



# Immigration, job vacancies, and employment dynamics: Evidence from Thai manufacturers<sup>☆</sup>

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## ABSTRACT

Do immigrant workers fill in job vacancies and promote employment dynamics? Using Thailand's firm-surveyed data, this paper investigates the challenges experience by firms employing immigrant workers and how immigrants help to fill job vacancies. Descriptive analysis shows that Thai firms do not have much difficulty employing immigrant workers, who come mostly from neighboring countries. Our regressions shows that, by analyzing firm-level characteristics, firms employing immigrant workers tend to be more labor intensive, use computers or other technologies less in production, are recently established, and employ high proportions of low educated workers. Firms having job vacancies in either skilled or unskilled positions and losing production days due to slowdown and stoppage of workers will tend to employ more immigrant workers in order to fill those vacancies and smooth out its production. The impacts of job vacancies on the demand of immigrant workers was found to be stronger among firms located in non-border areas where immigrants tend to move away from bordering provinces to larger provinces where there are better job opportunities. Labor cost concerns, either wage cost or fringe benefit costs, also force firms to employ more migrants in order to maintain their cost competitiveness. By using firm-level panel dataset, firms employing migrant workers in the past seem to realize the benefits from employing more migrants today. The results pose challenges to migration management policies that aim to harmonize the demand for labor in short-term vis-a-vis long-term development.

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## 1. Introduction

Over the past decade, international migration has been one of the hottest demographic issues widely discussed in Thailand. Immigration into Thailand has been increasing very rapidly mainly due to a widening of income disparities between Thailand and its neighbors—Cambodia, the Lao PDR, and especially, Myanmar. Immigration not only benefits the economy overall through higher GDP, but also benefits individual Thai firms seeking opportunities to pay lower wages and gain cost competitiveness (for example, see Bell, 1997; Borjas, 2001; Card, 2001; Kerr & Kerr, 2011). For the case of Thailand

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as a regional migrant-receiving country, different economic tools have been used, but all have provided similar results, such as the analyses done by Sussangkarn (1996), Martin (2007), and Pholphirul and Rukumnuaykit (2010).<sup>1</sup>

Even though employing immigrants can boost GDP growth and investment, these benefits are unevenly distributed and mainly go to the owners of capital (i.e., firm owners and employers) and the immigrants themselves, while native workers are considerably jeopardized (Pholphirul & Rukumnuaykit, 2010). A number of empirical studies suggest that immigration does indeed reduce native wages and harms the employment prospects of Thai workers.<sup>2</sup> Even though these effects tend to be rather small, they could be significant for those unskilled or low-educated Thais who can be easily replaced by immigrant workers. If classification by skills and education is considered, the adverse impacts on Thai workers from immigration are much larger for young and low-skilled workers (see Lathapipat, 2010; Ottaviano & Peri, 2006, 2008 for the case of Thailand).

There has been some cost–benefit analysis of employing migrant workers in a migrant-receiving county such as Thailand. However none of them have empirically tested the roles of immigration from the perspective of labor demand, and none by analyzing firm-level data. Since Thailand is now facing a more competitive world market, the nation must change its development strategy from labor-intensive industries to more value-added types of production.

The demand for unskilled labor remains high due to the need to maintain cost competitiveness, especially in global markets. A significant demand for both highly skilled and semi- to low-skilled workers creates supply-demand gaps in the Thai labor market. Job vacancies play an important role in any analyses of labor markets and employment. How well the labor market adjusts to this demand pattern is crucial to economic development as well as to the welfare of Thai laborers. It also challenges Thai employers to overcome these gaps.<sup>3</sup>

Even though it is already commonly believed among employers that immigration should help firms fill such vacancies quickly, this argument has never been empirically and statistically tested. Therefore, it is worthwhile to examine how immigration helps to reduce vacancies and to promote employment dynamics. Even though the demand for immigrant workers in manufacturing may not be as obvious as it is in agriculture and the service industry, smoothing production to maintain workflows and avoid labor shortages is always a major concern.<sup>4</sup>

To be more specific, this paper will first analyze the challenges facing Thai manufacturing firms in seeking to hire immigrant workers. Second, given such constraints, the magnitude of migrant share can be determined by firm-level characteristics, labor shortages, job vacancies, and cost concerns.<sup>5</sup> The findings of this empirical examination should help policymakers understand how the labor market will react given the substantive increase in the labor supply due to immigration. The findings can also inform labor-market policies as to how migration can best be managed. In the next section, the broader context of labor migration in Thailand will be examined. Section 2 discusses the perception of Thai firms regarding the challenges of employing foreign immigrant workers. Then, in Section 3, the role of immigration in filling job vacancies and promoting employment dynamics is explained. Section 4 discusses the findings and presents the conclusions.

## 2. Job vacancies and challenges of employing immigrant workers

Similar to those in other countries, Thailand's immigrant workers are made up of both skilled and unskilled workers. As of March 2010, there were 100,338 foreign professionals and skilled immigrants residing in Thailand, according to the numbers of those issued work permits. Japanese topped the list of foreign groups in Thailand with work permits with 23,060 in total, followed by skilled immigrants from the United Kingdom, China, India, the Philippines, and the United States, respectively. Nearly two-third of the work permits for foreign nationals were for senior officials and managers and nearly one fourth were for professionals. A majority of the work permits held by Japanese were for employment in business and manufacturing while 59% of those held by Filipinos were in the field of education. Thirty percent of work permits held by skilled foreign workers were in manufacturing, 16% were in education, and 16% in trade (Huguet & Chamrathirong, 2011, Table 1).

At the same time, widening income gaps between Thailand and its neighboring countries, the slowing growth of Thailand's workforce, and the improvements in roads and the infrastructure linking the region are the major drivers of cross-

<sup>1</sup> Sussangkarn (1996) conducted an investigation using the SAM-CGE model to gauge the impact of labor migration on growth. According to this methodology, assuming a migrant population of 750,000, immigration raised the Thai GDP by about 0.55%, or approximately USD839 million at 1995 prices. Given the slight contribution due to small number of migrants in 1996, Martin (2007) adjusted the model and found that in 2005 foreign workers were estimated to be about 5% of Thailand's total workforce. They enhanced the GDP by 1.25, which is about USD2 billion of the USD1.7 trillion of the Thai GDP in 2005. Pholphirul and Rukumnuaykit (2010) proposed another methodology by incorporating the informal sector into the labor force. This study found a net increasing trend in GDP contribution from migrants of 0.03% of the real national income (880 million baht) in 1995 to around 0.055% of the real national income (2.039 billion baht) in 2005.

<sup>2</sup> Bryant and Rukumnuaykit (2007, 2012) found that immigration appears to have caused a small reduction in wages rather than in employment. A 10% point increase of migrant share is found to cause only a 0.23 percent reduction in domestic wages. A small immigration impact on native wages was also supported by Kulolkarn and Potipiti (2007), who found no significant effect of immigration on reducing the wages of Thai workers.

<sup>3</sup> In some empirical studies by Abraham (1983) and Abraham and Katz (1986), job vacancies have been used to distinguish frictional or structural employment from the "deficient-demand" structure.

<sup>4</sup> Apart from economic activity, the labor shortage problem is also crucial in non-economic (non-tradable) household activities, such as domestic work. Employing migrant to do domestic works not only helps the Thai household to alleviate this problem, but also allows Thai workers, especially women, to participate in the labor market. This partly alleviates labor shortage problems in some specific sectors.

<sup>5</sup> There are a number of reasons explaining why there is no research on immigrant labor demand in Thailand. First, there is lack of firm-surveys in Thailand, especially in the context of labor employment, wage cost, and report of vacancies. Second, since a majority of immigrant workers in Thailand are still considered undocumented migrants, firms do not aggressively participate in such surveys.

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