

International Labour Migration in East Asia: trends, patterns and policy issues

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This paper examines emerging patterns of labour migration in East Asia and related policy issues from the perspective of labour-importing countries. Following a survey of the characteristics of labour flows stemming from, but more importantly occurring within, the region, it probes inter-country differences, both in the timing of the entry of migrant workers and the degree of dependency on migrant labour in the context of rapid economic growth and labour market change. There is clear evidence that labour migration is now a structural feature of the economic landscape in these countries. The policy challenge is to design market-based systems for making the new reliance on labour inflows consistent with changing domestic labour market conditions and the priorities of national development policy, while minimising social resentment and adverse implications for political relations with neighbouring labour-sending countries.

International labour mobility has been an increasingly important feature of the economic landscape in East Asia over the past three decades. From the late 1980s, high-performing economies in the region have been absorbing an increasing volume of foreign workers from neighbouring countries that are at earlier stages of demographic and economic transition. In the wake of the East Asian financial crisis (1997–98) there was some reduction in the number of foreign workers in the crisis-affected countries. These cuts proved, however, to be much more muted than anticipated and labour inflows soon returned to pre-crisis levels. Thus, the indications are that labour migration is now firmly rooted as an important

feature of economic growth and structural adjustment.

Managing labour immigration is at the centre of policy debate in labour-importing Asian countries¹—a position this issue has long occupied in Western Europe and North America. Employers in labour-importing Asian countries have begun demanding a more liberal and transparent approach to the entry of foreign workers. Employers argue that the availability of foreign labour contributes to economic dynamism and enables the economy to be flexible when structural adjustment is required. Governments, however, face greater political obstacles in freeing up restrictions on international labour flows than they do in liberalising international

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1 The related literature is too large to be listed in full. Some recent works, which provide extensive listing of previous works, include Ananta and Arifin (2004), Chen, Ko and Lawler (2003), Hugo (2004), Iguchi (2002), Kim (2004), Bhatnagar and Manning (2005), Park (2002) and Wickramasekera (2003).

trade and investment. Trade unionists voice concerns that local unskilled workers are likely to suffer in the face of immigration, as jobs are lost to migrant workers or domestic wages are suppressed. The perceived adverse social consequences resulting from the presence of foreign workers is a recurrent theme in the mass media. Such social resentment, coupled with the widely held view in policy circles that the dependence on cheap foreign labour tends to slow economic restructuring and productivity growth, has underpinned the generally restrictive policy stance towards migrant workers.

The governments of labour-exporting countries in the region generally believe that the national gains from emigration outweigh the potential costs.² In particular, they consider labour migration as a safety valve for unemployment and underemployment and as an important source of foreign exchange. Reflecting this favourable perception, the facilitation and promotion of labour export has become an important aspect of their labour and employment policies. The restrictive policies pursued by the labour-importing countries relating to the entry of immigrant workers have therefore begun to strain relations between countries.³ It is becoming increasingly difficult to formulate viable strategies for regional cooperation in the spheres of trade and investment without paying attention to labour migration issues.

The purpose of this paper is to review emerging trends in international labour migration in East Asia and related policy issues from the perspective of the major labour-importing countries in the region. The paper is primarily motivated by the growing importance of managing labour migration as a public policy issue in these countries. A study of labour migration in East Asia is also of wider global relevance,

however, given the emphasis placed on labour migration in the recent debate on international economic reforms. Analysts such as Bhagwati (2004), Rodrik (2002), and Winters et al. (2003) have made a strong case for the liberalisation of temporary international migration flows, going beyond the so-called 'Mode 4' reforms under the General Agreement on Trade in Services (GATS),⁴ as a means of redressing global income disparities. Surprisingly, this new debate has so far focused on liberalising restrictions on temporary flows by developed countries, implicitly treating international labour migration as a North-South phenomenon. It has ignored the fact that much contemporary international migration is intra-regional in nature, and that intra-regional labour flows are rapidly gaining prominence over North-South flows (Hatton and Williamson 2002 and Massey et al. 1998). Potential gains from international policy initiatives in this area are likely to be limited unless the intra-regional dimension is taken into account.

The countries covered in this study are Japan, Singapore, Hong Kong, Taiwan, Korea, Malaysia and Thailand. Following the standard practice in this field of study, the term 'international labour migration' (ILM) is used to refer to those who migrate for work reasons. The term includes both persons who migrate for work and long-term settlement and contract labour migrants recruited for specific periods. The latter category, however, dominates labour flows stemming from and occurring within East Asia, accounting for over 90 per cent of the total. In addition to labour migration, refugee movements (particularly from Vietnam and China) have become an increasingly important aspect of international migration within the region. This form of

2 For an extensive review of the issues and evidence linking labour out-migration and economic development in low-income countries, see Lucas (2005).

3 Examples include the dispute between the Philippine and Singaporean governments in 1998 over the civil rights of Philippine female workers employed in Singapore, the serious concern expressed by Indonesia and the Philippines about mass repatriation of illegal workers by Malaysia during the 1997-98 East Asian financial crisis, and the ongoing policy dialogue between Indonesia and Malaysia on controlling illegal labour flows.

4 International migration of temporary workers is a part of reform commitments in services trade agreed upon in the Uruguay Round of multilateral trade negotiations. These commitments, which come under 'Mode 4' in the GATS, apply only to workers in the services sector and negotiations have so far been restricted to business, skilled, and professional migration.

migration deserves separate treatment because the underlying motives, socioeconomic implications, and the related public debate concerning this type of migration differ greatly from those concerning labour migration.

The paper begins with an overview of labour flow trends and characteristics, both in terms of labour flows originating in East Asia and in terms of intra-regional flows, but with an emphasis on the growing importance of the latter. The next section aims to explain labour flows through an examination of the interaction of supply (push) and demand (pull) factors as well as of government policy. A key theme of this discussion is the inter-country differences in the timing of migrant worker entry and the degree of dependency on migrant labour in the context of structural transformation and labour market change. The subsequent section examines the evolution and current state of national policies towards labour migration, using the typology of labour market transition developed in the preceding section as the organising framework. The paper concludes with some remarks on the importance of international labour migration as a structural feature of the ongoing process of economic transition and its implications for public policy in labour-importing countries and the policy dialogue on regional economic cooperation.

Trends and patterns of labour inflow

There is a long history of international migration and ethnic diversity in East Asia. During the nineteenth century and in the twentieth century until the outbreak of World War II, international labour migration played a pivotal role in economic transformation in many countries in the region.⁵ Between World War II and the late 1980s, intra-regional Asia-Pacific labour migration was largely limited to the

inflow of workers to Hong Kong and Singapore from surplus-labour countries in the vicinity. Since then, Japan, South Korea, Taiwan, Malaysia and, more recently, Thailand have absorbed a growing number of workers from the surplus-labour countries in the region. By the early 1990s, intra-regional labour flows had reached significant levels and some authors named East Asia as the 'newest international migration system' or the 'newest migratory pole' (Findlay and Jones 1998; Findlay et al. 1998 and Salt 1992).

The available estimates of migrant worker stocks in the seven countries under consideration are pieced together in Table 1.⁶ By the mid 1990s, migrant workers accounted for over 20 per cent of the labour force in Singapore, 12 per cent in Malaysia, around 10 per cent in Hong Kong and 6 per cent in Thailand. In Korea and Taiwan the degree of dependence on migrant workers was still small (1–2 per cent of the workforce) but subsequently grew rapidly (Figure 1). Although the stock of migrant workers accounted for a relatively small proportion of total labour supply in most countries at this time, such workers made up an increasing proportion of the growth in labour supply during the 1990s. In the decade to the mid 1990s, migrant workers accounted for more than half of the growth in the less-skilled labour force in Malaysia, and perhaps one-third of the growth in the less-skilled labour force in Thailand in the first half of the 1990s (Athukorala and Manning 1999).

The impact of the East Asian financial crisis on the employment of migrant workers proved to be much more muted than anticipated. Malaysia, Thailand and Korea tried to cut back on migrant worker intakes and deal with the problem of illegal migrants. These measures had only limited success, although government policies were more successful in stemming the inflow of migrants than in

5 For a brief history of labour migration in the region and additional references see Athukorala (1993).

6 These estimates should be treated only as rough indicators because of the difficulties involved in the estimation of clandestine workers. Estimates are presumably more accurate, however, for Japan, South Korea and Taiwan than for the other nations under consideration, because these three countries have well demarcated borders and administrative controls that assure reasonably accurate enumeration of entrants and visa overstayers.

Table 1
Immigrant workers in East Asian countries

	Source	Year	Stock ^a ('000)	Illegal migrants (per cent) ^b	Migrant labour dependency ratio (MLDR) ^c
Japan	Mori (1997) ^d	1986	119	53	2
	Iguchi (2002) ^d	1990	260	39	4
	"	1993	611	48	9
	"	1996	631	54	9
	"	1998	668	55	10
	"	2000	677	34	11
	International Migration Program, ILO, Geneva ^l	2003	706	..	13
Korea	Park (2002) ^e	1987	6	66	..
	"	1990	7	87	..
	Hahn and Choi (2004) ^f	1993	66	81	3
	"	1996	210	61	9
	"	1998	184	57	8
	"	2000	312	61	13
	"	2002	507	73	22
Taiwan	Tsai (1991: Table 1) ^g	1990	125	100	14
	Tsay (2003: Table 2) ^h	1995	189	..	21
	"	1998	271	..	28
	Council of Labour Affairs, Executive Yuan, Taiwan ^l	2000	324	..	33
	"	2002	303	..	30
	"	2004	314	..	31
	"	2004	314	..	31
Hong Kong	Athukorala and Manning (1999) ⁱ	1981	140	..	81
	"	1993	320	..	95
	"	1996	245	..	85
	Manning (2002) ⁱ	1998	251	..	73
	"	2000	255	6	72
Singapore	Athukorala and Manning (1999) ⁱ	1970	14	..	2
	"	1980	125	..	9
	"	1990	369	..	13
	"	1996	370	..	21
	Manning (2002) ⁱ	2000	530	1	26
Malaysia	Athukorala and Manning (1999) ⁱ	1984	500	..	100
	"	1994	1,063	..	133
	Kanapathy (2004)	1996	1,471	40	113
	"	1998	1,127	..	164
	"	2000	800	35	105
	"	2003	1,780	23	220
Thailand	Athukorala and Manning (1999) ⁱ	1988	165	..	6
	"	1990	170	..	5
	Chalamwong (2004)	1997	1,126	85	31
	"	1999	767	87	21
	"	2003	1,101	91	30

^a Including illegal (clandestine) workers.

^b The percentage of illegal workers in the total stock. For Japan and Korea, illegal workers are foreigners overstaying their visas. Data on illegal workers are not available for Taiwan, but it is believed that, following the introduction of the migrant worker policy in 1993, the share of illegal workers has declined dramatically (perhaps to 5–10 per cent of the total migrant worker stock).

^c Number of immigrant workers per 1,000 in the labour force.

^d The original source for all studies in Japan is the Ministry of Labour (unpublished estimates). The estimates include illegal (undocumented) foreign workers (visa overstayers) but do not cover permanent residents.

^e Based on *Annual Survey of Immigration*, Ministry of Justice, South Korea.

^f Based on *Yearbook of Migration Statistics*, Ministry of Justice, South Korea.

^g Estimate based on official records of foreigners overstaying their visas.

^h Based on *Monthly Bulletin of Statistics* 116 (September 2002), Table 11.4, Council of Labour Affairs, Taipei.

ⁱ Based on various published papers and official documents and internet sources

^l Data obtained from websites of the given organisation.

repatriating them.⁷ In Malaysia, permits were extended for an additional year in August 1999 in response to continued pressure from low-wage industries. Following a notable decline in the three years following the onset of the crisis, the estimated stock of migrant workers reached an all time high (nearly 1.8 million or 22 per cent of the labour force) in 2003 (Figure 1).⁸ Even in Korea, where unemployment rates rose much more sharply than in the other crisis-hit countries, migrant workers were not repatriated in large numbers. In sum, the notion that the reliance on contract workers was a temporary phenomenon associated with the pre-crisis economic boom was dispelled by the experience of the post-crisis years. This inference about the structural nature of the phenomenon of international labour migration is also consistent with the Japanese experience in the 1990s. Despite lacklustre growth performance throughout the decade, the stock of foreign workers in Japan recorded an almost three-fold increase between 1990 and the year 2003, when there were over 700,000 workers, accounting for 1.3 per cent of the Japanese labour force.

While the share of foreign workers in the workforce varies across countries, there is a striking similarity across countries in terms of the skill composition of workers and the duration of their work contracts.⁹ The workers predominantly belong to unskilled and semi-skilled categories. Most of them are engaged in tasks on the lower rungs of the employment ladder (dirty, dangerous and demanding (3-D) jobs) that are shunned by local workers. Movement of skilled and professional manpower (brain circulation) has gained importance over

the years as an integral aspect of greater regional integration through trade and investment (Manning 2002), but skilled and professional workers still account for a small share of total labour flows.¹⁰

The past two decades have seen two interesting developments in regional flows of professional migrants that may become increasingly significant as the countries in the region become more integrated through investment and trade linkages. First, the newly industrialised economies (NIEs) in the regions have begun to experience the return of professional workers (skilled labour) from developed countries (mostly the United States). For instance, in the early 1990s a significant number of professionals of Korean and Taiwanese origin began to return from the US to their countries of origin, both because of the 'glass ceiling' in the United States that prevents movement from research and development into management positions and because of the opportunities opening up in their countries of origin to meet these unmet career ambitions (Ong, Cheng and Evans 1992 and Saxenian and Shu 2001). These flows seem to have increased rapidly in recent years because of growing employment opportunities in quickly growing high-tech industries.

Second, there has been an increase in the movement of professional and technical labour, mostly from Japan and the NIEs to fast-growing countries in Southeast Asia, but also among the NIEs and Japan (International Labour Organization 1992; Manning 2002, and Bhatnagar and Manning 2005). While no numbers are reported, many countries in the region seem to have large and growing Japanese,

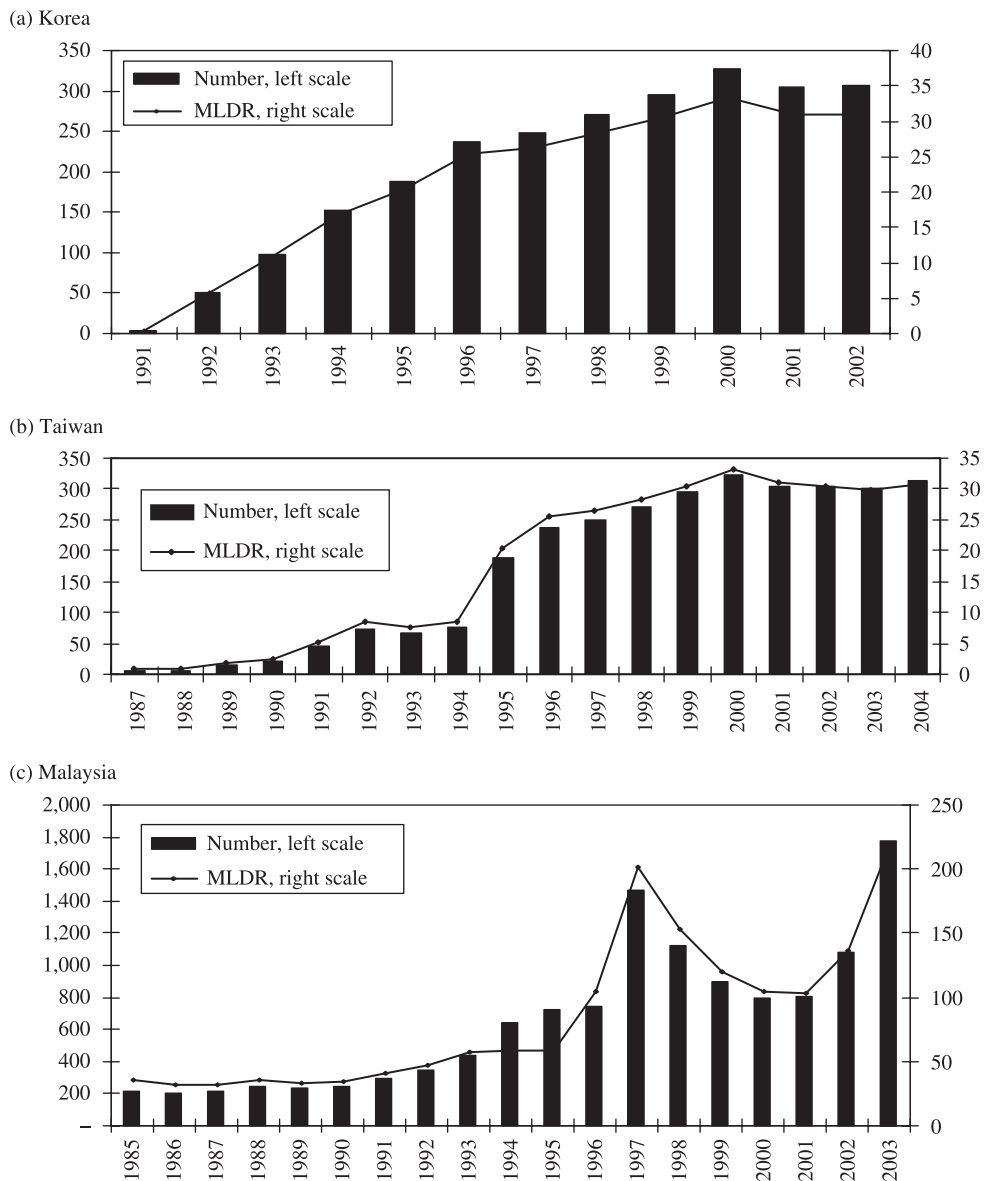
7 Malaysia sent back about 200,000 Indonesian workers employed in the services and construction sectors in 1998, while Thailand reported repatriation of about 200,000 Myanmar workers by the end of 1998. For a detailed discussion see Manning (2002).

8 This is higher than the share of foreign workers in any European labour-importing country in the post-war era, with the exception, briefly, of Luxembourg and Switzerland (Kindleberger 1967 and Zimmermann 1994).

9 There is a sizeable literature on this subject. For useful surveys see Stalker (2000) and Wickramasekera (2003).

10 According to available estimates, the share of these workers in the total estimated stock of migrant workers is as follows: 2 per cent in Malaysia, 6 per cent in Thailand, 9 per cent in South Korea and 6 per cent in Hong Kong (calculated from Table 7 and 9 in Manning (2002)). They probably accounted for close to a one-quarter of all high-level workers in Singapore and around 5–10 per cent of all high-level workers in Malaysia and Thailand in the same year (Bhatnagar and Manning 2005). Unskilled labour tends to move from the less developed to the more developed countries within the region, while skilled labour moves in the opposite direction, mostly in a complementary fashion to trade and FDI flows.

Figure 1
Migrant worker stock (MWS) and migrant labour dependence ratio (MLDR) in Korea, Taiwan and Malaysia



Sources: Immigrant worker stock: Malaysia: Kanapathy, Vijayakumari, 2004. 'International labour migration in Malaysia: trends, policies and impact on the economy', paper presented at the conference on Cross-Border Labour and East Asian Integration, East Asia Development Network, Institute of Strategic and International Studies, Jakarta, 9–10 July; Korea and Taiwan: see Table 1. Labour force: World Bank, *World Development Indicators*, database, World Bank, Washington, DC.

Table 2
Source country composition of the estimated stock of migrant workers in East Asian host countries, 1997–98 (per cent)

Source Country	Japan (1997/98)	Korea (1998)	Taiwan (1998)	Hong Kong (1997)	Singapore (1997)	Malaysia (1998)	Thailand (1997)
Indonesia	0.5	1.3	8.1	6.6	3.6	54.5	..
Malaysia	10.2	0.6	0.4	2.7	38.3	.	..
Philippines	10.2	6.3	41.7	24.0	15.2	11.1	..
Thailand	7.7	3.1	48.8	4.5	13.4	1.0	..
China	11.2	56.0	..	30.4	..	..	20.5
Korea	11.9	..	..	..	..	..	..
South Asia	1.7	10.7	..	6.3	13.4	27.9 ^b	5.1
Western countries	30.2 ^a	..	..	21.6	10.8	2.5	3.3
Other/unclassified	16.4	22.0	1.1	3.9	5.3	3.0	71.1 ^c
Total	100	100	100	100	100	100	100

^a Mostly from Brazil, Peru and Mexico.

^b Mostly from Bangladesh.

^c Principally from Myanmar, Lao PDR and Cambodia.

Source: Compiled from Stahl, Charles, 1999. 'International labour migration in East Asia: trends and policy issues', paper presented at the symposium: New Trends in Asia Pacific Migration and the Consequences for Japan, Waseda University, 23–27 September: Table 3.

Taiwanese and Korean communities associated with direct foreign investment. While a significant number of these foreign workers seem to work for domestic firms, the majority are employed in affiliate companies of multinational enterprises (MNEs). Developed-country MNEs have also begun to hire high-level manpower from some countries in the region to fill positions in both their regional and global networks of affiliated companies. A peculiarity of this type of migration is that its evolution depends not on the aspiration of the individual to move (as with other forms of migration) but on the development of the organisational infrastructure within which the moves take place (Salt 1992).

One general feature of the labour migration system in Asia (and in the Middle East) is that there is rigid control of foreign workers and the prohibition of settlement and family reunion. The flows of both unskilled and skilled workers consist predominantly of contract workers (who migrate for a duration of 2–3 years) rather than permanent settlers. The

strict control system has apparently been successful in preventing a replay of the European experience in which temporary guest workers turned into settlers and new ethnic minorities.¹¹ Thus, the outflows are essentially associated with return flows and repatriated earnings. The ability of foreign workers to shift employment away from the initial recruitment position to other industries and other regions is regulated by the employment contracts. Among the labour-importing countries, only Singapore has a policy of encouraging skilled and professional workers to obtain permanent residence and subsequently citizenship. As already noted, Korea and Taiwan have also begun to experience some return migration for permanent settlement. In both cases however, the numbers involved are rather small (probably a few thousand).

Table 2 provides data on the source-country composition of the migrant worker population. For Malaysia, Thailand and Hong Kong (and Singapore in the early years), the main sources of international migration are cross-

11 Perhaps with the exception of early Indonesian migrants to some parts of Malaysia (Guinness 1990).

Table 3
Distribution of foreign workers by sector, Japan, Singapore, Taiwan and Malaysia (various years)

Sector	Japan		Korea		Singapore	Taiwan		Malaysia ^b	
	1990	2000	1995	2002	1980	1995	2002	1992/93	2000
Primary sector ^a	0.4	0.9	2.3	3.2	.	.	.	37.7	16.5
Industry	38.7	44.5	81.1	89.6	46.3	90.0	60.8	43.2	54.9
Construction	10.1	8.3	7.3	1.3	20.2	21.5	8.4	34.4	23.6
Manufacturing	28.5	36.2	73.3	88.3	46.1	68.4	58.4	8.8	31.3
Utilities	-	-	..	..	.	..	..	..	..
Services	58.8	50.9	8.9	6.7	33.7	9.3	38.4 ^a	18.6	28.4
Unclassified	2.1	3.7	7.5	0.5	..	0.8	0.8	0.5	0.2
	100	100	100	100	100	100	100	100	100

^a Agriculture forestry and fishing, and mining.

^b Data relate to registered workers in Peninsula Malaysia.

Sources: Japan: Japan Statistical Bureau, 1995. *The 1990 Population Census Report, Vol. 3*, Statistical Bureau, Tokyo and Japan Statistical Bureau, 2003. *The 2000 Population Census Report, Vol. 3*, Statistical Bureau, Tokyo. Singapore: Athukorala, Prema-chandra and Manning, Chris, 1999. *Structural Change and International Migration in East Asia: adjusting to labour scarcity*, Oxford University Press, Melbourne and Oxford: Tables 3.9 and 5.4. Korea 1995: Park, Won-Woo, 2002. 'The unwilling hosts: state, society and the control of guest workers in South Korea', in Y.A. Debrah (ed.), *Migrant Workers in Pacific Asia*, Frank Cass, London: 66–94; Korea 2002: Hahn, Chin Hee and Choi, Yong-Seok, 2004. 'Foreign labour inflow and its consequences in Korea', paper presented at the conference on *Cross-Border Labour and East Asian Integration*, East Asia Development Network, Institute of Strategic and International Studies, Jakarta, 9–10 July. Taiwan: Lee, Joseph, 2002. 'The role of low-skilled foreign workers in Taiwan's economic development', in Y.A. Debrah (ed.), *Migrant Workers in Pacific Asia*, Frank Cass, London: 41–66 and Tsay, Ching-Lung, 2003. 'International labour migration and foreign direct investment in East Asian development: Taiwan as compared with Japan', in Y. Hayase (ed.), *International Migration in APEC Member Economies: its relation with trade, investment and economic development*, APEC Study Centre, Institute of Developing Economies, Tokyo: 131–67; Malaysia: Kanapathy, Vijayakumari, 2004. 'International labour migration in Malaysia: trends, policies and impact on the economy', paper presented at the conference on *Cross-Border Labour and East Asian Integration*, East Asia Development Network, Institute of Strategic and International Studies, Jakarta, 9–10 July.

border flows. Taiwan and Korea, however, admit workers from far-flung, yet selected, countries in East and South Asia, including Thailand, Malaysia and Bangladesh. Taiwan and Malaysia are examples of countries that try to control the source of inflows on socio-cultural grounds. Taiwan aims to discourage the entry of workers from mainland China and encourages manufacturing workers from Thailand. The Malaysian recruitment policy favours the importation of workers from Muslim countries, in particular Indonesia and Bangladesh.

There are both differences and similarities in the sectoral distribution of migrant workers among the countries being considered (Table 3). In Malaysia and Thailand, migrant workers are typically more involved in agriculture (including fisheries). However, in both countries, migrant workers are increasingly employed in manufacturing, mainly in small

segments of lagging industries and in small and medium-scale enterprises. Interestingly, the share of migrant workers employed in manufacturing in Singapore, Taiwan, Malaysia and Korea is now much higher than the comparable figure for native workers. A large proportion of workers classified as employed in the services sector in Hong Kong and Singapore are female workers involved in domestic work.

Data on the industry composition of the migrant worker population in Taiwan and Korea (Tables 4 and 5) suggest that the dependence on foreign labour is much more widespread than is usually thought. There is a remarkable similarity between the two countries in terms of the distribution of migrant workers across industries. While migrant workers are heavily concentrated in the traditional labour-intensive industries, particularly

Table 4
Foreign workers in Korean manufacturing (share in production workers)

KSIC	Industry	Industry composition (per cent) ^a						Share in total employment (per cent)					
		1997	1998	1999	2000	2001	1997–2001	1997	1998	1999	2000	2001	1997–2001
15	Food and beverages	4.9	4.1	3.7	4.9	6.2	7.4	2.1	1.9	2.9	5.5	7.1	3.9
17	Textiles, except sewn wearing apparel	22.6	33.1	22.6	23.8	23.9	39.0	7.2	6.7	10.4	11.9	10.5	9.3
18	Sewn wearing apparel and fur articles	4.6	2.4	5.6	3.2	3.8	6.7	1.5	0.8	3.4	3.7	8.2	3.5
19	Leather products, luggage and footwear	4.0	3.1	2.9	2.3	3.0	4.9	3.2	2.3	5.2	3.4	5.9	4.0
20	Wood and wood products except furniture	1.1	0.7	1.3	1.1	1.3	1.8	2.6	2.3	3.5	11.8	5.1	5.1
21	Pulp, paper and paper products	1.9	1.7	2.1	2.1	2.2	3.2	4.4	3.3	3.6	8.8	4.8	5.0
22	Publishing and printing	0.6	0.5	0.7	0.8	0.6	1.0	1.8	0.5	1.0	3.5	2.7	1.9
24	Chemicals and chemical products	3.3	2.5	2.8	2.4	2.7	4.4	4.7	3.2	4.1	5.9	5.4	4.7
25	Rubber and plastic products	7.4	7.3	9.2	9.8	9.7	13.9	6.3	5.7	8.2	15.1	10.4	9.1
26	Non-metallic mineral products	1.2	0.8	1.2	1.2	1.2	1.8	4.6	3.1	5.7	8.5	6.4	5.7
27	Basic metals	2.4	1.7	2.4	2.3	2.3	3.6	5.9	4.8	4.8	8.8	6.0	6.1
28	Fabricated metal products	6.0	5.9	7.3	8.0	7.3	11.1	3.5	2.9	7.8	10.4	9.3	6.8
29	Machinery and equipment	4.6	4.1	5.9	6.7	5.3	8.7	2.5	2.2	2.5	6.1	5.4	3.7
30	Computers and office machinery	0.4	0.2	0.3	0.7	0.4	0.7	4.2	1.5	5.7	6.5	4.0	4.4
31	Electrical machinery and apparatuses	7.7	6.1	4.0	4.9	6.8	9.1	3.0	2.2	2.5	6.2	5.0	3.8
32	Electronic components, radio, TV etc.	8.0	5.8	7.8	11.4	10.3	13.9	4.0	3.1	4.6	7.2	5.5	4.9
33	Professional equipment, watches, clocks	1.1	1.2	1.1	1.2	1.6	1.9	3.6	3.3	3.5	11.0	5.5	5.4
34	Motor vehicles	15.2	13.6	10.9	10.4	9.1	19.1	4.0	5.4	4.8	8.9	6.9	6.0
35	Other transport equipment	0.4	0.5	0.3	0.6	0.8	0.8	3.3	1.8	3.5	5.3	3.1	3.4
36	Furniture and miscellaneous manufacturing	2.5	4.6	8.1	2.2	1.7	6.7	3.0	2.1	5.4	4.9	10.7	5.2
	Total Manufacturing	100	100	100	100	100	100	3.9	3.2	5.2	8.1	7.3	5.5

^a Based on visas issued for industrial trainees.

Note: KSIC is the Korean Standard Industry Classification.

Source: Compiled from data reported in Hahn and Choi (2004), based on *Yearbook of Migration Statistics*, Ministry of Justice (various issues), and *Report on Small and Medium Business Survey*, Korean Federation of Small and Medium Business (various issues).

Table 5
Foreign workers in Taiwanese manufacturing

	Industry composition (per cent)				Share in total employment (per cent)			
	1992–94	1995–97	1998–2000	2001–02	1992–94	1995–97	1998–2000	2001–02
Food manufacturing	3.0	2.7	2.6	2.7	1.4	3.3	4.0	4.1
Textiles	23.2	19.3	19.3	18.1	8.7	18.5	21.9	21.3
Wearing apparel	2.8	2.4	1.8	1.6	1.4	3.3	3.3	3.0
Leather products	1.7	1.9	1.3	1.0	2.3	7.7	6.3	5.1
Wood and bamboo products	2.6	1.4	1.0	0.8	3.9	6.9	6.0	5.0
Furniture and fixtures	-	0.1	0.2	0.1	-	0.4	0.6	0.5
Pulp, paper and paper products	2.0	2.5	2.1	2.1	2.0	6.0	5.6	5.3
Printing	-	-	0.1	0.2	-	-	0.3	0.5
Chemical products	0.4	0.9	0.9	1.8	0.2	1.0	1.1	1.9
Rubber products	2.1	3.2	2.8	2.7	0.7	11.1	11.5	11.0
Plastic products	6.8	7.8	6.4	6.3	2.2	6.5	6.2	5.8
Non-metallic mineral products	6.1	5.8	4.2	3.8	3.7	8.9	8.5	7.9
Metal products	15.1	11.8	9.9	7.1	2.8	5.0	4.6	3.2
Machinery and equipment	3.9	2.9	3.9	9.0	0.4	2.6	4.0	8.7
Electrical machinery	12.3	20.8	27.9	29.4	1.6	6.1	8.6	8.4
Transport equipment	4.2	4.1	4.2	4.4	1.8	4.4	5.2	5.8
Precision equipment	0.3	0.4	0.5	0.5	0.5	2.5	2.7	2.8
Miscellaneous products	0.2	0.3	3.2	3.5	0.1	0.5	7.3	8.2
Manufacturing	100	100	100	100	2.6	6.3	7.2	7.0

Source: Compiled using data on migrant worker stock from Tsay, Ching-Lung and Lin, Ji-ping, 2001. 'Labour migration and unemployment of local workers in Taiwan', *Asian Pacific Migration Journal*, 10(3–4):505–34 and Tsay, Ching-Lung, 2003. 'International labour migration and foreign direct investment in East Asian development: Taiwan as compared with Japan', in Y. Hayase (ed.), *International Migration in APEC Member Economies: its relation with trade, investment and economic development*, APEC Study Centre, Institute of Developing Economies, Tokyo: 131–67, and manufacturing employment from *Industry of Free China*, Republic of China, Council for Economic Planning and development (various issues) (economy-wide employment).

textiles, rubber and plastic products, and miscellaneous manufacturing, they are also significant in industries such as electronics, electrical machinery and motor vehicle industries, which are conventionally classified as capital/technology-intensive. It seems that 3-D jobs are not necessarily industry-specific.

Explaining trends

While the overall flow of labour has increased, the timing of the entry of migrant workers in significant numbers and the degree of dependence on imported labour vary across the coun-

tries being studied. Why have labour inflows grown? Why do the rates of growth of inflows differ among receiving countries? Answers to these questions are important for both understanding the likely future course of the migration process and for informing the current policy debate on appropriate national labour migration policies.

Some theory

Three sets of factors jointly determine the size and direction of labour flows across countries. These are supply (push) factors (factors affecting the decision of emigrants to leave the

country of origin), demand (pull) factors (factors influencing the entry of immigrants to a given host country), and government policy, which directly or indirectly conditions/regulates demand and supply factors. In the case of internal labour migration, the third factor is not important (except in some former socialist countries) because governments generally do not control the movement of people within national boundaries. This was also the case for mass international migration in the half century before World War I, when potential migrants were relatively unconstrained by policy intervention (Hatton and Williamson 1998). However, the role of government policy, particularly that of receiving countries, is important in explaining contemporary international migration. Migratory flows are conditioned by immigration policies that serve as a filter between the desire to migrate and the movements that take place. It is not possible, therefore, to analyse international migration without understanding the immigration control system in receiving countries (Bhagwati 1979 and Piore 1979).

On the supply side, the migrant's decision to move depends primarily on the expected improvement in income from migration. Thus, wage differentials between sending and receiving countries, adjusted for costs of movement and differences in costs of living as well as for the probability of being unemployed once the destination country has been reached, is treated as the critical factor in explaining international labour migration. Once the outflow begins, it may perpetuate itself via the information and assistance offered by previous waves of migrants to newcomers. Migratory networks develop, linking areas of origin and destination, and helping to bring about changes in both. The network aspect of migration also means that trade and foreign direct investment may serve to provide conduits for increased migration.

Migratory decisions also depend on the cost of migration. For this reason, migrants from

very poor families are unlikely to migrate, unless there is an institutional mechanism for relaxing the credit constraint. For the same reason, at the individual country level emigration from poor countries may increase as economic development takes place. However, the poverty constraint on migration is not independent of the migration process; it can be mitigated through remittances from previous migration (Hatton and Williamson 2002). Distance is probably an important determinant of the 'direct' cost of migration, although advances in modern transportation have greatly weakened the link between distance and migration cost. Nevertheless, people have more (and better) information about, as well as more extensive social and cultural links with, countries that are closer to home. This perhaps explains why migration flows are typically larger among countries that are geographically (and culturally) closer (Borjas 1998).

Analysing demand (pull) factors influencing the migratory process, while allowing for the role of host country policy, is a major challenge. The celebrated Lewis model of economic growth with surplus labour, which was introduced to the international migration literature by Kindleberger (1967) and recently extended by Athukorala and Manning (1999) to accommodate open-economy (trade-investment migration) interrelations in the process of economic transformation in late-industrialising countries, provides a useful framework for this purpose.

The starting point of the model is a dual economy with a 'modern' (capitalist) sector and a 'subsistence' (traditional) sector.¹² To recapitulate briefly the main features of the model, profit maximisation rules apply in the modern sector, whereas the marginal product of workers is equal to or below their average product in the subsistence sector. As output expands in the modern sector, profits increase while wages remain low, leading to a continuous outward shift in the demand for labour. In an open economy, this shift takes place

12 For a description of the basic model, see Lewis (1954, 1957). The production process in each sector makes use of two factors—capital and labour in industry and land and labour in agriculture. The subsistence sector is not conterminous with agriculture. It includes handicraft workers, petty traders and domestic servants, as well as farmers.

through the export of goods that are intensive in unskilled labour. Under the small country assumption, the economy does not face an external demand constraint, and labour costs play a critical role in determining production structure.

The process of growth continues up to the point where the surplus labour pool is depleted. This is the famous Lewis 'turning point'. From then on, the economy begins to look very much like a developed economy. The timing of the emergence of labour scarcity depends on factors such as the initial pool of unemployed and underemployed workers (the surplus labour pool), the size of the labour force involved in the rural economy (agricultural sector), the size of the urban informal sector (which provides a potential source of labour for modern sector expansion as the growth process gets going), demographic dynamics, and the emerging patterns of labour market segmentation associated with growing prosperity. As domestic labour supply becomes less elastic (as a result of a slowdown in population growth, the aging of populations and the depletion of labour reserves in the rural economy and the urban informal economy) and increases in income and associated changes in living patterns induce nationals to shun jobs at the bottom end of the skill and wage distribution, industrial expansion naturally results in higher wages, which bite into profits.

Labour-market tightening does not, however, necessarily induce the opening of an economy to migrant workers. At this stage of economic transformation, firms have two alternatives to employing foreign workers: capital deepening and the relocation of production to low-wage countries (capital chasing labour). Under the first strategy, the country adjusts structurally through the adoption of new technology in order to establish competitive industries at a higher wage-rental ratio. Labour scarcity (and rising wages) is, however, only the 'trigger factor' in this process of industrial upgrading. The outcome depends on the fulfillment of other preconditions; in particular that human capital and infrastructure are sufficiently developed. The second

alternative, exporting capital (the relocation of production to cheap-labour countries), is not an option available to all firms. It is obviously not open to firms in most non-traded goods sectors—in services, domestic transport and construction. Even in tradable goods sectors this option is mainly restricted to large-scale firms, mostly in oligopolistic industries. For successful overseas operation, the investing firm has to have some 'ownership advantage' over its rivals (or potential rivals) in the new investment location. For small-scale firms in almost all industries, and for many firms involved in diffused-technology product lines, exporting capital in search of labour is not a feasible response to domestic labour-market tightening.

These contrasting options in the face of labour-market tightening, which impact on capital deepening and capital exporting respectively, provide the backdrop for significant differences among countries in terms of their reliance on the third alternative when facing a labour shortage: employment of foreign labour. Socio-cultural imperatives dictate that governments generally give priority to encouraging 'capital deepening' and 'capital chasing labour' before opening the door to foreign workers. The pressure exerted by internal lobby groups for and against opening the door to migrant workers also depends on the viability of these alternative routes in sustaining growth in an economy facing domestic labour shortages. Firms' decision to rely on foreign workers is usually conditioned by public policy. Governments usually attempt to restrict and direct the inflow of migrants to minimise its (perceived or real) adverse effects on the domestic employment situation and income distribution (and of course on 'non-economic' factors); contract-labour immigration systems are essentially controlled systems. Thus, under the labour-importing alternative, one could visualise a 'job ladder economy' (Bhagwati 1979) in which the growing demand for labour leads to higher-wage jobs being filled by existing domestic labour supply, and bottom-of-the-ladder, unskilled low-wage jobs being filled by the recruitment of migrants.

The East Asian experience

Significant cross-country differences in living standards and wages emerged in East Asia in the 1980s. These gaps expanded further in the 1990s and resulted in vast economic disparities between labour-sending and labour-receiving countries. The desire to acquire a better standard of living has obviously been the fundamental pull factor driving migration. However, patterns of migration cannot be explained in terms of differences in the level of economic development among countries (or within a country over time) alone. For instance, the dependence on foreign workers (as measured by the number of immigrant workers per 1,000 in the labour force) in Malaysia is five times higher than in Korea and Taiwan, while the latter two countries depend more heavily on migrant workers than Japan (Table 1). The upshot is that, while the vast disparities in economic conditions have set the stage for labour migration, actual migrant flows are fundamentally determined on the demand side, with the policies of importing countries playing a pivotal regulatory role. The Lewis framework helps explain economic forces influencing the nature and the degree of restrictiveness in government policy.

For much of the post-war era, Japan was unique among the advanced industrial nations in that it managed to develop without relying upon foreign workers to supplement the domestic labour force (Chiswick 1998 and Reubans 1982). The demand-side framework outlined in the previous paragraphs enables us to explain this historical experience (as well as the recent emergence of Japan as a labour-importing country) reasonably well in terms of ordinary economic forces impinging on the labour market. There is clear evidence that the great Japanese economic expansion that

occurred between the end of World War II and the 1970s was fuelled by a relatively abundant supply of labour compared to the European industrial nations, which began to experience a massive influx of guest workers as early as the late 1950s (Athukorala and Manning 1999).¹³ Japan started post-war growth with a large population base. Demographic changes following the end of the war—the baby boom from 1947 to 1949 and the subsequent dramatic decline in the death rate—further augmented the labour force. Another important factor was the persistent increases in the female labour force participation rate during the first three decades of the post-war period. The annual percentage growth rates of the working age population and total labour force in the 1960s and 1970s exceeded that of the major member nations of the Organisation for Economic Co-operation and Development (OECD), except for the United States, by a wide margin (Athukorala and Manning 1999).

Japan also started its post-war growth process with a comparatively large reserve of labour in agriculture. Among the major industrial countries, only Italy's labour force reserve in agriculture was as large as Japan's in the early 1960s. The aggregate reallocation of labour from agriculture and the rural economy to the modern sector in Japan was phenomenal by the historical standards of the industrialised countries in Europe. Hand in hand with the transition of labour from agriculture, was a clear shift in manpower from self-employment and other informal work arrangements to salaried employment in the formal economy. Another supply-side factor that contributed to a prolonging of labour-market flexibility in Japan was a sharp reduction in emigration.¹⁴ Reflecting the cumulative impact of these factors, the elasticity of labour supply continued to remain high during the rapid growth phase in the post-war period.

13 On the European experience with guest workers, see Borjas (1998) and Zimmermann (1994).

14 Japan has a significant history of labour out-migration dating back to the Meiji Restoration. In the immediate post-war period, a significant number of Japanese left the country for overseas settlement in response to the dearth of domestic employment opportunities. The Japanese government encouraged emigration at the time as a safety valve for domestic labour-market pressure. By the mid 1960s, however, labour outflows had virtually stopped, partly as a result of the rapid expansion of domestic employment opportunities (Mori 1997).

From about the early 1970s, signs of a gradual tightening in Japan's labour market began to emerge. A rapid decline in fertility—brought about by economic affluence coupled with the aging of population—had resulted in a decline in domestic labour force growth. The rate of increase in female labour force participation also began to decline from about the late 1960s. As a result of a steady rise in life expectancy since World War II, the share of the aged population in the total population rose sharply, from about 6 per cent in 1960 to over 10 per cent in the mid 1980s. Reflecting the cumulative impact of these factors, the annual rate of labour force growth fell from over 2 per cent in the 1960s to just over 1 per cent in the 1980s (Sato 1998). The labour pool in the agricultural sector and the informal urban sector declined from the early 1960s, although it remained sizable by developed-country standards until the mid 1980s. The rising job aspirations of new labour-market entrants in an increasingly affluent society began to be reflected in dramatic changes in job preferences, which led to a significant degree of labour market segmentation (Mori 1997). In particular, new entrants began to show a reluctance to engage in 3-D jobs and jobs that did not provide a setting for future career advancement through on-the-job training and/or through employment by a reputable employer (that is, they avoided 'dead-end' jobs).

The structure of the Japanese economy also underwent inexorable changes, with implications for both the level and the composition of labour demand. The share of manufacturing in total domestic output tended to decline and that of services to increase from about the mid 1980s. By the early 1990s, the service sector accounted for over 60 per cent of total output, up from less than 50 per cent a decade earlier. This shift in production structure implied an increase in the labour intensity of aggregate production (many services are more labour-intensive than manufacturing activities). Employment expansion in the services sector also tended to exacerbate the bias towards 3-D and dead-end jobs (Mori 1997). Thus, labour market segmentation driven by changes in job preferences was compounded by demand-side

development rooted in changes in the production structure.

Japanese firms first responded to growing labour scarcity through capital deepening (greater reliance on labour-saving investment) and relocating labour-intensive production overseas. These alternative strategies soon reached their limits as viable policy responses to domestic labour shortages. Thus, by the late 1980s, the objective conditions for a semi-permanent foreign worker presence were already in place in the Japanese economy.

Korea and Taiwan followed closely in Japan's footsteps. Starting from conditions of highly elastic labour supply, both countries industrialised rapidly through export-led industrialisation. Japan and Korea (unlike Malaysia, Thailand and Singapore) did not rely heavily on foreign investment in the process, although foreign capital played a more critical role in Taiwan. Thus, the industrialisation process was accompanied by the rapid accumulation of local skills and entrepreneurship needed for technological upgrading and the relocation of labour-intensive production processes overseas in response to growing labour-market pressure. In the 1980s, Korea and Taiwan followed Japan in seeking to maintain market access in labour-intensive industries through promoting the relocation of labour-intensive production processes to lower wage countries, primarily in Southeast Asia. Growing labour shortages faced by non-traded goods sectors and small and medium-scale manufacturing firms, and growing dualism in labour markets resulting from the reluctance of domestic workers to perform 3-D jobs, eventually forced these countries to turn to migrant workers.

Export-led industrialisation in the city-states of Hong Kong and Singapore, given these nations' small population bases and the sheer rapidity of output expansion, exhibited significant reliance on foreign workers from an early stage. The production patterns in Hong Kong remained relatively more labour-intensive owing to the more flexible labour-supply situation arising from the porous border with mainland China. However, when the liberalisation reforms on the mainland opened up

new investment opportunities, Hong Kong manufacturing rapidly 'migrated' to China—an interesting case of 'capital chasing labour'. There has also been a significant structural shift in the services sector, away from traditional activities and towards modern, more skill-intensive operations. With the hollowing-out of the manufacturing sector and compositional change within the services sector, Hong Kong's dependence on migrant workers has begun to diminish, and the composition of the migrant workforce has begun to shift away from unskilled workers towards skilled and professional personnel. The demand for workers involved in household services (in particular maids) has begun to increase, as the new service orientation of the economy generates lucrative employment opportunities for local females.

While Hong Kong's non-interventionist economic policy regime ensured that labour-intensive production would continue to benefit from the availability of migrant labour, the proactive policy in Singapore favoured a multifaceted response to domestic labour shortages. This involved encouraging capital deepening in manufacturing and a shift to human capital-intensive financial services, combined with a relaxation of restrictions on worker inflows in line with national developmental priorities. The option of relocating manufacturing offshore has been less potent in Singapore because the local-entrepreneurial component of domestic industrialisation has been small. In contrast to Hong Kong, Singapore will, for the foreseeable future, continue to be a significant importer of migrant workers, given the continued importance of manufacturing in the economy—a situation that sets a limit on the structural shift in services towards more skill-intensive product lines.

In Thailand and Malaysia, labour-market transformation occurred over a much longer period than in Korea or Taiwan. In both countries, low-wage workers remained locked in agriculture for a longer period because the initial phase of industrialisation was less labour-intensive. From the outset, foreign investment played a much more central role in capital formation. Given their weaker human resource base, the governments in these countries

viewed foreign capital as the principal means to achieve rapid industrial growth. Thailand, in particular, which had a much larger labour pool in agriculture, lagged in the basic education needed to produce a highly skilled workforce. In both countries, greater agricultural potential meant that there was less urgency in upgrading industrial capacity than in Korea or Taiwan. The paucity of domestic labour became a major development challenge as labour markets tightened in the 1980s and 1990s. In contrast to Taiwan and Korea, Thailand and Malaysia faced major problems in the 1990s in shifting away from agriculture and labour-intensive industries. Given the heavy reliance on foreign direct investment and the weak domestic entrepreneurial base, there was little room for coherent strategies to support technological upgrading at home once markets for unskilled labour tightened.

In the case of Thailand—by far the least industrialised of the seven countries studied—migrant workers only came to represent a significant segment of the workforce in the 1990s. Unlike in Malaysia, workers from outlying provinces fuelled growth in agriculture, industry and service sectors during an extended period of rapid economic expansion over two decades to the late 1980s. However, conditions changed as this source of labour supply dried up and the labour market tightened quite dramatically in the 1990s. Shortages of labour, mainly in self-employed and contract jobs in agriculture and fishing, provided the impetus for international labour migration. Migrant workers subsequently entered the construction, domestic service and manufacturing industries in major urban centres, principally Bangkok.

Managing labour inflow

There are vast differences among the seven countries being considered in terms of the nature of the government's policy stance towards migrant workers. Singapore is unique for its well-conceived and explicit policy towards foreign workers. Taiwan has been attempting to follow Singapore's example, but

remains in the early stages of policy formulation. The other countries handle immigration policies in a narrow, particularistic manner, rather than as part of the country's central economic objectives. Japan and Korea have so far avoided an explicit migrant worker policy, while permitting back-door entry through trainee programs. Thailand still has a 'virtual non-system': a regime that tolerates largely uncontrolled clandestine immigration combined with periodic crackdowns on clandestine workers. These differences notwithstanding, over the years all the countries have become more tolerant of migrant workers, *de facto* or *de jure*.

Since the late 1970s, Singapore's foreign labour policy has evolved into a highly selective instrument to achieve changing social and economic goals (Pang 1995). At independence in 1965, the government implemented tight immigration restrictions. These controls were relaxed by 1968 in response to increasing labour shortages. In 1981, the government announced its intention to phase out all unskilled foreign workers, except domestic maids and those employed in construction and ship building, by the end of 1991. This policy shift was underpinned by the concern that a heavy reliance on unskilled foreign labour hinders productivity growth and the technological upgrading of domestic manufacturing. This policy was abandoned within a few years, however, as it was becoming increasingly evident that Singapore's continued economic growth could be sustained only by supplementing the slowly growing domestic labour force from external sources. In response, the government devised an innovative immigration policy to regulate worker inflows, using a combination of the price mechanism and employment quotas.

The new policy, introduced in 1987, aimed to regulate immigrant worker flows in line with domestic labour market conditions through two key tools: a monthly levy payable by the employer for each foreign worker employed, and a 'dependency ceiling' that limited the proportion of foreign workers in the workforce of any employer in a given industry. The levy was a means of giving

employers access to foreign labour, but at a price similar to that of local labour. It was a form of protection for local workers, as it reduced the downward pressure on local wages by the growing supply of foreign labour. In the ensuing years, the levy has evolved into a selective instrument that varies with the type of work and the nature of the industry, and is adjusted to take account of changing labour market conditions and policy objectives. Like the levy, the dependency ceiling varies by sector. While the levy has been raised several times since 1987, to prevent downward pressure on local wages, the dependency ceiling has been relaxed in some industries to let employers import more foreign workers. The implementation of labour import policy in Singapore involves severe penalties for illegal workers and for the employers who hire them. Employers are permitted to recruit foreign workers only if vacancies cannot be filled with local workers. These migrant workers are also encouraged to apply for permanent residence and citizenship.

Until the early 1970s, Hong Kong liberally admitted all visitors from China, both legal and illegal, while allowing the immigration of unskilled workers from anywhere else. In 1974, in response to the economic recession caused by the first oil shock, the government introduced the so-called 'reach base' policy for illegal immigrants from China. Under this policy, illegal migrants who managed to escape capture and reach the resident registration centres were allowed to register as residents. In October 1980, the government ended the reach base policy and began to implement tough measures to punish employers of illegal immigrants. But the government's policy towards illegal immigrants turned out to be more liberal in the second half of the 1980s as the domestic labour market began to tighten as a result of rapid economic growth and a decline in the population growth rate (as a result of Hong Kong residents emigrating to Western countries and a decline in the birth rate). At the same time, new measures were implemented to facilitate the importation of skilled and professional workers belonging to designated employment categories. In 1989,

the government introduced a new labour-importation scheme. Under this scheme, quotas were allocated to employers for the importation of labour to take up unfilled vacancies, provided there were no local workers to fill such vacancies. Since 1974, the government has been allowing the importation of domestic workers (from any country other than China) under two-year renewable contracts.

From the mid 1980s, growing labour shortages in Korea began to attract clandestine foreign workers (mostly ethnic Koreans from China who came in the guise of tourists). The numbers grew rapidly as the government virtually turned a blind eye to the violation of immigration rules. In response to requests by employers and manufacturers' associations, in November 1991 the government introduced an Industrial Trainee System (similar to the trainee scheme in Japan). This scheme enabled Korean firms with foreign operations to bring in a limited number of foreign workers (for a period of 6 months, extendable up to a maximum of one year) in the guise of upgrading the skills of their overseas workforce. In September 1992, firms without foreign affiliates were also permitted to import workers under the scheme. In November 1993, the 'training period' was extended from 6 months to one year with the possibility of extending it for an additional year. Moreover, preference was given to small and medium-sized enterprises (SMEs) in manufacturing. The number of manufacturing industries (at the two-digit level of the Korean Standard Industry Classification, KSIC) covered by the scheme was increased in subsequent years: from 10 in 1993 to 22 in 1996. Finally, SMEs in construction, fishing and agriculture were made eligible to hire foreign trainees. A training-cum-employment system was introduced in April 2000. This scheme enabled trainees who had finished two years of training and had specific qualifications to work for an additional year with legal 'employee' status. In December 2001, the 'two-year training' and 'one-year employment' system was changed to a 'one-year training' and 'two-year employment' structure. The annual quota for industrial trainees, which was initially set (in 1993) at 20,000, was increased

annually and stood at 85,500 in 2002. In August 2003, the government announced a new Employment Permit Scheme (implemented in August 2004) with the aim of meeting SME labour demand more effectively, while protecting foreign workers by making them legal workers. The new law allows foreign workers to stay in Korea for up to three years and to change jobs up to three times within that period. Foreign workers are to be imported only to supplement native workers. Moreover, it is obligatory under the new law for the employers to provide evidence that foreign workers are imported only as an act of last resort after trying to fill the vacancies from domestic workers. The Korean government has explicitly recognised this new policy as an integral part of its SME development strategy (Hahn and Choi 2004).

In Taiwan, as in Korea, from the mid 1980s onwards a significant foreign worker presence emerged in the form of illegal migrants. During 1989–91, the government permitted the employment of foreign workers in several large-scale construction projects. A work permit system for the importation of contract workers on two-year contracts was introduced under the Employment Services Law promulgated in 1992. In recent years, foreign worker policy has become more liberal as the government has placed emphasis on foreign workers as a means of promoting targeted industries and upgrading economic infrastructure, going beyond the initial objective of using these workers to alleviate temporary labour shortages. In 2000, the two-year employment term was extended to three years. Workers who return home after completing a three-year term are eligible to come for a further three-year term (Lee 2002).

Until about the mid 1990s, the Malaysian policy on the entry of semi-skilled and unskilled foreign workers reflected a reaction to short-term needs and labour shortages rather than an active and well thought out approach to meeting long-term labour needs. Since the early 1980s the government has made some attempts to prevent illegal immigration and to regulate labour inflows (Kanapathy 2004). A key element of the regulatory mechanism is bilateral

agreements signed with labour-exporting countries, under which skill requirements and the sectors in which the workers are to be employed are delineated. In this way, Malaysia determines the nationality of migrant workers. The first agreement (the Medan Agreement) was signed with Indonesia in 1984. Under this agreement, Indonesia was to supply workers in six employment categories whenever requested by Malaysia. A second agreement was signed in May 2004. Malaysia has also signed bilateral agreements with the Philippines, Thailand, Bangladesh, Vietnam and Sri Lanka.

In 1991, the Malaysian government introduced an annual foreign-worker levy, which varies by sector and skill category. Currently, the annual levy is 300 Malaysian Ringgit (RM) for the plantation sector, RM 900 for semi-skilled workers in the service sector, and RM2,400 for skilled workers. There are basically two types of work permit: the unskilled and semi-skilled workers (those earning less than RM2,000 per month) are issued visit passes for temporary employment that are valid for a year and can be renewed annually for a maximum of three years (seven years in some sectors). These workers are called 'migrant workers'. Those earning RM2,000 and above are classified as technical and professional workers ('expatriates'). Visit passes for professional workers are issued relatively liberally in all sectors and all occupations, except those that have direct implications for national security.

Migrant workers began to enter Thailand in increasing numbers from the mid 1990s, but the government turned a blind eye to the phenomenon until the onset of the financial crisis in 1997. In response to the economic collapse, the Thai government quickly repatriated foreign workers and devised policies to regulate the future entry of migrant workers in line with national policy priorities. The number of sectors open to foreign workers was reduced from 27 in 1997 to just six in 2002. Visas were issued on an annual basis and a small levy was introduced in 1996 (Bhatnagar and Manning 2005). However, given the long porous borders with Myanmar/Burma and the Lao PDR, and Thailand's uneasy political relations

with the former country, the implementation of a national labour migration policy and the control of illegal immigration remains a formidable challenge for the Thai government. Recently, Thailand entered into agreements with Laos and Cambodia for recruitment of workers by Thai employers, but problems with Burma remain.

Conclusions and policy implications

International labour migration is becoming an important factor in economic growth and structural transformation in the high performing countries of East Asia. Migrant flows are basically demand driven (although state controls have held rates of immigration well below those that might otherwise have prevailed) and the underlying determinants are structural, rather than short-term in nature. This was vividly demonstrated by the behaviour of migrant flows during the East Asian financial crisis and by the experience of Japan since it entered a prolonged economic slump in the early 1990s. In Japan, migrant workers either fill skill niches in the service economy or work in occupations regarded as socially inappropriate or undesirable by Japanese workers.

The shrinking of domestic labour forces because of low population growth and the growing reluctance of new labour-market entrants to engage in '3-D jobs' will continue to increase in importance as determinants of demand for foreign workers. While reliance on labour-saving production technology and the relocation of labour-intensive production processes will continue to be important means of alleviating labour shortages in large-scale manufacturing, firms in non-tradable sectors (services and construction) will continue to turn to foreign labour as a cushion against rising labour costs. Demand for foreign workers from small and medium-sized firms whose production processes are naturally more labour-intensive and which have only limited opportunities for the substitution of capital for labour will also continue to grow. Indeed, recent moves by Malaysia, Taiwan, and more recently, Korea, attest to the fact that the

receiving countries now accept that there is an economic case for immigration.

The East Asian experience strongly supports the view that a controlled immigration system leads to evasion and to unanticipated effects on both economic and social conditions. In particular, a complex bureaucratic system designed to keep willing workers away is bound to breed corruption and distortion. Furthermore, the tougher the border controls become, the less likely migrants are to go home when their work contracts are completed and to incur the expense and danger of another crossing. Put simply, tighter enforcement can encourage a switch from temporary to permanent illicit migration.¹⁵

The policy challenge for the labour-importing countries in East Asia is to make the reliance on foreign workers consistent with changing labour market conditions and the priorities of national development policy, while minimising social friction arising from their presence. Restrictive policies might limit migrant inflows but they are unable to halt them. Porous borders mean that unilateral regulation of migration is increasingly ineffective. Moreover, once migration footholds are established, immigrant groups (as well as employers) help the newly arrived workers find work and integrate into the society, perpetuating the illegal immigrant problem. At the same time, unilateral action by the host countries can have adverse implications for their political and economic relationships with labour-exporting countries.

Therefore, there is a strong case for including migration on the agendas of regional trading agreements and other regional cooperation initiatives in order to devise regional and country-specific solutions to the political opposition to foreign workers. The case for regional initiatives has gained impetus from the recent emphasis on liberalising temporary

migration as part of the WTO reform agenda (Bergsten 1994; Rodrik 2002; Yusuf and Stiglitz 2001; Ghosh 2000; Winters et al. 2003 and Withers 1994). However, attempts to develop global (or regional) policies and new institutions in this sphere are bound to face formidable challenges for at least two reasons. First, political considerations may dictate that labour flows are treated in a very different way to capital and trade flows, because migration impinges on national sovereignty and identity much more directly than international trade and foreign investment. Second, and perhaps more importantly, unlike in foreign trade and investment there is no consensus on a set of operational principles to inform the policy debate in this area.¹⁶

Possible ingredients for a market-based system designed to regulate international labour migration have been suggested recently. One possibility is to introduce a system of employing migrant workers as part of work contracts for a given service delivery ('contract suppliers') (Winters et al. 2003). Another is to replace the needs-based assessment of applications by employers with a higher rate of payroll tax (levy) for those employing foreign workers (as in Singapore). The levy could be used partly to pay for immigrants' health costs. A part might also go to a social security fund in immigrant-sending countries (Rodrik 2002). There is also the possibility of introducing a system under which a portion of the workers' earnings is held by the employer until the worker returns to their country of origin. Such a savings scheme would also ensure that workers would return home with a sizeable pool of resources to invest (Rodrik 2002). Other possibilities include the introduction of a visa fee (which is set a little lower than the cost of illegal entry) and/or a bond (priced slightly above the people smugglers' going rate) to enter the country, and allocating employment quotas to

15 On this point, see the interesting paper by Cornelius (2001) on the efficacy and unintended consequences of US immigration controls since 1993.

16 Recent years have seen some emphasis on liberalising the entry of professional and skilled workers (Mode 4 liberalisation within the WTO framework) as part of the reform agenda of the Association of Southeast Asian Nations (ASEAN) (Bhatnagar and Manning 2005). However, the ASEAN member countries have so far remained remarkably silent about the important issue of regulating cross-border flows of unskilled workers because of its political sensitivity.

sending countries on a bilateral basis (perhaps subject to the condition that the quota is reduced by the number that fail to return). There is a clear need for a systematic assess-

ment of these policy options, against the backdrop of domestic labour market transitions and socio-political considerations, in order to inform the policy debate.

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