

MS 649

A report on

A counterfactual decomposition analysis of immigrants-natives earnings in Malaysia

This paper tries to look at native-immigrant earning disparity in Malaysia using both the standard Oaxaca-Blinder decomposition and quantile regression methods. The data used in the analysis obtained from the Enterprise Surveys 2007. Findings indicate that there is a substantial earnings differential in favour of native. The disparity increases until the middle of income distribution and starts declining then. However, the extent of the price effect is larger at the top than at the bottom of the income distribution.

I would like to believe that providing insights into the extent of earnings disparity in Malaysia is important and worthy of studying since the government is seriously considering implementing minimum wages in the country. However, the paper fails to convince the reader why one should care about another native-immigrant earnings decomposition study despite the fact that there is no such study carried out in Malaysia thus far. Hence, a discussion on why the case of Malaysia is interesting and important is necessary since the issue has been heavily studied in the developed nations. For instance, one would like to know about the barriers to competition that could result in immigrants being crowded in the manufacturing sector which lead to large wage differential.

One of the contributions of this paper is the application of QR to the analysis of native-immigrant earnings differentials. Equally important is the application of AIC and BIC (please spell out what is AIC and BIC) to determine the best model in regressing earnings functions. The marginal contribution of model selection criterion however diminishes as the authors suggest that it is inappropriate to estimate separate earnings functions for the natives and immigrants. Given the fact that the pooled method is the best method to obtain the earnings function for the two groups, it is flaw to apply either the Oaxaca-Blinder or the Blaise decomposition technique in the study.

The non-representative sample is of particular important in this kind if study, especially when one refers to developing countries. Given the fact that all respondents work for wages in the labour market, I wonder how can one correct for self-selection in participation? Furthermore, the authors include female respondents in both groups. I would think the inclusion of gender in the estimated earnings function is improper as women in general bring less marketable characteristics into the labour market as compared to their male counterparts. Hence, the magnitude of the native-immigrant earnings gap may be underestimated given the fact that female comprises 49% of the native sample.

The dummies for regions (page 12) are inconsistent with the statement provided in pages 14 and 16. 'The regional labour market ... by including statistics only for states Selangor, Kuala Lumpur, Penang and Johor. In fact, there are 9 regional dummies stated in page 12. Also, it is better if you state that the reference group is Kuala Lumpur instead of leaving it until page 16.

Since the decomposition technique is based on separate earnings functions, it would be good to present the detail regression results for the two groups instead of a pooled sample.

Other contracting point in the analyses is the return to a unionized member. It is a negative sign and not positive as you reported. Probably you need to justify why it is so since literature indicates that it is a positive effect.

In the conclusion, you mentioned that 'An observation is that immigrants have relatively more education than natives with 15 and 13 years of schooling respectively, when the wages are compared across different levels of schooling, it is revealed that average hourly wages for immigrants are significantly lower than the wages of natives. Further, estimates reveal that average earnings increases with the number of years of education for both the groups but the increase is higher for the natives compared to the immigrants'. I wonder how you come to this conclusion since the variables to represent educational attainment in this study use a series of educational dummies.

In addition, the descriptive statistics do not support your claim that immigrants have better attributes than natives

The English in this paper is full of flaw. In addition, the presentation is not systematic and clear. It causes difficulty in order to fully understand arguments and materials in this paper.

Other comments:

The statement '... based on the famous Bumiputra policy' (page 2) is not correct. It is wrong to equate the NEP as Bumiputra policy.

The tight labour market ... permeated across the major towns like Penang and Ipoh (page 2). Check your source as Ipoh is not a location for industrial activities. Penang is a state and not a town.

In page 3, you said that 'A large amount of research publications appeared during the time period of 1957 to 1987, analysing wage decompositions for male and female employees. Various econometric techniques, including parametric and semi-parametric techniques are utilized to identify these differentials'. Indeed, studies before 1970 were mainly focused on ethnic earnings gap. Most of the studies either in terms of ethnic or gender apply only parametric technique, with the exception of Vijverberg 1987, Schafgans 2000 and Goy 2010.

Since you apply the extension of Oaxaca-Blinder decomposition technique along the lines of Jann in the analysis, I think it is redundant to discuss the Oaxaca and Ransom in the methodology.

There is inconsistency in citing authors under the QR. At time you refer to Koenker and Bassette and Blaise; Machodo and Mata and Blaise; Machodo and Mata, Blaise, Koenker and Xiao and Koenker and Bassette; and Manacorda et al. Which are relevant?

There are some references in the text but not in the reference list like Buchinsky 1998 and Bauder 2006. Likewise, some references in the list are not mentioned in the text.

I suppose most of the readers of ejournal economics are not expert on Malaysia. Probably a review on ethnic earnings gap and gender earnings gap would be useful for those who are not familiar with the issues of earnings gap in Malaysia.