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Are Experience and Schooling Complementary? Evidence from Migrants' Assimilation in the Bangkok Labor Market

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When migrants arrive at their destination, they must acquire information from neighbors, master a new language, adopt a suitable job-search strategy, and learn new workplace practices. If migrants learn from their experience in the new locale, this destination experience raises their productivity and leads their earnings to converge toward those of natives. Those best able to adapt are the most likely to achieve the most productive outcome.

Introduction

This paper aims to empirically identify migrants' assimilation process by examining their wage dynamics in one urban labor market of a developing country: Bangkok, Thailand. Although prior studies on migration highlight the effects of schooling on the decision to move and the resulting selectivity of migrant populations, the role of schooling in the assimilation process has not been thoroughly examined in the context of urban labor markets.

The paper also addresses two related questions: Why are schooling and experience complementary? And why is this so if migrants assimilate to the local market? While human capital theory provides an obvious answer to the first question, it cannot shed light on the location-specific nature of migrants' experience or on the role of their migrant status. Therefore, this paper focuses on heterogeneous worker-firm matching in a simple framework. There are two types of imperfect information that workers and firms face. First, migrants are less familiar with the destination than urban natives; they are also less familiar with the skill needs of urban labor markets. Due to this imperfect information, worker-firm matching will not be perfect.

The key insight is simple: if the quality of matching between workers and firms is better among educated than uneducated migrants, educated migrants are, on average, likely to accumulate more experience in destination market.

There are two advantages that education may facilitate. First, it can help workers achieve better matching at the initial stage in urban markets. Second, it may help workers improve their matches with firms over time and therefore achieve higher earnings growth. This paper tests these hypotheses using a unified framework that also incorporates the complexity of skills demanded by urban labor markets.

The Theoretical Framework

The theoretical framework for this study attempts to define the role of schooling in migrants' matching with firms and learning from destination experience. To do so, it examines initial informational advantage, learning efficiency, and complexity of tasks. Based on these factors, the model predicts that (1) experience in the destination market raises the expected value of log wage, (2) initial human capital and experience are complementary, and (3) this experience-schooling complementarity increases over time. The proposition is that if educated migrants learn about suitable opportunities faster than do uneducated migrants, improving matching quality faster, then schooling and experience are complementary. Moreover, in the more complex jobs that educated migrants are likely to find, the complementarity between schooling and experience is reinforced. This result also implies that income inequality between the educated and uneducated will widen over time.

The paper then discusses empirical specification and identification issues such as specification, identification, and estimation; and selectivity and ability bias. The purpose is to explore whether it is indeed even possible to identify sources of schooling-experience complementarity from reduced-form parameter estimates in the wage growth equation.

The model's predictions uphold the "stylized" fact that returns to experience decrease as destination experience accumulates. In addition, schooling-experience complementarity increases with experience. In complex technologies, therefore, not only does it appear that efficient learning by educated agents raises gains from experience accumulation, but the effect also increases with experience,

at least up to a point. The two types of selectivity problems that emerged in this type of study were also resolved in estimation. The first problem was self-selection

associated with migration decisions—migrants are not, after all, a random sample of the origin population. The second selectivity problem is that upon arrival in the destination market, migrants must decide whether to remain or leave; their decision is a consequence of endogenous decisions, e.g., higher earnings leads to a higher probability of staying.

"...The complementarity of schooling and experience is reinforced as migrants' experience increases in the destination market."

Data

The data come from the Labor Force Survey, Thailand, collected by the National Statistical Office. The survey covers a wide range of information on labor, such as wages and payments, work practices, unemployment, migration status, and more. The information used here is from the first and third rounds of the survey in 1994, 1995, and 1996. The sample used in this study comes from metropolitan Bangkok, the largest among Thai urban clusters in terms of population, population density, size of labor force, and domestic product.

Results

Assuming 10 years of duration for natives, the analysis showed that experience and upon-arrival schooling are complementary in wage adjustment in the Bangkok labor market. Schooling returns are higher for natives than for migrants, but migrants' assimilation is significant even after controlling selectivity problems from endogenous migration and duration choices. Experience increases migrants' productivity, though the marginal returns from experience decrease as destination experience accumulates. Among migrants, the returns to experience (wage growth) are higher for educated agents than for uneducated agents. The results suggest that the schooling-experience complementarity is not fully captured by assortative occupational and industry choice.

Conclusion

This paper provides evidence that schooling and destination experience are complementary in migrants' wage adjustment in urban labor markets of developing countries. Schooling enhances migrants' learning from their experience in the destination labor market. Moreover, the complementarity of schooling and experience is reinforced as migrants' experience increases in the destination market. This empirical finding is consistent

with assortative matching in urban labor markets by which educated migrants are likely to work in occupations that require diverse and complex skills.

Concentration of economic activities in cities attracts migrants from rural areas. This urbanization process also causes income differentials within urban areas as well as between rural and urban areas. The findings of this paper suggest that schooling investments in migrants can reduce income differentials between migrant and native populations inside cities. Since schooling facilitates the assimilation process and matching quality, the convergence of migrants' earnings toward natives' earnings is faster for educated than for uneducated migrants. However, if education increases the probability of migration to urban areas significantly, large-scale inflows of migrants into urban labor markets may worsen the income distribution in urban areas, at least in the short run.

Keywords: learning by doing, schooling, migrants, urban labor markets, wage dynamics, Bangkok, Thailand

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