

# Country Report

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Malaysia

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**INTERNATIONAL MIGRATION AND LABOUR MARKET  
DEVELOPMENTS IN ASIA: ECONOMIC RECOVERY, THE LABOUR  
MARKET AND MIGRANT WORKERS IN MALAYSIA**

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## **INTERNATIONAL MIGRATION AND LABOUR MARKET DEVELOPMENTS IN ASIA: ECONOMIC RECOVERY, THE LABOUR MARKET AND MIGRANT WORKERS IN MALAYSIA**

### **INTRODUCTION**

The Malaysian economy is poised to enter the post-industrial phase of development where the services sector will assume a more dynamic and larger role in the economy. The transition towards the post-industrial era parallels a shift from middle-income status to high-income status. The path towards this transition is riddled with difficulties, and sustaining growth following the 1997 Asian financial crisis has not been easy. The fairly successful crisis management in 1997/98 through ringgit pegging and selective capital controls, and debt restructuring and recapitalisation of the banking system has introduced some degree of resilience into the economy, but it continues to face several challenges.

The inflow of foreign direct investment (FDI) has slowed down, and is unlikely to reach pre-crisis levels following the emergence of China as an economic powerhouse. Large-scale inflow of FDI into greenfield manufacturing operations are a thing of the past. Foreign investments are now more concentrated in selected services industries and in existing manufacturing operations that are retooling to higher value added activities. Religious extremism, whilst under control, continues to cloud the investment climate, and the spread of SARS has dented the growth of the travel and tourism industries. Malaysia continues to encounter skill and labour shortages. These developments have prompted policy makers to re-engineer the economy by identifying new sources of growth and to create a more business friendly environment. The development of skills and economic abilities to innovate and to expand into new areas, and a policy of less reliance on low-skilled migrant workers are identified as key strategies to shift to a higher value added skill-intensive economy. Policy measures since 2002 have shifted from counter-cyclical measures to mitigate the short-term impact of the volatile external environment since 1997 to measures aimed at addressing more medium and longer-term economic rigidities that plague the economy.

The policy transition has also coincided with the change in administration in November 2003 under the leadership of Prime Minister Datuk Seri Abdullah Ahmad Badawi who has announced the following policy agenda:

- Combating corruption,
- Re-emphasising the rule of law, transparency and corporate governance,
- Reforming the police force,
- Ensuring prudent fiscal management,
- Implementing an efficient public delivery system,
- Improving the quality of education, and
- According greater priority on the development of agriculture and agro-based industries.

The above policy thrust has important implications for the labour market and international labour migration. The paper provides background information on the performance of the economy in 2002/2003, focusing on the domestic labour market. It then examines the recent trends, policy changes and the impact of migrant workers on the domestic economy.

### **ECONOMIC PERFORMANCE AND POLICY IN 2002/2003**

After the sluggish growth of about 0.3 per cent in 2001, the economy rebounded to expand at 4.1 per cent in 2002 (Table 1). Despite the unfavourable geopolitical events in the first half of 2003, such as the SARS (Severe Acute Respiratory Syndrome), outbreak and the Iraq war, the Malaysian economy remained fairly unscathed due its diversified economic structure. The private sector has also responded positively to the counter-cyclical economic package of RM7.3 billion announced in May 2003. With sustained growth in the third quarter of 2003, the economy is envisaged to expand by about 4.5 per cent in 2003. The economic recovery has been broad-based, and if external demand gains momentum, the economy is expected to expand by between 5.5-6.0 per cent in 2004.

On the demand side, the strong fiscal push and easy monetary policy has driven domestic demand. Both private consumption and investment has picked up following the low interest rate regime, government support measures to boost private sector

growth and the higher incomes following the bullish stock market and the rise in commodity prices. More importantly, the inflow of foreign direct investment, which has remained lackluster over the last few years, has shown some improvements.

On the supply side, with the exception of mining, all sectors of the economy have recorded reasonable growth. The travel and tourism industry, which was the hardest hit in the first half of 2003, has recovered, with tourist arrivals back to the pre-SARS levels. Growth in manufacturing has also strengthened, supported by improved global demand from Asia and Europe. Agriculture has also posted strong growth attributed to the expansion of palm oil and rubber production following rising prices.

Inflationary pressure has remained subdued, and the CPI has registered an increase of 1.1 per cent in 2003 compared to 1.7 per cent in 2002 (Table 2). This can be attributed to the utilisation of excess capacity, increased price competition, and the moderating influence of foreign workers on domestic wages.

## **LABOUR MARKET DEVELOPMENTS**

### **Labour Market Trends, 2002/2003**

Labour market conditions have remained favourable in 2003 as growth gained momentum, especially in the second half of 2003. The total labour force is expected to increase at the same pace as 2002 to reach 10.5 million persons in 2003, while total employment is projected to expand by 3.2 per cent to 10.2 million workers (Table 3). Subsequently, the unemployment rate is anticipated to remain stable at 3.5 per cent or at full employment<sup>1</sup>.

Despite the extension of universal education to 11 years and the increase in the number pursuing tertiary education, the overall labour force participation rate (LFPR) is expected to increase from 66.3 per cent in 2002 to 66.9 per cent in 2003. The male LFPR is expected to increase to 87.1 per cent, while the female LFPR to 45.7 per cent.

The improved labour market condition is also reflected in the significant decline in the number of retrenched workers. The number of retrenched workers declined by

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<sup>1</sup> In Malaysia, the economy is considered to be at full employment if the unemployment rate is below 4.0 per cent.

about 20.0 per cent in 2003 compared to 30.6 per cent in 2002. The majority (about 95 per cent) of those retrenched were Malaysians and they were mainly employed in the manufacturing sector (70.8 per cent) (Table 4). The main reasons for retrenchment include reduction in demand for products (26.6 per cent), company reorganisation (14.0) and closures (12.6 per cent) (Table 5). As in previous years, more than half (53.0 per cent) of those retrenched were low-skilled production workers (Table 6).

In tandem with the slower growth in the first half of the year, labour demand as measured by the number of vacancies reported to the Manpower Department declined by 28.0 per cent or by 58,183 in the first seven months of 2003. The total number of registered job-seekers also declined by about 5.0 per cent during the same period. The majority of the job-seekers (about 70 per cent) were young, aged between 15-24 years.

On a sectoral basis, non-government services accounted for more than half (51.6 per cent) of the new jobs created. Next was manufacturing which created about 44.0 per cent of the new jobs. Employment in the agriculture sector continued to fall, following the adoption of less-labour intensive cultivation methods and the conversion of agricultural land to property development in the more urban areas (Table 7).

The economic recovery has exerted some pressure on wages in 2002. Based on the monthly survey data for manufacturing, real wage per employee increased by 2.9 per cent in 2002 compared to 1.7 per cent in 2001. Labour productivity, as measured by the ratio of GDP to employment, recorded a positive growth of 0.9 per cent in 2002 compared to negative 1.8 per cent in 2001.

### **Labour Market Initiatives, 2002/2003**

The government continued to implement a number of active and passive measures introduced in 2001 and 2002 to enhance labour market flexibility and mobility, and to upgrade the quality of human resources. These include:

- i. nationwide job fairs;
- ii. The Electronic Labour Exchange Project;
- iii. The Brain Gain Programme;
- iv. Special Scheme for Unemployed Graduates and Retrenched Workers; and

v. Staff Re-skilling Project for the Financial Sector.

To increase labour mobility, nationwide job fairs continued to be held. Retrenched workers and unemployed graduates could apply to be retrained under the Retrenched Workers Programme and the Graduate Training Scheme. A total of 37,033 participated in the Scheme for Unemployed Graduates, while 9,499 underwent training for retrenched workers in 2002. Though the unemployment rate is relatively low, graduate unemployment remains a nagging problem, mainly due to skills mismatch. The Electronic Labour Exchange Project (ELX) came into operation in May 2002 to match job-seekers with vacancies over large geographical areas to improve labour mobility. As at end 2002, a total of 11,000 active job-seekers were registered with the exchange, while 2,040 job vacancies were advertised by 720 employers.

To enhance the quality of the workforce, about RM1.62 billion was allocated under the 2003 National Budget to implement various skills training programmes and to provide the infrastructure facilities. To develop more skilled manpower for research and development (R&D), a Training Grant of RM100 million was established to assist private companies to finance the training of their R&D personnel. In addition, about 36,700 received soft loans in 2002 under the Skills Development Fund operated by the Ministry of Human Resources for technical and vocational training offered by accredited institutions.

The Brain Gains Programme<sup>2</sup> re-introduced in January 1, 2001 received a total of 587 applications as of October 2003, of which 218 were approved, and 126 returned to Malaysia. The Programme encourages Malaysian citizens with special expertise working abroad to return to Malaysia. Incentives provided under the Programme include income tax exemption, import duty and sales tax exemption for two cars, personal belongings tax exemption, car import license and permanent resident status for spouse and children of the returning Malaysian to be granted within six months of arrival in Malaysia.

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<sup>2</sup> The Brain-Gain Scheme was originally introduced in 1995, but was suspended in 1997 following the economic crisis. The 1995 Programme was not very successful, and only managed to attract 23 Malaysians.

Under the Staff Re-skilling project for those retrenched as part of the consolidation and merger of financial institutions, 714 underwent training conducted by the Institute of Bankers. These trainees were equipped with competencies to enable them to be gainfully employed in other industries.

Apart from these ad hoc programmes introduced following the 2001 recession, the Human Resource Development Fund established in 1993 to retrain and upgrade the skills of workers approved training for 441,102 workers in 2002. The HRDF levy, which was reduced to 0.5 per cent of monthly wages from November 2001, was reverted to 1.0 per cent from November 2002.

## **INTERNATIONAL LABOUR MIGRATION IN MALAYSIA**

Unlike in many advanced countries, where international labour migration is concerned with those who migrate for work and permanent settlement, the focus on international labour migration in Malaysia primarily centers on contract labour migrants. These are low-skilled workers who are imported for a short duration on a contract basis to alleviate labour shortages in specific sectors. The following will examine recent trends in migrant worker movements in Malaysia, and provide an update on migrant worker policies. The paper also attempts to examine the impact of migrant workers on the domestic economy.

### **Trends in Migrant Worker Movements**

The situation of migrant workers in the Peninsula, and Sabah and Sarawak differs drastically, and therefore any meaningful analysis of migrant workers in Malaysia ought to deal with the three regions separately. Not only is the management of migrants under separate administrative authorities, but the social, political, historical and economic factors behind the inflow of migrants vary between the regions. Also the geographical coverage and terrain, particularly in the case of Sabah, make it almost impossible to monitor and control cross-border migration. Hence, the incidence of unauthorised entry and employment in Sabah is much more intractable. Therefore, much of the analysis in this paper is relevant for the Peninsula, but where available, data and information for Sabah and Sarawak will be included.

One can identify three broad trends in migrant worker movements in Malaysia. The first wave began in the 1970s, and was induced by structural changes in the economy



and the urban drift of young job-seekers. During the initial phase, migrant workers were mostly employed in the rural plantation sector in small numbers. They were predominantly employed without proper authorisation to meet seasonal demand. The number of migrant workers grew in the late 1970s and early 1980s to meet widening labour shortages in agriculture and construction, and later in the informal manufacturing and services sectors. There was inadequate policy attention on restricting and regulating their entry and employment.

The second wave coincided with sustained high growth since the late 1980s. Widespread labour and skill shortages, and escalating wages drew large numbers of both documented and undocumented workers. Foreign workers were also allowed to work in the more formal manufacturing and services sectors. This was a period of trial and error in policy making, and the formulation of a more comprehensive policy and institutional framework for the regulation of migrant worker movements. However, the policy and legal framework was backed by inadequate enforcement, inviting severe policy criticisms. Official estimates of migrant workers prior to the 1997 financial crisis stood at a peak of around 2 million or 1.2 million documented and about 800,000 undocumented workers, while unofficial figures were much higher.

The third or the post-1997 phase was a period of stabilisation of migrant worker inflow following slower economic growth and the introduction of severe penalties for illegal entry and employment. Since 1998, the number of migrant workers has hovered between 800,000 and 1.2 million, depending on economic performance. The broad trends in legal migration since 1997/98 seem to suggest that the import of foreign workers has somewhat stabilised at a much lower level than the pre-crisis period of high growth. The slight increase in the number of documented registered foreign workers in 2002 can be largely attributed to the stringent laws and actions taken to flush out illegal immigrants, which incidentally contributed to the rise in authorised entry and employment. The very harsh penalties on illegal migrant workers and errant employers introduced in August 2002, and the amnesty programme from March 22 to 31 July, 2002 to repatriate illegal workers has had a tremendous impact on controlling the number of undocumented migrant workers. The current estimate of illegal migrant workers in the Peninsula is about 300 to 400 thousand, or one illegal worker for every three documented workers.

Table 8 provides updated figures on the number of registered foreign workers in the Peninsula. As of June 2003, there were 1,163,194 registered foreign workers in the country. The majority (60.0 per cent) of foreign workers were Indonesians. About 25.0 per cent were from Bangladesh, 7.0 per cent from the Philippines and the rest 8.0 per cent were from countries such as Thailand, Pakistan, Vietnam and India. About one third of them were employed in manufacturing and about a quarter as domestic maids. Construction and plantation absorbed slightly less than one-fifth.

In the case of Sabah, based on the latest figures available from the Sabah Department of Labour, there were about 80,792 registered workers in 2002 (Table 9). Given the agrarian economic structure, it is hardly surprising that about 76.0 per cent were employed in the plantation sector. Indonesians constituted about 94.0 per cent of the migrant workers, while the rest 6.0 per cent were from the Philippines. The official estimate of illegal workers by the Sabah Labour Department is about 100,000. However, unofficial estimates suggest that there are about two unregistered workers for every documented worker. Sabah not only has a higher proportion (about 50 per cent) of foreign workers in its labour force, but it also has a higher incidence of illegal entry and employment.

Data for Sarawak indicate that there are about 107,000 registered workers (Table 10). About 50.0 per cent of the workers were employed in the manufacturing sector, and about 34.0 per cent in agriculture. This represents a sharp increase in the intake of migrant workers, since data from the early 1990s suggest that the presence of migrant workers in Sarawak was negligible at about 30,000. There are no estimates of illegal foreign workers in Sarawak.

In other words, Malaysia employs an estimated two million foreign workers or about 20 per cent of its workforce.

### **Foreign Labour Management Policies**

Appendix I details the evolution of the foreign worker policies in Malaysia in chronological order. The entry and employment of migrants are governed by the Employment Restriction Act (1968) and the Immigration Law, 1959/63 (Amendment

2002). In addition to these overarching legal provisions, migrant workers are subjected to a set of detailed ad hoc specifications that determine the age, gender and nationality, the employment sector, location and the duration of residence and employment in Malaysia. These determinants are shaped by a host of factors that include:

- level of economic activity and rate of unemployment in the country;
- sectoral labour market imbalances;
- the magnitude of undocumented workers;
- legal infraction by migrant workers;
- socio-cultural infractions by migrant workers;
- national security and diplomatic relations, and
- pressure by interest groups such as trade unions, employers' associations and human rights groups.

Migrant worker policies in Malaysia aim to allow a regulated and controlled inflow of foreign workers as an interim solution to ease labour shortages in critical sectors and to discourage long-term reliance on imported unskilled labor. Foreign worker policies have evolved with the changing labour market needs and other socio-political exigencies as identified above, and the underlying policy concerns include:

- i. controlling and regulating the inflow of migrant workers;
- ii. the elimination of irregular migration; and
- iii. the protection of migrant workers

A broad range of policy instruments have been used to achieve the above policy objectives, with varying degree of success. The following will identify the key policy instruments, and provide an update of the changes since 2002.

#### **i. Controlling and Regulating the Inflow of Migrant Workers**

The principal instruments used to control and regulate the inflow of migrant workers include:

- a. bilateral agreements with major sending countries;
- b. work permits; and
- c. foreign worker levy

In order to ensure a more regulated inflow of foreign workers, the government is currently in the process of signing the Memorandum of Understanding (MOU) with designated countries. At present 13 countries have been identified and these include India, Indonesia, Cambodia, Kazakhstan, Laos, Myanmar, Nepal, the Philippines, Sri Lanka, Thailand, Turkmenistan, Uzbekistan and Vietnam. Bangladesh was reinstated as a source country in July 2003. Thus far, MOUs have been signed with Thailand, Pakistan, China, Sri Lanka, Vietnam, Indonesia, India and Bangladesh. The key terms incorporated into the MOU include the following: workers must be able to communicate in English or Bahasa Malaysia, be free of any criminal record and the host government must be accountable to send the workers back if they violate Malaysian laws. The MOU is seen as an essential tool to ensure proper documentation and record of the import of migrant workers.

Work permits are issued for a restricted duration to discourage permanent settlement and to impress upon employers the temporary nature of unskilled labour imports. The duration of employment has been revised several times. Since September 2002, experienced workers who have been certified by the National Vocational Training Council can extend their duration of stay for another five years, to a total of 10 years. From January, 2004, only foreign workers who had undergone a mandatory two-week training programme on language, customs and Malaysian lifestyle in the host country would be issued with travel visas.

A levy on the employment of foreign workers was imposed in the 1991/1992 national budget to avoid excessive reliance on foreign workers. The annual levy varied by sector and skills. Minor changes were made with respect to levy payments in 2003. Employers of foreign maids can now pay the annual RM445 levy on a bi-annual basis, while those in the construction sector can pay levy on a six-monthly basis to help reduce their initial cost of employment for all new foreign workers.

## **ii. The elimination of irregular migration**

Policies to eliminate irregular migration include:

- a. registration of migrants working illegally, without threat of deportation;
- b. ban on the intake of foreign workers;
- c. the granting of amnesty to undocumented workers to allow them to return to their country without being prosecuted;

- d. enhanced surveillance on unauthorised entry and employment of migrant workers under the security operations code-named Ops Nyah I and Ops Nyah II.
- e. the imposition of harsher penalties on migrants and all those employing or harbouring illegal migrants,; and

Since the amendments to the Immigration Act 1959/63 (Amendment 2002), which increased the penalty on both employers and illegal foreign workers, the incidence of illegal entry and employment has declined drastically.

### **iii. The protection of migrant workers**

Malaysian employment and labour laws equally apply to all Malaysians and foreign workers. In other words, all migrant workers are protected by the existing employment regulation. In addition, the MOUs signed with the labour exporting countries stipulate that Malaysian employers are required to prepare contracts with terms and conditions on wages, work shifts, days off, sick leave and medical leave. Employees are to pay the levies, visa fee and undergo medical check-up.

Despite laws and guidelines to ensure the migrant workers' employment rights are protected, the implementation of these foreign worker rights leaves much to be desired, primarily due to poor enforcement and lack of knowledge among foreign workers of their rights as well as the ways and means to channel their complaints. Common complaints lodged by foreign workers at the Manpower Department include sub-standard housing, inadequate medical facilities, non-payment of wages, denial of paid leave and right to overtime pay, and excessive working hours. In the case of domestic helpers, physical and mental abuse and confinement are the main grouses.

To act as a deterrent against maid abuse, employers found guilty of abusing their maids were blacklisted and were not allowed to employ another for an indefinite period

### **IMPACT OF FOREIGN WORKERS ON THE DOMESTIC ECONOMY**

Migration has both positive and negative effects, but public debate tends to center on the perceived adverse effects of immigration. The cross-country experiences, based on

a vast empirical literature, however shows that the effects of immigration on the economy have been reasonably balanced or positive (Glenn, ??). The substantial empirical evidence from Australia suggests that immigration has not caused any net increase in the unemployment rate nor has it suppressed wages. The impact of migrants on the current account is also neutral, while its effects on public outlay have been positive. It is also important to note that the impact of immigrants on the local economy would very much depend on the magnitude and type of immigrants. In the case of Malaysia, contract labour migrants account for more than 90 per cent of all foreign labour and, hence the policy concerns on the impact of migrant workers may differ.

There is little empirical analysis on the impact of migrant workers on the economy, though several casual observations have been made. The casual observations that have been made tend to highlight the negative impact of migrant workers on the economy and downplay the benefits. This could be attributed to the relatively high incidence of unauthorised entry and employment of immigrants, and the visible socio-political problems associated with immigrants, in particular the illegal migrants. Subsequently, the underlying concerns of migrant worker polices in Malaysia have been to control and regulate the inflow of illegal immigrants through a wide range of policy instruments and harsh and punitive policies that tend to invite much criticism.

The following identifies the perceived costs and benefits of employing migrant workers.

#### Economic, Social, Security and Political Concerns

- i. The relatively easy access to a ready pool of inexpensive low-skilled workers tends to distort domestic factor prices and retard industrial upgrading and trap the economy in low-wage low-skill equilibrium.
- ii. It has also been argued that migrant workers have displaced Malaysians and depressed wages in agriculture and construction, thereby contradicting national poverty eradication objectives (Mehmet, 1988).
- iii. Migrant workers are believed to be using social services without paying for them. The subsidised or free use of public facilities such as health, education and infrastructure has been a source of concern.

- iv. Employing migrant workers contributes to a “significant outflow of capital”. Migrant workers have been reported to send money home using informal channels, and hence the actual amount is speculated to be much higher. The outflow of foreign exchange is reported to adversely affect the services account of the balances of payments.
- v. Migrant workers, especially the undocumented workers who avoid compulsory health screening have been a source of communicable diseases that have been eradicated or under control until the arrival of immigrants. The inflow of foreign workers impinges upon public safety and security, as some immigrants, particularly the illegals, were engaged in criminal activities.
- vi. Migrants also compete with the poor for low-cost accommodation in the squatter settlements and the Malay Reservation areas. The illegal occupation of land and housing and the congested and unsanitary living conditions have caused resentment among the local population (Azizah Kassim, 1995)
- vii. More recently, immigrants have been associated with the spread of deviant religious teachings and philosophy.

#### Economic Benefits

- i. Migrant workers alleviate labour shortages and contribute to growth. The temporary intake of migrant workers feeds excess labour demand in sectors affected by rapid structural transformation and maintains labour cost competitiveness and profitability in industries that are fast losing their comparative advantage.
- ii. Migrant workers have served as a buffer to soften the impact of business cycles by fueling growth and moderating wage inflation during periods of high growth and maintaining relatively low levels of unemployment during economic slowdown by shedding excess foreign labour.

The following examines some of the consequences on the economy of employing migrant workers.

## **Social and Security Threat**

### **i      Health-related problems**

Migrant workers, especially the undocumented workers who avoid compulsory health screening, have been suspected to be the conduit for highly communicable diseases such as malaria, tuberculosis and leprosy. These were diseases that were either eradicated or under control until the arrival of migrant workers.

At present, all foreign workers must produce certificates of fitness from recognised clinics in their home countries before work permits were issued to them. They would undergo re-examination by the Foreign Workers' Medical Examination Monitoring Agency (FOMEMA) a year later before their work permits were renewed. FOMEMA also carries out random checks on 10.0 per cent of the new foreign workers that enter the country each year to ascertain whether they suffer from infectious diseases. FOMEMA was established in December 1997 to manage the health screening of migrant workers. Up to August 2003, a total of 2.7 million foreign workers have been medically examined through FOMEMA. Based on FOMEMA's database, the number of foreign workers infected with tuberculosis has increased alarmingly and amounted to 1,278 persons in 2002 compared to only 21 persons in 1997, while those with Hepatitis B was 4,505 persons (1997: 124 persons) (Table 11). Those who failed their medical tests were departed and their work permits revoked. It must be noted that these figures only refer to all those who enter legally. There is no information on the incidence of infectious diseases amongst the illegal workers.



ii. Public Safety and Security

The influx of foreign workers is also perceived to impinge upon public safety and security, as some migrant workers, particularly the illegal migrants, were engaged in criminal activities. The number of crimes committed by migrants has increased three-fold from 1,333 in 1992 to 3113 in 2002 (Table 12). Indonesians, by virtue of their larger presence committed the most number of crimes (about 62.0 per cent of total crimes committed). However, the proportion of crimes committed by foreigners merely hovers around 2.0 per cent of the total crimes in Malaysia. On a per capita basis, foreigners on average committed about 3.8 crimes per 1000 foreign population, whereas Malaysians committed 5.3 per 1000 foreign population (Table 13). Though the incidence of crimes committed by foreigners rises on a per capita basis, the empirical evidence for suggesting that foreigners are primarily responsible for the rising crime rate in Malaysia remains weak.

There is also the popular perception that foreigners commit more violent crimes. Statistics on the incidence of violent crimes show that 30.0 to 40.0 per cent of the total crimes committed by foreigners are violent crimes. But in terms of the ratio of total violent crimes committed by foreigners, it was around 5.1 in 1992, but had risen to 8.0 in 2002. Hence, though the incidence of violent crimes committed by foreigners has been on the rise, statistics show weak support for the perception that foreigners are mainly responsible for the increase in violent crimes.

**Outflow of Foreign Exchange**

Data on the repatriation of income by migrants are not readily available, and therefore an estimate is made based on a field survey of migrant workers<sup>3</sup>. Based on survey findings, the average monthly income of foreign workers is around RM835. The survey also shows that migrant workers in the different sectors send varying proportion of their income home. Those in the plantation sector repatriated about 70.0 per cent of their income, while those in the services sector and domestic maids repatriated about 93 per cent of their income since food and lodging are provided by their employers. Assuming that migrant workers repatriate about 50 per cent of their income, the 1.4 million documented migrant workers are estimated to repatriate about

RM7 billion annually. The survey also showed that three out of every four workers used telegraphic transfer or bank draft, while the remainder 25 per cent used informal channels such as agents and money changers, or friends and relatives.

### **The Economic Impact of Migrant Workers on the Economy – A Computable General Equilibrium Analysis**

A multi-sectoral computable general equilibrium (CGE) model of the Malaysian economy was constructed to analyse the impact on the economy of policy changes with respect to migrant workers.

The CGE model is in the tradition of models pioneered by Johansen (1974) and follows closely the ORANI model of the Australian economy (Dixon et al, 1982). Most of the equations in the models are generic as found in many CGE models applied to both developing and developed economies. The model is designed to produce conditional projections of the “what if” type. For example, if there is a 10 per cent cut in the import of migrant workers, the model can simulate the effects of this change on output, prices, exports, imports, wages, etc.

The model consists of five groups of economic agents, namely domestic producers of current goods, domestic producers of capital goods, households, government, and foreign buyers who import and consume goods produced in Malaysia. The model is constructed using the latest available input-output table. The model consists of 92 industries producing 92 commodities utilising intermediate inputs from two sources (domestic and imported), three factors of production (capital, land and labour) and three occupation types (skilled, semi-skilled and unskilled) sourced from two sources (domestic and foreign).

The model assumes cost minimisation behaviour for producers and utility maximisation for consumers. The different economic agents adjust their behaviour in response to changes in market prices.

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<sup>3</sup> A survey of about 600 migrant workers was carried out between July and September 2003 to gather information on migrant workers in Malaysia.

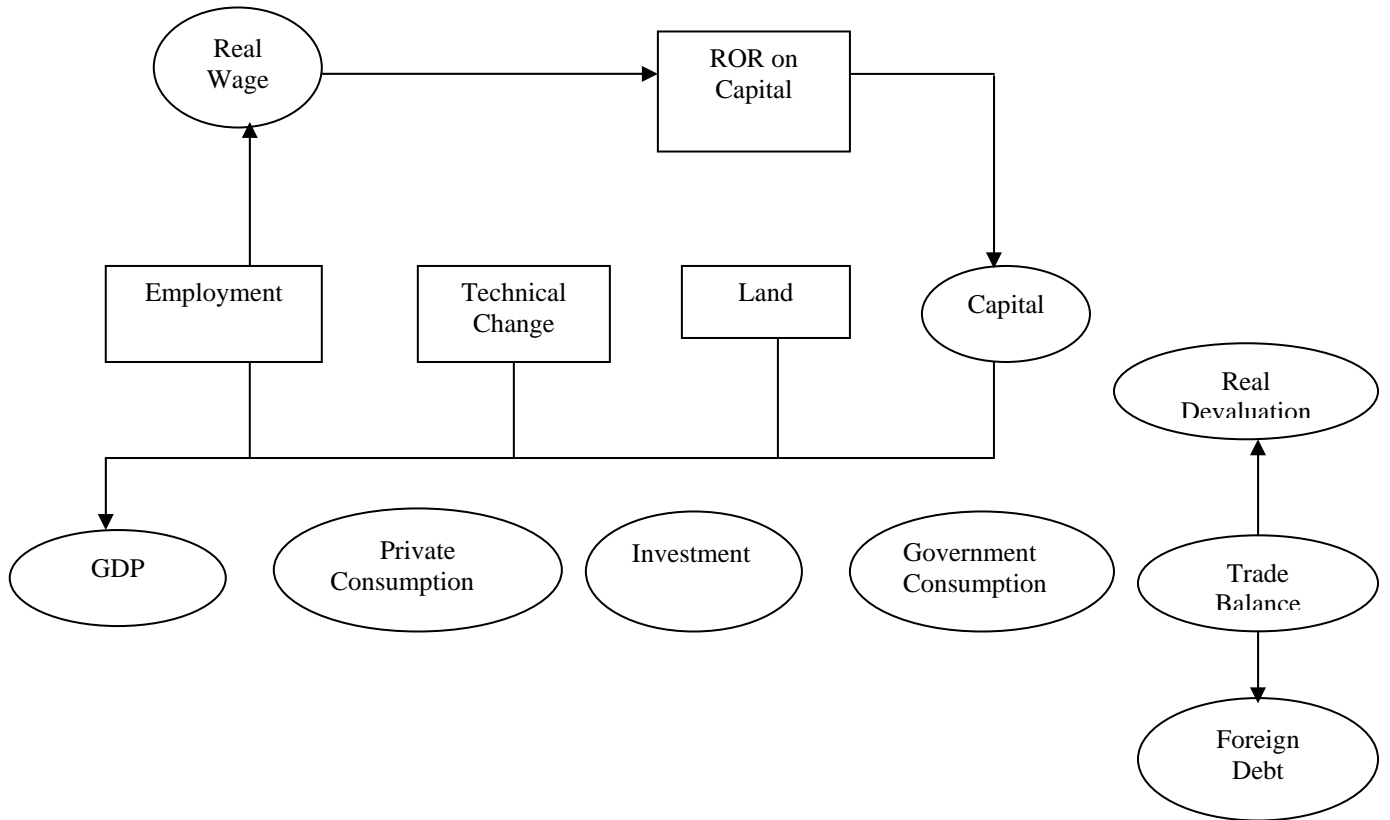
The CGE model is a static model. In other words, it does not model the supply of labour (i.e. there is no labour-leisure theory) nor does it model the supply of capital (there is no theory of investment). Therefore for each of labour and capital, price or supply must be exogenous. If supply of labour or capital is exogenous, then the closure is described as short run or full employment. The Malaysian economy has been in full employment since the early 1990s till the economic downturn in 1998. Therefore, a short run closure is used to assess the impact on the economy of a cutback on the number of migrant workers. Full employment implies that the wage rate adjusts to equate demand for labour to the exogenously given labour supply. The model has a very large set of simultaneous equations and has more variables than equations. Therefore, apart from the supply of labour, there are other exogenous variables in order to equate the number of equations to the number of variables. The rest of the variables are endogenous and their values are determined by the behavioural relationships built into the model.

An estimated 20 per cent of the current work force consists of migrant workers. This ratio is generally believed to be excessive. The model is simulated assuming a 20 per cent repatriation of migrant workers, and the impact of the shock on the economy at the macro level is analysed.

The adjustment mechanism of the model is illustrated in Figure I. The values of the variables in rectangles are exogenous and the variables in ovals are endogenously determined within the model. Schematically, adjustments in the model arise from the supply and demand side of GDP. From the supply side, a fall in the supply of labour leads to a rise in wages via the labour supply function. The rise in wages leads to a fall in the relative price of capital via a factor price frontier (i.e. a negative relationship between real wages and real rental price of capital), causing an increase in demand for capital. But because capital is fixed in the short run, the capital rental also rises. On the demand side, GDP is determined by private consumption, investment, government consumption and export and imports.

**FIGURE I**

**Economy-wide Macroeconomic Closure and Adjustment**



The results of a 20 per cent reduction in the import of migrant workers are shown in Table 15 below. On the supply side, a 20 per cent cut in the import of unskilled and semi-skilled migrant workers raises the average real wage in the economy by 0.5 per cent and the rental price of capital also increased by 1.1 per cent. The GDP declines by 1.1 per cent. Since the bulk of the migrant workers are in the export industry, export prices in local currency increased marginally by 0.1 per cent, and total exports fall by 0.9 per cent. Since Malaysia's exports are highly import intensive, imports drop by 0.8 per cent. The larger fall in exports as compared to imports causes the balance of trade to decline marginally by 0.04 per cent. The currency depreciates by 0.6 per cent.

On the demand side, government demand falls by 1.1 per cent, while real household consumption decreases by 0.8 per cent, and total investments decline by 1.4 per cent. The 0.5 increase in wages causes the consumer price index to increase by 0.2 per cent.

In other words, migrant workers contribute importantly to GDP and export revenue, and help to moderate wage increases.

### **Conclusion**

The Malaysian economy is poised to enter the post-industrial phase of development where the services sector will assume a larger and more dynamic role in the economy. The path towards the transition to a services-led economy is not easy. While the domestic economy is riddled with rigidities, the global economy has become more unpredictable and competitive. These developments have necessitated the search for new sources of growth and to create a more business friendly environment. The development of skills and economic abilities to innovate and to expand into new areas has been prioritised. A policy of less reliance on low-skilled contract labour migrants has also been emphasised.

The economic recovery since the second half of 2003 has augured well for the domestic labour market. The economy continues to be at full employment and there has been little pressure on wages, due to the large-scale import of migrant workers into the economy. Migrant workers currently account for about a fifth of the Malaysian workforce.

Though there are some negative consequences of employing foreign workers, it is evident from the CGE analysis that migrant workers do contribute positively. They contribute to GDP growth, earn export revenue and moderate wage increases.

Table 1  
Malaysia: Real GDP by Sector, 2000-2003

% growth	2000	2001	2002	1Q03	2Q03	3Q03
Real GDP	8.5	0.3	4.1	4.6	4.5	5.1
Demand side						
Private	13.0	2.4	4.4	4.3	3.4	5.4
Consumption	1.6	17.0	12.2	18.2	7.2	-1.6
Public	25.7	-2.8	0.3	3.8	0.4	3.2
Consumption	32.6	19.9	-13.1	-	-	-
Gross Investment	19.4	14.5	9.8	-	-	-
Private						
Investment	15.4	2.8	4.3	5.9	3.0	3.5
Public						
Investment	16.1	-7.5	3.6	1.9	0.2	-5.0
	24.4	-8.6	6.2	1.7	-2.9	-5.1
Domestic Demand						
Exports						
Imports						
Supply Side						
Agriculture	2.6	-0.9	3.0	3.4	10.4	6.2
Mining	0.3	-0.8	3.7	4.5	10.5	4.1
Manufacturing	18.3	-5.8	4.0	5.9	6.5	8.5
Construction	1.0	2.1	2.3	1.2	1.4	2.4
Services	6.7	5.8	4.1	4.5	2.8	4.2

Source: Department of Statistics

Table 2  
Malaysia: Principal Economic Indicators, 1999-2003

	1999	2000	2001	2002 <sup>p</sup>	2003 <sup>f</sup>
CPI (2000=100)	2.8	1.6	1.4	1.8	1.2
PPI (1989=100)	-3.3	3.1	-5.0	4.4	-
Exchange rate (in terms of US\$)	3.8	3.8	3.8	3.8	3.8
GDP per capita (RM)	8,516	9,009	8,826	8,592	8,953
% change in per capita income	3.6	5.8	-2.0	-2.6	4.2
Total population ('000)	22,714	23,260	23,847	25,530	25,600

Note: p – preliminary

f - forecast

Source: Department of Statistics.

Table 3  
Malaysia: Labour Market Indicators, 1998-2003

	1999	2000	2001	2002	2003 <sup>e</sup>
Labour force ('000)	9,178	9,573	9,892	10,198.8	10,514.9
Change in labour force (%)	3.7	4.3	3.3	3.1	3.1
LFPR(%)					
Total	64.6	65.5	65.3	66.3	66.9
Male	84.4	85.4	85.1	86.3	87.1
Female	43.8	44.5	44.3	45.2	45.7
Total employed	8,869.6	9,271.2	9,532.5	9,840.0	10,150.0
Change in employment (%)	3.5	4.6	2.6	3.2	3.2
Unemployment rate (%)	3.4	3.1	3.7	3.5	3.5
Change in labour productivity <sup>1</sup>	3.3	2.7	-1.8	0.9	-
Real wage per employee in mfg (percentage change)	3.1	5.0	1.7	2.9	-
Retrenchment (no.)	37,357	25,244	38,116	26,457	21,206
% change	344.6	-55.4	51.0	-30.6	-19.8
Vacancies (no.)	74,610	108,318	131,459	162,787	58,183 <sup>a</sup>
% change	15.7	45.2	21.4	23.6	-28.0 <sup>b</sup>
Registered job seekers (no.)	31,830	27,820	34,200	32,305	37,397 <sup>a</sup>
% change	-4.5	-12.6	22.9	-5.5	-4.5 <sup>b</sup>

Notes: 1 – Labour productivity refers to real change in sales value pf products in the manufacturing sector.

e – refers to estimate

a – from January to July

b – compared to January to July 2002.

Sources: Department of Statistics  
Bank Negara Malaysia  
Economic Planning Unit



Table 4  
Retrenchment by Sector, January 2003-January 2004

Sector	Percentage
Manufacturing	70.8
Wholesale & retail, restaurant & hotel	9.4
Finance, insurance, real estate & business services	6.7
Community, social and personal services	3.4
Transport, storage & communications	3.0
Construction	3.1
Agriculture, forestry, livestock & fishing	2.6
Mining & quarrying	0.9
Electricity, gas & water	0.1
Other activities not adequately defines	0.04
<b>Total</b>	<b>100.0</b>

Note: As of February 1, 1998, it is mandatory for employers to inform the Director General of the Labour Department at least one month before any retrenchment exercise is undertaken.

Source: Manpower Department, Ministry of Human Resources

Table 5  
Reasons for Retrenchment, January 2003-January 2004

Reasons	Percentage
Closure	12.6
Sale of Company	6.9
Relocation to foreign country	4.3
Relocated locally	6.0
High production cost/reduction in production cost	3.1
Reduction in demand for product	26.6
Recruitment difficulties	0.07
Company reorganisation	14.0
Others	26.2
<b>Total</b>	<b>100.0</b>

Source: Manpower Department, Ministry of Human Resources.

Table 6  
Retrenchment by Category of Occupation

Occupational Category	Percentage
Professional, technical & related workers	17.1
Administrative & managerial workers	8.1
Clerical & related workers	11.6
Sales workers	4.2
Service workers	4.3
Agriculture & forestry workers	1.7
Production & related workers	53.0
Total	100.0

Source: Manpower Department, Ministry of Human Resources

Table 7  
Malaysia: Employment by Sector, 2000-2002

	Percentage Share			Contribution to employment growth		
	2001	2002 <sup>e</sup>	2003 <sup>e</sup>	2001	2002 <sup>e</sup>	2003 <sup>e</sup>
Agriculture, forestry & fishing	14.8	14.3	13.8	-0.4	-0.3	-0.8
Mining	0.4	0.4	0.4	0.2	0.1	0.2
Manufacturing	26.8	27.2	27.7	-1.0	40.3	43.6
Construction	8.1	7.9	7.8	6.4	3.4	4.0
Finance, insur., real est. & bus. serv.	6.0	6.2	6.3	25.2	10.6	9.1
Transport, storage & comms.	5.2	5.2	5.2	12.9	4.3	4.6
Government services	10.3	10.1	10.1	-0.6	4.9	10.2
Other services	28.4	28.7	28.7	57.2	36.7	29.2
Non-government services	39.8	40.1	40.2	95.3	51.3	51.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: e - estimate

Source: Source: Ministry of Finance, *Economic Report 2002/2003*, National Printers Malaysia Berhad, Kuala Lumpur.

Table 8  
Registered Foreign Workers in Malaysia, 2003

Country	Sector (%)
Indonesia	60.0
Bangladesh	25.0
Philippines	7.0
Others	8
Total (Number)	100.0 (1,163,194)

Source: Sunday Star, January 18, 2003.

Table 9  
Registered Foreign Workers by Sector and Nationality, Sabah, 2001

	Bangladesh	Indonesia	Philippines	Others	Total
Domestic	-	7,319	707	-	8,026 (5.44)
Maids	-	976	797	-	1,773 (1.20)
Construction	-	16,528	1,566	-	18,094 (12.27)
Manufacturing	5	4,331	1,869	-	6,205 (4.21)
Services	-	108,163	5,183	3	113,345
Agriculture					(76.87)
Total	5 (* )	137,317 (93.13)	10,122 (6.87)	3 (* )	147,447 (100.0)

Note: \* Negligible

Source: Adapted from unpublished data from Immigration Office Sabah. Data provided by Dr Bilson Kurus of Institute of Policy Studies, Sabah.

Table 10  
Registered Foreign Workers by Sector and Nationality, Sarawak, 2003\*

	Domestic Maids	Construction	Manufacturing	Services	Agriculture	Total
Indonesia	14,028	4,011	52,761	1,818	32,976	105,59
Bangladesh	-	90	180	37	13	4
Philippines	7	83	210	26	27	320
Thailand	-	-	4	13	9	346
Vietnam	-	-	74	-	-	33
Others	-	51	151	127	1	74
<b>Total</b>	<b>14,028</b>	<b>4,267</b>	<b>53,389</b>	<b>2,031</b>	<b>33,026</b>	<b>106748</b>

Source: Department of Immigration, Sarawak, 2003 (provided by Dr Bilson Kurus)

Table 11  
Types of Diseases Found In Registered Foreign Workers, 1997-2002

Type of Infection	1997	1998	1999	2000	2001	2002
HIV	4	173	69	76	91	122
TB	21	1,467	853	1,063	1,477	1,278
Hepatitis B	124	12,030	3,907	2,445	4,093	4,505
Others	51	4,484	2,447	3,330	3,623	2,922
<b>Total</b>	<b>200</b>	<b>18,154</b>	<b>7,276</b>	<b>6,914</b>	<b>9,284</b>	<b>8,827</b>

Source: FOMEMA

Table 12  
Number of Crimes Committed by Foreigners, 1992-2002

	Indonesians	Filipinos	Bangladeshis	Others	Total	% of Crimes Committed by Foreigners
1992	710	618	-	5	1,333	1.8
1993	848	875	-	23	1,746	2.2
1994	472	274	-	11	757	1.0
1995	932	1,165	28	46	2,171	2.7
1996	1,066	922	8	23	2,019	2.3
1997	752	802	32	13	1,599	1.3
1998	1,326	897	139	23	2,385	1.5
1999	2,378	1,354	155	83	3,970	2.3
2000	2,219	1,011	142	116	3,488	2.1
2001	2,169	814	178	203	3,364	2.1
2002	2,066	686	147	214	3,113	2.1

Source: The Royal Policy Department, Malaysia

Table 13  
Crime Incidence of Migrants Versus Malaysians, 1992-2002

	Crimes by Foreigners per 1000 Foreigners	Crimes by Malaysians per 1000 Malaysians	Crimes by Foreigners per 1000 Employed Persons
1992	3.8	3.8	10.6
1993	4.0	4.0	11.4
1994	1.6	3.7	10.8
1995	12.1	3.8	10.9
1996	2.2	4.1	11.7
1997	1.7	5.5	16.2
1998	2.4	7.1	20.3
1999	3.8	7.3	21.1
2000	3.0	7.0	20.8
2001	3.9	6.4	18.9
2002	3.3	6.0	17.3
Average	3.8	5.3	15.5

Source: Computed using data from The Royal Policy Department, Malaysia and the Department and Statistics, Malaysia

Table 14  
Incidence of Types of Crimes Committed by Foreigners, 1992-2002

	Violent Crimes	% of Total Violent Crimes <sup>1</sup>	Property-related Crimes	% of Total Property-related <sup>2</sup> Crimes
1992	513	5.1	820	1.3
1993	564	5.1	1,182	1.7
1994	312	3.0	445	0.7
1995	643	6.1	1,528	2.2
1996	693	5.6	1,326	1.8
1997	470	2.8	1,129	1.1
1998	748	3.8	1,637	1.2
1999	1,715	8.1	2,255	1.5
2000	1,659	7.7	1,829	1.3
2001	1,490	7.3	1,874	1.4
2002	1,656	7.9	1,457	1.1

Note: 1 – Violent crimes include murder, armed and unarmed robbery, rapes, etc.

2 – Property-related crimes include house-breaking, car/motocycle/bicycle thefts, etc.

Source: The Royal Policy Department, Malaysia

Table 15  
The Macroeconomic Impact of a 20 per cent Reduction in Migrant Workers

Variables	Impact
Contribution of BOT to real expenditure-side GDP	-0.04%
Real devaluation	0.6%
Terms of trade	0.1%
Average capital rental	1.1%
Average nominal wage	0.7%
Average land rental	-2.7%
Consumer price index	0.2%
Exports price index, local currency	0.1%
Average real wage	0.5%
C.I.F. local currency value of imports	-0.8%
Nominal GDP from expenditure and income side	-0.5%
Value of imports plus duty	-0.8%
Aggregate revenue from all indirect taxes	-0.7%
Nominal total household consumption	-0.6%
Local currency border value of exports	-0.9%
Aggregate nominal value of government demands	-1.1%
Import volume index, C.I.F. weights	-0.8%
Real GDP from expenditure side	-1.1%
Import volume index, duty-paid weights	-0.8%
Aggregate capital stock, rental weights	-1.3%
Aggregate output: value-added weights	-1.1%
Aggregate real investment expenditure	-1.4%
Real household consumption	-0.8%
Export volume index	-1.0%
Aggregate real government demands	-0.8%

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## Appendix I

### Evolution of Foreign Labour Management Policies in Malaysia

Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
1984	<p>Medan Agreement signed with Indonesia</p> <ul style="list-style-type: none"> <li>to ease labour shortages in selected sectors. (Similar agreements signed with Philippines, Thailand and Bangladesh).</li> </ul>	<p>Bilateral agreement</p> <ul style="list-style-type: none"> <li>to curb unauthorised entry</li> <li>to encourage legal recruitment</li> </ul>	<ul style="list-style-type: none"> <li>Failed to stem unauthorised entry and employment</li> </ul>
1989	<p>Foreign Worker Regularisation Programme.</p> <ul style="list-style-type: none"> <li>to weed out illegal Indonesian plantation workers.</li> <li>to prevent displacement of local workers</li> </ul>	<ul style="list-style-type: none"> <li>Registration of illegal workers in plantations.</li> <li>Plantation workers on a 3-year contract to receive similar wages and benefits as locals</li> </ul>	<ul style="list-style-type: none"> <li>Only one-third registered</li> <li>Freeze on the intake of workers from Indonesia from Jan 1<sup>st</sup> 1990</li> </ul>
1991 Oct	<p>Comprehensive Policy on the Recruitment of Foreign Workers:</p> <ul style="list-style-type: none"> <li>to ease labour shortage in selected sectors</li> <li>to document and legalise entry and employment of all foreign workers</li> <li>to protect rights of citizens to employment.</li> </ul>	<ul style="list-style-type: none"> <li>Work permits issued to plantation and construction automatically</li> <li>Manufacturing and services allowed to recruit foreign workers with documentary evidence of recruitment difficulties</li> <li>Foreign workers not allowed to change location, employer or sector of employment</li> <li>Foreign workers to receive similar wages and benefits</li> <li>Mandatory contribution to Social Security Organisation (SOCSO)</li> <li>Option to contribute of pension funds (EPF)</li> <li>Contract of employment to be signed</li> <li>Employer to bear cost of recruitment and repatriation</li> <li>Employer to bear security bond placed with Immigration Department</li> <li>Employer accountable for worker for duration of employment</li> <li>Applications vetted by the Committee on Foreign Labour in MOHR prior to approval by Immigration Department</li> </ul>	

Appendix I continued  
Evolution of Foreign Labour Management Policies in Malaysia

Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
1992 Budget	<p>Imposition of annual levy:</p> <ul style="list-style-type: none"> <li>to raise employment cost of foreign workers to discourage employers from being over-dependent on migrant workers</li> <li>to safeguard employment opportunity for citizens</li> </ul>	<p>Levy imposed varied by sector and skill. Foreign worker classified as general worker, semi-skilled &amp; unskilled</p> <ul style="list-style-type: none"> <li>Agriculture (RM360; RM540 &amp; RM720)</li> <li>Construction (RM420; RM600 &amp; RM900)</li> <li>Services (RM360; RM540 &amp; RM720)</li> <li>Manufacturing (RM420; RM600 &amp; RM900)</li> </ul> <p>Higher levy for the expatriate category</p> <ul style="list-style-type: none"> <li>Technical – RM1,200; Professional Middle Management - RM1,800; Professional Upper Management – RM2,400)</li> </ul>	<ul style="list-style-type: none"> <li>Employers in larger firms paid the levy</li> <li>Smaller firms and the informal sector tend to pass on the levy to foreign workers.</li> </ul>
1992	<p>Foreign Worker Regularisation Programme</p> <ul style="list-style-type: none"> <li>to legalise migrant workers.</li> <li>Programme lasted from Jan 1992 to Aug 1994</li> </ul>	<ul style="list-style-type: none"> <li>Registration of illegal workers</li> <li>Followed by security operations code-named Ops Nyah I to curb illegal entry</li> </ul>	<ul style="list-style-type: none"> <li>483,784 illegal workers registered</li> </ul>
1993 April	<p>Ban on further recruitment of all low-skilled foreign workers</p> <ul style="list-style-type: none"> <li>to stem unauthorised entry and employment</li> </ul>	<ul style="list-style-type: none"> <li>Ban on new recruitment of low-skilled workers</li> <li>Employers to recruit from detention centres</li> <li>Applications processed by Committee in MOHA</li> </ul>	<ul style="list-style-type: none"> <li>Unauthorised entry and employment continued.</li> <li>Appeals from employers to lift ban</li> </ul>
1993 June	<p>Ban lifted for selected skills following appeals from employers</p> <ul style="list-style-type: none"> <li>to ease excess demand</li> </ul>	<ul style="list-style-type: none"> <li>Ban lifted for skilled and semi-skilled workers</li> </ul>	
1994 Jan	<p>Ban re-imposed on all sectors</p> <ul style="list-style-type: none"> <li>to stem unauthorised entry and employment</li> </ul>	<ul style="list-style-type: none"> <li>Ban on new recruits of skilled and semi-skilled workers</li> <li>Those approved to recruit from detention centers</li> </ul>	<ul style="list-style-type: none"> <li>Unauthorised entry and employment continued</li> <li>Limited recruitment from detention centers</li> </ul>
1994 June	<p>Ban lifted for manufacturing sector</p> <ul style="list-style-type: none"> <li>to ease labour shortage</li> </ul>	<ul style="list-style-type: none"> <li>Ban lifted for skilled workers</li> </ul>	

Appendix I continued  
Evolution of Foreign Labour Management Policies in Malaysia

Date	Policy Objectives	Policy Measures/Instruments	Policy Outcome
1994 Oct	One-stop agency established <ul style="list-style-type: none"> <li>to coordinate policy implementation</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of a Task Force on Foreign Workers to take over all recruitment except for domestic maids and shop assistants</li> <li>Employers to apply directly to Task Force</li> </ul>	<ul style="list-style-type: none"> <li>Recruiting agencies now serviced employers</li> </ul>
1995 Oct	All recruitments undertaken by Task Force to stem exploitation by agents	<ul style="list-style-type: none"> <li>Task Force made the sole agent for labour recruitment dealing with agents overseas, except for domestic maids and shop assistants</li> </ul>	
1995 Aug	New guidelines on recruitment of foreign workers issued	11 new guidelines issued to make applications and approval more transparent	
1996	Foreign Worker Regularisation Programme to legalise illegal workers. From Jun 1996 to Dec 1996	<ul style="list-style-type: none"> <li>Registration of illegal workers</li> <li>Followed by security operations code-named Ops Nyah II to weed out illegal workers</li> <li>3 months of amnesty (Oct-Dec 1996) followed by joint army-police security sweep</li> <li>Formation of 16 enforcement teams and allocation of RM10 million to build detention centers</li> </ul>	<ul style="list-style-type: none"> <li>554,941 illegal workers registered out of an estimated 1.2 million, so amnesty extended to February 1<sup>st</sup> 1997 when the amended Immigration Act took effect.</li> </ul>
1997 Jan	Changes to Task Force to improve efficiency	<ul style="list-style-type: none"> <li>Task Force to become a separate unit within Immigration Department</li> </ul>	<ul style="list-style-type: none"> <li>Institutional capacity beefed up</li> <li>Speedier processing</li> </ul>
1997	1977 Amendments to Immigration Act to control unauthorised entry and employment (Act proposed in Oct 1996 and gazetted in Feb 1 <sup>st</sup> 1997)	<ul style="list-style-type: none"> <li>Heavier fines imposed for illegal foreign workers, employers and agents</li> </ul>	<ul style="list-style-type: none"> <li>Reduction in unauthorised entry and employment</li> </ul>
1997 Mar	Task Force disbanded due to ineffectiveness	<ul style="list-style-type: none"> <li>Task Force functions taken over by the Foreign Workers Division of the Immigration Department</li> </ul>	<ul style="list-style-type: none"> <li>Speedier and less cumbersome processing of work permits</li> </ul>

Appendix I continued  
Evolution of Foreign Labour Management Policies in Malaysia

Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
1997	Foreign Worker Regularisation Programme in Sabah <ul style="list-style-type: none"> <li>to weed out illegal migrant workers. From March to August.</li> </ul>	<ul style="list-style-type: none"> <li>6-month regularisation programme to register about 500,000 illegal workers</li> <li>Joint operations by Federal and State agencies</li> </ul>	<ul style="list-style-type: none"> <li>About 250,000 illegal workers registered</li> </ul>
1997 Aug	A total ban on all new recruitment of all workers imposed in August following the July 1997 financial crisis <ul style="list-style-type: none"> <li>to protect the rights of its citizens to employment.</li> </ul> Changes in employment conditions for sectors contributing to export and economic growth: <ul style="list-style-type: none"> <li>to foster economic recovery</li> </ul>	<ul style="list-style-type: none"> <li>Those affected could opt to be re-deployed to the plantation sector or return home. <ul style="list-style-type: none"> <li>Length of stay raised: plantation – 7 years and manufacturing 6 years.</li> <li>Increased surveillance and border patrolling</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Fears of mass exodus of migrants from crisis-hit Indonesia did not materialise</li> <li>Total ban was lifted a month later for domestic maids and island resort workers following appeals</li> <li>For other jobs the ban was in force until October 1998.</li> </ul>
1998 Jan	Ban on renewal of work permits for foreign workers in manufacturing, construction and service sectors. <ul style="list-style-type: none"> <li>to reduce the number of foreign workers</li> </ul> Annual levy raised <ul style="list-style-type: none"> <li>to discourage use of foreign labour</li> </ul> Mandatory contribution to national pension fund <ul style="list-style-type: none"> <li>to reduce foreign exchange flow.</li> </ul>	<ul style="list-style-type: none"> <li>Annual levy raised to RM1,500 (from RM1,200 for construction and manufacturing and from RM720 for service) except agriculture and domestic help which remained at RM360</li> <li>Imposed tighter conditions on domestic help employment – RM10,000 monthly income ceiling for Filipino and Sri Lankan maids.</li> <li>Except domestic maids, all migrant workers must contribute to EPF. Employer pays 12% and employee 11% of monthly wages.</li> </ul>	<ul style="list-style-type: none"> <li>Mandatory contribution to EPF was revoked in 2001</li> </ul>
1998	Foreign Worker Regularisation Programme in Sarawak <ul style="list-style-type: none"> <li>to weed out illegal migrant workers</li> </ul>	<ul style="list-style-type: none"> <li>Launched between February and March</li> </ul>	

Appendix I continued  
 Evolution of Foreign Labour Management Policies in Malaysia

Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
1998 July	Ban on renewal of work permits for the service sector lifted <ul style="list-style-type: none"> <li>to ease shortages in this sector</li> </ul>		
1998 Oct	Ban on new recruitment lifted <ul style="list-style-type: none"> <li>to ease shortages of labour in selected sectors</li> </ul>	<ul style="list-style-type: none"> <li>120,000 new work permits approved for foreign workers in plantation and construction sectors</li> </ul>	
1999	Reduction in annual levy <ul style="list-style-type: none"> <li>to ease the burden on employers</li> </ul>	<ul style="list-style-type: none"> <li>Levy reduced from RM1,500 to RM1,200 for all workers, except for agriculture and domestic maids which remain at RM360.</li> </ul>	
2001 May	Ban on the intake of foreign workers from Bangladesh to minimise problems arising from large intake of workers from Bangladesh	<ul style="list-style-type: none"> <li>Ban was imposed following a spate of clashes between locals and workers from Bangladesh</li> </ul>	
2001 Oct	Maximum limit of temporary work pass reduced <ul style="list-style-type: none"> <li>to cutback on migrant workers</li> </ul>	<ul style="list-style-type: none"> <li>Issue of temporary work pass limited from 5 to 3 years due to economic slowdown</li> </ul>	<ul style="list-style-type: none"> <li>Strong criticisms from employers and trade unions</li> <li>Short duration would discourage skill acquisition and raise costs</li> </ul>

Appendix I continued  
 Evolution of Foreign Labour Management Policies in Malaysia

Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
2002 Feb	Major review of foreign worker policies <ul style="list-style-type: none"> <li>• to control and regulate the intake of foreign workers</li> <li>• to reduce the magnitude of anyone one nationality</li> <li>• to ensure more systematic and transparent recruitment</li> </ul>	Changes to duration of employment <ul style="list-style-type: none"> <li>• Work permits given on a 3+1+1 ruling</li> <li>• Extension of working period for skilled workers in selected industries beyond 5 years</li> <li>• Limits on duration not applied to domestic maids</li> </ul> Changes in the sectoral distribution and source country <ul style="list-style-type: none"> <li>• Indonesian workers to be cut back by half – allowed to work in the plantation sector and as domestic maids. Ban on new recruitment of workers from Indonesia for all sectors, except domestic maids.</li> <li>• Workers from Uzbekistan, Kazakhstan and Turkmenistan approved</li> <li>• Non-export manufacturing with a paid-up capital of RM2 million allowed to import 1 foreign worker to 1 Malaysian worker.</li> <li>• Changes in recruitment procedures – recruitment to be carried out through G to G agreements.</li> </ul>	<ul style="list-style-type: none"> <li>• Employers were encouraged to train their workers</li> <li>• Restriction on Indonesian workers was lifted on January 2003.</li> </ul>
2002 March	Amnesty granted to an estimated one million undocumented workers	<ul style="list-style-type: none"> <li>• From March 21 to July 31</li> </ul>	<ul style="list-style-type: none"> <li>• Most effective – an estimated 570,000 undocumented workers left the country</li> </ul>

Appendix I continued  
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Year	Policy Objectives	Policy Measures/Instruments	Policy Outcome
2002 August	Immigration Act was amended – Immigration (Amendment) Act, 2002 came into effect on August 1 2002	<ul style="list-style-type: none"> <li>• Imposed heavier penalties on illegal immigrants and those found harbouring illegals</li> <li>• Illegal entry imposed a maximum fine of RM10,000 or a jail term not exceeding 5 years or both and mandatory whipping</li> <li>• Those guilty of harbouring or employing illegals are fined between RM10,000 to RM50,000 per employee and a jail term not exceeding one year, and those employing more than 5 illegal immigrants are liable for mandatory whipping and jailed for a maximum of 5 years</li> <li>• Owners or tenants of buildings guilty of such offences would be fined between RM5,000 and RM30,000 and or a jail term not exceeding a year for each illegal immigrant found on the premises. For second and subsequent offences, the fine increases to between RM10,000 and RM60,000 and/or a jail term not exceeding 2 years for each illegal immigrant.</li> <li>• Project owners would be held responsible if illegal workers were found at their work sites.</li> </ul>	<ul style="list-style-type: none"> <li>• The severity of the punishment for illegals and those harbouring or employing illegals, especially the mandatory whipping, helped to drastically reduce the number of undocumented workers in the country.</li> </ul>

Notes: MOHA refers to Ministry of Home Affairs  
 MOHR refers to Ministry of Human Resources  
 EPF refers to Employees Provident Fund