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INTERNATIONAL MIGRATION AND LABOUR MARKET DEVELOPMENTS IN ASIA: FINE-TUNING THE POLICY AND INSTITUTIONAL FRAMEWORK FOR MANAGING CROSS-BORDER LABOUR FLOWS

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ABSTRACT

The reorientation of national policies since 2002 from short-term counter-cyclical measures to more medium- and longer-term measures to address structural rigidities has contributed to a stronger and healthier economy that is better able to weather external shocks.

The economy outperformed expectations to expand at a record high of 7.1 per cent in 2004, the highest in four years, supported by robust growth in global trade and domestic demand. The projected slowdown in the United States, Japan and Europe - Malaysia’s top trading partners - following high oil prices since the second half of 2004 is likely to affect Malaysia’s external demand. Growth is expected to consolidate at 5.0 per cent in 2005, but a slightly more favourable outlook for 2006 is expected with a projected growth of 5.5 per cent.

The government aims to balance the budget in the medium term by cautious cutbacks on public expenditure so as not to derail the growth momentum. Inflation has been moderate, facilitating a lax monetary policy to support private consumption and investment. None the less, inflation is a major concern, and further hikes in the interest rate are anticipated in the near future.

The more medium to longer-term issues centre on productivity and competitiveness of the economy, especially with enhanced competition from India and China – two nations endowed with huge labour reserves at all skills spectrum. In contrast, Malaysia suffers from severe shortage of skills at the very low and high ends. Efforts at structural reform to further diversify the industrial and export structure to higher value added goods and to non-traditional markets have been prioritized, and policy changes have been introduced to foster new sources of quality growth. But the pace of structural transition has not been rapid enough to reduce demand for low skills and create sufficient quality jobs for the new entrants into the labour market. Unwavering political resolve to remove inherent policy rigidities is must to unleash the entrepreneurial talent and creativity of its people to foster sustained growth and

development. The Ninth Malaysia Plan (2006-2010) to be unveiled soon is expected to address some of these major concerns.

Strong economic growth has contributed to stable labour market conditions in 2004, but structural unemployment is an emerging problem. Severe shortage of low skilled labour and graduate unemployment are characteristic features of the labour market in 2004/2005. There is an estimated 2.6 million migrant workers in the country accounting for about 24.0 per cent of those employed. With moderating growth and cutbacks in the public sector, skills mismatch is apparent, particularly among new graduates, prompting the government to step up its skills upgrading programmes for unemployed graduates and retrenched workers.

Given the huge presence of low skilled migrant labour, management of cross-border labour flows remains a daunting task. Hence, the focus of international labour management policies for 2004/5 has centred on fine-tuning existing policies and institutions to combat irregular migration, reduce the number of undocumented migrant workers in workforce, improve the management of foreign labour import and reduce the reliance on low-skilled foreign labour through active labour and industrial policies.

INTERNATIONAL LABOUR MIGRATION AND LABOUR MARKET DEVELOPMENTS IN ASIA: FINE-TUNING THE POLICY AND INSTITUTIONAL FRAMEWORK FOR MANAGING CROSS-BORDER LABOUR FLOWS

I. INTRODUCTION

The reorientation of national policies since 2002 from short-term counter-cyclical measures to more medium- and longer-term measures to address structural rigidities has contributed to a stronger and healthier economy that is better able to weather external shocks. Substantial corporate and financial restructuring introduced after the 1997 financial crisis has contributed to growing reserves and shrinking external debt.

The economy outperformed expectations to expand at a record high of 7.1 per cent in 2004, the highest in four years, supported by robust growth in global trade and domestic demand. The projected slowdown in the United States, Japan and Europe - Malaysia's top trading partners - following high oil prices since the second half of 2004 is likely to affect Malaysia's external demand. Growth is expected to consolidate at 5.0 per cent in 2005, but a slightly more favourable outlook for 2006 is expected with a projected growth of 5.5 per cent.

The Malaysian economy has weathered these external shocks reasonable well due its position as a net oil exporter. It has also exhibited greater resilience with strong macroeconomic fundamentals and sustained diversification of its structure. The government aims to balance the budget in the medium term by cautious cut backs on public spending so as not to derail growth. Inflation has been moderate, facilitating a lax monetary policy to support private investment. None the less, inflation is a major concern, and further hikes in the interest rate are anticipated in the near future.

Some of the more medium to longer-term issues that impinge upon the productivity and competitiveness of the economy include skills mismatch and skills shortages, especially with enhanced competition from India and China, both of which have large reserves of labour at all skill levels. Sustained structural reform to diversify the industrial and export structure further to higher value added goods and to non-traditional markets to promote the competitiveness of the economy has been prioritized. Several policy initiatives have been taken to foster new sources of growth. The government has planned programmes to revitalize the agriculture sector and promote it as the third engine of growth and raise rural incomes. The Ninth Malaysia Plan (2006-2010) to be launched soon is expected to address some of the underlying concerns that impinge upon productivity and competitiveness, and chart new strategic directions for sustained growth and development.

The paper is divided into five sections. Section II introduces the macroeconomic performance of the economy in 2004/2005. Section III examines key developments in the domestic labour market and Section IV highlights the recent trends and policy changes with respect to international labour migration. Section V concludes with the key issues and findings.

II. MACROECONOMIC POLICY AND PERFORMANCE IN 2004/2005

The Malaysian economy outperformed expectations to expand at a record high of 7.1 per cent in 2004, the highest in four years, supported by robust growth in global trade and domestic demand. Rapid growth in global trade in manufactures and high prices for primary commodities boosted growth in the first of 2004, while strong domestic demand underpinned the growth momentum in the second half of 2004, when global growth began to slacken somewhat. The economy is however expected to slow down in 2005 with rising inflationary pressures brought on by record high oil prices that reached a peak of US$70 in August 2005. The official estimate for 2005 ranged between 5.0 to 6.0 per cent, though unofficial estimates are slightly lower (Table 1). The Malaysian Institute of Economic Research (MIER) forecast growth at 4.9 per cent for 2005 and 5.3 per cent for 2006. Third quarter growth for 2005 was higher than expected at 5.3 per cent year on year, led by the services sector.

On the demand side, private sector activity remained the main engine of growth in 2004. Private consumption posted strong growth at 10.1 per cent and private investment increased by about 26.0 per cent. The revival of private sector demand is attributed to a combination of factors that included higher disposable incomes in both the household and corporate sectors due to higher export earnings and high employment scenario, a supportive interest rate and credit environment, and the various tax rebates announced in the 2004 National Budget. On the other hand, strong private investment was due to high capacity utilization following improved external demand and domestic consumption. These factors coupled with improved corporate profitability and favourable financing facilities induced further investment. In addition, foreign direct investment in selected services, manufacturing and, the oil and gas sectors increased significantly.

Given buoyant private demand, the public sector was able to continue its policy of fiscal consolidation that commenced in 2003. The higher petroleum expenditures improved revenue collection and enabled a further lowering of the fiscal deficit to 4.3 per cent of GDP in 2004 (2003: 5.3 per cent). The government is targeting to reduce the fiscal deficit further to 3.8 per cent of GDP in 2005 and to 3.5 per cent of GDP in 2006 without compromising the stability of the economy. Public expenditure was geared towards smaller projects that have significant multiplier effects as well as those that enhance long-term productivity.

On the supply side, with the exception of construction, all other sectors recorded strong positive growth. Manufacturing, services and primary commodities remained the principal drivers of growth. The construction sector contracted by about 1.9 per cent largely due to decline in civil engineering works following the reduction in public spending on infrastructure projects.

The manufacturing sector benefited from the upturn in the global semiconductor cycle and expanded at 9.8 per cent. There was also increased demand for Malaysia's principal resource-based industries such as chemical, wood and rubber products. As a result, manufacturing exports rose by 19.7 per cent in 2004. The services sector also posted improved growth of 6.7 per cent, driven primarily by higher consumer spending. The services sector witnessed expansion in new growth areas such as private education and private healthcare, and Islamic financial services (Bank Negara Malaysia, 2004, p.6). The agriculture sector expanded by 5.0 per cent supported by increased production of crude palm oil and rubber, induced by high commodity prices. Crude oil and natural gas production also increased with higher domestic and external demand, boosting growth of the mining sector by 4.1 per cent.

Exports grew at 16.3 per cent led by petroleum, manufactured goods and agricultural commodities, while imports increased by 20.7 per cent in 2004. Both export and import growth is expected to dampen in 2005 with the impact of higher oil prices on worldwide growth.

Price pressures from strong demand were contained through productivity increases, capacity expansion, a more competitive environment and the absence of wage cost pressures throughout 2004. Hence, inflation rose marginally by 1.4 per cent in 2004 (2003:1.2 per cent). However, the impact of higher oil prices pushed the CPI to 3.0 per cent in 2005, the highest level in seven years. Inflationary pressures are anticipated in continue in 2006 as fuel prices are likely to rise with further cut in oil subsidies and government sanction on the increase in electricity rates.

The shortage of low to medium-skilled workers was met through large-scale import of contract migrant workers, keeping a lid on wage inflation. Creeping inflationary pressures have been moderated through a series of measures to reduce the economic burden of low-income earners and to soften the impact of rising business costs. The government has postponed further hikes in fuel charges, cut road tax by 25.0 per cent for all businesses, effective September 12, 2005, and ordered highway operators to refrain from raising toll rates until the end of 2006. Financial assistance to the needy and the aged was increased to help them cope with rising costs. Malaysia's position as a net exporter of oil has aided the check on fuel charges.

With creeping inflationary pressures and widening interest rate differentials, the Central Bank was not able to maintain the low interest rate regime that commenced in May 2003. On November 30, 2005, the Central Bank raised its overnight rate by 0.30 of a point to 3.0 per cent, the first ever tightening in seven years, prompting many local banks and other finance companies to raise their base lending rates. Further interest rate hikes are likely to cap inflation and narrow the interest gap, especially with the rising interest rates in the United States.

Malaysia finally depegged the ringgit which was fixed at RM3.80 to a US dollar on 21st July 2005, the very same day China freed the yuan. The ringgit is now under a "managed" float against a trade weighted index of currencies of Malaysia's major trading partners. The freeing of the ringgit has injected greater flexibility into the economy. The ringgit remained almost unchanged until January 2006 when it had appreciated by less than 10.0 per cent. The removal of the peg system which was introduced after the 1997 financial is expected to increase efficiency gains through better resource allocation. It will also help to boost the domestic sector by removing the bias against the non-traded sector. Further appreciation of the ringgit will reduce the costs of imports and hence lower costs and prices and have a positive effect on wealth and domestic demand. It will also mitigate the impact of imported inflation and improve the fiscal position of the government as the debt burden denominated in US dollars will be reduced.

III. LABOUR MARKET DEVELOPMENTS, 2004/2005

Strong economic growth has contributed to stable labour market conditions in 2004. The number of jobs created kept pace with the expansion of the labour force, and maintained the unemployment rate at 3.5 per cent (Table 3). The overall labour force participation rate (LFPR) has increased to 65.5 per cent and is expected to rise further in 2005.

The economy is in full employment, but it suffers from serious structural unemployment as reflected by severe shortage of low-skilled labour in selected sectors and locations, and rising graduate unemployment. In a recent study of graduate unemployment carried out by the Economic Planning Unit (EPU), an estimated 60,000 graduates were unemployed, many of whom were seeking jobs for more than a year. The majority were females (71.0 per cent) from a public university majoring in business studies and information technology and from poor families[1] (61.0 per cent). Lack of job experience (49.7 per cent), poor command of the English language and lacking in communication skills (33.3 per cent), and mismatch between skills and jobs available were the main reasons for not being able to secure gainful employment.

The majority of the new jobs was created by the services sector (50.9 per cent), which has taken over manufacturing (48.5 per cent) as the principal source of employment.

[1] Families with household incomes below RM1,000 per month.

The economy is undergoing significant structural transformation to a services-led economy, and the services sector is expected to contribute more than three-fifths of the new jobs in 2005 (Table 4). Employment in agriculture continued to shrink further, contributing to about 13.7 per cent of total employment in 2004 (1990: 26.0 per cent).

Despite buoyant labour market conditions, labour market turnover has slowed down as reflected by data on vacancies and retrenchment. The number retrenched has declined by 2.4 per cent in 2004 and is expected to fall further in 2005, while the number of new vacancies has likewise shrunk by about 50.0 per cent (Table 3). The majority of the workers retrenched (72.8 per cent) were from manufacturing (Table 5). The main reasons for the retrenchment included reduction in demand for products (26.1 per cent), high costs of production (10.9 per cent), outsourcing (7.1 per cent) and company reorganization (Table 6).

Despite strong economic growth in 2004, wage growth in manufacturing was subdued at 1.8 per cent in 2004, while labour productivity, as measured by the ratio of GDP to employment increased from 1.9 per cent in 2003 to 3.4 per cent in 2004, but is anticipated to fall to 1.7 per cent in 2005 with higher production costs and lower demand.

Labour Market Initiatives, 2004/2005

Labour market initiatives for 2004/2005 continued to focus on:

i. Human resource development to enhance the quality of the workforce to cope with increasingly competitive environment for trade and foreign investment;

ii. Introducing active labour market and industrial policies to foster labour-saving technologies to reduce the reliance on foreign labour;

iii. Implementing intensified training for target groups to alleviate structural unemployment;

iv. Strengthening labour market mechanisms to improve labour market information and labour mobility;

v. Promoting wage schemes that are linked to productivity and work performance to enhance competitiveness.

A total of 9,213 participants received training under the Graduate Training Scheme II. The Scheme, launched in August 2003[2], provides training in selected marketable skills to graduates who are unable to secure gainful employment. Another batch of 40,460 participated in the various attachments and training schemes for unemployed graduates under the Graduate Training Scheme I initiated in 2001. A total of 12,783 participants had also benefited from the scheme for the unemployed and retrenched workers introduced in 2001[3]. Under both these schemes, the trainees received a monthly allowance of RM500 and were assigned industry attachments.

As graduate unemployment continued to plague the economy, an additional sum of RM100 million was allocated to sustain the training programmes for unemployed graduates. Unemployed graduates could undergo training for a period of 4 to 6 months to equip themselves with communication, marketing and management skills to enhance their prospects for securing a job.

The Human Resource Development Fund (HRDF) established in 1993 remained an important vehicle to encourage employers to train their staff so that they are equipped to adapt to the rapidly changing work environment. In 2004, a total of 460,651 training places with financial assistance of more than RM200 million was approved. In addition, the Human Resource Development Board approved RM5 million of its own funds to provide training in line with industry demands at the certificate and diploma level for free, and was open to all retrenched workers.

Another development fund called the Skills Development Fund (SDF) was introduced in 2001 to enhance the participation of the private sector as training providers and increase accessibility to technical and vocational training by providing financial assistance to candidates. The Scheme is open to school leavers, retrenched workers as well as employees undergoing training in approved public and private training institutes. The SDF is currently in the process of being privatized. In 2004, about 34,000 trainees received assistance from the Fund.

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[2] A total of RM137 million was allocated in the 2002 Annual National Budget to retrain retrenched and unemployed graduates.

From September 2005, all companies with vacancies were required to register the jobs available with the Electronic Labour Exchange, managed by the Ministry of Human Resources (MOHR). Companies could only apply to hire foreign workers if after a month they could not employ local workers.

IV. AN UPDATE ON INTERNATIONAL LABOUR MIGRATION

The larger part of the international labour management policies for 2005 has centred on reducing the number of undocumented migrant workers in the economy, improving the management of foreign labour imports and reducing the reliance on low-skilled foreign labour.

Foreign Labour Management Policies

Malaysia has periodically offered amnesties to reduce the number of undocumented migrants in the country[4]. Those who return voluntarily during this period are free from prosecution. The latest amnesty was offered for a four-month period from October 29 to February 28, 2005[5]. Official accounts indicated that about 400,000 of the estimated 800,000 to 1.2 million migrants in irregular status had returned under the amnesty programme (New Straits Times, June 22, 2005).

Following the tsunami in December 26 2004 and a formal request from the Indonesian government to postpone the amnesty deadline, the authorities had adopted a softer approach code-named “Ops Nasihat” (Advisory Operations) to track and deport migrants in irregular status[6]. The valuable insights and experiences gained from the 2002 amnesty exposed the enormous difficulties and costs involved in holding very large numbers of illegal migrants in detention centers. Thus, instead of raiding settlements, arresting illegal immigrants and placing them in detention centres, illegal migrants were persuaded to return home.

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3 The government allocated RM56 million in November 2001 for the training scheme for retrenched workers.

4 The last amnesty was offered in mid-2002, and an estimated half a million took advantage of it.

5 The initial amnesty was from October 29 to November 14, 2004. Poor response from undocumented workers forced the government to extend the deadline to December 6, 2004, which was further extended to December 31 2004 and later to February 28, 2005 for Indonesians following the earthquake and tsunami in December 26, 2005.

6 About 90 per cent of the illegal migrants are from Indonesia, and a large number of them are from the province of Aceh which was devastated by the December 2004 tsunami.

Following the amnesty and crackdown on illegal migrants, a three-month freeze on the intake of new workers was imposed. During the three-month period, only the estimated 380,000 who had taken up the amnesty offer were permitted to be rehired. The biometric system was used to verify if the illegal workers had returned to their respective countries to be legalized. Following an uproar from labour agents and employers, the ruling was relaxed and they were allowed to bring in migrants who were in the process of being brought to work in Malaysia. Fourteen one-step centres were set up in Indonesia to speed up their re-entry, but poor response from the migrants caused severe labour shortages, and reportedly slowed down economic activity in several sectors heavily reliant on foreign labour (New Straits Times, January 27, 2005). The poor response was attributed to the high fee of about RM2,000 charged by Indonesian agents to return to Malaysia with valid documents as well as ignorance amongst Malaysian employers on the procedures for rehiring repatriated migrants.

The severe labour shortage compelled the authorities to relax the regulation on the hiring of foreign workers so as to speed up the import of migrant workers for the affected sectors. The compulsory induction course for workers from Nepal and Pakistan was waved and there was a one-month deferment on levy payment for employers recruiting workers from Indonesia and the Philippines. These and earlier experiences with forced repatriation of undocumented workers are indeed clear reflections of the heavy reliance of the Malaysian economy on low-skilled migrant workers.

The government is also drafting a comprehensive strategy involving various government agencies to tackle the illegal entry and employment of immigrants, especially Indonesians, more effectively. The strategy involved coordinating sea, land and air operations of the various security and defense forces at the country's borders and checkpoints.

To regularize the import of migrant workers, it was announced that all future intake of migrant workers was to be carried out on a government-to-government (G to G) basis as of February 6, 2005. New recruitment mechanisms have also been introduced to ensure migrants are not exploited by labour agents. At present, most of the foreign workers were being recruited though agents or directly by employers. There are about 200 employment agencies in the country, but they are only allowed to recruit domestic helpers. The licensed employment agencies had been barred from bringing in workers other than domestic maids since 1995. Workers for other sectors are brought in by labour agents. As of August 2005, companies intending to hire fewer than 50 foreign workers will have to use the services of labour outsourcing companies. A total of 58 outsourcing companies have been appointed by the government to supply and manage labour. However, the initial ban on agents was lifted when the authorities realized that the use of agents was an "unstoppable trend". Illegal agents can be fined RM5,000, three years jail or both under the Private Employment Agencies Act. Outsourcing companies had to post bonds on each worker, provide housing and a minimum salary if the worker does not have a job. The labour outsourcing firms have been operational since the end of 2005, and it is too early to assess their effectiveness.

In addition, workers could only be imported from 12 designated countries, namely the Philippines, Indonesia, Cambodia, Laos, India, Myanmar, Nepal, Thailand, Vietnam, Kazakhstan, Turkmenistan and Uzbekistan. The countries and sectors that are allowed to import foreign labour are listed in Table 7. Only sectors and locations that face severe labour shortage are allowed to recruit foreign workers. Foreign workers are allowed to work for a period of three years, and their permit may be extended from year to year until the fifth year at the request of the employers. Any extension beyond the fifth year may be considered for skilled workers. The skill of the foreign worker must be certified by designated skills training centres. In addition, employers who wish to hire foreign labour must first have documentary evidence that they are unable to recruit local labour. The stringent rules are enforced to ensure locals are not displaced by migrant workers.

The government has also allowed an estimated 50,000 refugees, 40,000[7] of whom are registered with UNHCR to work in Malaysia on humanitarian grounds.

[7] About 20,000 are from Aceh, 10,000 are Muslim Rohingyas from Myanmar and the remaining 10,000 are ethnic minorities from Myanmar and elsewhere.

Existing measures to ensure migrants do not carry contagious diseases into the country have been proven to be partially effective. Out of the 909,273 foreign workers who underwent medical examination in 2004 after a year's stay in Malaysia, 25,069 or 2.8 per cent were found to be unfit (2002: 1.6 per cent; 1998: 3.8 per cent had communicable diseases).

Mandatory pre-entry medical examination was introduced to prevent migrant workers from carrying highly contagious diseases such as tuberculosis and leprosy into the county. Foreign workers also had to undergo compulsory medical examinations if they wanted to renew their work permits after a year[8]. Revisions to existing measures were prompted by the unreliability of the mandatory pre-entry medical examination[9]. Random checks at entry points have indicated that about 4.0 per cent of those with medical certificates from their country of origin were found unfit. As a result, foreign workers are now required to undergo mandatory medical examination within a month of their arrival in Malaysia[10], and those with communicable diseases were to be deported immediately.

To ensure migrant workers are not open to abuse and are able to better integrate into the Malaysian work environment, the government has introduced new measures to expose migrant workers on Malaysian laws and culture. Effective November 1, 2005, all countries, except Indonesia, would have to conduct induction courses for workers coming to Malaysia, failing which they would not be issued visas and work permits. This is to ensure that source countries take responsibility for ensuring that their workers receive some basic information on Malaysian culture and laws before coming to Malaysia to work.

The institutional arrangements to process the recruitment of migrant workers have been revamped to speed up the process. As of August 1, 2005, all applications by employers to recruit foreign workers were approved on the spot, instead of having to wait three to four weeks. A new one-stop center was set up at the Ministry of Internal

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8 This ruling however does not apply to white-collared foreign workers and students.

9 Earlier proposals to establish Malaysian monitoring agencies to supervise the clinics that have been appointed to carry out pre-entry medical examination were futile. Falsification of medical certificates appeared to be grave problem.

Affairs (MIA) to reduce the processing time to one day. The levy was collected by MIA, and the Immigration Department was responsible for granting the visas.

Following complaints about high processing fees charged by agents[11], the government imposed a ceiling fee of RM2,500 for the hiring of foreign maids in August 2005[12]. In addition to the cap on the processing fee, the maid is to receive her salary directly from the employer from the very first month of service. However, the new rulings had to be shelved following complaints from the Malaysian Foreign Workers Recruitment Agencies Association (commonly referred to as PAPA) that the ceiling for the processing fee was far too low[13]. The average cost of importing a domestic helper, including the levy, can vary from RM3,500 to RM5,000 and has to be paid by the employer to the agency. The money is used to pay the levy, visa, travel, food and lodging and other expenses while in transit as well as the agent's fee. The first three to four months of the maid's salary also goes to pay the agents in the source countries since the maids seldom bear any upfront costs of seeking employment overseas. Both rulings have been shelved to let market forces determine the agent's fee as is the case for all other foreign workers. The laissez fare system of recruitment is expected to reduce costs though competition amongst labour recruiters. The payment structure or who should fork out the levy was to be decided between the agencies and companies. All other foreign workers reportedly pay up to RM7,000 each to the middlemen and agents.

Unlicensed labour recruiters and agents have been guilty of charging exorbitant fees, falsifying documents, misleading workers about wages, and other abuses. It has been estimated that on the average about 3,000 workers, mainly from Indonesia, Nepal and

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[10] Under the present system, foreign workers are only required to undergo mandatory testing after staying for 12 months. The medical examination costs about RM190 for each worker.

[11] Previously agents used to charge between RM2,000 to RM2,500, but at present the charges are between RM3,000 to RM5,000. In addition, the employer has to pay the first few months (four to six months) of the maid's salary to the agent.

[12] In the MOU signed between Malaysia and Indonesia in 1995, the recruitment fee for Malaysian agencies was set at RM1,870 and that for Indonesian agencies was RM1,050.

[13] According to PAPA, Malaysian agents had to pay between RM2,300 to RM3,000 to get the bio-data of the maid, and that the maid agencies were only following the MOU signed between Indonesia and Malaysia which stated that any cost incurred by a maid must be borne by her. According to PAPA, the market rate for bringing in a maid was RM5,000, and the employer paid about half of RM5,000 and the rest by the maid through deductions of her monthly wages. The recruitment agents in Indonesia charge the maids to process the trip to work in Malaysia. The total processing cost was

India, were left in the lurch every year. Authorities have not been too successful in monitoring the recruitment practices of the agents. Though agents and recruiters fall under the purview of the Private Employment Agents Act, not all agents are registered.

The authorities are in the process of issuing smart cards to all migrant workers to deter forgery and falsification of documents. The biometric card system will contain the migrant workers' personal details and fingerprints and would facilitate enforcement. Card tempering is a possibility, but the removal of the chip would damage the card, thereby preventing fake identification cards.

Statistics on the number of foreign workers in the country show that the government has not been very successful in reducing its reliance on foreign labour, given its economic and technological structure. Hence new policies have been introduced periodically to save on foreign labour usage. Restaurants serving Indian food which rely heavily on foreign workers have been instructed to transform into self-service outlets by the end of 2006. Such directives however have been met with protests from restaurant operators.

Initiatives were also introduced by industry organizations to streamline the hiring of foreign workers. The Construction Industry Development Board (CIDB) set up the Construction Labour Exchange Centre to coordinate the movement and employment of foreign workers within the industry. Construction companies are now required to register foreign workers with CIDB for the purpose of monitoring and providing information on the employment of documented foreign workers in the country. Under this scheme, companies that have completed their projects were able to redistribute their workers to others in need of workers to avoid unemployment of migrant workers, which often places them in irregular status.

The CIDB also exempted all housing projects with at least 50 per cent industrialized building system (IBS) from the mandatory construction levy 0.125 per cent. Apart from modernizing the industry, the move was aimed at reducing the reliance on low-cost foreign labour in labour-intensive construction activities.

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previously around RM1,083, but it has since risen almost three-fold to RM3,000 attributed to changes in the exchange rate, inflation and the increasing role of the middlemen.

Import of Migrant Labour

As at end 2005, the number of registered migrant workers stood at 1.94 million. In addition, there are an estimated 700,000 undocumented workers in the country, bringing the total number of foreign labour to 2.6 million or about 24.0 per cent of those employed.

The majority of migrant workers are from Indonesia (68.9 per cent), followed by Nepal (9.9 per cent), India (6.9 per cent) and Myanmar (4.6 per cent) (Table 8). The manufacturing sector employed most of the migrant workers (29.9 per cent), followed by the plantation sector (19.8 per cent), domestic services (17.1 per cent) and construction (14.5 per cent) (Table 9).

At the higher end of the skills spectrum, there were 33,062 expatriates in the country as at August 2, 2005. They were employed as professionals, specialists and skilled workers mainly in services (14,532) and manufacturing (14,754). The majority of the expatriates were form India, Japan and China.

Maids are paid RM600 on the average, while those in the construction and plantation sectors can earn between RM1,000 to RM1,500 per month.

FISCAL AND FINANCIAL ISSUES OF CONCERN

Remittances by Foreign Workers

On the average, an undocumented Indonesian worker is estimated to send home RM200 per month. (February 14, 2005). Hence, the estimated 700,000 undocumented workers in the country remit about RM1.7 billion annually. On the other hand, surveys have shown that a documented foreign worker remits between 70-90 per cent of his or her monthly wage. Given an average monthly wage of RM835 and assuming the foreign worker remits a conservative 50.0 per cent of his/her monthly income, documented foreign workers remit a total of RM9.74 billion annually. Hence, both documented and undocumented migrant workers remit a total of about RM11.4 billion annually.

Use of Medical and Health Services

The unpaid medical bills by foreign patients stood at RM11 million for 2004 or double that three years ago. Foreigners have been paying first class fees for treatment since June 2004. Since the hike in fees, there has been a 30.0 per cent reduction in the number of non-citizens seeking treatment and a twofold increase in revenue. The fee charged for foreigners is expected to rise further with the introduction of the National Health Insurance Scheme. However, the fee hike could deny healthcare access to some migrant workers. Those who are most at risk are the ones with no legal status, in the lowest paying jobs and where no medical benefits are provided by employers. At present it is not mandatory for employers to provide medical benefits for their migrant workers. The welfare and well being of migrant workers in this respect has to be addressed.

Foreign Worker Levy

Except for manufacturing and construction, the foreign worker levy was raised for all sectors by between 50 per cent and 100 per cent with effect from August 1, 2005. Table 10 provides the revised levy structure. The hike in the levy structure was aimed at striking a balance between foreign worker dependency and ensuring jobs for the locals.

V. CONCLUSION

The reorientation of the policies since 2002 from short-term counter-cyclical measures to more medium and longer-term measures to address structural rigidities has contributed to a stronger and healthier economy that is better able to weather external shocks.

The economy outperformed expectations to expand at a record high of 7.1 per cent in 2004, the highest in four years, supported by robust growth in global trade and domestic demand. The economic downturn in the United States, Japan and Europe, which remain Malaysia’s top trading partners following high oil prices since the second half of 2004 is likely to affect Malaysia’s economic performance. Growth is expected to consolidate at 5.0 per cent in 2005, but a more favourable outlook for 2006 is expected with a projected growth of 5.5 per cent.

The government aims to balance the budget in the medium term by cautious cut backs on spending without destabilizing the economy. Inflation has been moderate, facilitating a lax monetary policy to support private consumption and investment. None the less, inflation is a major concern in the medium term, prompting further hikes in the interest rate.

The more medium to longer term issues that affect productivity and competitiveness of the economy include skills mismatch and skills shortages, especially with enhanced competition from India and China, the two economies with huge reserves of labour at all skill categories. Sustained structural reform to diversify the industrial and export structure further to higher value added goods and to non-traditional markets has been prioritized to promote the competitiveness of the economy. Policy changes have been introduced to foster new sources of growth. However, there is a need for greater political resolve to remove policy rigidities in order to unleash entrepreneurial talents and encourage entrepreneurial activities to ensure sustainable growth and development.

Strong economic growth has contributed to stable labour market conditions in 2004, but structural unemployment is an emerging problem with moderating growth and the downsizing of the public sector. The economy faces severe shortage of low-skilled labour and growing unemployment amongst graduates, prompting authorities to step up training programmes. There are an estimated 2.6 million foreign workers in the country accounting for about 24.0 of those employed.

Given the huge reliance on low skilled foreign labour, the bulk of the international labour management policies for 2005 has centred on reducing the number of undocumented migrant workers, improving the management of foreign labour intake and reducing the reliance on low-skilled foreign labour.

Malaysia has gained a great deal of experience in managing the import of guest workers, and is continually seeking new and better approaches to alleviate illegal entry and employment and to ensure migrant workers are not abused or exploited by agents or employers. The government is also mindful that harsh enforcement of laws against economic migrants and political refugees is not very strategic and relevant within the context of bilateral relations with its neighbours. The government has taken more positive steps to address the human rights of refugees and migrant workers. However, managing cross-border labour flows cannot be done unilaterally. It is a complex multi-faceted phenomenon involving three key players - sending and receiving nations, and migrants, all of whom should shoulder equal responsibility to maximize the benefits and minimize the costs to each of the key players. The role of labour recruiters who serve as middlemen between migrants and employers should be minimized and regulated to ensure workers are not exploited and receive fair value for their efforts.

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Table 1
Malaysia: Real GDP by Sector, 2000-2005

	2001	2002	2003	2004	2005p	2006f
% Growth						
Real GDP	0.3	4.1	5.3	7.1	5.0	5.5
Demand Side						
Public Consumption	17.3	11.9	10.0	6.0	8.9	1.3
Private Consumption	2.4	4.4	6.6	10.5	7.5	7.0
Public Investment	14.5	11.2	3.9	-8.7	3.0	0.3
Private Investment	19.9	-15.1	0.4	25.8	7.6	13.0
Exports	-7.5	4.5	6.3	16.3	7.7	9.3
Imports	-8.6	6.3	5.0	20.7	6.7	10.6
Supply Side						
Agriculture	-0.6	2.6	5.7	5.0	4.8	5.0
Mining	-1.5	4.0	5.9	3.9	1.5	4.7
Manufacturing	-5.9	4.1	8.3	9.8	4.8	4.9
Construction	2.1	2.3	1.9	-1.5	-1.1	3.0
Services	6.0	6.4	4.4	6.8	5.8	6.1
% of GDP						
Demand Side						
Public Consumption	13.3	14.0	14.8	14.7	15.2	14.6
Private Consumption	46.2	46.3	46.8	48.3	49.4	50.2
Public Investment	17.5	18.6	18.7	15.7	15.4	14.6
Private Investment	12.4	10.1	9.6	11.3	11.5	12.4
Exports	107.8	107.9	108.2	117.5	120.5	124.9
Imports	96.5	98.4	97.3	109.5	111.3	116.8
Supply Side	8.5	8.7	8.7	8.5	8.5	8.4
Agriculture	7.2	7.2	7.2	7.0	6.7	6.7
Mining	30.0	29.9	30.8	31.6	31.5	31.3
Manufacturing	3.4	3.3	3.2	2.9	2.7	2.7
Construction	56.9	58.1	57.6	57.4	57.8	58.1
Services						

Notes: p - preliminary
f - forecast
Source: Department of Statistics

Table 2
Malaysia: Principal Economic Indicators, 2000-2005

	2001	2002	2003	2004	2005[p]
CPI (2000=100)	1.4	1.8	1.2	1.4	3.0[a]
PPI (1989=100)	-5.0	4.4	5.7	8.9[p]	6.1
Exchange rate (in terms of US$)	3.8	3.8	3.8	3.8	3.77
GDP per capita (RM)	8,801	8,979	9,267	9,689	9,974
% change in per capita income	-2.5	2.0	3.2	4.6	2.9
Total population ('000)	24,013	24,527	25,048	25,581	26,128

Notes: p – preliminary
a - actual

Source: Department of Statistics

Table 3
Malaysia: Labour Market Indicators, 2000-2004

	2001	2002	2003	2004	2005
Labour force (‘000)	9,699.4	9,886.2	10,239.6	10,587.7	10,926.6
Change in labour force (%)	1.3	1.9	3.6	3.4	3.2
LFPR(%)					
Total	64.7	64.3	64.9	65.5	66.0
Male	85.1	85.6	85.0	85.1	85.2
Female	44.3	45.4	45.5	45.7	45.8
Total employed (‘000)	9,348.1	9,542.1	9,866.7	10,222.0	10,547.5
Change in employment (%)	2.6	2.1	3.4	3.6	3.2
Unemployment rate (%)	3.6	3.5	3.6	3.5	3.5
Labour productivity (GDP/Emp.) (annual change in %)	-0.5	2.3	1.9	3.4	1.7
Real wage per employee in mfg (percentage change)	1.7	3.2	2.8	1.8	-
Retrenchment (no.)	38,116	26,457	21,206	20,706	9,816*
% change	51.0	-30.6	-19.8	-2.4	-
New Vacancies (no.)	131,459	162,787	96,918	49,975	44,084*
% change	21.4	23.6	-40.5	-48.5	-
Registered job seekers (no.)	34,200	32,305	28,404	27,227	82,708*
% change	22.9	-5.5	-12.1	-4.1	-

Notes: e – refers to estimate
* from January to August
Sources: Department of Statistics
Bank Negara Malaysia

Table 4
Malaysia: Employment by Sector, 2002-2004

	Percentage Share			Contribution to employment growth		
	2003	2004	2005*	2003	2004	2005[8]
Agriculture, forestry & fishing	14.2	13.7	13.1	-1.0	-1.4	-3.4
Mining	0.4	0.4	0.4	0.2	0.1	0.1
Manufacturing	27.3	28.1	28.4	55.1	48.5	37.0
Construction	7.9	7.5	7.4	3.0	-2.6	1.4
Finance, insur., real est. & bus. serv.	6.2	6.3	6.4	9.1	9.4	9.0
Transport, storage & comms.	5.4	5.5	5.6	6.1	7.7	10.9
Government services	10.4	10.2	10.0	9.7	4.4	3.4
Other services	28.2	28.4	28.8	17.8	33.8	41.5
Non-government services	39.7	40.1	40.8	33.0	50.9	61.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: e - estimate
Source: Ministry of Finance (2004) *Economic Report 2005/2006*, National Printers Malaysia Berhad, Kuala Lumpur.

Table 5
Retrenchment by Sector, January 2004-December 4, 2004

Sector	Percentage
Manufacturing	72.8
Wholesale & retail, restaurant & hotel	6.1
Finance, insurance, real estate & business services	3.0
Community, social and personal services	5.1
Transport, storage & communications	6.3
Construction	2.7
Agriculture, forestry, livestock & fishing	1.6
Mining & quarrying	2.4
Electricity, gas & water	0.0
Other activities not adequately defined	0.03
Total	100.0

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 6
Reasons for Retrenchment, January to November 20 2004

Reasons	Percentage
Closure	1.6
Sale of Company	5.7
Relocation to foreign country	1.7
Relocated locally	1.1
High production cost/reduction in production cost	10.9
Reduction in demand for product	26.1
Shifting from manual to automation	1.1
Recruitment difficulties	0.2
Company reorganization	5.7
Outsource	7.1
Others	39.0
Total	100.0

Source: Manpower Department, Ministry of Human Resources.

Table 7
Countries and Sectors Allowed to Recruit Foreign Workers

Sector	Country
Construction	Philippines (malea), Indonesia, Cambodia, Kazakhstan, Laos, Mynamar, Nepal, Thailand, Turkmenistan, Uzbekistan and Vietnam
Manufacturing	Philippines (malea), Indonesia (female), Cambodia, Kazakhstan, Laos, Mynamar, Nepal, Thailand, Turkmenistan, Uzbekistan and Vietnam
Plantation/Agriculture	Philippines (male), Indonesia, India, Cambodia, Kazakhstan, Laos, Mynamar, Nepal, Thailand, Turkmenistan, Uzbekistan and Vietnam
Services	
• Restaurants	All source countries for general worker posts (except India – cooks only). Restaurants in major towns only.
• Laundry	All source countries except India.
• Cleaning/Sanitation	All source countries except India.
• Caddy	All source countries except India.
• Resort Islands	All source countries except India.
• Welfare Hones	All source countries except India.
• Cargo	All source countries except India.
• High Tension Cables	India only
• Domestic Maids	Sri Lanka, Indonesia, Thailand, Philippines and Cambodia

Source: Ministry of Human Resources

Table 8
Composition of Contract Migrant Workers by Country, 2000 –2005
(Percentage distribution)

	2000	2001	2002	2003	2004 (as at end July)	2005 (as end Dec)
Indonesia	69.4	68.4	64.7	63.8	66.5	68.9
Nepal	0.1	7.3	9.7	9.7	9.2	9.9
Bangladesh	24.6	17.1	9.7	8.4	8.0	2.9
India	3.0	4.0	4.6	5.6	4.5	6.9
Myanmar	0.5	1.0	3.3	4.3	4.2	4.6
Philippines	1.2	1.0	0.8	0.6	1.1	1.1
Thailand	0.4	0.4	2.4	0.9	1.0	0.3
Pakistan	0.5	0.4	0.2	0.2	0.1	0.7
Others	0.3	0.4	4.6	6.5	5.4	4.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Department of Immigration as cited in Ministry of Finance, *Economic Report, 2004/2005,* Kuala Lumpur; Department of Immigration, unpublished figures for 2005.

Table 9
Distribution of Contract Migrant Workers by Sector, 2000 –2005
(in thousands)

	1990	1995	2001	2003	2004 (as at end July	2005 (as at end Dec)
Agriculture	47.9	36.1	32.9	16.5	24.7	22.0*
Mining	0.6	0.4	0.2	-	-	-
Construction	10.4	13.5	11.5	23.6	19.8	14.5
Manufacturing	9.8	24.1	24.7	31.5	30.5	29.9
Services	31.3	25.9	30.7	28.4	25.0	33.6#
Total (‘000)	100.0 (242.0)	100.0 (479.3)	100.0 (863.8)	100.0 1,126.8	100.0 (1,359.5)	100.0 (1,944,646)

Notes: * 19.8 per cent are employed in plantations.
17.1 per cent are employed as domestic helpers.
Source: Department of Immigration as cited in Ministry of Finance, *Economic Report, 2004/2005,* Kuala Lumpur; Department of Immigration, unpublished figures for 2005.

Table 10
Levy on Foreign Workers With Effect From August 1, 2005

Sector	Peninsula	Sabah & Sarawak
Plantation	RM540	RM540
Agricultural Activities	RM360	RM360
Manufacturing	RM1,200	RM960
Construction	RM1,200	RM960
Services	RM1,800	RM1,440
Restaurants & Textiles	RM1,800	RM1,400
Welfare Homes	RM600	RM600
Island Resorts	RM1,200	RM960
Sectors with special approvals	RM1,800	RM1,440
Domestic Maids	RM360 (first) RM540 (second)	