Paper on the Positive and Negative Effects of Labor Immigration on Labor Markets of Developing Economies

Üstün Yılmaz

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Abstract

In this paper, the positive and negative effects of labor immigration on labor markets of developing economies will be analyzed and evaluated, starting with its positive effects and continuing with its negative effects; along with some case studies to support the theses of each section. In each section of the paper, two pieces of literature will be compared and contrasted.

1 Introduction

Labor immigration is the phenomenon of a country having an influx of people of working age, ready to work. Depending on the country and the economic environment, these people may help the economy in a variety of ways, or maybe have negative effects on its state. In the case of developing economies, which we will define here as economies that are classified as not developed by at least one international economic institution; the labor immigration is concentrated of mostly unskilled workers, which result in different conclusions and inferences to be made. It may be wondered, what defines a skilled versus an unskilled worker? Here, our definition of an unskilled worker will be any employee performing a task that does not require a specific set of skill, mostly having an education level of high school and lower. As we have introduced our definitions, we may move on to the general outline of our paper.

In this paper, we will start by analyzing how skilled and unskilled labor works in general, and how this reflects on labor immigration. An article about vocational training programs and another about the effects of unskilled labor immigration will be evaluated. We will continue our paper by examining the positive effects of labor immigration, with two pieces of literature, one on the general contribution of labor immigrants on developing economies and another on the economic impact of foreign workers in Malaysia; which will serve as an icebreaker for the third section of our paper: Case Studies on Thailand and Malaysia, where these positive effects of labor immigration can be observed. In this third section of our paper, three articles will be analyzed, two on Thailand and one (besides the previous one) on Malaysia. The fourth section of our paper will be on the negative effects of labor immigration on developing economies, which is in fact at least as important the positive effects we have just discussed. Two papers on mass migration and refugees will be analyzed in the way of understanding this phenomenon, which will then lead us to our fifth section: A Case

Study on Malawi. The fifth section will include two different articles on the labor market of the country; one relating the effects of Mozambican refugees and another more recent article on the overall effect of intra-migration on the labor productivity of the country.

After all of our evaluations, and their respective case studies on each topic; we will discuss the inferences to be made from each literature review, which will lead us to the conclusion of our paper, where the summary and perceptions of the future of the topic will reside.

2 Section I: Skilled versus Unskilled Labor Immigration

When analyzing labor markets, one of the most important distinctions that can be made is the distinction of skill. We can split labor into two sections, each having their own characteristics and attributes: skilled labor and unskilled labor. Skilled labor is defined as any kind of labor that needs application of specific set of skills or a specific kind of training to commence. Some examples of skilled workers can be given as university graduates or private soldiers. Unskilled labor, on the other hand, is defined as any kind of labor that does not require and prior specialization or a specific training. Some examples of unskilled workers can be given as factory workers or cashiers. These definitions are important in understanding the overall effects of labor immigration on developing economies.

An example of literature that demonstrates the difference between skilled and unskilled workers is “Vocational Training Programs and Youth Labor Market Outcomes: Evidence from Nepal” by Chakravarty(2020)[4]. In the paper, a regression-discontinuity evaluation is made on the effects of a large vocational training intervention in Nepal. The results of the program show that non-farm employment rose by 10 percent and most of this change was composed of women’s home based self-employment. Monthly earnings, especially for the underemployed women rose significantly. We can reach the conclusion that in developing economies like Nepal, these skill enhancing interventions can help the natives improve rather than compete and conflict with immigrants, suggesting that the skill of the natives is an important determinant to the effects of the labor immigration.

Another example of literature that helps connect this distinction to the phenomenon of labor immigration is “Threat or Help? The Effects of Unskilled Immigrant Workers on National Productivity Growth” by Devadas(2017)[5]. In this paper, the effects of unskilled labor immigration; which composes more than 90 percent of the overall labor immigration to developing economies are evaluated, with emphasis on productivity. Data acquired from Malaysian firms is used to demonstrate that the overall effect of unskilled immigrant workers on total factor productivity is mostly positive despite being low on formal human capital. This is attributed to factors like efficiency gains, specialization, scale economies and directed changes in technology. Another interesting thing that is mentioned by the paper is, that there are no compelling cases for restricting unskilled immigration on pure economic grounds.

What we can infer from both of these articles combined, is that labor immigration works best when the locals are either skilled or placed in vocational improvement programs to improve their skills; as the labor immigrants are mostly composed of unskilled workers. As a result, they behave in a complementary way rather than imposing negative effects to the labor market.

3 Section II: Positive Effects of Labor Immigration on Developing Economies

As we have understood the distinction between skilled labor and unskilled labor, it is worth moving on to the positive effects of labor immigration on developing economies; the reasons behind these effects and their results on the labor market. First of all, there are two determinants of whether the effects of labor immigration will be positive or negative: the economic situation at hand and how the incoming workers are handled. With the right combination of these two determinants, labor immigration can affect the labor market of a developing economy positively. To better understand what these positive effects are, we will evaluate two pieces of literature on the topic.

The first "piece of literature" is a report by OECD and ILO(2018), "How Immigrants Contribute to Developing Countries' Economies"[11], presenting empirical studies of developing countries where intensive labor immigration is present. In ten case studies presented in the report, immigrants are shown to have a limited impact on employment of the natives and their wages; with evidence of job creation via scale effects overpowering substitution. Also, in most of these case studies, the net direct fiscal impact of immigrants are shown to be positive. An inference that can be made from this report is labor immigration overall mostly has positive effects on employment in most developing economies, creating jobs rather than driving the locals out of their jobs.

The second paper mentioning the positive effects of labor immigration on labor markets of developing economies is "Economic Impact of Foreign Workers in Malaysia: An Objective Review" by Ng & Tan(2019)[12]. It is a review of economic impact of foreign workers on the labor market of Malaysia, and can be considered as a prelude to the next section, which will have detailed case studies on countries as such. In the paper, it is stated that empirical studies on Malaysia's industries suggest that the impact of foreign worker intensity in on native employment is not statistically significant and can be considered as nonexistent. It is also mentioned that foreign workers mostly concentrate in unskilled roles and leave skilled positions to the locals, which minimize any negative wage effects and may even help reduce the wage gaps. In conclusion, this article suggests that in an economic environment where labor vacancies exist, labor immigration can be a great tool to fill these gaps, especially if these vacancies are in unskilled fields of labor; in a developing economy.

The common inference we can make from both of these pieces of literature is that; in the right economic environment, one with a labor deficit and emerging economy, labor immigration can affect the labor market positively, increase the welfare, reduce unemployment/wage gaps and even help the up-skill of the local population.

4 Section III: Case Studies on Positive Effects: Thailand and Malaysia

It is now known that combined with a correct set of circumstances and a well-structured approach, labor immigration can help affect a developing country's labor market positively. These correct set of circumstances include an ongoing labor deficit, an emerging economy and active up-skilling programs for the locals. And here are two case studies where we can see such circumstances like the big labor deficit in Malaysia and well structured approaches like the inclusive growth strategy, Thailand 4.0. To emphasize on these two countries, there are three pieces of literature, each representing a case study of one of these two countries.

The first article on the topic is a case study on Thailand about "The Impact of Immigration on Thailand's Economy", by IZA/ILO/OECD(2018)[11]. In the article, it is mentioned that immigrant workers represent about 10 percent of the workforce and contribute to 6 percent of the GDP, and they mostly fill the labor gaps in agriculture, textile, construction industries; which are industries hugely complemented by the local workers. It is also stated that the short-lived wage declines at first quickly reversed as the local population increased their skills thanks to the Thailand 4.0 program, which aims to transfer the economy to an upper income, technology driven one.

Another article on Thailand is "Impact of international labor migration on regional economic growth in Thailand", by Tipayalai(2020)[13]. This paper estimates a Cobb-Douglas production function for Thailand's provinces and finds that out according to the model and empirical findings, high-skilled immigrants significantly boost regional labor productivity and overall GDP growth; while low-skilled immigrants still have a small but positive impact.

Moving on to a piece of literature on Malaysia, which complements the above paper of Ng & Tan[12], is an article by Bergmann(2017), called "Immigrants Are Welcome Here: A Case Study of Immigration in Malaysia"[2]. In the article, it is mentioned that the scale effects caused by the immigrant workers dominates the substitution effect, therefore increasing both labor productivity and available jobs for the locals. The numbers have shown that each 10 extra immigrants contribute 4.1 new jobs for Malaysians and increase the overall native employment by about 4.4 percent, while the wages are not affected.

In conclusion, both Malaysia and Thailand see the positive effects associated with labor immigration for different reasons, but in similar aspects. While Thailand sees these positive effects as a result of skilled immigrant workers, in Malaysia's case, it is mostly the unskilled ones that cause this change. All in all, their labor markets are affected positively, with the result of lower unemployment, higher output and minimal changes in wages; with most industries benefiting overall.

5 Section IV: Negative Impacts of Labor Immigration on Developing Economies

Now that the positive effects of labor immigration on labor markets of the developing economies is fully analyzed and evaluated along with two case studies to further strengthen our theses, we may analyze the potential negative effects that may be resultants of this phenomenon. When combined with a wrong set of circumstances and handled incorrectly, the effects of labor immigration can be slightly bad to catastrophic on labor markets. Such set of circumstances include already oversupplied labor markets, a small number of financial and business centers, low level of education among the locals; and immigrant workers being composed of refugees which come with their families. An example of incorrect handling of this would be the local government going easy on enforcing taxes, thus resulting in the tax contributions of the immigrants being lower than their impact on overall welfare; or not registering the immigrant workers properly as they would not contribute to GDP but rather harm the growth. We will analyze some reasons and inferences via two pieces of literature.

The first piece of literature is by Boruchowicz, Martinelli & Parker(2021), and is called "Economic Consequences of Mass Migration: The Venezuelan Exodus in Peru"[3]. This article gives us an empirical study of the Venezuelan refugees, and their economic impact on Peru's economy and labor market. The mass immigration of hundreds of thousands of Venezuelans reallocated the locals to pursue lower skilled jobs and thus increased the share of Venezuelans in the workforce. What is interesting however, is that the overall Peruvian unemployment and wages remained stable, and this raised concerns of welfare and inequality on sectoral levels. Although all of the possible negative effects were not fully encountered in the case of Peru, the overpopulation of its capital city Lima and the imbalance on the labor market caused by Venezuelan refugees made an impact that is irreversible in the short run.

The second piece of literature on the negative effects of labor immigration on labor markets of developing economies is a report by UNHCR(1999), named "SOCIAL AND ECONOMIC IMPACT OF MASSIVE REFUGEE POPULATIONS ON HOST DEVELOPING COUNTRIES, AS WELL AS OTHER COUNTRIES: ADDRESSING THE GAPS"[7]. In this report, countries with large concentration of refugees among the working population are stated to be deforested (with examples being Zambia and Tanzania) and their overall welfare reduced with deficits nearing 1 percent of overall GDP. Since these countries are mostly underdeveloped countries and/or LDCs, the weak international support surrounding them and their under-funded compensatory policies combined with corrupt politics did not help at all; creating negative externalities on education and healthcare.

In conclusion, these two pieces of literature help prove our point of countries with oversupplied labor markets and an influx of refugees are more likely to be affected negatively by labor immigration; with countries that do not have well-executed countermeasures and well-developed economic systems being among the most affected ones (mostly Sub-Saharan LDCs). Now, we may move to a more specific and detailed case study of one of these countries, which is examined in the next section of our paper.

6 Section V: A Case Study on Negative Effects: Malawi

We have evaluated the negative effects of labor immigration that are mostly resultant of oversupplied labor markets, high concentration of refugees among the immigrant workers and wrong/short-lived policies. One of the developing countries we can see these effects most prominently is an LDC in Sub-Saharan Africa, Malawi. Malawi has a mostly unskilled workforce and its levels of education are really low, just like the overall level of welfare and GDP per capita. And it has encountered a huge inflow of Mozambican refugees in the recent decades, furthermore strengthening the effects of these problems. We will analyze two pieces of literature emphasizing on this topic to further strengthen our thesis.

The first of these pieces of literature is a field study done on Mozambican refugees in Malawi by Dzimbiri(1993), called "Political and Economic Impacts of Refugees: Some Observations on Mozambican Refugees in Malawi"[6]. One of the observations this paper makes is that Mozambican refugees that were willing to work for lower wages have under-cut locals of Malawi and hence reduced overall wages and contributed to income inequality. Another statement in the paper is that the rapid increase in population caused by this influx loaded the health clinics and schools beyond capacity, forcing locals into part-time jobs to help keep up the essential services. Also, as a side note, it is worth stating that these refugee camps drove deforestation, thus decreasing overall welfare and contributing negatively (indirectly) to the labor market.

Another piece of literature worth mentioning is "Immigration and labour productivity: A comparative effect" by Gnimassoun(2025)[9]. The paper was written with the help of a panel of empirical studies consisting of 187 countries, including Malawi. It is presented in a compare-and-contrast way, and signals that the countries that observe the negative effects the most, are Sub-Saharan African countries that experience intra-African immigration. It is stated that each 1 percent rise in immigrant share correlates to an 0.4 percent decline in local employment rates. And Malawi is no exception to this find. It is stated that since Malawi has a formal sector with strict hiring and firing rules, the native workers are the ones that are negatively affected when the local firms pursue low-cost unskilled immigrants.

In conclusion, because of its insufficient infrastructure, low overall skill and education levels, and the immigrants being mostly refugees; Malawi is a developing economy that feels the negative effects of labor immigration on its labor market. And it is one of the rare (globally, but common in Africa) cases where both the economic state of the country and the composition of the immigrants has negatively affected the overall state of the labor market.

7 Discussion: What Does the Future Entail?

We have fully understood what skilled and unskilled labor is, what labor immigration is, what type of consequences it may have on developing countries' labor markets (both positive and negative) along with a plethora of literature and case studies for the matter. Now, the question to be answered is: What does the future of labor immigration entail for the developing economies' labor markets?

This is a question without a certain answer, and not in a cryptic way; it is just a matter that needs to be separately evaluated and thought on. So, here are some aspects that might guide us on what inferences can be made; paying attention to the literature we just reviewed in our paper:

- **Aging Population:** As the population of developing economies continues to aging, the demand for immigrant labor will increase; thus, this phenomenon may indicate that the positive effect of labor immigration may also increase.[8]
- **Climate Change:** As the climate change occurs globally, the countries in Sub-Saharan Africa may face a harder time handling the increased immigration thus strengthening the already negative effects of labor immigration on their labor markets.[1]
- **Multilateral Agreements:** Agreements between blocs like ASEAN that expand free movement protocols, combined with ILO's Fair Migration Agenda may help reduce the inequalities that may be the result of labor immigration, further enhancing the positive effects on the labor market.[10]

8 Conclusion

In short, labor immigration is a phenomenon that is on the rise in today's globalizing world economic system; and it has its benefits along with its drawbacks to the labor markets of developing economies. These depend on both the composition of the immigrant workers, the current state of the labor market and the economy of the developed country as a whole, and how this immigration of workers is handled by the host country. There are examples of positive effects of this labor immigration like Malaysia and Thailand; besides the examples of negative effects of this labor immigration like Malawi.

The future both holds positive expected outcomes like labor deficits allowing the immigrant workers help the state of the labor market and negative expected outcomes like increased intra-migration in Sub-Saharan Africa that will also increase the volatility of the negative effects of the already existing immigration. With solid economic policies and careful considerations that increase the skill level of the locals while also allowing immigrant workers more jobs as mentioned in the case studies of this paper; these developing economies may be able to turn the tide on any negative effects they may encounter.

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