 2013c.

Note: — = not available.

- Analysis of the migration industry as well as of the policies and institutions that govern migration in labor-sending countries (chapter 4) and labor-receiving countries (chapter 5)

The rest of chapter 1 is organized as follows: The second section presents the stylized facts concerning migration in the region. The third section discusses the mixed macroeconomic impact of remittances on labor-sending countries: the significant beneficial impact of remittances at the household level, which has motivated 20 million East Asian migrants to seek employment and homes abroad, does not necessarily translate into long-term growth, even if it helps macroeconomic management. This finding suggests the significant untapped potential of migration and remittances for development and the need for policies to enhance these impacts. The fourth section addresses another overarching issue: many labor-receiving countries in the region are facing dramatic demographic transitions, causing labor shortages that will increase fiscal and financial costs and constrain growth prospects. Thus, liberalizing migration flows will likely become an inevitable policy response for the labor-receiving countries.

## International Migration and Remittances in the East Asia and Pacific Region: Stylized Facts

International migration and remittances have been major economic forces in shaping the global economy for many centuries. In particular, migration has been important in the global development of Argentina, Australia, Canada, and the United States. These countries benefited from migration in two stages. In the first stage, migration from Europe and to a lesser extent from Asia (see table 1.2) helped populate these countries, with migration reaching

**Table 1.2 Net Migration Rates and Cumulative Impact, 1870–1910**

	<b>Persons-adjusted net migration rate, 1870–1910 (per 1,000)</b>	<b>Persons-adjusted cumulative population impact, 1910 (percent)</b>	<b>Labor force-adjusted net migration rate, 1870–1910 (per 1,000)</b>	<b>Labor force-adjusted cumulative labor force impact, 1910 (percent)</b>
Argentina	11.74	60	15.50	86
Australia	6.61	30	8.73	42
Canada	6.92	32	9.14	44
United States	4.03	17	5.31	24
New World	6.01	29	7.93	40

Source: Taylor and Williamson 1997.

its peak around the turn of the 20th century. Between 1860 and 1920, about 30 million migrants came to the United States from Europe. Overall, about 60 million migrants came to the resource-rich Americas between 1820 and 1920 (Goldin, Cameron, and Balarajan 2011). Migrants, who accounted for about 40 percent of the labor force in these countries, helped expand agriculture and settlements, and built railroads, cities, and infrastructure.

Argentina, Australia, Canada, and the United States benefited from a second round of migration that began in the 1960s. An estimated 300,000 workers migrated to the United States every year in this second round, with many coming from the Americas, followed by Asia and Europe. More recently, major migration corridors have been established from Eastern Europe to Western Europe, North Africa to Europe, and Latin America to the United States (table 1.3). The share of skilled workers was significantly higher in this second round, bringing valuable human capital to these countries and boosting innovation, productivity, and competitiveness in these economies. In the United States, where the roles of migrant workers are best documented, immigrants were responsible for about a quarter of patents issued. According to Wadhwa and others (2007) 25 percent of all U.S. engineering and technology companies established between 1995 and 2005 had at least one immigrant founder. An additional 27 percent had a foreign-born chief executive or chief technology officer. Research also suggests that the large presence of immigrants in high-tech fields stimulated business and actually created more jobs for native-born Americans than it took away. In 2011, a study by the National Foundation for American Policy

**Table 1.3 Major Migration Flows in the World, 2011**

World		East Asia and the Pacific countries	
Source	Destination	Source	Destination
Mexico	United States	China	Hong Kong SAR, China
Russian Federation	Ukraine	China	United States
Ukraine	Russian Federation	Philippines	United States
Bangladesh	India	Indonesia	Malaysia
Turkey	Germany	Vietnam	United States
Kazakhstan	Russian Federation	Malaysia	Singapore
Russian Federation	Kazakhstan	China	Japan
China	Hong Kong SAR, China	Philippines	Saudi Arabia
India	United Arab Emirates	China	Canada
China	United States	China	Singapore

Source: World Bank 2011b.

showed that immigrants founded or cofounded almost half of the 50 top venture-backed companies in the United States (Anderson 2011).

The impact of large migrant and remittances flows on labor-sending countries is a well-studied topic internationally, though relatively less so in the dynamic East Asian economies. International evidence, presented in box 1.1, suggests that the additional income provided by remittances has important welfare- and development-enhancing effects.

### **Box 1.1: International Migration and Development: Impact on Welfare and Development**

International remittances represent up to 30 percent of total financial flows to the developing world. International experience suggests that remittances can clearly reduce poverty in the developing world. In perhaps the broadest study, Adams and Page (2005) examine remittances and poverty in 71 developing countries and find that, on average, a 10 percent increase in per capita international remittances will lead to a 3.5 percent decline in the share of people living in poverty in a developing country. Similar studies by Acosta, Fajnzylber, and López (2007) in Latin America; Lokshin, Bontch-Osmolovki, and Glinskaya (2007) in Nepal; Adams, Cuecuecha, and Page (2008) in Ghana; and Esquivel and Huerta-Pineda (2007) in Mexico find that remittances reduce poverty.

Also on the positive side, remittances seem to have a positive effect on wages in labor-sending countries. In Mexico, Mishra (2007) finds that a 10 percent decrease in the number of workers due to migration in a particular skill group increases the average wages of that skill group in Mexico by 4 percent. Similar work by Bouton, Paul, and Tiongson (2009) in Moldova suggests that, on average, a 10 percent increase in the migration rate is associated with a 3.2 percent rise in wages.

With respect to remittances and investment, international experience is more mixed. In El Salvador, Cox-Edwards and Ureta (2003) show that international remittances increase student retention rates in school. In Guatemala, Adams and Cuecuecha (2010) find that households receiving international remittances spend more at the margin on education than they would have without remittances. However, studies in Mexico suggest that migration and remittances have a significant but negative effect on school attendance and educational attainment. This result is probably related to the absence of a parent as well as to lower expected returns to education for Mexican children migrating to the United States (McKenzie and Rapoport 2006). On the issue of remittances and investment in business, the record is also mixed. Durand and others (1996) find that remittances in Mexico increase the likelihood of household investment in business activities, but a similar study by Amuedo-Dorantes and Pozo (2006) in the Dominican Republic finds that households receiving remittances are not more likely to own their own family business.

On the negative side, international experience suggests that remittances tend to reduce the household labor supply and

*(continued)*

**Box 1.1** *continued*

participation in labor markets, which may increase dependence on external transfers. This result is consistent with the idea that when nonmigrant household members receive remittances, they tend to use increased income for more leisure. Studies by Funkhouser (2006) in Nicaragua, Kim (2007) in Jamaica, and Cabegin (2006) in the Philippines find that international migration and remittances reduce household labor supply and workforce participation of nonmigrant household members, although these effects are sometimes influenced by gender.

In labor-receiving countries, the debate on migration, which is sometimes culturally and

ethnically tinged, is more fractious and focuses on three issues. First is the possible adverse impact of migrant workers on the employment and wages of local workers.<sup>a</sup> Second is the “technology-stalling hypothesis,” which suggests that the availability of low-cost migrant labor might cause a slowdown in technological development. Third is the thought that migrant labor causes social disruption through the importation of alien culture. From Japan to the Republic of Korea in north Asia to Malaysia, Singapore, and Thailand in Southeast Asia, there is significant concern about all three of these issues. These issues are therefore addressed at length in chapter 3.

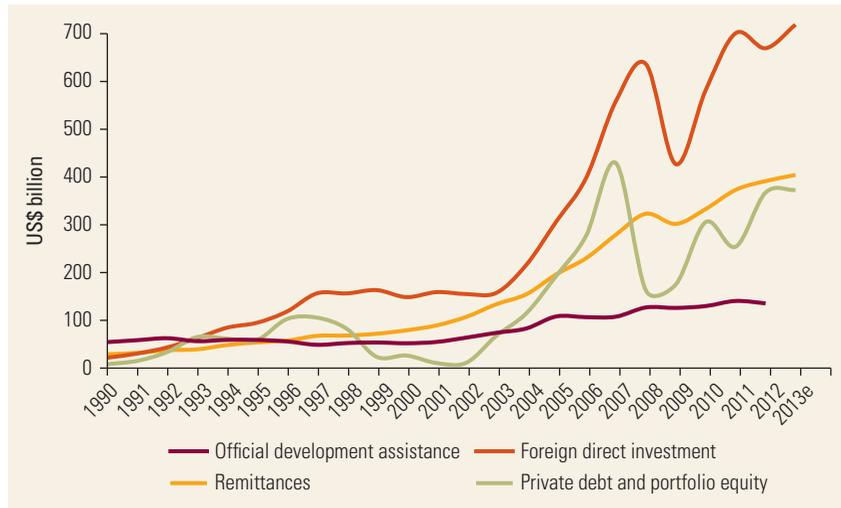
a. The terms “local workers” and “native workers” are used interchangeably to refer to citizens of labor-receiving countries.

Migration has also become an important part of the East Asian economic landscape as those economies have grown. In the 1970s and 1980s, international migration from Asia to North America, Australia, and the Gulf States grew rapidly. As a result, in 2000 an estimated 7 million Asian migrants were in the United States and another 5 million were in the Gulf States. At present, the main growth in migration is taking place within Asia, with close to 7 million Asian migrants working there. To varying degrees, Thailand; Malaysia; Hong Kong SAR, China; the Republic of Korea; and Japan have opened their labor markets to immigrants from Indonesia, Vietnam, the Philippines, and the Greater Mekong Subregion<sup>2</sup> countries in the region and to Bangladesh, Nepal, and India in South Asia. The rest of this section highlights key trends and characteristics of migration in the region, including five stylized facts concerning international migration.

**Stylized Fact 1: The East Asia and Pacific Region Is the Largest and the Fastest-Growing Destination for Remittances in the World**

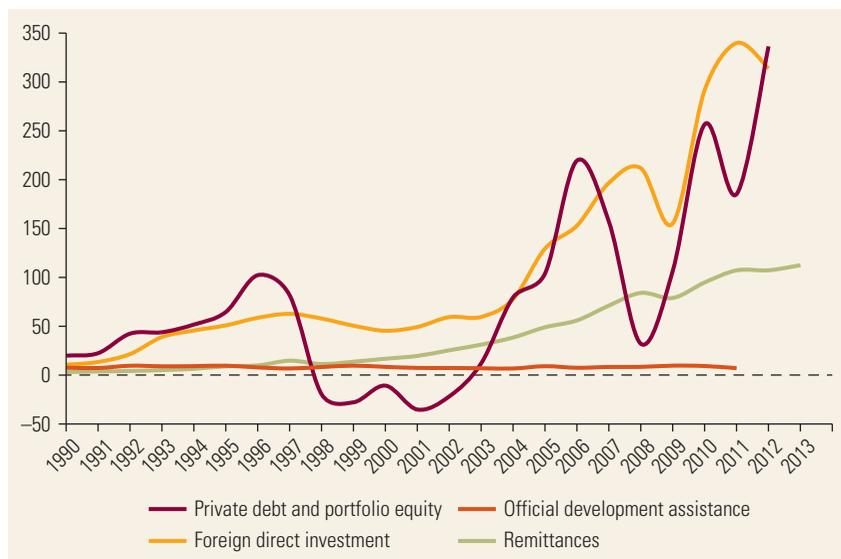
While globally the size of remittances flows has grown more than fourfold during the past 20 years (figure 1.1), remittances to East Asian countries have grown from about US\$7 billion to US\$112 billion in the same period (figure 1.2). International remittances to East Asia and the Pacific

**Figure 1.1 Globally, Remittances Flows Have Grown to Significantly Dwarf Official Development Assistance and Private Debt and Portfolio Equity, and Have Been Resilient**



Source: World Bank 2014.

**Figure 1.2 Remittances Flows to East Asia and the Pacific Have Been More Resilient Than Elsewhere**



Source: World Bank 2014.

**Table 1.4 Remittance Flows around the World**

<b>\$ billion</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013e</b>
<b>Developing Countries</b>	323	302	333	373	392	404
East Asia and the Pacific	84	79	95	107	107	112
Europe and Central Asia	41	32	32	38	39	43
Latin America and Caribbean	63	55	56	59	60	61
Middle East and North Africa	36	34	40	42	47	46
South Asia	72	75	82	96	108	111
Sub-Saharan Africa	28	27	29	31	31	32
<b>Growth rate (%)</b>						
<b>Developing Countries</b>	15.7%	-6.6%	10.3%	12.1%	4.9%	3.3%
East Asia and the Pacific	18.3%	-6.2%	20.2%	13.0%	0.1%	4.8%
Europe and Central Asia	16.2%	-20.1%	-0.8%	17.0%	2.7%	10.0%
Latin America and Caribbean	1.7%	-12.1%	1.1%	5.9%	0.9%	1.9%
Middle East and North Africa	12.2%	-6.5%	18.0%	6.5%	11.8%	-2.0%
South Asia	32.7%	4.5%	9.4%	17.7%	12.1%	2.3%
Sub-Saharan Africa	9.8%	-4.4%	7.0%	6.8%	0.1%	3.5%

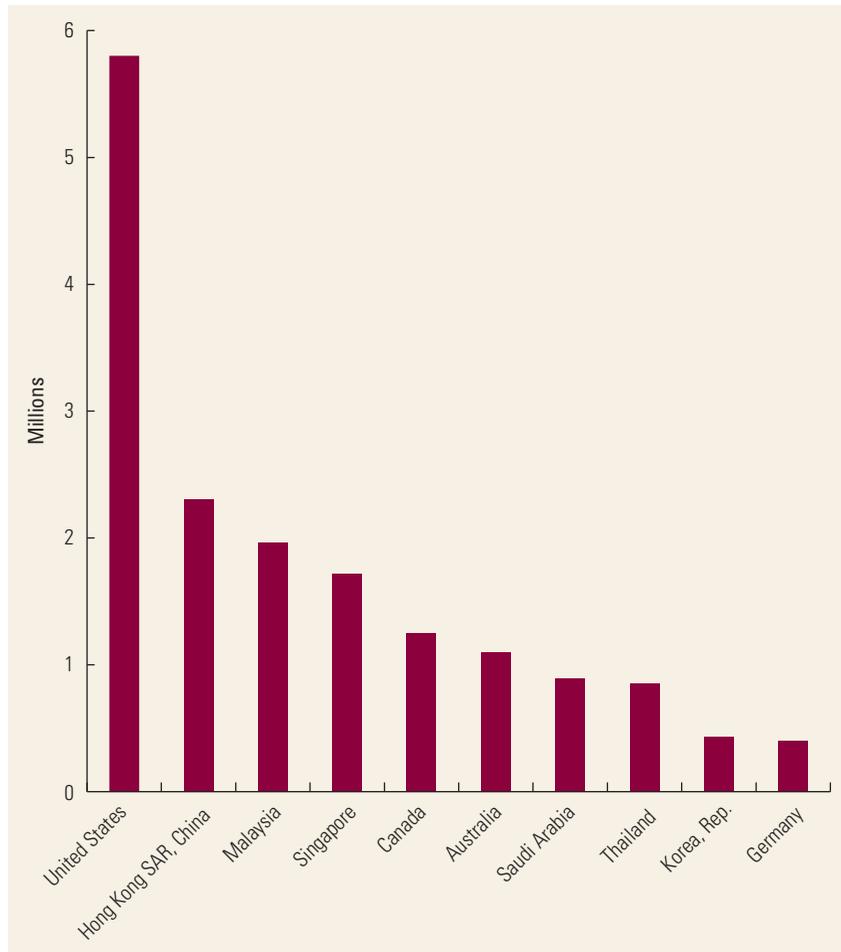
Source: World Bank 2014.

have expanded faster than remittances to the developing world as a whole. Between 1989 and 2013, remittances to the region grew at an average annual rate of 15.0 percent as compared with 7.8 percent for the developing world (table 1.4).

### **Stylized Fact 2: The East Asia and Pacific Region Is a Migration Hub**

The East Asia and Pacific region is its own migration hub. Five of the top ten destination countries for migrants from the East Asia and Pacific region are also in the region—China; Hong Kong SAR, China; Malaysia; Singapore; Thailand; and Korea (figure 1. 3). If neighboring Australia is included, 6 of the top 10 labor-receiving countries are in the region and account for about 40 percent of all migrants. Going one step further, Japan, also an advanced economy in the region, is host to an estimated 2 million migrant workers. In some of the receiving countries, such as Singapore, the migrant labor force can account for as much as one-third of the total labor force.

**Figure 1.3 Top Destinations for Migrants from East Asia and the Pacific**

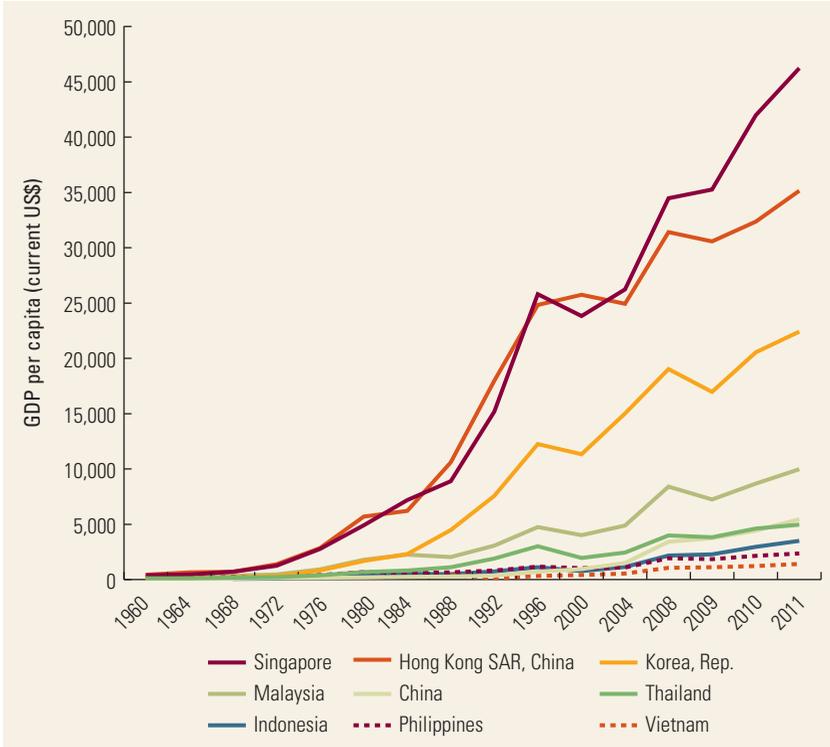


Source: World Bank 2011b.

Even in a large country such as Malaysia, migrant workers have accounted for about one-fifth of the incremental labor force during the past 20 years and nearly a third of the incremental labor force in the 1990s. Thus, migration in East Asia and the Pacific is important from the perspective of both sending and receiving countries. The impact of migration and the issues in these two types of countries are different but equally significant.

The East Asia and Pacific region serves as its own migration hub because of the large income differences between labor-receiving and labor-sending countries in the region. For example, per capita incomes in the richer north

**Figure 1.4 Income Differentials within East Asian Countries**



Sources: World Development Indicators database; EAP Data Monitor.

Asian labor-receiving economies of Japan, Korea, and Singapore are often 10 times those in the poorer, labor-sending countries of Indonesia, Vietnam, and the Philippines (figure 1.4). The differences in income between the middle-income labor-receiving countries of Malaysia and Thailand are also often two to three times those in the labor-sending countries. It is these large income differences between countries that will continue to make East Asia and the Pacific a large regional hub for migration in the future.

**Stylized Fact 3: Most International Migrants within East Asia and the Pacific Are Unskilled**

A major issue concerning international migration *within* the region is that most migrants are unskilled, defined as those with secondary school education or less. More than two-thirds of workers from

Indonesia have less than a secondary school education, and only 2.1 percent have a university education. Migrants from the Philippines partly resist this trend, but even in this case, the share of tertiary educated workers is still only 14 percent. However, a comparison of the relative education levels of migrants to the population of the sending countries creates a more nuanced picture. Migrant workers, on average, are slightly better educated in all the sending countries, and this is much more pronounced in the Philippines.

The data on migrant workers on the receiving-country side are even more unambiguous. For instance, in Malaysia, where data are available, only 40 percent of employed migrants received secondary education and about 10 percent obtained tertiary education. In addition, the share of less-educated migrants has been rising, especially over the past decade: nearly 40 percent of migrants had no formal education at all in recent years. A large number of migrants also report “not applicable” as their education level. These numbers could be biased because labor force surveys are generally better at catching higher-skilled workers.

A similar profile of unskilled migrants can be seen in Thailand. The 2000 Thailand Census revealed that more than 90 percent of migrant workers from the Lao People’s Democratic Republic, and Myanmar had less than upper secondary education, and 80 percent of the workers from Cambodia were similarly educated. Compared with migrant workers, roughly 26 percent of Thailand’s population were skilled, a significantly higher proportion than migrant workers. The share of unskilled migrants is likely to be underestimated because the data exclude migrant workers in border areas, who are more likely to be undocumented and unskilled (World Bank 2006b).

There is, however, a significant skilled worker migration flow from the region, but not to the region. An estimated 3.5 million skilled migrants have left East Asia and the Pacific, but mostly to Australia, New Zealand, and North America. Only about 4.2 percent of the skilled migrant workers from Asia chose East Asian countries as their destination. As a share of the migrant population, major receiving countries such as Malaysia and Thailand show a very small share of skilled migrant workers, suggesting that educated and skilled migrant workers find better opportunities in Australia or North America. This could happen because the returns to education are higher in the wealthier economies, and policies in East Asian receiving countries discriminate against skilled workers, such as policies that discourage permanent migration. Box 1.2 discusses trends and issues concerning skilled labor migration in the region in more detail.

## Box 1.2: High-Skill Migration from East Asia and the Pacific

### **The majority of flows of skilled migration from East Asia and the Pacific are toward Organisation for Economic Co-operation and Development (OECD) countries**

Most skilled migration from the East Asia and Pacific region is toward OECD destinations, mainly countries outside the region. Approximately 3.7 million East Asian tertiary-educated migrants lived in OECD countries in 2000; 77 percent of these migrants were living in North America, and 8 out of 10 of these were living in the United States. In contrast, fewer than 5 percent of skilled East Asian migrants in OECD countries were living in Japan (Abella and Ducanes 2008). Most of these skilled migrants to OECD countries are from China, the Philippines, and Vietnam. The East Asian OECD countries Korea and Japan also have large populations of skilled professionals living abroad; 77 percent of the skilled Japanese in OECD countries live in the United States, and most of the skilled Koreans live in Canada, Japan, and the United States (Abella and Ducanes 2008).

Skilled<sup>a</sup> migration from Asia to OECD countries has been facilitated by colonial ties and investment and trade partnerships that frequently include the movement of people. Skilled Asian migrants seek education in Western educational institutions, and the waning of native skilled working-age populations in OECD countries often means that Asian professionals have the option to stay in the destination country. This option is attractive to many skilled migrants because of higher income differentials. They engage in a range of professions; not all of them, not even a majority, are medical professionals,

although the Philippines is an exception, with more than a quarter in health care. Popular occupations of tertiary-educated migrants from the region to the United States also include management positions, business and finance, various forms of engineering, and administrative support (Abella and Ducanes 2008).

Movements of skilled labor within the region, though less than movements to outside the region, can be considerable for certain country-to-country corridors such as Malaysia-Singapore. Singapore absorbs 57 percent of the entire Malaysian diaspora, a third of which constitutes high-skill migration, or Malaysia's "brain drain." Singapore also accounts for the greatest stock (54 percent in 2010) and change (68 percent over the last decade) of migrants from Malaysia. The average annual growth in skilled Malaysian migrant stock in Singapore was roughly 6 percent over the period 2000–10 (World Bank 2011a).

The stock of skilled migrants globally to OECD countries increased from 12 million in 1990 to 20 million in 2000,<sup>b</sup> and the stock of Asian migrants to OECD countries rose by 83 percent. The number of East Asian skilled migrants who migrated to North America essentially doubled; however, the number of East Asian skilled migrants who migrated to Japan and Korea remained the same, increasing only to 296,000 from 295,000 (Docquier and Marfouk 2006). More recent data from individual countries within the region show that the main immigrant-receiving economies of Hong Kong SAR, China; Japan; Singapore; and Taiwan, China have seen only a slight rise in the numbers

*(continued)*

**Box 1.2** *continued*

of skilled migrants, many of whom are from the region, in the early to mid-2000s. In Japan the number of foreign engineers admitted from all countries rose from 16,500 in 2000 to 23,200 in 2004. According to Japan's Immigration Bureau, these migrants were mostly from Asia, especially China and Korea. As of 2006 in Taiwan, China, 60 percent of the estimated 15,000 foreign professionals with employment permits were from East Asia and the Pacific, the majority from Japan (Abella and Ducanes 2008).

To gain insights into the intensity of high-skilled emigration, it is useful to monitor the emigration rate, defined as the stock of skilled migrants divided by the total native skilled labor force, including those at home. While the stock of skilled migrants increased, the educational attainment in labor-sending countries increased as well. The emigration rate of tertiary-educated workers varies from country to country, and is highest among small Pacific Island economies. In many cases, this rate is higher among females, except in Cambodia and Vietnam. Over time, the emigration rate of tertiary-educated workers from the region has generally decreased or remained stable.

**What causes high-skill migration?**

As with migration in general, both push and pull factors make it less attractive for a potential migrant to stay in the home country and more attractive to go to the destination country. Migration flows respond to rising skill premiums in developed countries caused by large productivity and income differentials. Other than the draw of higher income, factors such as opportunities to conduct research or to work with leaders in the field

and lifestyle and family reasons also matter, according to surveys of the best and brightest high school graduates from New Zealand, Papua New Guinea, and Tonga (Gibson and McKenzie 2010). Key factors that motivate Malaysians to move abroad include differences in earnings potential, career prospects, quality of education and quality of life, and social injustice (World Bank 2011a).

**High-skill emigration has both potential economic benefits and potential costs for sending countries**

The net impact of high-skill emigration on welfare and development in sending countries depends on the strength of various impact channels in each country. The theoretical literature features many possible channels. Potential negative impact channels include the loss of the positive externalities in learning and the lower productivity of nonmigrating workers, fiscal loss if education and training are publicly financed, and a lower supply of certain essential services that require technical skills. In fact, the term "brain drain," often used to refer to the emigration of a nation's most highly skilled individuals, can connote a loss to labor-sending countries, but there are many potential benefits for the migrants and their countries: remittances, benefits from a well-educated diaspora, higher wages for migrants as well as possibly for nonmigrating workers at home, and brain gain (higher incentives to invest in education generated by the prospect of migrating). And the issue of loss of key human capital might be negated if, for example, the use of those skilled workers at home is limited anyway by a poor

*(continued)*

**Box 1.2** *continued*

investment climate and little demand for these types of professions.

The literature contains no conclusive empirical evidence on the net gain or loss from high-skill migration because of the difficulty of measuring the costs and benefits in a data-constrained environment. Existing evidence shows that many high-skilled migrants remit particularly more to poorer countries, and the amount remitted is higher than that remitted by less-skilled migrants (Gibson and McKenzie 2010). The extent of other benefits from a well-educated diaspora—for example, information networks, or high-skilled migrants’ investment in or engagement with knowledge transfers—are still to be confirmed empirically. Empirical findings on the brain gain impact are limited and so far mixed (Beine, Docquier, and Rapoport 2001; Faini 2003). Impacts can be most substantial in particular sectors with large emigration rates. The literature from Africa suggests in the health sector that a significant fraction of doctors and nurses trained in Africa leave, which is not the general case for East Asia and Pacific countries except for the Philippines. Finally, with regard to public resources spent on education and training, governments can weigh these costs against the return on this investment, including the gain in individual welfare through increased income associated with the migration opportunities. Gibson and McKenzie (2010) estimate the annual fiscal loss associated with the emigration of the best and brightest from Micronesia and Tonga to be US\$500–US\$1,000 per migrant, which is similar to or less than the remittances they send (as private money).

The Malaysian example suggests that the costs of high-skill migration might not be commensurate with the rate of emigration. Two out of ten Malaysians with a tertiary degree migrated in 2000 to an OECD country or to Singapore. Yet, this brain drain has not depleted the stock of university graduates available within the country, though the best and brightest may have left. And a large share of skilled migrants were partly educated overseas, implying lower fiscal costs than the loss of individuals who received publicly funded higher education and training at home (World Bank 2011a).

Movements of skilled people within the region have been recognized by the Association of Southeast Asian Nations (ASEAN) as an important item on its integration agenda. Yue (2011) provides some guiding principles for achieving this goal. Countries can facilitate inflows of skilled workers to accompany foreign direct investment, to meet short-term skills shortages, to facilitate structural and industrial upgrading, and to improve health and education services. Skilled workers must clearly anticipate net benefits to move. A receiving country can facilitate the inflow of skilled workers through high salaries and even expatriate packages (including access to housing, medical benefits, education for children, and so forth), improved working conditions and research opportunities, lower tax liabilities, and high quality of life compared with the home country, as well as possibilities of permanent residence and citizenship. Singapore, and to a lesser extent Malaysia and Thailand, which are the

*(continued)*

**Box 1.2** *continued*

main net-immigration countries in ASEAN, have taken on such strategies to varying extents.

An important challenge for the movement of skilled professionals across borders is one of comparable and comprehensive certification of professional qualification skills. Mutual recognition arrangements

(MRAs) are signed to aid the flow of professionals such as doctors and nurses across borders. Within ASEAN, MRAs have been established for a wide range of professions. Language proficiency (or lack thereof) can either aid or impede skilled labor mobility (Yue 2011).

*Source:* Study team, drawing on data from the Global Skilled Migration database (described in Docquier, Lowell, and Marfouk 2009).

a. In this box, skilled migrants means those migrants with tertiary education.

b. However, education levels in developing countries increased as well; therefore, high-skill emigration as a fraction of the stock of tertiary-educated population was stable at the global level from 1975 to 2000 (Defoort 2008).

#### **Stylized Fact 4: The Share of Undocumented Workers Is Large in East Asia and the Pacific**

There is a significant irregular and undocumented migrant population within the region, illustrated by data from the Philippines and Indonesia. In the early 2000s, more than 1.6 million undocumented migrants from the Philippines were estimated to be working abroad (Dimzon 2005). Similar estimates suggest that more than half of Indonesians migrating internationally do so through unofficial channels (Hugo 2005). Within the region, the major hubs for illegal migration are Japan, Korea, Malaysia, the Philippines, and Thailand. In Japan from 2000 to 2004, more than a million persons overstayed, of whom 25.8 percent were from Malaysia, the Philippines, and Thailand (Hugo 2005).

There are two primary reasons for such large-scale undocumented migration in East Asia and the Pacific. The first is the rigid legal and physical barriers created to prevent migration by the various labor-receiving countries in the region. In these countries, official migration can be a lengthy and costly process. Therefore, many migrants choose to migrate unofficially. The second reason relates to the twin “push factors” of poverty and unemployment. The desire to escape poverty and chronic conditions of unemployment and underemployment lead many migrants to move on an irregular basis, such as Indonesians migrating

to Malaysia, and Cambodians, Lao, and people from Myanmar migrating to Thailand.

### **Stylized Fact 5: The Share of Female Migrants Has Been Increasing in East Asia and the Pacific**

Another significant characteristic in recent years has been the rising share of female migrant workers in the region. Females now account for the majority of migrant flows from Indonesia. Females also accounted for a larger proportion of migrant workers from Vietnam in the second half of the last decade than in the first half. In the Philippines, generally more females migrated each year than males during the first decade of the 2000s, except for a slight dip in 2007–08. With regard to migrant stock, it was estimated that in 2000, the number of female migrants surpassed that of male migrants in the region: 5.0 million females versus 4.9 million males (Lee 2005). Although the most frequent destination for female migrants from Indonesia is Saudi Arabia, women are increasingly finding employment in other East Asian countries, such as Hong Kong SAR, China; Malaysia; Singapore; and Taiwan, China (Nguyen and Purnamasari 2011). Close to half of the migrants who migrate from Lao PDR and Cambodia to Thailand are women. More than two-thirds of the Indonesian and Filipino migrants to Hong Kong SAR China; Japan; and Singapore are women. In China, females as a proportion of the migrant population have been increasing rapidly since the mid-1990s: a study covering six provinces in China found that between 1995 and 2000 the migration rates of women increased twice as fast as those for men (IOM 2009). In the Pacific Islands of Fiji and Tonga in 2005, approximately half of all migrants were women (World Bank 2006a). The increasing share of female migrants in East Asia and the Pacific has important effects on development in labor-sending countries, such as how remittances are used by households and how children are cared for in households with absent female members.

Most of the female migrant workers in the region find work as household helpers. Working in household situations, female migrants can find themselves isolated and subject to abuse. Smaller numbers of female migrants work as entertainers, where they may also find themselves in difficult conditions. Finally, some female migrants find themselves forced or compelled to work in the sex industry. Trafficking to work in sex and other illicit industries is not within the scope of this report, but its magnitude and effect on female workers is significant and is discussed in box 1.3.

### Box 1.3: Human Trafficking in East Asia and the Pacific

Human trafficking is defined by the United Nations as the “recruitment, transportation, transfer, harboring or receipt of persons, by means of threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation” (UN 2000). It is used as an umbrella term for forced labor, sex trafficking, bonded labor, debt bondage among migrant laborers, involuntary domestic servitude, forced child labor, child soldiers, and child sex trafficking.

Human trafficking is conducted on a large scale in the East Asia and Pacific region. As of 2008, the International Labour Organization (ILO) conservatively estimates that at least 2.45 million trafficking victims were being exploited worldwide and that another 1.2 million were trafficked annually, both across and within national borders. Asia and the Pacific account for *more than half* of these trafficking victims at an estimated 1.36 million (ILO 2008). The Southeast Asia region has the largest numbers of internationally trafficked persons, likely to be close to 225,000. It is believed that the largest numbers of women are trafficked *within or from* Asia.

A highly profitable industry, human trafficking is the third most lucrative illicit business in the world after arms and drug trafficking, and it is a substantial source of organized crime revenue. The industry generates an estimated US\$7 to US\$12 billion annually from the initial sale of persons, and an additional estimated US\$32 billion is generated annually from the exploitation of

trafficked victims. Almost a third of these earnings are generated in Asia (ILO 2008).

Studies show that women and girls are the main victims of sexual exploitation in East Asia and the Pacific. Women are also more likely than men to be trafficked for economic exploitation. Although women and children seem to be at higher risk for exploitation, men are also trafficked within and from the region.

The Greater Mekong Subregion and Indonesia are two main hubs for human trafficking. Thailand is both a destination and source country and serves as a transit hub to other Asian countries, Australia, the United States, and Western Europe. An ILO study conducted in two of Yunnan’s southernmost counties found that most women and children are trafficked for forced marriage or adoption. Rural men are willing to pay substantial sums for a trafficked bride who can bear children and extend the family line. Families will pay traffickers for infant boys, whom they will adopt as their own (ILO/IPEC 2002). In countries such as Japan and Korea, the majority of human trafficking reported is in the sex trafficking industry. In Cambodia, migration for household work is strongly linked to commercial sexual exploitation—as many as 51 percent of commercially sexually exploited women and girls were previously household workers. This same study finds that 89 percent of child household workers are female (IOM 2008).

The majority of human trafficking attention and literature focuses on sexual exploitation; however, the ILO estimates that 32 percent of all victims are trafficked into labor exploitation, 43 percent are trafficked for sexual exploitation, and 25 percent for a mixture of

*(continued)*

**Box 1.3** *continued*

both (ILO 2008). People are trafficked for forced labor in economic sectors including agriculture, construction, household service, and restaurants (ILO 2008). Although most human trafficking occurs to exploit labor or for prostitution, other forms include the removal of a victim's organs, forced marriages, psychological exploitation and abuse, and the abduction and adoption of children.

Research has been conducted to better understand the risk factors that promote the supply of trafficked persons. At the individual level, women and young adults are the most vulnerable gender and age group. Those who are unemployed, are from a minority group, or have low levels of education are at higher risk. At the household level, poverty plays a significant role. Alcoholism, violence, and family instability in the household are also risk factors. Trafficking victims normally come from geographically isolated, poor rural areas, and given that most trafficking victims are women, gender inequality is a critical risk factor (Clert and others 2005). Potential migrants with limited access to information about legal migration, and with little to no money to pay for migration-related costs, are at higher risks of trafficking than those who do have access to information and can cover financial costs (Koettl 2009).

More research is being conducted on the demand side of trafficking, that is, the role of the destination country and the people profiting from the industry. The ILO carried out a study in the Greater Mekong Subregion and found that, in the context of labor exploitation, factors include employers' demand for cheap and vulnerable labor, requirements for household and subsistence labor, and consumer demand for cheap goods and

services. This study focused on fisheries, manufacturing, household work, and agriculture sectors in Thailand, where work is considered filthy, difficult, and unsafe. Recent economic prosperity in Thailand provided natives with an increasing number of higher-paying employment opportunities, and as a consequence, migrant labor has filled these lower-paying or less desirable sectors (ILO 2008).

The global phenomenon of human trafficking demands attention at local, national, and international levels. Although a number of interventions and approaches aim to reduce the vulnerability of those most at risk (namely women in poor communities), knowledge about which of these interventions and approaches actually work is severely limited. Therefore, there is much progress to be made to actively address this problem.

World Bank research provides suggestions for the Bank's possible role in addressing human trafficking, outlining possible areas of intervention: (1) broadening the scale and scope of its projects and programs that directly tackle issues relating to nonconsensual exploitation; (2) applying its expertise as a knowledge bank (that is, by collecting data and improving upon data-gathering methodologies, conducting critical research, and launching impact evaluations with the object of identifying best practices); (3) participating in partnerships with governments, other international organizations, nongovernmental organizations, and other civil society organizations; and (4) providing leadership through advocacy and the privileged access the World Bank enjoys to world leaders (Koettl 2009).

Criminals continue to view trafficking as lucrative and relatively low risk despite

*(continued)*

**Box 1.3** *continued*

increased law enforcement and public awareness. To effectively address this problem, improvements must be made in the ratification of national laws against human trafficking and the enforcement of these laws and regulations. National and regional policies focusing on prevention, prosecution, protection, and rehabilitation of victims will strengthen newly adopted laws. Governments, international organizations, nongovernmental organizations, and civil society organizations can play a part in the regulation and monitoring of the labor recruitment process. The ILO has provided assistance and guidance to many government bodies to aid the formation of gender-balanced migration policy and to strengthen migration management capacity aimed at reducing trafficking of young women through (1) developing an enforcement system for the licensing of job recruitment agencies and the regular monitoring of their activities; (2) promoting the creation of a single labor market information system about work opportunities, both at home and abroad; (3) promoting the establishment of job placement centers around the country

and cooperation between private sector employers and state employment services; and (4) promoting targeted gender-sensitive employment and training programs that contribute to the reduction and prevention of trafficking in women and provide integration of those already trafficked (ILO 2008).

Efforts should be made to empower vulnerable persons through employment, education, and vocational training.

Businesses and trade unions should be brought into the dialogue of human trafficking prevention. For example, the Chinese Enterprises' Confederation has been in cooperation with the ILO since 2006 to raise Chinese employers' awareness of the risks of human trafficking and to promote self-regulation and law-abiding practices (ILO 2008). Finally, efforts should be made to mainstream gender in antitrafficking programs. "Anti-trafficking interventions have to strike a careful balance between addressing the special vulnerabilities of women while at the same time recognizing their voluntary decisions" (ILO 2008, 29). Efforts to protect women should not infringe on their right to free movement.

## **Macroeconomic Importance of International Migration in Labor-Sending Countries**

Migration and remittances have significant macroeconomic impacts on labor-sending East Asian and Pacific Island economies. Although the importance of remittances for the relatively small Pacific Island economies is to be expected, the importance of remittances for the large economies of the Philippines and Vietnam is also significant but somewhat mixed. This section focuses on the macroeconomic effects of migration on labor-sending countries: the impact on macroeconomic stability and the impact on economic growth.

## International Migration, Remittances, and Macroeconomic Stability

The economic impact of international remittances on the macroeconomic stability of labor-sending countries is fairly straightforward. When remittances are large relative to the economy, they play a key role in helping to finance trade deficits and in raising the financial reserves of remittances-receiving countries. To the extent that remittances finance imports or their inflows are sterilized through central bank operations, they can also help to stabilize prices and exchange rates. When remittances help to raise reserves, they also boost the macroeconomy by raising confidence and improving expectations. These developments can have beneficial effects on interest rates and capital flows.

Remittances make up a sizable proportion of gross domestic product (GDP) in several of the countries of the heterogeneous East Asia and Pacific region. According to table 1.5, the share of remittances in GDP ranges from a low of less than 1 percent in large countries like China and Indonesia to a significant 6 percent to 10 percent of the GDP of Vietnam and the Philippines, respectively, and a very substantial 15 percent to 20 percent of GDP in small island nations like Samoa and Tonga.

International remittances also play a critical role in stabilizing the external account, thereby reducing economic volatility. As table 1.6 shows, international remittances financed 5 percent of imports in China and up to 99 percent of imports in the much smaller country of Tonga. Remittances also financed more than twice the current account deficits of Vietnam and more than five times the deficits of Tonga and Samoa. In Vietnam, annual remittances were about half of foreign exchange reserves and more than 71 percent of reserves in the Philippines. On the basis of

**Table 1.5 International Remittances as a Share of GDP, 2012**

Country	Remittances (billion US\$)	Percentage of GDP
China	57.8	0.7
Philippines	24.6	9.8
Vietnam	10.0	6.4
Indonesia	7.2	0.8
Tonga	0.07	14.8
Samoa	0.139	20.3
Kiribati	0.008	4.6

Sources: EAP Chief Economist's Tables; and World Bank 2013a, 2013b.

**Table 1.6 International Remittances Help to Boost Current Account Balances**

Country	Remittances, percentage share of past five-year average values					
	GDP (2009)	Exports	Imports	Current account	Net foreign direct investment	Reserves
China	1.0	4.3	5.2	15.7	63.4	3.1
Philippines	12.2	43.4	38.7	369.6	1,119.7	71.3
Vietnam	7.3	14.4	12.0	-148.5	138.4	43.1
Indonesia	1.2	6.1	8.1	104.5	225.4	13.5
Tonga	27.9	716.1	99.6	-581.3	809.3	174.6
Samoa	23.6	1,122.0	68.5	-400.3	2,696.5	156.6

Sources: World Bank 2011b; World Bank, World Development Indicators; and Haver Analytics.

these figures, it is evident that without remittances, imports, exchange rates, and foreign exchange reserves of most East Asia and the Pacific countries would have been under serious pressure, possibly adversely affecting growth.

International remittances can also help overall debt sustainability in labor-sending countries through two channels: (1) by helping to finance household consumption and investment and (2) by providing seigniorage revenue to receiving economies. Households receiving remittances can finance consumption or investment expenditure through remittances and thereby avoid taking on debt, which helps the debt sustainability of the country. To the extent that remittances also increase the overall demand for money, they help to ease the intertemporal budget constraint of the government by providing it with seigniorage. From this perspective, remittances help improve the fiscal sustainability of the government.

However, the positive effect of international remittances on macroeconomic management can be negated if a country becomes overly reliant on them for financing trade deficits or providing reserves for saving and investment. This can happen for two reasons: First, countries can become more exposed and dependent on external economic factors. Although the labor-sending countries in the region have not experienced major disruptions in remittances, countries in Latin America and Eastern Europe have experienced such disruptions. Even in East Asia and the Pacific, Vietnam suffered from a disruption in remittances flows in 2008, helping to create macroeconomic imbalances in that economy. Second, in the long term, an overreliance on remittances can have a negative impact on economic growth.

## **International Migration, Remittances, and Long-Term Growth**

The impact of international migration and remittances on economic growth in labor-sending countries is ambiguous in theory and in practice. On the positive side, migration and remittances can help long-term growth by (1) reducing macroeconomic volatility, (2) boosting saving and investment, (3) fostering financial deepening, and (4) supporting knowledge and technology transfer through the knowledge of migrants, especially those who have returned. On the negative side, migration and remittances can adversely affect growth through (1) the so-called Dutch disease effect under which remittances cause an appreciation in the domestic currency, thereby reducing the competitiveness of exports and tradables; and (2) depleting the human capital of the economy through brain drain. There is also a third possible negative effect of remittances, which is a deeper version of the Dutch disease syndrome. In this scenario, an overreliance on remittances can reduce the incentives to strengthen institutions to support development.

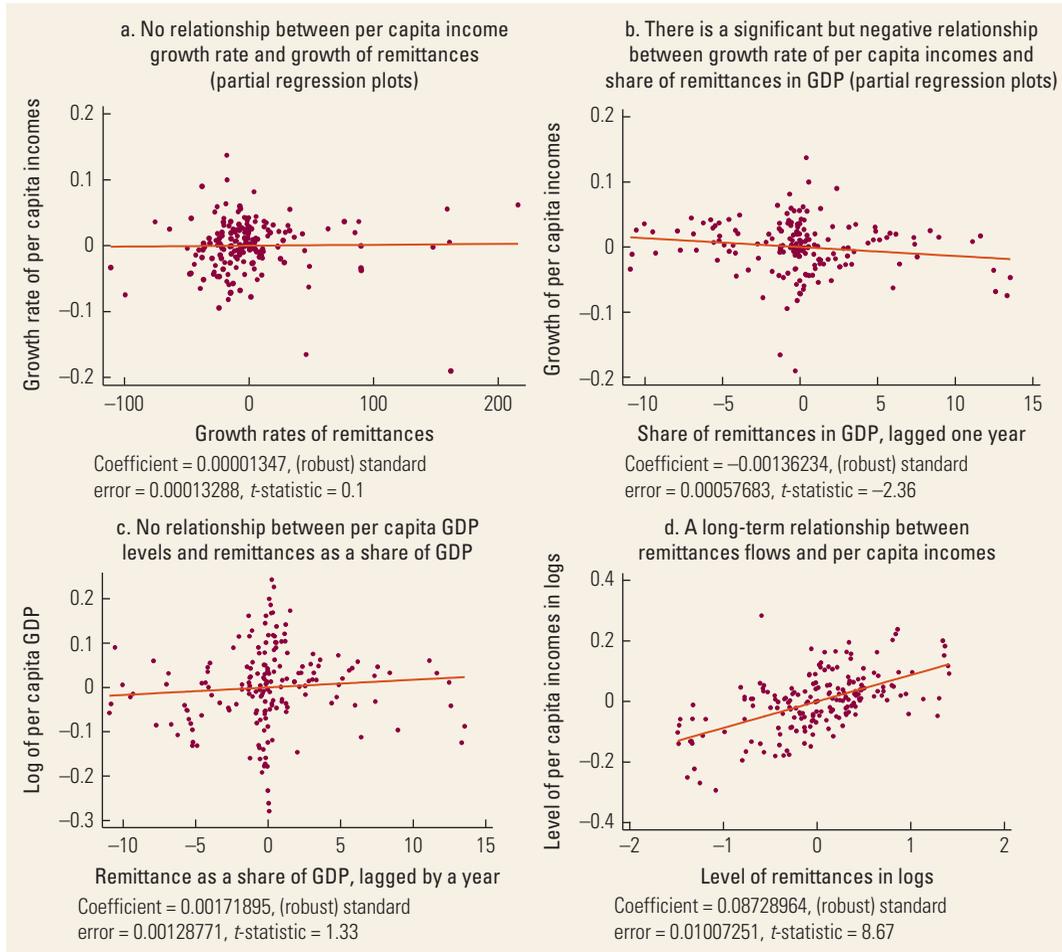
Given these offsetting factors, the relationship between remittances and growth is weak. Previous studies relating the receipt of remittances to cross-country growth found that an increase of remittances by 1.6 percentage points of GDP increased growth rates on average by only 0.3 percentage points. Later studies that tried to account for the channels through which remittances affect growth—education, financial market depth, and institutions—show an even more ambiguous relationship between remittances and growth. Other studies surveyed (Chami and others 2008) are fairly unanimous in highlighting a weak relationship between remittances and economic growth.

In the East Asian region, remittances and growth also appear to have an ambiguous relationship. Using a panel of the nine sending countries in the region, per capita income growth rates show not even a slightly negative relationship with the growth rate of remittances (panels a and b of figure 1.5).<sup>3</sup> The per capita income growth rate can have a weak correlation with the share of remittances in GDP (figure 1.5 panel b). Finally, the level of per capita GDP also appears to have no relationship to the share of remittances in GDP (panel c of figure 1.5). These results hold regardless of whether investment rates are taken into account. However, there may be a long-term effect as seen in the correlation between total GDP levels and the levels of remittances (figure 1.5 panel d).

## **International Remittances and Investment Rates**

As noted earlier, international remittances can affect economic growth through several channels. Among these channels, the role of remittances in increasing growth by reducing volatility is relatively uncontroversial, but the

**Figure 1.5 Growth and Remittances**



Sources: Remittances data from World Bank (2011b); other macroeconomic data from the East Asia and Pacific database.

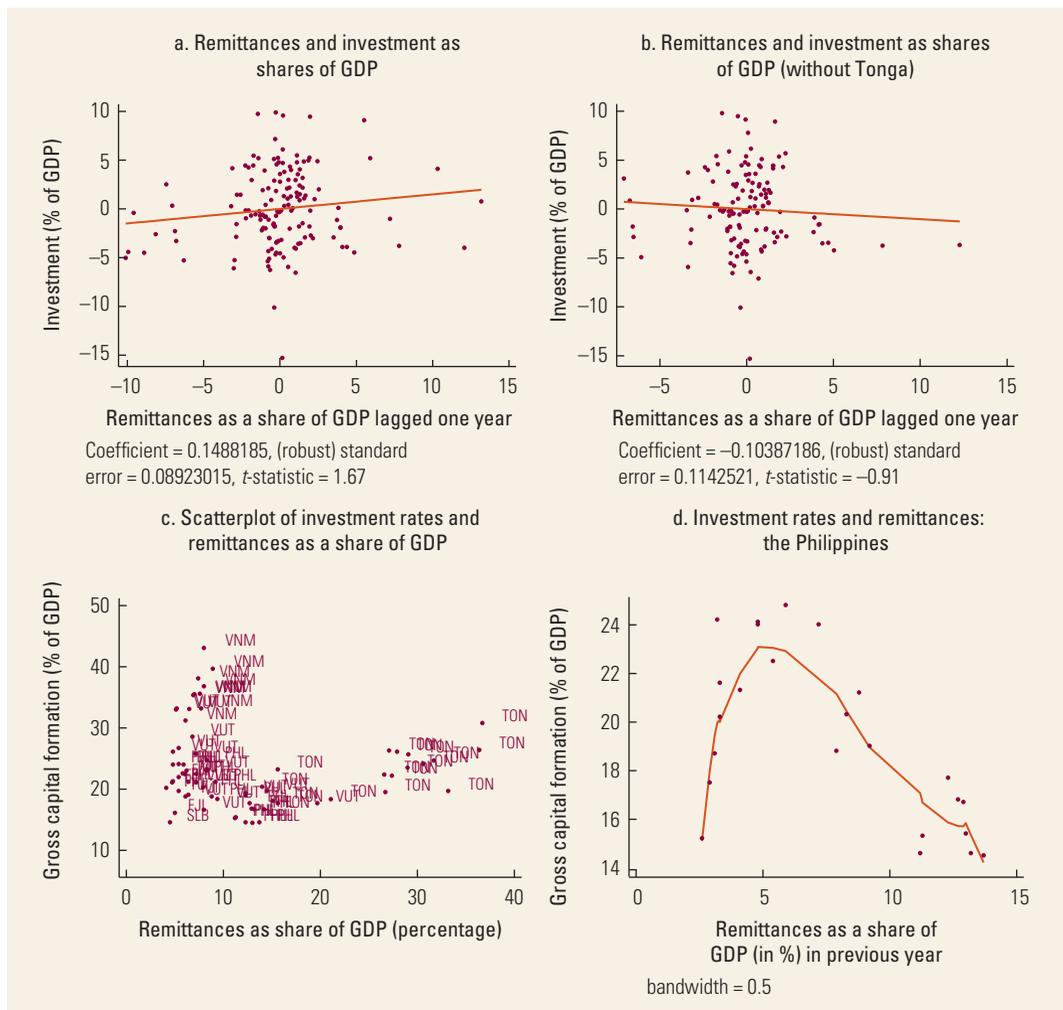
Note: These and similar figures in this chapter reflect the  $\beta$  derived from a panel estimation in the equation

$$y_i = \alpha_i + \beta \times \text{Remittances}_{it} + \gamma \times \text{Country Dummies}_{it} + \delta \times \text{year} + \varepsilon_{it}$$

Here,  $y_i$ , the dependent variable of interest, is plotted in the vertical axis. Remittances are measured as a share of GDP or as the log of remittances in U.S. dollars, usually lagged one year. In effect, this is a bivariate regression or correlation with country fixed effects and time trends. This specification accounts for stationary omitted variables and time trend or drift in the variables. Omitted variables that create endogeneity or reverse causality can only be accounted for by instrumental variables.

role of remittances in boosting savings and investment is less clear. Globally, cross-country research suggests that, on average, remittances have a slight positive effect on savings and investment in labor-sending countries. However, the evidence for East Asian economies is more ambiguous. Taking into account all the countries in the region, on average, a 1 percentage point increase in the

**Figure 1.6 International Remittances as a Share of GDP and Fixed Investment as a Share of GDP, Based on Data from 1985 to 2009**



Sources: Derived from World Bank (2011b) and World Bank data.

Note: See note to figure 1.5. FJI = Fiji, PHL = Philippines, TON = Tonga, VNM = Vietnam, VUT = Vanuatu.

share of remittances in GDP is associated with an increase in the share of fixed investment of only 0.16 percent to 0.19 percent (panel a of figure 1.6).

However, this relationship is not robust and is wholly driven by Tonga. If Tonga is excluded from the analysis, the relationship between remittances and fixed investment becomes slightly negative and statistically insignificant. Consider the four major labor-sending countries in East Asia and the Pacific: Indonesia, the Pacific Islands, the Philippines, and Vietnam (represented in figure 1.6). For the most successful labor-sending country, the Philippines, remittances have not led to higher saving or investment rates (panel d of figure 1.6). Thus, while the Philippines has the most significant remittances flows in the region, it has the lowest saving and investment rates. Similarly, there is little direct evidence to suggest that remittances have led to higher saving or investment in Indonesia. Although remittances to Indonesia have increased more than fivefold over the past decade, the country's investment rates have remained largely flat.

### **International Migration and Technology Transfer**

Another major channel through which international migration can foster growth is through the transfer of knowledge or technology, especially when migrants return home, or through the activities of long-term migrants, that is, the diaspora. The hypothesis is that migrants are exposed to new knowledge, technology, and experience in their work abroad, and they can transfer this knowledge via communications or when they return. This knowledge can also show up in new enterprises that migrants launch or finance through overseas investment. Case studies suggest that returning migrants can be a major source of entrepreneurship, technology, marketing knowledge, and investment capital (Brinkerhoff 2006a, 2006b; Kapur 2001). For example, migrants returning to Egypt tend to have higher levels of human capital than nonmigrants and are likely to be more entrepreneurial the longer they work abroad (McCormick and Wahba 2003).

The empirical work on this topic is only beginning in East Asia and the Pacific. In Vietnam, some efforts have been made to collect data, but these efforts suffer from selection bias because they exclude returned migrants who have relocated to urban areas. These excluded migrants are likely to be the most productive and entrepreneurial. Not surprisingly, the collected data in Vietnam show little evidence of new technology transfer by returned migrants. More research has been done on the transfer of technology by the diaspora population. For example, the high-skilled diaspora from India has contributed to the growth of the information technology

sector, outsourcing, and foreign direct investment in that country (Kapur and McHale 2005; Pandey and others 2006). Similarly, nearly half of the \$41 billion in foreign direct investment that China received in 2000 may have originated from its diaspora abroad (Wei 2004). Similarly, 60 percent of the increase in bilateral trade in differentiated products within Southeast Asia may be attributable to ethnic Chinese networks (Rauch and Trindade 2002). It is possible that the level of technology transfer from the diaspora community in large countries such as India and China may not be directly applicable to the smaller economies in the region.

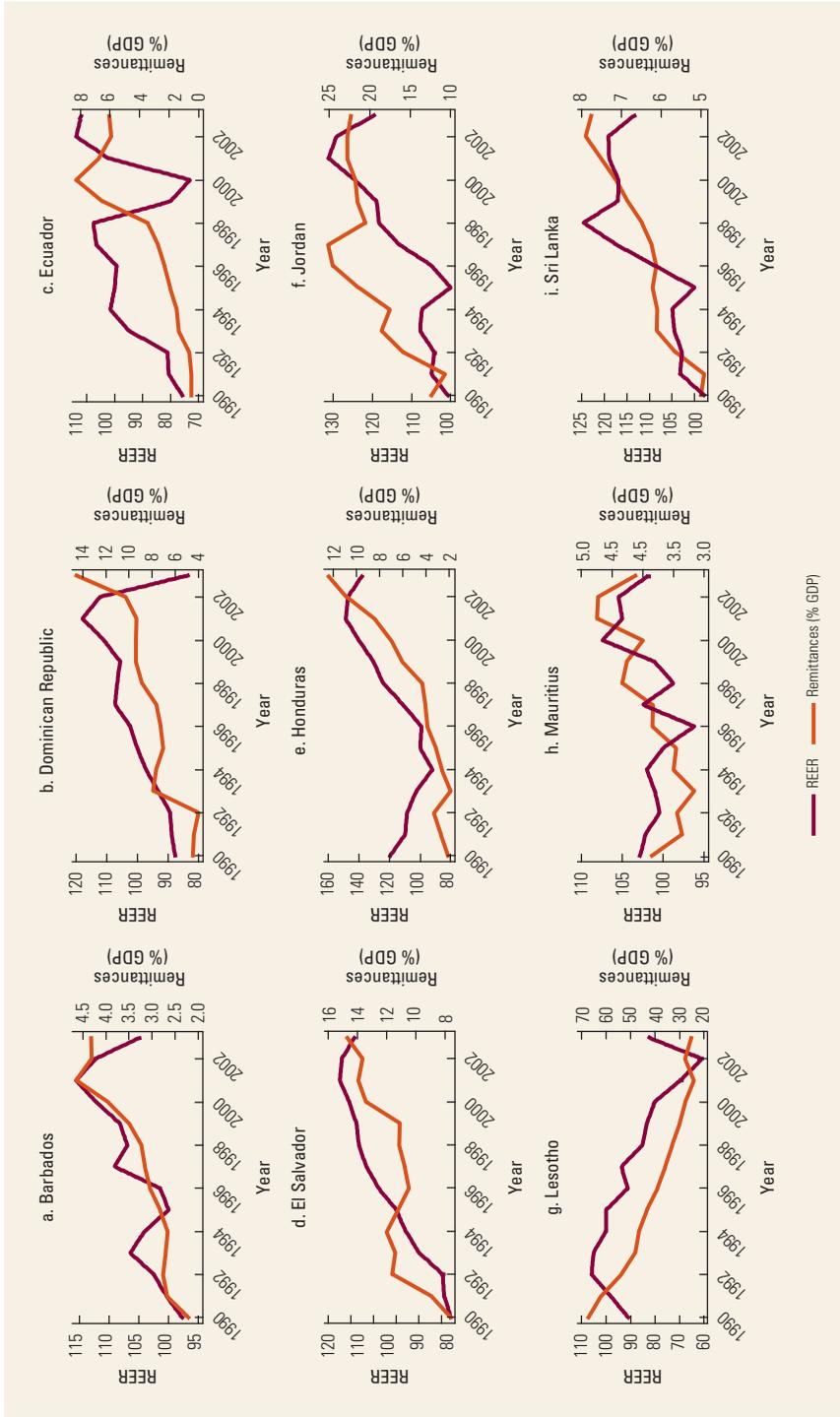
Set against the evidence of technology gains from migrant workers are the real costs of skilled emigration from skill-constrained developing countries. As noted earlier, the East Asia and Pacific region has contributed significantly to the flow of skilled worker migration to countries outside the region. Given that such migration has taken place against a backdrop of growing skill shortages in the region's economy and the need for the economies to raise productivity, the net effects of migration on technology transfer are ambiguous at best. The experience of China does, however, suggest that if conditions are conducive to investment and new technology in sending countries, migrants can make an important contribution.

### **Dutch Disease and Deep Dutch Disease: The Effects on Competitiveness and Institutions**

As noted, a large flow of remittances can create pressures to appreciate the equilibrium exchange rate. This is analogous to the classic Dutch disease, in which exchange rates appreciated because of natural resource earnings from oil. Such exchange rate appreciation, if significant, can erode the receiving country's competitiveness in the tradables sector by driving up unit labor costs. This, in turn, can have long-term dynamic consequences if it affects the country's ability to compete on the world market. Research on countries across the globe is quite unambiguous: when remittances flows are relatively large they lead to real currency appreciation and a loss of competitiveness in tradable goods on the world market (figure 1.7).

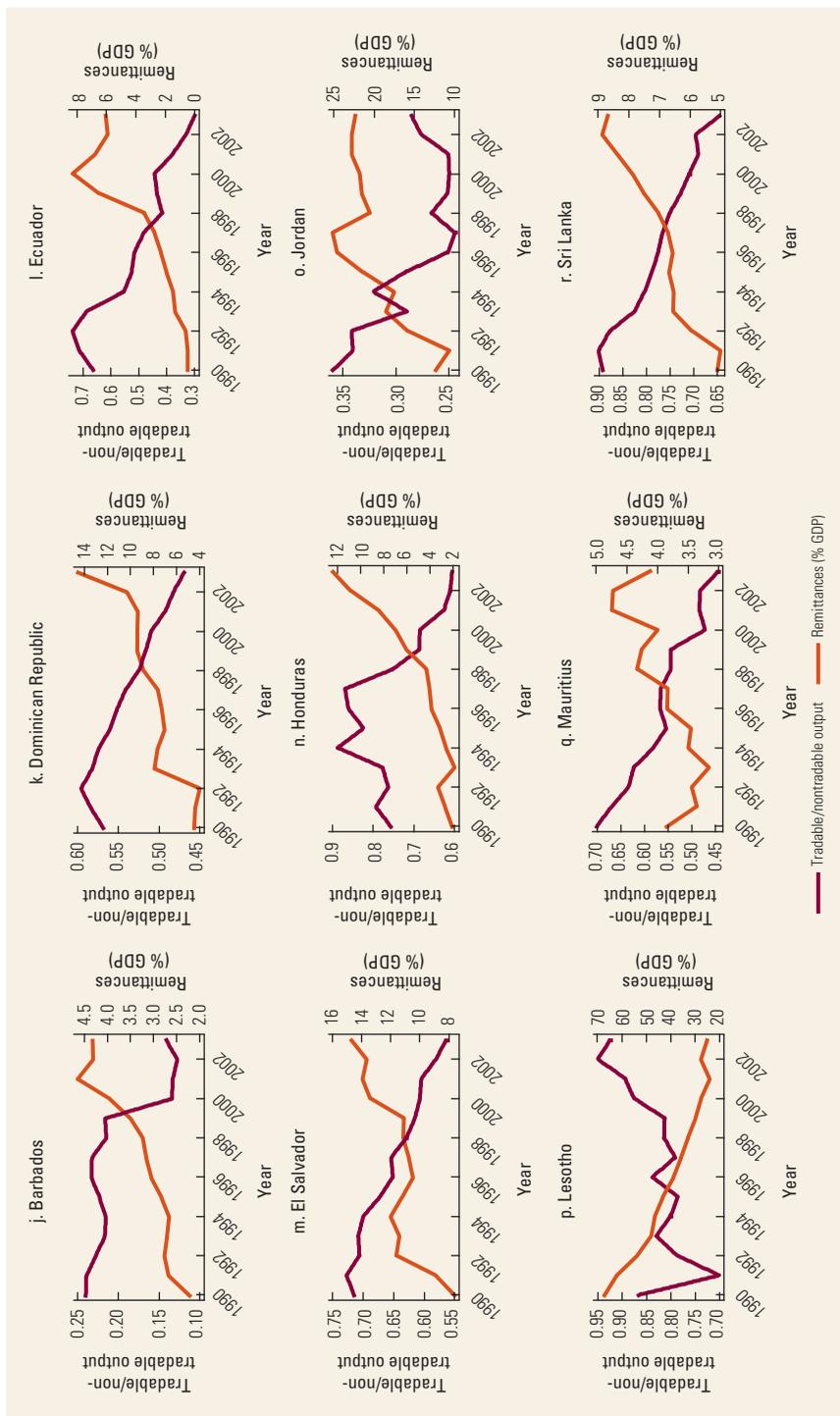
Although at first glance, countries in the region seem to have resisted Dutch disease pressures, that turns out to be inaccurate. As a result of good macroeconomic management and significant depreciation of the real exchange rate since the 1997 Asian financial crisis, the real effective exchange rates in East Asian countries have been reasonably stable for the past 15 years. For this reason, remittances and the real effective exchange rate seem to be delinked, or even slightly negatively linked (panel a of figure 1.8). However, when the relationship between remittances and the

**Figure 1.7 Remittances Generate Real Effective Exchange Rate Appreciation**



(continued)

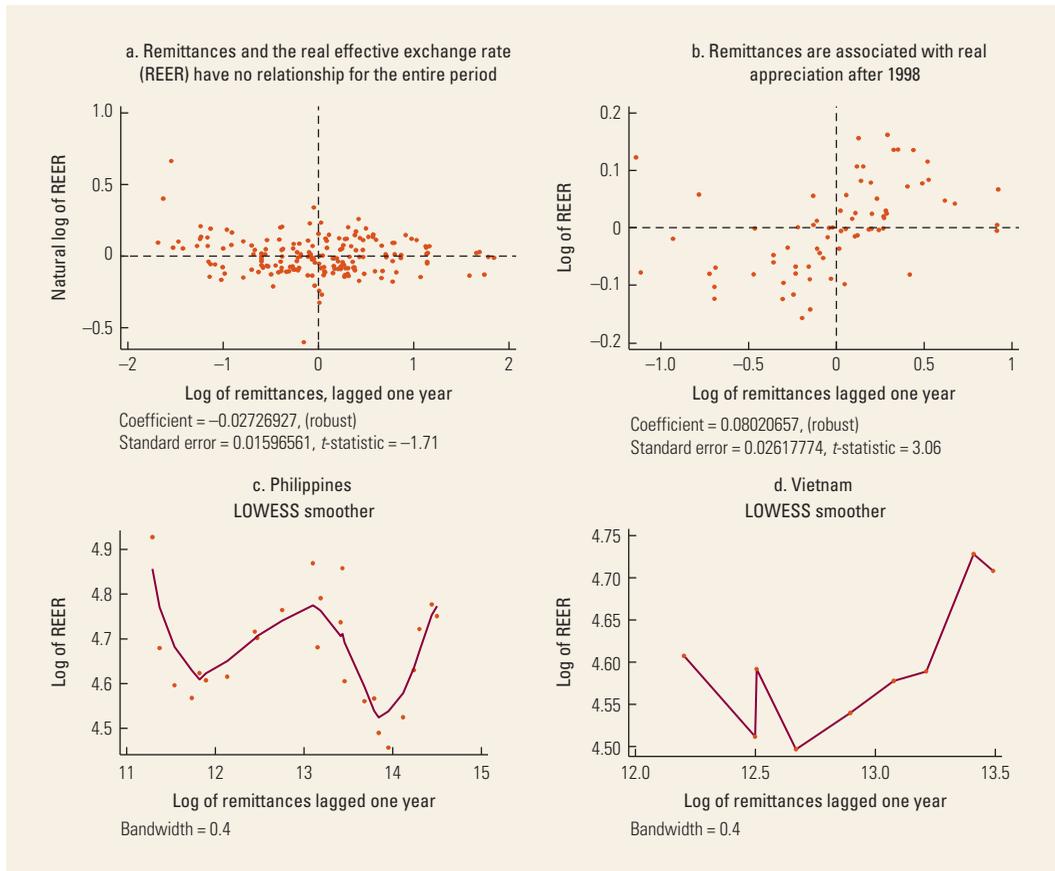
**Figure 1.7 Remittances Generate Real Effective Exchange Rate Appreciation (continued)**



Source: Acosta, Fajnzylber, and Lopez 2008.

Note: See note to figure 1.5.

**Figure 1.8 Remittances-Driven Dutch Disease in East Asia and the Pacific, 1986–2009**



Note: REER = real effective exchange rate. See note to figure 1.5. The “LOWESS smoother” graphs the relationship between two variables based on locally weighted regressions, that is, fitting regression models to localized subsets of data.

real effective exchange rate is plotted after 1998, a significant positive relationship emerges, implying the presence of Dutch disease (panel b of figure 1.8). This positive relationship is especially evident in the two large remittances-receiving countries: the Philippines and Vietnam.

The Philippines may represent the most extreme example of this phenomenon. The Philippines is arguably the most successful labor-sending and remittances-receiving country in the region, yet it has also systematically lagged in its rate of economic growth in comparison with its neighbors.

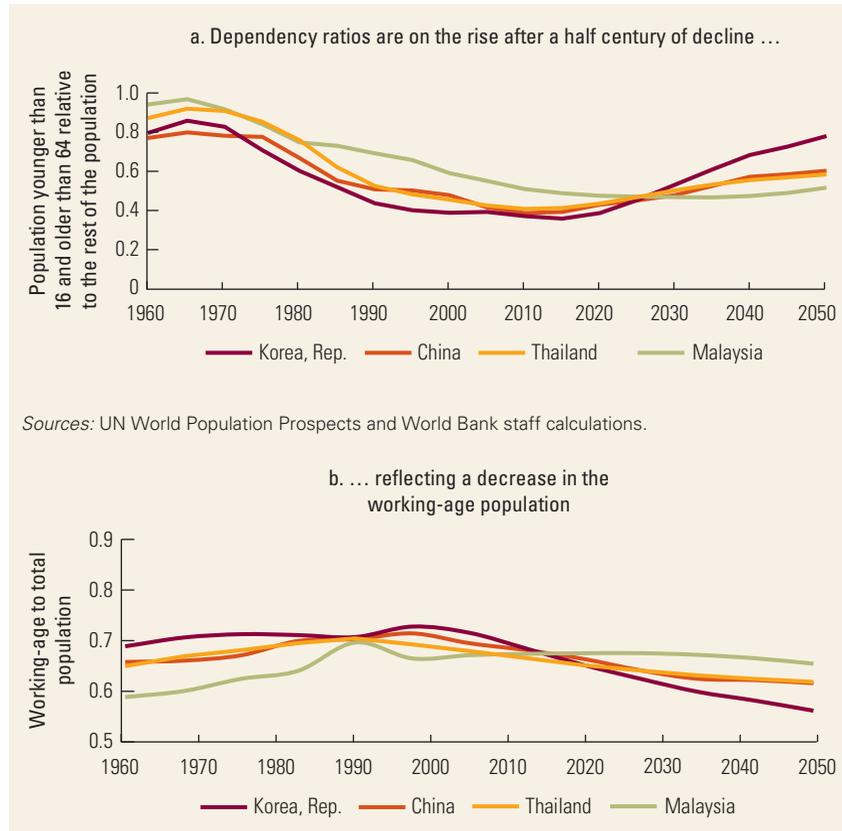
This impression came out at the ground level in roundtable discussions that the Scalabrini Migration Center conducted in 2007. As part of the preparation for the conference on international migration and development, eight discussions were undertaken in eight different clusters (migration-related government agencies, human resource development government agencies, national development government agencies, local development agencies, migration-oriented nongovernmental organizations, international organizations, foundations engaged in social responsibility, and recruitment agencies). All the roundtable discussions focused on assessing the migration-development nexus. The outputs revealed that there is more “disconnect” than nexus between migration and development, especially when it comes to national and local policies. During the discussions some Philippine government officials even questioned the existence of any link between international migration and development. To the contrary, it seems that the excessive reliance on remittances (Baggio 2009) has kept the government from pursuing real policy reforms that would have improved the performance of the domestic economy and reduced the need for overseas employment.

These developments in the Philippines point to a possible deeper malaise arising from international migration and remittances, namely a weakening of domestic institutions.<sup>4</sup> The idea is that the steady availability of foreign exchange reduces the foreign exchange constraint and the incentives for economic reform. This, combined with a steady loss of skilled labor and educated professionals, means that productive inputs are not only being taken from the economy, but the pressures to reform economic institutions are also reduced. In the end, a highly successful migrant country earning large external resources emerges, but it is less able to use these resources in a productive way to generate growth and reduce poverty.

## **Demographic Transitions and International Migration**

In the near future, rapid demographic transitions will increase the pull factors for international migration in East Asia and the Pacific. Current demographic projections predict sharp increases in dependency ratios across the region over the next 30 to 40 years.<sup>5</sup> These shifts will reverse the favorable demographics that the region enjoyed for the last half century, when dependency ratios fell by one-third while the share of the working-age population grew (figure 1.9). The share of the working-age population to total population in East Asian countries will decline by 10 to 20 percentage

**Figure 1.9 Sharply Changing Demographics in the East Asia and Pacific Region**



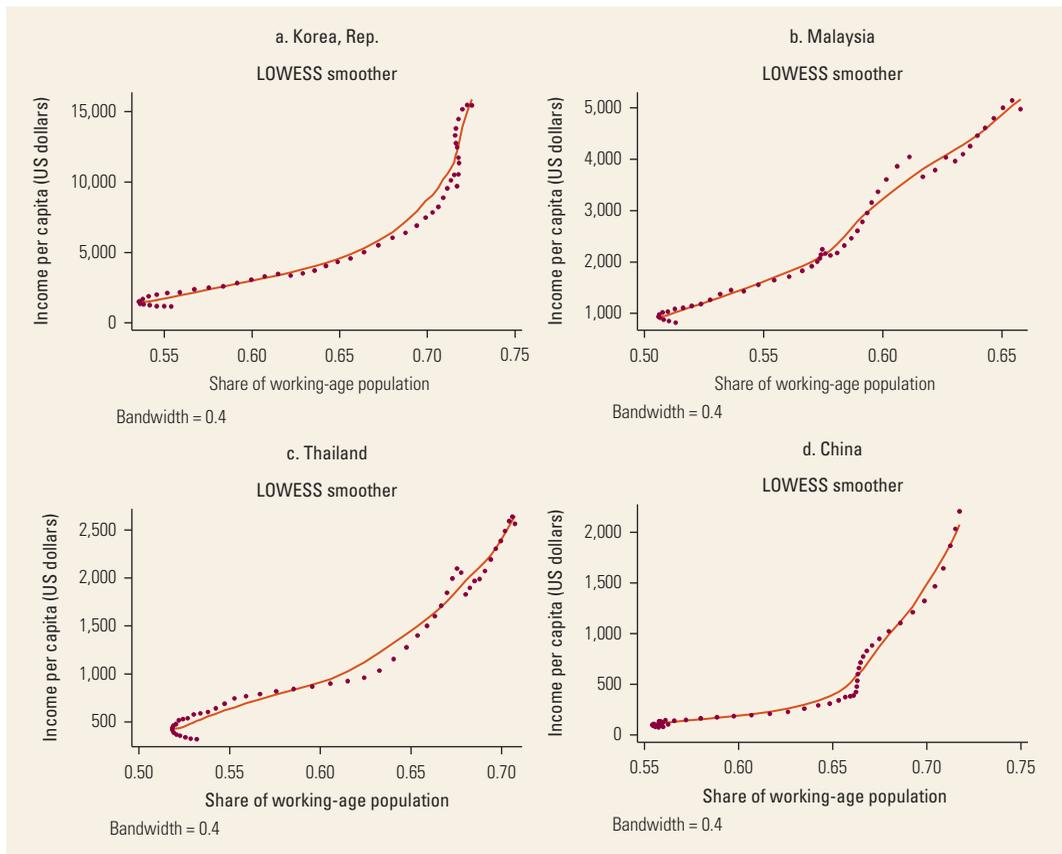
points or more during the next three or four decades. The Japanese labor force has already started declining and the labor forces of China; Hong Kong SAR, China; Korea; Singapore; and Taiwan, China will begin shrinking between 2020 and 2025.

Such declines in the labor force can have significant consequences for growth. Favorable demographics are estimated to have contributed to about a third of the increase in per capita incomes between 1966 and 2005, on average, in East Asian and South Asian economies (Bloom and Finlay 2009; Kelley and Schmidt 2005). The share of working-age population and per

capita incomes were strongly correlated throughout the region as illustrated in figure 1.10. The accounting links between the share of working-age population and per capita incomes are straightforward, as explained in box 1.4. The actual links are, however, more complex because of offsetting factors, also elaborated below.

The correlation between dependency ratios and growth rates is not spurious—there are strong causal and accounting linkages between changes in these demographic variables and growth rates. Box 1.4 explains how per capita income growth is linked directly to demographic variables such as

**Figure 1.10 Correlation between Share of Working-Age Population in Total Population and per Capita Incomes, 1950–2009**



Sources: Estimated from World Development Indicators and United Nations population projections data.

Note: See note to figure 1.5. The “LOWESS smoother” graphs the relationship between two variables based on locally weighted regressions, that is, fitting regression models to localized subsets of data.

### Box 1.4: Growth Accounting: Demographics Affect per Capita Incomes

The links between the share of working-age population, per capita incomes, and growth are straightforward in growth accounting. The growing proportion of workers to dependent population directly translates into higher per capita income. Per capita income growth can thus be decomposed into the growth of labor productivity, the employment rate, and demographic dividends. And, all else equal, the share of the working-age population has a strong impact on per capita incomes.

Consider the following identity:

$$\frac{\text{GDP}}{\text{Population}} = \frac{\text{GDP}}{\text{Labor}} \times \frac{\text{Labor}}{\text{Working-age population}} \times \frac{\text{Working-age population}}{\text{Labor}}.$$

This identity says that per capita income level is the product of (1) labor productivity, (2) the employment rate, and (3) the share of working-age population in total population. Substitute  $Y$  for GDP,  $L$  for Labor,  $P$  for population, and  $WAP$  for working-age population. From the above identity the following can be approximated:

$$\text{Growth of } \left( \frac{Y}{P} \right) = \text{Growth of } \left( \frac{Y}{L} \right) + \text{Growth of } \left( \frac{L}{WAP} \right) + \text{Growth of } \left( \frac{WAP}{P} \right).$$

the share of working-age population in total population, labor market variables such as employment rates, and productivity growth. According to the accounting relationship described here, all else remaining the same, the increases in dependency ratios and the decline in the share of the working-age population implied by it could lead to a fall in per capita incomes in these countries of nearly one-third.

Empirical research by Bloom and Finlay (2009) finds that the working-age share and labor force growth rates remain important contributors to Asian growth. Columns I and II of table 1.7 demonstrate the importance of these two population variables for growth. For Singapore, for example, the labor force growth rate contributed to 2.21 percent of average economic growth between 1965 and 2005, with the growth of the working-age share of the population contributing to more than half of average growth in the same period. However, when the study applies projected growth of the working-age shares and population to determine their contribution to future economic growth for countries of the region, it is found that, with the exception of Malaysia this contribution becomes negative as a result of the demographic changes (column III, table 1.7).

**Table 1.7 Contributions to Economic Growth**

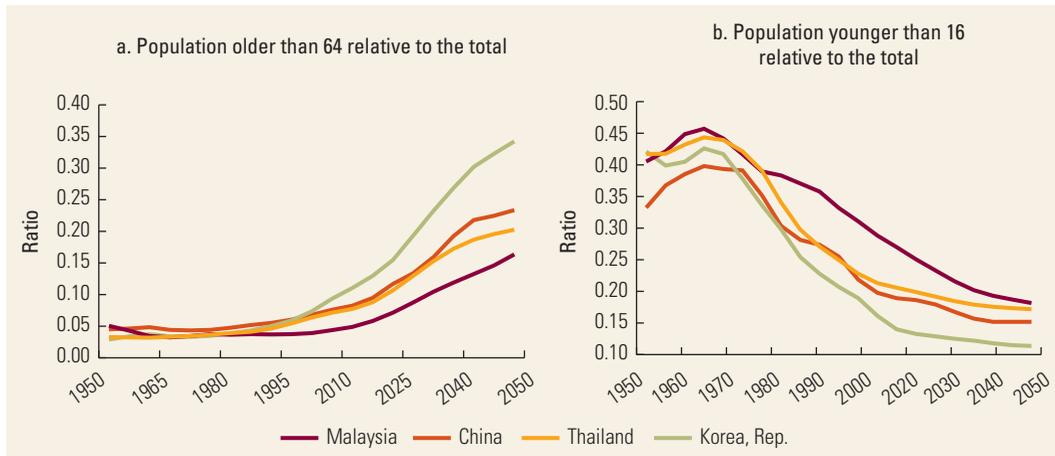
	Labor force and population (1965–2005)	Working-age share and population (1965–2005)	Working-age share and population (2005–50)
	I	II	III
China	0.91	16.46	–0.36
Japan	0.35	9.53	–0.91
Korea, Rep.	2.01	36.4	–0.87
Singapore	2.21	51.13	–0.78
Southeast Asia			
Indonesia	1.19	41.01	–0.05
Malaysia	1.12	26.71	0.13
Thailand	0.88	20.81	–0.45

Source: Reproduced from Bloom and Finlay (2009).

Another set of factors that will increase the impact of the demographic transition on growth arise from the effects of population aging. Unlike in the mid-20th century when the large dependent population was mainly young, the dependent population of the next few decades will be mainly elderly (figure 1.11). This shift will lead to increasing fiscal and health costs that can crowd out productive investments. The actual impact will depend on the level of development and the pension and health care systems prevalent in each country. At present, developing countries in East Asia and the Pacific have relatively moderate pension penetration and income replacement ratios. However, many have already begun the process of increasing access to social insurance systems. A rapidly increasing share of the population is expected to become eligible to receive larger pensions compared with current levels during the next two to three decades, increasing by a factor of almost five for the middle-income segment and more than 10 for the lower-income segment.

As societies age, health care costs are also likely to rise substantially for several reasons. First, per capita expenditures for health care are strongly correlated with age. Second, access to services and coverage through social insurance financing tends to rise with income growth. Third, the rapid development of medical technology creates an autonomous cost-push factor as health care providers aim to provide improved diagnostics and cures. Simulations of the impact of aging on health costs suggest a sustained escalation. If observed patterns of access to health care and the levels of relative spending by age are assumed to continue, health outlays are projected to rise from the current level of 3–7 percent of GDP to more than 10 percent

**Figure 1.11 The Increase in the Share of the Elderly as the Share of the Young Bottoms Out**

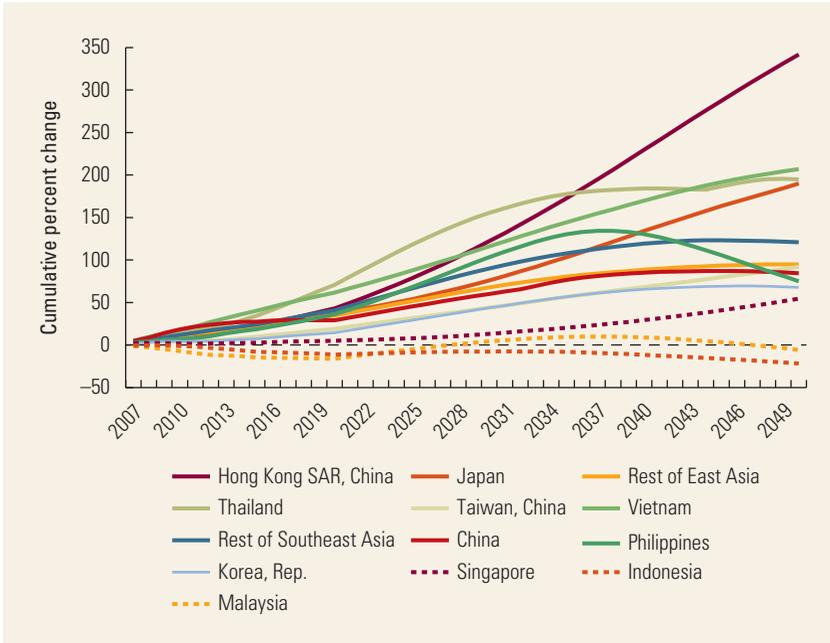


Source: Based on data from UN Population Projections.

during the next decades. Unlike pensions, however, experience shows that health care consumption grows disproportionately faster than income growth, which creates the potential for expenditures to increase far beyond the impact of aging and access. If the experience of OECD countries is taken into account (where health care spending is estimated to have increased by 1.28 percent for each 1 percent of per capita GDP growth), expenditure estimates can potentially reach extremely high levels, ranging from 17 percent to 33 percent of GDP.

Another impact of demographic change is the increase in real wages. Figures 1.12 and 1.13 show the cumulative percentage changes of the real factor prices of skilled and unskilled labor resulting from these forecasted demographic changes in the region. Hong Kong SAR, China, stands out as having the largest changes in real wages as a result of the demographic change. This result is not surprising given the low growth in skilled and unskilled workers combined with the high accumulation of capital and forecasted changes in real GDP. The figures show that real wages in Hong Kong SAR, China, will be 350 percent higher in 2050 than they were in 2007 for skilled workers and 600 percent higher for unskilled workers. The next highest increases are in the rest of East Asia and the Pacific and Thailand, where real wages rise by 200 percent relative to 2007. As expected, six of the seven economies—China; Hong Kong SAR, China; Korea; Japan; Taiwan, China; and Thailand—highlighted above for having the lowest

**Figure 1.12 Cumulative Percentage Changes in Real Wages of Skilled Workers Due to Forecasted Demographic Changes**



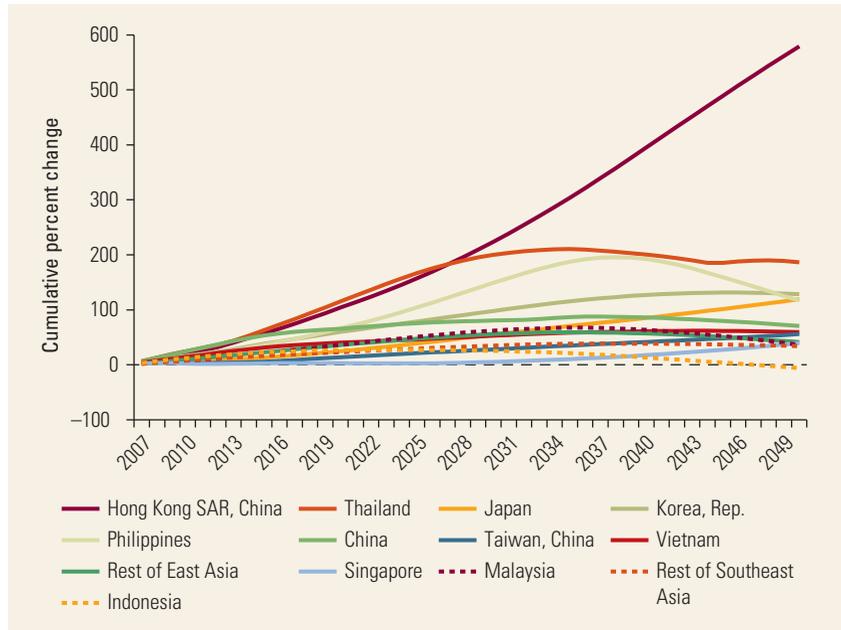
Source: Walmsley, Aguiar, and Ahmed 2011.

growth in skilled and unskilled labor are also those in which factor prices rise consistently over time, while the other regions experience much slower growth in real wages. The one surprise here is Singapore, where, despite low to negative growth in skilled and unskilled labor, wages do not rise to the same extent as in Hong Kong SAR, China, or even Thailand.

Behavioral changes will partly offset the effects of these negative demographics, but corrective policies will also be needed. These policies should include facilitating greater labor force participation by native workers, delaying retirement by workers, and most important, raising productivity of native workers.

International migration can serve as a key area in which policy can address demographic challenges. A well-managed labor migration strategy can be a mechanism for ameliorating the impending labor shortages in some East Asia and Pacific countries arising from these demographic changes while opening up an opportunity for other countries with excess labor to provide migrant workers who will contribute to the development of the home country through greater remittances flows. Although

**Figure 1.13 Cumulative Percentage Changes in Real Wages of Unskilled Workers Due to Forecasted Demographic Changes**



Source: Walmsley, Aguiar, and Ahmed 2011.

migration would be unable to offset the economic impacts of the declining labor forces in the countries with shrinking populations, a more flexible migration policy, allowing migrants to respond to the major demographic changes occurring in Asia over the next 50 years, would be beneficial to most economies in the region as measured by real incomes over this period. Such a policy could deeply affect the net migration position of a country. Countries that were net recipients under current migration policies might become net senders under the more liberal policy regime.

International migration presents itself as a mechanism by which the East and Southeast Asian countries with declining labor forces can attract migrant workers from countries with higher labor force growth rates. Wage differentials and population pressures present push-pull factors that would encourage flows of workers from these relatively labor-abundant countries to the countries with current or future labor scarcity. However, current policies regarding migrant workers in the region are complex and do not generally favor free movement in response to these push-pull

factors. An empirically grounded numerical simulation approach is necessary to analyze the impacts of liberalization of the current regional policy regime.

## Conclusion

With a migrant population of 21.7 million people, international migration is already an important aspect of East Asia and the Pacific's economic landscape and will become even more important in the near future. Several hundred thousand migrants—mostly unskilled, young, undocumented, and increasingly female—are on the move across borders each year to take better-paying jobs in other countries. Protecting the security and welfare of these migrant workers has already become a challenge for the region.

Another challenge for the region will be to enhance the development impact of migration. East Asian migrants remit more than US\$100 billion each year to the region, which is now the fastest-growing destination for remittances in the world. As the following chapters discuss in detail, migrant households and firms that employ migrant labor reap significant gains from migration and remittances. These remittances also have an important role in the macroeconomic management of the labor-sending countries. But the evidence here is somewhat mixed: remittances are critical for stabilizing the economy and for financing current account deficits and imports. However, their long-term growth impact remains unclear. Although migrant households gain significantly from remittances, the gains do not necessarily translate into higher saving, investment, and growth, highlighting the large untapped potential for using these remittances to more significantly increase benefits for labor-sending countries.

International migration in the East Asia and Pacific region will become even more important in the future because many of the labor-receiving countries, especially in north Asia but also in countries such as Thailand, face rapid population aging and an increase in dependency ratios. These near-term demographic changes will dampen growth by lowering the share of the working-age population, lower economic competitiveness by sharply raising wages, and significantly raise the fiscal and financial costs of health care. Thus, a more liberal and better-managed approach to migration policies in labor-receiving countries will increase welfare for labor-receiving countries, for labor-sending countries, and for the migrants themselves. These issues are dealt with in greater detail in the following chapters.

## Notes

1. *Migration and Remittances Factbook*, 2011, and the 2013 and 2014 Migration Briefs (World Bank 2011b, 2013a, 2014). The 22 million migrants refers to the stock of the emigrant population who reside in other countries within East Asia and the Pacific or outside the region.
2. Cambodia, Lao PDR, Republic of the Union of Myanmar, Thailand, and Vietnam.
3. These partial correlations are estimated after taking into account annual trends and country dummies, that is, panel fixed effects were used. By adopting these methods, unchanging missing variables were taken into account. However, these results are only illustrative because other controlling factors or endogeneity arising from nonstationary missing variables were not explicitly taken into account.
4. Research suggests that large remittances flows can be associated with weaker, “malfunctioning institutions” (Chami and others 2008).
5. The dependency ratio is the ratio of those ages 15 and younger and those older than 64 relative to the rest of the population.

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# Impacts of International Migration and Remittances on Labor-Sending Countries

*This chapter studies the economic impacts of international migration and remittances on labor-sending countries and households in the East Asia and Pacific region. Migration and remittances contribute to rising income and consumption and to poverty alleviation in the short term. However, other outcomes can be mixed. While migrant households invest more in education, the impact on actual enrollment can be modest. Remittances can have a negative impact on the labor supply of nonmigrating household members. Child labor falls if females migrate but not necessarily if migrants are male. Temporary migration in the region does not automatically lead to strong knowledge and technology transfers that could raise productivity in the labor-sending country. Labor export, while beneficial in the short run, cannot be viewed as a substitute for domestic economic development. Rather, sound policies that enhance growth and the local business environment would likely play an important, complementary role in creating opportunities for households to reap more lasting benefits from remittances and migration.*

## Introduction

Each year, millions of people in East Asia and the Pacific move to work abroad with the expectation of improving the welfare of themselves and their families. Their decisions affect the family and the labor-sending country in complex and heterogeneous ways. The economic effects of international migration may be manifested through impacts on the macroeconomy, impacts on households at the microlevel, and spillovers to other agents in the economy. The extent of these impacts varies from country to country depending on factors such as the skill level of migrants, the history of migration, the size of the migration networks, labor and product markets, and the size and location of the labor-sending country.

This chapter studies the impacts of international migration and remittances on labor-sending countries and households in the East Asia and Pacific region.<sup>1</sup> Because the forces driving migration in the region are inevitable, it is important for policy makers to have a good understanding of the complex and diverse impacts associated with these movements. Yet, analyzing the impacts is not a simple task because of data gaps and a number of methodological challenges. This work highlights the evidence based on new, detailed empirical analysis in Indonesia, Vietnam, and the Philippines and also draws from existing studies on the Pacific Islands and other developing countries.

The evidence presented in this chapter suggests clear short-term but less clear long-term benefits of international migration and remittances for households in East Asia and the Pacific, and sound economic policies in the labor-sending country are important to maximize the potential gains:

- Migration and remittances contribute to rising income and consumption and to poverty alleviation in the short term.
- The impact on human capital investment is mixed and can have negative effects on the labor supply of nonmigrating household members. Child labor within the household can fall if there are female migrants but not necessarily if there are male migrants.
- Temporary migration in the region does not automatically lead to strong knowledge and technology transfers that could raise productivity in the labor-sending country.
- Labor export should not be viewed as a substitute for domestic economic development. Rather, sound policies that enhance growth and the domestic business environment would likely play an important, complementary role in creating opportunities for households to reap more-lasting benefits from short-term migration.

At the outset, it is important to note that although migration and remittances are closely related phenomena, they are distinct and different concepts.<sup>2</sup> Migration is usually a necessary but not sufficient condition for receiving remittances. Recent empirical studies suggest that in several countries, only about one-half of all migrants remit (Gubert 2002; de la Briere and others 2002). Yet households without a migrant can still receive remittances from relatives and friends. Because of these factors, the effects of migration can be different from those of remittances. This chapter takes a comprehensive approach and examines the impacts of both migration and remittances on economic development.

The focus is on economic impacts at the household level. Links between migration and remittances and the larger macroeconomy are discussed in chapter 1. In addition, although an analysis of the social and political consequences of migration and remittances is beyond the scope of this report, these impacts can also be of considerable importance.

The chapter is organized as follows: The second section characterizes the migrant population from countries in the region. The third section reviews the five channels through which international migration and remittances affect economic development at the household level through their impacts on incomes and poverty, expenditures and investment, education and health, labor supply, and knowledge and technology transfer. The fourth section concludes the chapter.

## **Characteristics of Migrants and Their Households**

Analyzing the impacts of international migration and remittances in East Asia and the Pacific requires a good understanding of the socioeconomic factors that characterize the region's migrants and their families. To the extent the data allow, this section presents a descriptive account of the profile of migrants from this region, including trends over time where possible. Official migration records are widely known to be of poor quality, largely because a significant part of migration is undocumented and not monitored by official agencies. Therefore, this characterization exercise is based on data from a variety of sources, including household and labor force surveys, small-sample surveys conducted in both labor-sending and -receiving countries, and qualitative data.

First, current migrant workers from the region are mostly of a young working age, except for those from the Philippines. Table 2.1 shows the profile of Indonesian migrants based on the Indonesia Family Life

Survey (IFLS). Almost half of the migrants in 2007 were 20–29 years old. For the corridor from the Greater Mekong Subregion to Thailand, qualitative research in the labor-sending countries finds that migrants from this area are highly concentrated in the young working ages (World Bank 2006b). Data from the labor-receiving country confirm this: almost 30 percent of migrants in Thailand belong to the 20- to 24-year-old age group, almost 25 percent belong to the 25- to 29-year-old age group, and about 25 percent belong to the 30- to 39-year-old age group (Jampaklay, Bryant, and Litwiller 2009).

Second, migrant workers from the region are relatively low skilled with below-tertiary education, again with the exception of the Philippines, but they are not necessarily the least-educated in their country of origin. How their education level compares with that of the average population at home varies from country to country. Table 2.1 shows that 43 percent of the 2007 stock of migrants from Indonesia had completed elementary school or less. While the average education level of migrants had increased compared with a decade ago, it was still lower than the achievement level among nonmigrating Indonesians. Migrants from the Pacific Islands have relatively higher educational attainment levels. In 2005, the majority of migrants from Fiji (62 percent) and Tonga (84.5 percent) had some secondary education.

**Table 2.1 Age and Education Profile of Migrants from Indonesia and the Philippines**

Educational attainment	Indonesia, 2007			Philippines, 2006		
	Male	Female	Total	Male	Female	Total
Elementary and lower	18.2	24.8	43.0	2.1	3.9	6.0
Junior high school	11.7	13.4	25.2	2.2	4.4	6.7
Senior high school	13.2	13.1	26.3	11.1	15.0	26.1
University	1.8	2.2	4.0	34.1	27.1	61.2
Don't know	0.2	1.3	1.6	0	0	0
Total	45.2	54.8	100.0	49.6	50.4	100.0
Age	Male	Female	Total	Male	Female	Total
<20	2.7	5.8	9.5	1.2	1.9	3.1
20–24	8.4	15.0	23.4	3.6	7.8	11.4
25–29	11.4	10.3	21.7	6.9	12.0	18.9
30–34	7.9	9.8	17.7	9.0	8.7	17.7
35–39	5.9	7.5	13.4	8.2	8.0	16.2
40 years and above	9.0	6.4	15.4	20.7	12.1	32.8
Total	45.0	55.0	100.0	49.6	50.4	100.0

Sources: Calculations based on the Indonesia Family Life Survey 2007 and the Philippine Labor Force Survey 2006.

The disparity in education levels between the two countries may be because Tonga's primary and secondary education up to age 14 is compulsory and free, whereas in Fiji, eight years of education is supplied by the government but is not compulsory (World Bank 2006a). Elsewhere in the region, Cambodian migrants have slightly higher educational attainment than the general population back home, but migrants from Lao PDR and Myanmar tend to be less educated and less literate than the respective national average (World Bank 2006b).

The profile of Filipino overseas workers is unique in that they tend to be from higher age brackets and have mid-to-high skills.<sup>3</sup> As shown in table 2.1, the Philippines has a considerably higher share of migrant workers older than age 40 compared with Indonesia. Some 61.2 percent of Filipino overseas workers in 2006 had university degrees, and only 6 percent had only elementary or lower education. They are engaged in a variety of jobs. But even within a popular occupation such as household services, migrants from the Philippines tend to be better educated than those from other countries. The vast majority of Filipino migrants who are employed as household service workers and caregivers go to Hong Kong SAR, China, and Taiwan, China, respectively. Those Filipino migrants with higher skills, such as information technology workers, teachers, and nurses, tend to migrate to Organisation for Economic Co-operation and Development (OECD) countries, high-income Gulf countries, and middle- to high-income countries within the region (table 2.2).

Third, the income background of migrants varies across countries in the region. Migrants are not always from the poorest population because of the cost involved in migrating and the extent of job opportunities available. A simple comparison in the Philippines 2003 Labor Force Survey indicates that most Filipino households with overseas contract workers were in the middle income deciles. Meanwhile, calculations from the IFLS data demonstrate that Indonesian migrant workers were from households with lower initial per capita expenditure, lower education, and a higher chance of being rural in comparison with households without migrants.

Last, an increasing number of females in the region, mainly from Indonesia, are migrating each year. Even though gender differences in the migrant stock are not stark (table 2.1), the gender composition of migrant flows from Indonesia is skewed. According to official records, the annual proportion of females migrating among Indonesian workers reached approximately 80 percent in 2007, an increase from about 70 percent in 2000 (figure 2.1). Even though more males than females are migrating as export workers each year from Vietnam, the share of females increased through the 2000s (figure 2.1). The proportion of female migrants from

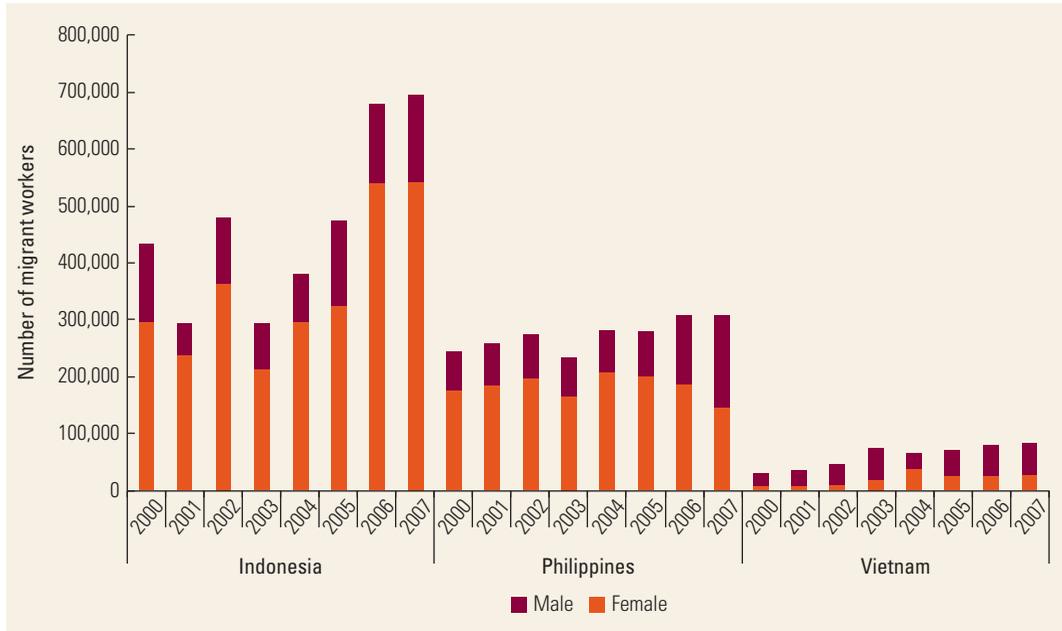
**Table 2.2 Number of Deployed Filipino Workers in Selected Occupations, 2009**

Occupation	Top destinations	Number of workers
Household service	All destinations	71,557
	Hong Kong SAR, China	24,998
	Kuwait	14,087
	United Arab Emirates	10,558
Nurses	All destinations	13,465
	Saudi Arabia	9,965
	Singapore	745
	United Arab Emirates	572
Teachers	All destinations	1,200
	United States	255
	Saudi Arabia	188
	Libya	110
Caregivers	All destinations	9,228
	Taiwan, China	5,942
	Canada	1,406
	Israel	1,219
Information Technology	All destinations	425
	Saudi Arabia	219
	United States	37
	Malaysia	29

Source: Philippine Overseas Employment Administration 2009.

the Philippines was generally higher than one-half from 2000 to 2009, except for a small dip in 2007. Female dominance is not clearly present in other parts of the region with smaller migrant flows. Migrants from the Greater Mekong Subregion are mostly male, with the exception of migrants from Lao PDR, where women are disproportionately represented (World Bank 2006b). Local wage differentials by gender are not likely to be the main driver for these cross-country differences in female participation in migration. The gender wage gap for similar work, at least what can be documented, does not vary hugely between the Philippines, Indonesia, and Vietnam (Hausmann, Tyson, and Zahidi 2007). Rather, female dominance in migrant flows from Indonesia and the Philippines could be in part due to labor demand from the Gulf, from OECD countries, and from within the region in jobs with a female comparative advantage such as caregiving and nursing.

**Figure 2.1** Flows of Migrant Workers from Sending Country, by Gender



Sources: Indonesia Ministry of Manpower; Philippines Overseas Employment Administration; Vietnam Ministry of Labor, Invalids and Social Affairs.

## The Effect of International Migration on Development: A Study of Five Channels

This section discusses the five channels through which international migration and remittances can affect economic development for households in the labor-sending country: (1) the overall impact on income and poverty, (2) the effect on household expenditure patterns and investment, (3) the impact on education and health, (4) the effect on the labor supply of sending households, and (5) the impact of return migration on knowledge and technology transfer.

### Impact on Income and Poverty

Migration and remittances can be expected to influence poverty in several ways. Remittances, in particular, can directly help reduce poverty by increasing income for migrants' families, releasing credit constraints, and insuring households against shocks. The size of these poverty impacts depends on

whether households at the lower end of the income distribution receive remittances. In addition, possible impacts on labor supply, entrepreneurship, income-generating capacity, and the macroeconomy can indirectly affect poverty in labor-sending countries. Determining the net effect of these factors is thus an important empirical question. There are also significant methodological issues in estimating the impact of migration and remittances on poverty, as discussed in box 2.1.

This subsection presents estimates of the impact of international migration and remittances on income, consumption, and poverty in labor-sending countries and households in East Asia and the Pacific.<sup>4</sup> The subsection is based on empirical work from several new background papers that were commissioned in Indonesia, the Philippines, and Vietnam, as well as on existing research on this topic in the Pacific Islands and other developing countries (Cabegin and Alba 2011; T. Nguyen and Purnamasari 2011; Adams and Cuecuecha 2011). The newly commissioned work uses several nationally representative or large-scale household surveys: for Indonesia, a panel data set constructed from the IFLS 2000 and 2007; for Vietnam, the Vietnam Household Living Standard Surveys (VHLSS) 2006 and 2008; and for the Philippines, a merged data set from the 2003 Filipino Labor Force Survey, the Family Income and Expenditure Survey, and the Survey of Overseas Filipinos.

Several features of migrants and remittances emerging from the new background work should be noted. As discussed earlier, migrant characteristics in the region can vary substantially across countries. Compared with Filipino overseas contract workers, migrants from Indonesia tend to be female, have less education, and are more likely to be poor. In addition, there is an important distinction between migration and remittances (figure 2.2). In Indonesia, only about half of households with migrants receive remittances. In Vietnam, however, many more households receive remittances than there are households with a migrating member. The empirical paper on Vietnam focuses on the impacts of remittances because the small size of the sample of migrant households makes it difficult to conduct a rigorous statistical analysis of the impacts of migration (V. C. Nguyen and Mont 2011). In the Philippines as well, more households receive remittances than there are households with an overseas worker. The empirical paper on the Philippines focuses on the impacts of having migration and remittances versus having neither (Cabegin and Alba 2011).

On the whole, research findings in East Asia and the Pacific show that migration and remittances often contribute to rising income and declining poverty, at least in the short term. This is not surprising. Remittances represent a reasonably large source of income even though outside the Pacific Islands only a modest share of households receive remittances (figure 2.2).

## Box 2.1: Empirical Methodology Used in Estimating Impacts of Migration and Remittances

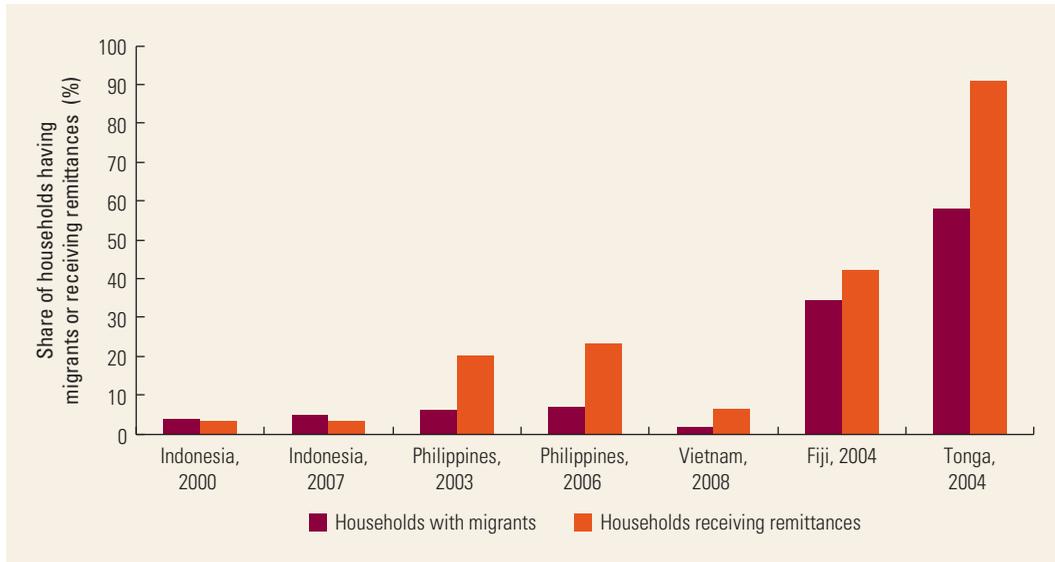
One of the most significant challenges in evaluating the economic impact of migration and remittances on households is applying a credible empirical methodology. In general, most national household surveys are not designed to collect information on international migration and remittances sufficient to conduct a rigorous analysis. Moreover, the small number of migrant households captured in these national surveys can limit the precision of analytical results. Even with adequate data, the challenge of evaluating the causal impact of migration and remittances is greatly complicated by the problem of selection. Households and individuals “self-select” into migration on the basis of both observable characteristics (like age and education) and unobservable characteristics (like ability and motivation) in ways that are not always apparent in the collected data. Thus, controlling for selection bias in migration or the receipt of remittances is an important issue in any empirical work.

Rigorous econometric techniques are typically required to address these issues. The literature for East Asia and Pacific countries, including the background papers reviewed here, has adopted some of the following techniques:

- Randomized experiment: When there exists a random allocation of who is allowed to migrate and who is denied, these two groups should be similar in all characteristics except for migration status. If that is the case, the comparison of their outcomes gives an unbiased estimate of the impact of migration. Examples of this approach include Gibson, McKenzie, and Stillman (2009a, 2009b); McKenzie, Gibson, and Stillman (2007); and Stillman, McKenzie, and Gibson (2009), which exploit the visa lotteries for Tongans and Samoans for migration to New Zealand.
- Reconstructing the counterfactual: The impact of migration and remittances can be measured if one observes the counterfactual scenario, that is, what the household’s situation would have been if a member had not migrated or if there were no remittances. One approach is to directly reconstruct this scenario, as done for Indonesia in Adams and Cuecuecha (2011) and for the Philippines in Cabegin and Alba (2011). This approach needs a solid model to predict hypothetical income well.
- Panel data: Panel data models control for time-invariant unobservable characteristics, as used for Vietnam in V. C. Nguyen and Mont (2011). However, the estimated impact will be biased if there are time-varying unobservable determinants of the outcome that are correlated with migration status. McKenzie and Gibson (2010) combine matching techniques with difference-in-difference estimation in panel data to study the impact of a migration scheme on households in Tonga and Vanuatu.
- Instrumental variables: This approach makes use of another variable (“instrument”) correlated with migration or remittances but uncorrelated with unobservable determinants of the outcome. For example, T. Nguyen and Purnamasari (2011) use historical migration networks to estimate the impact of migration on child outcomes in Indonesia. Yang (2008) and Yang and Martinez (2006) exploit exchange rate shocks during the 1997 Asian financial crisis that were correlated with remittances sent back to the Philippines but were otherwise a shock to the sending household.

Detailed descriptions of the data and of the exact econometric techniques are presented in the background papers cited above.

**Figure 2.2 The Incidence of Migration and Remittances Varies across the Region and Is Highest in the Pacific**



Sources: Calculations based on the Indonesia Family Life Survey (2000, 2007); the Filipino Labor Force Survey (2003); and the Vietnam Household Living Standard Survey (2008). The Philippine data capture migrants only as overseas workers. The Tonga and Fiji numbers come from small-sample surveys, reported in World Bank (2006a), that aim to represent the population along certain dimensions, but are not strictly nationally representative.

In Indonesia, international remittances are equivalent to 26 percent (in 2000) and 29 percent (in 2007) of per capita consumption among recipient households. Adams and Cuecuecha (2011) find that international remittances reduce the consumption-based poverty rate by 27.8 percent. The size of this poverty reduction impact appears large but is in line with international evidence. Table 2.3 summarizes the broad evidence base within and outside the region. Cross-country international estimates have found that, on average, a 10 percent increase in remittances is associated with a 3.5 percent decline in the poverty headcount (Adams and Page 2005).

In the Philippines, various studies have also suggested that international migration and remittances tend to reduce poverty (Orbeta 2008). Yang and Martinez (2006) use a “natural experiment”—the heterogeneous exchange rate shocks during the 1997 Asian financial crisis—to analyze how changes in remittances flows affected poverty in the Philippines. Changes in exchange rates in countries outside of the Philippines are assumed to be exogenous to household decision making in the Philippines.

**Table 2.3 International Migration and Remittances Reduce Poverty Inside and Outside East Asia and the Pacific**

Country	Effects of remittances	Source
Indonesia	Poverty headcount decreased by 27.8 percent.	Adams and Cuecuecha (2011)
Philippines	A 10 percentage point increase in international remittances leads to a 2.8 percentage point decrease in the poverty headcount in migrant households.	Yang and Martinez (2006)
Fiji	Poverty headcount decreased by 7 percent (or 2.7 percentage points).	World Bank (2006a)
Tonga	Poverty headcount decreased by 43 percent (or 24.7 percentage points).	World Bank (2006a)
Ghana	For households receiving international remittances, the level of poverty falls by 88.1 percent with the inclusion of remittances.	Adams, Cuecuecha, and Page (2008)
Latin America and the Caribbean	A 1 percentage point increase in the ratio of remittances to GDP reduces poverty headcount by about 0.4 percent.	Acosta, Fajnzylber, and Lopez (2008)
Cross-country	Household surveys in 71 developing countries show that a 10 percent increase in per capita international remittances in a country is associated with a 3.5 percent decline in the US\$1 a day poverty rate.	Adams and Page (2005)

Country	Effects of migration	Source
Samoa	Migrants reduce the poverty rate by 55–65 percent.	Gibson, McKenzie, and Stillman (2009b)
Nepal	Between 1995 and the end of 2003, the poverty rate declined by about 30 percent. Almost 20 percent of this decline can be attributed to increased work-related migration and remittances inflows.	Lokshin, Bontch-Osmolovki, and Glinskaya (2007)

The authors find that an average 10 percentage point increase in the ratio of international remittances to initial household income significantly increases household income. It also leads to a 2.8 percentage point decline in the likelihood that a migrant household will be in poverty. What forces are behind this impact on poverty? Remittances increase household income and have been shown to act as insurance against income shocks and to help households smooth consumption (Yang and Choi 2007). In addition, there is suggestive evidence of spillover effects to nonmigrant households, which might happen through economic activities generated by migrant households or direct transfers from them to others.<sup>5</sup> Other studies in the Philippines, such as Ducanes and Abella (2008) and Sawada and Estudillo (2005), also show that remittances have a negative association with the level of poverty.

Research on the Pacific Islands and countries outside the region tell a similar story. According to a World Bank (2006a) report, household income in the poorest quintiles in Fiji and Tonga strongly increases when remittances income is included. Consequently, the poverty rate, based on subjective deprivation lines, is lower. With remittances, the poverty head-count drops by 2.7 percentage points (or 7 percent) in Fiji and 24.7 percentage points (or 43 percent) in Tonga (World Bank 2006a). To assess the causal impacts on poverty attributable to migration, Gibson, McKenzie, and Stillman (2009b) study winners and losers of the lottery for Samoan migrants to New Zealand. In this natural experiment setting, lottery losers can be considered the counterfactual group to show what income would be without migration. The authors find that migration leads to a large decline in poverty: the poverty rate among migrant families is 55–65 percent lower than that among similar families without migrants.<sup>6</sup> As shown in table 2.3, these findings in East Asia and the Pacific echo the robust evidence reported in other developing countries. The magnitude of the impact varies from country to country and can be quite modest in some cases.

As one exception to these estimated effects on poverty, remittances appear to improve consumption welfare but not to reduce poverty in Vietnam. Among remittances-receiving households, remittances account for 45.5 percent of per capita consumption. Each dollar of international remittances increases the average household's total expenditure by US\$0.87, which is a promising positive impact on welfare in and of itself (V. C. Nguyen and Mont 2011). But why has there been no significant impact on the poverty rate?<sup>7</sup>

According to the VHLSS data, remittances in Vietnam reach the non-poor more than the poor. Households receiving remittances have at least 1.4 times higher per capita income and expenditure than nonrecipients in the country. Furthermore, among the recipients of remittances, the amount of remittances received by each non-poor family is more than three times that received by a poor family. These observations probably reflect the fact that currently in Vietnam, most of the households receiving remittances are receiving them from migrants who have been living abroad permanently for long periods (for example, Vietnamese migrants in the United States). This is in stark contrast to the situation in most developing countries, where remittances are typically sent home by temporary migrant workers. However, as temporary economic migration from Vietnam expands, poor households will likely have better access to remittances and improve their consumption welfare in more significant ways.

The above effects of migration and remittances on poverty are likely to vary over time and depend on the institutional arrangements for migration. Because the migration process in the East Asia and Pacific region involves upfront costs (chapter 4), migrant households may be worse off in the beginning because they lose the forgone earnings of the migrating member. Migrants are not always guaranteed a job upon arrival. Also, the first few months of earnings abroad are often captured by sending agencies or creditors to pay down premigration debts. Tongan migration to New Zealand provides an example of the initial negative impact of migration on welfare. Under the lottery system, Tongan households with members who win a lottery slot to migrate actually have lower income and higher poverty incidence during the first year of migration than similar households of the lottery losers (McKenzie, Gibson, and Stillman 2007). This initial negative impact may later be reversed as migrants send remittances to their homes, and household income and consumption typically rise. But institutional arrangements matter. A well-designed program with much more managed support for migration—New Zealand’s Recognized Seasonal Employer program—has been shown to have positive impacts on household income in Tonga and Vanuatu throughout the two years of migration (McKenzie and Gibson 2010).

How long do those favorable effects of migration and remittances on income and poverty persist? Limited existing research manages to track the impacts over long periods. The case of Samoa suggests that impacts might be short-lived because remittances decline the longer the migrant works abroad. And households might substitute remittances for other income-generating activities. The longer the migrant stays away, the lower the household’s income is from their own production (Gibson, McKenzie, and Stillman 2009a). One would expect the persistence of welfare impacts even beyond the period of emigration to also depend on other channels, such as the impacts on productive investments and gains upon return migration. This chapter looks at some of these topics in further detail.

Another important issue to consider is the social and family costs of migration distinct from the economic costs. These costs are caused by the prolonged absences of migrant workers from the family and society. The absence of parents may lead to a decline in child care as well as emotional and psychological costs on children. The absence of spouses may also inflict such costs. For the community the absence of a significant number of working-age, typically young, men and women may have societal costs. These costs are seldom taken into account when calculating the cost-benefit estimates of migration. This report also follows a similar pattern. Box 2.2, however, provides a brief discussion of this issue.

## Box 2.2: Social Costs of Migration

In addition to the economic impacts discussed in this report, sending and receiving countries also experience social costs and benefits. At times these costs are hard to quantify, but they still can have profound effects (Ratha, Mohapatra, and Scheja 2011). Migration, by its very nature, entails separation that can create significant emotional costs, particularly for circular migration, which typically leads to family separation. Families and social networks are at increased risk of breaking down and experiencing emotional stress (Kahn and others 2003). Children are often raised without one or both parents, which can mean they receive less attention, lessening the parental bonds and oversight that can be important for human capital development and social integration (D’Emilio and others 2007). In Mexico, sons of migrants obtain less education, and daughters experience a larger household workload. Violence and substance abuse can increase.

However, the obverse side shows positive impacts. Increased remittances can lessen the need for children to enter the labor force and can provide money for their education (Gallego and Mendola 2010). And when women migrate, they may gain the human and financial capital that allows them to escape bad or abusive marriages. Evidence from Vietnam shows that returning women migrants, but not men, are more likely to divorce (ILSSA 2010). Overall, the continued and pronounced migration flows—and the presence of migration chains within families—strongly suggest that on balance the combined economic and social benefits of migration are routinely perceived to outweigh the associated costs.

An issue of particular importance in East Asia and the Pacific is marriage migration (Yang and Lu 2010). A rising sex ratio at birth that skews against girls has created a demand for foreign brides in several countries in the region, which is exacerbated in rural areas by the migration of women to urban locations. In Taiwan, China, for example, 20 percent of all marriages in 2005 were to foreign brides (Tseng 2010). Women who marry in this way often send large remittances home to their families (X. Nguyen and Tran 2010) but can also suffer from abuse and loneliness without the means to extricate themselves from their situations (Hvistendahl 2011). Therefore, the benefits of migration might outweigh the costs to the family, but the net impact on the migrating women is less clear. Moreover, the related issue of trafficking arises, an issue that is addressed more extensively in box 1.3 in this report. Another side effect of marriage migration, especially from areas that are also experiencing pro-boy sex selection, is the frustration of young men unable to find partners, who then are more prone to violence and substance abuse.

The largest social impact on destination countries stems from the challenge of integrating migrants from different cultures into the destination society. As Ratha, Mohapatra, and Scheja (2011, 14) point out, “[the] inability to control migration and to integrate the newcomers has at times led to dramatic actions and great human suffering.” This issue has begun to take more prominence in Europe with the increase in the number of foreign workers, and has instigated a series of policy measures aimed at promoting economic and social integration (OECD 2009). Problems can

*(continued)*

**Box 2.2** *continued*

particularly occur when the economy goes into recession or when other social or economic pressures create tensions in the host country. The global financial crisis even challenged the United States' ability to integrate immigrants, despite the country's impressive history in this regard (Terrazas 2011).

In developing host countries, rapidly growing urban areas can create housing, sanitation, and other pressures that can lead to unrest if not managed properly. Indonesia, for example, tries to mitigate this problem by

requiring migrants to show proof of employment and housing to enter the city. Of course, migrants can also provide social benefits to destination countries by bringing new cultures, new cuisines, and new energy into the society. As mentioned in chapter 1, many new high-tech companies in the United States were started by foreigners. And low-skilled workers, by providing various affordable services, can decrease time pressures on families, thus providing social, as well as economic, benefits.

## **Impact on Household Expenditure Patterns and Investment**

The manner in which households use their remittances earnings can provide valuable insights into the dynamic welfare effects of migration and remittances. The central question is, do households receiving remittances spend more or less at the margin, compared with what they would spend otherwise, on certain expenditure goods, like food, education, and health? Remittances spent at the margin on consumption goods—like food—can help support the subsistence of poor households in the short term. Alternatively, a higher propensity to spend at the margin on productive assets or human capital goods—such as education and health—can contribute to economic development in the medium to long term.

Research in East Asia and the Pacific suggests that the impacts of international remittances on marginal spending behavior in a particular country depend on the migrants' income background in that country.<sup>8</sup> In Indonesia, migrants mostly come from low-income families. Households receiving remittances tend to be among the poorest. Thus, remittances tend to play the role of safety nets in Indonesia. The focus of remittances-receiving households is on improving their marginal consumption of basic goods: remittances are estimated to increase the marginal food budget share by 5.9 percent (Adams and Cuecuecha 2011).<sup>9</sup> The marginal expenditure on investment goods such as education, health, and housing is affected in mixed ways (table 2.4). The relative focus on consumption versus investment goods could possibly change if per capita incomes rise sufficiently with the receipt of remittances.

**Table 2.4 Impacts of Remittances on Marginal Spending in Indonesia and the Philippines**

*Percentage change in marginal budget shares*

	<b>Food</b>	<b>Housing</b>	<b>Education</b>	<b>Health</b>
Indonesia 2007	5.9	-3.3	332.5	-41.9
Philippines 2003	-39.5	91.8	58.9 <sup>a</sup>	

Sources: Adams and Cuecuecha 2011; Cabegin and Alba 2011.

a. Applies to education and health combined.

In the Philippines and Vietnam, households receiving remittances are typically not from the poorest part of the income distribution.<sup>10</sup> They tend to spend less at the margin on one key consumption good—food—and more at the margin on one investment good—housing. For instance, in the Philippines, households receiving remittances spend 39.5 percent less at the margin on food (Cabegin and Alba 2011). This negative impact is stronger among households with higher food shares. Remittances in Vietnam are also associated with a decrease in the budget share on food (V. C. Nguyen and Mont 2011).

However, there are subtle and important differences in the marginal expenditure patterns between households in Vietnam and those in the Philippines. In Vietnam, remittances lead to higher spending on housing, residential land, and savings rather than higher spending on productive assets. By contrast, in the Philippines, Yang (2008) finds that favorable exchange rate shocks, those associated with more remittances, have a positive impact on entrepreneurship. The positive impact is particularly strong in fostering new entrepreneurial activities in areas with large up-front fixed investments such as transportation, communications, and manufacturing. Thus, in the Philippines, an increase in the marginal propensity to spend on productive activities implies a potentially dynamic effect of remittances beyond the period of migration.

More broadly in the literature, the impact of migration and remittances on entrepreneurial investment is much debated. The effect is likely to depend on the existing scope for business start-up in the labor-sending country, and the extent to which remittances raise the reservation wage of household members could influence their incentives to invest in business. Unlike the Philippines example, there is no evidence that New Zealand's Recognized Seasonal Employer program for migration fosters new business or self-employment in Tonga and Vanuatu (McKenzie and Gibson 2010). As another example, Amuedo-Dorantes and Pozo (2006) find that households receiving remittances in the Dominican Republic do not invest more in family-owned businesses. However, Woodruff and Zenteno

(2007) find a positive impact of remittances on investment in small businesses in Mexico. Their results indicate that a one-standard-deviation increase in the migration rate to the United States is associated with a large, 35–40 percent, increase in the level of capital investment in small businesses in Mexico. According to the authors, remittances help supply migrant households in Mexico with the capital needed to grow and expand their small enterprises (those with fewer than 15 employees). Because research on this issue in East Asia and the Pacific has been limited, there would be value to studying how migration and remittances affect investment in small business activities in this region.

### **Impact on Human Capital**

Because human capital is generally considered important for economic development, this section investigates the extent to which migration and remittances affect investment in education and health. The majority of the empirical evidence on this topic concerns education. The evidence on health is scant, as discussed at the end of this section.

Human capital investments and outcomes may or may not improve as a result of international migration and remittances. The extra income from remittances can relax borrowing constraints faced by poor households that previously hindered their human capital investments. In addition, shifts in income sources have been argued to influence intrahousehold decision making, which suggests potential gender dimensions in the impacts of remittances on human capital decisions. However, family disruption can have negative consequences for children's schooling and health, and the gender of those who migrate and those who stay behind may play a role. The impact of migration may therefore be different from the income effect of remittances.

Aside from remittances and family disruption, the process of migration involves exposure to new information. This new information might lead to changes in the perceived returns to education, for example, families expecting to send children abroad when they get older could hold back on their schooling if job opportunities abroad require limited education. Alternatively, if families now believe that education enables access to well-paid, high-skilled jobs abroad, they would be tempted to invest more in education.<sup>11</sup> For the migrants themselves, additional human capital may be acquired before departure or on the job abroad—a topic discussed in a subsequent section.

Do international migration and remittances promote education? The international literature gives rather mixed evidence. Mansuri (2007) finds that migration leads to improved school attainment, especially for girls, in

rural Pakistan—migration leads to an increase of 54 percent in school enrollment for girls and 7 percent for boys.<sup>12</sup> In El Salvador, Cox-Edwards and Ureta (2003) show that remittances tend to increase student retention rates in school. A similar study in Guatemala shows that households receiving international remittances spend more at the margin on education than what they would have spent without remittances (Adams and Cuecuecha 2010). In contrast, studies in Mexico suggest that migration and remittances have a significant, negative effect on school attendance and attainment. This result is consistent with the lack of oversight due to an absent parent as well as with the lower expected returns to education for Mexican children intending to migrate (McKenzie 2006; McKenzie and Rapoport 2006). Furthermore, regional analyses in various Latin American countries show both positive and zero effects of remittances on education outcomes (Acosta, Fajnzylber, and Lopez 2008).

One might expect that remittances affect education differently for households with different characteristics, such as parental education. On the one hand, remittances could have a smaller effect on schooling if less-educated parents place a lower value on educating children and prefer to use remittances for other expenditures. On the other hand, poorer families with lower levels of adult schooling are usually those with credit constraints and, therefore, could gain more from remittances. Acosta, Fajnzylber, and Lopez (2008) find that the latter aspect dominates in Latin America: the impact of remittances on educational attainment tends to be positive and larger for families with low parental education.

Explanations are not obvious for why existing estimates of the impact of migration and remittances on education differ substantially across countries. These differences may stem from country circumstances, the supply side of education, and the trade-off between the income effects of remittances and other channels discussed earlier. The extent to which these studies adopt a credible empirical approach to identify causal effects could also explain the differences in findings.

For East Asia and the Pacific, the results about impacts on education are more encouraging in the Pacific Islands and the Philippines than in Vietnam and Indonesia. Remittances are estimated to have a positive effect on secondary school attainment in Tonga and on postsecondary education in Tonga and Fiji (World Bank 2006a). Participation in a well-managed migration scheme increases school attendance among 16- to 18-year-olds in labor-sending households by 20 percentage points in Tonga, though no such impact is found in Vanuatu (McKenzie and Gibson 2010). Yang (2008) studies the same question in the Philippines. The depreciation of the Philippine exchange rate during the 1997–98 Asian financial crisis resulted in a positive

income shock to migrant households, reflected in the changes in remittances. While Yang (2008) does not directly measure the impact of remittances, the work shows that a positive exchange rate shock leads to higher education spending as well as actual children's schooling: a one-standard-deviation increase in the size of the exchange rate shock implies a 1.6 percentage point increase in the likelihood of being a student, from the initial rate of 94 percent.

In Vietnam, international remittances do not seem to promote education. According to V. C. Nguyen and Mont (2011), remittances have no significant impact on either education expenditure or on the enrollment rate of children ages 6–14. As noted in the earlier discussion on poverty, the Vietnam data set includes mostly non-poor households receiving remittances from relatives living permanently abroad. These non-poor households are not likely to suffer from the type of credit constraints that remittances might be expected to relieve, and their children may already be enrolled in schools. For this reason, the impact of migration and remittances on education may be very different for households currently sending temporary migrant workers from Vietnam. Further research is needed to examine this issue.

Indonesia presents an interesting case in that the impacts on education spending and outcomes appear to be clearly affected by remittances, and gender of migrants matters. Adams and Cuecuecha (2011) estimate that remittances have a positive impact on the marginal propensity to spend on education in Indonesia: the average household receiving international remittances spends 332 percent more at the margin on education than what it would have spent otherwise without remittances (table 2.4). But education expenditure alone does not necessarily mean improved schooling participation, which could be affected by family disruption, as noted earlier. T. Nguyen and Purnamasari (2011) find that migration has no statistically significant effect on children's school enrollment and attendance in Indonesia. The same is found for both boys and girls, and among poorer as well as less-poor families. Even though the direction of impact on school enrollment appears positive for all age groups, the conclusion is not evident because the estimated impacts cannot be distinguished from zero.

Why is there no strong finding of a positive impact of migration on education investment in Indonesia? The supply-side problem of school availability is not likely a major explanation based on Indonesia's massive school construction effort in the 1970s. Rather, the results could be consistent with the negative consequence of an absent parent on child care at home, or the "signaling effect" about the returns to education that may offset the income effects from remittances.<sup>13</sup> Half of the migrants from Indonesia are primary school graduates. And to the extent that the process and prospect of

migration lead families to revise their perceived returns to education, migration does not necessarily increase school enrollment in a country where the primary enrollment rate is already more than 90 percent.

Evidence shows that gender dimensions in the impacts of migration and remittances on human capital decisions may arise. Gender roles in household decision making and labor allocation may be influenced by the physical absence of and by remittances sent by female and male migrants. For example, it is commonly documented in time-use surveys that women are more involved than men in child care and the monitoring of children's activities. Therefore, a mother's migration to work overseas can have worse consequences for children's schooling behavior than the father's migration. In addition, remittances sent by female and male migrants may reflect their different preferences in spending on children's schooling.

A gender-disaggregated analysis of the Indonesia data indicates some evidence of such gender dimensions. Though not statistically robust, in some estimation exercises migration appears to have a positive impact on school enrollment among households with male migrants, but this impact disappears when the migrants are female. There are at least two possible interpretations for this finding. One reason could be that the type of family sending male migrants and the type sending female migrants are different. For example, the latter might care less about monitoring children. But this scenario is unlikely given that migration tends to reduce child labor among families with female migrants in Indonesia (discussed in the next section). Another interpretation of the above result is that male and female migrants themselves have different impacts. The lack of oversight associated with the mother's absence makes it more difficult to ensure sufficient schooling activities in Indonesia. In fact, the study finds some evidence, though again not always statistically significant, that migration may increase children's idle time among families with a migrating female, particularly for young children ages 6–10 (T. Nguyen and Purnamasari 2011).<sup>14</sup>

Empirical studies about the impact of migration and remittances on health are more limited than those focusing on education. One might expect that migration and remittances would lead to higher household income and better access to health knowledge. Furthermore, remittances may act as insurance against income shocks in general, including health shocks. But just as with education, the absence of a parent may have counteracting consequences for child health. A few papers in the literature have examined this issue and the evidence seems to support the net benefits of migration and remittances. Hildebrandt and McKenzie (2005) find that migration from Mexico is correlated with lower infant mortality and higher birth weights of children in sending households, but it is also associated with

lower levels of breastfeeding and vaccination. In Nicaragua and Guatemala, children from remittances-receiving households tend to have better weight-and height-for-age indexes than do nonrecipient households with similar observable characteristics (Acosta, Fajnzylber, and Lopez 2008). De and Ratha (2005) find that in Sri Lanka, remittances income improves the weight of children under age five, but the authors also argue that the absence of a parent has a negative impact on child health.

The few existing results from the East Asia and Pacific region do not point to any strong impact of migration and remittances on health. In fact, estimated impacts on health spending can go in opposite directions: no significant impact of remittances in Vietnam, negative impact of remittances on health spending at the margin in Indonesia, and a positive impact on the marginal budget share on education and health care in the Philippines (Adams and Cuecuecha 2011; V. C. Nguyen and Mont 2011; Cabegin and Alba 2011). Interpreting these results is difficult without evidence of impacts on health outcomes because private health expenses may or may not be responsive, depending on the balance between public and private financing of health systems in the country. None of these studies in East Asia and the Pacific examines the impact of remittances on the health status of children. However, at least one study in the region has analyzed the health status of migrants themselves. Stillman, McKenzie, and Gibson (2009) find that the mental health of Tongan migrants to New Zealand improves with migration, particularly among women and those with poor initial mental health. The authors attribute this improvement to a change in cultural setting, which frees migrants from the stressful social restrictions in their home country. The authors also argue that migrants may experience a sense of satisfaction in their newfound capacity to contribute more to their family's income back home.

### **Impact on Labor Supply**

Migration and remittances can affect household welfare through their impacts on wages and labor supply decisions. The phenomenon of a large proportion of the working population migrating can exert upward pressure on wages and create work incentives in certain sectors of the labor force. The ability of large-scale migration to cause an increase in the equilibrium wage rate has been shown in a number of labor-sending countries.<sup>15</sup> In East Asia and the Pacific, specifically in Indonesia and Vietnam, the rate of migration as a share of the large labor force is still modest, despite recent increases in migrant outflows. Therefore, this discussion focuses on the direct effects on household labor supply instead of the general equilibrium wage effect.

Even without a change in the equilibrium wage, the work incentives of nonmigrating family members are likely to respond to migration and remittances. For example, the net additional income from remittances may reduce household labor force participation by increasing the reservation wage at which nonmigrant family members are willing to work. In that case, they would opt to work less and consume more leisure.

Indeed, most empirical studies have found a negative effect of migration and remittances on the labor supply and participation of nonmigrant family members. Studies such as Lokshin, Bontch-Osmolovki, and Glinskaya (2007) in Nepal; Gorlich, Mahmoud, and Trebesch (2007) in Moldova; Sadiqi and Ennaji (2004) in Morocco; and Kim (2007) in Jamaica find that migration and remittances reduce the labor force participation of household members staying behind. However, some studies argue that these effects are influenced by gender. For instance, Acosta (2007) finds that in El Salvador, receiving remittances leads to fewer working hours for both genders and a decline in labor force participation for women but not for men. In urban remittances-receiving households in El Salvador, females are 42 percent more likely to quit the labor force compared with females in households that do not receive remittances.

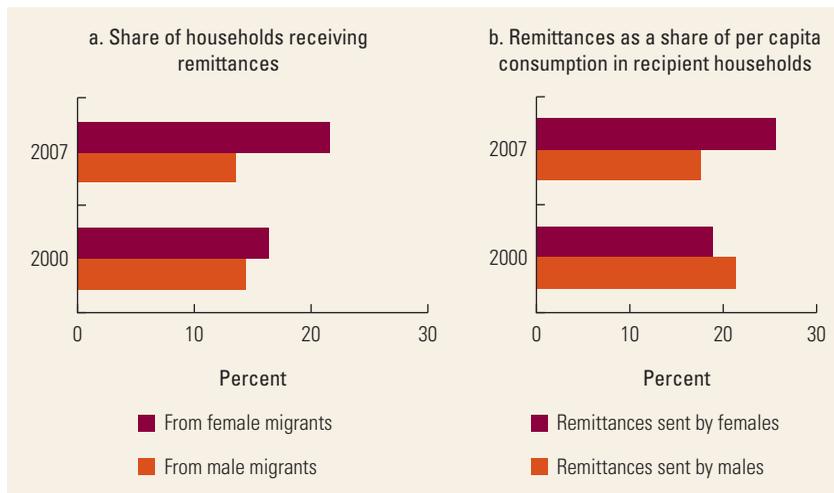
Research in East Asia and the Pacific also suggests that migration and remittances tend to reduce labor supply and participation, though the evidence is less robust in some countries. In Indonesia, nonmigrating household members work less as a result of international migration and remittances. Migration reduces the total number of hours worked per week by all household members by 26 hours (T. Nguyen and Purnamasari 2011). Remittances to Vietnam also appear to reduce working hours among nonmigrant household members, but the estimate is imprecise and not statistically significant (V. C. Nguyen and Mont 2011). Finally, various studies on this topic in the Philippines have produced mixed findings. Rodriguez and Tiongson (2001) find evidence that families with overseas Filipinos are less likely to participate in the labor force, but Ducanes and Abella (2008) do not. Directly accounting for self-selection into migration, Cabegin (2006) shows that, on average, higher remittances income reduces the probability of working full time for the remaining spouse. In an alternative approach to identify causality, Yang (2008) argues that a positive exchange rate shock on the Philippine peso during the Asian financial crisis of the late 1990s (presumably exogenous and correlated with higher remittances) did not affect the total hours worked by nonmigrant household members. Instead, the time spent in self-employment activities increased.

A negative impact of migration and remittances on the labor supply of remaining household members is not necessarily a concern unless work

incentives are also distorted. The part of the fall in labor supply due to an income effect, via increased leisure, represents a private welfare gain. Alternatively, household members might substitute wage labor with more time in parenting and home production, or increased capital and improved labor productivity. In places where education investment is affected, migration and remittances can help young adults stay in school and defer work. In fact, Yang (2008) finds that a positive exchange rate shock, implying higher remittances, increases the likelihood that children ages 10–17 will attend school and decreases their hours worked for wage employment in the Philippines. In contrast, remittances seen as conditional on low household income can discourage work incentives for nonmigrating members. It is, unfortunately, difficult to empirically disentangle this distortionary effect on labor supply. But a long-term impact on welfare may be limited if remittances recipients continue to depend on external transfers and do not use remittances money for productive investment that can bring returns in the future.

The gender of the migrant can make a difference in the impact on labor supply. For example, Indonesia has experienced significant increases in female migration and remittances in the past decade. Figure 2.3 shows that the fraction of households receiving remittances from female migrants increased between 2000 and 2007, far exceeding the fraction receiving remittances from male migrants. Remittances sent by females also contribute more

**Figure 2.3** Remittances Sent by Females Have Been Increasing Steadily in Indonesia



Source: Estimated from T. Nguyen and Purnamasari 2011.

to household consumption, so female migrants may now have very different influences. Indeed, the drop in labor supply in Indonesia as a consequence of migration and remittances is mainly driven by what happens among families with male migrants. Migration reduces the total number of hours worked per week among households with male migrants by 33 hours, but the impact vanishes among households with female migrants.

Although it is unclear if a decline in adult labor supply is good or bad for welfare, the common finding of a decline in child labor supply due to migration and remittances is generally accepted as good. Children are sent to work for several reasons. The opportunity cost of working may be lower than the gain from the labor market, possibly because of low expected returns to education. Traditional norms, values, and access to information also affect parental preferences toward educating children as well as their perception of the return. Alternatively, even if parents would rather have their children educated, many poor households face credit constraints or need to send a child to work to ensure subsistence income. A review of the literature points to some encouraging impacts of international migration and remittances in this regard. For example, Mansuri (2007) shows that Pakistani children in households with remittances work less. Acosta (2006) finds that in El Salvador, children ages 11–17 in remittances-receiving households are 6.7 percentage points less likely to be in wage labor than they would be without remittances. Joseph and Plaza (2010) estimate that belonging to a household that receives international remittances in Ghana reduces the probability of child labor by 6 percentage points.

Several similar results are found in East Asia and the Pacific. Yang (2008) studies the depreciation of the Philippine exchange rate during the 1997–98 Asian financial crisis, reflected in the higher value of remittances. Although the paper does not directly measure the impact of remittances, it shows that a one-standard-deviation increase in the size of the exchange rate shock implies a decline of 0.35 hours worked per week by children ages 10–17, from the initial average of 1.1 hours. In Vietnam, statistical analysis detects a small decrease in working hours per child due to international remittances (V. C. Nguyen and Mont 2011).

Among families in Indonesia with female migrants, migration and remittances reduce the labor force participation of children. Migration decreases the share of children ages 6–18, both girls and boys, working by 17 percentage points when the migrant is female.<sup>16</sup> When the migrant is male, there is no significant impact (T. Nguyen and Purnamasari 2011). The heterogeneous effects on adult and child labor supply in Indonesia, as discussed earlier, seem to be driven by the migrant's gender rather than by who is left to

lead the household. The remittances sent by migrants as well as their physical absence could be expected to play a complex role in influencing their say in household decision making and their oversight over household activities. For that reason, male and female migrants can have differential impacts on the work-leisure decisions of remaining household members. Documenting and interpreting the gender dimensions of the impacts of migration and remittances warrant further research.

### **Knowledge and Technology Transfer upon Return Migration**

Aside from the impacts during the period of emigration, return migration can also be expected to benefit developing countries and labor-sending households. The empirical basis for this hypothesis is thin and much debated. Impacts of return migration are potentially manifested through more productive individuals returning with physical and human capital earned abroad as well as repatriated savings (Dustmann and Kirchkamp 2002). Some migrants expect to later remigrate to a similar job, as “salaried migrants,” but others do not. They might have high-return productive opportunities in the home country but are credit-constrained or lack the necessary skills to take advantage of these opportunities. These individuals migrate to generate sufficient savings and to benefit from exposure to the work environment abroad, which helps them become entrepreneurs upon return. Various studies in Egypt, Pakistan, Tunisia, and Turkey have argued that credit-constrained individuals migrate and come back with savings to help them start up businesses or engage in self-employment (Mesnard 2004; Ilahi 1999; McCormick and Wahba 2001; Dustmann and Kirchkamp 2002). However, migration does not seem to enhance the skills of Pakistani migrants nor generate large accumulated savings to be brought home to rural Pakistan. Financial resources are sent back home regularly rather than at the end of the migration period. Return migrants to rural Pakistan are not more likely to become entrepreneurs than are other individuals. Households with return migrants invest more in assets such as agricultural land, for which the relevance of skills obtained abroad is unlikely to be high (Mansuri 2007).

In addition, return migrants are thought to also have spillover benefits through transfers of innovative ideas, skills, and knowledge to others in the home country (Dos Santos and Postel-Vinay 2003). Although the hypothesis is tractable in theory, the relevance of this impact channel hinges upon the type of migrant and the nature of his or her job. Migrants engaging in high-skill occupations are expected to acquire greater knowledge and exposure to new technology while abroad than are low-skilled migrants.

Despite the interesting hypotheses above, research on the technology and information advantage associated with return migration has been extremely limited in the East Asia and Pacific region with the exception of China. Lessons from case studies of benefits to China, India, and the Republic of Korea from skilled emigration may not be relevant to smaller countries sending frequent temporary migration. Gibson and McKenzie (2010) provide evidence about the impacts of academic high achievers returning to the Pacific Island countries. The authors conducted tracking surveys that followed the best and brightest high school graduates in Papua New Guinea, the Federated States of Micronesia, and Tonga. These individuals are not low-skilled migrant workers on short-term contracts. Yet, as some of them return to their home country, there is no strong evidence that the return migrants have become more productive as entrepreneurs or wage earners as the result of emigration. They are, however, more likely to engage in trade deals, invest in business start-ups, and advise companies and the government than they would be without migration. This narrative suggests a certain extent of knowledge sharing and information advantage associated with high-skilled return migrants, but it will not likely apply to a large share of migrants in the region who are mostly low-skilled, temporary workers.

To gain insights into low-skilled return migrants, a survey was conducted in Vietnam by the government in collaboration with the World Bank (ILSSA 2010). This study consists of a small-sample survey of 488 individuals from four major migrant-sending provinces in Vietnam (table 2.5), as well as qualitative data collected via focus group discussions with the local

**Table 2.5** Surveyed Return Migrants in Vietnam

	Number of individuals		
	Male	Female	All
<b>Total</b>	190	298	488
<b>Age</b>			
18–24	7	18	25
25–34	90	120	210
35–44	82	135	217
>44	11	25	36
<b>Education attainment</b>			
Below lower secondary	22	59	81
Lower secondary school	87	172	259
Higher secondary school	81	67	148

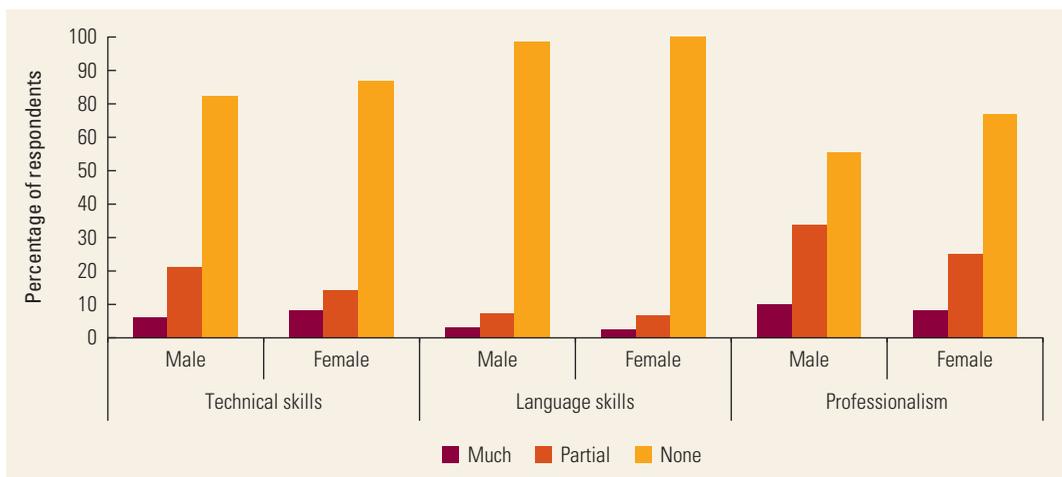
Source: ILSSA 2010.

authorities and with the returnees. The individuals selected for the survey are return migrants mostly from two markets: Taiwan, China and Malaysia (with a few who migrated to Korea and Japan). The typical return migrant in this study completed lower secondary school, is female, is married, and was abroad between 2004 and 2008. Because of data collection constraints, the survey could not track those return migrants who have moved out of the province.

Many migrants indicate that their productivity levels and both their professional and language qualifications increased. About 84 percent of all of the respondents stated that they were better skilled or had more professional ability. Another 85.7 percent stated that they had better foreign language ability, and 91.4 percent said that they had a better working style and discipline.

Nevertheless, this survey does not find an abundant use of skills among temporary economic migrants upon return to Vietnam (ILSSA 2010). Only 7.5 percent use the technical skills acquired abroad frequently, and 2.8 percent use the language skills frequently. Another modest share even stated never using these skills at all. Some 24.6 percent report that they use at least some part of technical skills in their profession, and 9.8 percent use at least some part of language skills.<sup>17</sup> As shown in figure 2.4, women have a slightly higher incidence of not applying any skills at all than do men. It should be noted that the sample size and selection in this study could be

**Figure 2.4** Return Migrants to Vietnam: How Much Are the Skills Acquired Abroad Used?



Source: ILSSA 2010.

biased in that it does not capture the full impacts on skill and knowledge transfer. The return migrants who have moved to the larger cities for better business opportunities, and who are therefore not surveyed, are precisely those who are likely to exercise such transfers.

The fact that returnees make limited use of the skills acquired abroad, despite most being employed, may be linked to the concentration of their jobs in low-skill occupations as opposed to high-skill or entrepreneurial activities. About 86.7 percent of the return migrants in the survey stated that they have found a job, and the rate is slightly higher for males than for females. However, the majority of them end up working in the primary sectors rather than becoming business owners. About 92 percent are in occupations such as craftsmanship, assembly work, and other low-skill informal jobs, with low income and without social security or workplace accident insurance. As in the domestic labor market, a much higher share of female return migrants are in agriculture, forestry, and food processing than are males, while a higher share of men are in construction and transportation. Fewer than 2 percent of employed return migrants are business owners. Instead, the majority of the women (66 percent) engage in household-based businesses, and 22 percent of them are wage earners. Among men, 39 percent engage in household-based businesses, and 36 percent are wage earners.

Why are those return migrants not engaging in medium-to-high-skill activities or entrepreneurship despite their perceived gains in productivity? The majority of the returned workers go back to their previous jobs, many of them in agriculture. One explanation may be that the productivity gain from working abroad is small and not enough to elevate them out of primary sector jobs, especially because the migrants were mostly in low-skill jobs abroad. But other reasons are probably present. Returned workers in the Vietnam survey identify “lack of job information” as the most important reason for difficulty in finding a job, surpassing by a large margin the reasons of “low education” and “no professional skill.” Lack of information can indeed create market failures in the following sense: Migrants who have recently returned are probably not always up to date and, therefore, have imperfect information about the local business environment. Employers with medium-to-high-skill jobs may also not have perfect information about the additional skills acquired by return migrants, leading to inefficient job matching. A weak investment climate in the home country would also likely deter entrepreneurship.

Although more research is needed into this topic, there is a potential rationale for public intervention if market failures in using the skills and technology transfers associated with return migrants are evident. A quest

for solid evidence about the extent of knowledge and technology accumulation during migration is still a pending research agenda. In Vietnam, where there is some evidence of skill accumulation, return migrants report that they did not receive any support from the local authorities in the job search, vocational training, or entrepreneurship. These areas are where policies can, in principle, facilitate the process of knowledge and technology diffusion. It should also be emphasized that, ultimately, none of these policies can replace the important role of supporting a sound macroeconomic environment in general to improve the investment climate in the labor-sending country.

## Conclusion

International migration and remittances will continue to rise in East Asia and the Pacific. They will play an increasingly important role in affecting the welfare of labor-sending households and countries. The fact that many people migrate every year implies a considerable private gain, at least in expectations. And these private decisions are not completely uninformed choices, given the expanding migration networks. It is important to have solid empirical evidence to better understand how migration and remittances affect welfare and whether the gains are large or modest.

The findings presented in this chapter shed light on several pathways through which migration and remittances can affect labor-sending households and countries in the region. In summary, migration and remittances have a number of positive immediate impacts, but they are not necessarily the magic bullet for development. Labor-sending countries in East Asia and the Pacific may not want to rely on labor export to foster long-term development. On the one hand, migration and remittances contribute to increasing income and reducing poverty in the short term, which has encouraged Vietnam to systematically use migration to alleviate poverty in the poorest areas (see box 2.3). On the other hand, whether countries and households in the region are receiving the full potential of long-term benefits from migration and remittances under current policies is unclear. Empirical analyses suggest mixed impacts on human capital investment and often a negative impact on the labor supply of nonmigrating household members. To date, limited evidence in the region suggests that labor export does not necessarily lead to strong productivity-enhancing knowledge and technology transfers.

What do these findings imply for the role of policies in maximizing the gains accruing to labor-sending households and countries? Consider two

### Box 2.3: Vietnam's 62 Poorest Districts Program

As part of its poverty reduction strategy, in 2009 the Vietnamese government launched a labor export program in its 62 poorest districts, which are known to have an abundance of unskilled workers. The objective of the program is to provide incentives for and facilitate overseas migration of these workers to increase their family incomes in the short term as well as aid human capital development and increase savings in the long term. The program also provides consultations for overseas workers who have returned home after completing their contracts to assist in the job search or in starting their own businesses.

Government support via the program includes subsidized training, travel-related expenses, and preferential credit policies for the poor in these districts. This support is extensive: *Subsidized training* includes full tuition for one year of education beyond primary, learning materials, food and living expenses while at school, and transportation to school. Foreign language training, cultural training, and information on the Overseas Worker Law are also provided. *Travel-related expenses* include the costs of a required medical examination, passport, visa, and police report. *Preferential credit policies* consist of preferential loans from the Vietnam Bank for Social Policy for poor

Source: H. L. Nguyen and Mont 2011.

workers to cover remaining expenses, including overseas transportation and service fees. Vocational schools for labor export are able to borrow at preferential rates. Aside from these forms of support, program participants still work with recruitment agencies for job matching and the details of each work contract.

The program began in May 2009 and is still developing, but early indications are suggestive of its popularity. The Dak Rong District in Quang Tri Province had only 39 overseas workers between 2006 and 2008, but in November 2009 the district had 149 migrants. During recruitment, more than 1,000 workers in this district applied. However, most of these candidates were disqualified because they did not meet the minimum requirement of a ninth-grade education, indicating that low education levels may be one of the biggest obstacles to the success of this program. As of December 2010, 30 firms were participating in the program with 70 supply contracts in Algeria; Japan; Korea; Libya; Macao SAR; Malaysia; Taiwan, China; and the United Arab Emirates. In 2010, the number of participants had grown to more than 3,600 overseas workers, up from about 900 the previous year. Among these migrants, 93 percent were poor ethnic minorities.

types of policies: (1) those to facilitate the process and reduce the costs associated with migration and remittances and (2) complementary policies to maximize the gains, especially beyond the short term.

Given that migration and remittances have a number of positive immediate impacts, policies to facilitate the process and reduce its costs can be justified because of the market and government failures associated with this

process, as analyzed in chapter 4. Examples include migration subsidies to the poor who may have credit constraints (box 2.3), well-managed migration schemes, publicly subsidized information or training, or reduction of remittances fees.

Sound domestic economic policies are also important for enabling households and individuals to maximize the gains. One gain from migration is the acquisition of remittances, part of which can be invested in productive activities for larger payoffs in the future. The government's role in improving the investment climate would facilitate investment opportunities so that households can receive long-term benefits from short-term economic migration. Alternatively, the government might want to consider providing support for return migrants' transition back to the local labor market if there are information gaps about job availability, unobserved skill improvement after migration, or information gaps about investment opportunities. Improvements in labor market institutions would help address these causes of inefficient job matching. Chapter 4 discusses these types of policies in detail.

On the analytical agenda, three areas warrant further research. First, this chapter identifies interesting gender differentiation in the impacts of migration and remittances, possibly due to a complex interplay between the impacts on intrahousehold bargaining as well as the physical absence of a male or female member. More work on this topic is needed to unpack these gender dimensions. Second, research on return migration as well as impacts on entrepreneurship, which has been limited in the region, would provide valuable guidance into policies. Third, better evidence on the impacts of migration and remittances on health investment and health outcomes is needed for a fuller picture of how human capital is affected.

## Notes

1. Throughout the chapter, migration and remittances refer to international migration and remittances.
2. The concept of remittances as repatriated earnings from abroad can refer to the money sent to households by members abroad as well as to the savings brought back by migrants upon return. However, microsurveys typically collect data on the former but not the latter. Evidence on repatriated savings will be discussed later in this chapter.
3. Models of migration selectivity such as Borjas (1987) give insights into why more high-skilled workers migrate in some cases and more low-skilled ones migrate in other cases. Given the long history of international migration from the Philippines, expectations to migrate are likely to perpetuate, prompting investment in higher education. When the return to skill is relatively low in

a labor-sending country compared with the return to similar skills valued in the labor-receiving country, high-skilled workers have the incentive to migrate.

4. By changing household income and consumption, migration and remittances can be expected to affect the wealth distribution and inequality in the society. In the literature, most studies of the impact on income inequality generally suggest that migration and remittances lead to a slight increase in inequality, as measured by the Gini coefficient. For example, using 1991 data from the Philippines, Rodriguez (1998) finds an increase in the Gini coefficient caused by international migration and remittances. It has been argued that remittances could result in perpetuating social and economic inequality in the Philippines as fewer remittances reach the hands of the poor than those of higher income deciles (Pernia 2008; Tullao, Cortez, and See 2007).
5. Yang and Martinez (2006) find that a one-standard-deviation increase in the region-level migrant exchange rate, that is, stronger foreign currency in which the migrants earn income, leads to a 1.4 percentage point reduction in the incidence of poverty among nonmigrant households.
6. McKenzie and Gibson (2010) evaluate a migration scheme—New Zealand’s Recognized Seasonal Employer program—and finds that this scheme increases consumption, income, and the subjective standard of living for labor-sending households in Tonga and Vanuatu. Its impact in raising income by roughly 30 percent, at least on the surface, surpasses the impacts of many other development policy instruments, including conditional cash transfers.
7. These results hinge upon the following assumption in the approach adopted by V. C. Nguyen and Mont (2011). For the estimated impact to be unbiased, there should be no time-varying factors influencing poverty but omitted from the empirical estimation.
8. For information on the average spending patterns in these countries in general, independent of migration, see the background for this volume.
9. This finding is similar to what was found in rural Bangladesh, where migrant households are also poor (Sharma and Zaman 2009).
10. As noted, remittances-receiving households in Vietnam have a very different profile from households currently sending temporary export workers. A survey of Vietnamese returned migrant workers reports that these migrants had relatively more income than nonmigrants, before going abroad.
11. This hypothesis is termed “brain gain” for labor-sending countries. But an overinvestment in education in expectation of migration may be inefficient (for example, investment in becoming a nurse in the Philippines [Tullao and others 2011]).
12. Meanwhile, in studies that have made less stringent attempts to identify a causal relationship, remittances do not appear to have strong links to education spending in Sri Lanka and Bangladesh (Sharma and Zaman 2009; Sharma 2013).
13. One statistical consideration, as mentioned earlier, is that the sample of migrants in most of these studies’ data sets is not large, which may constrain a precise estimation of the impact.
14. These results are very similar to findings about female migration and child outcomes in rural El Salvador. Acosta (2011) finds that male migration has

a null to slightly positive effect on children's school enrollment whereas female migration appears to have the opposite effect. At the same time, female migration tends to reduce child labor, in contrast to male migration from El Salvador.

15. For example, Mexico (Mishra 2007), Moldova (Bouton, Paul, and Tionson 2009), Malawi and Mozambique (Lucas 1987), Puerto Rico (Borjas 2008), and Pakistan (Gazdar 2003).
16. Acosta (2011) finds a similar impact of female migration on reducing child labor in El Salvador.
17. Despite the limited use of skills and entrepreneurship upon return, taking into account other benefits, overall, most people (68.2 percent) tend to say their household is better off with migration. Interestingly, 77 percent of women think so whereas only 54 percent of men consider their livelihoods to be improved. Only 4.3 percent of respondents consider themselves worse off.

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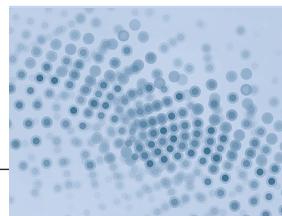
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## The Economic Impact of International Migration on Labor-Receiving Countries

*International migration is largely driven by the demand for migrant workers in labor-receiving countries. Therefore, understanding the impact of migration on labor-receiving countries is crucial. This chapter analyzes the economic impact of international migration on four major labor-receiving countries in East Asia and the Pacific: the Republic of Korea, Malaysia, Singapore, and Thailand. The results are generally consistent. The macroeconomic effects of migration are positive through raising the gross domestic product, although the impact is small. At the firm level, firms clearly enjoy higher profits because of lower wages that more than compensate for any decline in labor productivity in the short term. In labor markets, when wages fall for unskilled local workers because of competition from unskilled migrant workers, the decline is small and statistically insignificant. Wage decline affects previous migrant workers more than they affect native workers.<sup>1</sup> On the other hand, evidence also suggests that unskilled migration raises wage rates for skilled native workers as a complementary effect. Immigration of unskilled workers also provides the opportunity, as seen in Malaysia, to raise skill and education levels of native workers. These results suggest that the*

evidence for the “technology-stalling hypothesis”—that the inflow of migrant workers leads to the adoption of lower-productivity technology—is, at most, mixed. There is some evidence that firm-level productivity and research and development spending can fall in the short term, but more investment from higher profits of firms and higher education levels of native workers should offset this over the medium term. The experience of China’s coastal provinces that have hosted a huge influx of migrant workers from inland provinces is used to illustrate this.

## Context

The demand for migrant workers in labor-receiving economies is the main driver of international migration. Although a number of push and pull factors affect migration, as shown in table 3.1, all the pull factors can basically be explained by reference to the high demand for labor. Furthermore, without demand and the expectation of receiving higher real wages in a destination country, there would be no push for migration. Therefore, understanding the economic impact of international migration in receiving countries is central to determining migration’s future. This chapter studies the impact of international migration on four aspects of the labor-receiving economy: (1) gross domestic product (GDP); (2) firm profitability and competitiveness; (3) labor markets, specifically the wages and employment of host-country workers; and finally, (4) technological development. The last issue refers to the concern that migration is leading East Asian middle-income countries to forgo technological innovation because cheap immigrants create incentives to use outmoded, labor-intensive technologies. Other issues, such as the fiscal impact of migrant workers and their use of social services, are also of interest and are briefly touched on here because there is relatively little evidence on these matters in East

**Table 3.1 Push and Pull Factors of Migration**

Push factors	Pull factors
High unemployment and underemployment	Low unemployment
Excess labor supply	High demand for labor
Low incomes	High expected income
Low wages	High wages
Economic or political crisis	Economic stability

Source: Adapted from Walmsley, Aguiar, and Ahmed 2011.

Asian economies. This chapter thus focuses on the main growth, income, and market effects of migration.

The findings in this chapter are mainly based on case studies of four major labor-receiving countries in the region: Korea, Malaysia, Singapore, and Thailand. Three points are worth noting about this list: First, Malaysia and Thailand also export workers, mostly skilled, to other countries. But, on balance, these countries import many more workers than they export. Second, this list does not include major labor-receiving economies such as Japan in north Asia; Taiwan, China; or Australia in the south because the main focus of this work is on the emerging economies of the region along with Korea and Singapore. Third, the number of migrant workers in these economies is huge. Malaysia and Thailand host 2.0 million and 2.8 million migrant workers, respectively, and Korea, with its more restrictive policies concerning migration, hosts about 800,000 workers.

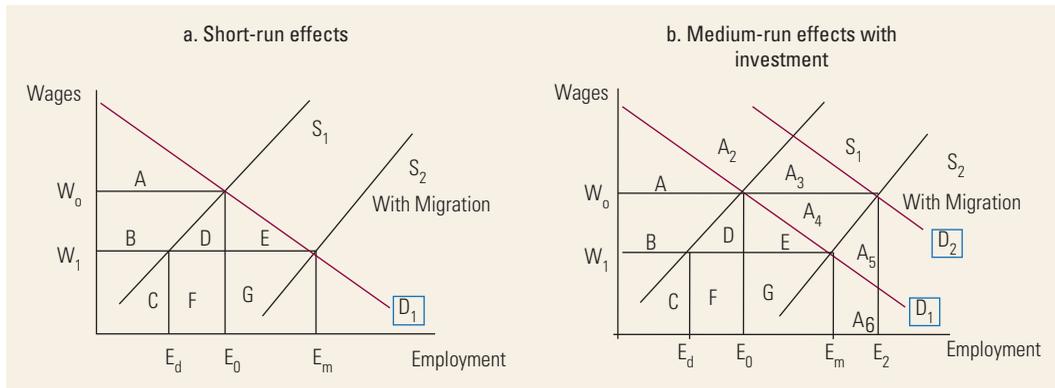
Singapore employs 1 million migrant workers, who make up nearly half of the country's total labor force. Of these, 241,000 are residents, while non-resident (foreign) workers make up about a third of the total labor force. In Malaysia, although foreign workers account for only 10 percent of the labor force, they have made up half of the increase in the labor force over the past 10 years.<sup>2</sup>

The rest of this chapter is organized as follows: The remainder of this section takes a conceptual look at how immigrant workers are expected to affect the economy of a labor-receiving country. The second half of the section briefly reviews the experience of the main labor-receiving regions of the world, namely, the United States and Western Europe. The second section surveys the characteristics of immigrant workers, while the third section discusses migrant workers' impacts on GDP based on Korea, Malaysia, and Thailand. The fourth and fifth sections look at the impact of migrant workers at the firm level, on firm profits and productivity, then on wages and unemployment. The sixth section addresses the stalling hypothesis.

### **Causes and Impacts of Migration: Theory and Evidence from Organisation for Economic Co-operation and Development (OECD) Countries**

The short-term effects of international migration can be most clearly illustrated by a simple partial equilibrium analysis. This analysis is presented through the three panels in figure 3.1, which show the standard case in which labor markets are tight, roughly approximating the full employment conditions that characterize labor-receiving countries in the region.

**Figure 3.1 Migration's Effects on GDP, Wages, and Employment**



In such a scenario, where labor is the only factor of production and markets are competitive, let  $W_0$  and  $E_0$  in panel a of figure 3.1 represent equilibrium wages and employment before immigration starts. Overall output or income is represented by the areas A, B, C, D, and F, of which A represents the profits of employers and the rest, wages. After migration starts, the supply curve shifts out, that is, more workers are available at all wages, which is a highly stylized but innocuous representation. In this scenario,  $W_1$  and  $E_m$  are new equilibrium wages and employment after migration. The distance  $E_d$  to  $E_m$  represents the migrant workers in the economy. The new output is the old area A, B, C, D, and F, but now increased by areas E and G. The area G, however, represents payments to foreign workers. Overall, the implications are as follows:

- National incomes have increased even if the payments to foreign workers, area G, are excluded. The increase is by area E.
- Firm profits have increased significantly by the areas B and D, from just the area A before migration.
- Income has been redistributed. Aggregate wage income of native workers has clearly fallen by the area B, which now goes to firms as profits.

Medium- to long-term effects would need to take into account what happens to investment rates as profits increase. In a scenario under which high profits lead to higher investment, the demand curve for workers would also shift out as depicted in panel b of figure 3.1. Another way this could happen

is if lower wage costs lead to a decline in unit costs, resulting in greater competitiveness and higher demand. In both cases, this would result in wages and employment increasing in equilibrium compared with the case in which there is no such increase. However, the net impact on wages and on native employment is unclear. A more rigorous analysis of the medium-term impact would require the use of more elaborate general equilibrium models, which are presented later.

In sum, theory would suggest that immigration should lead to an increase in GDP, profits, and competitiveness through a lowering of unit labor costs. In the short term, local wages and local employment can be adversely impacted, but the outcomes are unclear in the long term. At an extreme, immigration by highly unskilled workers that significantly lowers average productivity could overturn the positive impact of migration. Although such a scenario is improbable, the theory cannot be definitive and evidence becomes important. The rest of this section discusses the evidence, starting with the findings for OECD countries.

### **Labor-Receiving Countries' Experiences**

The empirical studies on immigration's impact in OECD countries have mostly concentrated on labor market effects. A large number of papers (many of them focused on the United States) have found negligible and often insignificant effects of immigration on both labor market wages and employment, on average. With respect to wages, the average estimated impact of a 1 percentage point increase in the share of immigrants in the labor force is to lower local wages by only 0.12 percent (Jean and others 2007). The estimated adverse impact on employment tends to be larger in Europe than in the United States (-0.03 percent, on average, for studies in the European OECD, compared with less than -0.01 percent in the United States), larger on previous immigrants than on native workers (-0.05 percent versus -0.02 percent), and stronger on low-skilled than on high-skilled workers (-0.04 percent for low skilled). These results suggest that immigrant workers can relatively easily substitute for other migrant workers and lower-skilled workers.

Some studies that have done a more careful job of controlling for reverse causality, that is, that have acknowledged that labor market conditions in host countries also affect migration flows (Borjas 2003), find more robust evidence of the impact of immigration on the wages of natives: a 10 percent increase in labor supply due to migration in a narrowly defined labor market reduces wages by 3–4 percent for workers with similar skills. Similar results are obtained in Mexico and Canada (Aydemir and

Borjas 2006; Borjas 2005). Studying the impact of migration at the subnational level in the United States (census division, state, or metropolitan area) provides evidence of a lower wage impact: higher foreign immigration in one geographical area results in lower immigration of native workers into this area from other places, and in higher emigration of native workers toward other areas of the United States. These estimates, however, depend on some strong assumptions about capital stock, and they measure the impact of immigrant workers' wages on the same type of migrant workers, not on average wages.

When studies take into account adjustment of the capital stock (for example, Ottaviano and Peri 2006), immigration is found to have a large positive effect on the average wages of native-born workers. Other studies (Card 2005) have shown that in high-immigration cities of the United States, firms adapt to the relative supplies of workers with different skill levels by adjusting their production technology, and there is no significant change in the relative wage rates after immigration. In other words, lower-skilled migrant workers can have complementary effects on higher-skilled U.S. workers at the aggregate level or on average. In the United States, immigration thus seems to have a negative impact on relative wages in the short term, at the expense of previous migrant workers and native workers most in competition with immigrants, but possibly has a positive effect on the wages of native workers in the medium term.

Previous work in the East Asia and Pacific region suggests results that are similar to those in OECD countries. A general equilibrium analysis of the Taiwanese economy (Chang 2002) finds that the inflow of foreign workers tends to exert a negative impact on the wages of local unskilled workers, thereby widening the wage gap between skilled and unskilled workers. A study on the Korean economy (Choi 2004) shows that the positive impact of immigration on production and labor markets critically depends on the price flexibility in the economy; the greater the flexibility in the economy, the greater the positive impact of immigration. There are also larger welfare gains if immigration policy is biased toward higher-skilled workers.

In sum, empirical evidence appears to hinge critically on two factors. The first of these factors is whether migrant workers complement or substitute for native workers, which will be influenced by the skill levels of migrant and native workers. Second, the degree of flexibility in both labor and capital markets is important; greater flexibility enables native workers to move to other more skilled and productive occupations. Greater flexibility also enables capital markets to adjust by promoting new investments in expanding areas and exiting from contracting areas.

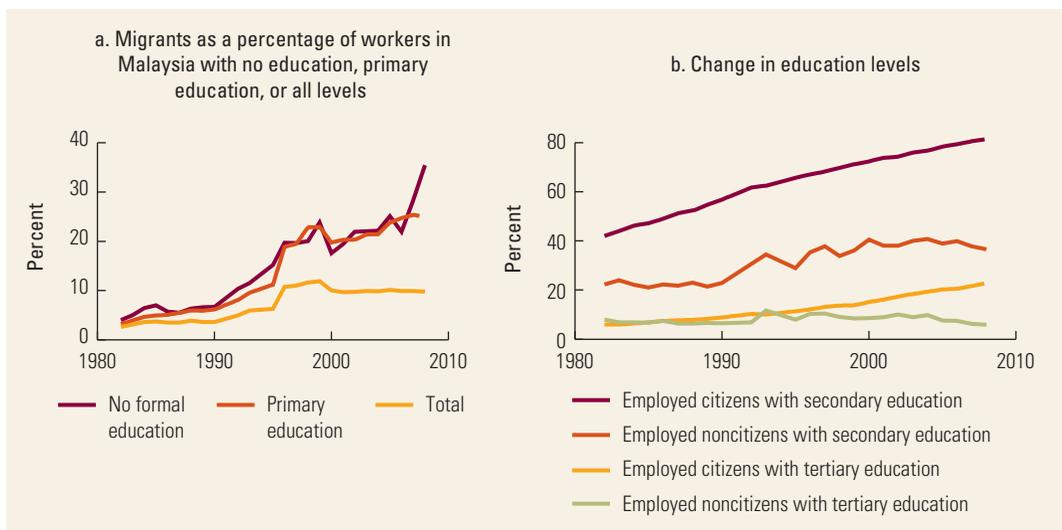
The next section discusses the skills and other characteristics of migrant workers in labor-receiving countries in East Asia and the Pacific and uses the example of Malaysia to illustrate how migrant workers can help to change the skill profile of native workers.

## Skills of Migrant Workers and Effects on Skills of Native Workers

As noted, several East Asian economies host large populations of migrant workers. The large majority of the migrants to the labor-receiving countries of East Asia and the Pacific are low skilled compared with native workers, even in Korea and Singapore, where migration policies have explicitly sought to encourage skilled migration. This section analyzes the skills mix of migrants in each of the main labor-receiving countries in the region.

Most migrants to Malaysia are uneducated. Nearly 40 percent of the migrants to Malaysia have had no formal education in the late 2000s (figure 3.2). Migrants are significantly less educated than citizens in Malaysia, and their education level has remained much the same since 2000, whereas Malaysian citizens' education level has risen steadily (see

**Figure 3.2** Malaysia: Comparison of the Education Levels of Migrant Workers and Native Workers, 1980–2010



Source: Aggregated Labor Force Survey data, Government of Malaysia.

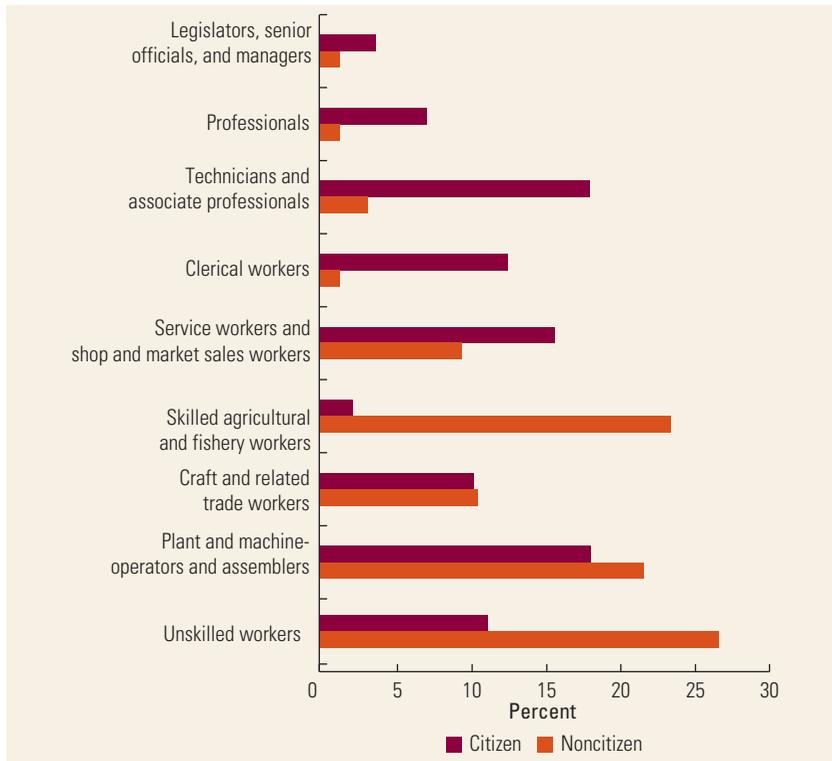
figure 3.2, panel b). As a result, the educational gap between migrants and citizens in Malaysia has increased, especially for higher education. In Malaysia, migrants are filling the demand for unskilled labor in the economy as they take up dirty, dangerous, and difficult jobs that citizens do not want. This raises an important policy question: to what extent has this process allowed Malaysian workers to acquire more skills and education? Unfortunately, this policy question cannot be satisfactorily answered without access to detailed labor survey data, which are unavailable. However, as discussed later in this chapter, a sectoral and occupational breakdown of migrants and native workers in Malaysia suggests that there has been a structural change in Malaysian citizen occupations away from less productive agricultural and manufacturing jobs toward more high-skilled jobs in the finance and business sectors.

As might be expected from the preceding discussion, the majority of migrants to Malaysia work in occupations with lower skill levels. If clerical workers, technicians and associated professionals, legislators, senior officials, and managers are defined as high-skilled occupations and the rest as lower-skill occupations, then fewer than 5 percent of migrants worked in higher-skill occupations (figure 3.3) in 2006, a figure that has not changed much since 2001. In contrast, about 20 percent of Malaysian citizens identify themselves as working in high-skilled occupations. As a result, the share of migrants in higher-skill occupations is less than 2 percent, while their share in lower-skill occupations is more than 11 percent.

Less-educated workers also dominate migrant inflows into Thailand. The main information on migrant workers in Thailand comes from the 2000 census data. According to this source, the overwhelming majority of migrant workers from the Lao PDR and Myanmar into Thailand (more than 95 percent) have less than an upper secondary education (table 3.2). The share of Cambodian migrants with less than an upper secondary education is also about 80 percent. Most of these migrant workers to Thailand are employed in relatively less-skilled sectors, such as agriculture, fishing, and fish processing (table 3.3). These three sectors account for nearly half of all migrant workers in Thailand. Another 20 percent of migrants are employed in the manufacturing, sales, and services sectors. More recently, household work and construction have begun to employ a large share of migrant workers.

Unskilled migrant workers also dominate Korean migration inflows. The overall number of migrant workers in Korea increased from 400,000 in 2000 to about 710,000 in May 2008. In 2008, the number of unskilled migrant workers was estimated to be 668,000, or about 94 percent of the total migrant workforce. As shown in table 3.4, migrant workers in

**Figure 3.3 Malaysia: Native and Migrant Workers by Profession, 2006**



Source: Government of Malaysia, Labor Force Surveys.

Korea are distributed among the occupations as follows: 247,000 (36.9 percent) in manufacturing, 169,000 (25.3 percent) in construction, 98,000 (14.6 percent) in hotel-food, 25,000 (3.8 percent) in personal services or housekeeping, and 129,000 (19.3 percent) in other sectors. Other sectors include agriculture-stockbreeding, fishery, and other services. In Korea, non-Korean ethnic migrant workers under the Employment Permit Scheme tend to be employed in the manufacturing sector. Korean ethnic migrant workers are more heavily concentrated in the construction industry (male) and in the hotel-food and housekeeping sectors (female).

Unskilled workers also make up the majority of migrant workers in Singapore. In Singapore, foreign workers are divided into two groups: work permit holders who are generally unskilled, and employment pass workers who are usually professional and highly skilled. While in theory, Singapore has tried to attract mostly skilled migrants, in reality, migrant trends until 2010

**Table 3.2 Thailand: Education of Migrants and Population at Country of Origin**  
Percent

Education level	Thailand	Nationality of cross-border migrants			Population at country of origin		
		Lao PDR	Cambodia	Myanmar	Lao PDR <sup>a</sup>	Cambodia <sup>b</sup>	Myanmar <sup>c</sup>
<b>Male, age 15–59</b>							
Less than upper secondary	73.6	96.6	76.7	99.5	75.2	84.4	86.8
Upper secondary and higher	26.4	3.4	23.3	0.5	24.5	15.6	13.0
Number	19,418,471	3,059	11,038	40,717	1,141,656	2,932,895	32,990
<b>Female, age 15–59</b>							
Less than upper secondary	74.6	98.3	85.4	99.7	81.8	91.6	85.6
Upper secondary and higher	25.4	1.7	14.6	0.3	18.2	8.4	14.2
Number	20,209,849	5,568	11,078	35,791	959,421	2,761,398	33,254

Sources: World Bank 2006; 2000 Thailand Population and Housing Census, 1 percent sample.

Note: The sampling of the MICS 2000 is not inclusive of the entire country because border areas were not included.

a. Lao Expenditure and Consumption Survey III 2002/2003.

b. Cambodia Socio-Economic Survey 2004.

c. Multiple Indicator Cluster Survey 2000.

suggest just the opposite. Recent data suggest that of the 1,053,000 foreign workers in Singapore, 82 percent (856,000) held the unskilled work permit whereas only 18 percent (197,000) held the more professional employment passes (Teng 2011). The reasons for this are not hard to fathom. In Singapore, as in the rest of East Asia and the Pacific, large numbers of unskilled migrants are needed to work in those dangerous and difficult jobs in construction, manufacturing, and household work that Singaporean citizens do not want.

## Impact on GDP, Investment, and Labor Productivity

In theory, the impact of immigration on GDP and investment is reasonably clear. In labor-constrained economies, where the marginal productivity of migrant labor is higher than the wages they receive, the addition of migrant workers to the workforce will lead to an increase in GDP. Because all four of the labor-receiving countries in the region have tight labor markets with low rates of unemployment and positive real wage growth, they can be

**Table 3.3 Thailand: Distribution of Migrants by Sector of Employment for Selected Areas, 2003 Sample**  
Percent

Sector or occupation	Mae Sai (Chiang Mai)	Mae Sot (Tak)	Ranong	Total
Agriculture <sup>a</sup>	25.6	16.8	1.0	14.5
Fishing	0.8	—	44.8	15.1
Fishery processing	24.6	—	22.4	15.6
Manufacturing	13.2	36.3	—	16.6
Sales and services	1.3	5.3	9.9	5.5
Carpenter	0.3	2.0	—	0.8
Transport worker	1.8	1.0	0.3	1.0
Household worker	20.8	3.0	5.6	9.8
General worker	11.9	30.6	15.0	19.2
Unemployed	—	4.1	0.8	1.6

Sources: World Bank 2006; WVFT and ARCM 2004.

Note: — = not available.

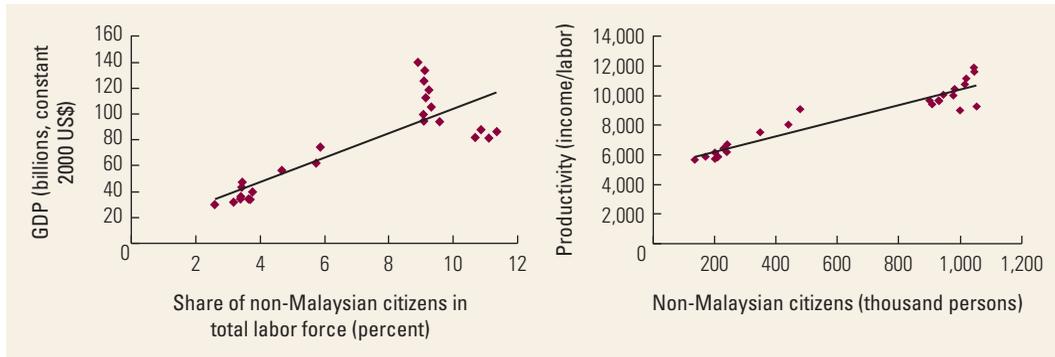
a. Includes fishery workers for Mae Sot.

**Table 3.4 Republic of Korea: Trends of Nonprofessional Migrant Workers by Industry**  
Thousand persons

	Total	Manufacturing	Construction	Hotel and food	Personal services	Others
2005	409	184	88	39	10	87
Percent	100.0	45.0	21.6	9.6	2.5	21.3
2006	438	204	89	52	13	80
Percent	100.0	46.6	20.4	11.8	3.0	18.1
2007	514	233	106	67	18	92
Percent	100.0	45.2	20.6	13.0	3.4	17.9
2008	668	247	169	98	25	129
Percent	100.0	36.9	25.3	14.6	3.8	19.3

Source: Estimates are from the first half of the fiscal year and are drawn from the Immigration Data of the Korean Immigration Service, Ministry of Justice, Republic of Korea.

**Figure 3.4 GDP, Labor Productivity, and Migration Inflows as a Share of Total Workforce in Malaysia, 1982–2008**



Sources: World Bank, World Development Indicators, 2011; Labour Force Survey, Department of Statistics, Malaysia.

Note: The Labor Force Survey was not conducted in 1991 and 1994.

considered labor constrained. If profits in these economies rise as migrant workers are employed, as the research in Korea, Malaysia, and Singapore suggest, and profits finance investment, then investment rates should also increase. This, in turn, should lead to an increase in labor productivity in the medium term. A superficial eyeballing of the data for Malaysia suggests that immigration inflows, measured by the share of migrants in the workforce, accompanied robust increases in GDP and productivity levels (see figure 3.4). This casual observation cannot form the basis of any causal argument.

A proper understanding of the links and direction of causality between migration and the economies of labor-receiving countries will require analysis of both first- and second-round effects. In the first round, an increase in migrant workers will initially have a dampening effect on wages, leading to more labor-intensive production. That should, in turn, cause a drop in labor productivity but also higher profits for firms. (It is unlikely that firms will employ more migrant workers if doing so leads to lower profits.) Higher profits introduce possible second-round effects, where the profits are used to finance higher investment that leads to increased productivity.

The second-round effects of migration are usually identified using computable general equilibrium (CGE) models, which make it possible to estimate the effects of all relationships. This section draws on general equilibrium results for Korea, Malaysia, and Thailand and the statistical analysis for Singapore. Before presenting results for these East Asian countries, a summary of general equilibrium results for other countries is given in box 3.1.

### Box 3.1: Computable General Equilibrium (CGE) Analyses of the Economic Impact of Migration

The use of CGE models to analyze the economic impact of migration has gained popularity since the 1990s. In this approach, migration flows are incorporated into the model to estimate the impact of immigration jointly on a number of variables of the economy. Some examples of the results of CGE models are described below.

*Australia:* Some of the earlier influential studies on the impact of migration were based on the ORANI model of the Australian economy (Baker 1985; CIE 1988, 1990; Peter 1993a). The Baker (1985) study simulated the effects of an annual immigrant intake of 100,000 over the period 1985 to 2001 to show that gross national product (GNP) per household not only increased but increased more when spillover effects of scale economies were taken into account. Giesecke and Meagher (2006) used MONASH, the dynamic model of the Australian economy, to assess the quantitative effects of migration and found that immigration increased employment and investment. But despite the rise in capital supply, the labor-to-capital ratio became permanently higher alongside an increase in the cost of capital and an expansion of labor-intensive industries. In addition, real GDP increased, and expenditure increased more, leading to a deficit in the balance of trade and a decline in the terms of trade. With the higher labor-to-capital ratio and lower terms of trade, real wages fell. In the short to medium term wage losses and capital gains were approximately matched, but in the long term incumbent real income fell.

*Japan:* The analysis of the effects of immigration on Asian economies is limited,

largely because of the relatively recent large-scale migration phenomenon in these countries and inadequate data for rigorous analysis. One of the few studies on Japan uses a simple three-sector model of the Japanese economy (Goto 1992) to assess the effects of low-skilled “legal” migrant workers. The analysis finds that an inflow of migrant workers amounting to 1 percent of the Japanese population would have reduced national income by 0.6 percent through a fall in their wages, while the gains to business (owners of capital) would be smaller at 0.4 percent. Goto (1992) also argues that migrant workers have an adverse effect on consumers because social utility declines by 0.02 percent.

*European Union:* A number of migration impact analyses have been carried out for the European Union (EU) economies using CGE models. A CGE analysis of the effects of migrants into the EU (Weyerbrock 1995) shows that labor migration into the EU had minimal effects on wages, unemployment, and per capita income, even when the inflow of migrants was large. Furthermore, if migrants were to bring in capital, the problems associated with labor market adjustments became smaller. Per capita income could even increase if migration were to be limited and labor markets were flexible. The negative effects on the labor markets were smaller the more flexible the labor market. Boeri and Brucker (2005) arrived at similar conclusions in a study on the costs and benefits of East-West migration in the enlarged EU. Using different assumptions on migrant skills, wage flexibility, and welfare benefits,

*(continued)*

**Box 3.1** *continued*

they simulated the outcomes of expected migration inflows. Their findings show that the gains were larger the more flexible the wages. A migrant inflow of 1 percent of the population increased GDP of the entire EU by about 0.3 percent. However, if wages were rigid, the EU gains substantially from immigration but at the expense of local workers in the host countries. The findings of other studies using more complex CGE models to examine the impact on EU enlargement were similar (Heijdra, Keuschnigg, and Kohler 2002; Brucker and Kohlhaas 2004). These studies show that an inflow of immigrants equivalent to 1.0 percent of the labor force reduced wages by about 0.5 percent, while GDP in the host country increased.

*Ireland and Greece:* The analyses of these countries looked at the differential impact on households. In general, host-country households that supply labor services similar to

*Source:* Extracted from Kanapathy 2011, Section 3.1.

those supplied by migrant workers are adversely hit. This is illustrated in a study on the effects of illegal migrants in the Greek economy (Sarris and Zografakis 1999), which shows that the real disposable incomes of households headed by unskilled persons declined but favored all other households. Interestingly, the negative impact on income affected about 37 percent of the Greek economy, suggesting significant welfare implications. Barrett, Bergin, and Duffy (2006) use a CGE model to analyze the impact of immigrants on the Irish economy during the “Celtic Tiger” era (1993–2003). Their findings show that migrants increased GNP by 3 percent, but had a negative impact on low-skilled natives by lowering their wages or raising their level of unemployment. Immigrants generally had a higher level of education than the natives, but they were not employed in jobs that reflected their educational levels.

The general equilibrium model estimated for Malaysia analyzes the impact from migration through several different channels: (1) the lowering of wages and the displacement effects on low-skilled natives; (2) the increased incidence of poverty among low-skilled households; (3) the remittances effects on the balance of payments; and (4) the implications for economic growth. In a country where the annual inflow of low-skilled foreign labor was about 12.8 percent per year, the model was simulated with a 10 percent net increase in low-skilled foreign workers. The main assumptions of the model are described in box 3.2.

The main results for the general equilibrium work on Malaysia are presented in Table 3.5 and can be summarized as follows:

- A 10 percent net increase in low-skilled workers causes an increase in real GDP at factor cost by 1.1 percent. The demand-side increase

### Box 3.2: Key Assumptions of the Policy Experiment of a 10 Percent Increase in Low-Skilled Foreign Workers

- Employment is given and real wages are endogenous. Hence, real wages are flexible and respond to any change in the immigration-induced growth in employment. Employment by industry, however, can freely adjust. Thus, reallocation of labor between industries can take place following a policy change.
- Capital can be reallocated in response to the policy simulation. To facilitate mobility of capital, the rates of return are fixed by making capital stocks endogenous and the rate of return to capital exogenous. In other words, initial pressures on the rate of return following a policy shock will induce changes in capital stock to maintain the rates of return at the preshock levels. Thus, the expansion (decline) of an industry is reflected as an increase (decrease) in capital stock in place of higher (lower) rates of return.
- All components of aggregate expenditure, that is, households, government consumption, and investment, are determined by the model in response to the policy shock. Household consumption responds endogenously to any change in households' respective disposable incomes, while aggregate investment follows aggregate capital stock. Government consumption is assumed to follow aggregate real household demand.
- The trade balance is determined within the model. It is assumed that the time period is long enough for both the capital and labor markets to adjust but not long enough for the balance of trade to adjust.
- The policy change has no effect on technology and consumer preferences.

Source: Kanapathy 2011.

in GDP at market prices can be attributed to growth of exports (1.66 percent), aggregate investment (1.15 percent), household consumption (0.42 percent), and government expenditures (0.42 percent). The supply-side impact by sector is discussed below.

- The volume of imports rises by about 1.30 percent. The higher imports can be attributed to the relatively high import intensity of Malaysian exports. Nonetheless, export growth (1.66 percent) exceeds import growth, giving rise to a marginal improvement in the trade balance by 0.003 percent.
- The fall in real wages (a decline of 0.68 percent) lowers domestic prices and costs compared with foreign prices and costs. This makes Malaysian

**Table 3.5 Results of General Equilibrium Model in Malaysia, Effects of a 10 Percent Net Increase in the Stock of Low-Skilled Migrant Workers**

Description	Percentage change
(Balance of trade)/GDP	0.00
Real GDP from expenditure side	1.16
Aggregate real investment	1.15
Real household consumption	0.42
All sectoral agricultural land	0
Consumer price index	-0.14
Aggregate investment price index	-0.12
Exports price index, local currency	0.17
Export volume index	1.66
Import volume index, duty-paid weights	1.31
Aggregate employment (persons weights)	1.47
Average real wage	-0.68
Aggregate output (value added weights)	1.18
Average capital rental	-0.18
Nominal exchange rate	0
Real devaluation	0.24
Terms of trade	-0.17
Corporation tax	1.04
Aggregate capital stock, rental weights	1.14
Aggregate real government demand	0.42
Total posttax household income	0.17
Net factor payments	-0.07
Real GNP from income side	0.81

Source: Kanapathy 2011.

exports more competitive. The decline in domestic prices leads to a decline in the prices of investment goods (-0.12 percent), consumer goods (-0.14 percent), and exports (-0.17 percent), and a real devaluation of the Malaysian currency (the ringgit).

- The tradable industries—the import-competing and export-oriented industries—record the largest increase in output, as shown in table 3.6. The policy shock lowers local wages, leading to a reduction in domestic prices and costs relative to foreign prices and costs.

**Table 3.6 Effects of a 10 Percent Net Increase in the Stock of Low-Skilled Migrants in Malaysia on Selected Industries' Output, Employment, and Capital Stock**  
*Percentage change*

<b>Industry</b>	<b>Output</b>	<b>Employment</b>	<b>Capital stock</b>
<b>Export-oriented industries</b>			
Rubber	2.15	4.73	2.19
Oil palm	2.14	4.95	2.41
Forestry and logging	1.93	4.55	2.02
Textiles, clothing, footwear	2.67	3.33	2.14
Wood products	3.22	3.86	2.74
Chemical products	2.63	3.86	2.30
Rubber products	2.94	3.66	2.46
Electrical machinery	1.56	2.39	1.24
<b>Import-competing industries</b>			
Fishing	0.75	2.88	0.35
Food	1.55	2.44	0.91
Oils and fats	1.95	2.88	1.71
Beverages and tobacco	1.69	3.17	1.11
Paper and print	1.84	2.48	1.33
Petroleum products	0.97	2.23	0.92
Plastic products	2.66	3.35	2.22
Nonmetallic minerals	2.05	2.86	1.68
Metal products	2.25	2.98	1.80
Nonelectrical machinery	2.67	3.77	2.47
Transportation equipment	1.50	2.34	1.07
Other manufacturing	2.88	3.63	2.38
<b>Services</b>			
Electricity, gas, water	1.29	2.38	1.18
Construction	1.22	1.29	1.07
Wholesale and retail trade hotels and restaurants	1.58	1.85	1.51
Transportation	0.76	1.43	0.35
Communications	1.94	2.19	1.74
Finance and banking	0.70	0.06	0.87
Insurance	0.77	0.13	1.05

*(continued)*

**Table 3.6** Effects of a 10 Percent Net Increase in the Stock of Low-Skilled Migrants in Malaysia on Selected Industries' Output, Employment, and Capital Stock (*continued*)

Industry	Output	Employment	Capital stock
Real estate	-0.04	-0.76	0.12
Dwelling	0.75	0.03	0.82
Bus services	0	0	0
Education	-1.48	-1.93	-1.04
Health	0.19	0.16	1.13
Other services	0.19	0.10	0.65
Entertainment and recreation	1.05	1.44	0.52
Public administration and defense	0.39	0.23	0.43
Household services	0.42	0.42	0.48
	4.10	4.10	1.11

Source: Kanapathy 2011.

Note: Export-oriented and import-competing industries are based on the classification by Bank Negara Malaysia.

- In table 3.6, the export-oriented sectors include the labor-absorbing primary commodities such as palm oil and wood-based industries and the labor-intensive manufacturing industries such as textiles, clothing, and footwear, and wood-based and rubber-based products for which profitability and competitiveness are driven by costs and prices. These labor-intensive industries record larger increases in output of between 2.0 and 3.0 percentage points.
- The output of import-competing industries such as plastic products, paper, printing, and transportation equipment also expands as consumers and investors substitute local goods for imported products (table 3.6). In contrast, the services sectors register marginal growth or decline, and release resources to the other expanding sectors.

The results of the general equilibrium work on Thailand are generally consistent with those for Malaysia. Sussangkarn (1996) analyzes the effects of removing all foreign workers from Thailand and finds that it causes real GDP to fall by 0.48 percent. Disaggregating the impact by sector, the decline in real GDP is more severe for agriculture and low-skilled industry because that is where most foreign workers are located. This study also shows that foreign workers compete with low-skilled workers and hence their removal leads to a rise in the wages of low-skilled Thai workers. However, foreign workers complement better-educated Thai workers and their removal leads to a fall in the wages of educated Thai workers. The removal of foreign labor

also results in a fall in exports of 0.64 percent, a fall in imports, and an improvement in the trade and current account deficits. Income distribution improves, and the real income of the poorest 60 percent of households increases by 0.40 percent.

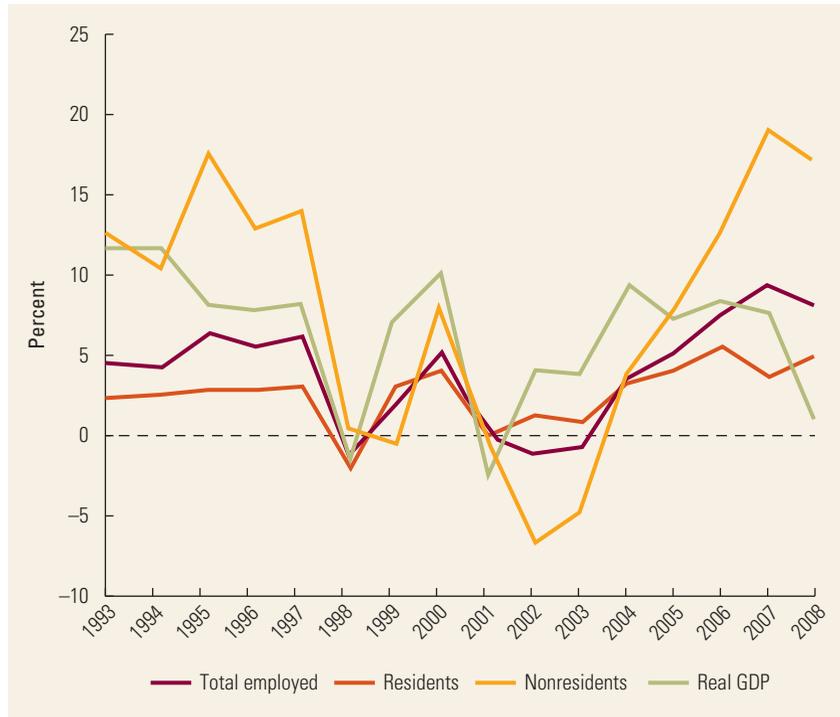
An update of this Thai general equilibrium model by Martin (2007) found that foreign workers, estimated to be about 5 percent of the total workforce, increased GDP by 1.25 percent. A study commissioned for this report (Pholphirul, Kamlai, and Rukumnuaykit 2010) uses the macroeconomic model established by the Fiscal Policy Office under the Ministry of Finance of Thailand to measure the economic impact of immigration on the Thai economy.<sup>3</sup> This model uses a production function in which each sector uses two intermediate inputs in production, capital and labor, separating native and migrant workers in the latter group. It then tests the impact of removing migrants from the labor force. In this model, Thai GDP contracts by 0.75 percent, with most of this contraction taking place in agriculture (1.33 percent), followed by manufacturing (0.90 percent), and services (0.53 percent).

The links between temporary and less-skilled workers and GDP in Singapore can be seen in figure 3.5. This figure shows the growth rate of real GDP, and of local and nonresident (migrant) workers. More formally, the contribution of local and migrant workers to output growth in Singapore has been analyzed by decomposing GDP growth into contributions by productivity and employment growth (Thangavelu 2010). This measurement is stylized because it assumes that labor productivity growth for foreign and native workers is the same. GDP is decomposed into components attributed to output, productivity, and growth associated with changes in local and foreign employed manpower. Except for the period following the Asian crisis of 1997, when the GDP growth rate dropped precipitously, the contribution of foreign workers to GDP growth in Singapore has been a robust 37 percent.

## **Impact on Productivity and Competitiveness**

In theory, the impact of migrant workers on labor productivity and competitiveness is ambiguous. Although migrant workers raise output in labor-constrained economies, they can lower productivity at the same time under several conditions: (1) if migrants are less skilled than native workers in the jobs they replace and cause a decline in average labor productivity, (2) if the jobs that migrants fill require skill levels they lack, and (3) if firms use more labor-intensive techniques in response to cheaper wages, causing labor productivity to decline. The last effect, however, may not hold in the medium

**Figure 3.5 Singapore: Growth in Resident and Nonresident (Migrant) Workers and Real GDP**



Source: Thangavelu 2010.

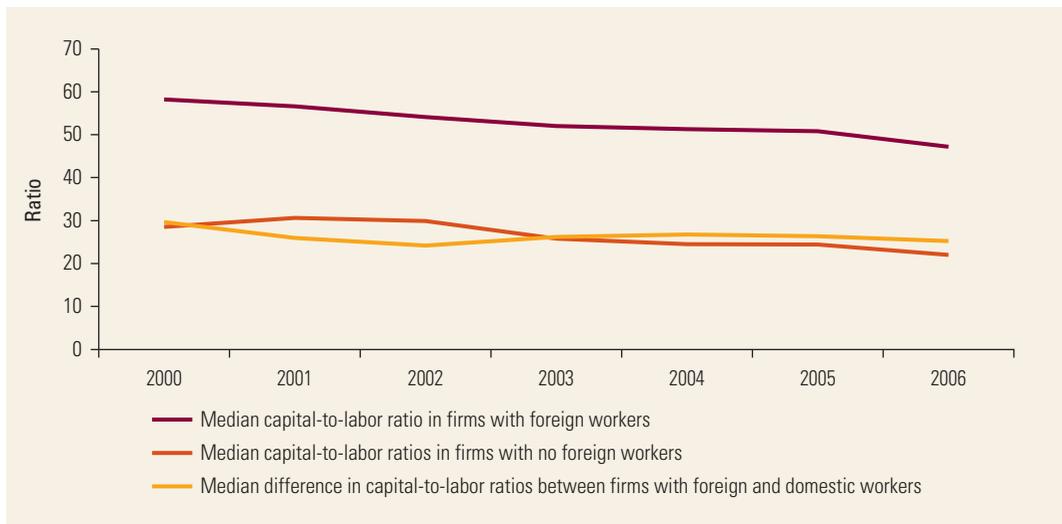
term if firms raise capital intensity in production in response to rising profits and wages. The effect of migrant workers on firm competitiveness also depends on several factors. Firm competitiveness will decline if migrant workers lower productivity. But that in itself will not be sufficient to lower competitiveness, which is perhaps best measured by profitability and unit labor costs. To lower competitiveness or increase unit labor costs, the fall in labor productivity has to exceed the fall in wages, thereby leading to a decline in profitability. This is unlikely to happen because firms would not employ migrant workers if doing so reduces their profitability.

This section summarizes the empirical results of research, done for this report, on the impact of international migration on productivity in Korea, Malaysia, Singapore, and Thailand. The results are largely in line with what is predicted by theory, including mixed results in the case of productivity. Analysis at the firm level in Malaysia reveals that the use of foreign workers has three features that affect productivity. First, firms that employ foreign

workers have significantly higher labor productivity. However, the increase in the share of foreign workers is accompanied by a decline in capital-to-labor ratios. Second, while an increase in foreign workers reduces labor productivity, it does so by less than the decline in wages. Hence, profitability at the firm level rises. This last result is to be expected. Firms would not employ foreign workers if their profitability fell by doing so.

An association between lower productivity and lower capital-to-labor ratios with an increasing share of foreign workers does not necessarily mean that migration is causing these trends. It could be that firms that are facing competition and higher capital costs find it more efficient to substitute labor for capital and lower labor productivity while raising overall profitability. The employment of migrant workers could then be a response to rather than a cause of declining productivity. In sum, it is important to isolate the relationships between productivity, capital-to-labor ratios, and migration. This can be done at the aggregate level by examining how capital-to-labor ratios and unit labor costs have changed in firms employing foreign workers in comparison with firms not employing foreign workers. One would expect that employing more migrant workers who have significantly lower wages would lead to a relatively larger drop in capital-to-labor ratios in firms that are using foreign workers. But as figure 3.6 shows, the difference in capital-to-labor

**Figure 3.6** Malaysia: Differences in Capital-to-Labor Ratios between Firms with Migrant Workers and Firms without Migrant Workers, 2001–06



Source: Derived from Yean and Siang 2011.

ratios between the two types of firms has remained largely unchanged, suggesting that the use of migrant workers by foreign firms has not led to lower capital-to-labor ratios.

An analysis of more than 2,300 manufacturing firms in Malaysia between 2000–2006 supports the previous discussion. Overall, the median labor productivity of firms that employed foreign workers was 48 percent higher than the median labor productivity of firms that did not employ foreign workers over this period. Corresponding wages were 28 percent higher (Yean and Siang 2011).

A more detailed approach to measure the impact of changes in the share of migrant workers in a firm and the impact on productivity and unit costs provides similar but more mixed results. An increase in the share of foreign workers by 1 percent results in a decline in labor productivity levels by 0.6 percent on average (column 3 of table 3.7). If the impact on productivity is broken down by occupation, change is driven by an increase in the share of foreign clerical workers (Yean and Siang 2011). On the other hand, the competitiveness of firms increases as revealed by a decline of 0.2 percent in unit labor costs. Here also, the impact differs by occupation. Declines in unit labor costs as a result of using migrant workers are larger for occupations such as technicians (by 0.5 percent) and plant and machine operators (0.4 percent).

The results from Thailand also show a mixed impact for migration. An analysis of 2,378 firms carried out for this report suggests that the use of unskilled migrant workers has a negative impact on labor productivity, but the overall impact on unit labor costs is ambiguous because of a fall in wage costs (Pholphirul, Kamlai, and Rukumnuaykit 2010). The results from a background paper for this report show that a 1 percentage point increase in the share of unskilled workers would reduce labor productivity by 5 percent; unit labor costs would also decrease, though not statistically significantly. However, these results are not robust to either the addition of new variables or a more careful selection of firms for which multiyear data are available and for which endogeneity can be controlled. Once these changes are made, the results become statistically insignificant. Given the complexity of the factors, this is not surprising.

The findings from a study of the small and medium enterprise sector in Korea (Hur 2010) are similar to those found in Malaysia and Thailand, although the study shows no evidence that employing migrant workers lowers productivity. Using data from the Korean Workplace Panel Survey collected by the Korea Labor Institute, this study investigates the impact firm performance of migrant workers, the sources of the impact, and the capital investment behavior in the Korean small and medium enterprise sector.

**Table 3.7 Increase in the Share of Foreign Workers**

<b>Independent variables (1)</b>	<b>Labor productivity, automatic regressions and endogeneity (2)</b>	<b>Labor productivity, automatic regressions and endogeneity (3)</b>	<b>Unit labor costs, automatic regressions and endogeneity (4)</b>	<b>Unit labor costs, automatic regressions and endogeneity (5)</b>
Capital-labor ratio (natural log)	0.137 [0.035]***	0.169 [0.027]***	-0.272 [0.025]***	-0.213 [0.020]***
Capital stock (natural log)	0.105 [0.027]***	0.066 [0.019]***	0.118 [0.017]***	0.057 [0.012]***
Dummy for foreign establishments	-0.151 [0.142]	0.127 [0.069]*	-0.311 [0.108]***	-0.199 [0.047]***
Share of foreign workers in management and professional jobs	0.008 [0.005]*		0.009 [0.007]	
Share of foreign workers in technical jobs	-0.009 [0.011]		-0.052 [0.024]**	
Share of foreign workers in clerical jobs	-0.028 [0.015]*		0.007 [0.009]	
Share of foreign workers in unskilled (elementary) jobs	-0.002 [0.003]		-0.018 [0.012]	
Share of directly employed foreign workers in plant and machine operator jobs	-0.005 [0.003]*		0.004 [0.001]***	

(continued)

Table 3.7 Increase in the Share of Foreign Workers (continued)

Independent variables (1)	Labor productivity, controlling for automatic regressions and endogeneity (2)	Labor productivity, controlling for automatic regressions and endogeneity (3)	Unit labor costs, controlling for automatic regressions and endogeneity (4)	Unit labor costs, controlling for automatic regressions and endogeneity (5)
Share of foreign workers, overall		-0.0057 [0.0009]***		-0.0019 [0.0007]***
Concentration ratios	0.627 [1.427]	-0.365 [0.487]	1.364 [0.256]***	-0.58 [0.215]***
Dummy if firm established after 1997	0.067 [0.376]	-0.339 [0.448]	-0.069 [0.081]	-0.717 [0.367]*
Dummy for firms experiencing losses	-0.169 [0.036]***	-0.199 [0.019]***	0.266 [0.034]***	0.156 [0.017]***
AR(1)	0.806 [0.010]***	0.799 [0.003]***	0.717 [0.006]***	0.754 [0.005]***
Constant	7.199 [0.816]***	7.908 [0.304]***	-0.345 [0.149]**	0.869 [0.140]***
DI	YES	YES	YES	YES
Observations	14046	14046	14046	14046
R-squared	0.8526	0.8776	0.5563	0.7091

Source: T.S. Yean and L.C. Siang (2011)

Note: AR(1) = autoregressive error term by 1 order; DI = first differenced. Standard error is shown in brackets; \* weakly statistically significant at 10 percent, \*\* statistically significant at 5 percent, \*\*\* highly statistically significant at 1 percent.

The influx of unskilled migrant workers has a positive impact on firm profitability. A 10 percentage point increase in migrant workers raises operating income per capita by 8 percentage points. It lowers wages and increases total employment within firms. However, increased employment is more likely to substitute for capital rather than increase output and investment, having a negative effect on the capital-to-labor ratio. There is no evidence of a scale effect or gain in productivity from employing migrant workers. Immigrant labor does not have any effect on capital investment, business closing, or offshore investment.

## **Labor Markets: Impact on Wages and Unemployment**

The impact of international migration on wages and unemployment rates in labor-receiving countries is probably the most contentious issue surrounding migration. This section presents the findings of papers that were commissioned for this report that examine this issue. Overall, the results suggest that in the tight markets of East Asia and the Pacific, where unemployment rates are less than 4 percent, there is little evidence of any significant impact of migration on either wages or employment. However, there is some evidence that wages of unskilled native workers in labor-receiving countries fall because they directly compete with unskilled migrant workers. But this wage decline is small, about 1 percent on average, and mostly statistically insignificant. At the same time, results suggest that wages of skilled native workers increase as migrant workers enter the labor force. This is consistent with what economic theory would predict in labor markets that have full or near-full employment. As discussed in a previous section, this result is also consistent with findings in other areas of the world (for example, Özden, Docquier, and Beine 2010).

In Thailand, the impact of migration on wages and employment is analyzed by examining labor markets in five provinces with the highest proportion of foreign workers in the Thai labor force (Lathapipat 2011). The proportion of foreign to total labor in these provinces is 9.7 percent, compared with 1.4 percent for Thailand as a whole. The results obtained by narrowing the focus to immigrant-intensive provinces are more reliable than if all provinces were included. If provinces with low immigrant intensity were included in the study, the effects on wages would likely become diffused because of the small share of the immigrant wage bill to the total wage bill.

Lathapipat (2011) examines the impact on wages of a doubling in the size of the immigrant workforce in the five specific provinces. The study finds that wages of less-skilled Thai workers—with only upper primary and lower primary education—fall by 0.03 and 0.79 percent respectively (table 3.8). However, the wages of skilled Thai workers, those with high school and college education, actually rise by 0.56 and 0.57 percent. Other evidence suggests that younger Thai workers suffer disproportionately more than older workers as measured by wage losses.

These results from Thailand suggest that immigration adversely affects the wages of existing foreign workers much more than those of low-skilled Thai because of the imperfect substitutability between Thai and migrant workers in production. In Thailand, inflows of low-skilled foreign workers also raise the productivity of high-skilled native workers with high school and college educations, resulting in their getting higher wages. However, the size of these wage increases is quite small.

In Malaysia, the analysis of the impact of migration on wages is hampered by the lack of labor market data on workers. More aggregate data by occupation or by education suggest that the wages of migrant workers are uniformly less than those of native workers (table 3.9). But interestingly, the differential between wages of native and migrant workers is higher for more-skilled workers in Malaysia. This suggests that migrant workers with lower education are closer substitutes for native workers with similar education.

More formal analysis using firm-level data from 14,000 manufacturing firms in Malaysia suggests that wage growth for native workers is dampened by the impact of migration, although the effects are extremely small and mostly statistically insignificant. Where the results are

**Table 3.8 Simulated Long-Term Effects of Immigration on the Thai Wage Structure**

<b>Schooling</b>	<b>Immigrant worker's wage for all experience levels (percentage change)</b>	<b>Thai wage for all experience levels (percentage change)</b>
Lower primary	-1.94	-0.03
Upper primary	-2.45	-0.79
High school	-1.09	0.56
College	n.a.	0.57

Source: Lathapipat 2011.

Note: n.a. = not applicable.

**Table 3.9 Malaysia: Wages of Migrant Workers Relative to Native Workers, 2006 and 2007**  
Percent

Education	2006		2007	
	Mean	Median	Mean	Median
No formal education	96.3	108.8	100.5	111.2
Primary	79.5	86.1	73.2	85.7
Secondary	61.4	68.1	63.5	69.9
Tertiary	151.5	47.5	121.4	46.3
Total	64.0	62.5	57.2	61.1

Source: Estimated from Labor Force Survey data.

Note: A value of 96 means that migrant workers' wages are 96 percent those of native workers.

statistically significant, a 1 percentage point increase in the migrant labor force share decreases real wages by 0.1 to 0.3 percent for native workers. Overall, a 1 percent increase in the share of foreign workers leads to a decline in real wages of between 0.3 percent and 0.8 percent (Yean and Siang 2011). Given that the share of foreign workers in Malaysian manufacturing increased from 15 percent to 24 percent between 2000 and 2006, overall wages were lowered by 3 percent to 7 percent from what they would have been.

More recent analysis (Özden and Wagner 2014), which used repeated rounds of labor force data, shows that migrant workers can have a robust beneficial impact on both employment and wages. With regard to employment, for every 1,000 migrant workers that are employed in a sector in a state, 410 new full-time jobs are created for Malaysian workers. Most of these jobs are created in agriculture, services, and manufacturing. Wages also go up by 0.14 percent for every 10 percent increase in migrant workers (Özden and Wagner 2014). The intuition behind these results is fairly clear: Unskilled migrant workers complement skilled and educated native workers, raising their wages and productivity by releasing native workers from less skilled jobs so that they can become more skilled and move into higher productivity jobs and by increasing the size of sectors and scale of production in manufacturing and agriculture.

In Korea, the results are similar (Lee, Yee, and Nho 2011). The ratio of unskilled migrant production workers has a small and negative effect on the wages of unskilled native workers. The impact, however, is again very

small: a 1 percent increase in migrant unskilled workers lowers wages of similarly unskilled native workers by 0.09 percentage point (table 3.10). It has only a weakly positive effect on the wages of native workers in other occupations, who are more like complements with unskilled migrant workers. Although an increase in unskilled migrant laborers has a positive and statistically significant effect on the wages of professionals (0.3 percent), such an increase does not have a statistically significant effect on the wages of any other skilled occupational group.

The absence of any significant effects of unskilled migration on wages and employment in Korea may be the result of several characteristics of the institutional arrangements for migration in that country. First, in Korea, migrant workers are admitted mainly to fill labor shortages in small and medium enterprises. If the number of migrant workers admitted is just enough to meet shortages, their labor market effects on corresponding native workers may be negligible. Second, the minimum wage rate in Korea applies to migrant workers. Because small employers tend to set the base wage rate of their unskilled employees at the minimum wage level, the wage effects of migrant workers are probably limited.

**Table 3.10 Korea: The Effect of Migrants on Wages of Native Workers in the Manufacturing Sector**

		Dependent Variable: Log (wage)				
		Managers	Professionals and related workers	Clerks	Manufacturing and technical workers	Laborers
Observations		61	713	585	1,982	206
<b>Independent variable: The ratio of migrant workers</b>	Managers	-0.106	-0.02	0.034	0.022*	0.010
	Professionals and related workers	-0.093*	-0.008	-0.024	-0.001	-0.019
	Clerks	0.165**	-0.013	0.011	-0.018	0.029
	Manufacturing and technical workers	-0.016	0.006	0.028	-0.008	0.021
	Laborers	-0.099	0.029**	0.010	0.013	-0.086***

Source: Hur 2010.

Note: Age, education level, tenure, marital status, employment status, and establishment size are controlled for in the model, but the estimated coefficients are not reported here for the limited space.

\*, \*\*, and \*\*\* indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

In Singapore, the background analysis for this report (Thangavelu 2010) indicates that the inflow of foreign labor has had little impact on the wage rate of local workers. In fact, there is some evidence of rising wage rates for local workers in periods of large foreign labor inflow. Overall, wage rates for local workers are much higher than those for foreign workers, and they are increasing at a faster pace. On average, the local wage rate is twice that of the foreign wage rate, and it increased by 19 percent during 2003–08. In comparison, the foreign wage rate was fairly stable during this time period. This suggests that foreign labor is likely to complement local labor. The data also show a positive growth trend in the wage rate of local workers, although there is a strong upward trend in the inflow of foreign workers, indicating that some complementarities between local and foreign workers in the manufacturing sector may exist. This observation is also in line with the results of Chia, Thangavelu, and Toh (2004).

A priori, the impact of migration on unemployment rates is also ambiguous. If labor-receiving countries have tight labor markets and labor shortages, then the inflow of migrant workers should not increase unemployment. If native workers either increase their reservation wages because of higher incomes or move to more productive jobs, an increase in migrant workers need not increase unemployment. The evidence about the impact of migrant workers on unemployment is also mixed, as theory would predict. But if migrant workers are easily substitutable for native workers and jobs, then unemployment rates can increase in labor-receiving countries.

In Korea, the results indicate that migrant workers do not have an adverse effect on employment of native workers. There is some evidence, in fact, that migrant worker employment reflects worker shortages in the small and medium enterprise sector. The shortage ratio is lower in migrant worker employer firms in 2007 compared with 2005. Because these firms initially had greater shortages, these data certainly imply that migrant workers reduced the shortage of workers in user firms.

In Malaysia, there is also little evidence that unemployment has been adversely affected. Unemployment rates fell progressively from 7.4 percent in 1970 to 2.8 percent in 1995, a time when migrant workers were steadily increasing in the economy. Although the unemployment rate increased to 3.1 percent and 3.5 percent in 2000 and 2005, respectively, it fell again in 2007 to 3.2 percent. This means that Malaysia has had virtually full employment since the early 1990s, with the exception of the economic crisis years of 1997–98 and 2008–09.

In Thailand, the evidence suggests that an increasing supply of immigrant workers with both lower and upper primary schooling was uncorrelated with the unemployment rates of native Thais in these respective schooling groups (Lathapipat 2011).

## **Technology Stalling or Skill Upgrading? The Impact of Migration**

The 2009 Annual Report of Bank Negara Malaysia summarizes the technology-stalling argument as follows: the ready availability of relatively cheap low-skilled foreign labor in the country has hindered the adoption of automation in the manufacturing sector, thereby implying that this may have affected the productivity and competitiveness of this sector (Central Bank 2010: 22, from Yean and Siang 2011). More broadly, the migration-related technology-stalling hypothesis can be stated as follows: an economy fails to adopt more productive technology and produce new technology-intensive products because the presence of unskilled migrant workers lowers wages and reduces the incentives to adopt technology.

Although this hypothesis has wide currency in the region's middle-income labor-receiving countries, relatively little empirical research has been done to analyze its validity. One of the earliest studies was conducted by Athukorala and Manning (1999), who analyze the impact of international migration on structural change in East Asia and the Pacific. They find that relatively few unskilled foreign workers were employed in the key industrial sectors that were targeted for industrial upgrading by the government before the Asian financial crisis in 1997. Specifically, they find that unskilled foreign workers were used as "a breathing space, allowing economic growth rates to be maintained through the expansion of labor-intensive industries" (Athukorala and Manning 1999, 200). Other subsequent studies (Evelyn and Chan 2007; Evelyn 2009) also find that the presence of unskilled foreign workers does not have a significant bearing on skill upgrading in the manufacturing sector.

The stalling hypothesis is difficult to test without detailed firm-level data. However, the background papers for this report from Korea, Malaysia, and Thailand try to analyze this hypothesis from different angles. As discussed above, in the short term migration is associated with a small decline in wages and greater use of labor-saving techniques through a fall in the capital-to-labor ratio. In the medium term, all country case studies also show an increase in profits at the firm level. The question then hinges on how this profit is used. In the short term, before capital

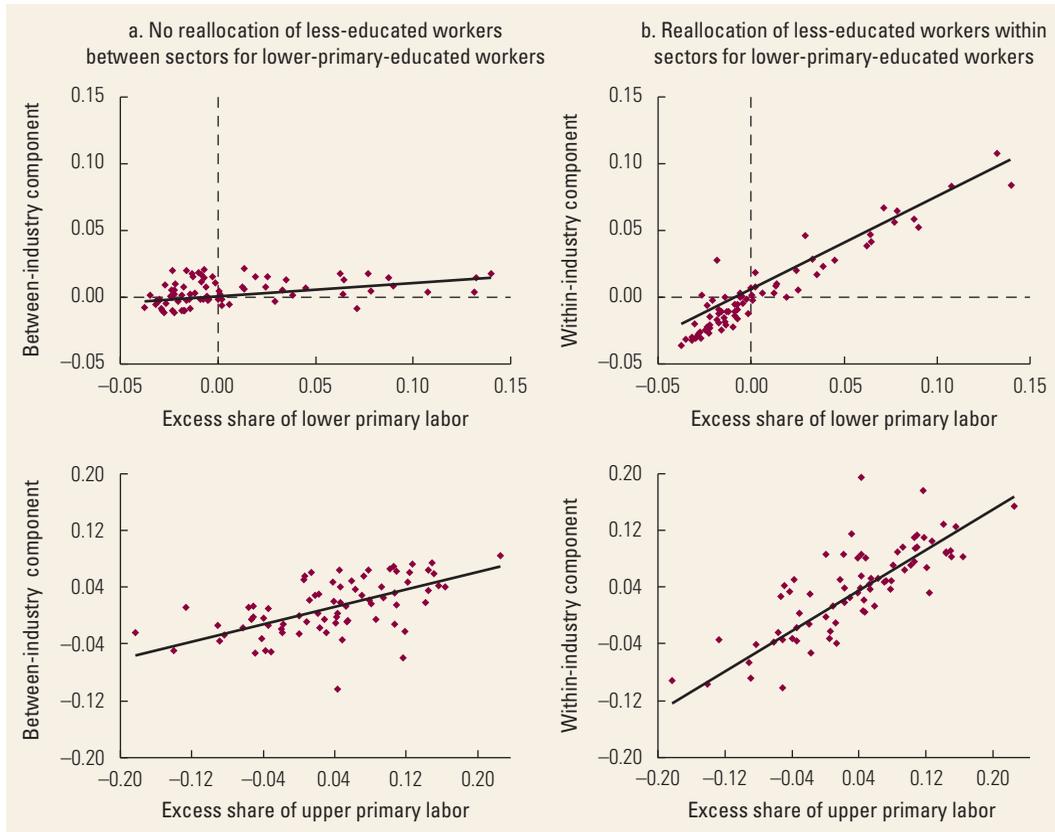
adjustment and investment can take place, it might be expected that the capital intensity of production will decline. There is also evidence from Thailand that firm-level expenditures on research and technology and the adoption of new technology is lower in firms using migrant workers versus firms not using migrant workers (Pholpirul, Kamlai, and Rukumnuaykit 2010).

The main problem with these results is that they are not robust. They are based on simple measures of association between the use of migrant workers and productivity. Furthermore, in most cases the decline in wages is very small and statistically insignificant. This removes the main mechanism through which the stalling hypothesis is expected to work. Perhaps the most rigorous analysis of the stalling hypothesis has been done for Thailand. There, using the neoclassical framework, which differentiates between four classes of skilled workers, the impact of the increase in employment of the two least-skilled groups—those with lower primary and upper primary schooling, who make up about 85 percent of the immigrants—is examined.

The results of this work in Thailand show little evidence of the type of expansion of labor-intensive sectors that the stalling hypothesis implies. There is no Heckscher-Ohlin type absorption of excess supply of this type of labor through industry structure changes that increase the size of labor-intensive sectors relative to skill-intensive sectors. In other words, as shown in figure 3.7, the additional supply of less-educated workers (lower primary educated or upper primary educated) does not lead to a greater reallocation of labor among sectors (panel a). The excess labor is also absorbed within sectors (panel b). Put more simply, the average labor-intensive sectors are not significantly larger in Thai provinces where lower primary workers are abundant, which would be the case if the stalling hypothesis were valid. In contrast, a much larger share of the absorption of lower primary labor is associated with the within-industry component. That is, industries in provinces where lower primary workers are abundant are, on average, more intensive in their use of this type of labor.

More indirect evidence on the stalling hypothesis comes from Malaysia. A counter-thesis to the stalling hypothesis is that migration enables the skill and technological upgrading of native workers by allowing them to move from low-productivity to high-productivity industries. Unskilled migrant workers can then be used to take up less-skilled, labor-intensive positions in the agriculture and services sectors. The data on the composition of native workers and migrant workers in the two decades between 1986 and 2006 (figure 3.8) suggest that such a restructuring of the labor force has taken place in Malaysia.

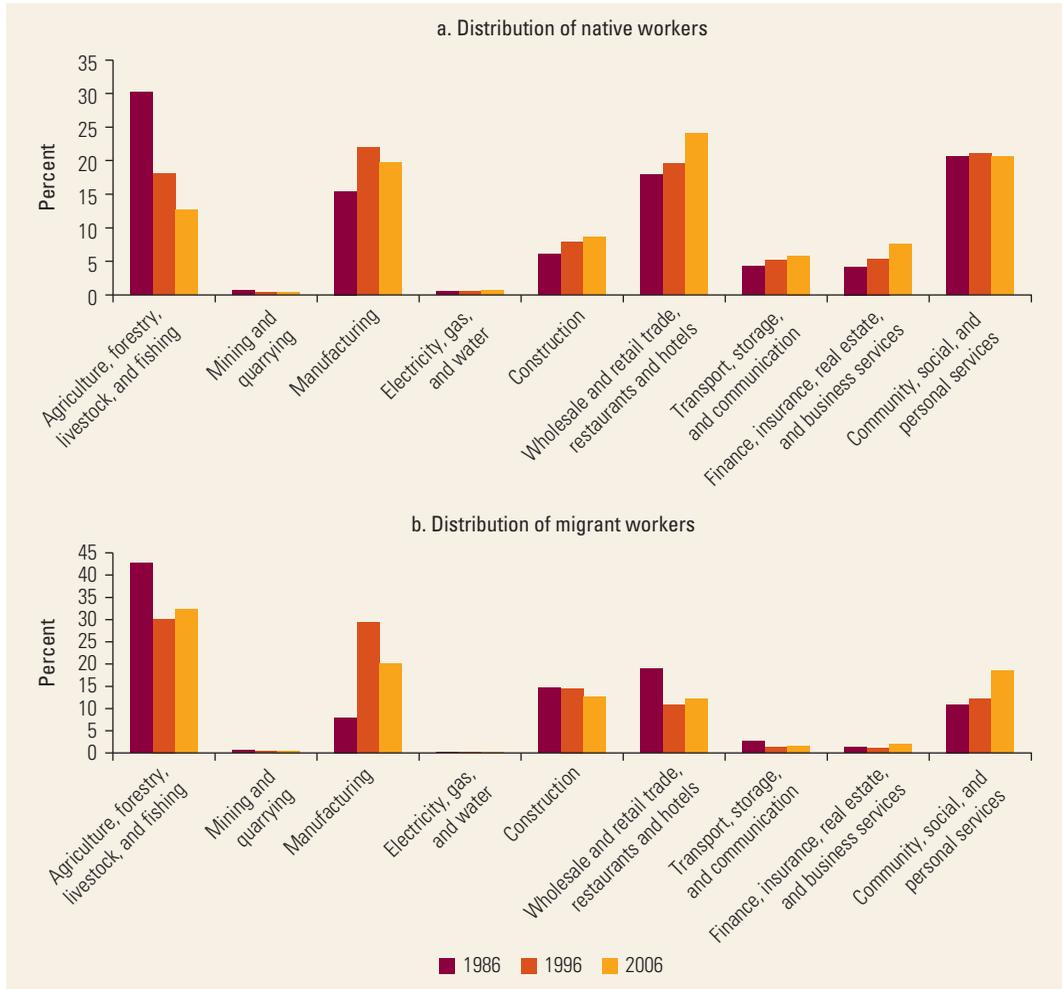
**Figure 3.7 Thailand: The Between- and Within-Industry Absorption of Excess Supply of Unskilled Labor**



Source: Adapted from Lathapipat 2011.

Figure 3.8 presents some telling data. Between 1986 and 2006, the share of Malaysian workers in agriculture, forestry, and livestock declined from 30 percent to slightly more than 10 percent. The share of migrant workers in this sector also declined, but the decline was from about 42 percent to 32 percent. Overall, while the number of Malaysians in this sector declined from 1.67 million to 1.09 million, the number of migrant workers increased from 86,000 to 284,000. In total, the number of workers in agriculture, forestry, and livestock fell from 2.67 million to 1.54 million, which is evidence that labor productivity in this sector did

**Figure 3.8 Malaysia: Distribution of Native and Migrant Workers, 1986, 1996, and 2006**



Source: Data from Economic Policy Unit and Department of Statistics, 2010.

not decline even though migrant workers made up the additional labor force in the sector.

Where did the Malaysian workers who used to be employed in agriculture, forestry, and livestock go? They went equally to the manufacturing and services sectors. Figure 3.8 shows that the share of Malaysian workers in manufacturing increased from 15 percent to more than 20 percent. In

absolute numbers, the Malaysian workforce in manufacturing increased from 858,000 in 1986 to 1.86 million in 2006, while the migrant workforce grew from 16,000 to 224,000 during the same period. In the services sector, the number of Malaysians increased from 2.61 million to 3.73 million. Especially important was the high-end services sector, including finance, insurance, and real estate, where the number of Malaysian workers increased almost threefold, from 232,000 to more than 700,000. Migrant workers, however, concentrated on personal services and construction in addition to manufacturing and agriculture.

The last evidence in this regard comes from China, which has seen a massive migration of about 260 million people, mostly from the inland and western provinces to the eastern coastal provinces. This Chinese internal migration shares some features with international migration in East Asia and the Pacific: the partially hereditary residential registry system of *hukou* constrains Chinese migrant workers from migrating without permits, which limits the right of migrant workers and their families to services in destination provinces. As some mainland Chinese scholars have noted, the *hukou* system is not significantly different from the passport system that keeps people from developing countries from resettling in the West (Yang 2007). A heuristic look at the migrant-receiving provinces relative to other provinces before and after the great Chinese migration offers a natural experiment on the economic impact of migration in labor-receiving areas. Overall, the inflow of migrant workers has been accompanied by acceleration in the growth of key variables such as wages, productivity, and investment. There is some suggestion that migration has helped wages converge more than they would have otherwise. There would be no claim that migration has led to technology stalling in these labor-receiving provinces.

A look at Chinese migrant inflows and the changes in wages, productivity, and investment suggests that migration did not negatively affect a province's economy. Although migration rates were extremely high in the region during this time (table 3.11), with migrants in the top five receiving provinces constituting 20 percent of the labor force and 8 percent in the sending provinces in 2000–05, growth remained robust. Relative wages in the receiving provinces remained significantly higher than in the sending provinces: wages in the receiving provinces were 175 percent those of the sending provinces in 1995–2000 and 162 percent in 2000–05. If only the five top receiving and sending provinces are considered, wages in the receiving provinces were 236 percent those of sending provinces in 1995–2000 and 156 percent in 2000–05. (The average monthly real wage in the top five receiving provinces in 2000–05 was 2,029 yuan, while in the sending provinces it was only 1,305 yuan.)

**Table 3.11 Migration, Employment, and Productivity in China's Sending and Receiving Provinces**

		Receiving provinces	Sending provinces	Top five receiving provinces	Top five sending provinces
Migration as share of labor force (percent)	1995–2000	3.2	1.1	6.3	1.5
	2000–05	10.0	3.5	19.7	8.4
Employment growth (percent)	1995–2000	3.2	6.9	1.2	6.0
	2000–05	2.1	2.7	3.6	0.5
Share of manufacturing employment (percent)	1995–2000	10.6	6.4	20.5	9.8
	2000–05	38.3	24.2	71.5	55.7
Labor productivity of overall GDP (100 million yuan GDP to 10,000 persons employed)	1995–2000	2,0174.4	9,172.9	26,435.3	6,388.7
	2000–05	36,332.4	14,646.3	50,568.2	11,566.7
Labor productivity in manufacturing (100 million yuan industrial output to 10,000 manufacturing persons employed)	1995–2000	82,516.5	47,450.9	100,279.9	36,191.5
	2000–05	139,928.3	63,161.3	187,778.2	43,333.2
Real wage (yuan), per month	1995–2000	1,152.4	657.3	1,261.9	534.8
	2000–05	2,082.5	1,286.7	2,029.3	1,304.7
Real wage growth (percent)	1995–2000	152.9	180.7	176.6	144.5
	2000–05	81.2	107.3	70.0	106.5
Relative wages of receiving to sending provinces (percent)	1995–2000	175.3	n.a.	236.0	n.a.
	2000–05	161.8	n.a.	155.5	n.a.
Investment (100 million yuan)	1995–2000	1,152.4	657.3	1,262.0	534.8
	2000–05	2,082.5	1,286.7	2,029.3	1,304.7

Source: Staff estimates from migration data and China Online Data for the rest.

Note: n.a. = not applicable.

Employment growth also remained higher. In the top five receiving provinces, employment growth was 3.6 percent in 2000–05 and only 0.5 percent in the sending provinces. In other words, migration helped wages in labor-sending and labor-receiving provinces converge.

Migrant-receiving provinces also showed consistently higher and increasing rates of productivity and investment. Although most incoming migrants worked in manufacturing, manufacturing productivity remained high. Labor productivity in manufacturing (value added per worker) in the receiving provinces was 82,516 yuan per worker and 139,928 yuan per worker in 1995–2000 and 2000–05, respectively, whereas it was just 47,451 and 63,161 yuan per worker in the sending provinces in the same respective periods. The difference was even more pronounced in the top

five receiving and sending provinces: 100,280 and 187,778 yuan per worker in the two periods in the receiving provinces and 36,191 and 43,333 in the sending provinces in the same periods. Investment remained higher as well; in fact, the top five receiving provinces received more than double the investment of the top five sending provinces in 1995–2000.

## Conclusion

This chapter analyzes the economic impact of international migration on four labor-receiving countries in East Asia and the Pacific: Korea, Malaysia, Singapore, and Thailand. The results are generally consistent among the countries. The macroeconomic effects of migration in labor-receiving countries are positive in raising GDP, although the overall impact is small. At the firm level, firms enjoy higher profits arising from lower wages, which more than compensate for any decline in labor productivity in the short term. In labor markets, wages can fall for unskilled local workers because of competition from unskilled migrant workers, but the decline is small and statistically insignificant. There is also evidence that unskilled migration raises wage rates for skilled local workers as a complementary effect. On the basis of these results, the evidence for the technology-stalling hypothesis—that the inflow of migrant workers leads to lower productivity technology being adopted—is, at most, mixed. There is some evidence that firm-level productivity and research and development spending can fall in the short term. But more investment financed by higher profits of firms and higher education levels of native workers should offset these tendencies over the medium term. The experience of China’s coastal provinces that have hosted a huge influx of migrant workers from inland provinces, discussed above, provides a striking example in support of this point.

## Notes

1. The terms “local worker” and “native worker” are used interchangeably to refer to citizens of labor-receiving countries.
2. These estimates are from background papers for this report: Holumyang and Punpuing (2011); Hur (2010); Thangavelu (2010).
3. Thailand’s macroeconomic model was established by the Ministry of Finance to quantify the short-term economic situation. The projection method in this model applies quarterly data covering variables related to financial, real sector, and external markets. The model is characterized by a series of simple equations linked to an Excel format. The specific feature of the model’s structure is

that the user could adjust constant terms to meet appreciated values. There are more than 35 behavioral equations and 25 identities in the Ministry of Finance's macroeconomic model on both the demand and supply sides.

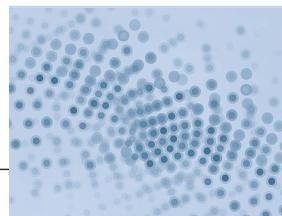
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# Managing the Migration Industry: Policies and Institutions in Labor-Sending Countries

*International migration is a large and growing industry in the East Asia and Pacific region. It involves the movement of several hundred thousand migrants each year and thousands of recruiting and employing firms—some 500 such firms in Indonesia alone—as well as financial organizations engaged in transferring remittances. It generates remittances flows of more than US\$100 billion annually to the region, dwarfing foreign aid and development assistance. If the industry is well managed, it will match workers from one country with the labor needs of another, in ways that encourage formal rather than informal migration, protect workers' rights, and ensure that migrant workers' contributions are maximized in both receiving and sending countries. A number of deep market failures, however, make these goals challenging. There are large information asymmetries in the knowledge of recruitment agencies, employing firms, potential workers, and governments. Information about available jobs, expenses, and regulations is limited and unreliable for workers in particular. Unemployment and low wages,*

porous borders, and poor enforcement are other big challenges that all underscore the need for effective management policies.

*This chapter, focusing on labor-sending countries, suggests options to improve policies in three areas: (1) the recruitment process of migrant workers, (2) protection of worker welfare during their employment abroad, and (3) improvement in the management of remittances to increase their welfare impact. On the regulatory side the key will be to devise disincentives for rent-seeking among recruitment firms and to avoid fraud. Options to provide migrants with better information, financing facilities, and predeparture training are discussed in this chapter. A number of policy options to improve the management of remittances and to channel them through formal financial systems are also available. Finally, improving migration policies will require close cooperation between labor-sending and -receiving countries to address the problems of information failure, excessive supply, porous borders, and weak enforcement.*

## **East Asian Migration Markets: Features and Policy Issues**

International migration involves more than a million migrant workers and produced remittances flows of about US\$112 billion in 2013 in the East Asia and Pacific region. Governments, employing firms, recruitment agencies, migrant workers, and international organizations are all part of this migration industry. The overall objective of a well-managed international migration system is to match the supply of workers from labor-sending countries with the demand for workers in labor-receiving countries in ways that encourage formal rather than informal migration, protect workers' rights, and maximize the contributions (financial and skill related) of migration in both labor-sending and -receiving countries. Intrinsically, these goals are not easily reconcilable. The challenge of achieving these goals is further complicated by the complexity of the migration industry with its numerous stakeholders, governments, employers, and recruitment agencies all dealing across porous international borders over which information flows and regulatory enforcement can be weak.

This chapter discusses institutional and policy issues concerning international migration from the perspective of labor-sending countries, while the next chapter discusses these issues from the perspective of labor-receiving countries. The focus is on the management of migration, and the discussion draws on many sources, including materials from the seven

country case studies prepared for this report and previous World Bank work on the Pacific Islands, the best practices collected by the International Labour Organization (ILO) in developing its Multilateral Framework on Labor Migration, the extensive research commissioned by the United Nations Development Programme for its 2009 *Human Development Report*, the thematic reports prepared for the Global Forum on Migration and Development, and other secondary literature (see box 4.1). The chapter also discusses policy options for the management of remittances.

Despite many efforts at the international level to address common issues, international migration policy remains an area for which there is little systematic data or comparative analysis. Systematic diagnostics of the migration industry need to be conducted in major labor-sending and labor-receiving countries in a similar fashion to the Doing Business surveys carried out by the World Bank and the International Finance Corporation. The availability of such diagnostics will facilitate the formulation of more precise country-specific recommendations that can help both labor-receiving and -sending countries meet their goals.

The chapter is organized as follows: Following this introduction, the second section discusses some key features of the migration industry and policies in East Asia and the Pacific, including discussion of some country case studies. The third section discusses policy options and good practices to address market failures in the industry. Subsequent sections discuss policies to improve the recruitment process, enhance worker welfare, and manage remittances before concluding this chapter. The next three sections discuss policies for managing remittances, drawing mostly on a

#### **Box 4.1: Managing Migration: Recent Global Initiatives**

The past decade has seen several initiatives at the global level to develop guidelines for the effective governance of labor migration, among other actions:

- In 2005 the Global Commission on International Migration proposed six principles to guide policies on migration.
- In 2006 the ILO adopted its “Multilateral Framework on Labor Migration: Non-binding Principles and Guidelines for a Rights-based Approach to Labor Migration.”
- Following the High Level Meeting at the UN General Assembly in 2006, a series of annual meetings of the Global Forum on Migration and Development was organized, and all of the meetings served as platforms for discussing key issues and best practices in labor migration, including using bilateral labor agreements, regulating recruitment, reducing the cost of money transfers, and promoting technology and capital transfers.

review of the secondary literature. The final section concludes that while policy makers face complex policy challenges, there is considerable scope for improving the management of migration in the region.

The region's policies and institutions governing migration need to be based on some features specific to the East Asian context. First, as discussed in the preceding chapters, the policy framework needs to recognize the significant gains from migration received by all concerned parties: migrant workers, employing firms, and labor-sending and -receiving countries. The previous three chapters provide evidence on these gains. Migrant workers typically receive incomes several times what they would earn in their home countries; employing firms receive the services of motivated, low-cost workers; labor-sending countries benefit from inflows of valuable foreign exchange; and labor-receiving countries obtain the services of workers who perform "difficult and dangerous" services that no one else wants to do.

Second, the policy framework needs to take into account the strong economic forces driving migration, which will be accentuated by the aging of populations in labor-receiving countries. This suggests that managing international migration is not a matter of choice but of necessity. Migration is principally driven by huge income differentials between labor-sending and labor-receiving countries in the region. For example, workers in the labor-sending countries of Lao PDR, Indonesia, and Vietnam can earn average nonagricultural wages 3 to 15 times higher in the labor-receiving markets of the Republic of Korea, Malaysia, and Singapore. Migration is also encouraged by poor border conditions in many of the neighboring countries (Malaysia and Indonesia, Thailand, and the Greater Mekong Subregion countries) as well as by the short distances that migrants have to travel to prosperous economies such as Hong Kong SAR, China; Korea; and Taiwan, China.

Third, in contrast to the typical migration flows in North America and Europe, which include both skilled and unskilled labor, migration in East Asia and the Pacific consists mostly of unskilled workers.<sup>1</sup> Among the countries included in this report, the share of nonprofessional, unskilled, and undocumented workers among migrants is more than 90 percent in Korea, Malaysia, and Thailand. The one possible exception is Singapore, with its much higher wage levels and prominence as a financial center. Yet, even in Singapore, nonprofessional and unskilled workers represent about 80 percent of all migrant workers. In general, labor-receiving countries in the region have a variety of regulations that discourage the migration of professional, managerial, and technically skilled workers, as presented in table 4.1.

**Table 4.1 Foreign Employment Policy Map**

Objectives	Policy interventions and measures
<b>Promote employment</b>	<p><b>Foreign market development</b></p> <ul style="list-style-type: none"> <li>• Establishment of diplomatic relations</li> <li>• Strengthening of placement services, both public and private</li> <li>• Promotions and marketing missions</li> <li>• Market information and research</li> <li>• Bilateral agreements on recruitment, admissions, and recognition of qualifications</li> </ul> <p><b>Manpower supply management</b></p> <ul style="list-style-type: none"> <li>• Skills registry and data bank</li> <li>• Corporate export of services</li> <li>• Skills training and trade testing</li> <li>• Restrictions and policies to minimize brain drain</li> </ul>
<b>Protect and promote well-being of migrants</b>	<p><b>Standards setting and enforcement</b></p> <ul style="list-style-type: none"> <li>• Establishment of minimum standards for work contracts</li> <li>• Measures to ensure departing workers have approved contracts</li> <li>• Bilateral agreements including on social security</li> <li>• Restrictions on exit of selected categories of workers, particularly minors and young women</li> </ul> <p><b>Supervision of private recruitment</b></p> <ul style="list-style-type: none"> <li>• Licensing of recruitment firms</li> <li>• Performance guarantees and penalties</li> <li>• Limits on recruitment fees and penalties</li> <li>• Measures against illegal recruitment and clandestine migration</li> </ul> <p><b>Support services</b></p> <ul style="list-style-type: none"> <li>• Information and predeparture counseling</li> <li>• Labor attaché services on site</li> <li>• Social insurance</li> <li>• Community facilities and centers for workers abroad</li> <li>• Support services for families left behind</li> <li>• Returnee training and employment assistance</li> <li>• Emergency evacuation or repatriation</li> </ul>
<b>Maximize developmental impact of labor migration</b>	<p><b>Migrants' remittances of earnings</b></p> <ul style="list-style-type: none"> <li>• Foreign exchange rate policies</li> <li>• Efficiency and cost of remittances services</li> </ul>

*(continued)*

**Table 4.1 Foreign Employment Policy Map** (*continued*)

Objectives	Policy interventions and measures
	<p><b>Migrants' savings and investments</b></p> <ul style="list-style-type: none"> <li>• Special financial instruments to encourage savings</li> <li>• Information and support services for small investors</li> <li>• Housing programs for migrants</li> </ul> <p><b>Return of talent and skills</b></p> <ul style="list-style-type: none"> <li>• Special placement services and incentives</li> <li>• Bilateral training agreements</li> <li>• Promotion of investments by diaspora communities abroad</li> </ul>

Fourth, the porous borders in East Asia and the Pacific have encouraged massive migration flows through informal and undocumented channels. The ILO estimates that almost one of every four migrant workers in the region is an illegal or irregular migrant. However, in some countries the ratio of undocumented to documented workers is even higher. In Malaysia, there are now estimated to be more than 1 million irregular or illegal workers versus the 2 million regular migrant workers. In Thailand, it is estimated that there is one undocumented worker for every regular worker (there are 1.3 million regular workers). Because irregular migration is particularly a concern for the labor-receiving countries, this issue is discussed in detail in the next chapter.

Fifth, in East Asia and the Pacific both labor-sending and -receiving countries have tended to view worker migration flows as temporary and circular despite their prevalence for decades. Although there is a vibrant debate concerning the benefits of circular versus permanent migration and a growing appreciation of the contributions of long-term migration, most countries in the region view labor migration as a temporary arrangement for their labor market needs. This view is strongly held even though countries like Malaysia, Singapore, and Thailand now have sizable foreign-worker populations. But, as briefly discussed in chapter 1, migrant populations have historically been an important factor behind the growth of many modern economies. The rest of this chapter and the next focus on policies for temporary or circular migrants. There is a tendency to conclude that because workers are temporary, their rights are somewhat curtailed. It is worth stressing that temporary migrant workers enjoy the protection of the fundamental principles and rights and are entitled to benefit from the provisions of ILO Migration for Employment Convention (No. 97) concerning equal treatment. One point highlighted in chapter 3 is that protecting the rights of

migrant workers, even if they are temporary workers, has economic benefits, not only for the workers but also for labor-receiving countries.

Partly in response to these features, migration in the region is becoming increasingly commercialized. Prospective migrants now hire agents to help them find overseas jobs, many through the South-South migration corridors—Indonesia to Malaysia, Myanmar to Thailand, and China to Korea—or to the Middle East as exemplified by the flows from the Philippines and Indonesia to the Gulf States. In many cases, migrants now pay high fees to move legally or illegally across borders. In sum, labor migration has become a big business with institutional incentives skewed toward generating revenues for the vested interests involved. Moreover, governments find it increasingly difficult to manage the process in harmony with public expectations and development needs.

These factors have created deep market failures—that is, situations in which markets do not create desired outcomes—in the migration industry, which the policy framework needs to address. These failures, discussed in more detail later, arise mainly because migrant workers lack adequate information on labor market conditions in labor-receiving countries and thus may become subject to various kinds of fraud. Migrant workers also may not be able to determine the reliability of information provided by recruitment agencies. As a result, migrants may wind up paying very high hiring costs, receiving lower salaries than originally promised, and working under very difficult conditions without much scope for appeal. In the labor-receiving countries, firms may not have accurate information on the skills and abilities of workers and hence may find that their migrant workers do not possess the required skills. Excessive imports of ill-trained migrant workers may lead to their becoming an economic burden, creating social tensions. In general, the longer the chain of intermediaries of contractors and subcontractors between workers in labor-sending countries and employers in labor-receiving countries, the greater the scope for information failures and fraud.

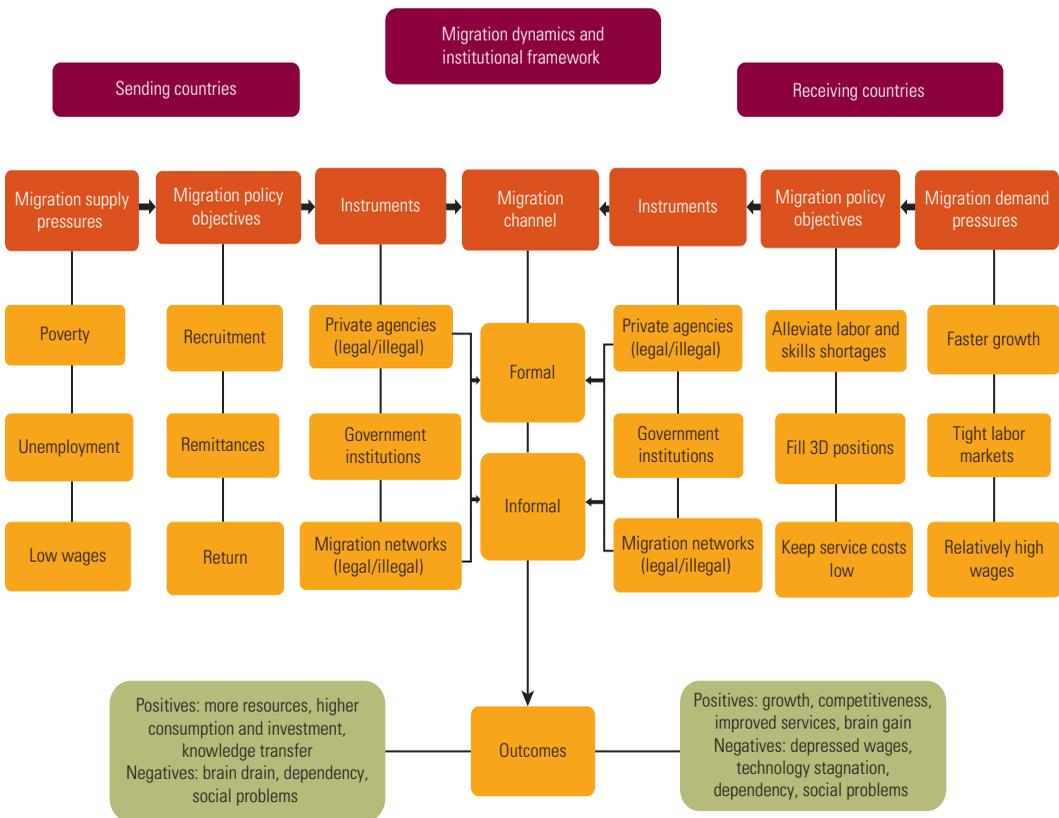
## **The Migration Industry and Policies in East Asia and the Pacific**

Migration is an industry because hundreds of firms and thousands of workers are engaged in the business of moving workers across borders so that the supply of workers can meet the demand for workers. This section provides an overview of this industry in the region and then goes into detail for key labor-sending countries. The overall structure of the migration industry is illustrated in figure 4.1. Workers in labor-sending countries are driven by

supply pressures to migrate: poverty, high unemployment, and low wages.<sup>2</sup> Receiving countries have a strong demand for foreign workers because of rapid growth, tight labor markets, and relatively higher wages. For both sets of countries, these supply and demand forces set the framework for meeting policy objectives as shown in figure 4.1.

In contrast to the domestic market for labor, the market for migrant workers is marked by the strong presence of government intervention in employment contracting, at both the sending and receiving ends. At the sending end, governments have responded to the large numbers of workers offering to take up jobs abroad by setting minimum standards for employment and by curbing the rent-seeking behavior of recruitment intermediaries. On the other side of the border, governments of receiving countries responded to employers' demand for foreign workers by setting up quotas,

**Figure 4.1 The East Asian Migration Industry**



Note: 3D = dirty, dangerous, and difficult (or demeaning).

imposing levies, and regulating the practices of profit-motivated job brokers. Although there are differences in institutional arrangements and approaches among the countries in East Asia and the Pacific, they all confront very similar problems with international labor contracting, including market failures and volatilities in the economic environment.

Unequal access to available information—information asymmetry—by the contracting parties is at the heart of many problems in migration management. The workers know their skills but have little information on jobs available in foreign countries and the conditions of work they are likely to face. Employers know what skills they need but are not sure about the qualifications and experience of the foreign workers they are being offered. This asymmetry has given intermediaries a vital function and opportunity for business because there is a demand for information to bridge the gap for the worker and for the employer. The situation is complicated by differences in language, educational and training standards, exclusion of foreign workers from some critical elements of social protection, and absence of agreements between origin and destination states on applicable standards and portability of earned entitlements. Information asymmetry has enabled intermediaries to exact a large portion of the wage differential between origin and destination countries—the jobs available are in effect “sold” to workers willing to pay the highest fees. The market is cleared when the cost of migration, which is absorbed by the worker, effectively narrows the wage differential between origin and destination countries.

While destination-country authorities are preoccupied with controlling borders and admissions, origin-country authorities are usually most concerned with labor protection, alongside finding employment opportunities for their workers. Protection has become a very sensitive and challenging issue, especially because of the predominance of the less-educated among migrant workers in the region who pick up so-called vulnerable jobs; in Indonesia and the Philippines, the large number of women engaged for household service; and in Malaysia and Thailand, the large number of undocumented foreign workers from neighboring countries, many of who work under exploitive conditions. For the authorities of origin countries, managing migration thus often involves making a trade-off between more employment and better wages, a decision for the public authorities to make only as long as they can prevent eager workers from accepting “inferior” job offers.

As in the market for commodities, sellers of homogeneous labor services are faced with more competition than those who offer more differentiated ones. Workers with higher qualifications and skills get to enjoy the higher wages in foreign countries because the opportunity for rent-seeking among

intermediaries diminishes as the supply of skills in demand becomes scarcer and because employers are more likely to absorb the transaction costs involved in getting the exact types of workers they need. A construction company in Singapore needing an experienced crane operator, or an airline company needing an aircraft mechanic, will be willing to pay for the cost of recruiting and testing a foreign applicant but not for an ordinary laborer. The latter often ends up paying for all the transaction costs involved in getting a laborer job as well as the burden of the foreign-worker levy charged by the government in Singapore.

Governments of the region's source countries have been involved in managing migration for the last two to three decades, addressing similar challenges with broadly similar measures but also with their own unique approaches to governance. Growth in overseas workers has increased steadily for the three sending countries—Vietnam, Indonesia, and the Philippines—with the latter building on an already strong base. The Philippines takes great care in promoting migration and protecting the interests of its overseas workers. This attention reflects the prominence that Filipino society gives to international labor migration. The Vietnamese government is also getting more engaged by trying to use labor exports as another option for poverty alleviation in lagging regions (H. L. Nguyen and Mont 2011). The Vietnamese government is more directly involved in recruiting and placing workers abroad from these disadvantaged areas and striking government-to-government arrangements in north Asian countries such as Japan and Korea and the Middle East. In Indonesia, after years of passive support for sending workers abroad, the government has begun to take a more aggressive role to regulate outcomes. Government involvement has also been spurred by public concerns about how vested interests have taken advantage of the process to earn rents from workers (Kuncoro, Damayanti, and Isfandiarni 2011).

Managing migration, especially for origin countries, is always constrained by sovereign borders. Policy measures are only good if they can be enforced, and enforcement is always confined to national territories. Therefore, policies to protect workers are always aimed at establishing minimum standards for work contracts and regulating processes of hiring and recruitment. On the other side of the migration link, receiving countries have more control over the admission and employment of foreign workers, but little over the recruitment process abroad. Bilateral agreements provide a means for both sides to enhance their respective abilities to manage the migration process, but employers' pressures and the reluctance of receiving governments to interfere with wage bargaining have so far minimized the role of bilateral agreements in the region.

Attempts by countries to manage labor migration with a variety of policy instruments are reviewed in the following discussion. First, the more generic approaches followed by many sending governments in Asia are outlined. This is followed by a more detailed discussion of the issues faced by three major countries of origin—Vietnam, Indonesia, and the Philippines—and the policies they employ to address them.

## **Policy Instruments**

Foreign employment policy pursued by labor-sending countries typically focuses on three objectives (see table 4.1):

- Maximizing employment abroad subject to domestic needs
- Protecting migrants against recruitment abuses and exploitive conditions of employment
- Maximizing the potential contribution of migration to development, especially in the form of remittances and the knowledge and skills gained by migrants abroad

Sending workers to overseas job markets has come to be viewed by East Asian governments as a viable option for increasing employment and earnings in the short term. None of the sending countries has experienced serious problems with brain drain, partly because overseas demand is largely for low-skilled labor, and partly because they still have excess supplies of the educated workers, such as nurses, in demand in foreign countries. Although much of the effort to promote employment is coming from the private sector (recruitment companies), governments have to pave the way by identifying desirable destination countries, establishing diplomatic ties and presence, negotiating bilateral labor agreements, and developing information resources on labor market opportunities. Countries that are relatively recent suppliers of migrant workers and seek to increase or diversify overseas placements tend to focus more on the promotion of employment than on the other two objectives.

The protection objective, however, occupies much of the attention of national authorities in the East Asian origin countries because most of their migrant workers take up the so-called 3D jobs in destination countries. This concern is compounded because many of their workers are employed in countries with weak labor institutions and because recruitment for overseas work is everywhere bedeviled by abuses. Governments have had to construct elaborate structures and processes for the governance of labor migration to ensure that their nationals going abroad do not become victims

of fraudulent recruitment, do enter into contracts that provide for decent working conditions, are not charged excessive fees, have access to remedies in case of violations of their rights or disputes with employers, and are appropriately represented before the authorities of the countries of employment if they run afoul of local laws.

The protection of migrant workers has proved to be the most difficult and challenging function of governments as related to migration. Poverty and unemployment, together with ignorance of conditions in foreign labor markets, make people vulnerable to fraud or to accepting highly disadvantageous terms of employment. Governments have been compelled to intervene in individual employment contracting by setting minimum standards and requiring prior approval of employment contracts. Controls have been further extended to heavy regulation of the recruitment industry by restricting entry, requiring high minimum capitalization for licensees as well as financial guarantees for settling unpaid wage claims, establishing reporting requirements, and making recruiters equally liable as the employers for violation of contractual obligations. The protection function is also extended to workers already in foreign countries through the diplomatic missions that are expected to come to the assistance of nationals who find themselves in difficulty.

In administering these programs governments inevitably face trade-offs between the two key objectives—more employment and better protection. The government of Vietnam, for example, plans to increase the number of Vietnamese workers abroad from half a million in 2010 to 1 million by 2015. This poses a dilemma for administrators because the job offers are plentiful in countries where wages for migrants are low. It is also very difficult to hold the line when wage differentials remain very large (US\$40 to US\$60 a month in Vietnam vs. US\$450 in Taipei). All the governments set guidelines or standards such as minimum wages, but administrators know from experience that these standards are only as effective as the market will bear. Requiring approval of formal contracts becomes meaningless if the workers are willing to accept terms of employment lower than in their formal contracts. Because migration is still associated with economic success in many communities (for example, migrant families have better houses), aspiring migrants are willing to connive with recruiters just to satisfy the regulations in the origin country.

The foreign employment policy map shown in table 4.1 identifies the specific forms of interventions commonly used by governments in pursuing each of these objectives (Abella 1997). Some of these, like skills training and trade testing, are publicly funded programs developed to support local employment, but in recent years some components have been redesigned to meet the demands of foreign employers and markets. Growing numbers of

workers involved in migration and pressures from the public to curb recruitment abuse have forced the authorities to experiment with a variety of these instruments and to adapt them to meet specific demands.

### **Country-Specific Policies**

One broad way to classify countries with respect to labor migration is by considering the extent to which the movement of labor is controlled by the market or by the state. The Asian region presents a number of models of how labor migration can be organized. On one end of the continuum are most of the countries in Southeast Asia, where migration policy is essentially left up to the market and private agents. On the other end of the continuum is Vietnam, where the state plays a very active role in determining the movement of migrant workers abroad. Korea lies somewhere between these two extremes, with about 80 percent of the international labor migrants in that country being employed by private Korean companies.

Until the mid-1980s, Korea developed what was considered a unique model for organizing labor migration in the region. Large private Korean companies proved to be adept at winning large construction contracts in the Middle East. These Korean companies recruited and employed workers for their projects in the Middle East, transported them to the work sites, provided them with food and housing, and then transported them home when their projects were completed. This method of organizing the movement of labor abroad eventually earned the title of “project-tied” migration. The bulk of project-tied migration was captured by the Korean Overseas Development Corporation (KODCO), a state-owned company.

The Philippines tried to follow the Korean example by establishing a mirror image of KODCO in an autonomous body called the Overseas Employment and Development Board (OEDB). However, this system failed to take off in the same way as the Korean model, and the Philippines eventually abandoned this approach. The Philippines subsequently shifted to a policy of “positive controls” over the private recruitment industry carried out by a new body, the Philippine Overseas Employment Administration. The Philippines’ current system for international labor migration is characterized by a proactive government policy and a close partnership with the private sector.

Vietnam has organized labor migration through state-owned corporations that contract labor services with both state and private companies in foreign countries. Before the collapse of the Soviet Union, Vietnam entered into agreements with Eastern European companies to supply labor. Vietnamese workers were transferred to factories in Eastern Europe, where their salaries

were partly used for repaying Vietnam's debts. With the collapse of the Soviet Union, the Vietnamese government began seeking alternative labor markets for Vietnamese labor because of high levels of unemployment and underemployment at home. Vietnam has entered into a variety of agreements with state and private companies in Korea, Malaysia, and Taiwan, China.

### ***Vietnam***

About half a million Vietnamese work in more than 40 countries. The government is actively promoting the deployment of more workers overseas from the current average of 82,000 to 100,000 a year, with the participation of more skilled and professional workers. Recent years have seen greater deployments to Malaysia, Taipei, Korea, the Middle East, and some African countries. Some 2.2 million Vietnamese are estimated to be living or working abroad, and migrants' remittances were reported to have reached US\$8.6 billion in 2011 (World Bank 2013). To realize the objectives behind overseas migration, the government encourages citizens to acquire more skills and amass capital for livelihood production upon return. Both market mechanisms and country-to-country exchange agreements facilitate the process, the main engines for which are profit-making agencies that locate, recruit, train, and help arrange contracts for workers. Some 170 companies, most of them state-owned corporations, are authorized to serve as service exporters or to recruit Vietnamese workers for foreign employment. However, in reality, usually informal or unlicensed "brokers" identify and recruit workers and are able to secure official clearance by making under-the-table payments. Although inspection and monitoring has been strengthened, abuses still appear to be prevalent. Recruiters are reported to demand US\$5,000 to US\$6,000 for placement in jobs in Taipei, for example, when the legal maximum set by the government is US\$1,500 for Taipei.<sup>3</sup>

The 2006 Law on Overseas Workers attempts to address the above problems by providing a comprehensive formal framework to protect workers' interests and regulate the various entities involved in the process. The 2006 law provides for penalties against unlicensed agencies and brokers and aims to discourage "overstaying" overseas by providing for harsh penalties for workers who breach their contracts. The Ministry of Labor, Invalids, and Social Affairs (MOLISA) created a Department of Overseas Labor (DOLAB) to have the primary responsibility for regulating recruitment and promoting overseas employment at the national level, but the ministry's district-level bureaus (given the acronym DOLISA) have responsibility for regulating recruitment on the ground. DOLAB, in the meantime, has established Migrant Resource Centers in five provinces.

Other ministries, the Foreign Affairs Ministry in particular, share some of the responsibility especially in attending to the needs of the migrant workers abroad. Vietnam has now established formal links with major destination countries in Asia, the Middle East, and African countries, notably Algeria, Angola, Libya, and Mozambique. Recruitment companies are required to post a representative to locales where they have placed a certain number of workers to respond to workers' needs.

Because the demand for overseas work far exceeds the available jobs, fraud is widespread and many migrants pay multiples more than what is prescribed by law. Studies suggest that Vietnamese migrants are among the most highly indebted workers in the region, a primary reason why growing numbers of Vietnamese migrant workers overstay their visas and become illegal in destination countries (up to 57 percent of those who went to Korea, 30 percent of those who went to Japan, and 12 percent of those who went to Taipei) (Anh 2008). To discourage workers from overstaying their visas and assuage the host-country governments that have complained and threatened to reduce admissions from Vietnam, the recruitment companies began requiring workers to leave a deposit before departure that they can only claim upon return. The money is deposited in a special account with a state bank and can be redeemed with interest upon the worker's return. Because they had to borrow this added sum as well, the new requirement only served to encourage overstaying.

The policy of using overseas employment as a means to improve the conditions of marginalized groups (recruiting from the 62 poorest districts) also merits reconsideration. Recruits from these communities are among the least educated and skilled, and protecting them from exploitation in foreign countries is proving to be a major challenge. The government has so far taken steps to make fully subsidized training opportunities widely available in these poor districts, as well as to help prospective migrants with health checks, passport and visa applications, and loans at half the bank interest rate.

Self-regulation in the recruitment industry is also being promoted by the government. Twenty companies that are members of the Vietnam Association of Manpower Suppliers are currently participating in a project supported by the ILO to develop detailed procedures for monitoring the implementation of a code of conduct that they have all agreed to observe.

### ***Indonesia***

Indonesia is estimated to have more than 4 million citizens working overseas, but the number leaving the country to work abroad declined noticeably from almost 700,000 in 2007 to 581,000 in 2011. About 45 percent go to the

Middle East, 35 percent to Malaysia, and the rest mainly to Hong Kong SAR, China; Korea; and Taipei. In 2011 they sent remittances of some US\$6.7 billion. Indonesia's biggest issues with labor migration are the poor treatment of low-skilled Indonesian workers by their employers and the difficulty of controlling migration flows and processes in an archipelagic country where many communities have a long history of migration links to neighboring countries. This is particularly true in Malaysia where informal recruitment systems (*taikongs*) are well established. The Indonesian government has authorized some 500 private recruitment agencies to place workers abroad (up from 100 a decade ago); informal agents are still involved in recruitment. At the local level young women are recruited to work as housemaids in Hong Kong SAR, China; Malaysia; Singapore; and the Middle East by job brokers working informally with the licensed agencies, many of these brokers being chiefs or influential members of the local communities.

Management of migration regulations has become more complicated in Indonesia in the past decade. The Department of Manpower (DEPNAKER) originally had the principal responsibility for all matters regarding regulation of recruitment and promotion of employment. But in 2004, in response to popular clamor for greater protection of Indonesian migrants, Indonesia's Law 39/2004 was enacted, establishing a new body—the National Agency for Placement and Protection of Indonesian Overseas Workers, or PNP2TK—which was placed under the Office of the President and given the task of overseeing the placement and protection of Indonesian workers abroad. The new law sought to restructure the recruitment industry by requiring recruitment companies to have a much higher minimum capitalization (US\$310,000) and to have branches in rural areas instead of using informal agents. However, Law 39/2004 created confusion because DEPNAKER retained its policy-making function over overseas employment along with its powers to regulate the recruitment industry until the matter was settled by the Supreme Court in favor of PNP2TK.

Recent government regulations requiring the opening of rural branches and the duplications resulting from having to comply with the overlapping requirements of two government supervising agencies have added to the cost of operations, not all of which could be passed on to the migrants. The profits of recruitment firms have apparently been cut substantially. Migrants are, on average, charged fees of about US\$1,414, which seems low in comparison with what Vietnamese workers pay but is nevertheless the equivalent of as much as 10 months of work for a low-skilled worker whose contractual wage, for example, in Malaysia, averages about US\$136 a month. Private recruitment agencies have formed associations, of which the largest is APJATI, to more effectively represent their

interests with the government and to act as barriers to entry of poorly capitalized firms that lack facilities like offices, training centers, and holding facilities, but that are able to take shortcuts to secure positions at lower cost, which makes them attractive to poorer migrants.

The Indonesian government, along with that of the Philippines, has in several of its past economic programs made plans to send more skilled workers overseas with the aim of fostering export of services (box 4.2), but with little success. Success, however, has been modest, partly because the skilled can find good opportunities at home. Tertiary education graduates have the lowest unemployment rate among all workers in spite of the sharp rise in their numbers. In 2012 they represented some 7 percent of the employed workforce compared with only 3 percent in 2005.

### ***The Philippines***

In 2009 about 1.4 million workers in the Philippines registered with the Philippine Overseas Employment Administration (POEA) before leaving the country to work in some 180 foreign countries or in oceangoing ships.<sup>4</sup> More than 94 percent of these workers were recruited by some 1,300 licensed recruitment companies, with the rest either hired directly by employers or placed in jobs through government-to-government arrangements, for example, with Korea. The World Bank estimates that the Philippines received US\$23 billion in migrants' remittances in 2011. The Philippines has a long history of supporting labor migration and is seen as having the best institutions facilitating the process. The overseas market is evidently seen as the preferred employment option for many households. Among Asian countries, the Philippines sends the highest proportion of tertiary-educated workers to foreign labor

#### **Box 4.2: Exporting Services Instead of Labor**

In the early 1980s, both Indonesia and the Philippines sought to replicate Korea's success in exporting the services of its construction companies. Although a few Philippine construction companies managed to win contracts in the Middle East, the experiment largely failed because they did not have a

strong capital base and they came at a time when the cost of borrowing in the international capital market was very high. Competition also increased as local Arab contractors came into the picture, bringing with them subcontractors from India and Pakistan.

markets, where Filipinos already have an advantage because of their English language skills.

POEA pioneered some of the measures now commonly followed in other countries. Failing with the strategy of sending workers abroad solely through public job placement agencies (one for land-based and another for sea-based occupations), POEA shifted to a program based on active partnership with private recruitment agencies. To promote the Philippines as a source of qualified workers, POEA worked closely with industry leaders in courting large foreign employers, especially multinational construction contractors, port operators, state authorities managing hospital systems, hotel chains, and shipping companies. The recruitment firms were encouraged to specialize in one or two major occupations because of the advantages in developing specific knowledge of the skills requirements of different sectors—shipping, construction, hospitals, hotels, entertainment, oil and gas exploration, caregiving, and household work.<sup>5</sup> Every year those voted as the best foreign employers in each sector are given awards in special ceremonies in the Presidential Palace in Manila.

As in Vietnam and Indonesia, regulation of the private recruitment industry is POEA's major occupation. Campaigns against unauthorized recruiters were launched but were never very successful because of the lengthy process involved in prosecuting violators through the regular courts of justice. Complainants did not have the resources to go through these processes and were very easily bribed to drop their cases. POEA sought and got quasi-judicial powers to settle claims, and imposed the requirement that recruiters must post financial guarantees in the form of bonds if they are to receive licenses. It also worked with the Philippine Congress to pass a controversial law that would make recruiters equally liable as the foreign employers for violation of contractual obligations. These measures allowed POEA to act quickly on complaints and settle financial claims, while pressuring recruitment firms to be careful in choosing their foreign employer clients.

The Overseas Workers Welfare Administration (OWWA) was established to undertake related functions that could not be effectively exercised by POEA. The law that created OWWA empowered it to collect mandatory contributions from the workers to support predeparture training, to establish with insurance companies a group life insurance scheme for migrants, to operate welfare centers in foreign countries where there are concentrations of Filipino workers, and to provide various services for families left behind. The fund enables the government to respond quickly to emergencies abroad using monies that could not easily be provided for in the budget of POEA or of the Foreign Ministry. The work of POEA and OWWA is supported abroad by the Department of Foreign Affairs through a unit headed

by an undersecretary for migrant affairs, and by a network of labor offices responsible for the welfare of migrants abroad. These labor offices are headed by a labor attaché and include OWWA-funded welfare centers that provide counseling, a variety of short courses, and emergency accommodation for migrants in need. In addition, wide and long-standing migration networks support direct placements independent of commercial channels.

The existence of close to 5 million contract workers abroad poses a variety of issues and challenges for policy and governance. The task of providing adequate protection to these workers remains an ever-demanding one given that Filipino workers are present in many parts of the world and face different contingencies. For the development authorities, the large inflows of remittances have sustained vigorous consumption growth but have yet to find their way to increased investment other than for housing and education. Although the Philippines is one of the largest labor exporters and recipients of remittances, its success in promoting the growth and development of the national economy is at best ambiguous. Thus, providing opportunities for investing the large flow of remittances in more productive activities through financial instruments and improvements in the investment climate is the key challenge. Similarly, little success has been made with tapping into the knowledge and experience of migrant workers. For instance, although considerable data on returned workers exist, little research on those data has been conducted.

## Summary

The key features of institutional structures and programs supporting labor migration in the three countries are shown in table 4.2. The three countries exhibit considerable similarity in modes of intervention despite significant differences in how they use them. All three regulate entry into the industry and have set minimum wages for work contracts. In Vietnam the recruitment agencies are mostly state-owned corporations, sometimes spin-offs from agencies with related functions. However, since the economic reforms under Doi Moi, they have operated very much like profit-oriented firms but with a close relationship with the regulatory bodies. By contrast, the recruiters in Indonesia and the Philippines are all commercial undertakings. POEA had developed a “carrot and stick approach” for dealing with private sector recruiters, rewarding good performance with privileged treatment in approving recruitment while penalizing violators with license suspension or cancellation or garnishment of guarantee bonds.

Governments of labor-sending countries have become increasingly proactive in managing migration by influencing the activities of several

**Table 4.2 Institutional Structure Supporting Labor Migration**

	Indonesia	Philippines	Vietnam	Notes
Designated national authority	National Agency for Placement and Protection of Indonesian Overseas Workers	Philippine Overseas Employment Administration with tripartite board	Department of Overseas Labor	Indonesia, under Office of President; Vietnam, under Labor Ministry.
Supporting agencies	Department of Manpower	Department of Foreign Affairs, Overseas Workers Welfare Administration, Commission on Filipinos Overseas	Ministry of Labor, Invalids, and Social Affairs	Philippine Department of Foreign Affairs, Undersecretary for Migrant Affairs.
Wages and conditions of work	✓	✓	✓	Minimum wage; all require contracts to be approved.
Entry to industry	✓	✓	✓	Licensing powers; Philippines and Indonesia require minimum capitalization, guarantee bonds.
Job placement by public employment offices	—	—	Most recruiters are state owned	Fewer than 5 percent of all job placements are by public agencies (for example, for government clients or Employment Permit System for Korea).
Dispute settlement	—	Quasi-judicial	—	Philippine Overseas Employment Administration is empowered to rule on disputes.
<b>Manpower supply</b>				
Skills training	Largely private	Largely private	—	Workers generally pay for their training but vocational and technical schools provide subsidized training in some occupations.
Trade testing	—	Private	—	Usually arranged with private training schools.

*(continued)*

**Table 4.2 Institutional Structure Supporting Labor Migration** *(continued)*

	Indonesia	Philippines	Vietnam	Notes
<i>Support services</i>				
Social insurance	Self-employed under Jamsostek	Death and disability insurance (Overseas Worker Welfare Administration)	—	Membership in social security is similar to “self-employed” in Indonesia and Philippines.
Information and predeparture counseling	✓	✓	✓	Philippines charges small fee.
Controlling emigration	Predeparture check	Predeparture check	Predeparture check	Immigration offices at airports check if registered with national authority.
Services abroad	✓	✓	✓	Labor attachés posted; Philippines Overseas Labor Offices staffed with welfare officers; Vietnam, recruiter must post representative abroad to assist workers.

*Note:* ✓ = yes; — = not available.

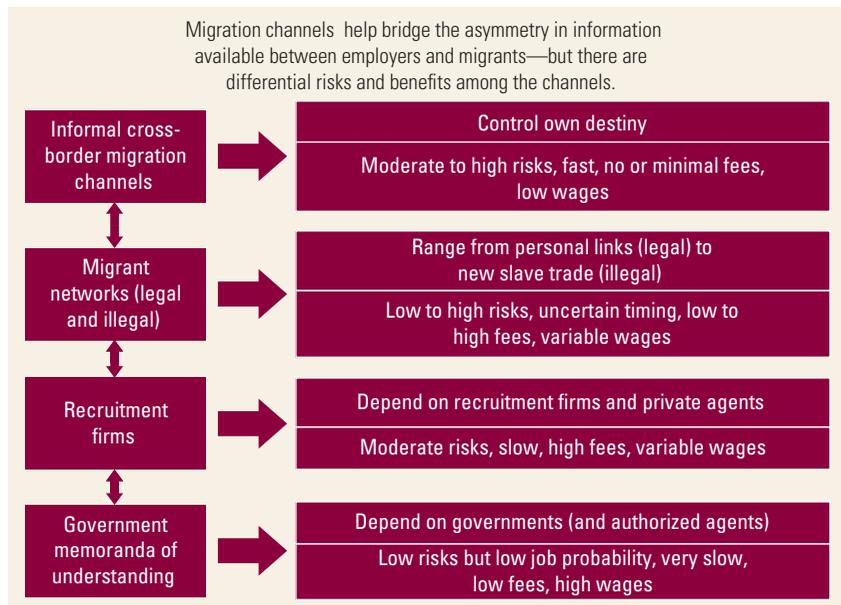
institutions in the labor market. These institutions include private agencies that can be regulated (recruitment agencies, training agencies, employers), public agencies (directly through government ministries and departments or through public oversight mechanisms of private agencies), and informal organizations (migration networks and diaspora connections).

However, attaining numerical goals in exporting workers does not guarantee that the larger development objectives will be achieved. Country experiences raise concerns about whether near-term and long-term objectives are complementary or in conflict. The exportation of workers can help buy the time and resources to accelerate sending countries’ economic development efforts. However, as noted in a number of studies and earlier in this report, migration and remittances should not be seen as a substitute for creating a strong investment environment at home. There are good reasons to believe that with effective institutions and the right incentives, both sending and receiving countries can benefit from the migration process more than they have in the past.

## Policy Options and Good Practices to Address Market Failures and High Transaction Costs

The major factor that complicates the migration process and creates high transaction costs is, as noted earlier, the asymmetry in information (or highly unequal information) available to employers and workers. Job requirements are differentiated by a number of factors, including skills, experience, and language familiarity, while concerns such as nationality, gender, and age also influence the selection process. Costs of “poor” recruitment are high given the need to repatriate workers and the training involved. Therefore, information asymmetry is the primary reason so many private and public agencies are involved in linking migrant workers with employers. But information asymmetry is also why the system is prone to rent-seeking opportunities and incentives for migrants to choose informal rather than formal migration channels. Private agents fill the gap in information and link employers with employees, but depending on the regulatory role played by governments and the extent of competition, they often end up capturing most of the rents in the system. All of this leads to high transaction costs (figure 4.2).

**Figure 4.2** Addressing Asymmetric Information between Formal and Informal Channels



A survey of Vietnamese migrant workers in Taipei illustrates the many agents involved in placing workers in jobs and how they share the rent exacted from the uninformed worker. The actual cost of going through the formal processes in Vietnam should not exceed US\$755 (Lee 2006). This fee includes the cost of undergoing training (US\$67–US\$200), a health check (US\$31–US\$38), passport fees (US\$13), Taiwan visa (US\$66), departure fees (US\$14), and airfare (US\$300–US\$318). Another US\$480 will need to be paid for income tax imposed by the Taiwanese government. The survey revealed that, on average, a sum of US\$6,343 was collected from the workers, or slightly more than the average annual income a worker could expect to receive. About 40 percent of this money is exacted in Vietnam and 60 percent in Taipei. Of the amount in Vietnam, US\$825, or 13 percent, goes to the recruitment agency, US\$507 or 8 percent to the local governments, and the rest (US\$1,205) to the local area job agents. Of the portion that goes to Taipei, as much as US\$1,649, or 26 percent, goes to the Taiwanese recruitment firms, US\$570 or 9 percent to the government, and US\$1,585 or 25 percent to the small employers. If a worker goes “missing” the Vietnamese recruitment agency has to pay NT\$30,000 to the Taiwanese broker intermediary.

Thus, transaction costs are high and more so for documented workers than undocumented. Many migrants take the undocumented route to avoid the high fees and lengthy and complex procedures involved (Holumyong and Punpuing 2011; Kassim and Too 2011). An International Organization for Migration (IOM) study showed that the cost for a Lao worker to go through formal channels to get a job in Thailand was US\$600 compared with US\$79 through informal channels (IOM 2008, 144). But choosing the informal channel exposes workers to a variety of risks and greater insecurity as well as lower income prospects. Memoranda of understanding between governments provide more transparency and can lower costs for those who are able to secure positions, but the probability of getting a position may be low and waiting times uncertain.

Another notable outcome of a private, fee-based system is the likelihood that migrants from poorer countries wind up paying more for the same jobs than migrants from better-off countries. Given the larger differences in incomes in labor-sending and -receiving countries, recruitment agents can charge migrants from the poorest countries the highest recruitment fees and still attract candidates from those countries. Empirical evidence shows that migrants from Vietnam pay the most for overseas positions, ranging between US\$7,000 and US\$10,000 (H. L. Nguyen and Mont 2011). Also worth noting is that Indonesian migrants pay higher recruitment fees, about US\$1,300, and earn less than Filipino migrants for similar positions (Kuncoro, Damayanti, and Isfandiarni 2011).

Intermediating agencies and migrant networks can alleviate the information asymmetries that prevail between employers and workers, but intermediation is made more difficult by the diversity of country conditions and objectives, porous borders, different needs of different sectors, and the practicalities of enforcement. Thus, intermediating agencies are needed to bridge information gaps. Informal groups, such as migrant networks, can be remarkably effective in providing information to migrant workers. However, given that such networks are informal and ad hoc by their nature, the scope for abuse and fraud remains high. Hence, government policies and memoranda of understanding that ensure a minimum of information for workers play an important role, though they can be expensive.

Labor-sending countries can also try to upgrade workers' skills and raise their reservation wage (through the official minimum rate for local workers). The Philippines upgraded the training of "caregivers" and "household helpers" and then raised their minimum contract wage to US\$400 a month in 2007 and insisted that agency fees should be paid by the employer and not the migrant. The immediate impact was a 50 percent decline in demand for these workers due to competition with other sending countries, with the gap being filled by Vietnam and Indonesia. Saudi Arabia froze its recruitment of household helpers from the Philippines, but it eventually accepted the new regulations and resumed recruitment from the Philippines. A truly integrated labor market would require wage and employment guidelines that apply across all countries. However, this not a realistic option for the foreseeable future.

Underlying the issues above are the deep market failures that arise from differences between private and social gains in both labor-sending and labor-receiving countries. In labor-sending countries, the difference is between high private gains for migrating households and the relatively lower social gains for the country and the economy. The economy must absorb the cost of education and training that workers may have received and the loss or output that may result from the departure of the migrant workers. As seen in chapter 1, despite huge remittances flows, there is little evidence that these flows have had a significant positive impact on remittances-receiving countries' aggregate growth, investment, or savings. In fact, some evidence suggests that brain drain and decreasing competitiveness caused by exchange rate appreciation could be having the opposite effect.

Table 4.3 discusses the different types of market failures that affect the three key issues in migration: (1) supporting the recruitment process, (2) protecting the welfare of workers abroad, and (3) increasing the benefits from remittances.

**Table 4.3 Market Failures and Policy Implications in Labor-Sending Countries**

Market failure and policy issue	Causes	Policy implications and options
<b>Supporting the recruitment process</b>		
<p>Information failure: Asymmetrical information between employers and migrant workers leads to lower returns from migration</p>	<p>Workers are not adequately or accurately informed about their jobs, conditions of their employment, and the cost of living in host countries. Employers, unsure of the skills of workers offered by recruiters, offer less than the prevailing wage.</p> <p>Workers may not be aware of their basic rights.</p>	<p>Ensure that only those qualified to assess skills and who have the means to do so are granted the license to recruit.</p> <p>Verify that the job orders of foreign employers are real and the terms of employment they offer are acceptable.</p> <p>Provide efficient and low-cost systems for certification of workers' skills from relevant national authorities or from recognized private institutions.</p> <p>Establish centers where migrants can have easy access to information about job opportunities and where they exist; about the costs of obtaining travel documents, visas, and exit clearances; and about licensed recruitment agencies.</p> <p>In countries with large migrant populations, regularly supplying the media with information on migration issues is particularly vital.</p> <p>Provide foreign employers with easy access to information about skills standards in source countries and establish the means for determining equivalences of occupational definitions or classification. Arrange for predeparture training for workers that provides essential information about the countries or societies they are going to, their rights and obligations, access to mechanisms and procedures for redress in the event of contract or rights violations and disputes with employers, services provided by diplomatic missions, and how to manage their finances.</p> <p>Negotiate agreements and offer incentives for predeparture training to be jointly provided with labor-receiving-country recruitment firms and employers.</p>

*(continued)*

**Table 4.3 Market Failures and Policy Implications in Labor-Sending Countries** *(continued)*

Market failure and policy issue	Causes	Policy implications and options
	Recruitment agencies offer jobs to highest bidders, thereby raising costs and sometimes leading to outright fraud and often to mismatches between skills and jobs.	<p>Set adequate capital and experience thresholds for licensing recruitment firms.</p> <p>Regulate subcontracting practices and hold the principal agent equally responsible as the employer for any violation of contract (as in the Philippines).</p> <p>Set a realistic ceiling on fees that recruiters may charge each migrant worker (for example, equal to one month's pay).</p> <p>Promote use of a "model contract," and require employers and their agents to register all contracts signed with workers.</p> <p>Require that deposits or bonds be posted by recruitment firms and impose punitive damages for fraudulent practices in recruitment.</p> <p>Support nonprofit organizations that work for migrant protection and rights to monitor the work of government agencies and private recruitment firms.</p> <p>Establish an independent dispute redress body with adequate authority to expeditiously resolve migrant workers' complaints.</p>
Social and private returns are low because of credit market failures	Migrant workers do not have access to credit to finance their migration costs, leading to high-interest borrowing and the sale of assets.	For migrant workers who have been offered jobs, provide finance through a collateralized contract.
<b>Protecting the welfare of workers abroad</b>		
Inadequate and unequal access to information	Migrant workers' rights are not adequately protected in foreign lands	<p>Negotiate acceptance of "model contract."</p> <p>Send workers only to countries that respect workers' rights.</p> <p>Station well-trained labor attachés and equip them with adequate resources to enable them to represent migrants' interests and respond to emergencies.</p>
Social and private returns are lower because of family disruptions	Family welfare is affected because of the absence of a parent; decline in child care and education may affect family and social welfare.	Provide social services through government agencies or nongovernmental organizations to help ensure family welfare and child care.

*(continued)*

**Table 4.3 Market Failures and Policy Implications in Labor-Sending Countries** (*continued*)

Market failure and policy issue	Causes	Policy implications and options
<b>Enhancing the benefits from remittances</b>		
In labor-sending countries, social returns of migration and remittances are less than private returns to migrant households.	Remittances are not taxed as domestic earnings would be.	<p>Subject migrants and nonmigrants to the same direct taxes on income, regardless of source, but allow for full deduction of expenses incurred in migration.</p> <p>Charging fees on departing migrants adds to their financial distress at the worst time. It is preferable to encourage membership in national social security, or in flexible savings schemes where contributions only need to be made during period of employment.</p>
Workers receive at least a part of their education through public resources, but their earnings abroad go largely to private consumption and are not widely shared.	Remittances sent by low-skilled migrants go largely to consumption, not to investments that can benefit a larger community.	<p>Raise social returns by providing migrants with opportunities for investment in schemes that benefit society at large (e.g., low-cost housing fund).</p> <p>Provide high-return, possibly inflation-indexed savings instruments, bonds, and other investment opportunities.</p> <p>(A later section provides more details.)</p>
	Knowledge of migrant workers is not adequately tapped.	<p>Encourage local governments to develop programs for returning migrants (for example, employ them in training centers).</p> <p>Together with business associations sponsor periodic registration programs for returnees to identify their areas of expertise and facilitate employment in local industry.</p> <p>Provide information to departing migrant workers about small business opportunities, terms of available project financing from banks, and technical assistance from government agencies.</p>

## Supporting the Recruitment Process

### Information Dissemination

The first important step in the recruitment process is providing information to interested migrant workers. Most migrants have limited knowledge of job opportunities abroad and are vulnerable to fraud or misleading advertising. Authorities should develop information infrastructure that provides easy access to information about conditions in foreign labor markets (for example,

prevailing wages for different occupations, especially in small enterprises), visa policies of destination countries, status and record of licensed recruitment agencies, likely costs of securing work, and so forth. Access to the Internet is now widespread, making it easier to provide a wealth of information to the general public at low cost, to caution job seekers against typical fraud, and to warn them against errant job brokers. Television, radio, and other mass media remain the most important channels for spreading information, but they require much more expertise to convey messages effectively. Authorities need to be equipped with specialized staff to support media campaigns.

Measures that can bridge the information failures and improve the transparency of the process include creating migrant information centers and encouraging nongovernmental organizations (NGOs) to get involved. Many provincial and city governments in the Philippines now have migrant information centers where at least one officer is dedicated to providing the public with information on new regulations and developments in overseas employment. Streamlined procedures as well as one-stop clearance centers can also help. A key measure is the provision of predeparture orientation briefings of workers by groups accredited by OWWA. Briefings usually include reminders about the documents workers will need for their departure, their rights and obligations under the work contract, how to remit their savings, the availability of support services overseas, and occupational health and safety issues. These briefings are run by a variety of accredited institutions and trainers, including NGOs and some recruitment agencies.

### **Regulation of Recruitment Firms**

Regulating recruitment firms is another important issue. Effective regulation of the recruitment industry starts with sound laws and policies that set high standards for obtaining a license or authorization, thereby promoting fair competition based on quality of services offered and rewarding responsible business practices and penalizing abuses. Most of the difficulties governments have faced in this sphere of economic and social policy can be traced to licensing policies that discourage the participation of investors with long-term horizons. Preoccupied with the need for control, many concerned authorities in the region have limited the life of licenses to no more than two years, or even to only the fulfillment of a particular job order. It is therefore not surprising to find that many recruiting firms aim to make quick profits in the shortest time. The policy is, in a way, self-fulfilling because only fly-by-night operators are motivated to enter a

business in which license extension or renewal is questionable. This is a particularly valid concern in countries where business survival depends on politics. A sound policy is one that treats recruitment just like any other business, meriting indefinite license to operators as long as they pay taxes and do not commit fraud.

The requirement that recruitment firms have adequate capital helps to set standards. Encouraging companies to devote serious capital to developing their services and marketing them overseas has much merit. The recruitment industry does not require much physical capital but it does require the development of know-how, which is not cheap. Experience in the region amply demonstrates that the firms with the best track records are those that have developed wide marketing networks abroad, have kept themselves attuned to the latest market developments, and can turn down dubious job offers. Indeed, it makes sense to encourage a country's most successful firms to enter the industry because they have a reputation to protect. Large services exporters like international construction contractors or travel companies have an advantage over others for obvious reasons.

Firms with long-term horizons have much to gain from closely collaborating with the government in developing promising market destinations. Foreign employers needing skilled workers are generally careful in selecting agents in origin countries because it takes time and money to import foreign workers. This is especially true of employers of highly trained workers such as medical professionals or technicians for oil exploration. Much effort is required to understand the employers' needs, to communicate those needs, and to develop the skilled resources (manpower pool) that meet them, and thereby to build trust and confidence. Unfortunately, the consequences of misguided policies have rendered public-private partnerships ineffective in this arena.

### **Codes of Conduct**

The development of voluntary codes of conduct should always be encouraged, but governments must still have the capability to monitor activities and enforce regulations. Monitoring and law enforcement can be carried out by the licensing authority or by regular labor inspection units and the police in case of criminal activities.<sup>6</sup> To operate effectively, law enforcement officials need to set clear benchmarks and standards for evaluating the performance of employment agencies, as well as other types of agencies. National authorities have always found their monitoring function to be less burdensome when they are supported by practitioners in the

industry who are attuned to what is going on in the market. Experience has shown that these informal information sources are more reliable than pro forma inspection reports carried out by regular inspectors. The monitoring authority should also cross-check information provided by private employment agencies (PEAs) from a variety of sources, such as media advertisements, reports by NGOs, and verification of employers through embassies.

A growing number of codes of conduct have been developed by PEAs or their associations. The best known is that developed by the International Confederation of Temporary Work Agencies (CIETT), which establishes general rules to be adopted by national business associations. CIETT supports the principle of self-regulation by PEAs through cooperation with the relevant institutions. National codes should reflect the spirit of this code, and indeed, in many cases, they may go well beyond the general standards set out by CIETT.

Past experience has shown that the development of codes of conduct is more effective when the following practices are adhered to: (1) the specific standards to be included in the code should be formulated based on discussions with trade unions, government, and civil society organizations; (2) the codes should provide for independent monitoring mechanisms with clear criteria and penalties for noncompliance; and (3) the public and interested workers should be informed about firms that are violating the code (OSCE, IOM, and ILO 2006).

In addition to voluntary codes of conduct, some PEAs have favored more competitive systems of self-regulation, such as ratings or labeling. Major multinational companies promoted a labeling system. The result was the introduction of the ISO 9000 label of quality management by the International Organization for Standardization. Throughout the ISO 9000 family, emphasis is placed on the satisfaction of clients. For example, in 2002, Kelly Services was certified to ISO 9002 quality standards, and like many PEAs, now includes the ISO 9000 labels in its advertising and marketing campaigns as a guarantee of fair practice.

Imposing heavy financial penalties for contravening guidelines can also help discourage exploitive practices, but will only succeed if efficient machinery is in place for adjudicating complaints. Following rules and regulations should be rewarded, but violating them should be made costly. The practice of requiring recruitment firms to post bonds has proved effective in discouraging fraud and violation of recruitment rules and is now widely followed. It must, however, be backed up by an efficient way to resolve complaints and disputes. Setting up an independent dispute redressing body consisting of officers experienced or well trained

in conciliation and adjudication is essential to the success of this approach.

### **Financing Migration and the Involvement of Recruitment Agencies**

Easing the burden of financing migration while avoiding unintended consequences of interventions in this area is another requirement. Given that finance is a major constraint for migrant workers, forcing them to sell family assets or borrow under high interest charges, government loan packages for migrants with valid employment contracts can help to reduce costs. However, measures such as bans and age restrictions imposed by governments for preventing the possible economic exploitation of women or minors often do not work, because they just lead to the falsification of documents.

Competition between recruitment firms can lower some of the costs paid by migrants. For example, in Indonesia, profits earned by recruitment firms fell from US\$1,000–US\$1,250 per migrant in the late 1980s to US\$100–US\$300 after a new law promoting competition was passed in 2004. But even in Indonesia, duplicative institutional structures have sometimes forced migrants to pay twice to government agencies for the same services. In Vietnam, predeparture charges are exceptionally high because recruiters and employers in the destination countries collude to maximize their rents, and the Vietnamese government requires financial guarantees to discourage “overstay.” Some governments have adopted the philosophy that because migrants will earn much more working abroad, they should share these income gains with the state. Migrants are thus paying to the government what in other countries might have to be paid to private recruitment agencies.

Much attention has been given to reducing transaction costs and rent-seeking opportunities. Best practices during recruitment include providing better information, reducing the complexity and time involved in processing applications, more effectively regulating private agents, involving NGOs, arranging fairly priced loans for workers to meet upfront costs, and avoiding discrimination in worker selection (ILO 2006; Hugo 2009). However, a high level of political commitment and the appropriate government infrastructure are needed to enforce and achieve such desired outcomes. Where these are lacking nongovernment bodies and migrant association watchdogs can play particularly important roles.

Some countries have made the extension of recruiting licenses contingent on performance, so that a recruitment agency that fails to provide jobs for a minimum number of workers may see its license revoked. At the same time, awards are bestowed on best-performing agencies in recognition of their contribution to national development. Government

authorities can use several ways to create positive incentives for PEAs to comply with national law. Governments have tried a number of incentives, such as (1) extending licenses for best-performing firms for a long period, or waiving renewal requirements; (2) processing contracts speedily; (3) listing well-performing agencies in publicly available lists of recommended agencies; (4) providing these agencies with preferential access to quotas negotiated with other countries; and (5) including them in government delegations that negotiate market access.

## **Protecting the Welfare of Workers Abroad**

### **Contracts**

Employment contracts are widely viewed as the most important instrument for protecting workers' rights and interests, especially when they are employed in countries where there are no minimum wages, or where migrants usually face discriminatory treatment from the authorities or the society in general. Governments in the region all insist on having the employment of their nationals covered by written contracts in a language the migrant can understand. Some have reached agreements with receiving countries on the form and content of such contracts, and on procedures for handling disputes over the exact rights and responsibilities of the contracting parties. In general, the essential elements of an overseas employment contract are (1) clear identification of the parties to a contract—both the employer and the worker; (2) information on terms and conditions, salary, hours and place of work, overtime, and other benefits; and (3) providing a legal basis to the contract. Countries of origin have also developed "model employment contracts" that establish minimum requirements for their workers in the destination country, such as (1) guaranteed wages for specified working hours and overtime pay for work carried out beyond specified working hours; (2) rest periods per day and days off per week; (3) free transportation from point of hire to site of employment and return or off-setting arrangements; (4) other benefits such as provision of food and accommodation, medical treatment, and insurance; (5) well-specified, just conditions for termination; and (6) repatriation of remains.<sup>7</sup>

Procedures and provisions for dispute settlement are a key aspect of protection of migrant workers' rights. Such provisions should take into account existing labor and social laws of the host country, as well as national customs, traditions, mores, and practices. They should also comply with existing conventions and bilateral or multilateral

agreements with the host country, as well as take into account existing labor market conditions. The Philippines, for example, has introduced benchmarks for setting wages. Filipino migrant workers are not allowed to accept wages that are lower than the prevailing minimum rate for the same skills in the host country or lower than the standards fixed by bilateral agreements or international conventions to which the host country is a signatory. In no case is a migrant worker allowed to receive a salary lower than the prevailing wage in the Philippines.

### **Predeparture Training**

Predeparture orientation courses targeted at labor migrants who have secured employment contracts are highly useful. They can impart practical knowledge to prepare migrants for their future living and working environment, covering such topics as basic language skills, financial management, health counseling, and human rights awareness. The overall objective is to equip departing migrants with basic information about their employment and life abroad, return and reintegration, protection from abuse and exploitation, and enhancement of the gains that workers can make through orderly labor migration.

In general, predeparture preparation is a critical aspect of the migration process. Very few migrants leave with a full understanding of the terms and conditions contained in the employment contracts they signed with the recruitment agents, and fewer still understand how they can protect their rights if they are violated during their employment abroad. Most likely need financial literacy training to help manage their earnings and send remittances home. This lack of information puts them at risk. Thus, most labor-sending countries have predeparture training classes. Elements of high-quality training include specific skills related to work requirements, cultural awareness and introductory language training, explanation of rights and obligations, removal of false expectations in migrants, and skills and abilities for migrants to respond effectively to mistreatment and exploitation. However, although predeparture training is a key component, it can become another means of rent taking. The training provided may not be effective or appropriate. Observations on the effectiveness of such programs vary. Often such programs are provided too late to be helpful, and the costs involved are seen as just another tax. But some programs are well run and provide valuable benefits. For a survey of such programs and an analysis of best practices, see for example, ILO (2006) and OSCE, IOM, and ILO (2006).

The steps for instituting predeparture orientation courses are (1) assessing needs for worker skills in labor-receiving countries; (2) preparing

### Box 4.3: Predeparture Training in the Philippines and Sri Lanka

The orientation programs developed by the Philippines and Sri Lanka for household workers leaving for Hong Kong SAR, China, and the Middle East are good examples. The programs cover the following areas over two days:

- Rights of the household worker based on the standard employment contract
- Obligations of the household worker based on a code of conduct
- “Dos and don’ts” in dealing with the employer and living in the destination country
- Destination country profile
- Standard duties of a household worker
- Services and benefits offered by government bodies and nongovernmental organizations (NGOs)
- Options and procedures for sending remittances
- Travel documents, airport procedures, and travel tips

- Arrival in destination country
- Return and reintegration
- Saving options

Another example is training of less-skilled workers in a two-day course that covers the following areas:

- Worker rights based on the standard employment contract and labor law in the destination country
- Destination country profile, including society and cultural norms
- Health awareness
- Services and benefits offered by government bodies and NGOs
- Options and procedures for sending remittances
- Travel documents, airport procedures, and travel tips
- Arrival in destination country
- Return and reintegration
- Saving options

Source: OSCE, IOM, and ILO 2006.

predeparture orientation curricula for the main destination countries and for vulnerable categories of migrants in consultation with labor recruiters and employers in those countries; (3) establishing in-country capacity by carrying out comprehensive predeparture orientation for migrants, by training of trainers and curriculum development; and (4) identifying financial literacy requirements for workers. Box 4.3 suggests good practices in providing such training, drawing from examples in the Philippines and Sri Lanka.

Finally, governments are only now starting to experiment with ad hoc programs, often at local levels, to encourage returning migrants to invest more of their remittances at home and to make greater use of the skills they have acquired abroad. So far, most governments have left to private financial institutions the development of programs to encourage investment of migrants’ remittances. The Development Bank of the Philippines has

received approval to launch its long-term negotiable certificates of deposit for overseas workers. In 2006 the Philippine Department of Labor and Employment established a Migrant Reintegration Centre for Overseas Foreign Workers with the assistance of IOM, but its programs have not yet made an impact on the reemployment of returnees in the local labor market. There have been a few notable private initiatives, such as those of the Philippine Nurses Association, to promote know-how transfers by arranging for returning nurses to teach in local nursing schools. In all three countries, returnees reintegrate back home largely on their own initiative (chapter 2).

## **Enhancing the Benefits from Remittances**

For labor-sending countries, remittances flows constitute a significant source of critical foreign exchange. In 2012 Indonesia received US\$7 billion and Vietnam US\$10 billion in remittances; for the Philippines, remittances are now the largest source of foreign exchange earnings at US\$24.6 billion. In the Philippines, a country with rapid population growth but less-rapid economic growth, successive governments have promoted labor migration as an important safety valve for reducing unemployment. At the country level, remittances can give governments more flexibility to deal with economic downturns, but they can also create disincentives through appreciated exchange rates. The East Asian experience shows that countries face difficult choices in managing these trade-offs and realizing longer-term objectives. Remittances also sharply increase incomes and consumption for migrant households. All of these represent large welfare gains for labor-sending countries.

Yet, these gains are not accompanied by significant gains in economic growth or investment rates in the economy. Nor is there much evidence that the knowledge and experience of migrants are effectively used by labor-sending countries. Significant potential to enhance the growth and development impacts of migration and remittances remains untapped. Properly designed policies can help realize this untapped potential. This section provides a brief, general overview of policy issues that need to be addressed to increase the flow and impact of remittances from migrant workers.<sup>8</sup> In general, policies must also address trade-offs at different stages of the migration process. Governments struggle to maintain a delicate balance between encouraging and discouraging the export of labor through their efforts to generate revenues from this activity. At the recruitment stage, most countries have established a complex set of procedures designed to facilitate the process, but some argue that these procedures have become just another source of earnings for the “industry.”

Many labor-sending countries are also keen to improve the skills of migrants to increase earnings and channel more workers to countries with attractive working conditions. However, there is discordance between reality and intentions. For example, Indonesia wants to send more skilled workers abroad, but in reality Indonesian unemployment is highest among the less educated. The unemployment rate for tertiary education graduates has been less than 4 percent in recent years. There are also trade-offs involved—the more skilled may remit proportionately less and their commitment to the home community may be weaker. Many of the skilled come from cities rather than rural areas, and brain drain consequences may be more serious. However, skilled migrants could enhance knowledge links better as part of the return process.

A central element in good migration policy that can help labor-sending countries achieve their objectives of benefiting from remittances and skill transfers is to obtain the cooperation of labor-receiving countries and firms employing migrant labor. Given the information failures between the three parties—labor-receiving countries, labor-sending countries, and employment recruitment firms—the scope for moral hazard and avoidance of regulation is large. Moreover, given the large excess supply of labor in several East Asian countries, and the often porous borders between these countries, it is more effective to use incentives rather than punitive actions to get the cooperation of the principal parties.

### **Reducing the Costs of Remittances and Enhancing the Impact of Remittances**

Remittances are the main channel through which migration affects development and household welfare in labor-sending countries. The impact of these remittances, however, is probably well below potential. One major task of migration policies will be to increase the impact of these remittances. The rest of this chapter briefly surveys the key policy issues concerning remittances management with the aim of raising their impact.

As discussed in chapters 1 and 2, the estimated US\$112 billion of remittances to East Asian households in 2013 helped to raise household incomes and expenditures, reduce poverty, finance housing construction, and in some cases, finance education and health expenditures. At the macroeconomic level, the high level of remittances significantly helped finance countries' trade deficits, as seen in chapter 3. This is true not only for small Pacific Island economies but also for large middle-income economies such as the Philippines and Vietnam. Remittances even in these countries financed more than 15 percent of imports, on average.

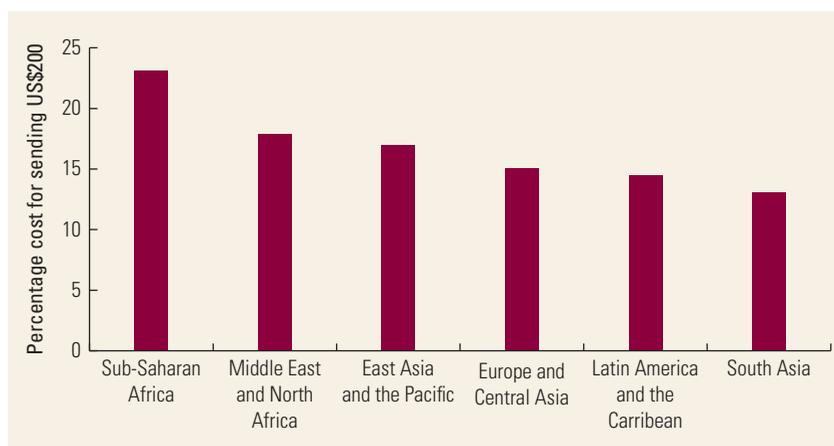
Despite the significance of these remittances, however, it is also clear that their full potential is realized neither at the household level nor at the national level. At the household level, the long-term welfare gains will be greater if more savings and investment are put toward productive areas such as education and health instead of into large residential construction on which the returns are insignificant. At the national level, the impact will be greater if the link between remittances flows and investment could be made stronger. These issues highlight the fact that managing remittances through the financial sector is a large pending opportunity for increasing the impact of migration on development.

In broad terms, two steps are needed to realize the full potential of remittances for development. The first step is to ensure that migrant workers have the incentive to send more remittances by reducing the costs of sending them. The second step is to enhance the impact of remittances on household and receiving-country welfare by channeling more of the remittances through the formal financial system. Doing so increases the scope for saving and investment and returns to remittances. The second step is a much more comprehensive topic, as discussed below.

Clearly one of the most important policy measures for increasing the effectiveness of migrants' earnings is to reduce the costs of sending remittances. Evidence suggests that remittances flows are highly sensitive to sending costs. In Tonga it was estimated that reducing costs to the same rates as those in other remittances corridors could increase remittances by 28 percent. On average, the global costs of sending remittances home remain high, at more than 10 percent of the average amount remitted. The costs of sending remittances in East Asia and Pacific region countries can vary greatly, between 2.5 percent and 26 percent for remitting US\$200 (see figure 4.3) (Mohapatra and Ratha 2011). The average costs of sending remittances in the region, at about 16 percent, are comparatively high for East Asian countries. Although typical costs for sending \$200 from Malaysia or Singapore to other Southeast Asian countries can be lower, at an average 5–6 percent, and about 8 percent to China, they are still high compared with a cost of 2–3 percent for sending remittances to Bangladesh and the Philippines.

Studies suggest that competition, the structure of the financial industry, and sociocultural factors influence the costs of sending remittances. Costs are also determined by the nature of the bilateral corridor. A study by Beck and Peria (2009) indicates that three significant factors influence sending costs: (1) the number of migrants, which suggests a scale effect; (2) higher charges in corridors with higher per capita income in both sending and receiving countries, which suggests the influence of

**Figure 4.3** Costs of Sending Remittances, by Region



Source: World Bank 2011.

higher prices of nontradeable goods; and (3) competition among different types of financial service providers, which lowers remittances costs, but corridors with a higher share of banks are more expensive. Overall, variations across corridors are shaped by the cost structures of service providers and their pricing power. On occasion, governments in the Association of Southeast Asian Nations have been tempted to try to tax remittances. However, these efforts have yielded only mixed results and their rationale is debatable. Remittances are personal earnings of migrants, and their use is largely determined by the individual choices of households. Forcing migrants to channel funds through formal conduits for the purpose of taxation only encourages migrants to remit through informal channels.

Some of the factors affecting costs are outside the control of policy in the short term, but several steps can still be taken. The costs of sending remittances are, for instance, most affected by the scale of transactions. The larger the number of migrants and the frequency of transfers, the lower the costs. Thus, remittances sent to Indonesia cost about US\$5 per transaction compared with more than US\$20 for remittances sent to Pacific Island countries. Aside from encouraging more migration, there is little that governments can do to affect scale. But there are policy steps that can be taken to reduce costs.

Key among these steps is to increase competition among remittances service providers. It is important to remove any exclusivity arrangements

between money transfer operators (MTOs) and commercial banks. Currently many transfers are cash through MTOs or through commercial banks as exclusive agents of MTOs, instead of direct bank account to bank account or cash to bank account transfers. Removing exclusivity arrangements would increase competition among banks and MTOs. By the same token, it is also important to avoid exclusive dependence on commercial banks. In general, costs decrease with competition among remittances service providers. An important point is to provide access to formal financial services and reduce onerous regulations on service providers. However, more research on the impact of regulations and transparency of remittances flows is needed.

Bundling remittances could also reduce costs. When large remittances are sent from a particular area in labor-destination countries, arrangements to bundle them can sharply reduce costs. For example, Sri Lankan banks have devised speedy, low-cost transfer bundling systems with correspondent banks and exchange houses in destination countries. The correspondent agency maintains an account with a Sri Lankan bank and on receiving cash from the sender, debits a corresponding value from its Sri Lankan account to the credit of an account nominated by the sender. At the end of the day, the agency tops up the balance on its Sri Lankan account, thereby covering all of its transactions for the day—up to 500 for the larger exchange houses—with a single electronic transfer.

In addition to reducing costs, bundling arrangements also increase the security of remittances and the financial services provided to migrant workers. These services include (1) exchange agents maintaining accounts for remittances senders, with magnetic identification cards issued to senders; (2) linking of recipients' accounts to the exchange agent's account in Sri Lanka; (3) recipient details, currency conversion rates, and commissions appearing automatically when the sender's account number is entered, to promote transparency and reduce processing time at the sender's end; and (4) ability for the sender to view the status of the transaction at the receiving end, to confirm receipt of funds. Although these services are mainly provided to account holders, non-account holders at both ends can use the systems on production of identification.

### **Channeling Remittances through the Financial System: Savings and Investment**

The second step for increasing the impact of remittances on development is to channel them through the financial system so that they can boost saving

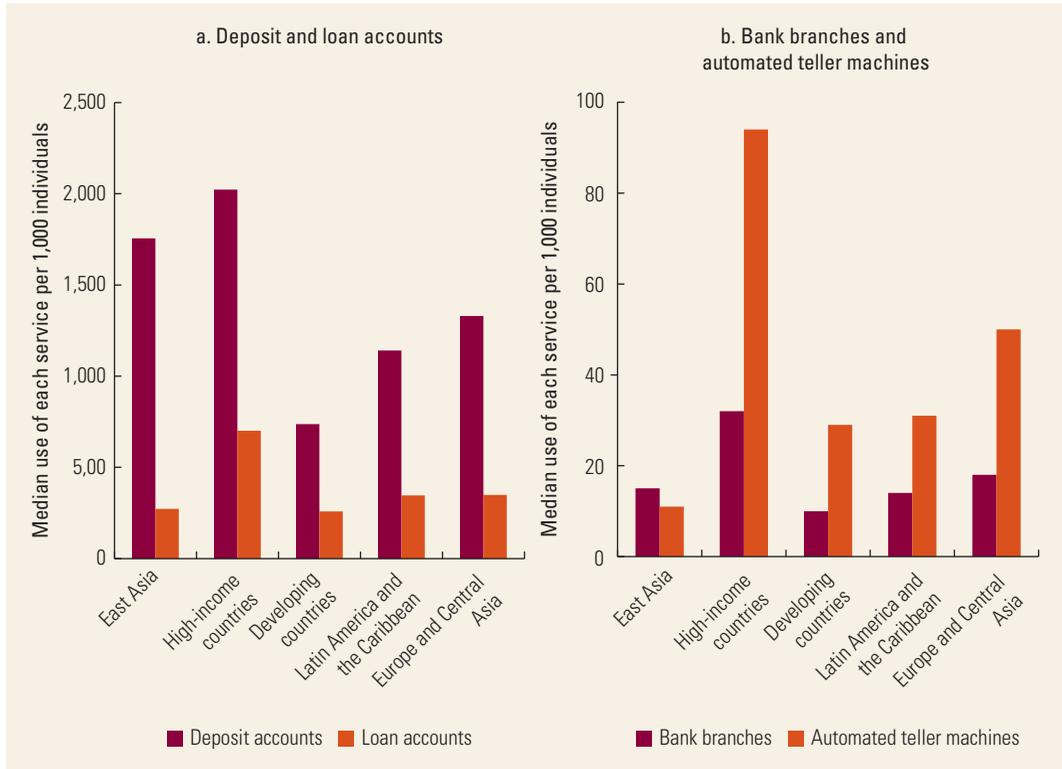
and investment. A number of channels can link remittances and remittances service providers to MTOs, banks, and other elements of the formal financial system. Beyond these traditional institutions, new innovations can also link migrants to the financial sector. These include microfinance organizations, information technology-enabled services, securitization of remittances flows, and the issuance of diaspora bonds. Good macroeconomic management and a good investment climate can play a key role in bringing migrants and remittances into the formal financial sector. Each of these components is discussed in turn.

Evidence suggests that channeling remittances through banks and other financial institutions, such as microfinance organizations and savings cooperatives, increases the probability of saving by migrants. The key factor is to connect the transfer of remittances to deposit points. In Latin America, banks with cross-border branch networks that have developed efficient intrabank electronic transfer arrangements have been particularly effective in attracting migrants and channeling remittances transfers. Expanding banking services and regulating transaction costs would help more money flow toward poor families and entrepreneurs in developing countries. Government banks can also step in, as has the State Bank of India, which has opened overseas branches where there are large expatriate communities. It offers higher interest rates than local bank accounts and tax exemption on a proportion of the interest earned, and it allows account holders to have beneficiaries in India. The Mexican and Philippine governments have also created collective remittances channels that funnel capital to local infrastructure and development projects. These examples are exceptions rather than the rule, however, and barriers to remittances need to be lowered further.

Somewhat surprisingly, access to commercial banks is more variable in the East Asia and Pacific region than in other regions. As panel b of figure 4.4 shows, loan accounts, bank branches, and automatic teller machines that increase liquidity for savers are less available in many countries in the region compared with Latin America or Europe. Migrant workers and families who used bank-based transfer services were far more likely than those who used Western Union to report depositing a share of their remittances in savings accounts. Similarly, respondents in the Philippines, where the use of commercial bank-based transfers is most extensive, were more likely than those in other countries to report saving regularly.

*Commercial banks:* Increasing remittances transfers through commercial banks can be a key source for increasing the development impact of remittances. Remittances transfers to bank savings accounts rather than simple cash transfers can encourage saving and reduce the risks of holding cash. Experience from Indonesia, Sri Lanka, and the Philippines,

**Figure 4.4 Limited Access to Commercial Bank Services**



Source: Ardic, Heimann, and Mylenko 2011.

where bank-based transfers predominate, suggests that recipients have the option of depositing part or all of the transfer. In Timor-Leste and the Pacific Island countries, however, where cash-to-cash transfers through MTOs are prevalent, saving is adversely affected because remittances-receiving households that wish to save need to take their funds to a deposit facility, which may be some distance away. The lack of connectivity between transfer and deposit points reduces both the incentive and opportunity to save. The remittances-transfer method used affects the propensity to save. In Fiji, Samoa, and Timor-Leste, where most recipients collect their transfers from MTOs, the lack of connectivity between transfer and savings facilities reduces the propensity to save, even though most households maintain savings accounts with other financial institutions.

*Branchless banking services:* A channel for sending remittances that helps to overcome the lack of bank branches is information technology

for providing branchless banking services. Communication technology such as mobile telephones can be used by the existing network of agents to transfer money without having to access commercial banks, thereby increasing the competition for services. As of 2011, however, only 8 branchless banking services were known to have been deployed, while 15 others were under preparation in the region. Research suggests that three issues need to be addressed to more widely develop branchless banking: (1) inadequate and inexperienced branchless banking infrastructure on the receiving end; (2) lack of customer awareness and trust in new services (even in remittances markets like Kenya and the Philippines, where branchless banking has been most widespread, there is still considerable lack of awareness and trust); and (3) constraining regulatory environment.

*Microfinance organizations:* Microfinance institutions (MFIs) and other small-scale lending organizations can service migrant workers in a number of ways: (1) money transfer services, (2) savings and cash management products, (3) remittances-linked lending, and (4) non-financial services. The entry of such institutions can help to increase competition and improve services. MFIs seeking to enter the formal transfer market, however, face regulatory hurdles. For one, they must obtain a foreign exchange license. In Sri Lanka and Indonesia, nonbank institutions face legislative restrictions. Elsewhere, central banks are understandably cautious about the extra supervision and monitoring responsibilities that would result from issuing foreign exchange licenses to small MFIs, few of which possess the expertise, overseas networks, and technological infrastructure required for successful foreign exchange operations. There is, however, a case for broadening outreach and increasing competition in the transfer market by expanding the licensing regime to include large, established MFIs that possess the capability to handle money transfers. Governments in the Asian countries should examine the feasibility of allowing MFIs to enter the remittances-transfer market with attention to appropriate regulatory reforms, technological and management capacity, and identification of suitable overseas correspondents.

*Providing lending services at the predeparture stage against expected remittances:* Access to finance is key for most migrant workers. Given that bank loans are not generally available to finance migration, households that cannot rely on their own savings are often obliged to resort to the hurried sale of assets and to high-cost informal sources of finance such as migration agents and moneylenders. Loans to finance migration costs and predeparture loan products provided to migrants that have job offers abroad that

they can use to retire loans from informal sources can help to ease the financial burden and open migration opportunities to poorer households. These needs open up opportunities for MFIs and banks. There is also scope for MFIs to offer loans and credit lines to migrant households using remittances flows as a guarantee. This would require the broadening of normal loan eligibility requirements so that future remittances streams and past records of receiving remittances could be considered collateral similar to a savings balance. Perhaps households can be required to build up savings balances first to be eligible for loans. Furthermore, loans could be issued on the condition that funds are remitted through the bank. With evidence that migrants demonstrate better repayment rates than recipients, banks could consider issuing loans directly to migrants and deducting installments from remittances.

*Securitizing remittances:* In the same way that banks can provide loans to migrant households based on projected remittances flows, countries can raise foreign exchange and access capital markets through structured finance techniques such as securitizing remittances. In principle, any reasonably stable future financial flow can be securitized. A particularly simple form of securitization is when diaspora and migrant workers are allowed to invest in government treasury bills and treasury bonds that provide opportunities for safe, liquid, and high returns on investment. The Sri Lanka central bank, for instance, is aiming to raise \$500 million in hard currency from more than 1.5 million Sri Lankans abroad.

More sophisticated forms of securitization enable countries to tap into international and foreign exchange loans. In this scenario, the country (borrower) can commit its future remittances receivables to a special purpose vehicle located offshore, which issues the debt or securities to investors. Correspondent banks are then required to channel their remittances flows through the offshore collection agency, which pays principal and interest flows to the lenders and returns the remainder to the borrowing country bank.

Both borrowers and investors gain advantages from securitizing arrangements. Because the debt is serviced offshore, investors are protected from the usual country and convertibility risks. The reduction of such risks enables borrowers to issue longer-term debt and at cheaper interest rates than would normally have been required. By keeping these transactions offshore and intermediated through special purpose vehicles, domestic balance sheets are protected. These securities are typically structured to obtain an investment-grade rating. In El Salvador, for example, remittances-backed securities were rated investment grade, two to four notches higher than the subinvestment grade sovereign rating.

The first major securitization of international migrant remittances took place in Mexico in 1994. Mexico, Turkey, and El Salvador raised about US\$2.3 billion during 1994–2000. As electronic transfers became more widespread it became easier to track complex transactions, and remittances securitization gave way to securitization of diversified payment rights (DPRs), including migrant remittances, but also payments related to exports and foreign direct investment. During 2000–04, US\$10.4 billion was raised through securitization of DPRs by Brazil (\$5.3 billion), Turkey (\$4.1 billion), El Salvador, Kazakhstan, Mexico, and Peru.

The securitization of remittances flows, however, faces significant constraints and requirements. The high fixed costs of legal, investment banking, and credit rating services and long lead times can pose difficulties for developing countries. Higher fixed costs and risks can be mitigated by pooling receivables to significantly increase the size of deals. Although the absence of the appropriate legal infrastructure can also constrain issuance, it need not require an overhaul of the entire legal system. A more focused approach that concentrates on bankruptcy law may suffice, by making sure that pledged assets remain pledged in the event of default. Issuers should be cautioned, however, that such transactions tend to reduce the government's flexibility in managing its external payments. Moreover, remittances securitization can potentially conflict with the negative pledge provision included in the multilateral agencies' loan and guarantee agreements, which prohibit the establishment of a priority for other debts over the multilateral debts. But as the recent upsurge in securitization suggests, none of these hurdles is insurmountable.

*Diaspora bonds:* Some efforts have been made in El Salvador, Mexico, and Fiji to encourage migrants to make voluntary contributions to development projects in their home communities. In these efforts, remittances funds typically augment public funds to finance local public goods like schools, roads, and water supply. Although such programs may be worth considering in East Asia and the Pacific, they must remain voluntary. Other options include using market-based incentives such as the sale of “diaspora” bonds targeted to migrants for public infrastructure investments. However, to date, the impact of such bond programs has been quite limited. Concerns range from how to reach potential buyers to the complexities of registering and rating these instruments (World Bank 2011).

A potentially important instrument for increasing both remittances and their development effectiveness are diaspora bonds (Ketkar and Ratha 2007). A diaspora bond is a debt instrument issued by a country—or potentially, a subsovereign entity or a private corporation—to raise financing from its overseas diaspora. Israel and India are estimated to

have raised US\$35 billion to US\$40 billion using such bonds. The government of Israel has offered a range of diaspora bonds since 1951 to keep the Jewish diaspora involved with Israel's development. The Indian authorities, in contrast, have used this instrument for balance of payments support, to raise financing during times when the government had difficulty accessing international capital markets. Diaspora bonds are sometimes sold at a premium to diaspora members, thus fetching a "patriotic" discount in borrowing costs. Factors that facilitate the issuance of diaspora bonds include having a significant and wealthy diaspora and a credible and transparent domestic legal system that can enforce contracts. Allowing nonresidents dual citizenship rights and providing financial flexibility such as through portable pensions can also help raise remittances financing through diaspora bonds. Although not a prerequisite, the presence of national banks and other institutions in labor-receiving or destination countries facilitates marketing. Absence of civil strife is a plus. Kenya is issuing diaspora bonds and issues are being planned for Nigeria and the Philippines. In East Asia and the Pacific, there seems to be considerable potential for using diaspora bonds in China, the Philippines, and Vietnam.

*Macroeconomic conditions and investment climate:* Ultimately, the flow of remittances and their development effectiveness will depend on good economic management and governance. Sound macroeconomic conditions that provide assurance of stability and a good investment climate that facilitates high returns to investment are the most important requirements for attracting remittances inflows and raising their contribution to development, analogous to the aid-effectiveness argument. Remittances flows will increase, be saved, and be well invested if the economy is well managed and there are opportunities for growth. Otherwise both remittances flows and their contributions to development will be below their potential.

## **Conclusion: Strengthening the Policy Regime**

International migration is a large and growing industry in the East Asia and Pacific region. It involves the movement of several hundred thousand migrants each year and generates remittances flows of more than US\$100 billion annually, dwarfing foreign aid and development assistance. The industry also involves thousands of stakeholders: employer firms, recruitment agencies, governments, international organizations, and not least, the migrant workers. Given current economic and demographic

trends, international migration will become an even more important phenomenon in coming decades.

Thus, a well-managed migration industry will aim to match workers from one country with the needs of another in ways that encourage formal rather than informal migration, protect workers' rights, and ensure that migrant-worker contributions (financial and skills related) are maximized in both destination and source countries.

However, a number of deep market failures make these goals challenging. There are large information asymmetries between recruitment agencies, employing firms, potential workers, and governments. Data on these processes are poor, and even when available the information has not been subject to analysis. Differences between the high private returns of migrant workers and employees from migration, the lower social returns of sending and receiving countries, and the rent-seeking practices created by such differences emphasize the need for more effective management policies.

## Notes

1. Korean data show only 5.6 percent of total documented migrant workers to be “professionals.” The only sending country in East Asia and the Pacific with significant formal programs to send semiskilled and skilled workers is the Philippines, as exemplified by its success in exporting nurses and maritime workers (but only 14 percent of its outflow is in the skilled and semiskilled category; 86 percent is still unskilled).
2. In 2007, the poverty headcount ratio (at US \$1.25/person/day) was 29 percent in Indonesia, 23 percent in the Philippines, and 21 percent in Vietnam.
3. The government has published a guide on maximum recruitment fees, which differ by country of destination, type of work, and length of contract. For example, the maximum recruitment fee allowed for a two-year job in Taipei in manufacturing is US\$1,500. For a three-year job in electronic manufacturing in Malaysia, where wages are lower, the maximum allowed is US\$350 for males and US\$300 for females. For a two-year job in construction in Saudi Arabia, the maximum is US\$400 for unskilled and US\$500 for skilled workers.
4. More than 6,300 migrants were registered by POEA every working day, including those registering for the first time and those who renewed their contracts with their employers abroad.
5. The sea-manning section of the industry has made the Philippines the world's largest source of nonnative seafarers. In 2010 it placed 340,000 seafarers on board oceangoing ships.
6. Recruitment fraud is now considered a criminal offense in the Philippines.

7. Specific guidelines based on a survey of best practices observed in many countries have been compiled by the ILO. See in particular ILO (2010).
8. A far more detailed and survey-based discussion of remittances managed in East Asia and the Pacific can be found in ADB (2006).

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# Managing the Migration Industry: Policies and Institutions in Labor-Receiving Countries

*Policies in labor-receiving countries need to be based on a better understanding of labor market requirements and the contributions of migrant workers. Instead of using rigid and blanket restrictions on admissions, governments should consider using alternative approaches such as levies on employing firms and recruitment agencies to manage demand for migrant workers and to avoid displacement of local<sup>1</sup> workers. Labor-receiving countries need to shift the onus of policy enforcement to domestic employing firms and recruitment agencies. Governments need to adopt policies and measures for equal treatment of migrant workers to avoid creating incentives for employers to displace local workers with cheaper foreign ones. Policies that provide training to upgrade the skills of local workers will be useful to offset any negative distributional consequences and to increase gains from migration. Particularly important will be to recognize that greater support for the rights of migrant workers through fair wages and safe working conditions can have benefits for all concerned—by reducing incentives for excessive and exploitive use of migrant*

*workers, by avoiding an overall deterioration in working conditions that also affects native workers, and by creating incentives for workers and sending countries to eschew undocumented migration.*

## **The Regional Context**

International labor migration has a long history in East Asia. Much of it originated generations ago when Chinese laborers left their coastal areas in search of work opportunities throughout the region. War and conflict have also driven large flows of ethnic communities across the Greater Mekong Subregion. During the colonial period, hundreds of thousands of workers were brought in from South Asia to work in plantations in the Malay Peninsula and Fiji. Thus, large and ethnically diverse communities can be found throughout the region along with a mixture of recent inflows of temporary migrants and migrants who have generational roots in their respective countries.

The last four decades saw the rise of several dynamic economies in the region that are facing labor shortages. These economies were able to find niches in global production systems by taking advantage of Japan's "offshoring" of labor-intensive manufacturing when it started experiencing labor shortages, and progressively developing capacity for producing technologically advanced manufactures. By the mid-1980s, Hong Kong SAR, China; the Republic of Korea; Malaysia; Singapore; Taiwan, China; and Thailand themselves had started admitting workers from neighboring countries as their own native workers progressed to better jobs and as shortages of labor developed in labor-intensive manufacturing for export. The foreign workforce in Singapore rose from about 110,000 in 1980 to 1.3 million in 2012, accounting for 36 percent of all employed. In Malaysia, the number of legally admitted foreign workers rose from 820,000 in 2000 to 2.1 million in 2008. In Thailand, the Ministry of Labor estimates that 1.3 million irregular migrants were in the country at the end of 2011 in addition to 678,000 legally admitted ones.

This chapter reviews the approaches followed by countries in East Asia and the Pacific for admitting and employing foreign workers. It examines the variety of policy instruments they have used to achieve national policy objectives through such immigration (second section) and discusses major market failures and their implications (third section). The fourth section then discusses irregular migration and policies for dealing with it. The fifth section highlights the special importance of bilateral labor agreements (BLAs).

## Foreign-Worker Policies and Programs

Countries employing foreign workers usually develop policies meant to address some of the common issues that arise with their employment. These policies usually fall under one of the following categories: (1) admission, (2) employment, (3) labor protection, (4) social integration, and (5) change of status or return. For what occupations and skill level and how many workers to admit, for how long, from which countries, and under what conditions are among the key questions usually addressed by admission policies. Typically there are many different types of migrant workers, as listed in box 5.1. The H-1B admission program in the United States is an example of a foreign-worker program. It incorporates the various elements of American policies with respect to the admission of workers in specialty occupations for temporary periods. It is based on quotas set by the U.S. Congress, and contains prerequisites that employers must meet (for example, foreign workers will not displace local workers, will be paid the prevailing wage, and so forth). In addition to unilateral programs such as H-1B, some programs are based on agreements with origin countries (such as Germany's *gastarbeiter* program or Korea's Employment Permit System). In these BLAs the receiving country usually indicates how many workers it plans to admit from the sending country, under what conditions, and for how long. Admissions may likewise be covered by multilateral agreements such as those that open up national labor markets to citizens of other states belonging to an economic union (for example, among the signatories to the Schengen Area in the European Union).

### Box 5.1: Types of Temporary Migrant Workers

- Frontier workers
- Seasonal agricultural workers
- Contract workers
- Professional and technical workers
- Intracompany transferees
- Entertainers
- Service providers
- Au pairs
- Self-employed
- Apprentices and trainees
- Working holiday-makers

Another set of policies concerns the use or employment of foreign workers in the recipient economy. These policies are designed to accommodate industry needs to remain competitive but not at the expense of long-term objectives of promoting productivity growth through technology upgrading and modernization. Which sectors are to be given priority? What disincentives should be used to reduce dependence of industry on foreign labor? Should limits (quotas) be set for certain sectors or should factor pricing instead be influenced through levies? Should industries be required to train local workers? Are private intermediaries to be given a role in recruiting foreign workers? How are qualifications acquired in foreign countries to be considered? Once the foreign workers have been admitted, are they to be allowed to change employers? Or move to another sector? To respond to these issues, states need to establish a set of policies that are distinct from those on admissions but that can clearly be linked to them.

Conditions of admission frequently exclude migrant workers from labor protection. The work permits issued to foreign workers usually do not allow them to change employers, or allow them to do so only with prior approval from the national authorities. In many instances this amounts to being tethered to an employer until the end of the contract, regardless of the extent to which conditions of work may differ from those specified in the contract. Work permits may be coterminous with the job contract. If there are unsettled claims, the worker may not have a chance to recover unpaid wages because claims may take time to adjudicate in labor courts. Because labor laws in many countries exclude household helpers, there are usually no systems for inspecting their workplaces to check on their conditions. Receiving countries often have to develop labor protection policies that address these peculiarities to ensure that foreign workers do not fall between the cracks.

Social integration policies are crucial to the success of immigration programs, particularly in countries that admit foreign workers as permanent residents, or where temporary migrants are given a pathway to permanent residence. Social integration can include a large variety of policies and programs, from employment to housing, education, health, welfare services, voting rights, and citizenship.

Irregular migration is a major concern in receiving countries, hence many policies and procedures are adopted to ensure that workers return upon completion of their contracts or on expiry of their work visas. Some require employers to post bonds to guarantee that their workers actually go home. In the Middle East the national authorities have built on a sponsorship system called *kafalah* to place responsibility for the return of the worker on

his or her sponsor. Conversely, policies are also in place that are designed to motivate skilled foreign workers to stay (family reunification, education of children, housing, and the like).

### Employer-Driven Admission Policies

All the countries in the region have what may be labeled “employer-driven” migration policies. Although the states play an important role in influencing inflows through preferences and quotas, BLAs, and other policy instruments such as taxes to discourage overdependence on foreign labor, many of the regular channels opened for much of contemporary movements were established in response to the demands of industries and employers. With a few notable exceptions, most states have not explicitly set out long-term objectives, such as enriching the human resource pool through immigration, but have set up policies and procedures to respond to the needs of their industries whenever labor shortages arise. Table 5.1 compares the key components of temporary-foreign-worker programs in three East Asian countries.

**Table 5.1 Comparison of Key Components of Foreign-Worker Programs in Three East Asian Countries**

Policy area	Korea, Rep.	Malaysia	Singapore
Admissions	<p>Employment Permit System (called E-9)</p> <ul style="list-style-type: none"> <li>• Drawn from prequalified pool of workers who pass Korean language test</li> <li>• Covered by bilateral labor agreements (BLAs) with 15 countries</li> <li>• Three years, renewable</li> </ul>	<p>Visitor’s pass (temporary employment)</p> <ul style="list-style-type: none"> <li>• BLAs</li> <li>• Employer driven</li> <li>• Designated sectors</li> </ul>	<p>P visa (for professional workers) S visa (for skilled workers)</p> <ul style="list-style-type: none"> <li>• Employer driven</li> <li>• Conditions according to skill-based visa</li> <li>• Salary threshold (S\$2,500/month)</li> <li>• Designated source countries</li> <li>• Two years, renewable up to four years</li> <li>• Security bond required for some nationalities</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• Private brokers not allowed to recruit</li> <li>• Government-to-government arrangements under BLAs</li> <li>• Designated sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Private recruitment and outsourcing companies</li> <li>• Quotas for designated sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Private recruitment</li> <li>• Foreign-worker levy and dependency ceiling</li> </ul>

*(continued)*

**Table 5.1 Comparison of Key Components of Foreign-Worker Programs in Three East Asian Countries** (continued)

Policy area	Korea, Rep.	Malaysia	Singapore
Employment	<ul style="list-style-type: none"> <li>• Support small and medium enterprises</li> <li>• Firm-level foreign worker-to-total employment ratio</li> <li>• Some mobility</li> </ul>	<ul style="list-style-type: none"> <li>• Foreign-worker levy</li> </ul>	
Labor protection	<ul style="list-style-type: none"> <li>• Equal cover under all labor laws</li> <li>• Right to organize</li> <li>• Access to services, complaints mechanisms</li> <li>• Training on rights upon arrival, labor inspection</li> <li>• Social security</li> </ul>	<ul style="list-style-type: none"> <li>• Labor contract</li> <li>• Labor standards apply</li> <li>• Employers must absorb foreign levy</li> <li>• Work-related sickness or injury compensation but excluded from social security</li> </ul>	<ul style="list-style-type: none"> <li>• Labor contract</li> <li>• Cap on recruiting fees</li> <li>• Labor standards strictly enforced with inspections but wage left to bargaining</li> <li>• No membership in Provident Fund but medical insurance of US\$15,000</li> <li>• Severe penalties for maltreatment</li> </ul>
Social integration	Promote learning of Korean language	No provision	No integration for unskilled; skilled may bring family members
Change of status or return	<ul style="list-style-type: none"> <li>• Workers have to return after maximum extension</li> <li>• Employer sanctions for employing irregular workers (10 million won)</li> <li>• 100,000 won fine for workers for violation</li> </ul>	<ul style="list-style-type: none"> <li>• Workers have to return</li> <li>• Fines of 10,000–50,000 ringgit; imprisonment of six months to five years also imposed on employers</li> </ul>	<ul style="list-style-type: none"> <li>• Skilled workers may apply for permanent residence</li> <li>• Heavy penalties for illegal employ (caning)</li> <li>• Harboring or conveying illegal immigrants a crime</li> <li>• Firms required to maintain registers of workers at every entry point</li> </ul>

Differential treatment in admission, employment, and social integration is clearly based on the skills of the foreign workers. “Rotating the less and keeping the highly skilled” sums up Singapore’s approach to admitting foreign workers. Singapore’s policy allows the skilled to remain in the country after completion of their temporary contracts. The unskilled (defined simply as workers receiving a monthly salary of S\$2,500 or less) are given work permits valid for two years, which are renewable annually for a total of four years. The skilled (those with a basic salary of at least S\$2,500) are given employment passes that are valid for two years in the first instance and three years upon renewal, and these workers may later be eligible for permanent residence. They are entitled to bring their dependents with

them, and “those with appropriate cultural and social characteristics” are encouraged to apply for permanent residence and eventually for citizenship (Pang 2006). In the 1990s about 230,000 persons, mostly employment pass holders and their immediate families, were granted permanent residence (Hui and Hashmi 2007).

Shortages in segmented labor markets drive migration. Skill shortages usually occur in the highest skill categories because of the high cost of acquiring education. However, the East Asian countries have all invested heavily in education, producing an abundant supply of tertiary education graduates. In Korea, for instance, the college enrollment rate was in the neighborhood of 25 percent during the 1970s, rose to 60.1 percent in 1997, and reached 82.5 percent in 2005. In 1990, Malaysia had 222,000 tertiary-educated graduates living in the country, but 10 years later their numbers had jumped to 818,000. In countries where manufacturing continued to be the dominant sector, this phenomenon of an increasingly better-educated workforce has led to labor shortages at the lower end of the employment structure.

BLAs have finally started to play a role in the admission systems of some countries in the region (Korea and Taiwan, China). The Korean agreement engages source-country authorities in the process of prequalifying workers, taking the place of private recruiters in identifying and selecting candidates with the needed skills and in preparing those selected to work in Korea. Taiwan, China’s BLAs, however, are aimed at getting the cooperation of source-country authorities in selecting the most trustworthy private agencies to recruit for Taiwanese employers and in monitoring their performance.

BLAs have, in fact, proliferated in East Asia for good reason. Beginning in 1974, when its overseas employment program began, the Philippines has been able to negotiate BLAs with 13 countries, including Spain, the United Kingdom, the United States, and various countries in the Middle East. Vietnam has signed a number of BLAs with labor-receiving countries within East Asia as well as with several Middle Eastern countries. Indonesia has labor agreements with Malaysia, Singapore, and several countries in the Middle East. Thailand has entered into memoranda of understanding with Cambodia, Lao PDR, and Myanmar. Both Malaysia and Singapore have long traditions of establishing BLAs with countries within East Asia as well as with South Asian countries, including Bangladesh, India, and Pakistan.

Designating sector priorities is a common strategy in the region. All countries in East Asia and the Pacific have designated sectors of the economy in which foreign workers may be employed, but these sectors can change

depending on labor market conditions. The policies on employment of foreign workers indicate that they are typically motivated by a need to

- Maintain *competitiveness* of export industries by keeping service costs low
- Alleviate domestic labor shortages with *flexibility to adjust* to seasonal and economic cycles
- Accommodate the private sector's needs while keeping *social tensions* at bay

Pressures to maintain competitiveness in labor-intensive and export industries are evidently behind some of the established foreign labor schemes. These industries include not only native sectors such as agriculture, fisheries, construction, domestic work, and services, but also export-oriented, labor-intensive sectors such as textiles and electronics. In an environment of increasing wages and labor shortages, policy makers have to choose between importing foreign workers to sustain labor-intensive industries or losing these industries to lower-cost centers abroad. The pressures usually come from firms in the small and medium enterprise sector, which are the first to encounter difficulties in retaining workers because they offer fewer opportunities for advancement as a result of their size. They tend to experience greater instability in their markets and thus offer less job security, and in general pay lower wages and salaries than the large firms because of lower labor productivity. In many instances the priority accorded to admission of foreign labor for construction is also motivated by the need to promote competitiveness. Well-developed facilities for air, road, or sea transport are essential to competitiveness because they reduce costs and enable firms to achieve the efficiencies that facilitate trade.

### **Determining Demand and Skills Requirements**

Although very low levels of unemployment (Malaysia and Thailand have unemployment rates of only about 3 percent) signal tightness in the labor market, determining how many foreign workers, with what skills, and for how long they should be admitted are complex questions that have challenged all immigration authorities. The problem is that shortage analysis is fraught with conceptual uncertainty and empirical difficulties (see box 5.2). In theory, markets should clear as employers facing shortages adjust wages upward and thereby attract more workers. In practice, there can be significant lags in the adjustment of supply and wages. In addition, there are institutional barriers to disturbing wage structures, such as collective

## Box 5.2: The Limits of Shortage Analysis

Even the most comprehensive methodologies do not get around the fundamental problems of shortage analysis, namely that (1) the appropriate response to perceived shortages differs depending on the reasons for the shortages, which are usually not visible from the data themselves; (2) occupational groups are loosely defined in terms of skills and do not perfectly determine their substitutability with other workers, as a result of which, being on a shortage list is neither necessary nor sufficient to demonstrate that the employer faces recruiting difficulties; (3) occupation lists are inherently backward looking, out of date, and only useful to the extent that the future can be predicted by the past; and (4) there is a risk that the process of translating shortage lists into immigration policy will

*Source:* Holzmann and Pouget 2011.

overcorrect for problems that would actually have been transient or not particularly serious. The multitude of approaches used in Organisation for Economic Co-operation and Development countries suggests that there is not yet an established methodology for identifying labor market shortages (OECD 2003, Part II), only inspirations to draw on for individual country settings. Given the conceptual, empirical, and methodological limits of shortage analysis, the alternatives to shortage lists to recruit foreign workers should be piloted and tested (such as labor market tests or taxation of employers for their use of migrants). Yet such approaches are likely to raise problems of their own and also need thorough piloting, analysis, and impact evaluation.

agreements, insufficient investment in training and weak training systems, undesirable job locations, or costly expenses for relocating to where jobs are. Unfortunately, decision makers are also often handicapped by weak information. Occupational categories used in national surveys are often not detailed enough, and reports are often out of date. According to the U.S. Bureau of Labor Statistics, “no single empirical measure of occupational shortages exists, nor does it appear that one can easily be developed” (Veneri 1999, 17).

Labor-receiving countries within East Asia and the Pacific face a variety of sector-related needs for foreign workers. As per capita incomes and the education of workers in these countries have increased, their reservation wages have increased. Consequently, fewer and fewer native workers are in the market for low-skill and low-paying jobs. Some of these jobs, in fact, are perceived in local parlance to involve the “3D” positions (dirty, dangerous, and demanding) that locals are unwilling to fill. At the same time, these jobs are growing because as education levels rise and as more women seek to join the labor force, the demand for household help increases in many countries.

Sound foreign-worker programs must be based on an understanding of the nature of labor shortages in different sectors and how the importation of foreign labor will affect productivity and technology change. Table 5.2 sets out the questions that would be important to consider before deciding on the use of foreign workers for each of five important sectors.

Migration policies need to be clearly articulated and informed by data and research. Shortages over the short term, such as for the next year or two, can be forecast with some confidence using simple methods of surveying industries. The United Kingdom, for example, undertakes a yearly survey of employers to inquire into the nature, extent, causes, and implications of skills deficits (box 5.3 provides more details). The U.S. Bureau of Labor Statistics carries out a monthly survey called Job Openings and Labor Turnover Survey to monitor labor market tightness and efficiency. It gathers data from a sample of U.S. nonagricultural firms on total employment, job openings, hires, quits, layoffs and discharges, and other separations (Abella 2006).

In East Asia governments have tried to overcome the conceptual weaknesses and empirical problems in assessing labor shortages by establishing interministerial committees and mechanisms for consultation with a broad spectrum of society. These committees have to determine which sectors are

**Table 5.2 Assessing Sector Need for Foreign Workers**

Agriculture	Will lower-cost foreign workers make use of natural resources that would otherwise not be used or used for activities that generate less value? Is mechanization a viable, cost-effective option? If not, then use of foreign workers has merit.
Construction	Does use of foreign workers keep construction costs down while also not discouraging quality improvements and technological change? Are there differential construction approaches evolving for major commercial needs as well as more traditional ones? If construction standards are continuing to improve, then use of foreign workers is not yet an issue.
Household	Are inflows of foreign household workers allowing more spouses to enter the job market? Are foreign caretakers reducing demands on scarce and costly institutional services for the elderly or disabled? If so, then managed increases in use of foreign workers has merit.
Other services	Are foreign workers largely being used to keep costs of services such as restaurants, cleaning, hotels, and the like low? Are locals increasingly unwilling to take such positions at the wage levels being offered? If so, then managed increases in use of foreign workers has merit.
Manufacturing	Are foreign workers being used primarily to keep production costs down, but the technological basis for production is not changing? If so, then this policy may not be desirable if the owners of such activities are not using the profits to develop more innovative product lines.

### Box 5.3: U.K. Shortage Occupation List

The United Kingdom introduced a shortage occupation list in 2008 containing 19 occupation titles, to relieve employers of the obligation of passing the labor market test that required them to demonstrate shortages. It has also begun to use the list to prioritize applications. The shortage analysis is based on 12 indicators, including vacancy rates, duration and application rates, wage changes and premiums, and employment and unemployment changes. National labor market data are used to provide the basis for top-down analysis and bottom-up microlevel

information from localized analysis of specific sectors, including employers' skills surveys that collect qualitative evidence on both recruitment difficulties and skills inadequacy among the existing workforce. The Migration Advisory Committee provides three conclusions: (1) whether an occupation is skilled, (2) whether an occupation is experiencing a labor shortage, and (3) whether it is sensible to fill an identified shortage with foreign workers. The shortage list is revised twice a year, using indicators from the previous year.

encountering shortages, what quotas to allocate to each, by how much foreign-worker levies need to be adjusted, and what other control measures are needed. Because they represent a broad range of sectors and constituencies, they are able to input into the decision making a host of information collected from formal as well as informal sources. In Singapore, the high-level Economic Strategies Committee recommends overall policy, although implementation is left to the Ministry of Manpower and the Immigration Department. In Malaysia, the job is assigned to a cabinet-level Foreign Workers Committee chaired by the deputy prime minister, while in Taiwan, China, a Council on Labour Affairs has been created to set policy and oversee the program.

### Temporary Admission versus Permanent Admission of Foreign Workers

In East Asia, as in other developing regions of the world, temporary labor immigration is markedly preferred over permanent admission. This preference holds for a variety of reasons, starting with concerns about each country's ability to integrate foreigners into their societies and continuing to worries about the fiscal implications of admitting workers with families and having to provide for schooling, health care, and other services. So far, none sees itself as a country of settlement. Singapore, however, has developed programs to attract brains and talent and to make Singapore a permanent

residence, and to open pathways for highly skilled technical workers admitted on a temporary basis to become residents. In the other East Asian countries, the admission of permanent settlers remains a controversial issue. Hence the foreign-workers programs are seen only as a necessary measure to address the cyclical or seasonal requirements of their economies. The programs provide a flexible supply of low-skilled labor, a supply that can be turned on or off depending on economic conditions.

For countries facing labor shortages attributable more to fertility decline and population aging, the debate about the pros and cons of establishing permanent labor immigration programs has finally begun (box 5.4). Attitudes about permanent immigration have softened in recent years because of the transformation of these countries into knowledge-based economies whose growth can only be sustained with continuing supplies of highly trained scientists and engineers and other professional workers. The countries are now investing heavily in research and development and they are aware of the growing global competition for talent and brains. Without offering permanent residency they cannot compete with other advanced countries in the West that offer not only permanent residency but also citizenship opportunities.

## **Managing Guest Worker Schemes**

### ***Singapore***

Singapore's policy has changed over the past decades from an earlier commitment to reduce dependence on foreign labor to acceptance of its need to sustain the country's economic ambitions. With some 1.11 million foreign workers representing 36 percent of its total labor force in 2012, Singapore has emerged as the most dependent on foreign labor in the region. Overall, Singapore has managed shifting sector needs especially well since it has balanced short-term requirements against longer-term growth objectives. Singapore follows a policy of rotating the low-skilled worker and retaining the highly skilled. The latter are referred to as "talent" and have opportunities to become permanent residents; the former are carefully controlled and treated as temporary "guest workers."

The main agency responsible for regulating entry and exit for foreign workers is the Ministry of Home Affairs, while the Ministry of Manpower issues the work passes and enforces the regulations governing employment and recruitment. Work passes are the key instrument that allow foreigners to work and are differentiated by skill levels. The higher the skill category, the more privileges are granted, including the right to bring dependents and to convert to permanent residency. Salary levels are a major

## Box 5.4: Comparing Temporary and Permanent Migration

### Temporary migration

In the destination country, temporary migration helps meet labor needs more flexibly across business cycles. Temporary migrants allow businesses to fill positions as they become available without making any binding commitments. Temporary migration programs also help employers sidestep any political concerns in the country, which can arise if electorates are feeling threatened by rising levels of immigration. To this end, temporary migration can help alleviate illegal migration by allowing a migrant to move to a country temporarily. Temporary migrants will also not age in the destination country; they move back home before they can no longer work. In this way, temporary migrants can contribute to the local economy while of working age, and then depart before they become a strain on the destination country's resources and social security programs. Temporary migrants also help shift the burden of labor market adjustments to foreigners rather than locals.

### Permanent migration

Permanent migration has important benefits as reflected in the dynamism of the traditional countries of settlement—Australia, Canada, New Zealand, the United Kingdom,

and the United States—but the specific advantages it offers for meeting labor shortages are less evident. One argument is that permanent immigration encourages employers to invest more in training of the migrants who are likely to stay longer than in training those who have to leave after a few years. With lower turnover of workers, employers will not have to continuously retrain employees and their stable engagement will, on the whole, mean lower transaction costs. Studies confirm that permanent migrants earn substantially more than temporary ones, perhaps indicating that they are adding higher value to their countries of settlement. Of course, they also invest more time in learning the host country's language and will be better integrated than transient workers. Perhaps more important, a permanent immigration system provides a means of reinvigorating societies not only through the contribution of the first generation of settlers, but more significantly by the achievements of their children and grandchildren.

It is important to note that the two immigration approaches are not mutually exclusive. Many countries have been using temporary migration schemes as a way of selecting those whom they should encourage to settle permanently.

determinant of work pass categories. Those with more skills have flexibility to change employers while the less skilled are more constrained. For the less skilled, work passes are governed by a complex system of activity- and skill-specific levies and quotas or dependency ceilings. Employers have to pay a levy for each worker employed; the levies are generally higher the lower the skill category and the greater the dependency as measured by the ratio of foreign to local workers. In addition to pricing incentives, approved source

countries vary by activity. The system is strictly regulated with security deposits and enforcement that includes harsh penalties for employers, including for failure to provide reasonable work and living conditions.

Concerns are growing that the increasing number of foreign workers may be leading to the use of inefficient technologies and the widening of income inequality as wages of the low skilled have stagnated. In response, levies were raised in various stages from 2010 to 2012 to encourage companies to rely less on low-skilled workers and to invest more to upgrade the skills of locals and to raise productivity. More categories or tiers have been added to allow for more differentiation, and foreign-worker levies were increased as dependency ratios were raised.

### ***Malaysia***

Like Singapore, Malaysia has a system of levies and industry- and nationality-specific guidelines to shape the composition of foreign workers by sector (although its structure differs in some important respects). But unlike Singapore, Malaysia is more ambivalent about the role of foreign workers in its development strategy and much less active in encouraging inflows of foreign talent (Kassim, Too, and Abidin 2011). Malaysia also treats less-skilled workers differently from the highly skilled, who are called expatriates.

A high-powered committee, composed of 13 ministries with the deputy prime minister as chairman, oversees policies. In practice, responsibilities are largely shared by the Ministry of Human Resources, which assesses applications to ensure that there is a real labor shortage, and the Ministry of Home Affairs, which handles immigration and issues visas. The responsibility for dealing with irregular migrants is spread among the security agencies and border patrols. A variety of entities, ranging from direct contacts to recruitment agencies and outsourcing companies, perform actual recruiting. Like Singapore, Malaysia uses a sector-specific levy system for less-skilled workers, but unlike Singapore the levy is not linked to skills but to perceptions about likely demand. Thus, the levy is less an instrument to encourage skill upgrading and more a vehicle to deal with demand pressures. The system also does not have dependency quotas; thus, in some lines of activity the workforce could, in theory, become totally foreign. Related visa fees and deposits are nationality specific and large in relation to the levies and ad hoc nationality restrictions that influence country of origin. Recruitment fees can be large, and reports of rent-seeking practices are widespread. Unlike in Singapore, the number of highly skilled foreign workers has declined significantly over the past decade. This decline is reportedly the result of increased administrative barriers to hiring and professional restrictions.

## **Korea**

Korea's strategy of bringing in low-skilled foreign workers as trainees ran into problems. Korea, like Japan, was originally committed to a policy of admitting only highly skilled foreign workers. When the government subsequently faced strong pressure to use immigration to ease the labor shortages faced by small industries, it only agreed to establish an Industrial Trainee System. Unskilled foreign workers were admitted to be trained in small enterprises and paid allowances, not regular wages. The policy backfired because the scheme eventually served as a channel for workers to gain entry into the Korean labor market as trainees, but to later metamorphose into irregular workers because the demand remained largely unmet. Many overstayed their visas to recover the high transaction costs of getting into Korea and finding a job. The number of undocumented workers continued to rise, surpassing 100,000 by the mid-1990s. The Industrial Trainee System came to an end in 2007.

Korea entered into BLAs with origin countries to implement a regular guest worker program. Given problems with the trainee program, the Korean government eventually put in place a true guest worker policy (called the Employment Permit System) in 2004. It guaranteed full equality of treatment under Korean labor laws, provided for government-to-government arrangements for recruitment to avoid the abuses that characterized the participation of private intermediaries, and required some familiarity with the Korean language as a basic qualification for selection. The Ministry of Labor and the state's vocational training authority, HRD Korea, were tasked with establishing and running the program. They entered into BLAs (memoranda of understanding) with 15 Asian countries covering procedures to be followed for exchanging information about occupations in demand, prequalifying workers through a Korean language test, selecting candidates, and preparing those selected with information about their rights under Korean law and their obligations. The ceiling for annual admission for each sector is determined by a committee chaired by a deputy minister in the prime minister's office.

The guest worker program is being adapted to labor market conditions as services are established to assist the workers. It originally provided for a three-year work permit that could only be extended for another year, at the request of the employer, six months after the worker returned to his or her own country. These limitations have since been relaxed. Foreign workers can also now change workplaces four times if there are valid grounds, including unpaid wages or inhumane treatment, but must apply with the Ministry of Labor's Job Center. Migrant Worker Centers have been established with multilingual facilities to provide information and advice and a call center to receive complaints and handle grievances. The new system

has provided more opportunities and improved contractual terms for foreign workers, but problems in matching skill needs with applicants continue to arise, given the information that comes through BLAs compared with recruitment agencies. The rotational nature of the Employment Permit System is also increasingly being reexamined because employers are reluctant to replace trusted workers who have learned the language and the practices of the workplace.

### **Levies, Fees, and Rationing**

Levies on migrant workers are used to influence the demand for foreign labor. The levy system is differentiated by type of activity and aims to influence demand through pricing. The higher the levies, the costlier foreign workers become, thus the lower the demand for them. In the absence of levies, rationing is more likely to occur through higher recruitment fees charged by private firms. Levies allow receiving governments to capture the scarcity premium of rationed positions, whereas fees accrue to private agents.<sup>2</sup> Either way, migrants wind up paying either up front in the form of fees or later in the form of deductions from their salaries. Whether it is levies, fees, or salary deductions, these charges essentially help equilibrate supply with demand. The policy choice is who will collect the margin, the government or private agents.

Both Singapore and Malaysia use levies for specific skills or sectors to influence the demand for migrant workers, supplemented by restrictions that also influence nationality, terms, and duration of the contract. In Singapore all foreign workers must have one of three work passes: “P” and “S” passes for well-educated professional or mid-level skilled workers and work permits for the low skilled. These passes determine privileges and flexibility in employment arrangements. All work permit holders are subject to levies that are lower the more skill intensive the position and greater the higher the dependency ratio. Levies currently range from S\$50 to S\$470 per month. In Malaysia all low-skilled foreign workers need a visitor’s pass (temporary employment), which ranges from two to three years with an option for one two-year renewal for a maximum of five years. As in Singapore, the amount of the levy depends on sector or job type and varies from 360 to 1,800 ringgit. Unlike Singapore, the size of the levy does not vary by skill but more by perceptions of demand, with lower levies for positions that are hard to fill or very low skilled and higher levies for positions that require more skills.

The alternative to using the pricing mechanism is some kind of quantitative rationing system, such as long waiting periods, lotteries, and so on.

However, those who are unwilling to wait or who are not chosen are then inclined to choose informal channels to migrate. This is also true for those who want to avoid formal processes that involve sanctioned levies or fees. Rationing arrangements used in North America, Europe, and New Zealand can help bridge imbalances, but their suitability for the situation in Southeast Asia is questionable given weaker institutional capacity. In the North American migration corridors, inflows of largely skilled foreign workers are controlled through the visa process, through screening for scarce skills and evaluating requests of employers for skills that are deemed in short supply. Some countries use a point system to judge the suitability of candidates. Others migrants come in through the higher education system and then find companies willing to sponsor them after graduation. These means are not suitable for contractual employment of large numbers of low-skilled workers, which is the norm in Asia.

Under certain conditions, pricing incentives can help bring demand into alignment with supply. Singapore is seen as a model for the use of a mix of levies and quotas differentiated by skill levels and firm-specific dependency ratios to bring aggregate employer demand into balance with targets for the supply of foreign workers. Malaysia has a similar system, but because the levy structure is less defined by skills, and the use of outsourcing companies resulted in implementation flaws, the need for reform is widely recognized.

Unlike trade, the importation of labor poses issues of treatment and integration that cannot be separated from the more straightforward issue of filling gaps in the labor market. Indeed, the failure of some foreign-worker policies is often traceable to not taking into account the social consequences of admitting many foreigners into a society, especially a homogeneous one. Foreign-worker programs must be designed to minimize the social tensions that can be created when foreigners are seen to substitute for resident workers or to undermine their interests. By the same token, tensions between source and destination countries could arise if migrant workers are not accepted and given equal treatment. Related concerns, such as the need to avoid displacement of native workers, to prevent the illegal employment of foreign workers, to ensure they do not overstay, and to protect them from abuses in recruitment and employment, also arise. Development authorities in the receiving countries may also be concerned that the foreign-worker program might create market disincentives against technology upgrading and against adjustment to the emerging reality of continuing shortages in the labor market.

Temporary foreign-worker programs also have other objectives, including to provide support to multinational and foreign investment by facilitating the movement of the international staff of companies, or to use the

program as a screening device to select permanent migrants based on their work and behavior. In addition, receiving countries may also have in mind minimizing any fiscal burden as temporary workers make little use of social and welfare services in the country.

## **Market Failures**

As discussed in chapter 3, migrants increase national income, firm profits, and probably investment and savings. Migrants can also complement skilled native workers by enhancing their productivity and wages. These outcomes argue in favor of implementing generally liberal migration policies. However, as in labor-sending countries, several possible market failures might keep the benefits of migration lower in labor-receiving countries than they should be. In particular, many of the gains from migration that private firms receive are not adequately shared with other sectors of the economy that bear some of the costs of migration. Thus, just as in international trade, there are winners and losers and redistribution issues.

In labor-receiving countries, market failure manifests itself in the difference between the high private gains and profits of firms that benefit from low-wage migrants and the relatively small social gains for the country. Left on their own, firms would have an incentive to employ excessive numbers of low-cost migrants to maximize their profits, without factoring in the costs that may be incurred by native workers who directly compete with migrant workers. This is likely to lead to wage compression, especially for unskilled native workers who are usually the ones in competition with migrant workers. There may also be other dynamic costs caused by migration. The influx of migrant workers may reduce incentives for firms to improve their technology and productivity, causing loss to the economy as a whole, although the evidence for this, as discussed in chapter 3, is weak.

The combination of information asymmetry discussed in chapter 4 and the inherent wedge between social and private returns among workers, firms, and the larger society, and large private commercial interests in migration, can create large costs and abuses. As Abella (2006) notes, the organization of migration is left in the hands of job brokers or sponsors, intermediaries, and labor contractors, especially where labor institutions such as trade unions are weak or not allowed to exist. The practice of withholding passports and travel documents by employers is rampant in some regions, not only tolerated but sometimes even encouraged by national authorities who view it as an informal but effective means of ensuring control over the stay and return of migrant workers. In at least one country, female household helpers are sent

home if they become pregnant. In some countries migrants are not allowed to organize or to join trade unions, and are excluded by law from membership in old-age benefit schemes under social security.

### Aligning Social and Private Costs and Benefits

As table 5.3 shows, the key challenge lies in reducing the wedge between the private profits of recruitment firms and employers, and the social costs and benefits to society. Levies on firms that employ migrant workers can be used not only to regulate demand, but also to raise funds to finance other

**Table 5.3 Policy Issues and Market Failures: Causes and Implications**

Issue or market failure	Causes	Policy implications and options
<b>Objective: Meet labor shortages in economy through well-targeted migration programs</b>		
Labor shortage in certain sectors and “dirty, dangerous, and demeaning” jobs caused by segmented labor markets.	Higher education of native workers, higher reservation wages, low geographic mobility, and aging create labor shortages and labor market segmentation.	Formulate a clear migration policy based on comprehensive consultations with affected sectors and assessment of labor shortages in industries, occupations, and regions. Policy should recognize gains and the need to enlist cooperation of labor-sending countries and employee firms through regional and bilateral labor agreements.
<b>Objective: Address possible adverse labor market impacts of migrant labor on native unskilled workers</b>		
Social returns of migration are less than private return to firms.	Higher profits made by firms are not shared with the economy although migrant workers have a social presence.	Ensure that foreign-worker levy is charged to and borne by employing firms, not by the workers.
	Lower any possible social costs by adding a cushion against lower wages and increasing unemployment.	Ensure minimum wage or minimum-wage-indexed thresholds and benefits for migrant workers to prevent excessive lowering of wages or a general deterioration in working conditions.
		Provide job training, retraining, and education for native workers to upgrade their skills. This will probably happen normally, but government assistance can accelerate the process. Ensure labor market flexibility to facilitate mobility of native workers from less productive to more productive occupations. Wage subsidies and hiring bonuses can be provided to that end.

*(continued)*

**Table 5.3 Policy Issues and Market Failures: Causes and Implications** (*continued*)

Issue or market failure	Causes	Policy implications and options
	<p>Although firms profit, the economy can suffer from the use of less productive, labor-intensive technologies.</p> <p>Migrant workers use public facilities and social benefits, crowding out local citizens.</p>	<p>Improve climate for investment and technological innovation and retaining of professional and skilled labor.</p> <p>Provide job training and technical upgrading for workers to match demand in more skilled occupations.</p> <p>Provide normal fiscal incentives to firms for innovation and investment in new technology.</p> <p>Enable migrants to join and contribute to social security; make benefits and public facilities accessible to documented workers who also pay taxes.</p>
<p><b>Objective: Regulate recruitment firms</b></p>		
<p>Social and private returns are lower because of regulatory and information failures.</p>	<p>Poorly regulated recruitment agencies and rent-seeking lead to defrauding of migrant workers and excessive importation of foreign workers. Workers are not adequately informed about their rights and working conditions.</p>	<p>Ensure workers receive orientation about rights and obligations, certified by recruitment firms and employers.</p> <p>Ensure minimum capital and experience thresholds for recruitment firms.</p> <p>Standardize, monitor, and enforce contracts between employers, recruitment agencies, and workers.</p> <p>Take advance deposits from recruitment agencies and employing firms to use as penalty against abuse of migration laws through defrauding workers or violating contracts.</p>

costs arising from migration, such as providing retraining for affected native workers. Standardized contracts that are carefully monitored can reduce abuse. Ensuring migrants receive an established minimum wage and other benefits can reduce abuses and private incentives to use migrant workers to excess.

Most labor-receiving country governments try to balance responsiveness to native employers against pressures to curtail inflows of foreign workers by requiring some sort of labor market testing. However, managing demand in this manner has turned out to be difficult. Without the right incentives, firms see these conditions as just another hurdle to overcome. Governments may require employers to advertise a job at a specified floor wage to force a market test. However, because true intentions are hard to gauge and enforcement is lax, this usually becomes a pro forma exercise rather than a serious test.

Excessive use of such rigid rules can increase rent-seeking practices, which can then overwhelm labor market outcomes. For example, in Malaysia, migrants were recruited by “outsourcing” companies in collusion with government officials for nonexistent positions just to collect fees from poorly informed migrants.<sup>3</sup> Curbing such abuses requires a degree of government involvement that often exceeds what countries are capable of. In Singapore, enforcement is taken seriously—employers and households are put on notice and penalized for failure to honor established guidelines. But Singapore is a tightly run city-state with a degree of government oversight that may not be feasible in other countries.

Supporting migrants’ rights can be a win-win proposition. Often lost in the debate about the role of foreign workers is ensuring better protection of migrant rights through regular auditing of employers. Such protection is especially needed because migrants are often tied to specific employers. Governments need to build better safeguards and better mechanisms for resolving disputes. One of the difficulties is that many workers are employed in substandard workplaces and are therefore not subject to the same labor laws or eligible for the same social services as locals. This is especially true for female household workers. Draconian rules often place limits on their rights and tie them to single employers, including forced repatriation for getting pregnant. This differential treatment is not in accordance with globally accepted norms, but it also places locals at a competitive disadvantage by creating incentives for firms to hire foreigners because they are less protected by labor laws covering hiring and firing practices. Thus, differential labor practices inadvertently reduce incentives to hire locals and worsen their working conditions. Ensuring migrant workers’ rights generally benefits both migrant and native workers. There is scope here to enlist the cooperation of local trade unions, as indeed the Association of Southeast Asian Nations (ASEAN) charter on migration suggests.

Facilitating the return of migrant workers to their home countries can also improve outcomes. Given the high social costs of migration, support for home-based families is another element of best practice. At present, there is much abuse in the repatriation process, with employers sometimes refusing to pay the costs of return and receiving agencies charging fees for coming back. Providing renewal of work permits, home visits, repeat contracts, and an option to convert to more permanent arrangements may create more incentives for managed temporary worker programs. Nongovernmental organizations can often bridge origin and destination countries’ issues better than governments because they do not have to operate through formal channels. However, countries differ in their support for nongovernmental organizations in this role. Some labor unions used to look at migrants as

competitors and thus have usually not supported their interests; but more and more, labor unions are becoming involved because they see that it is in their self-interest to avoid labor market–depressing outcomes. Receiving governments can use revenues from taxing migrants to manage the system better and to compensate losers. These resources could be used to fund social services for migrants and assist in their repatriation at the end of their contracts. A portion could also be used to fund skill-upgrading programs for locals and encourage domestic firms to improve productivity. This would help offset some of the negative public perceptions about migrants and introduce incentives to ensure that migrant inflows do not discourage locals from moving on to better positions.

## **Managing Irregular Migration**

A special challenge in managing international migration is porous borders between labor-sending and labor-receiving countries, which can result in a large flow of illegal migrants. In the East Asia and Pacific region, illegal migrants might account for one out of every four foreign workers, but the numbers may be much larger in some countries (Skeldon 2009). In Malaysia, the ratio might be one out of three, and in Thailand there may be as many as 2 million unregistered workers from neighboring countries. Large income and employment disparities are making it very difficult to regulate the demand and supply of migrants using regulatory processes or market-based solutions. Prominent among the employers are small-scale enterprises that have difficulty retaining local workers. Governments also exacerbate the problem by making it expensive for employers to comply because of the large fees involved and, for migrants, because of the complex procedures. In these conditions, countries are unable to put in place institutional arrangements that can tightly restrict labor flows.

Geography plays an important role in irregular migration. Where countries share porous borders, irregular migration is more prominent—Malaysia with Indonesia and the Philippines, and Thailand with Cambodia, Lao PDR, and Myanmar. But also important is the penetrating power of the state, which allows Singapore to control irregular migration better than others with its stronger governance systems and more extensive tax oversight. A striking trend has been the repeated effort to regularize the million or so irregular migrants in Thailand and Malaysia (Kassim, Too, and Abidin 2011). These efforts were also accompanied by amnesties and forced repatriation. Such exercises are generally beneficial, but authorities often impose conditions that are self-defeating. Moreover, revenue-raising side

objectives can discourage employers and workers from participating in these exercises.

Policy inconsistencies are sometimes the cause of irregularity. No migrant worker wants to be in an irregular situation because it puts him or her in a position of extreme vulnerability to abuse and exploitation. However, workers can find themselves in irregular situations in a variety of circumstances, some of which are not of their own doing but are a consequence of inconsistent policies in the receiving country. A common situation occurs when the worker enters a country with a valid work permit but gets into a dispute with his or her employer for any number of reasons, including being asked to do jobs different from what was agreed upon, maltreatment, delayed payment of wages, sexual harassment, and so on. If the worker finds it difficult to obtain assistance from the local authorities, he or she may decide to seek other employment to recover the costs incurred in migration, and thus run afoul of the immigration law. Another common problem is due to the imposition of foreign-worker levies, which, in the case of household helpers, the employer is usually able to pass on to the worker in the form of wage deductions. If the migrant worker is unable to earn enough during the period of validity of her work permit, she may simply decide to go underground and seek other employers. Unrealistic policies accompanying regularization programs are also often responsible for situations in which an irregular worker gets regularized for the duration of the granted permit and becomes irregular again as soon as it lapses. Some earlier regularization programs in Thailand, for instance, only granted six-month permits to those who registered (see box 5.5).

Irregular migration is a serious issue because it encourages human rights abuses and may reduce earnings of local workers. These issues are perhaps best dealt with through multilateral or regional agreements, but such agreements have focused more on regulating flows than on protecting workers. Most countries have tried to turn irregular migration into formal temporary arrangements, but such efforts have limited success where the costs associated with obtaining regular status are high or, as mentioned above, where the duration of the work permit granted is much too short (or difficult and costly to renew) to achieve the workers' objectives for migrating. Regularization exercises may also fail if they do not guarantee access to the social benefits available to locals or do not help them integrate better into local society. In some instances regularization may actually lead to losing access to some social benefits if a worker with legal status is not permitted to be accompanied by his or her family.

From the receiving-country perspective, a downside of regularization is the moral hazard issue of encouraging even more irregular migration. Origin countries are motivated by a number of factors in discouraging or

### Box 5.5: Managing Irregular Migration in Thailand

The major challenge to Thailand's immigration policy has been the continuing presence of large numbers of irregular migrants from neighboring countries. With its booming economy and record levels of full employment, and a 3,000 kilometer border with its much poorer neighbors, controlling clandestine immigration has become a huge task. Most migrants are peasants and villagers from neighboring countries, especially Cambodia, Lao PDR, and Myanmar, who have always crossed Thailand's porous borders for seasonal work. Most of this migration is informal and thus not supported by a structured institutional arrangement. The government has tried to address the problem through amnesty programs and registration of the migrants already inside its borders, and to establish a process for admitting workers through regular processes of accepting employer requests and issuing work permits. Upon expiry of their permits, the migrants are supposed to go back to their home countries, and if they wish to come

back they must obtain formal documents and go through the formal process.

Successive rounds of registration since 2000 covered hundreds of thousands and even millions of migrant workers, but Thailand's policy of granting registrants only one-year work permits flies against the reality that these workers are unlikely to go back home at the end of these permits. The demand in Thailand continues to be high for workers in agriculture and fishing, in construction, and in household services. The bilateral labor agreements entered into with source countries required the formalization of recruitment, which turned out to be costly and impractical. Poor, uneducated villagers have to apply for passports, get medical checks, apply for work with licensed agencies, and apply for work visas. Migrants thus stay on in Thailand and revert back to illegal status after expiration of their work permits. The situation has not been helped by government efforts on both sides of the border to use the formal process as a means to levy various fees that employers are reluctant to pay.

encouraging irregular migration—higher fees may encourage more irregular migration and remittances may be affected. The perspective among migrants themselves may differ. Some may find the potential higher incomes and security from regularization appealing, while others may find the costs involved and limitations on terms too restrictive. The reality is that most irregular migrants may prefer regular status but for practical reasons they choose irregular channels (Holomyong and Punpuing 2011).

Overall, irregular migration probably can never be eliminated, given the imbalances between demand and supply and the weaknesses in governance systems. But policies can be instituted to reduce its magnitude and to curb its negative consequences. Employers, for example, will be more motivated to bring in foreign workers through legal channels if the process of securing work permits is speedy and not costly. Strict enforcement of sanctions for

employing undocumented foreign workers is necessary if they are to have the desired effect. In all cases, having close cooperation between sending and receiving countries and opening up more options that make it attractive for migrants to use formal channels are essential. Ultimately, regularization also requires monitoring employers in receiving countries and ensuring that recruitment agencies follow rules of good conduct.

Perhaps a first-best solution to these problems would be to encourage migrants to register by keeping the procedures simple and using a structure of low fees and levies. Doing so, however, may run counter to the interests of regulatory agencies that have collected large rents from the registration process. Also complicating the process is the preoccupation of the authorities with often unfounded concerns about security while at the same time overlooking the strong pull of market forces. Effectively managing demand for migrant labor depends on the wage level for these jobs. It is generally accepted that local workers enjoy a right to preferential access. Thus, any demand for migrant workers should be a residual demand after failing to find local workers. If employers offer wages that are too low relative to prevailing market norms, migrants will take up jobs that locals might have been willing to fill.

But demand management in a more dynamic sense can also mean influencing firm-level production processes—altering capital intensity, outsourcing overseas, encouraging overtime, hiring the elderly, and so forth. Many of these choices will be influenced by the costs and skills of locals relative to foreign workers, but most temporary-worker programs have not been successful because these relative costs have not been taken into account in managing demand. It is recognized that market conditions are often difficult to forecast and needs are often firm specific, but some countries, Japan, for instance, have succeeded in minimizing their use of foreign labor by facilitating the outsourcing of labor-intensive processes overseas and promoting technology upgrading.

The pressures for illegal migration are almost impossible to alleviate without strong enforcement systems. Why is it so hard to eliminate exploitive and rent-seeking practices in the migration industry? The answer lies in the fact that incentives are usually skewed in the wrong direction. In labor-receiving countries, no natural political base supports migrant rights, whereas employers are typically influential in representing their cases for access to cheaper sources of labor. In labor-sending countries, migrants compete with others for a limited number of jobs and are often willing to pay extra to the agencies involved to secure a position. Thus, only representatives of civil society end up lobbying on their behalf.

Many issues concerning enforcement of migration laws in East Asia remain unresolved.<sup>4</sup> In the first instance, problems are bound to arise if

immigration policies are not consistent with industrial objectives. An example is the continuing support for labor-intensive exports (for example, shrimp) where local labor is no longer available, but at the same time policies make it more costly for foreign workers to enter through formal channels. Second, effective enforcement depends on the government's willingness to apply sanctions against employers who employ undocumented foreign workers. Most governments are unwilling to impose harsh penalties against employers that would disrupt production and raise operating costs. Regulating agencies also do not have the requisite information to ensure that employers have made a serious effort to find willing local workers at reasonable "market" wages before using foreign workers. Only Singapore has strong sanctions against employers for hiring illegal migrants or not adhering to strict labor codes.

Penalties on employers who hire irregular migrants are probably one of the most effective means of limiting undocumented workers, but few societies, even in Organisation for Economic Co-operation and Development countries, possess the political will to enforce such penalties (Martin and Miller 2000; Hanson 2006a, 2006b). Failure to enforce sanctions against employers is among the most important reasons that the system breaks down. The result is that governments tend to focus on monitoring workplaces to identify illegal workers, tightening border controls, and deporting those who are apprehended—all of which are far less effective than placing the burden for adhering to regulations on employers. Stricter enforcement at the border would likely raise fees charged to illegal migrants and lower growth rates for receiving countries. Stricter enforcement may also widen wage differentials between receiving and sending countries and thus could encourage more rather than less informal migration.

The problem is exacerbated by attempts of origin governments to derive some revenue (or rent) through various fees and taxes imposed on those who go through regular migration procedures. For instance, irregular migrants in Thailand who were willing to go back home and go through legal channels faced the prospect of having to incur costs 10–20 times greater than what they incurred in entering Thailand clandestinely. All the documentation required to obtain travel documents and work visas plus having to pass through recruitment agents means fees and charges at every turn. Burmese migrants long settled in Thailand who wish to be regularized are required by their government to first go back home and wait for their turn in the long queue of workers applying to work in Thailand. They also have to pay various formal and informal fees and taxes. It is easy to appreciate why irregularity persists in these situations.

## **Enhancing Labor Mobility through Bilateral Labor Agreements**

Multilateral and regional agreements to promote international migration have significant advantages and should remain as goals to work toward. Regional charters, such as the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, provide useful and constructive guidelines but remain only an aspiration for now. As of 2014, BLAs on the temporary movement of persons (TMP) and labor across countries provide the best prospects for enhancing international labor mobility. This section examines some of the practices embedded in East Asian BLAs with a view to highlighting good practices and identifying areas for improvement. First-generation BLAs have had a mixed track record, but they have also provided valuable lessons. Using a bilateral migration framework and drawing on East Asian and international experiences, this section highlights good principles and practices in designing and implementing BLAs. Key among these practices is using incentives to bind together the interests of labor-sending and -receiving countries and migrant-employing firms.

Whereas trade integration at the turn of the 19th century and in the 1960s was accompanied by large flows of labor migration, international cooperation on trade integration and labor migration have not proceeded together in recent decades. International cooperation on trade liberalization has proceeded much faster than international cooperation on labor mobility. Although progress has been made in multilateral discussions on the integration of skilled labor through enforcement of Mode IV of the World Trade Organization (WTO) General Agreement on Trade in Services (GATS), there has been little progress in multilateral agreements on the migration of unskilled labor.

The effective management of international migration requires close cooperation between labor-sending and labor-receiving countries. As discussed earlier, such effective management requires (1) addressing widely prevalent market failures such as the lack of information and information asymmetries between labor-sending and -receiving countries, (2) managing migration through porous borders, and (3) facing the challenges of enforcing migration policies when sharp differences between the private and social returns to migration can arise.

### **Why Bilateral Labor Agreements Instead of Multilateral or Regional Agreements?**

In an ideal world, multilateral agreements would be the best solution for managing international migration because the migration policies of one

country affect the interests of many other countries. In addition, multilateral agreements also make enforcement less costly. Despite these advantages, little progress has been made on forging binding multilateral or even regional agreements on international migration. One example of an international declaration is the United Nations Convention on the Rights of All Migrant Workers and Members of Their Families. The ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers (box 5.6) is a good example of a regional agreement on migration. While both the United Nations convention and the ASEAN declaration enunciate laudable goals and aspirations, they do not provide binding agreements on the actions of countries.

The difficulties in reaching binding multilateral agreements on international labor migration are also manifested in current international negotiations. Although the WTO GATS encompasses cross-border provision of labor services, most of the rapid expansion in international trade in services occurs through cross-border supply and through commercial presence covered by Modes I–III of the GATS. Mode IV of the GATS, which includes the temporary movement of “natural persons” to provide services, covers less than 2 percent of all trade in services. Moreover, commitments under Mode IV have been largely confined to intracompany transferees. In addition, negotiations over Mode IV have proved to be one of the most contentious issues in the Doha Round of trade talks in the WTO. It can be argued that Mode IV offers precisely the type of contracting likely to enforce return migration. Opponents also argue, however, that the expansion of

### **Box 5.6: Regional Efforts to Improve Migration Management in ASEAN**

At the 12th ASEAN summit in Cebu, Philippines, in January 2007, the ASEAN heads of state adopted the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers. The declaration calls on origin and destination countries to promote the full potential and dignity of migrant workers, cooperate to resolve cases of migrant workers who become undocumented through no fault of their own, and take into account the fundamental rights of migrant workers and their families

already residing in the destination country. It also outlines a number of obligations of destination and origin countries:

#### **Destination countries**

- Intensify efforts to protect the fundamental human rights and promote the welfare and dignity of migrant workers
- Facilitate access to resources and remedies through information, training and education, and access to justice and social welfare services in accordance

*(continued)*

**Box 5.6** *continued*

with legislation of the destination country

- Promote fair and appropriate employment protection and access to decent working and living conditions
- Provide access to the legal and judicial system to migrant workers who may be victims of discrimination, abuse, and exploitation
- Facilitate access to consular functions of the origin country when a migrant worker is arrested or taken into custody

**Origin countries**

- Enhance measures to promote and protect the rights of migrant workers
- Ensure access to employment and livelihood opportunities, so that migration occurs out of choice
- Facilitate the orderly process of labor migration, including policies on recruitment, predeparture preparation, protection of citizens when abroad, and repatriation and reintegration
- Establish measures to regulate recruitment practices and eliminate recruitment malpractice through valid contracts, regulation and accreditation of recruitment agencies and employers, and blacklisting of negligent or unlawful agencies

The ASEAN declaration also calls upon member states to promote decent work for migrant workers, take concrete steps to prevent smuggling and trafficking in persons, facilitate data sharing and capacity building to enhance policies and programs, and assist

citizens of ASEAN member states working abroad caught in conflict or crisis situations outside of the ASEAN area. The declaration also tasks the relevant ASEAN bodies to follow up and develop an ASEAN instrument on the protection and promotion of migrant workers' rights.

As a follow-up to the declaration, a Committee on the Implementation of the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers was established in the same year. At its first meeting, the committee adopted a work plan outlining four areas of cooperation, one of which is enhancing labor migration governance. To this end, the committee created the ASEAN Forum on Migrant Labour. This forum aims to deepen understanding of the role being played by labor migration in enhancing the flexibility and dynamism of the region's economies, to build trust and confidence through dialogue on emerging problems and issues, to help national authorities anticipate future challenges by considering the impact of current economic and political developments on migration, and to enhance bilateral and multilateral cooperation for effective governance of labor markets and migration.

The forum is organized as a regular activity under the auspices of the ASEAN Labor Ministers Conference. Participation is open to ministries of labor and other government departments with substantive responsibilities for labor migration, employers, trade unions, concerned nongovernmental organizations and civil society, research centers, and public policy institutes.

Mode IV to include more low-skilled activities would result in social dumping, thereby undermining the wages of the local population. The Doha Round has been delayed over other disputes, and the prospects for a multilateral agreement on Mode IV seem dim.

Another example of the difficulties of achieving multilateral action on the issue of international labor migration is provided by the International Organization of Migration (IOM). Although IOM has built significant capacity and experience, and now includes 420 officers in more than 120 countries (Goldin, Cameron, and Balarajan 2011), it suffers from not being part of the United Nations system. And while its stated goal is to support “humane and orderly migration [that] benefits migrants and society,” IOM currently lacks the authority and mandate to enforce its goal of supporting the rights of migrant workers.

Given the potentially large gains that could be achieved with the liberalization of international labor markets, why has it been so difficult to achieve Mode IV liberalization? The reasons lie in the very nature of international labor migration. International migration comes head-to-head with at least two basic tenets of multilateral negotiations. The first is the principle of “most-favored-nation,” which means that once labor migration is negotiated, it must be granted on an unconditional basis to all nations. Granting unconditional access to labor from all WTO countries does not sit well with most labor-receiving countries that feel the need to balance access to their labor markets with more pressing domestic economic and social concerns. The second tenet of trade negotiations is “reciprocity,” wherein a reciprocal interest is necessary for countries to make market-opening commitments if they have mutual export interests in each other’s markets. Given that exporters and importers of international labor usually represent two distinct groups of countries, with developing countries exporting labor and developed countries importing labor, consensus is very difficult to achieve. Developed countries typically view export labor as a “one-way street,” with only limited benefits for their societies.

Therefore, BLAs offer the most practical means for achieving agreement on international labor migration by providing two things. First, BLAs replace the rigidity of most-favored nations by allowing labor-sending and -receiving countries to negotiate acceptable terms on a bilateral basis between themselves. Second, BLAs create a shared responsibility between countries so that the emphasis shifts away from the one-way street of liberalization. Invoking the principle of shared responsibility allows some context-specific measures to emerge, reassuring labor-receiving countries that liberalizing labor markets will not automatically lead to outcomes that will threaten their domestic economic and political interests.

For these reasons, BLAs seem to be the answer to the gridlock in multi-lateral negotiations on international labor migration. BLAs also seem to be the instrument of choice for creating temporary labor mobility programs for the poor (also called TMP, for temporary movement of persons). BLAs are the best way to square the policy circle so that labor-scarce economies can have temporary access to workers and labor-abundant economies can have temporary access to employment, income, and skills.

It should, however, be emphasized that BLAs are not a new concept. In fact, BLAs have a checkered past, which does not necessarily inspire confidence in their ability to deliver positive results in the future. This is particularly true for programs geared to low-skilled migrants, such as seasonal migration programs. Consider, for example, the policy debate in the United States several years ago over a guest worker program. Critics of this program worried that guest workers would both overstay their contracts and bid down the wages of native workers (Borjas 2007). Other critics raised concerns about the possible exploitation of guest workers and whether these workers could earn enough during a temporary stay. Finally, there is always the concern in receiving countries that temporary workers too often become permanent workers through overstaying.

BLAs—legally binding agreements to facilitate the temporary migration of labor between countries—can have various objectives. These objectives range from the strategic, such as protecting past colonial relationships and promoting cultural ties, to the more explicitly economic, such as easing unemployment in labor-sending countries and promoting greater regional integration. Legally, BLAs can take many forms, such as bilateral maritime agreements, bilateral social security agreements, or antitrafficking agreements. BLAs can also take the form of protocols, intergovernmental agreements, and memoranda of understanding (MOU) or agreement (MOA).

## **Bilateral Labor Agreements: Concepts and Good Practices**

Good practices in BLAs are hard to design because they involve a complex interplay of instituting the right incentives, inviting private sector involvement, and instituting proper public oversight to prevent abuse. Although each BLA has its own specific context and goals, some good and bad practices can be identified. The purpose of this section is, therefore, to set out an analytic framework that helps to identify good practices in BLA schemes.

### ***The Framework***

The framework for designing effective BLA programs rests on recognizing at least two fundamental realities. The first is that there is likely to be an excess

of labor in the labor-sending country, so some “rationing” procedures will need to be established. The second reality is that there are significant information failures that reduce market access to migrants seeking to enter labor-receiving countries. Labor-sending and -receiving countries need to work in concert with other nongovernment actors to overcome these two realities. In other words, “shared responsibility” between labor-sending and -receiving countries becomes the cornerstone of the framework by which rationing procedures are practiced and information market asymmetries are mitigated.

The principle of shared responsibility is manifested at three levels in effective bilateral labor agreements. First, at the design level, sending and receiving countries need to agree on a set of objectives and align their goals to meet those objectives. Second, shared responsibility implies that implementation—from recruitment to remittances to return—is not a hands-off process but instead a cooperative management effort involving both state and nonstate actors. And finally, shared responsibility means that the institution-building needs in sending and receiving countries are diagnosed together and that capacity constraints are addressed in a timely manner. These three areas are discussed in turn below.<sup>5</sup>

### ***Design of Bilateral Agreements***

Careful design is critical for BLA programs to operate effectively. In particular, it is important to pay attention to the four aspects of basic design—the four Cs.

*Cost:* The high fixed costs of migration tend to affect the length of time migrants need to stay abroad. The higher the costs, the longer the migrant will need to stay abroad to recover his or her initial investment and the less likely the migrant is to return home. Cost sharing with employers helps to alleviate this problem and enables migrants to return home in a timelier manner. Imposing some costs on employers in developed countries also helps solve the problem of foreign workers being used (or being perceived to be used) to undercut local wages. The duration of migrant access to the labor market also has implications for cost recovery and needs to be fine-tuned. Too long a duration increases the probability of temporary migrants settling on a permanent basis (as seen in the German-Turkish schemes of the past), whereas too short a duration may imply a low rate of migrant participation in the program altogether (as seen in the current Australian-Pacific scheme).

*Choice of workers:* The qualifications of migrant workers matter greatly. Overqualified migrant workers selected to do unskilled jobs will tend to use the BLA program as a stepping-stone into the developed market rather than as a restricted employment opportunity. It is not uncommon for educated and skilled workers in sending countries to apply for unskilled work abroad.

These applicants can undermine schemes that are designed to bring unskilled workers into developed countries on a very temporary basis.

*Circularity:* Access to an international labor market needs to be repeated rather than treated as a one-time event. In other words, migrant workers should be able to access the labor market year after year. Often, for reasons of equity, well-intentioned developed-country policy makers try to limit the number of times a single worker can be employed abroad. Such restrictions tend to undermine the scheme and lead to overstaying.

*Commercial viability:* Labor-receiving countries can be reluctant to enter into arrangements with sending countries to import unskilled labor because of the fear that when labor market conditions change for the worse, they will be bound to continue taking a certain quota of foreign workers, which is considered risky in times of economic crisis. Conversely, sending countries do not help their cause when they insist on quotas being written into BLAs with a view to providing certainty of access. Instead, the emphasis needs to be on maintaining the commercial viability of BLA schemes by allowing the program to adjust to changing labor market conditions in the receiving country.

### **Implementation**

After designing the BLA in an incentives-compatible manner, an equal amount of attention needs to be paid to implementation. Often, a well-designed BLA is not followed by adequate program implementation, which, in turn, leads to suboptimal development outcomes, or worse, to the erosion of the goodwill and political capital that was needed to establish the BLA in the first place. The single biggest reason for inadequate program implementation is the “time inconsistency” problem, where migrants enter the receiving country in the first stage and firms in that country can choose to train the migrants (Amin and Mattoo 2005). The cost of identifying, sorting, selecting, and training is mostly incurred in this first stage and is thus treated as a sunk cost with the benefit accruing in the next stage. However, although firms may initially participate in these programs at time  $t$ , such an arrangement may not be in their interests at time  $t + 1$ . This problem leads to too much permanent migration and too little temporary migration—as has happened with numerous BLA programs. Particularly for unskilled workers, the social costs are generally perceived to be greater than the private training costs incurred by firms, so the wedge between private and socially desirable policy can be sizable. This wedge is the primary explanation for the current impasse on temporary migration programs, because receiving countries sometimes prefer a “no-migration” scenario.

Table 5.4 maps out the possible scenarios that emerge with varying levels of private fixed costs and social costs. When the fixed costs of selecting,

**Table 5.4 Migration Scenarios and Policy Responses**

Scenario	Fixed cost is high	Fixed cost is low	Policy emphasis required to make a temporary movement of persons program work
Social cost is high	(Cell A) Firms <sup>a</sup> want P. SG probably wants P. HG wants T.  <i>Problem area—domestically and internationally—firms and HG want different outcomes.</i>	(Cell B) Firms can do T. SG probably wants P. HG wants T.  <i>Problem area but domestic cooperation possible because firms and HG interests are aligned.</i>	Burden is on SG to actively screen, regulate, and repatriate.  Need mechanisms to ensure SG cooperation.
Social cost is low	(Cell C) Firms want P. SG wants T. HG wants P.  <i>If HG and F collude, commitment problem.</i>	(Cell D) Either outcome P or T probably acceptable.	Burden on HG. Need mechanisms to ensure HG commitment and cooperation.
Policy emphasis required to make a temporary movement of persons program work	Burden on firms—robust eligibility criteria for employers needed, with credible enforcement and ex post penalties.	n.a.	n.a.

*Note:* Fixed cost = selection, recruitment, training, and travel; SG = source-country government; HG = host-country government; P = permanent migration; T = temporary migration. n.a. = not applicable.

a. Firms are employers in the host country.

recruiting, transporting, and training migrant workers are high (first column in table 5.4), employers in the receiving country will lean toward trying to keep these workers permanently. Conversely, if these costs are low (second column in table), employers will be more likely to let the workers go at the end of one cycle, in the expectation of hiring cheap replacement workers in the next cycle. Naturally, different types of migrants are associated with different real or perceived social costs. Governments are sensitive to these costs, and when they are seen as being too high (usually for unskilled), they are keen to ensure that workers are temporary. However, if the costs are seen as low (skilled), governments may have a higher tolerance for temporary entry points that can turn into permanent pathways.

In table 5.4 the least problematic scenario is the one in which the fixed and social costs are both low. In this case, a spectrum of outcomes is

tolerable for all three parties: sending governments, receiving governments, and firms in receiving countries (cell D in table 5.4). In a scenario in which fixed costs are low but social costs are high (cell B in table 5.4), receiving governments definitely want to ensure that migrants are temporary, whereas the source governments may be more anxious to encourage permanent migration. This creates a conflict of interest between the two governments.

The situation gets increasingly complex in the latter two scenarios in table 5.4. When fixed costs are high and social costs are low (cell C in table 5.4), the host-country government may be willing to accept permanence while the source-country government might be anxious to have these workers return home and would therefore favor their remaining temporary. The most difficult scenario, perhaps, is when the fixed and social costs are both high (cell A in table 5.4), for example, poor workers from distant lands with high travel and training costs. In this scenario, employers are probably not going to want to pay high fixed costs repeatedly, and therefore would lean toward keeping these workers permanently. The host country may also be quite willing to let these workers stay permanently. However, in this scenario the source country most strongly favors that workers remain temporary. Not only are source and host government intentions misaligned, but the intentions of host governments and their own employers are at odds.

Overall, in high-fixed-cost scenarios, the attention during implementation should be focused on employers' behavior and actions. In scenarios with high social costs, the focus needs to be on getting labor-sending governments to properly perform certain due diligence functions. When social costs are low, receiving governments need to show commitment to returning workers if the source country desires their return. This has implications that are not yet fully understood for the management of recruitment practices (public versus private) and the management of the vetting process for firms that enter into the program.

### ***Institution and Capacity Building***

The preceding discussion on the areas critical to a successful BLA program emphasizes that “hands-off” approaches to migration management can be costly for the welfare of both labor-sending and labor-receiving countries. Both receiving and sending countries have been guilty of adopting such approaches on the assumption that “stroke-of-the-pen” reform will automatically lead to institutional reforms that support BLA schemes. Unfortunately, this assumption is usually incorrect because of the widespread market failures that exist in labor markets, particularly in international labor markets. Information market failures (about the quality of labor supply or employment opportunities) and coordination market failures

(between hiring contractors and public and private agencies) can bring even a well-designed system to a halt.

The capacity endowments of labor-receiving and -sending countries are often very dissimilar, which exacerbates these market failures. While labor-sending countries need to take steps to reduce information and coordination asymmetries, labor-receiving countries need to play a stronger role in accepting qualified workers and preventing abuse. Addressing such capacity constraints between sending and receiving countries is a major step in building trust in the mechanisms that shape BLAs. The measures to address these capacity-building constraints are discussed in box 5.7.

Regional dialogue and cooperation frameworks can play a role. Just as it is now commonplace for advocacy for freer trade to be accompanied by aid for trade and “behind-the-border” interventions, it is now time to do the same for international labor movements. Regional charters and institutions could make a concerted effort to create capacity-building measures for source-country governments in the preparation, management, and coordination of international labor flows. To build capacity, sending countries need the active help of labor-receiving countries. The ASEAN Forum on Migrant Labor provides one such framework for building trust and confidence between labor-sending and -receiving countries. (For more on the ASEAN declaration see chapter 4.)

A second role for regional cooperative frameworks is the proper mainstreaming of monitoring and evaluation of the development impact of international labor movements. Credible information gathering on a systematic basis could provide the basis for participating countries to discuss changes and enhancements to existing BLA programs. To date, the TMP scheme between Australia, New Zealand, and Pacific Island countries remains the only scheme that has conducted baseline surveys of participants, tracked workers year after year, and provided credible counterfactuals of what would have happened to households in the absence of migration. Such empirical evidence has played an important role in maintaining widespread domestic and international support for this TMP program.

In conclusion, this framework emphasizes that good practice in international labor management requires attention to each and every stage of the process, from design to implementation to capacity building. Such attention is needed to meet the problems of excess labor supply and information market failures that typically plague labor markets. Even seemingly innocuous features like the qualifications of workers that participate in BLA programs or the types of organizations that screen and sort these workers can make or break a bilateral labor scheme. Table 5.5 highlights some specific examples in the East Asian region.

## Box 5.7: Capacity-Building Measures for Labor-Sending Countries

Most labor-sending countries require advice and funding to establish a sound framework of policies and practices for labor migration. To be effective, this assistance should begin with a thorough assessment of the goals, capacities, and governing responsibilities of the relevant public or private actors in the labor-sending country. Samples of activities that often need support include the following.

### **Some tangibles—The must-haves**

*Legal framework:* An important first step is to review existing employment acts to ensure that they include provisions for hiring under a temporary movement of persons (TMP) program. The depth of the review depends on how the hiring is expected to be performed. Will the hiring be done directly by foreign employers, by their agents based locally, or through existing government programs?

*Costs:* Some countries have found it necessary to establish revolving funds to provide workers with financial support to cover the upfront costs of participating in a TMP program. Labor-sending governments need advice on how to best operate these funds. Assistance with reforming the remittances infrastructure is also often warranted so that workers can send money home without paying unduly high fees.

### **Some intangibles that have been indispensable**

*Education and training:* Structuring and delivering TMP program participation information requires multistage training programs—preapplication, postselection, and predeparture. The content of each stage of training

varies and needs to be customized to meet the needs of both the labor-sending and -receiving country. A domestic awareness campaign is often a good idea to manage expectations and prevent abuse by illegitimate actors.

*Organization structure:* Various government departments and ministries may have to work together to facilitate a TMP program. Clarity on the coordination and oversight processes at each stage is needed to avoid bureaucratic delays. Some trial and error is inevitable, but external assistance can help identify the proper roles for various public and private actors. Good databases that contain detailed information on the migrant workers who are leaving are also helpful. This information can range from basic demographic data to detailed contractual information regarding overseas employment. Some minimum data and reporting standards have emerged, and source countries may require assistance in instituting systems to reach these standards. These systems also generally need to be coordinated and integrated across various government agencies.

*Marketing tools:* Sending countries often benefit from a “branding” strategy to help enter new markets or new sectors. Assistance in devising a realistic strategy for labor export and following it up with good communication and dissemination tools such as websites, advertising, and focused marketing missions can deliver results if well targeted and designed. Such branding is most effective if it also signals the presence of quality-enhancing measures in the source country, such as comprehensive predeparture training.

**Table 5.5 Key Issues in Design, Implementation, and Capacity-Building Infrastructure**

Attribute	Global or regional example that illustrates the point
<b>Design</b>	
Reducing the fixed costs borne by workers and employers	<ul style="list-style-type: none"> <li>• The Thai memoranda of understanding (MOU) make this point from the opposite direction: it is very expensive for Thai employers to import workers. For example, any establishment requesting 100 workers has to advance US\$58,824. This creates rigidities in employment and incentives for irregular migrant flows.</li> <li>• The Industrial Trainee Scheme in Korea sets a range of US\$340–US\$1,300 for permissible charges to migrants for airfare, passport, visa, and insurance costs. However, surveys revealed that migrant workers paid an average of US\$3,147. This has been addressed by a new scheme called Employment Permit System (EPS), which has reduced the average cost for migrants to Korea to US\$140.</li> <li>• Employers in Australia and New Zealand share fixed costs with Pacific Island workers who enter for agricultural work up to six months.</li> <li>• The bilateral agreement between Spain and Colombia mandates 50-50 cost sharing for temporary workers.</li> <li>• Sri Lanka’s MOU with Qatar prohibits the recruitment agency from collecting any money from the worker and also requires the employer to pay for transportation to and from Qatar.</li> </ul>
Clarity in duration of employment rules	<ul style="list-style-type: none"> <li>• Thai MOUs with Cambodia, Lao PDR, and Myanmar are for four years. However, the registration and work permits do not limit the maximum length of stay, thus creating confusion and incentives to overstay.</li> </ul>
Arrangements for workers qualification verification	<ul style="list-style-type: none"> <li>• The Philippines Overseas Employment Administration offers this service for all receiving countries with whom it has signed MOUs.</li> </ul>
Circularity—encouraging return of the same workers	<ul style="list-style-type: none"> <li>• Canada’s Seasonal Agricultural Workers Scheme with Mexico and the Caribbean reduces the cost of reentry to workers by granting multiple entry visas.</li> <li>• The Spain-Colombia agreement encourages migrants who have already worked in Spain to reenter the Spanish labor market the following season.</li> </ul>
Commercial viability quotas	<ul style="list-style-type: none"> <li>• In the Greek agreements with Albania and Bulgaria, Greek authorities assess the annual need for seasonal workers and issue work permits based on demand by Greek employers.</li> <li>• Spain follows a similar process with a number of countries whereby Spanish embassies notify labor-sending countries of the number and type of workers needed by employers. Jobs are based on existing need rather than any set quotas.</li> </ul>
<b>Implementation</b>	
<i>Sending country</i>	<ul style="list-style-type: none"> <li>• The otherwise improved EPS in Korea, by lowering the fees that agents can charge workers, has also reduced the incentives for recruitment agencies to put effort into matching workers with employers, resulting in large mismatches in labor.</li> <li>• Selection committees comprising representatives from labor-sending and -receiving countries preselect workers from Morocco, Colombia, and Ecuador for export to Spain.</li> </ul>

(continued)

**Table 5.5 Key Issues in Design, Implementation, and Capacity-Building Infrastructure** *(continued)*

Attribute	Global or regional example that illustrates the point
<ul style="list-style-type: none"> <li>• Licensing of recruiters</li> </ul>	<ul style="list-style-type: none"> <li>• Samoa and Tonga in the Pacific prepare lists of work-ready pools where workers are matched to existing jobs in Australia and New Zealand. This reduces employers’ transaction costs.</li> <li>• In Vietnam, the Provincial People’s Committees manage specific functions within their localities, such as recommending workers, coordinating recruitment efforts with enterprises abroad, and overseeing the dispatching of workers overseas.</li> <li>• All Asian countries prohibit recruitment of their citizens by unlicensed entities. Licensing requirements do not vary much by country. Licensees are generally resident nationals rather than foreign employers to increase accountability. It is increasingly common for governments to require licensees to put up financial guarantees in government accounts to answer for possible future claims.</li> <li>• The Philippines Overseas Employment Administration and the Vietnam Ministry of Labor, Invalids, and Social Affairs oversee procedures concerning information dissemination to prospective migrants, labor contracts, and predeparture training.</li> </ul>
<ul style="list-style-type: none"> <li>• Preparation and dissemination</li> </ul>	<ul style="list-style-type: none"> <li>• Spanish agreements emphasize educational campaigns to inform potential migrants of their rights and obligations through clear program guidelines, the prevention of the use of counterfeit documents, and equipping of workers with relevant destination-country information.</li> <li>• Before departure, workers in Colombia, Honduras, and Mauritius are given English language training as well as courses in cultural adjustment and integration (arranged by the International Organization for Migration).</li> </ul>
<b>Implementation</b>	
<p><i>Receiving country</i></p> <ul style="list-style-type: none"> <li>• Scrutiny of employers</li> <li>• Levies to balance market forces and reduce rent-seeking by private agents</li> <li>• Involvement of nonstate actors</li> </ul>	<ul style="list-style-type: none"> <li>• More countries have abandoned setting minimum wage standards in employment contracts. Instead, the onus is now placed on receiving countries to enforce wage standards, as is done by the Labor Department in Hong Kong SAR, China.</li> <li>• Whereas Singapore imposes harsh penalties on employers for failure to comply with regulations, most East Asian countries tend to emphasize the policing of borders and of migrant workers.</li> <li>• Intervention to minimize rent appropriations from the workers by recruiters is a priority. Singapore’s Foreign Workers Levy transfers this rent in a transparent way to the government of Singapore and brings about market equilibrium. Although Malaysia also imposes levies, they are not skill dependent or determined by the foreign dependency in the sector.</li> <li>• New Zealand has successfully involved a variety of stakeholders, diaspora communities, and local educational institutions such as Rotarians to provide “pastoral care” to temporary overseas workers.</li> </ul>
<b>Capacity Building</b>	
<p>Clarity about short- and long-term objectives in national development</p>	<ul style="list-style-type: none"> <li>• Malaysia’s policy on foreign workers was originally designed as a short-term policy but it has lasted for more than four decades. The result is a “reactive” policy and an institutional environment that tends to confuse employers, workers, and enforcement agencies.</li> </ul>

*(continued)*

**Table 5.5 Key Issues in Design, Implementation, and Capacity-Building Infrastructure** *(continued)*

Attribute	Global or regional example that illustrates the point
Well-staffed and coordinated public-private system	<ul style="list-style-type: none"> <li>• In Indonesia, overlapping responsibilities between the National Agency for Placement and Protection of Indonesian Overseas Workers and the Ministry of Manpower have created power struggles, causing duplication, delays, and increased costs for both agents and migrants.</li> </ul>
Joint consultative mechanisms and institution building	<ul style="list-style-type: none"> <li>• Joint commissions on labor have been established and relied upon for consultation between administrative authorities in Asian countries and Arab states. These joint commissions have been kept simple, flexible, and practical, enabling them to formally discuss new rules and standards on a bilateral basis.</li> <li>• The MOU between the Philippines and Indonesia establishes joint working groups and foresees cooperation in the training and certification of migrant workers and provision of legal aid for protection of their rights. These arrangements include exchange of information and experienced staff.</li> <li>• A proposed study committee on foreign labor is to be set up as a part of ASEAN Secretariat to provide analysis of labor market needs and explore possibilities for collaboration on matters of common interest.</li> <li>• Foreign-worker training programs launched by governments of Japan and Korea offer an excellent opportunity to involve institutions other than private recruitment agencies to organize selection, placement, and return of workers to their home countries.</li> </ul>
Monitoring and evaluation (M&E)	<ul style="list-style-type: none"> <li>• No quantitative M&amp;E systems exist outside of the Pacific–Australia–New Zealand corridor. The Canadian government, together with employers, has met with its Mexican and Jamaican counterparts annually for more than 40 years now to assess the workings of the temporary labor program.</li> <li>• The Australia–New Zealand schemes have allowed panel data to be collected on workers’ earnings, savings, skills, and so forth, as well as tracked a control group of nonparticipants, thereby making the development impact measurable.</li> </ul>

## Conclusion

International migration for economic reasons is driven by the demand for workers in labor-receiving countries. Hence, policies in labor-receiving countries need to be based on good understanding of labor market requirements in receiving economies. Policies and policy implementation are most effective when they are aligned with the interests of workers and firms, instead of being blanket restrictions. Labor-receiving countries need to shift the onus of policy enforcement to domestic employing firms and recruitment agencies. In particular, equal treatment of migrant workers and native workers should be a priority so as not to create incentives to displace local workers with cheaper foreign ones.

Governments should implement programs to provide education and training to upgrade the skills of local workers to offset any negative distributional consequences and to increase gains from migration. Particularly important will be to recognize that greater support for the rights of migrant workers through fair wages and safe working conditions can have benefits for all concerned—by reducing incentives for excessive and exploitive use of migrant workers, by avoiding an overall deterioration in working conditions that also affects native workers, and by creating incentives for workers and sending countries to eschew undocumented migration.

The evidence in support of the economic gains that will accrue with increased labor mobility is growing. Yet little progress has been made in striking multilateral or regional agreements to enhance global labor mobility. It is likely to remain so, not because of lack of understanding of its importance, but because central tenets of a multilateral treaty—most favored nation treatment and reciprocity—are irreconcilable with current concerns in labor-receiving countries.

Hence, bilateral labor agreements, which for the unskilled are likely to be temporary, provide the best prospects for increasing labor mobility. Such agreements can provide win-win options because they offer a way for the poor to have access to developed-country markets, even if in a temporary and circumscribed way, and allow receiving countries to manage this inflow such that it aligns with domestic concerns.

The global experience with bilateral labor agreements has been mixed, but they have provided valuable lessons. If careful attention is paid to design, implementation, and capacity building by both sending and receiving countries, in the spirit of shared responsibility, then BLAs can work effectively to address labor shortages in receiving countries and act as an important tool for poverty alleviation and employment creation in sending countries.

## Notes

1. The terms “local” and “native” are used interchangeably and refer to citizens of the labor-receiving country.
2. Another notable outcome of a private fee-based system is the likelihood that migrants from poorer countries wind up paying more for the same jobs than migrants from better-off countries. Given the larger differential incomes in both labor-sending and -destination countries, recruitment agents can charge migrants from the poorest countries the highest recruitment fees and still attract candidates from that country. This seems to mesh with the empirical evidence that shows that migrants from Vietnam pay the most for overseas

positions, ranging between US\$7,000 and US\$10,000 (H. L. Nguyen and Mont 2011). Also worth noting is that Indonesian migrants pay higher recruitment fees, about US\$1,300, and earn less than Filipino migrants for similar positions.

3. Feasibility of demand management is an issue: falsified documents make it difficult to determine legality and guidelines are often unclear or hard to apply.
4. Larger inflows of migrants would not necessarily adversely affect locals if it encouraged them to upgrade skills, but if this does not happen, there may be a welfare loss for native workers. Inflows of unskilled migrants may create more jobs for locals if their presence leads to more rapid growth and job creation.
5. These thoughts are based on a careful study of some past programs (German-Turkish), existing programs (United Kingdom–European Union, Caribbean-Canada), and a more recently instituted program between the Pacific Islands and New Zealand.

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#### ECO-AUDIT

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The East Asia and Pacific (EAP) region has an international emigrant population of more than 21 million people who remitted US\$112 billion to their home countries in 2013. The region also hosts more than 7 million migrant workers, mostly from other Asian countries. These migrant workers account for a significant part of the labor force in economies such as Malaysia and Singapore and thus play a significant role in the economies of the labor-receiving countries. An aging population in many East Asian countries will create significant labor shortages, leading to greater demand for migrant workers. For these reasons, international labor mobility is emerging as an important development issue in East Asia, with important implications for reducing poverty and supporting sustainable economic development in the region.

In this context, *International Migration and Development in East Asia and the Pacific* analyzes the impact of migration on development of the EAP region and examines how international migration should be managed in East Asia in a way that supports development goals while simultaneously protecting the rights of migrants. The study covers trends in international migration in East Asia and overarching regional issues such as the links between macroeconomic management and remittances and the role of demographic trends in migration; the economic impact of migration and remittances on labor-sending countries and labor-receiving countries; the migration industry; and the policies and institutions that govern migration.

This report shows that in labor-sending countries remittances help reduce poverty significantly by increasing income for migrants' families. At the country level, remittances have a significant role in helping finance trade deficits and in bolstering reserves, not only in the small Pacific Island economies but also in large economies such as Vietnam and the Philippines. For labor-receiving countries, such as Malaysia, Singapore, and Hong Kong SAR, China, migrant workers help relieve labor shortages, boost output, and maintain competitiveness. The role of migrant workers will become more important in the future given the rapid population aging in many labor-receiving East Asian countries. Given these factors, the key question concerning international migration in East Asia and the Pacific is not whether it is desirable but how it should be managed in the future. *International Migration and Development in East Asia and the Pacific* discusses a range of policy options in both labor-sending and labor-receiving countries to address this question.

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