

## BOX ARTICLE: INITIAL REVIEW OF LABOUR MIGRATION IN MALAYSIA

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### Background

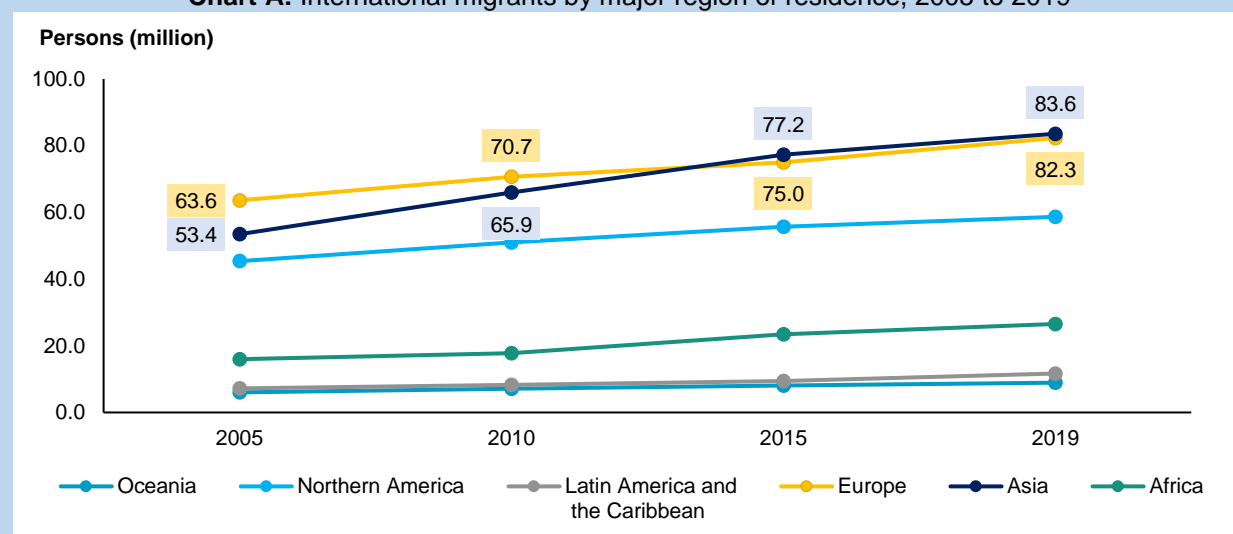
Many countries in the world have opened their international borders to allow immigrations, primarily to support the demand for labours in the countries. However, different countries have different priorities, with certain developed countries employing skilled migrant workers in areas where the countries' local population lack the ability to perform the jobs, while other developing countries employed immigrant from third world countries to perform elementary and semi-skilled tasked due to shortage of local labour supply to fill the demand for these jobs.

International Organization for Migration (IOM, 2011) defined migration as the movement of a person or a group of persons, either across an international border, or within a country. According to International Labour Organization (ILO, 2018a), international migrants are all foreign population and foreign-born population who are usual residents of a given country. ILO (2010) revealed, among the many reasons for migration were prolonged exposures to poverty, wars and famine. In the meantime, World Bank Group (2019) stated the primary motivations for migration encompassed securing higher income through better employment in destination countries; economic and social inequality; demographic imbalances and climate change.

In evaluating the impact of international migration to UK's labour market, Green, Jones & Owen (2007) found that pull-factor of immigration into the country included job opportunities and higher wages. Meanwhile, a study by Darkwah & Verter (2014) found that people migrated out from Nigeria to other countries to seek for better employment opportunities and the economic benefits that ensued.

At the global front, IOM (2019) reported that international migrants made up a share of 3.5 per cent of the global population in 2019, equivalent to 272 million persons, increased by 23 million from 249 million in 2015. Furthermore, United Nations Department of Economic and Social Affairs (UN DESA) through International Migration Report (2019) reported that Europe and Asia hosted the highest number of international migrants, which accounted for 82 million and 83.6 million respectively. This number comprised of 61 per cent of total global international migrants. [Chart A]

Chart A: International migrants by major region of residence, 2005 to 2019

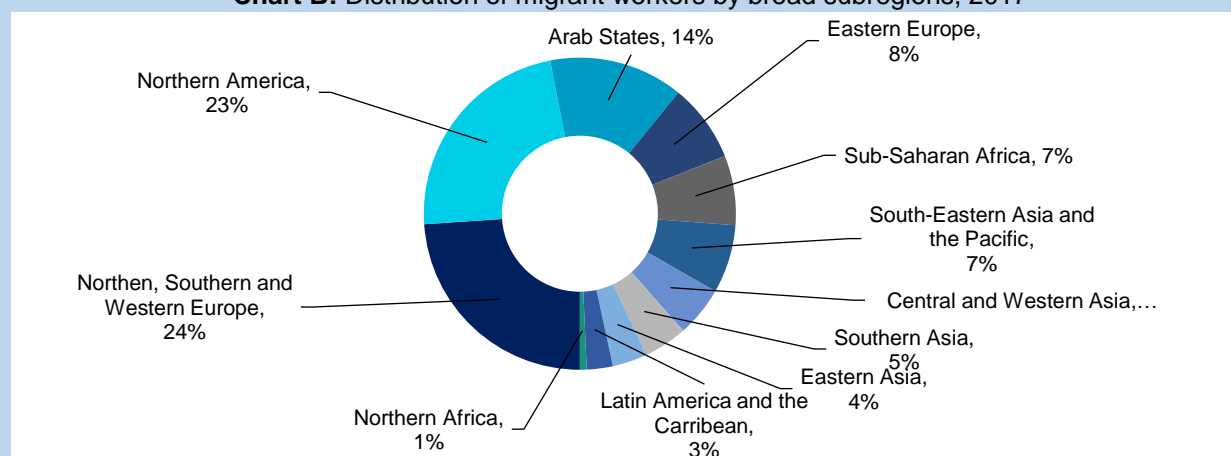


Source: UN DESA, 2019a.

In the meantime, labour migration is defined as the movement of persons from one country to another, or within their own country of residence, for the purpose of employment (IOM, 2011). ILO (2018b) introduced the conceptual definition of international migrant workers to measure the current labour attachment of international migrants in a country, irrespective of the initial purpose of migration, and of others who are not usual residents of the country but have current labour attachment in the country of measurement.

The number of migrant workers as of 2017 were estimated at 164 million worldwide, constituted 4.7 per cent of all workers globally (ILO, 2018b). As illustrated in **Chart B**, the top three sub regions with the highest number of migrant workers were Northern, Southern and Western Europe; Northern America; and the Arab States. These three sub regions made up 61 per cent of the overall migrant workers.

**Chart B:** Distribution of migrant workers by broad subregions, 2017



**Source:** ILO Global Estimates on International Migrant Workers, 2017

Demand of migrant workers varied across countries with most developed countries would usually hire skilled migrants. Desjardins (2019) stated that the top five countries that are the best at attracting and retaining high-skilled workers are Switzerland, Singapore, United Kingdom, United States and Sweden. Nevertheless, in relatively newer countries of destinations, migrant workers tend to occupy blue collar jobs as opposed to white collar jobs (OECD, 2001). Blue collar jobs are defined as jobs that requires manual labour and it usually comprises low-skilled and maintenance jobs as well as requiring specific semi-skilled trades (ILO, 1999). ILO Regional Office for Asia and the Pacific (2021) reported that most migrant workers in ASEAN countries were concentrated in semi-skilled occupations.

The study by Green, Jones, & Owen (2007) on the impact of immigration to the West Midlands in UK found that the number of migrant workers posted a stronger increase in Manufacturing sector as well as specific industries within Services sector such as Social work, Hotels & restaurants, Transportation & storage and Private households. As for occupations, growth was significant in the Elementary clerical & administrative workers, Plant & machine operators and Caring personal service occupations. This study also found that employers perceived hiring migrant in semi and low-skilled jobs to be more cost effective as migrants tend to agree to trade-off lower wages in the absence of experiences and opportunities. According to Abdul-Rahman, Wang, Wood, & Low (2012), similar thoughts was echoed by employers in Malaysia's Construction sectors, whereby migrant workers were preferred due to the fact that their wage rates were much lower than local workers.

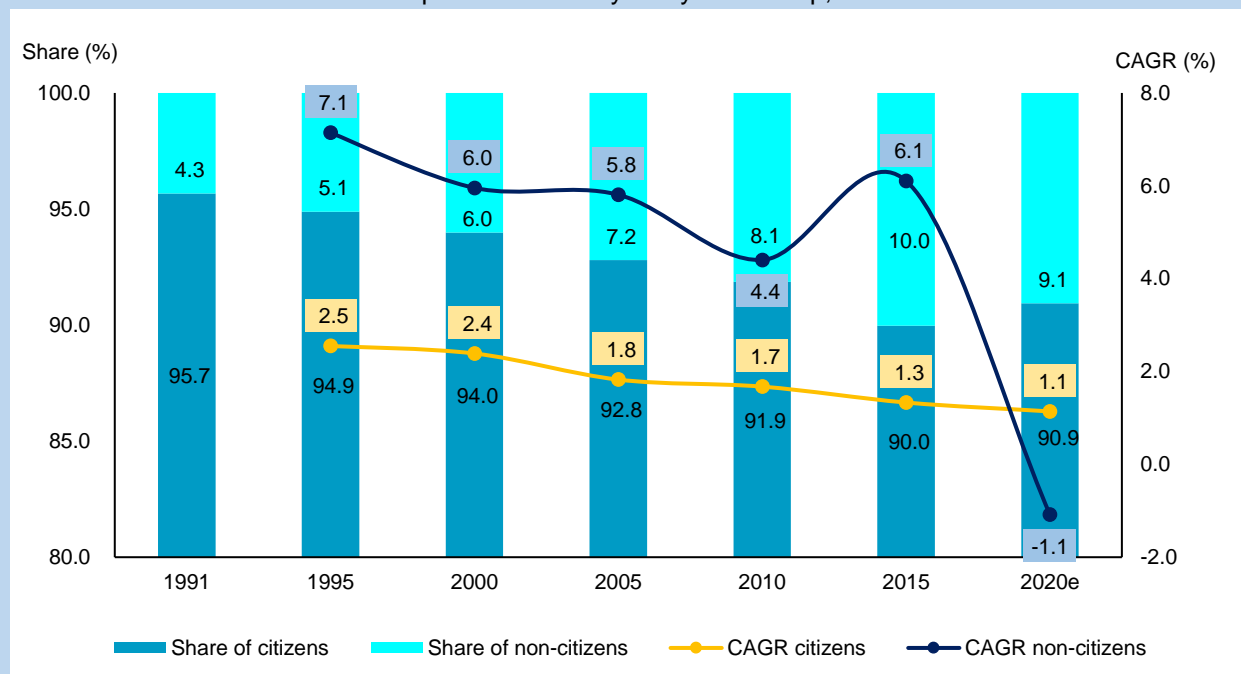
Malaysia as a high middle income nation aspiring to accelerate to a high-income status has been registering an upward economic trend prior to the COVID-19 crisis, primarily driven by the Services and Manufacturing sectors. As more than 97 per cent of the businesses are small, medium and micro enterprises, present labour market structure is still predominantly in semi-

skilled occupations with gradual increase in the skilled segments. From labour migration standpoint, Malaysia is one of the destination countries in Southeast Asia with large numbers of immigrants (ILO, 2017). According to DOSM (2020), noticeable increase was observed in the number of non-citizens' employment in Malaysia in 1996, and since then, the share of non-citizen employments in the country ranged between 10 to 16 per cent. Therefore, this article will review the presence and roles of non-citizen employment in the country's labour market based on the statistics produced by DOSM.

### Labour migration in Malaysia

Changes in population structure are influenced by natural increase due to births and deaths, as well as migration. In 1991, Malaysia's population stood at 18.5 million persons, with the share of non-citizens recorded at 4.3 per cent. Over the years, share of non-citizens had expanded, with a significant increase in 2015 with 10 per cent, equivalent to 3.1 million out of 31.2 million populations. In 2020, the share of non-citizens was 9.1 per cent of total population, accounted for 3.0 million from 32.7 million Malaysia's population (DOSM, 2020b). **[Chart C]**

**Chart C: Population of Malaysia by citizenship, 1991-2020e**

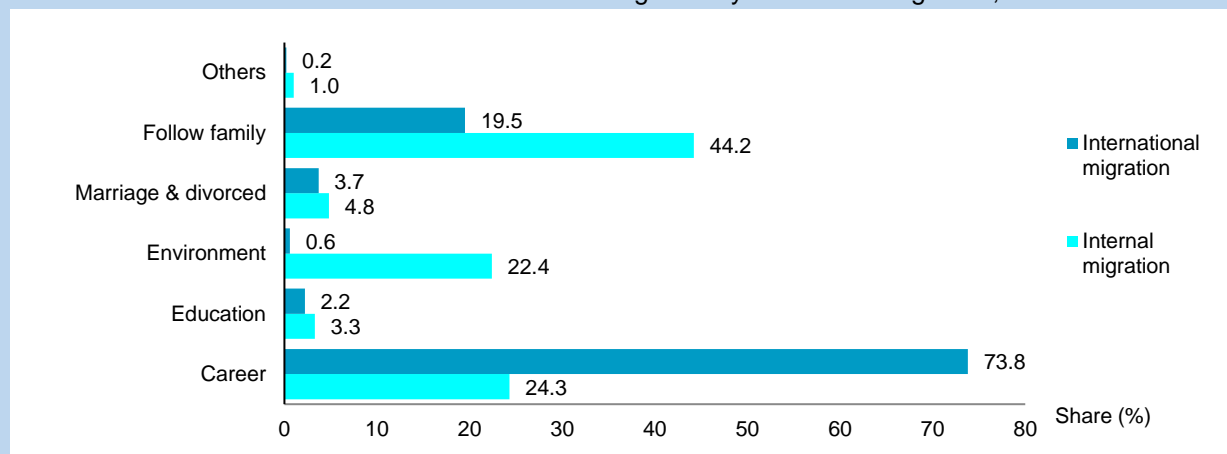


**Source:** Population Census, DOSM and National Registration Department

**Note:** e - estimate; CAGR - Compounded Annual Growth Rate

The decline of non-citizens in 2020 could be partly attributed by international border closures due to the global health crisis of COVID-19. Additionally, this was also due to the implementation of Back for Good (B4G) programme from 1 August to 31 December 2020 as part of the initiative to reduce the number of undocumented immigrants to better manage cost of depot management. According to DOSM (2019a), although there were social and economic reasons that caused migration, 73.8 per cent of international migrants came into Malaysia due to work reasons. The international migrants are defined as those who have moved from other countries to Malaysia for a specific period of one year ago. **[Chart D]**

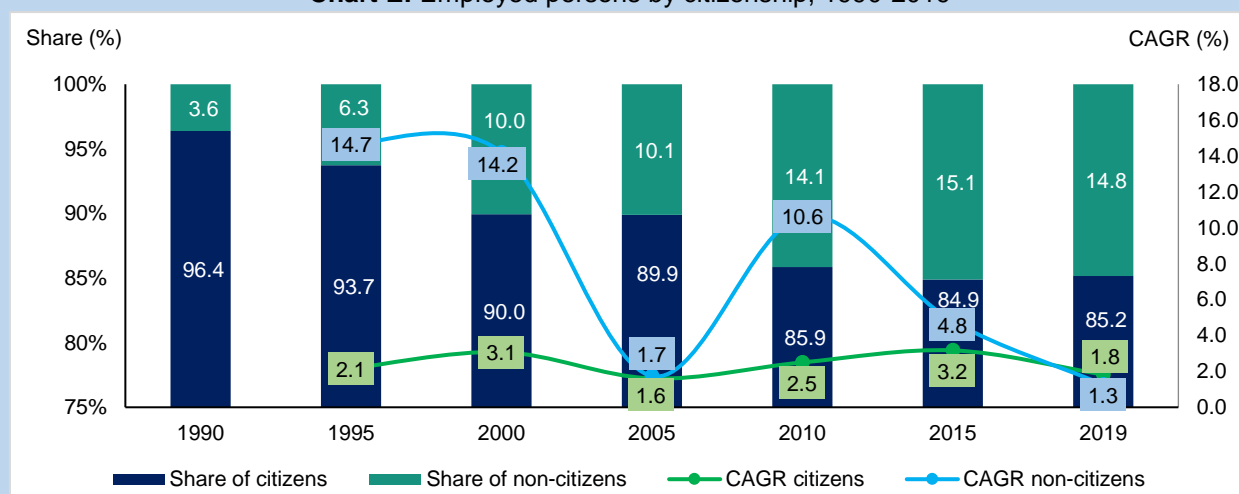
**Chart D: Internal and international migrants by reasons of migration, 2018**



Source: Migration Survey Report, 2018, DOSM

Observing the employment situation, in 2019, non-citizen employed persons was 2.2 million persons, comprising a share of 14.8 per cent of total employed persons. Since the last five decades, non-citizen employed persons grew by nearly 10 times as compared to 242 thousand comprising a share of 3.6 per cent in 1990. The annual growth rate of non-citizen employed persons were higher compared to citizens, with the highest rate recorded for the period of 1995 to 2000 (DOSM, 2020) as illustrated in **Chart E**. In addition, according to statistics on Temporary Work Visit Pass from Ministry of Home Affairs (MOHA, 2021), the number of foreign workers in the country was 2.0 million as of 30 June 2020. This number increase by 600,000 from 1.4 million workers in 2011.

**Chart E: Employed persons by citizenship, 1990-2019**

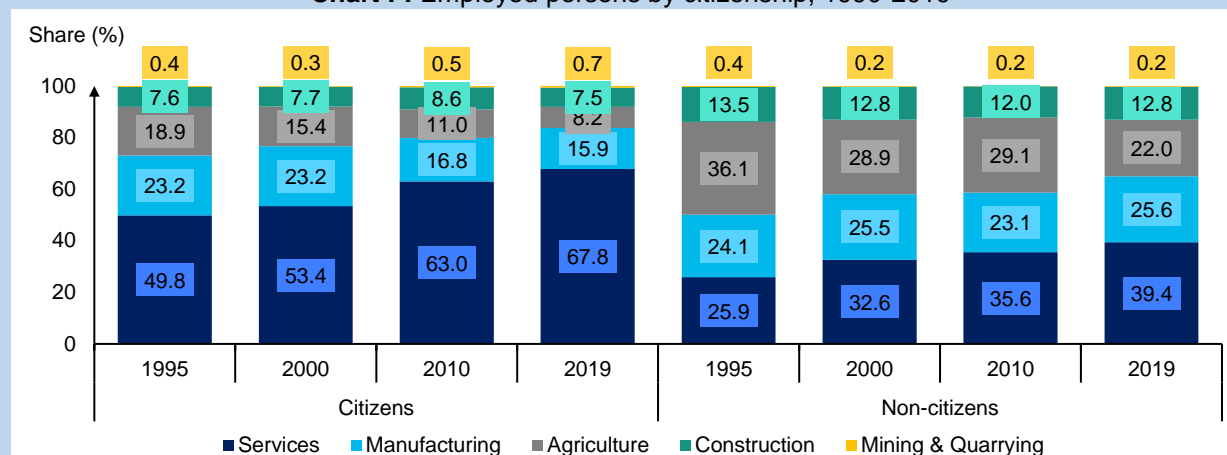


Source: Labour Force Survey, selected years, DOSM

Note: CAGR - Compounded Annual Growth Rate

In 1995, the share of non-citizens employment was concentrated in Agriculture sector, comprising of 36.1 per cent, followed by 25.9 per cent in the Services sector. In line with the changes in the economic structure with more emphasis given to increase the value added of the Services sector, the share of employed non-citizens in the sector overtook the Agriculture sector, accounting for 32.6 percent in the year 2000. In 2019, the share of employed non-citizens in Services sector encompassed 39.4 per cent, followed by Manufacturing sector with 25.6 per cent and Agriculture sector at 22.0 percent. The share of employed non-citizens in Manufacturing and Construction sector remained consistent throughout the years. In the meantime, a gradual decline in the share of employed non-citizens is observed in the Agriculture sector. **[Chart F]**

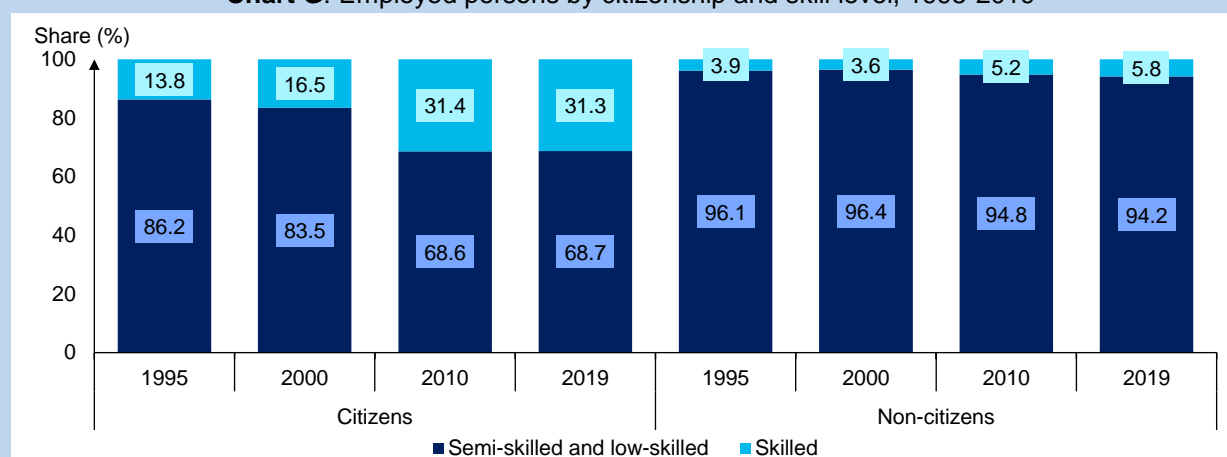
**Chart F: Employed persons by citizenship, 1990-2019**



**Source:** Authors' calculations based on Labour Force Survey, selected years, DOSM

In terms of skill category, it was recorded more than 90 per cent of non-citizen workers were in semi-skilled and low-skilled categories since 1995. This share increase gradually until 2010 although there was slight decrease by 0.6 percentage points in 2019. After experiencing economic downturn in 2009, the resumption of economy was mainly driven by the private sector activity (Bank Negara Malaysia, 2011). Thus, this resulted the increase in share of skilled non-citizen workers in 2010 onwards. **[Chart G]** Additionally, based on the number of expatriates by Immigration Department of Malaysia (2021), there were 122,869 of expatriates in 2019.

**Chart G: Employed persons by citizenship and skill level, 1995-2019**



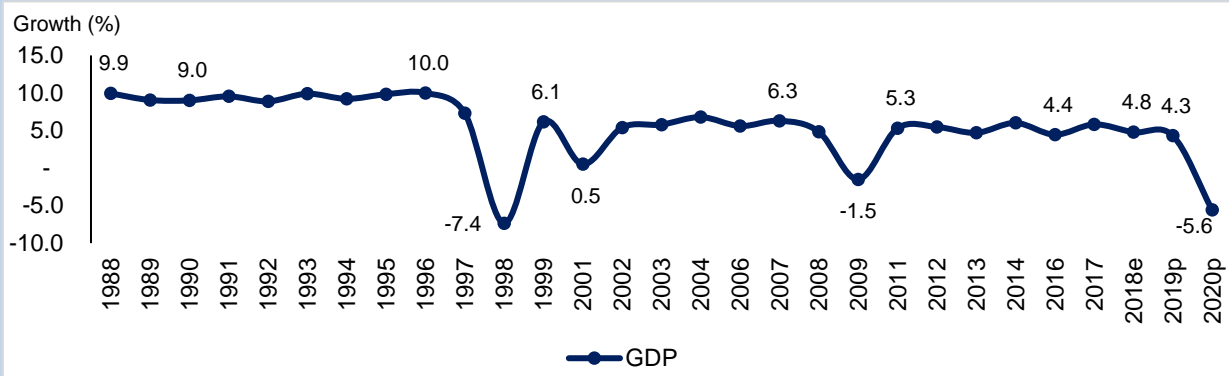
**Source:** Authors' calculations based on Labour Force Survey, selected years, DOSM

From the perspective of economic activities, referring to Employment and Salaries & Wages Statistics 2016 (DOSM, 2017), most of the Malaysian non-citizen workers were concentrated in Manufacturing sector in 2015 with 38.3 per cent. These workers were largely in manufacture of electrical, electronic and optical products followed by manufacture of petroleum, chemical, rubber and plastic products and manufacture of wood products, furniture, paper products and printing subsectors. Meanwhile, non-citizen workers in Construction and Agriculture sectors comprised of 32.3 and 17.3 per cent respectively.

Looking at the Malaysia's economy performance, within the last six decades, Malaysia has experienced economic transformation from high reliance to primary industry involving commodities throughout 1960s to 1970s, moving to driven by secondary industry encompassing construction, manufacturing and mining & quarrying in 1980's and 1990s; with continuous effort to increase reliance to tertiary industry namely the Services sector, especially in the high value-added sub-sectors. Between 1988 to 1997, Malaysia recorded strong economic growth surpassing 7 per cent, with the highest increase posted in 1996 at 10.0 per cent (DOSM, 2020).

The influx of foreign workers in 1990s and 2000s could be due to the continuous economic reform initiatives. After a sharp downturn in 1998 due to Asian Financial Crisis, gross domestic product rebounded by 6.1 per cent and sustained a positive growth except for decline of 1.5 per cent in 2009 because of the Global Financial Crisis, and a drastic fall of 5.6 per cent in 2020 due to COVID-19. [Chart H]

**Chart H: Gross domestic products by sectors at constant price, 1988-2020p**

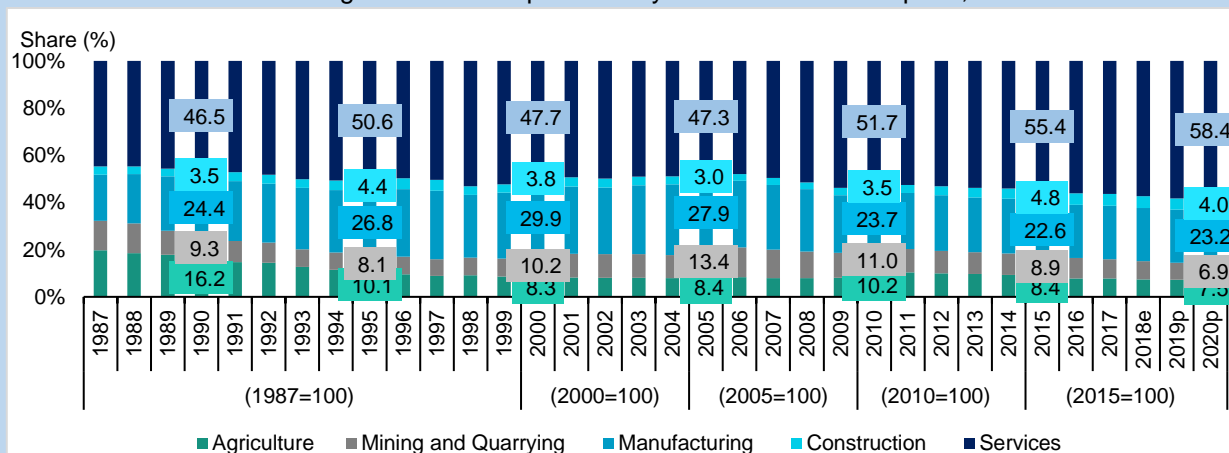


**Source:** Time Series of National Account, DOSM  
**Notes:** e - estimate; p – preliminary

By economic sector, the value added of the Manufacturing sector consistently posted double digit growth in the 1990s. The share of value added of Manufacturing sector increased from 24.4 per cent in 1990 to 23.2 per cent in 2020. Reform strategies of the Manufacturing sector has shown its effectiveness as foreign investment to the sector increased from RM 2.1 billion in 1987 to RM17.6 billion in 1990, where investment from Japan, Taiwan, South Korea and Hong Kong were expanded as a result of fiscal incentives to promote manufacturing activities (Kanapathy, 2001). In addition, the increase in the share of value added for the sector was also attributed by continuous progress in export-oriented industry coupled with efforts to increase production efficiency.

Strong increase of value added for the Construction sector was also observed due to implementation of numerous mega projects of civil, residential and non-residential construction activities within the period of 1990's to early 2000s (Khan, Liew & Ghazali, 2014). Among the mega projects that were undertaken during this period were Petronas Twin Towers, Kuala Lumpur International Airport; North South Expressway; Maju Express Way; Penang Bridge; Strom Water Management and Road Tunnels; Commonwealth Games Village; Pavilion and Bangsar Apartments; and Prince Court Medical Centre. [Chart I]

**Chart I: Share of gross domestic products by sectors at constant price, 1987-2020p**



**Source:** Time Series of National Account, DOSM  
**Notes:** 1. e - estimate; p - preliminary  
 2. Calculation of share exclude import duty



With the reform in economic structure as well as concerted efforts to expand the economy, had resulted in rising demand for labour to occupy the available jobs. Subsequently, coupled with rapid improvements in education system, this has caused shortages among citizens to fulfil the demand for low-skilled occupations in agriculture, construction and rudimentary jobs in manufacturing. Thus, the excess demand of low-skilled jobs had been fulfilled by the foreign workers from various countries. Due to the similarities in language, cultural and religion, Indonesian migrant workers were among the first to fill in the labour shortage (Kaur, 2010). Besides, Malaysia also signed agreement with Indonesia, Philippines, Bangladesh and Thailand so that Malaysia's employers could legally recruit workers from these countries (Kaur, 2010; World Bank, 1995).

## **Discussion and Conclusion**

Labour migration is expected to raise competition when migrant workers substitutes local workers. It is also foreseen that the substitutions would lead to the declining wages as migrants are usually willing to accept lower wages. However, should the skills of migrants be complementary to those of local workers, this will increase the efficiency and productivity of industries, and subsequently would benefit workers in terms of higher salaries and wages. Furthermore, local workers in low-skilled occupations might face more competition from migrants because the skills needed for those jobs are easier to acquire and are less specialised. On the other hand, with the increasing number of migrants which translated into the rise of population and subsequently expanding consumer demand for goods and services. Thus, with the increasing demand, it will create more jobs as the businesses may increase production.

Looking at the positive side of migration especially for employment, it gives benefits to both parties, countries of origin and countries of destination. For example, migrant workers contribute to the development of the countries destination while the countries of origin will advantage from the skills and experiences they acquired during the migration period.

Moving forward, there are plans for Malaysia to only allow foreign workers in three sectors namely construction, plantation and agriculture (Idris, 2020). In addition, the other sectors that currently use migrant labours will be required to employ locals instead. Under Budget 2020, government established a program to develop human capital and reduce Malaysia's reliance on low-skilled foreign workers as the country shifts toward a digital economy. The incentives provided through the initiative were expected to help jobless Malaysians become self-reliant workers who could contribute to the labour market (Azmi, 2019).

As of now, under PenjanaKerjaya Incentive (Hiring Incentive), government has provided a special incentive for sectors with a high reliance on foreign workers such as construction and plantations. The incentive consists of providing 60 per cent of monthly wages whereby 40 per cent will be channelled to the employer while 20 per cent will be channelled as a wage top up to the local worker replacing the foreign worker.

Moving forward, adoption of automation and digitalisation were seen to drive the Industrial Revolution 4.0. This will change the workplace and labour market where employees will interact more with the technologies machines such as Artificial Intelligence (AI). This human-machine interaction technology will give benefits in the form of higher productivity and improve the economic performance. Thus, demanded skills such as in technological and digital will raise which required workers to enhance their existing skills or acquire new ones. This may also result to less reliance on low skilled foreign labour and improving local workers' skills.

## **Disclaimer**

The views expressed are those of the authors and do not necessarily represent the view of the DOSM.

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