

# Changes in Employment Structure in Malaysia: The Way Forward

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## I. Introduction

The Malaysian economy recorded remarkable growth throughout the post-independence period. Between 1980 and 2015, Malaysia's GNI per capita increased close to sixfold from USD1,790 in 1980 to USD10,570, well above the average of other upper-middle-income countries (World Bank 2016). Among the developing countries in the ASEAN region, the GNI per capita for Malaysia is the highest.

After Malaysia gained independence in 1957, the country's real GDP growth accelerated from -0.1% to 7.8% (1966) before declining to 6.0% in 1970. During this period, living standards improved, while the access to health care and education increased. In the 1970s, the government promoted export-oriented industries which saw significant growth in the manufacturing sector. From 1971 to 1980, the economy grew at an average annual rate of 7.9%. In the 1980s, the prolonged global recession resulted in a sharp fall of commodity prices and the average annual growth rate declines to 6.0%. From 1991 to 1996, the annual average growth rate registered a staggering 9.6% as a result of heavy involvement of the private sector in the economy and an increased inflow of foreign direct investment. However, the country was affected by the Asian financial crisis in 1997 and later the world trade recession in 2001.<sup>1</sup> Between 2002 and 2017, real GDP growth ranges from 4.2% to 7.2% with the exception of a negative growth in 2009.

## II. The structure of the Malaysian economy

In the 1970s, there was a radical shift from inward-looking import substitution to outward-looking, export-oriented industrialization policies in Malaysia. The country transitioned from a rural-based agricultural economy to urban-based industrial economy. The country experienced major growth in industries such as electronics, food processing, plastics, textiles and garments. In the 1980s, the services sector expanded rapidly, especially in the education sector and public administration. By 2016, the share of the services sector is the largest at 55.68%, while the share of the manufacturing sector is 35.68% (Table 1).

Today, the advancement of technological innovation has continued to impact employment structure and

Table 1. Share of economic sectors in the gross domestic product (percentage of GDP), 2006-2016

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Agriculture	8.61	9.99	9.97	9.22	10.09	11.45	9.79	9.11	8.87	8.45	8.65
Manufacturing	46.10	42.22	42.92	38.46	37.89	37.23	37.49	37.19	37.17	36.43	35.68
Services	45.29	47.80	47.12	52.32	52.11	51.32	52.72	53.70	53.96	55.12	55.68

Source: World Bank 2018.

1. This discussion is drawn from Ang (2007).

form. With the arrival of Industry 4.0, menial jobs will be replaced by automation. The manufacturing sector which relies heavily on foreign labor faces continuous challenge to increase efficiency and productivity through adoption of new technology. There is a growing need for multi-skilled and multi-disciplined workers across all economic sectors. In the future, work is projected to be on-demand and project-based, replacing regular employment.

### III. Overview of the Malaysian labor market

The labor force participation rate in Malaysia for persons aged between 15 and 64 fluctuated between 64.8% and 67.7% from 1982<sup>2</sup> to 2016. Due to increasingly unstable commodity prices in the 1960s, the Malaysian government introduced policies to encourage export-oriented industries in the 1970s. This resulted in increased employment in the economy which peaked in 1988 with a labor force participation rate of 66.8%. After 1997, there was a slight decrease of labor force participation rate from 65.6% and it has fallen to 63.7% in 2010 as a result of the slower growth in the country's economy post-Asian crisis (Department of Statistics Malaysia 2016; National Economic Advisory Council 2010). However, labor force participation rate increased gradually beyond 2010. Meanwhile, the unemployment rate is 3.4% in the same year.

#### 1. Not in the labor force

The total number of persons in the labor force is 14.2 million in 2016. A total of 7 million person (32.3% of the population aged between 15 and 64 years) is not in the labor force in 2016. Almost half of this number are individuals between 15 and 24 years. The main reasons cited for not being in the labor force include still studying (43%) and housework or family responsibilities (41.6%). Other reasons include intend to pursue study (2.2%), disability (3.9%), not interested to work (1.3%) and retired (8.0%).

#### 2. Educational attainment

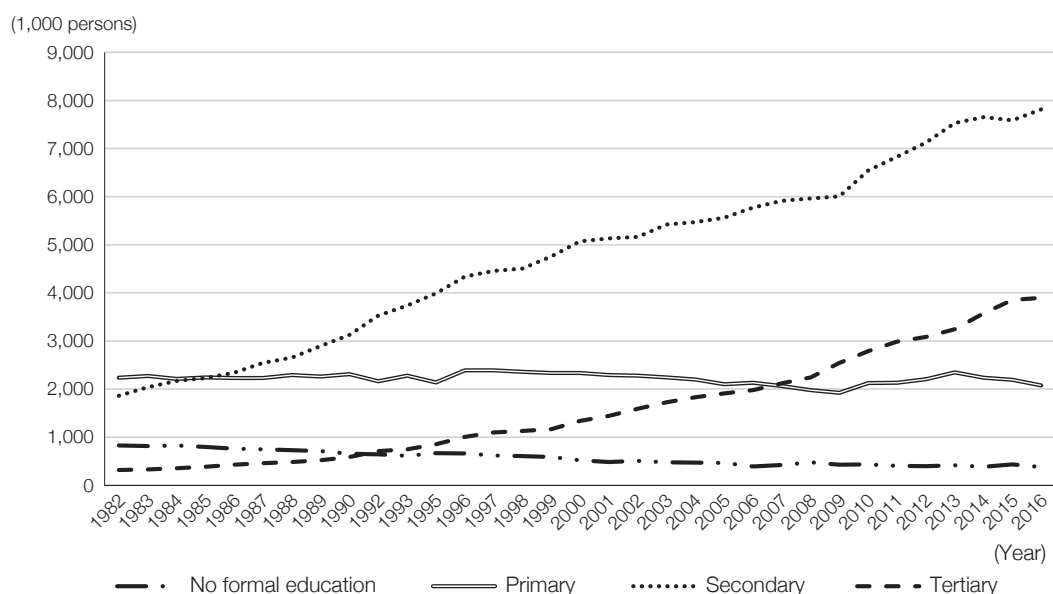
The education system in Malaysia is constantly being revised to keep up with the country's structural change, especially to meet the demand for skilled and knowledgeable workers. In terms of educational attainment (Figure 1), the majority of the labor force have secondary school qualifications (or 7.8 million). This is followed by individuals with tertiary education (3.89 million). In order to boost the economy of Malaysia, a better proportion of skilled workers is needed. In developed economics, skilled workers made up at least half of the total workforce. The development of human capital is regarded as one of the most important pillar to the success of the National Transformation 2050 (TN50) which aims to transform the country into a calibre nation state with par excellent mindset. The Malaysia Education Blueprint 2015-2025 was designed to increase access to education. By 2025, the Ministry of Higher Education aspires to increase tertiary education enrolment to 53%. At the same time, the Ministry promotes the TVET (Technical and Vocational Education and Training) pathways to develop skilled talent to meet the growing and changing demands of industry (Ministry of Education Malaysia 2015).

#### 3. Labor force participation by sex

The female labor force participation rate is historically lower than the male participation rate in Malaysia. Between 1970 and 1980, the female labor force participation rate increased significantly from 37.2% to 44.5%. However, the rate showed a modest change from 40% to 49% from 1982 to 2012. In 2013, the female labor force participation rate surpassed the 50% mark for the first time and it hit an all-time high in 2016 at 54.3%. On the other hand, the male labor force participation rate was 85.3% in 1982 and this has decreased over the decades to 79.7% in 2011. In 2016, male labor force participation rate is 80.2%. The gender gap in labor force participation has narrowed between 1982 and 2015 from 40.8% to 25.9%. Although this is a positive indicator

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2. Time series data from the Labour Force Survey is only available from 1982 onwards. The data was not collected in 1991 and 1994.



Source: Department of Statistics 2017.

Figure 1. Employed persons by educational attainment, Malaysia, 1982-2016

for women's development, it should be noted that the closing of the gender gap is partly attributed to the decline in male labor force participation. Nonetheless, the primary reason behind the increasing number of women in the workforce is rising educational attainment among women.

Female educational attainment in Malaysia has increased substantially in the post-independence era. Female adult literacy (among population aged 15 years and older) increased from 61.25% in 1980 to 90.75% in 2010 (UNESCO-UIS 2016). By 1990, universal primary education was almost achieved, when the net enrolment ratio rose to 94% (United Nations Development Programme 2005). According to data from UNESCO-UIS (2016), between 1970 and 2010, the net enrolment rate at primary level for girls rose from 79.7% to 96.7% in Malaysia. Meanwhile at the secondary level, net enrolment rate increased from 26.6% to 69% in the same period. The gross enrolment ratio at tertiary level for female increased from 3.07% in 1980 to 43.16% in 2010. By 2010, the percentage of females enrolled in Malaysian public universities was 60.1% (Ministry of Women, Family and Community Development 2014).

#### 4. Employment by occupation type

The structure of employment by occupation is shown in Table 2. The occupation for year 2005 and 2010 is classified according to the Malaysia Standard Classification of Occupations 1998 (MASCO-98). Based on Table 2, there is a huge increase in the number of service workers employed from 2005 to 2015, indicating the importance of this sector in the economy. In contrast, there is a decrease in the number of persons employed in the agricultural-related occupations between 2010 and 2015.

### IV. Changes in social structure

#### 1. Population trends in Malaysia

The Malaysian population is growing at a rate of 1.94 per annum as of 2017. The median age of the population is predicted to increase in the future. By 2040, it is predicted that the percentage of the population aged 14 or younger will be 18.6% (Table 3). On the contrary, the percentage of population aged 65 and above shows an increasing trend. Furthermore, it is predicted that by 2040, 14.5% of the population will fall into this age group. The percentage of the population aged between 15 and 64 years is 69.2% in 2015. However, it is

Table 2. Employed persons by occupation, Malaysia, 2005, 2010 and 2015

(1,000 persons)

Occupation	Year		
	2005	2010	2015
Legislators, senior officials and managers	777.4	856.7	718.6
Professionals	555.1	737.4	1,462.0
Technicians and associate professionals	1,266.8	1,695.8	1,406.9
Clerical workers	992.3	1,183.2	1,241.1
Service workers and shop and market sales workers	1,483.7	1,959.6	3,188.9
Skilled agricultural and fishery workers	1,268.6	1,382.0	940.3
Craft and trade related workers	1,145.5	1,228.3	1,578.8
Plant and machine-operators and assemblers	1,427.5	1,502.8	1,585.2
Elementary occupations	1,128.3	1,353.7	1,945.9

Source: Department of Statistics Malaysia, 2017.

Table 3. Distribution of population in Malaysia, 1980-2040

	1980	1991	2000	2009	2010	2015	2040 <sup>e</sup>
Mid-Year Population (million)	13.88	18.55	23.49	28.08	28.59	31.19	41.5
Age Group (years)							
0-14 (%)	39.9	37.2	34.1	28.0	27.4	24.9	18.6
15-64 (%)	56.5	59.2	62.0	67.1	67.7	69.2	66.9
65 and above (%)	3.5	3.6	4.0	4.9	5.0	5.8	14.5
Median Age	19.4	21.6	23.4	25.9	26.3	27.6	38.3

Source: Department of Statistics Malaysia 2018.

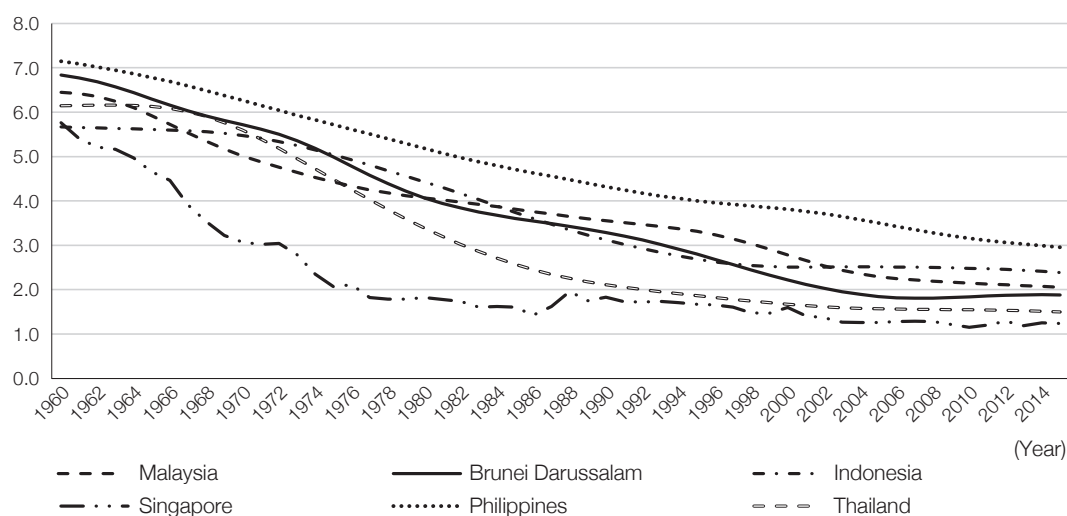
Note: <sup>e</sup> Estimates.

predicted that this figure will decline to 66.9% in 2040 due to a shrink in the percentage of population aged 14 or younger and a rise in the population aged 65 and above. Aging population will likely lead to declining labor force and an increase in the age dependency ratio.

## 2. Fertility trends in Malaysia

The change in the demographic structure of Malaysia can be partly attributed to the decline in fertility rate, apart from rising life expectancy. Malaysia is classified as an intermediate-fertility country, whose total fertility is estimated to be between 2.1 and 5 children per woman in 1995 to 2000. It is anticipated that “by 2050, fertility rate in intermediate-fertility countries will fall below the level required for long-term population replacement” (United Nations 2002). As shown in Figure 2, the fertility rate in Malaysia decreased from 6.19 in 1960 to 1.93 in 2015. In general, this trend has also been observed in other ASEAN countries over the last five decades.

The changes in population structure and fertility are closely related to the trend in marriage and the marital status of the population. The proportion of females (aged 15 years and above) who never married increased from 26.0% to 32.2% between 1970 and 2010, while the mean age at first marriage increased from 21.6 to 25.7 years between 1970 and 2010. Therefore, it can be concluded that there is a rising trend of non-marriage



Source: World Development Indicators, World Bank 2016.

Figure 2. Total fertility rates (births per woman) in selected ASEAN countries, 1960-2015

and a rise in the mean age at first marriage. Postponement of marriage has enabled more women to enter and remain in the workforce at the cost of a reduced span of active reproductive life. The increasing rate of entry of the increasingly educated Malaysian women into the labor market can mitigate the impact of a shrinking work force. Policy-makers play an important role in designing family-friendly policies that enable women to reconcile both work and family.

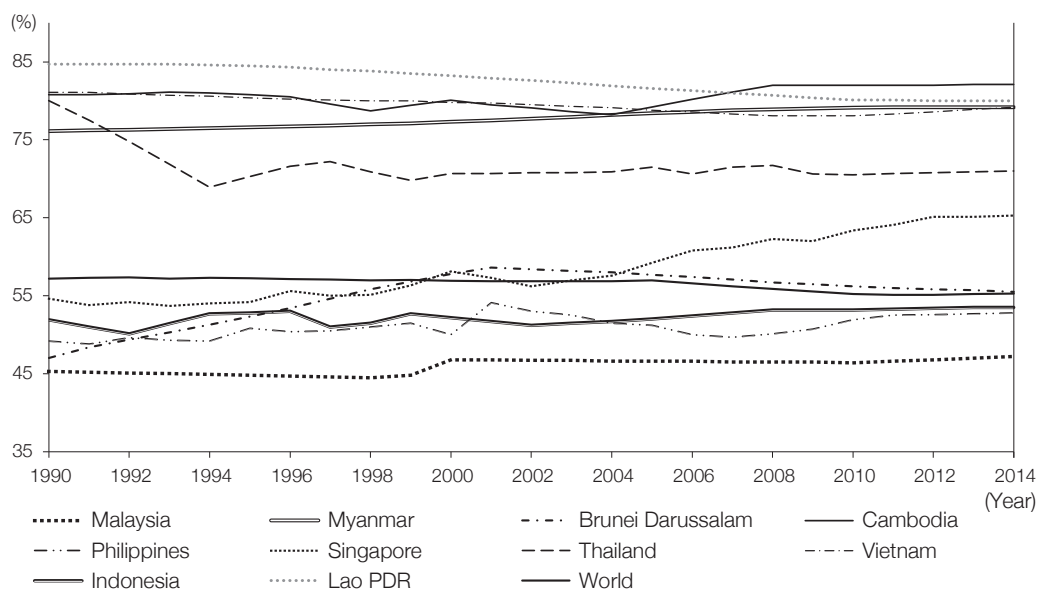
Besides increasing the participation of women in the labor market, the government can provide opportunities for the elderly to remain longer in the workforce. In 2012, the mandatory retirement age in Malaysia has been increased to 60 years. While the employment of elderly is a potential solution amidst the challenge of an aging population, this topic is not discussed in this paper. The discussion in the subsequent sections in this paper focuses on how to enhance female participation in the labor market.

## V. The future workforce in Malaysia

Although Malaysia has acknowledged and has been actively promoting the role and involvement of women in the country's economic development through various policies and initiatives post-independence, the growth in the female labor force participation rate is considerably lower when compared to neighbouring countries in the Southeast Asia region (World Bank 2016). In the context of the ASEAN region, the female labor force participation rate in Malaysia has been the lowest from 1990 to 2014 (Figure 3).

This is of particular concern given the country's immediate policy targeting. In the Eleventh Malaysia Plan (2016-2020), the government has targeted an increase in the female labor force participation rate to 57% by the year 2020 (Economic Planning Unit 2015). The increased participation of women in modern urban-based employment increased their income and enabled them to enjoy greater independence and increased status within the household where bargaining power is usually unequally distributed between male and female members (Leete 2007). Therefore, investing on the development of women become one of the country's most important agenda.

Despite the government's effort to increase women's economic opportunities, Malaysian women are still underrepresented in the job market enforcing the need to introduce social policies or family friendly policies to address barriers to women's labor force participation. A survey conducted by the National Population and Family Development Board (2016) indicated that 42.4% of female respondents who had decided to withdraw from the labor force cited family responsibilities and the difficulty to balance career and family life as some



Source: World Development Indicators, World Bank 2016.

Figure 3. Female labor force participation rate in ASEAN countries, 1990-2014, aged 15-64

of the main reasons affecting their decisions. In view of this, various policies were implemented to motivate women to participate in the labor force.

## VI. Policies to increase female labor force participation in Malaysia

The government introduced various policies and legislations to encourage women to enter the labor market such as parental leave, provision of child care, tax system reform, flexible work arrangement and part-time work regulations. The private sector is encouraged to facilitate women's entry into the labor market through flexible working hours, career breaks, family-friendly workplace practices and new working arrangements such as teleworking, part-time work and job-sharing.

### 1. Maternity leave

The government provides generous maternity leave benefits to women. Female civil servants are entitled to a total of 300 days paid maternity leave for the entire duration of service with the flexibility of 60 to 90 days leave per child delivery (Public Service Department of Malaysia 2010). Employees from the private sector are entitled to a minimum of 60 days paid maternity leave with the exception of clerical workers in the banking industry (with influential trade unions) who enjoy 90 days leave. Beginning in 2007, civil servants also enjoy up to a total of 1,825 days of unpaid leave entitlement (for the entire service duration) for childcare following a new birth (Public Service Department of Malaysia 2007).

### 2. Flexible work arrangement

Although flexible work arrangements are becoming more common in recent years, the structure of employment in Malaysia is highly formal with limited availability of part-time and casual work (Aziz 2011, 11). In 2007, the government implemented flexi-work time in the public sector with three staggered work times. Although part of the reason was to reduce traffic congestion, the move was well-received as employees with family commitments could choose their working time to suit family commitments. In 2015, the Ministry of Women and Family Development took the initiative to introduce three flexible working modes in 2015 including: (1) working from home; (2) flexi-working hours; and (3) modified compressed workweek. In

the private sectors, such arrangements are limited and are usually practised by foreign owned multinational corporations, educational institutions and a few small firms (Subramaniam and Selvaratnam 2010).

### 3. Part-time work regulations

One of the barriers restricting flexible work arrangements such as part-time work is the complexity of implementation, for example, the employer contributions to employee provident funds are calculated on a monthly basis based on full-time work hours. On October 1, 2010, the Employment (Part-Time Employees) Regulations 2010 came into effect. The work regulation for part-time work defined the minimum standards for part-time employment in terms of hours of work, holidays, annual leave, sick leave and rest days. The implementation of the regulation is expected to benefit 6.5 million latent workers in Malaysia who are willing to work part-time, including housewives, single mothers, retirees, people with disabilities and students. According to the new regulation, part-time workers would be given salaries and other relevant benefits and entitlements on a *pro rata* basis. At the same time, the new regulation would help lessen the country's dependence on foreign workers.

### 4. Government support and training program

Other initiatives including programs such as 1Malaysia Support for Housewives program, and the Housewives Enhancement and Reactivate Talent Scheme (HEARTS) were also implemented to attract housewives, especially those with tertiary educations, to participate in the labor market. The HEARTS aim to train educated housewives in the latent workforce in specialised fields that would enable them to work from home or under flexible working arrangements. In 2010, the government spent RM4.7 million to assist 946 women entrepreneurs in 1Azam programs. In 2013, RM50 million were allocated by the government to carry out I-Kit program which aims to develop entrepreneurial skills among single mothers and Get Malaysian Business Online in order to assist women entrepreneurs.

### 5. Empowering women

The contribution of women in the country's economy development is acknowledged during the tabling of the 2018 Budget. The year 2018 was declared the Women Empowerment Year by the Prime Minister. Four main measures will be taken to elevate the role of women in the economy. First, the mandatory maternity leave for the private sector is to be increased from 60 to 90 days, similar to what is currently practised in the public sector. Second, government-linked companies, government-linked investment companies and statutory bodies would be compelled to allocate 30% of positions in their board of directors to women by the end of 2018. Third, the announcement of individual income tax exemption on income earned within 12 months for women's re-entry into the workforce after a two-year hiatus, which is in line with the existing Career Comeback Programme initiated by the government's agency, TalentCorp. TalentCorp is an agency established in 2011 to attract, nurture and retain the best and right talent to enable Malaysia to reach its aspirations. Fourth, a sum of RM20 million has been allocated towards training and entrepreneurship programs tailored for women through the Entrepreneur Programme under the MyWin Academy.

## VII. Conclusion

Moving forward, the employment structure and form will shift from standard to non-standard work, such as part-time, temporary or self-employment. A report by OECD (2017) indicates that digital transformation will benefit women in the labor market through the introduction of more flexible ways of working which allows women to combine work and family. Automation is common in the agricultural and manufacturing sectors, presently dominated by men. However, in the future automation is expected to spread across all sectors including retail trade and services sector, which have been traditionally female-dominated. The Malaysian government has already launched several programs for women including Investment Literacy, Malaysia

Woman Made, and Impact for Humanity Woman (IR) 4.0 in order to embrace the rapid technological progress. In conclusion, Malaysia is taking continuous steps to leverage on women where women are regarded as an important pillar for economic growth and sustainability in Malaysia.

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