

The Economic Impact of Granting Refugees in Malaysia the Right to Work

Laurence Todd
Adli Amirullah
Wan Ya Shin





Laurence Todd is the Director of Research and Development at IDEAS. Laurence is a public policy professional with a wide range of experience in economic policy, business regulations and international trade. Prior to joining IDEAS, Laurence served in a number of different roles in the UK Government, including in Her Majesty's Treasury and the Ministry of Defence.



Adli Amirullah is an economist and research co-ordinator for the Economics and Business unit at IDEAS. He received his Bachelor's Degree in Economics from the International Islamic University Malaysia (IIUM). He has involved in various research area and written policy papers as well as opinion articles concerning public policy challenges in Malaysia and ASEAN



Wan Ya Shin is a Manager under the Research and Publications Division at IDEAS. Her research interests include social policy, education policy, social protection, poverty and inequality. She was a Young Professional Fellow with the International Centre for Human Development in India, focusing on social protection in Malaysia. Prior to that, she was working with United Nations Development Programme on the Malaysia Human Development Report 2013

Executive Summary

Malaysia currently hosts over 160,000 registered refugees and asylum seekers, with the majority coming from Myanmar. Malaysia has not ratified the 1951 Refugee Convention and therefore refugees and asylum seekers have no legal rights in Malaysia. The official position of the Malaysian Government is to categorize UNHCR registered refugees and asylum seekers as 'illegal' or 'undocumented migrants' and domestic law criminalises such migrants.

Refugees and asylum-seekers cannot work legally and have very limited access to quality healthcare and education. They are at high risk of arrest, detention and deportation and are often placed outside the protection of the law. However, many refugees and asylum seekers do work in informal jobs, where their productivity is limited and where they are at risk of exploitation.

In its election manifesto, Pakatan Harapan committed to providing the legal right to work to all registered refugees in Malaysia. Since the election, UNHCR has been working closely with the Government of Malaysia in anticipation that the Government will adopt the policies and practical steps to implement their election manifesto promises.

In this report we reach the following key conclusions:



Granting refugees currently residing in Malaysia the right to work will have a positive impact on the economy and public finances. We estimate that if refugees are given the right to work, their **contribution to annual GDP would increase to over RM3 billion by 2024** through higher spending. The wider economic impact, including indirect effects such as lower business costs, could be substantially larger.



Overall Malaysians benefit from refugees working, in terms of more jobs and higher wages. These benefits would increase if refugees were given the legal right to work, with **refugees potentially creating over 4,000 jobs for Malaysians**. Any negative labour market impacts are likely to be minor and limited to other foreign workers and older, less educated Malaysians.



We estimate that if refugees were given the right to work, their tax contribution would **increase to over RM50 million in taxes each year by 2024**. The total net contribution to public finances would depend on policy decisions, including application of the foreign worker levy and maintenance of the refugee healthcare discount.



To realise these benefits **the Government should take forward the practical steps to implement its manifesto commitment to provide refugees with the right to work**, on par with locals. Crucially this should include ensuring that refugees have full job mobility and are not confined to specific industries or locations – this will ensure that they can make best use of their skills and improve their productivity.



In the long term, investment in education for refugees alongside the local population will see substantial dividends for the country. We estimate that under a scenario where refugees are granted access to education on par with locals, **their contributions to GDP could increase to over RM6.5 billion each year by 2040 with annual contribution in taxes of over RM250 million**.

Introduction

In this paper, we consider the economic impact of granting refugees in Malaysia the right to work. The objective of this paper is to identify the ways in which granting refugees the right to work would impact both the economy and the public finances in Malaysia and to quantify these effects to the extent possible.

There are 100,000 registered refugees in Malaysia and 60,000 registered asylum seekers. A refugee is someone who has been forced to flee his or her country because of persecution, war or violence and has a well-founded fear of persecution for reasons of race, religion, nationality, political opinion or membership in a particular social group. The analysis in this paper also refers to asylum seekers. An asylum seeker is an individual who is seeking international protection. In countries with individualised procedures, an asylum seeker is someone whose claim has not been decided on by the country in which he or she has submitted it. Not every asylum seeker will ultimately be recognised as a refugee, but every refugee is initially an asylum seeker.¹ Due to data limitations, the estimates in Parts 3 and 4 refer to the impact of granting both registered refugees and asylum seekers in Malaysia the legal right to work, rather than just refugees specifically. As a result, the term “refugee” is used to refer to both refugees and asylum seekers registered with UNHCR.

This paper is organised into four parts:

- In **Part 1** we consider the current situation for refugees and asylum seekers in Malaysia; including their treatment under Malaysian law;
- In **Part 2** we consider the potential economic impact of granting refugees in Malaysia the right to work;
- In **Part 3** we estimate the impacts identified in Part 2 over a five-year period; and
- In **Part 4** we consider the potential longer-term economic contribution of refugees and estimate their potential economic contribution over 20 years.

¹ Definitions taken from [amnesty.org](https://www.amnesty.org)

Part I – Refugees in Malaysia

Malaysia is a country of relative political stability and economic prosperity in a region that has seen great turmoil. As a result, many refugees and asylum seekers have sought out Malaysia as a place of refuge.

Malaysia is not a signatory to the 1951 UN Refugee Convention and its 1967 Protocol - therefore refugees and asylum seekers in Malaysia often exist on the margins of society, at risk of arrest as illegal immigrants (Ahmad, 2012). Despite not being a formal signatory, the Malaysian authorities do cooperate with the United Nations Refugee Agency ("UNHCR") to some extent and accept the presence of refugees. The level of tolerance and extent of integration varies depending on the circumstances.

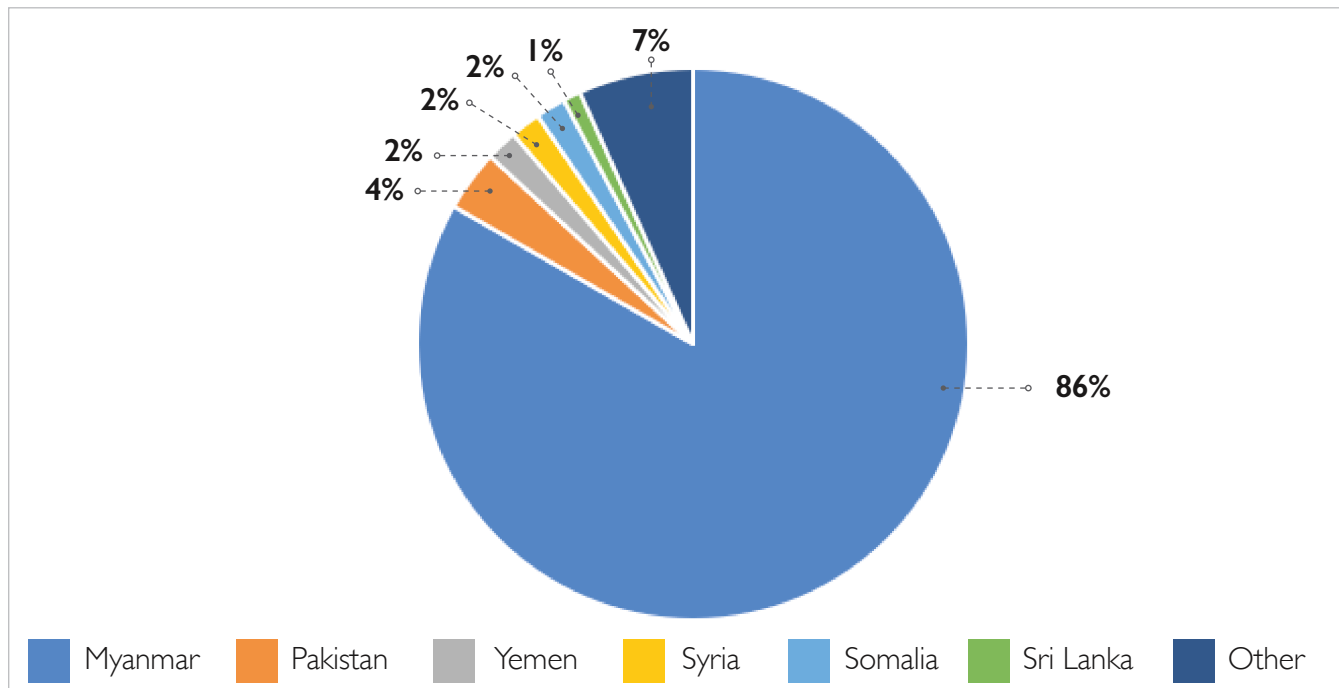
Munir-Asen (2018) provides a historical perspective of refugees in Malaysia over the last few decades, since Malaysian independence. The earliest large-scale entry of refugees to Malaysia was at the end of the Vietnam War. Between 1975 and 1991, Malaysia accepted more than 250,000 refugees from Vietnam as part of a regional humanitarian effort (Munir-Asen, 2018). Subsequent inflows of refugees have not been administered in this formal way by the Malaysian authorities. Rohingya refugees have been arriving in Malaysia since the 1990s, and though their status has not been regularised, they have been more or less tolerated, although kept to the relative margins of Malaysian society (Cheung, 2011). This pattern has continued with the recent high influx of Rohingya refugees in 2013, following increased persecution in Myanmar. Rohingya refugees now comprise the majority of refugees in Malaysia and have continued to be marginalised within Malaysian society (Munir-Asen, 2018).

By comparison, Cham refugees who escaped the Khmer Rouge in Cambodia were treated differently. They were given two options upon arrival during the same period as the Vietnamese: resettlement to a third country or integration in Malaysia. They were offered this due to international burden-sharing of states offering large numbers of resettlement places to refugees during that period. Filipino refugees from Mindanao arriving in Sabah, Malaysian Borneo, were granted "resettlement", and permitted to stay in Sabah and Labuan without limitation. Between 1976 and 1985, 73,000 were registered, and 30,000 were given work permits from the outset, partly in response to labour shortages in Sabah at this time (Munir-Asen, 2018). This was also the case for Achese refugees arriving from Indonesia in 2003. This demonstrates that Malaysian Government attitudes towards and treatment of refugees vary significantly, depending on the political context, cultural factors and economic need.

Refugees and asylum seekers currently in Malaysia

As of January 2019, there were over 160,000 refugees and asylum seekers registered with the United Nations Refugee Agency (“UNHCR”), the majority of whom are from Myanmar:

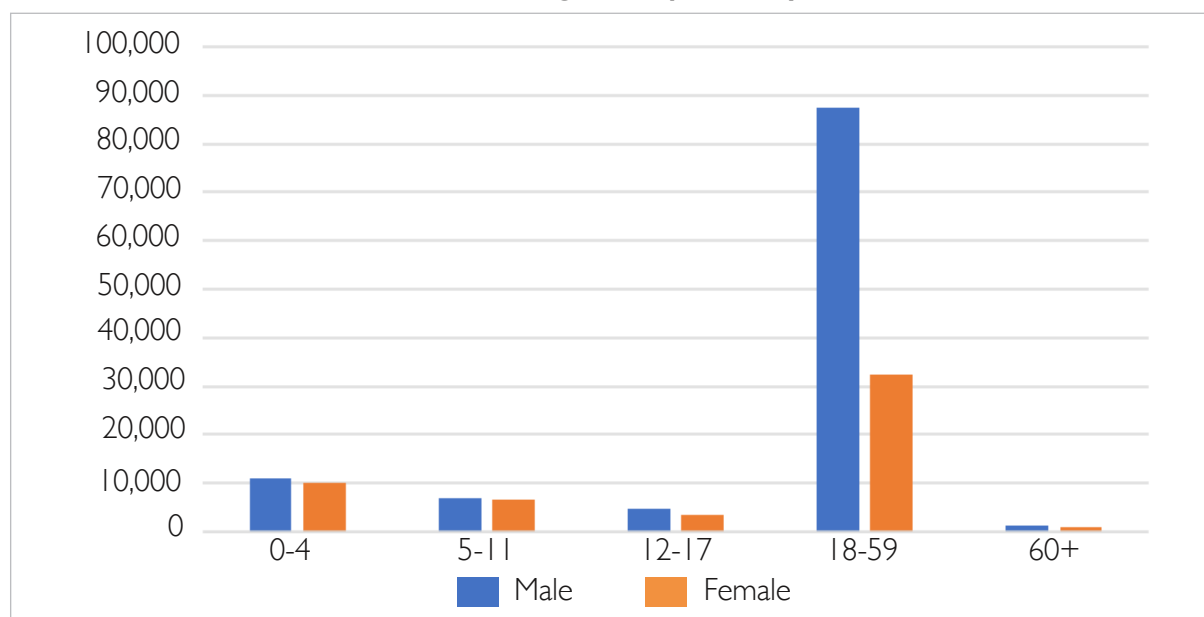
Chart 1. UNHCR Registered Refugees and Asylum Seekers in Malaysia, Proportion by Country of Origin, January 2019



Source: UNHCR (2019)

The majority of UNHCR refugees and asylum seekers registered in Malaysia are adults (aged 18 – 59) and male, and therefore of working, taxpaying age. The genders are balanced more evenly among the other age groups.

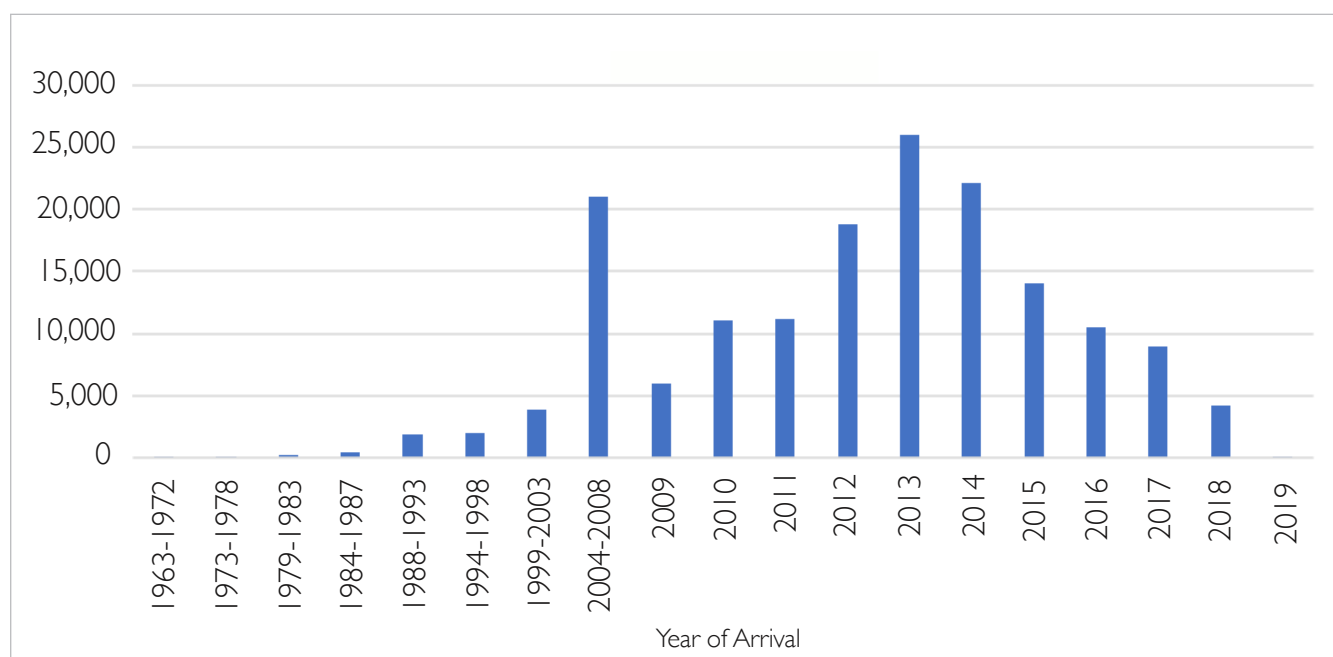
Chart 2. UNHCR Registered Refugees and Asylum Seekers in Malaysia by Gender and Age Group, January 2019



Source: UNHCR (2019)

Most refugees and asylum seekers in Malaysia arrived recently – the majority within the last six years. Unsurprisingly, there has been a significant increase in new refugees as a result of political instability and persecution in Myanmar. There has been a significant decrease in the number of refugees arriving in Malaysia from 2013 to 2018.

Chart 3. UNHCR Registered Refugees and Asylum Seekers in Malaysia by Year of Registration, January 2019

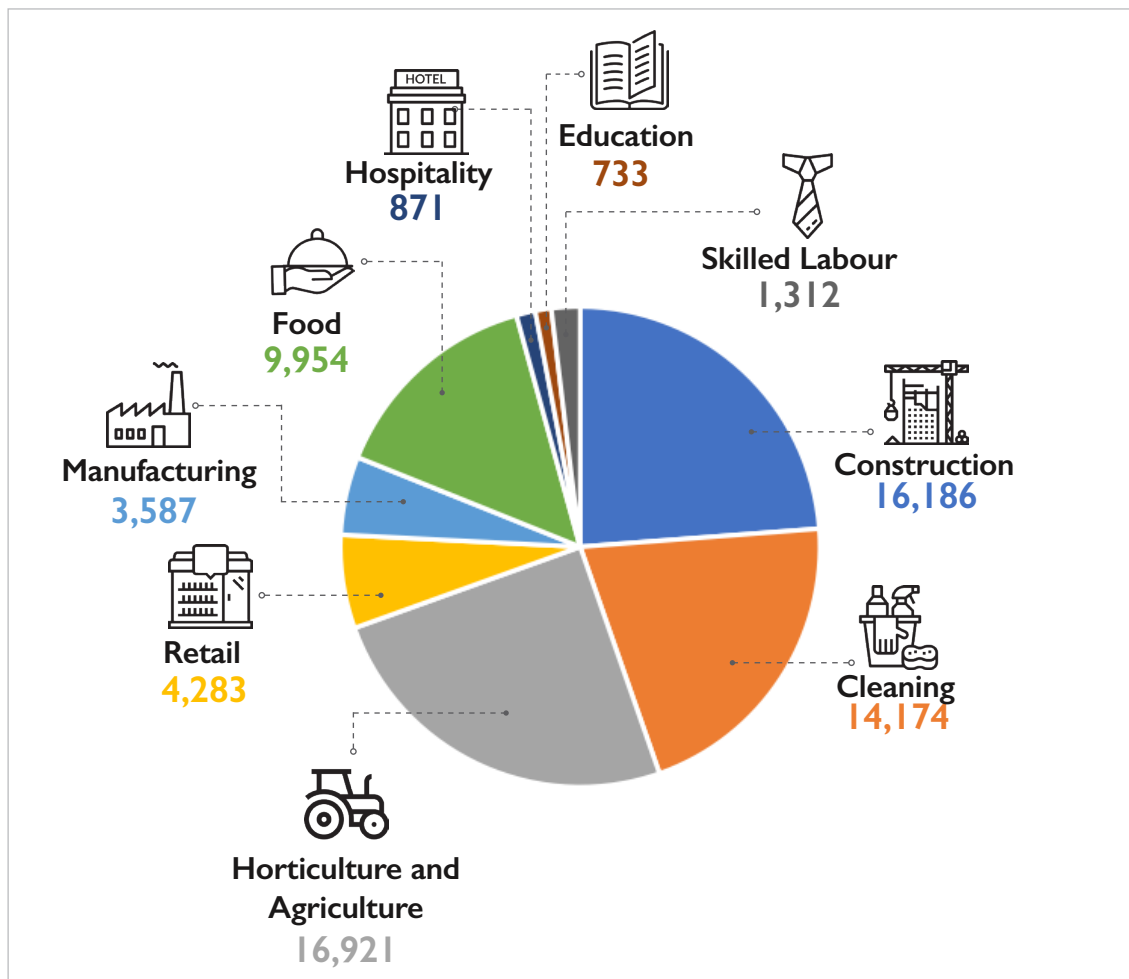


Source: UNHCR (2019)

Refugees' access to employment

Despite not having the legal right to work, many of these refugees and asylum seekers in Malaysia are engaged in informal employment. This is unsurprising, given that refugees receive no welfare from the Government, and foreign aid and NGO support is insufficient to cover basic needs. The sectors that refugees and asylum seekers are employed in is largely dictated by what is available to those working illegally, often including dirty, dangerous and difficult jobs. Their employment opportunities are severely limited: in 2017, there were 1.36 million employed persons in the informal sector comprising 9.4 per cent share of the total employment in Malaysia (DOSM, 2018). There are likely to be very few skilled jobs available in the informal labour market, and therefore refugees and asylum seekers possessing higher skill levels will be unable to put these to full use.

Chart 4. UNHCR Registered Refugees and Asylum Seekers in Malaysia by Sector of Employment, January 2019



Source: UNHCR (2019)

Not all adult refugees and asylum seekers are informally employed. Based on the UNHCR statistics, the labour participation rates among refugees and asylum seekers are lower than for the population as a whole² (Table 1.) This could reflect a range of issues, such as the risks associated with working illegally, lack of access to employment opportunities or lack of access to education for refugee children requiring parents to stay at home. Cultural factors might also play a role.

²The labour participation is defined as the number of refugees and asylum seekers aged 18-59 in employment as a share of total refugees and asylum seekers aged 18-59.

Table 1. Observed Labour Participation Rates of UNHCR Registered Refugees and Asylum Seekers in Malaysia, 2019

Group	Participation Rate	
Rohingya	Male	65%
	Female	29%
	Total	58%
All Other Groups	Male	59%
	Female	45%
	Total	55%
Malaysia	Male	80%
	Female	55%

Source: UNHCR 2019, Labour Force Survey 2018, author's calculations

We do not have comprehensive data on the educational attainment of refugees in Malaysia, which – all else being equal – would be an important indicator of their employment potential. Nungsari and Flanders (2018) conducted an in-depth survey of Rohingya refugees working in the construction sector in Malaysia, which suggests the generally low level of education among the Rohingya.

Table 2. Educational Attainment of Rohingya Refugees in Construction Sector in Malaysia, 2018

Educational Attainment	% reported
No formal Education	54%
Some Primary	29%
Primary	11%
Some Secondary	4%
Secondary	1%
Some Tertiary	1%
Tertiary	1%

Source: Nungsari & Flanders, 2018

It is possible that the refugees working in the construction sector tend to be less educated or skilled on average, compared to those working in, say, retail or manufacturing. Nonetheless, our anecdotal accounts broadly support the picture in Table 2, as being generally applicable to the Rohingya. And, since the majority of refugees are Rohingya, it is reasonable to assume that the majority of refugees in Malaysia are relatively low skilled. Refugees from outside Myanmar, including those from Pakistan, Syria and Yemen faced different circumstances in their home country and we understand have a generally higher level of education as a result, although we do not have comprehensive data on this.

Current government policy on refugees' right to work

The previous Government initiated specific work-schemes to provide legal opportunities to a number of registered refugees in Malaysia, with some success. The Malaysian Cabinet agreed in March 2016 to embark on a work pilot project to allow 300 ethnic Rohingya UNHCR-registered refugees to legally work in the plantation and manufacturing sectors.

These pilot schemes were initiated under the previous Government. Following the 14th General Election in 2018, the opposition coalition, Pakatan Harapan (PH), came to power in Malaysia. In their election manifesto, *Buku Harapan*, PH made two important promises relating to refugees: firstly, the Government pledged to ratify the 1951 Refugee Convention; secondly, it pledged to grant refugees in Malaysia the legal right to work. Specifically:

"The Pakatan Harapan Government will legitimise their status by providing them with UNHCR cards and ensuring their legal right to work. Their labour rights will be at par with locals and this initiative will reduce the country's need for foreign workers and lower the risk of refugees from becoming involved in criminal activities and underground economies. Providing them with jobs will help refugees to build new lives and without subjecting them to oppression." (Buku Harapan, 2018)

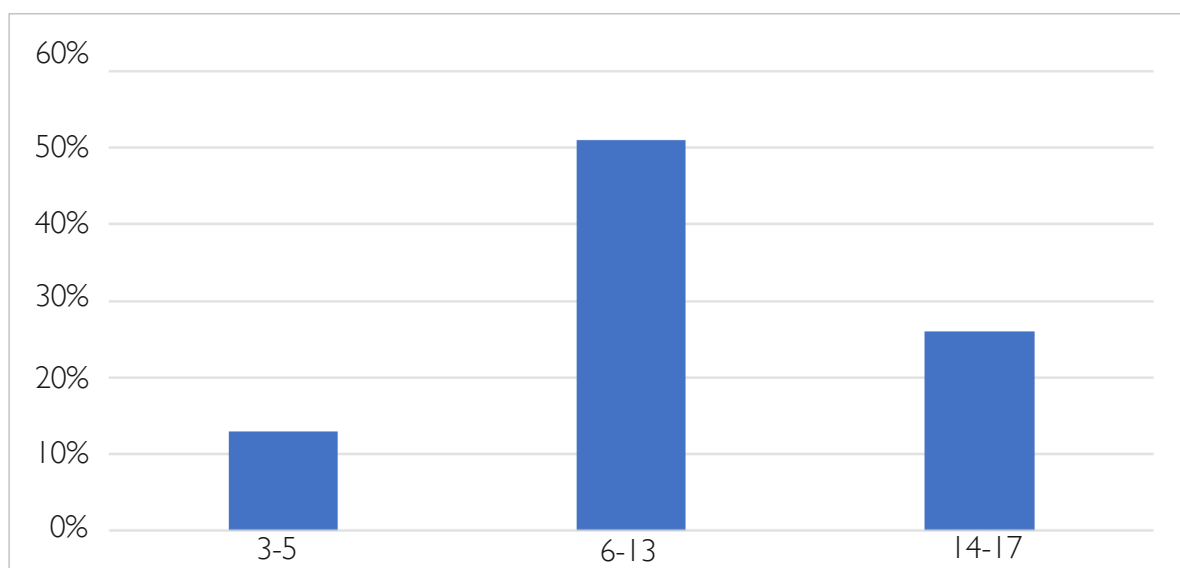
Since coming to office, the Government has indicated that they remain committed to supporting refugees, but they have not yet set out a clear timetable for implementing this policy reform. Speaking in February 2019, Foreign Minister Saifudin said that: *"Even though [the Government ministries] have not come out with a policy, in many instances [the Government ministries] have been very helpful in providing assistance to the Rohingya community"* (FMT, 2019). The Human Resources Minister has recently mentioned exploring further pilot schemes.

Refugees' current access to welfare, education and health

Since refugees in Malaysia do not enjoy a legal status, their entitlement to public services is minimal. UNHCR registered refugees and asylum seekers are not entitled to Government-funded social security – the main national social security programmes, BRIM, or its successor, Bantuan Sara Hidup (BSH), are restricted to Malaysian citizens.

Refugees in Malaysia are also not entitled to access the public-school system. Some limited education is provided instead through an informal parallel system of over 130 community-based learning centres. These centres are administered by NGOs, charities and the refugee community and are reliant on fundraising and international aid. UNHCR Malaysia currently has five implementing partners in the education sector that operate 11 learning centres and coordinate projects such as teacher training and teacher's compensation. As a result of limited education provision, only 33 per cent of refugee children of school-going age are enrolled in community learning centres

Chart 5. Percentage of UNHCR Registered Refugees and Asylum Seekers in Malaysia Enrolled in Age-Appropriate Education by Age Group, as of February 2019



Source: UNHCR 2018

Aside from low levels of enrolment, refugees inevitably face lower or at least varied quality of education given the resource constraints of civil society organisations. As a result, their educational attainment is unlikely to match that of Malaysian citizens.

In the case of healthcare, refugees do not receive free access to the public healthcare system. However, in 2005 UNHCR secured a Memorandum of Understanding (MoU) with the Ministry of Health (MOH) to offer UNHCR card-holders a 50 per cent discount on the rates offered to non-citizens at public hospitals. Refugees also have access to private clinics and dedicated healthcare centres run by NGOs, nonetheless the 50 per cent public healthcare discount represents the only Government policy which explicitly provides for some level of public services for refugees. Despite this discount, healthcare costs remain a significant issue for refugees with 50 per cent of refugees unable to access healthcare due to unaffordability (UNHCR, 2018).

Impact of refugees on the public finances

In order to assess the impact of granting refugees the right to work on the public finances, it is important to understand the current contribution and costs of refugees. As noted above, refugees are entitled to very little – only the 50 per cent healthcare discount. It is difficult to estimate the cost to the Government of providing this discount, (see Appendix 2 for a more detailed discussion of this issue), but given that the non-citizen rates to which the discount is applied represents the cost of providing treatment, the discount is effectively a subsidy provided at a cost to the public finances.

Another channel through which refugees incur costs to public finances is through the cost of arrest and detention. There are no publicly available estimates of these costs, but the Government has been quoted in the media as saying that the cost of detaining illegal migrants can range between RM35 and RM75 per day per person and up to RM26 million per year in total (Says, 2014). It is difficult to say how much of this cost is expended detaining refugees rather than other illegal workers, and working refugees comprise a small percentage of the wider illegal worker population, which some reports claim to be as high as 6 million (ISEAS, 2018).

There are a number of other channels through which refugees could theoretically impose a cost on the public finances, including wear and tear of public infrastructure, but due to the inherent difficulty of estimating and attributing these costs we have not explored them further in this paper.

Fiscal Contribution

In terms of fiscal contribution, we infer that no refugees currently pay direct tax, given that those who are working are doing so informally. The level of indirect tax paid by refugees will be determined by their income and consumption habits. We do not have comprehensive data on the current wages of refugees in illegal employment, but we expect it to be very low. A survey by the Malaysian Human Rights Commission (SUHAKAM), found that of the refugees surveyed, 26 per cent earned less than RM500 per month, whilst 58 per cent earned between RM500-RM1000 per month (SUHAKAM, 2013). Since the date of the survey the minimum wage has been introduced which has raised wages at the bottom of the distribution. However, since refugees are working illegally, they have no entitlement to the minimum wage and no power to enforce it.

Nungsari and Flanders (2018) found that the average daily wage of Rohingya construction workers is about RM55, and the reported average monthly income was about RM1420. This is relatively high for a low-skilled worker in Malaysia; however construction is likely to be one of the higher paying sectors, and the survey also revealed that even the highest paid refugees were compensated less than local workers (Nungsari and Flanders, 2018). There are also many “invisible costs” associated with refugees working illegally which will further reduce their wages, including bribes.

We can therefore conclude that refugees are currently likely to contribute very little in tax, but also to impose very limited costs on the public finances. The precise costs, and therefore whether or not refugees are currently net contributors, will largely depend on the take up of the healthcare discount.

Conclusions



Malaysia has a long history of accepting refugees but as a non-signatory to the UN Refugee Convention, refugees have no legal status or right to work. Instead the authorities tolerate their presence and co-operate with UNHCR to some extent;



There are over 160,000 UNHCR registered refugees and asylum seekers in Malaysia, most of whom are working albeit illegally;



Refugees in Malaysia have no access to social security or public education. The Government does provide a 50 per cent discount on the non-citizen rates at public hospitals. Many services are provided through a parallel system of NGOs and charities working with UNHCR;



Refugees currently contribute very little in tax due to the fact that they are working illegally and on low incomes; and



The extent to which refugees are a net cost to the public finances largely depends on their take up of the 50 per cent healthcare discount.

Part 2 - Potential Economic Impact of Granting Refugees the Right to Work

In this section we consider the potential economic impacts of granting refugees in Malaysia the right to work. The conclusions here are largely drawn from a report by the Center for Global Development (CGD), titled *The Economic and Fiscal Effects of Granting Refugees Formal Labour Market Access* (CGD, 2018).

Impact on refugee incomes

The most direct economic impact of granting refugees the right to work will arise as a result of increasing refugees' incomes. In the first instance, this will occur simply by increasing the employment rate of refugees. As we noted in Part 1, many refugees are already working informally. However, refugees' participation rate in the labour force is lower than the national average, which is in part due to the dangerous and unattractive nature of the work available, including the fact that refugees and asylum seekers are vulnerable to arrest and detention as they are working illegally. Formal access to the labour market would present a wider array of work opportunities which would in turn increase the participation rate, and therefore incomes.

The legal right to work would also increase incomes for refugees already in employment by reducing the scope for exploitation. Illegal workers in Malaysia, including refugees working illegally, are vulnerable to exploitation by employers, including lower wages which can also be withheld. Nungsari and Flanders (2018) find that the Rohingya refugees employed in the construction sector in Malaysia earned lower wages than their native counterparts, which could be as a result of exploitation. If refugees were given the legal right to work, the incidence of these practices would decrease as refugees would enjoy increased bargaining power and the right to pursue claims against unscrupulous employers.

Granting refugees the legal right to work could also raise their incomes through increased productivity. This could occur in a number of ways:

- ➔ **Better job matching.** Having no legal access to work severely restricts the pool of work opportunities for refugees. Although the majority of refugees in Malaysia are relatively low skilled, there are some with higher educational backgrounds that are poorly matched to informal work. Additionally, for lower skilled workers, their access to some jobs could be restricted due to licensing requirements (e.g. requiring a Malaysian driving license). With access to more job opportunities, refugees could find work that better matches their skills, thereby increasing their productivity.
- ➔ **Better job mobility.** Linked to the point above, access to a wider pool of employment opportunities would provide refugees with improved job mobility, which can improve productivity over time.
- ➔ **Reduced mental stress.** Living with the anxiety of working illegally and under the threat of exploitation and detention is likely to reduce the productivity of working refugees; this would be partly addressed through formalising their legal status in the labour market.
- ➔ **Incentives to invest in human capital.** If refugees are given a more certain legal status, it improves the incentives for employers and refugees themselves to invest in their skills and education, which in turn will enable them to be more productive.

These factors would also apply to refugees who have chosen to start their own businesses who would have the option to formalise their companies, creating opportunities to increase productivity including through more opportunities to expand and access to public and private financing.

Impact on consumer spending

Increasing refugee incomes would bring substantial economic benefits to the refugee community, enabling them to purchase more and higher quality goods and services and raising their overall quality of life. This increase in consumer spending would also have a positive impact on the wider economy, stimulating demand for goods and services produced in Malaysia. In turn this translates into higher profits and incomes for companies and individuals producing these goods and services.

Wider impact on the economy and labour market

Granting refugees the right to work would also have a positive effect on the wider economy by increasing the labour supply. In theory, the increase in available workers would reduce wages in the sectors in which refugees are employed, in turn lowering costs for businesses, stimulating production and investment. This would expand economic activity which can in turn create new employment opportunities and raise the income of other workers.

Specifically, in the case of Malaysia, expanding the pool of foreign labour would reduce the costs for business. The World Bank (2015) finds that *“foreign workers who come to Malaysia face high costs of migration potentially ranging from approximately RM9,000 to RM14,000, depending on sector of employment and country of origin. These costs include the foreign worker levy, recruitment costs, medical check-ups, immigration processing fees, visa and bond, and travel expenses”*. Many of these costs are borne by the employer and would not apply to employers hiring refugees legally, especially if the Government chose not to apply the foreign worker levy to refugees. These reduced costs associated with hiring refugees as opposed to other foreign workers would further stimulate business investment increasing the wider economic impact of granting refugees the legal right to work.

From a labour market perspective, the impact would vary based on the degree of substitution and complementarity between refugees and other workers. As noted in Part 1, in Malaysia the majority of refugees are lower skilled and would therefore be expected to complement the better educated Malaysian workforce. Substitution would be expected to occur between refugees and other low skilled foreign workers and between refugees and less educated Malaysians. These dynamics are explored in more detail in Part 3.

Impact on public finances

The above positive impacts on the economy would translate into increased government revenues. In the first instance, the increased income of refugees would translate into increased income tax receipts. However, it is important to note that the tax base in Malaysia is relatively low, with the majority of workers paying little or no income tax; so only higher earners among the refugees would be expected to make significant direct tax contributions.

However, the increase in refugee consumption would also translate into increased Government revenue through indirect taxation, specifically the Sales and Services Tax (SST) which applies to the purchase of goods and services in Malaysia.

Beyond the contributions arising from refugees themselves as taxpayers, the wider economic activity stimulated as a result of refugees in the workforce would translate into higher government revenues, including through taxes paid on corporate profits.

The net impact on public finances would depend on the extent to which refugees impose fiscal costs. In general terms, as incomes rise, we would expect demands on public finances to decrease. However, as we noted in Part 1, refugees have very limited entitlement to public services in Malaysia. We would expect to see some fall in costs - for example, a reduction in the costs associated with detaining refugees for working illegally. However, other cost implications would depend on policy decisions on whether to expand (or reduce) refugees' access to public services. These dynamics are explored in more detail in Part 3.

Conclusions



Granting refugees the legal right to work would have a range of economic impacts;



The incomes of refugees themselves would increase as a result of higher participation in the labour market and improved productivity;



These higher incomes would translate into increased spending as refugees consume more goods and services, stimulating the wider economy;



The increased supply of workers would reduce the cost of production by lowering wages, thereby stimulating business activity and investment;



From a labour market perspective, the precise impact would vary depending on the degree of substitutability and complementarity between refugees and other workers; and,



Increased income, spending and wider economic activity would translate into increased Government revenues. The net impact on public finances would depend on policy decisions on the entitlements of refugees.

Part 3 - Estimating the Short-Term impact of Granting Refugees in Malaysia the Right to Work

In this section we consider how to quantify the magnitude of the various effects identified in Part 2. All the estimates in this section refer to the total contribution of refugees, following implementation of their legal right to work. Given that some refugees are already working, albeit illegally, some of the impacts are already being realised. It is not possible to disaggregate the contribution that is already being made and the additional contribution as a result of granting the legal right to work.

Other studies

Several studies have considered the economic impact of refugees being granted the legal right to work. However, there are few studies that focus on the impact in developing countries or Malaysia specifically. There are also few studies which aim to forecast the impact of formalising labour market access for refugees. There are a greater number of studies which estimate the impact of legalising undocumented migrants more generally, but not specifically refugees.

Lynch and Oakford (2013) conducted regression analysis to identify that granting citizenship to undocumented workers in the United States increased their wages by 25.1 per cent. This 25.1 per cent wage effect is disaggregated into a “legalisation” effect and a “citizenship” effect. For our study, we are interested in the former “legalisation” effect, as the question of citizenship for refugees is not under discussion. The “legalisation” component of the 25.1 per cent wage increase estimated by Lynch and Oakford is 15.1 per cent. This figure is taken from a very detailed study undertaken by the U.S. Department of Labour, based on a carefully constructed and large longitudinal survey of the nearly 3 million unauthorized immigrants who were granted legal status and given a road map to citizenship under the Immigration Reform and Control Act (IRCA) of 1986 in the United States. The study found that these previously undocumented immigrants experienced a 15.1 per cent increase in their average inflation-adjusted wages within five years of gaining legal status.

In another study, Ortega et al. (2018) sought to estimate the impact of granting the “DREAMers”³ the legal right to work in the United States. They construct a model which identifies that – on average – there is a 22 per cent productivity deficit afflicting undocumented workers in the US compared to documented workers of the same age and observable skills. This estimate is reached by analysing a special extract of the American Community Survey (ACS) for the year 2012 provided by the Center for Migration Studies (2014). This custom data set contains an individual-level measure of imputed undocumented status constructed on the basis of information on citizenship, year of arrival, country of origin, occupation, industry, and receipt of Government benefits. Ortega et al. (2018) estimate the impact of granting the DREAMers the legal right to work by endowing them with the increased productivity of their documented peers for the same age/education group.

Unfortunately, the data is not available in Malaysia to replicate the approach taken by Lynch and Oakford (i.e. there is no historic study of the effect of legalising undocumented workers in Malaysia) or by Ortega et al. (i.e. there is no custom data set which provides detailed characteristics of the refugee population in Malaysia). Nonetheless, these studies provide us with helpful ideas for constructing an estimate for the Malaysian context, within the constraints of limited data.

³ Undocumented individuals in the United States who stood to benefit from the proposed legalisation under the Development, Relief, and Education for Alien Minors (DREAM) Act are known as “DREAMers.”

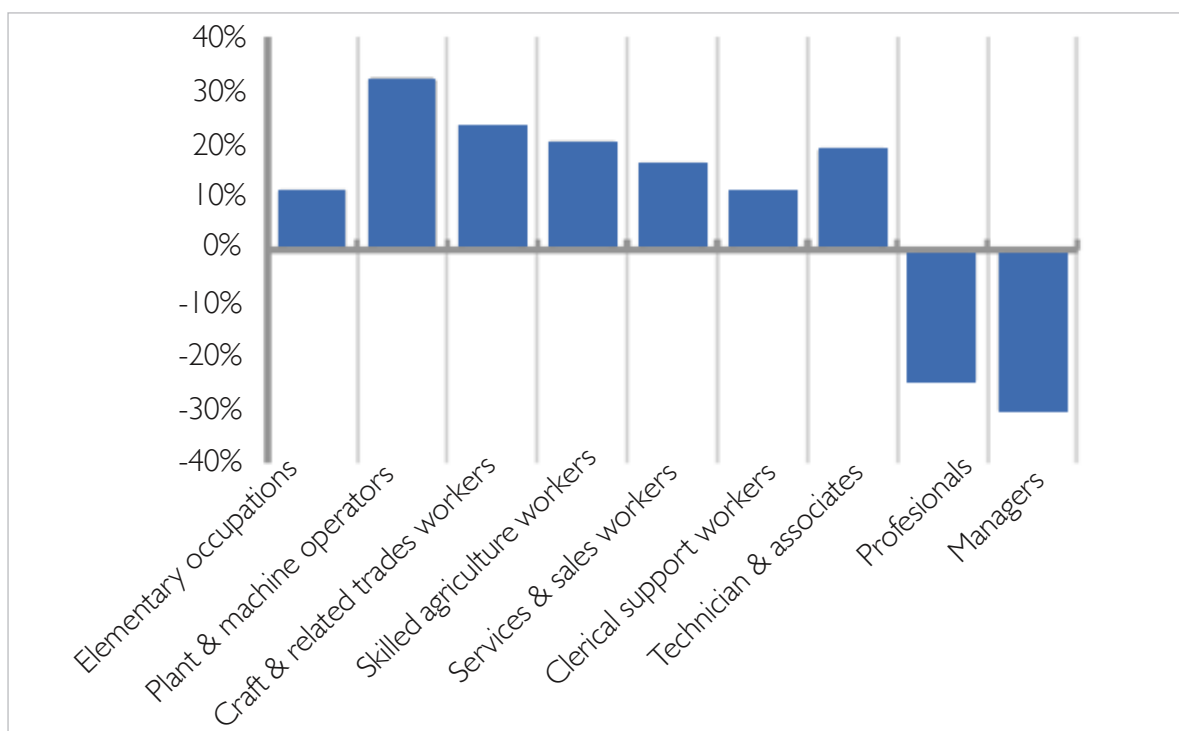
Estimate of increased earnings

Learning from these studies, we have undertaken an estimate of the potential earnings of refugees should they be granted the right to work. For the purposes of this estimate, we define refugees as including both refugees and asylum seekers registered with UNHCR Malaysia. Our estimate is based on the following reasoning which seeks to reflect the conclusions in Part 2:

- If refugees are given the right to work, refugee labour participation rates will converge with the national average as barriers to formal employment are removed;
- If refugees are given the right to work, refugee wages will converge with the national average for a given level of educational attainment, as productivity increases and the scope for exploitation reduces; and,
- We assume that these effects will be seen within five years⁴.

Our rationale that both participation and wages will increase in this way is informed by the conclusion in Part 2 that granting refugees the right to work will encourage their participation in the labour market, reduce the scope for exploitation and increase their productivity - specifically by enabling them to match their skills to employment. However, we also note that there is likely to be an ongoing “income penalty” associated with not being a Malaysian citizen. Lynch and Oakford (2016) estimate a further 10 per cent increase in wages associated with obtaining citizenship. In Malaysia, the World Bank (2015) has found that once other factors are accounted for, Malaysian workers earn more than immigrant workers in low- and mid-skilled occupations, although not in high-skilled occupations.

Chart 6. Percentage Change in Hourly Wage Associated with being a Citizen Rather than a Non-Citizen in Malaysia, 2011 to 2014



Source: World Bank (2015)

⁴We take five years as our timeline partly based on Lynch and Oakford (2013) and our intuition that the effects of legalisation would be realised within five years.

We use this World Bank finding to apply an ongoing “non-citizen pay penalty” to refugees, to reflect their ongoing status as non-citizens. Given that we do not know the occupations that refugees might choose to work in should they be given the right to work, we cannot apply the penalties directly. We therefore take the average of the penalty for the low and medium skilled occupations, which is 17 per cent. We apply this penalty to our estimate of future earnings.

Our approach requires an assumption about the level of educational attainment for refugees currently residing in Malaysia. However, we do not have comprehensive administrative data for this. In the case of refugees from Myanmar, we therefore use the distribution of educational attainment identified for Rohingya working in the construction sector from Nungasari and Flanders (2018) and we assume this same distribution applies for all refugees from Myanmar. This is an imperfect assumption, as we know anecdotally that the Chin refugees (who comprise the second largest group of refugees from Myanmar) are likely to be better educated than the Rohingya. However, we lack the data to form the basis of an alternative assumption. For non-Myanmar refugees, we again lack specific data. Instead, we base our assumption on a survey undertaken in Germany on refugees from a similar set of countries arriving in the same period, conducted by the Institut Der Deutschen Wirtschaft (Stoewe, 2018). Although again this is an imperfect assumption, we believe it is justified given our anecdotal understanding that these other refugees are likely to have a generally higher standard of education than the Rohingya. The educational attainment levels are still lower than those of Malaysians.

We estimate that granting refugees in Malaysia the legal right to work will increase the total monthly income of all refugees to over RM165 million by 2024. Note, this reflects the total compensation of refugees granted the right to work, including those that might have already been working. The summary estimate is presented in the table below, with full detail provided at Appendix I.

Table 3. Summary of Estimates of Short-Term Impact of Granting Refugees in Malaysia the Legal Right to Work on Total Refugee Compensation, 2017 Prices

Educational Attainment	Monthly Wage (RM)	Employed Refugees	Total Monthly Compensation (RM)
No formal Education	1,479	42,639	63,058,817
Primary	1,730	16,737	28,948,241
Secondary	2,155	22,537	48,577,111
Tertiary	4,531	5,496	24,902,898
Total			165,487,067

Source: UNHCR 2018, Salary and Wages Report 2017, author's calculations. Total compensation = monthly wage x employed refugees

Estimating the GDP impact

Having arrived at a figure for the total compensation for refugees, we can now estimate the impact on GDP as a result of refugee spending stimulating activity in the wider economy as identified in Part 2. Given the lack of data and resource constraints we cannot conduct a Computable General Equilibrium (CGE) approach, instead we estimate the increase output specifically as a result of higher levels of refugee spending.

We assume that refugee spending habits match those of the B40 (bottom 40 per cent) of the national population. This is an imperfect assumption: although refugees are likely to be towards the lower end of income distribution, they might exhibit different spending patterns from the wider B40 for a number of reasons, most notably the fact that Malaysian citizens receive access to public healthcare and public education and refugees are likely to remit some of their earnings. Nonetheless, we have no data on the consumption habits of refugees and only national consumption data at a broad level of disaggregation.

Based on national data on B40 income and consumption, we calculate the marginal propensity to consume (MPC) of this group. We use this B40 MPC to calculate the GDP multiplier effect for B40 spending. Assuming the same multiplier effect for refugees, we estimate the GDP impact associated with higher refugee consumption (detail of estimation provided in Appendix 1).

We estimate that if refugees are given the right to work, they will contribute over RM3 billion to annual GDP through higher spending by 2024. This estimate only encompasses the economic impact which arises from the increased spending of refugees, as a result of more refugees working and those refugees working earning higher wages. There will be additional economic impacts, both positive and negative that would arise as a result of higher employment of refugees.

Table 4. Summary of Estimates of GDP Impact of Granting Refugees in Malaysia the Legal Right to Work, 2017 Prices

Item	Value
Estimated Monthly Income (2024)	165,487,067
Estimated Annual Income (2024)	1,985,844,803
Estimated B40 Average Propensity to Consume (APC)	0.8
Estimated Annual Consumption (2024)	1,588,675,843
Estimated B40 GDP Multiplier Effect	1.9
Estimated GDP Impact (Annual Consumption × GDP Multiplier)	3,018,484,101

Source: Household Expenditure Survey 2014, 2016, author's calculations

Wider economic impact

The GDP estimate above is a partial estimate, accounting only for the impact of increased consumption by refugees. As noted in Part 2, increased employment of refugees will have wider economic impacts beyond increased consumption. To that extent, the economic impact of employed refugees can be compared with the economic impacts of immigration more generally.

In terms of the likely magnitude of this wider economic impact, Ahsan (2014) estimates that a 10 percent net increase in low-skilled immigrant workers in Malaysia would increase real GDP by 1.1 percent. This impact reflects the fact that increased low-skilled immigration reduces wages, and therefore the cost of production, which in turn increases exports. As a result, overall employment increases, and profits rise leading to increased investment and demand for other forms of labour. This translates into broader wage rises and a boost to domestic demand (World Bank, 2015). As noted in Part 2, the costs of hiring refugees legally are likely to be lower for employers than the cost of hiring other foreign workers, as a result, businesses having the option to hire refugees legally would reduce business costs, stimulating production and investment.

The RM3 billion GDP impact estimated above relates to the increased consumption, but not these wider indirect effects. Therefore, the wider economic impact of granting refugees in Malaysia the right to work is likely to be substantially larger than the RM3 billion estimated in this paper. However, quantifying this impact is beyond the scope of this paper.

Estimating the impact on public finances

Direct taxes

In order to estimate the impact on public finances, we need to estimate the possible tax receipts associated with higher refugee incomes and more spending. However, given that – even following the expected increase in earnings – refugees are still likely to earn relatively little, and given the fact that the Malaysian income tax system is shallow by OECD standards, the direct tax contribution is likely to be rather small.

The estimate below is taken from the applying the incomes estimated in Table 3. and applying the Malaysian income thresholds for 2018, assuming that employed refugees are entitled to the RM9,000 personal income tax relief.

We estimate granting refugees the right to work would result in direct tax contributions of over RM13 million each year by 2024.

Table 5. Estimate of Direct Tax Contributions of Refugees, RM, 2017 Prices

Refugees	Annual Income	Chargeable Income	Tax Due per Refugee	Total Tax Due
42,639	17,747	8,747	37.47	1,597,628
16,737	20,755	11,755	67.55	1,130,598
22,537	25,865	16,865	118.65	2,674,060
5,496	54,373	45,373	1,429.88	7,858,552
Total				13,260,838

Source: LHDN Income Tax Rates (2018), author's calculations

Indirect Taxes

To estimate the contribution in indirect taxes, we again assume that refugees' consumption habits would have a similar pattern to that of B40 households. For each category of item that comprises B40 consumption, we identify whether the Sales and Services Tax (SST) applies or whether those goods are exempted (full detail at Appendix 1). As a result, we estimate that SST applies to 31.1 per cent of B40 household expenditure. We then apply this to the estimated expenditure of refugees to calculate refugees' contribution in indirect taxes.

We estimate that giving refugees the right to work would result in indirect tax contributions of nearly RM40 million each year by 2024. Again, this is a relatively modest contribution, which reflects the relatively low-income level we estimate for refugees and the fact that many goods consumed by low income households are zero-rated.

Table 6. Estimate of Indirect Tax Contribution of Refugees, 2017 Prices

Item	Value (RM)
Estimated Refugee Expenditure (2024)	RM1,588,675,843
Estimated Refugee SST Paid (2024)	RM39,685,122.55

Source: Household Expenditure Survey 2016, author's calculations

These estimates relate only to the direct contribution of refugees, i.e. the amount they themselves pay in taxes, not the potential revenues arising as a result of the increased economic activity that employed refugees would help stimulate.

Increased pressure on public finances

Under this short-term scenario – which is intended to closely match the letter of the manifesto commitment and no more – we are not assuming that the Government would provide access to social security or education.

The World Bank (2015) concludes that low skilled documented workers are a net positive contribution to the public finances, whilst undocumented workers impose higher fiscal costs partly due to the costs of arrest and detention. This assessment can be broadly applied to refugees, for example we would expect the fiscal costs of arrest and detention to reduce once refugees have the legal right to work. However, there are some important differences. One of the contributing factors to the World Bank's conclusion is that the foreign workers levy (up to nearly RM2,000 per worker per year and potentially more if immigrants are employed long term) is mandatory for employers of documented immigrants and provides a significant fiscal contribution. Therefore, the extent of refugees' fiscal contribution would depend on whether the levy was applied to them. In turn, the decision to apply the levy would impact the employability of refugees themselves, and therefore would have wider implications for the economic impact of granting refugees the right to work in the first place.

An additional complicating factor is the healthcare discount which, as we noted earlier, is difficult to estimate. Assuming that the discount was maintained, the usage might change and therefore shift cost but this is inherently difficult to predict.

We cannot say therefore that under this scenario that refugees being given the right to work would definitively make them net contributors to the public finances, as this depends on contingent policy decisions (on the foreign worker levy and healthcare discount) which would themselves impact the economic contribution of refugees. However, given that the gross tax contribution of refugees would increase, and the costs could broadly be expected to stay the same and in some cases would be reduced, we can conclude that the net impact on public finances of granting refugees the legal right to work would be positive.

As noted above, these considerations relate only to refugees' direct impact on the public finances, i.e. their taxes paid, and services used. Given the wider, positive contribution to economic growth their indirect contribution to public finances will be substantially greater than estimated here.

Labour market impact

Finally, we want to consider the impact of granting refugees the right to work on the wider labour market. Here, it is important to note that many refugees are already working and therefore the labour market impact is likely to be relatively small, given that the number of wholly new workers entering the labour market is low. However, we can draw some general conclusions about the labour market impact of refugees – both before and after being granted the legal right to work – based on studies of the impact of low skilled foreign workers in Malaysia.

As noted in Part 2, we would expect some negative impact on wages and employment, concentrated in certain groups (substitution), and a positive impact on wages and employment for others (complementarity). To understand the likely impacts in Malaysia we can consider previous studies on the labour market impact of low skilled migration. For example, Athukorala and Devadason (2012) find that an increase in the share of both immigrant workers and unskilled foreign workers in the manufacturing sector results in a small decline in real wages, with a 10 percent increase in the share of immigrant workers resulting in a 1.3 percent decline in real wages. However, commenting on this and other studies, the World Bank (2015) notes that the focus is usually

on the wages of all workers, obscuring the difference between the effect on Malaysians and other immigrant workers.

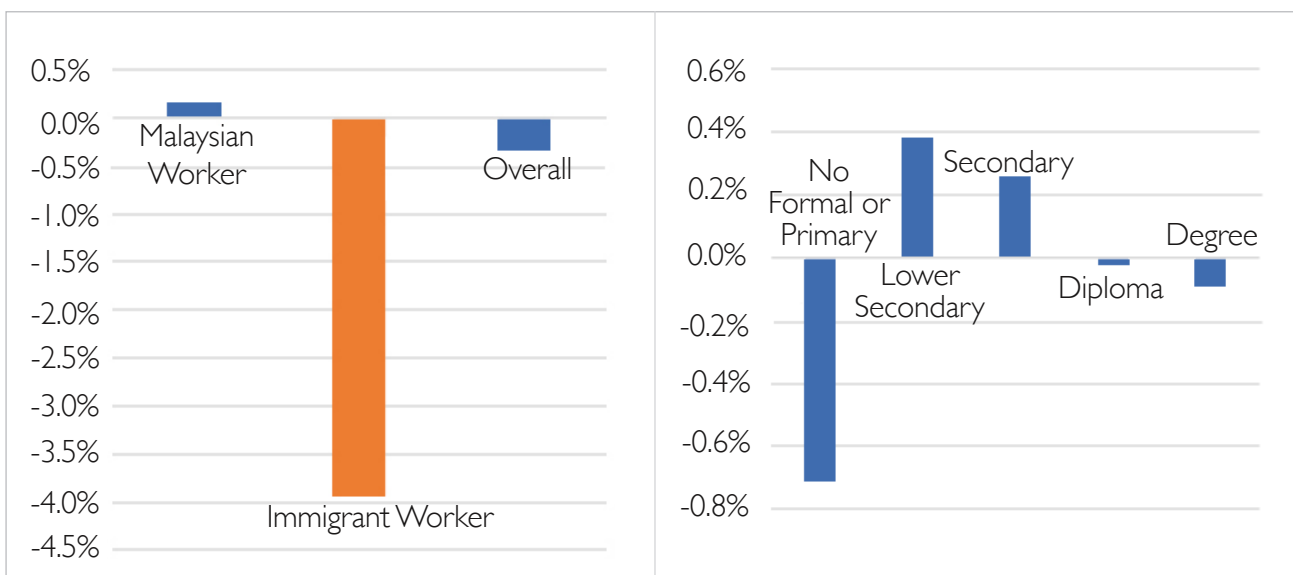
Under its own analysis, the World Bank (2015) finds that immigrant workers complement the majority of Malaysian workers and do not replace Malaysian workers. Indeed, they estimate that 10 new migrant workers create between 0.3 and 0.5 new jobs nationwide. This is a simplified tool to illustrate the net effect of immigration on employment and is not necessarily applicable to refugees – but nonetheless suggests **that giving refugees the right to work would result in refugees creating between 2,500 and 4,300 jobs for Malaysians nationwide.** Note, that this is the total effect based on all refugees working – some of these jobs likely already exist as a result of refugees currently working informally.

The World Bank (2015) finds that this overall complementarity reflects differences for different age groups and education levels. The most positive impacts of low skilled migration are among younger Malaysians with a higher level of education. Only Malaysian workers between 50 and 64 years of age and with no formal or at mostly primary education see no employment benefit from the presence of low skilled immigrant workers. This also likely to be the case for working refugees.

Impact on wages

A similar pattern is found in the impact on wages – immigration causes a small decrease in the overall level of wages, but this reflects a small increase on the wages for Malaysians and a larger decrease in the wages of other immigrant workers (Ozden and Wagner, 2014). Among Malaysians, those with at least some secondary education see the greatest increase in wages, whilst there is a negative impact on the wages of Malaysians with no formal education or only primary education (although this is a shrinking part of the workforce as Malaysians become better and better educated).

Chart 7. Change in Wages Due to 10 Percent Increase in Immigration in Malaysia



Source: Ozden and Wagner (2014)

More recent research by the Khazanah Research Institute (KRI) broadly supports these findings. KRI (2018) find that foreign workers are not substitutes for Malaysia workers: “foreign workers do not directly affect employment opportunities and wages of Malaysians because they occupy very different economic spaces from Malaysians, and therefore do not directly compete with Malaysians”.

Although these findings relate to low skilled migrants, not specifically to refugees, the conclusions are broadly applicable given that refugees with the right to work are similar in terms purely of economic contribution to low skilled foreign workers. Therefore, we can conclude that the labour market impact of refugees is likely to be positive overall for Malaysians in terms of both employment and wages, with the potential for some small negative impacts for other foreign workers and older, less well-educated Malaysians.

As noted earlier, some of this impact will already have occurred given that many refugees are already working. The impact would be expected to increase as more refugees enter the workforce and the composition of the impact (including by sector) would change as refugees have access to a wider pool of employment opportunities. Indeed, it is plausible to suggest that competition in the informal sector would decrease as refugees pursue employment in the formal sector. Estimating the precise composition of the labour market impact would require further detailed study.

Conclusions



We estimate that granting refugees in Malaysia the right to work will increase their contribution to the economy and the public finances;



We estimate that if refugees were given the right to work, they would contribute over RM3 billion to annual GDP by 2024 through higher spending;



The impact could be nearly double that when accounting for the wider indirect impacts;



We estimate that if refugees were given the right to work, they would contribute over RM50 million in tax each year by 2024;



The net contribution to the public finances would depend on policy decisions, including application of the foreign worker levy and maintenance of the refugee healthcare discount;



The labour market impact is likely to be relatively small given that many refugees are already working; and



Overall, employment and wages of Malaysians benefit from refugees working and these benefits would increase if refugees were given the legal right to work, with refugees potentially helping to create over 4,000 jobs for Malaysians. Any negative labour market impacts are likely to be minor and limited to other foreign workers and older, less educated Malaysians.

Part 4 - Maximising Refugees' Contribution Over the Long Term

The economic impacts identified above, although positive, are relatively small in the context of the whole economy. This is largely due to the fact that the refugee population in question is not very large and that it is generally a low-skilled population. As a result of this skill composition, the potential earnings are relatively low.

Maximising the future economic contribution of refugees would require improving their overall access to education. Given that this improved educational access would focus on refugee children, in this section we now consider a longer-term scenario which focuses on the potential contribution of refugee children currently in Malaysia. To do this, we consider a scenario under which refugee children are given access to primary, secondary and tertiary education on a par with locals.

In policy terms, this scenario could reflect a hypothetical Government decision to provide free access to the public-school system for refugees. It could also reflect a decision by donors to invest in a community-based schooling system which delivers educational outcomes on a par with the public education system. We do not consider a scenario under which refugees participate in the public education on a fee-paying basis, because of the complexity of estimating the affordability of this for the refugee parents.

Under this long-term scenario, we assume that educational attainment levels of refugee children converge with the educational attainment levels of the population, albeit to a varying degree based on their current age. The results in Schoellman (2016) indicate that the education outcomes for refugees that arrived in the United States aged 0-6 are similar to outcomes for natives. Evans and Fitzgerald (2017) come to a similar conclusion and also observe successively poorer outcomes for refugees of a higher age at arrival.

Drawing on these findings, we assume that under this scenario refugees currently aged 0-4 achieve educational outcomes on a par with locals. For the age group of 5-11, we discount their achievement by half at each level (i.e. half of those that would have achieved secondary are assumed to only achieve primary). This process is then repeated for the age group of 12-17. We then project forward by 20 years (sufficient time for education to be completed and children to enter the work force) and assume the refugees (now working age adults) earn wages commensurate with their expected educational attainment levels.

Of course, there are many 18-59 year old refugees who would remain in the workforce during this time. We assume that their educational attainment would not improve and therefore their wages would not improve beyond the increases achieved in the short-term scenario outlined in Part 3. We do not have precise statistics on their age profile, so we cannot say exactly how many would exit the work force over this time. Based on a qualitative understanding of the demographics, we assume 35 per cent of those currently aged 18-59 have left the workforce by 2040. Combining these assumptions, we calculate the total compensation for the refugees currently in Malaysia, 20 years from now.

We estimate that under a scenario where refugees are granted access to education on a par with locals, their total income would increase to over RM360 million per month in real terms by 2040. To a large extent this increase is driven by the assumed underlying real wage growth over the period.

Table 7. Summary of Estimate of Long Term (2040) Scenario for Total Refugee Compensation, RM, 2017 Prices

Educational Attainment	Monthly Wage (2040)	Employed Refugees	Total Compensation
No formal Education	3,042	33,357	101,480,514
Primary	3,558	16,307	58,017,691
Secondary	4,434	27,007	119,746,161
Tertiary	9,321	9,264	86,346,814
Total			365,591,180

Source: author's calculations

Estimating the GDP impact

Adopting the same methodology to the short-term impact we can estimate the GDP impact of this increase in income, assuming the propensity of refugees to spend is unchanged.

We estimate that under a scenario where refugees are granted access to education on a par with locals, their contribution to GDP would increase to over RM6.6 billion annually in real terms by 2040. Given that the number of refugees working does not change significantly, this increased contribution is driven by the high wages for younger refugees entering the workforce with a better education. As noted above, these higher wages are also attributable to expected real wage growth over the period.

Table 8. Summary of GDP Impact Under Long Term (2040) Scenario, RM, 2017 Prices

Item	Value
Estimated Monthly Income (2040)	365,591,180
Estimated Annual Income (2040)	4,387,094,154
Estimated B40 Average Propensity to Consume (APC)	0.8
Estimated Annual Consumption (2040)	3,509,675,323
Estimated B40 GDP Multiplier Effect	1.9
Estimated GDP Impact	6,668,383,114

Source: author's calculations

As with the short-term economic impact, this estimate is a partial assessment only. We do not consider the wider indirect impact by applying estimates from the World Bank (2014), because the change in the refugee population over this time period is not an increase in the total number of working refugees, but rather an increase in their earnings due to an improved skill composition.

Impact on public finances

It is even more difficult to predict the future impact on public finances, given the possibility for change in the tax system. But, for the purposes of understanding the potential long-term impact of this scenario on the public finances, we can repeat the methodology used for the short-term impact, assuming that there is no change in the income tax thresholds or SST rates.

We estimate that under a scenario where refugees are granted access to education on a par with locals, refugees’ direct tax contribution would increase to over RM180 million by 2040.

Table 9. Estimate of Direct Tax Contribution Under Long Term (2040) Scenario, RM, 2017 prices

Refugees (2040)	Chargeable Income	Tax Due per Refugee	Total Tax Due
33,357	27,507	375	12,515,714
16,307	33,695	561	9,145,509
31,601	44,207	1,337	42,234,979
10,797	102,850	11,499	124,152,174
Total			188,048,376

Source: author's calculations

Under this scenario – and assuming no change in real tax rates – the direct tax contribution of working refugees stands to increase significantly as a result of the greater number of higher earners. It is important to note that this increase is partially driven by the expected real wage growth over the period, but this still represents a significant growth in the direct tax contribution.

Again, if we assume the real tax rates for SST are also unchanged, then we can repeat the same methodology to estimate indirect tax contribution.

We estimate that under a scenario where refugees are granted access to education on a par with locals, refugees’ indirect tax contribution would increase to over RM85 million by 2040.

Table 10. Estimate of Indirect Tax Contribution Under Long Term (2040) Scenario, 2017 Prices

Item	Value
Estimated Refugee Expenditure	RM3,509,675,323
Estimated Refugee SST Paid	RM87,671,689.58

Source: author's calculations

We can see that the forecast increase in indirect contributions is more modest. This is as expected, given that the SST does not scale for higher earners as income tax does. Overall, we estimate a substantial increase in the tax contribution of refugees under a scenario where they have access to education on a par with locals.

Increased pressure on public finances

In terms of the cost of refugees to the public finances, this scenario does not entail any change to health or welfare entitlements. However, this scenario is only possible if access to education is provided. It is possible that this could be delivered through substantial external investment, but it would be more plausible that the Government would choose to provide free access to public education for refugees. This would be a substantial investment. The Government does not produce estimates of the marginal cost per pupil of the public education system, but UNESCO has calculated Government spending per capita as below.

Table 11. Malaysian Government Spending per Pupil, 2010-2015

Year	Government spending as a % of GDP per capita		
	Primary	Secondary	Tertiary
2010	12%	18%	45%
2011	15%	19%	59%
2012	17%	20%	44%
2013	16%	20%	44%
2014	16%	19%	50%
2015	16%	18%	50%

Source: UNESCO

These figures better represent the full (rather than marginal) cost per pupil, and therefore represent an upper bound of the cost of providing refugees with access to the public education system. Nonetheless, if the Government were to provide this level of investment for refugee children this could be expected to cost up to 150 million per year in some years. This is unlikely to be matched by the tax contribution of working refugees in the short term based on our earlier estimates. However, once those educated refugees enter the work force, their higher incomes would translate into higher tax receipts which would recoup the investment – and pay significant dividends in the long term.

Conclusions



We estimate that under a scenario where refugees are granted access to education on a par with locals, their contribution to GDP would increase to over RM6.6 billion annually in real terms by 2040.



This could require a substantial investment of up to RM150 million a year in the short term. However, we estimate a substantial increase in the tax contributions of future working refugees as a result, over RM250 million per year by 2040, which would pay back the initial investment.

Conclusions and Recommendations



This paper has focussed on estimating the economic impact of granting refugees in Malaysia the right to work. The analysis concludes that granting refugees the right to work would be positive for the economy and the public finances.



To realise these benefits the Government should take forward the practical steps to implement its manifesto commitment to provide refugees with the right to work, on par with locals. Crucially this should include ensuring that refugees have full job mobility and are not confined to specific industries or locations – this will ensure that they can make best use of their skills and improve their productivity.



The Government will need to consider related policy questions, including application of the foreign worker levy. Here, the Government should seek to maximise the potential economic contribution of refugees by minimising the cost to business of hiring them and supporting refugees' access to healthcare.



In the longer term, the Government should consider how to improve refugees' access to education in order to maximise the economic contribution that refugees can make to Malaysia

Acknowledgments

We would like to thank the Tent Partnership for Refugees for sponsoring this research. We would like to thank UNHCR Malaysia for providing us with data, insights and support necessary to conduct this research. We would like to thank the World Bank for their support on the technical aspects of this report. We would like to thank the Center for Global Development for their insight and input, as well as Asylum Access for providing additional context on the circumstances of refugees in Malaysia.

References

Ahmad, Abdullahi & Prof. Dr. Zulkanain Abdul Rahim, Assoc & Mohamed, Abdul Majid Hafiz. (2012). The Refugee Crisis in Southeast Asia: The Malaysian Experience. 3. 80-90.

Ahsan, Ahmad, Manolo Abella, Andrew Beath, Yukon Huang, Manjula Luthria, and Trang Van Nguyen. (2014). International Migration and Development in East Asia and the Pacific. Washington D.C.: World Bank.

Cheung, S. (2011). Migration control and the solutions impasse in South and Southeast Asia: Implications from the Rohingya experience. *Journal of Refugee Studies* 25(1), 50-70.

Clemens, M., Huang, C. and Graham, J. (2018). The Economic and Fiscal Effects of Granting Refugees Formal Labor Market Access. CGD Working Paper 496. Washington, DC: Center for Global Development. Retrieved from <https://www.cgdev.org/publication/economic-and-fiscal-effects-granting-refugees-formal-labor-market-access>

Department of Statistics Malaysia (2018). Press Release: Informal Sector Work Force Survey Report, Malaysia 2017. Retrieved from <https://www.dosm.gov.my/v1/index.php?r=column/pdfPrev&id=TStvalVDC3krRG5hSHByQjczd2lFZz09>

Evans, W. & Fitzgerald, D. (2017). The Economic and Social Outcomes of Refugees in The United States: Evidence from the ACS. Working Paper 23498. National Bureau of Economic Research. Retrieved from <https://www.nber.org/papers/w23498.pdf>

Free Malaysia Today (2019). Government considering allowing refugees into public schools, hospitals. Retrieved from <https://www.freemalaysiatoday.com/category/nation/2019/02/19/government-considering-allowing-refugees-into-public-schools-hospitals/>

Hwok-Aun, Lee & Yu Leng, Khor (2018). Counting Migrant Workers in Malaysia: A Needlessly Persisting Conundrum. ISEAS Yusof Ishak Institute. Issue: 2018, No. 25

Leh Hoon Chuah, Fiona & Teng Tan, Sok & Yeo, Jason & Legido-Quigley, Helena. (2018). The health needs and access barriers among refugees and asylum-seekers in Malaysia: A qualitative study. *International Journal for Equity in Health*. 17. 10.1186/s12939-018-0833-x.

Lynch, R. & Oakford, P. (2013). The Economic Effects of Granting Legal Status and Citizenship to Undocumented Immigrants. Center for American Progress.

UNHCR Malaysia (2019). UNHCR Persons of Concern in Malaysia. Retrieved directly from UNHCR Malaysia

UNHCR Malaysia (2018). Education in Malaysia. Retrieved from <https://www.unhcr.org/education-in-malaysia.html>

UNHCR (no date given). Evaluation Paper – Work Pilot Scheme for Rohingya Refugees: Plantation Sector. Retrieved directly from UNHCR Malaysia

Munir-Asen, Katrina (2018). (Re)negotiating Refugee Protection in Malaysia: Implications for Future Policy in Refugee Management. Deutsches Institut für Entwicklungspolitik. Discussion Paper 29/2018

New Straits Times (2016). No health subsidies for foreigners since Jan 1. Retrieved from <https://www.nst.com.my/news/2016/01/122294/no-health-subsidies-foreigners-jan-1-video>

Normah Awang Noh, Haris Abd. Wahab, Siti Hajar Abu Bakar Ah & M. Rezaul Islam (2016). Public Health Services for Foreign Workers in Malaysia, *Social Work in Public Health*, DOI: 10.1080/19371918.2015.1125321

Nungsari, M & Flanders, T (2018). A Comprehensive Study Of Rohingya Construction Workers In Peninsular Malaysia And Recommendations For A Future Work Pilot Program. Asia School of Business. Retrieved directly from UNHCR

Ortega, F., Edwards, R. & Hsin, A. (2018). The Economic Effects of Providing Legal Status to DREAMers. Institute of Labor Economics. IZA DP No. 11281

Özden, Çağlar and Mathis Wagner. (2014). "Immigrant versus Natives? Displacement and Job Creation," Policy Research Working Paper 6900, World Bank, Washington D.C.

Schoellman, T. (2016). Early childhood human capital and development. *American Economic Journal: Macroeconomics*, 8(3), 145-174. <https://doi.org/10.1257/mac.20150117>

Stoewe, Kristina (2017). Education Levels of Refugees: Training and Education in the Main Countries of Origin. Institut Der Deutschen Wirtschaft. IW-Report 37/2017

SUHAKAM (2013). Access to Education in Malaysia. Retrieved from <http://www.suhakam.org.my/wp-content/uploads/2013/11/Research-Report.pdf>

Khazanah Research Institute. (2018). The Economic Impact of Foreign Workers in Malaysia. Kuala Lumpur: Khazanah Research Institute. License: Creative Commons Attribution CC BY 3.0.

The Star (2017). Foreigners owe RM50.5mil. Retrieved from: <https://www.thestar.com.my/news/nation/2017/04/15/foreigners-owe-rm505mil-they-make-up-nearly-20-of-outstanding-medical-bills/>

World Bank (2015). Malaysia Economic Monitor: Immigrant Labour. Retrieved directly from the World Bank.

Appendix I – Calculation Detail

1) Estimating the total compensation of refugees (short term)

In this estimate we are seeking to identify the short-term effect of granting refugees in Malaysia the right to work. To do this we simulate the effect of refugees earning wages relative to the educational attainment level, on the basis that all else being equal they should be in a position to earn this amount. We assume that if refugees are given the right to work in 2019, they would obtain this level of income by 2024 (within five years).

First, we identify the total number of refugees in employment. We take the total number of persons of concern aged 18-59 from UNHCR data and apply the national participation rates for the national population, 80 per cent for men, 55 per cent for women.

These working age refugees are then allocated against educational attainment levels according to the following process:

- ➔ All refugees from Myanmar are assumed to reflect the educational attainment distribution identified in Nungsari and Flanders (2018) for Rohingya working in the construction sector; and
- ➔ All other refugees are assumed to reflect the educational attainment distribution identified in Stoewe (2017) for refugees arriving in Germany.

Table I. Educational Attainment of Rohingya Refugees in Construction Sector in Malaysia, 2018

Educational Attainment	% reported
No formal Education	54%
Some Primary	29%
Primary	11%
Some Secondary	4%
Secondary	1%
Some Tertiary	1%
Tertiary	1%

Source: Nungsari & Flanders (2018)

In order to align the categories with those reported by DOSM, we treat those as having “some” education as having attained the prior level

Table 2. Educational Attainment of Refugees in Germany, 2016

Educational Attainment	% reported
No formal Education	11%
Primary	11%
Middle School	25%
Secondary	35%
Other School	4%
Tertiary	12%

Source: Stoewe (2017)

In order to align the categories with those reported by DOSM, we treat the proportion as having attended Middle School as having received only a primary education.

For each educational attainment level, we identify the national mean wage from the DOSM Salaries and Wages Report 2016. We apply a real wage growth rate based on the Compound Annual Growth Rate of real wages in Malaysia. We estimate the CAGR for real wages in Malaysia is 3.4 per cent.

Table 3. CAGR for Real Wages Malaysia, 2013-2017

Year	Nominal Mean Wage	Real Mean Wage	CPI (2010=100)
2013	2,186	2,439	107.1
2014	2,377	2,571	110.5
2015	2,487	2,635	112.8
2016	2,657	2,756	115.2
2017	2,880	2,880	119.5
	CAGR	3.4%	

Source: DOSM, author's calculation

We then apply this growth rate to the mean wages for each educational attainment level to 2024 and allocate refugees according to the process above. We also apply a penalty for non-citizenship, identified in World Bank (2015) of 17 per cent.

Table 4. Estimate of Total Compensation of Refugees

Educational Attainment	Mean Wage (2017) ¹	Estimated Mean Wage (2024) ²	Employed Refugees	Male	Female	Total Compensation ³
No formal Education	1,410	1,479	42,639	35,865	6,773	63,058,817
Primary	1,649	1,730	16,737	13,099	3,638	28,948,241
Secondary	2,055	2,155	22,537	16,625	5,912	48,577,111
Tertiary	4,320	4,531	5,496	4,083	1,413	24,902,898
Total						165,487,067

¹ Mean Wage (2017) from DOSM Salaries and Wages Report

² Estimated Mean Wage (2024) = Mean wage (2017) × real wage growth (3.4% per year) - Immigrant pay penalty (17%)

³ Total Compensation = Estimated Mean Wage (2024) × Employed Refugees

2) Estimating the GDP impact on increased refugee compensation

In this estimate we are seeking to identify the increased GDP as a result of increased consumer spending by refugees.

We assume that the refugees will exhibit the same consumption habits as the bottom 40 per cent (B40). Given the data by Department of Statistics Malaysia (DOSM) on average household income and expenditure as well as the B40 income and expenditure in 2016 and 2014, we can then calculate the multiplier effect of the B40.

Table 5. Estimating Propensity to Consume (MPC) of B40

	Overall Mean Income	Overall Mean Consumption
2014	RM6,141.00	RM3,578.00
2016	RM6,958.00	RM4,033.00
Change in Income	RM817.00	-
Change in Consumption	-	RM455.00
Average consumer Marginal Propensity to Consume (MPC) = ((Change in Consumption)/(Change in Income))	0.556915545	

Table 6. Estimating the Multiplier Effect for B40

	B40 Mean Income	B40 Mean Consumption
2014	RM2,537.00	RM2,027.00
2016	RM2,848.00	RM2,284.00
Change in Income	RM311.00	-
Change in Consumption	-	RM257.00
B40 Marginal Propensity to Consume (MPC_{B40}) = ((Change in Consumption)/(Change in Income))	0.82636659	
B40 Multiplier effect = $(1/(1-MPC)) + (MPC/MPC_{B40}) - 1$	1.930838896	

Table 7. Estimating GDP Impact using B40 Multiplier, RM

Estimated Monthly Income (2024)	165,487,067
Estimated Annual Income (2024)	1,985,844,803
Estimated B40 Average Propensity to Consume (APC)	0.8
Estimated Annual Consumption (2024)	1,588,675,843
Estimated B40 GDP Multiplier Effect	1.9
Estimated GDP Impact (Annual Consumption x GDP Multiplier)	3,018,484,101

3) Estimating the fiscal impact

To estimate the fiscal contribution of working refugees we first estimate the direct tax contribution. We apply the 2018 income tax rates to the wages in estimated in table 4. We assume refugees are entitled to the RM9,000 income tax relief.

Table 8. Estimate of Direct Tax Contribution by 2024, RM

Refugees	Estimated Monthly Wage	Annual Income	Chargeable Income	Tax Due per Refugee	Total Tax Due
42,639	1,479	17,747	8,747	37.47	1,597,628
16,737	1,730	20,755	11,755	67.55	1,130,598
22,537	2,155	25,865	16,865	118.65	2,674,060
5,496	4,531	54,373	45,373	1,429.88	7,858,552
Total					13,260,838

Using B40 expenditure in 2016 as a proxy of refugee's expenditure, we found that the B40 spent about RM716 per month or 31.1% of total expenditure on expenditure group that deem to be charged SST. The following table is the list of B40 expenditure group:

Table 9. Estimating Proportion of Expenditure Covered by SST

Expenditure Group	Amount (RM)	Percentage (%)	SST Coverage
Food and non-alcoholic beverages	RM582	25.5%	No
Alcoholic beverages and tobacco	RM58	2.5%	Yes (10%)
Clothing and footwear	RM83	3.6%	Yes (10%)
Housing, water, electricity, gas and other fuels	RM563	24.7%	No
Furnishings, household equipment and routine household maintenance	RM74	3.2%	Yes (10%)
Health	RM42	1.8%	No
Transport	RM269	11.8%	No
Communication	RM91	4%	No
Recreation services and culture	RM81	3.5%	Yes (6%)
Education	RM22	1%	No
Restaurants and hotels	RM271	11.8%	Yes (6%)
Miscellaneous goods and services	RM149	6.5%	Yes (10%)
Total expenditure covered by SST	RM716	31.1%	

Given the assumption that the refugee total expenditure shares the same pattern with the B40's, then we can calculate the estimated amount of SST paid by refugees, by applying the proportion of expenditure and the SST rate to refugee projected consumption.

Table 10. Estimated Indirect Tax Contribution by 2024

Estimated Refugee Expenditure (2024)	RM1,588,675,843
Estimated Refugee SST Paid (2024)	RM39,685,122

4) Estimating long term impact

To simulate the long-term impact, we construct a scenario whereby access to education improves, reflected in higher educational attainment for refugees. We look forward 20 years and assume that all refugees currently aged 0-17 have entered the labour force. We assume those currently aged 0-4 have achieved a level of educational attainment on a par with the rest of Malaysia. For the age group of 5-11 we apply a “cascading discount” effect whereby the number obtaining each level of educational attainment is reduced by half with those falling into the previous category. We repeat the process for 12-17 year olds. For 18-59 year olds, we continue to use the previous assumptions on educational attainment, distinguishing between those from Myanmar and those from the rest of the world. Given the period in time, we also assume that a proportion of the 18-59 year old refugees have left the work force. We have no detailed demographic data, so we assume that 35 per cent have left the work force based on qualitative understanding of the age profile. We do not apply the immigrant pay penalty from the short term scenario.

Table 11. Estimate of Total Compensation for 2040, RM

Educational Attainment	Mean Wage (2017)	Estimated Mean Wage (2040)	Employed Refugees	Male	Female	Total Compensation
No formal Education	1,410	3,042	33,357	26,861	6,496	101,480,514
Primary	1,649	3,558	16,307	11,867	4,440	58,017,691
Secondary	2,055	4,434	27,007	18,374	8,633	119,746,161
Tertiary	4,320	9,321	9,264	6,133	3,130	86,346,814
Total						365,591,180

Estimating GDP impact

We assume no change in the consumption pattern and therefore repeat the process above to identify the GDP impact of the increased compensation.

Table 12. Estimate of GDP Impact by 2040, RM

Estimated Monthly Income (2024)	365,591,180
Estimated Annual Income (2040)	4,387,094,154
Estimated B40 Average Propensity to Consume (APC)	0.8
Estimated Annual Consumption (2040)	3,509,675,323
Estimated B40 GDP Multiplier Effect	1.9
Estimated GDP Impact	6,668,383,114

Estimating direct and indirect tax contribution

Again, assuming no change in real tax rates or consumption patterns we repeat the method for estimating the direct and indirect tax contributions.

Table 13. Estimate of Indirect Tax Contribution by 2040

Estimated Refugee Expenditure	RM3,509,675,323
Estimated Refugee SST Paid	RM87,671,689.58

Table 14. Estimate of Direct Tax Contribution in Long Term Scenario (2040), RM

Refugees (2040)	Estimated Monthly Wage	Annual Income	Chargeable Income	Tax Due per Refugee	Total Tax Due
33,357	3,042	36,507	27,507	375	12,515,714
16,307	3,558	42,695	33,695	561	9,145,509
31,601	4,434	53,207	44,207	1,337	42,234,979
10,797	9,321	111,850	102,850	11,499	124,152,174
Total					188,048,376

5) Estimate of jobs created by refugee employment

The World Bank (2015) estimate that 10 new migrant workers would create between 0.3 and 0.5 new jobs nationwide. Assuming that this applies to new refugee workers, we can calculate the jobs created by employing refugees. This does not distinguish between refugees working informally and having been given the legal right to work.

Table 15. Estimating Malaysian Jobs Created by Refugee Employment, RM

Total Employed Refugees (from short term estimate)	86,175
WB multiplier (per refugee) Min	0.03
WB multiplier (per refugee) Max	0.05
Malaysian Jobs (Total) Min	2,585
Malaysian Jobs (Total) Max	4,309

Source World Bank (2015), author's calculations

Appendix 2 – Discussion of Refugee Healthcare Discount

In 2005 UNHCR secured a Memorandum of Understanding (MoU) with the Ministry of Health (MOH) to offer UNHCR card-holders a 50 per cent discount on the rates offered to non-citizens at public hospitals. Refugees also have access to private clinics and dedicated healthcare centres run by NGOs, nonetheless the 50 per cent public healthcare discount represents the only Government policy which explicitly provides for some level of public services for refugees.

Estimating the exact cost of this provision is complicated by a number of factors. First, there is no publicly available comprehensive data on the use of public hospitals by refugees. According to UNHCR, over 90 per cent of refugees requiring healthcare were able to access primary care. Of these, nearly 30,000 accessed primary healthcare services provided by NGOs. According to a health access survey of urban refugees conducted by UNHCR in 2015, 45.2 per cent of those who sought healthcare went to public health facilities, 43.3 per cent went to private facilities, and the remaining 11.5 per cent went to facilities run by NGOs (Leh Hoon Chuah et al., 2018). Even with these figures, we do not know the exact rates paid by refugees (or the value of the Government discount), as these depend on the type of treatment sought.

A study by Normah Awang Noh et al. (2016) on the usage of public hospitals by foreign workers provides some insights. From a survey of 600 foreign workers in Klang Valley, 89 per cent received treatment less than six times a year and – of those that received treatment – over 60 per cent spent less than RM400 per visit. However, since this study was undertaken, the fees for non-citizens have been substantially increased, in an attempt to reduce the subsidy provided to foreigners. According to the Government, the rates now reflect the actual cost of treatment (NST, 2016). As a result, the non-citizen rates can range very high and to many multiples of the citizen rates, as see in table 1.

Table 1. Citizen and Non-Citizen rates at Hospital Kuala Lumpur, 2019 (RM)

Ward Class	Medical		Surgery		Maternity	
	Citizen	Non-Citizen	Citizen	Non-Citizen	Citizen	Non-Citizen
First Class	1050	7000	1650	11000	800	7000
Second Class	200	3000	400	5000	350	5000
Third Class	20	1400	30	2800	15	2800

Source: Hospital Kuala Lumpur, retrieved from <http://www.hkl.gov.my/index.php/advanced-stuff/hospital-charges>

As a result of these high and increasing costs, affordability of healthcare for refugees is a major issue despite the discount, with 50 per cent of refugees unable to access healthcare due to unaffordability (UNHCR, 2018). This further complicates attempts to estimate the cost to the taxpayer of the discount as the cost – but also the take up – will vary dynamically with the price, since it is a discount on a paid service, not a direct subsidy or cash transfer. The question of the cost of the discount is further complicated by the relative opacity of the rates, in particular it is not clear whether the non-citizen rates now cover the full or the marginal costs of the relevant treatment. Nonetheless, if the use of services remains reasonably high, as suggested by the UNHCR survey and the study for foreign workers, then the cost of providing the discount could be well into the tens of millions of ringgit.

These costs could be further exacerbated by the issue of unpaid bills – according to MOH in 2017 foreigners owed public hospitals over RM50 million (The Star, 2017). Hospital Kuala Lumpur stated that the top five foreign countries who had consistently defaulted in settling their medical bills with the hospital from 2012 to 2016 were Indonesia, Myanmar, Bangladesh, India and Nepal. Although the vast majority of foreign workers are not refugees.

A further health-related risk associated with illegal workers, including refugees, can be the wider public health risk, which can emerge precisely because illegal workers, including refugees, have poor access to healthcare. The World Bank (2015) notes that there is “anecdotal evidence [in Malaysia] of additional fiscal costs associated with the screening and follow-up health measures incurred due to the re-emergence of hitherto eradicated infectious diseases, such as tuberculosis” coming from illegal worker populations. There is no specific claim that the refugee population in Malaysia is a particular cause of this wider public health risk.

Use of discount following increase in wages

The nature of the discount is particularly difficult, as the increased income of refugees might enable them to spend more on healthcare which, whilst being positive, could in theory result in greater use of the discount at a higher cost to taxpayers. A decision to discontinue the healthcare discount might be presumed to increase the net fiscal contribution of refugees, but could also have negative consequences, given that under the current situation refugees already struggle with access to healthcare. Poor health will reduce the scope of refugees' economic contribution, which could lead to a net negative impact on the public finances.

IDEAS is inspired by the vision of Tunku Abdul Rahman Putra al-Haj, the first Prime Minister of Malaysia. As a cross-partisan think tank, we work across the political spectrum to improve the level of understanding and acceptance of public policies based on the principles of rule of law, limited government, free markets and free individuals. On 2 September 2016, IDEAS was ranked as the 17th think tank to watch globally in a survey of more than 6,800 think tanks in 143 countries by the University of Pennsylvania's 2015 Global Go To Think Tank Index Report.

Please support us by making a donation. You can make a contribution by cheque payable to "IDEAS Policy Research Berhad" or by transfer to our account CIMB 8008852042. We can only survive with your support.

© 2019 IDEAS. All rights reserved.

IDEAS Policy Research Berhad
The Lower Penthouse
Wisma Hang Sam, 1, Jalan Hang Lekir 50000 Kuala Lumpur

www.ideas.org.my
Reg No: 1219187-V

Selection of IDEAS' Publications (2018 - 2019)

Policy Ideas

Policy Paper No.58: Improving Access to Orphan Drugs in Malaysia by Dr. Asrul Akmal Shafie (February 2019)

Policy Paper No.57: E-hailing regulations - striking the right balance by Laurence Todd, Adli Amirullah and Chiang Hui Xing (November 2018)

Policy Paper No.56: Economic Benefits of ASEAN Single Aviation Market by Adli Amirullah (November 2018)

Policy Paper No.55: Powering the future - Malaysia's energy policy challenges by Renato Lima de Oliveira (November 2018)

Policy Paper No.54: Countering Illicit Trade - Lessons from Abroad by Ali Salman, Adli Amirullah, Amelia Lim (October 2018)

Policy Paper No.53: Impacts of Investment from China in Malaysia on the Local Economy by Laurence Todd, Meghan Slattery (October 2018)

Policy Paper No.52: Strengthening the ASEAN Single Aviation Market - Implementing the AEC Blueprint 2025 for Air Transport by Dr Jae Woon Lee (September 2018)

Policy Paper No. 51: Affordable Housing and Cyclical Fluctuations - The Malaysian Property Market by Carmelo Ferlito (July 2018)

Brief Ideas

Brief Ideas No. 15: Responsible Privatisation - A New Malaysian Model of the role of government in the economy by Dr Geoffrey Williams (January 2019)

Brief IDEAS No.14: CPTPP - The Case for Ratification by Laurence Todd and Manucheher Shafee (January 2019)

Brief Ideas No.13: Potential Deadweight Loss of Departure Levy by Adli Amirullah and Irene van Eldik (December 2018)

Reports

EU-ASEAN FTA Report by Jayant Menon, Laurence Todd and Darmashakthini Arujunan (December 2018)

ASEAN Integration Report by Jayant Menon, Laurence Todd and Darmashakthini Arujunan (December 2018)

Malaysia Agricultural Subsidies Report 2018 - Evaluation of Agricultural Subsidies and the Welfare of Farmers by Fatimah Kari (December 2018)

Policy IDEAS are IDEAS' regular publications that introduce and propose ideas for policy reforms based on analysis of existing policies or best practices.

Institute for Democracy and Economic Affairs (IDEAS)
The Lower Penthouse, Wisma Hang Sam, 1, Jalan Hang Lekir 50000 Kuala Lumpur