

Impact of the Economic Crisis on International Migration in Asia a Year After: Country Report for Malaysia*

Vijayakumari Kanapathy
Independent Consultant

1. Introduction

The paper provides an overview of Malaysia's economic performance in the aftermath of the recent global financial crisis and examines its effects on international labour migration. Malaysia is both a labour sending and labour receiving nation, but in terms of magnitude, it is a relatively large destination country for foreign labour, especially low and semi-skilled foreign labour. As such, its foreign worker policies have been heavily skewed towards limiting the inflow of low-skilled foreign workers following the economic downturn. The paper traces the recent policy responses to control and manage the reliance on low-skilled foreign labour and the implications of these measures for labour migration in Malaysia.

2. Recent Economic Developments

The Malaysian economy posted a growth of 4.5 per cent in the fourth quarter of 2009, following three consecutive quarters of contraction (Chart 1). As a result, the economy contracted by only 1.7 per cent in 2009 (Table 1). This is far lower than the 3.0 to 4.0 per cent decline that was estimated by public and private forecasts. The economic turnaround was largely due to two fiscal stimulus programmes¹ that led to an expansion in domestic demand by 3.0 per cent, both private and public. Growth was also supported by improved external demand, especially from regional economies that

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¹ The first fiscal stimulus of USD 1.93 billion was launched in November 30 2008, while the second was launched in March 2009 amounting to USD 16.2 billion.

Chart 1
GDP, CPI & The Rate of Unemployment (% Annual Change)

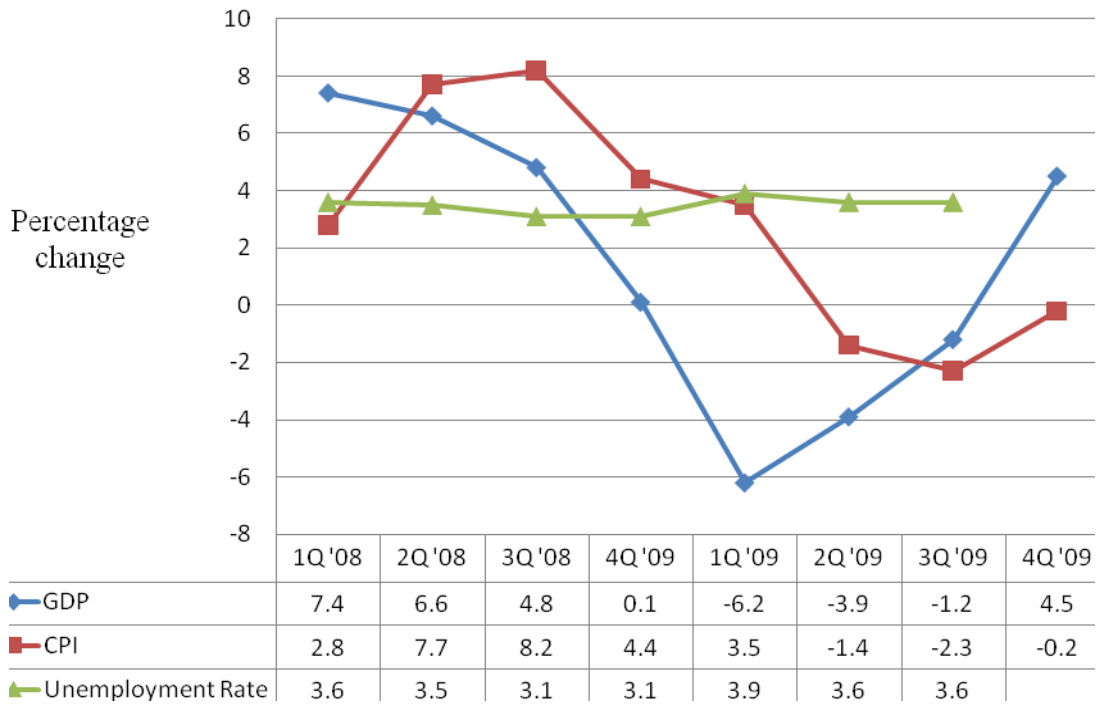


Chart 2
Exports, Imports & Domestic Demand (% Annual Change)

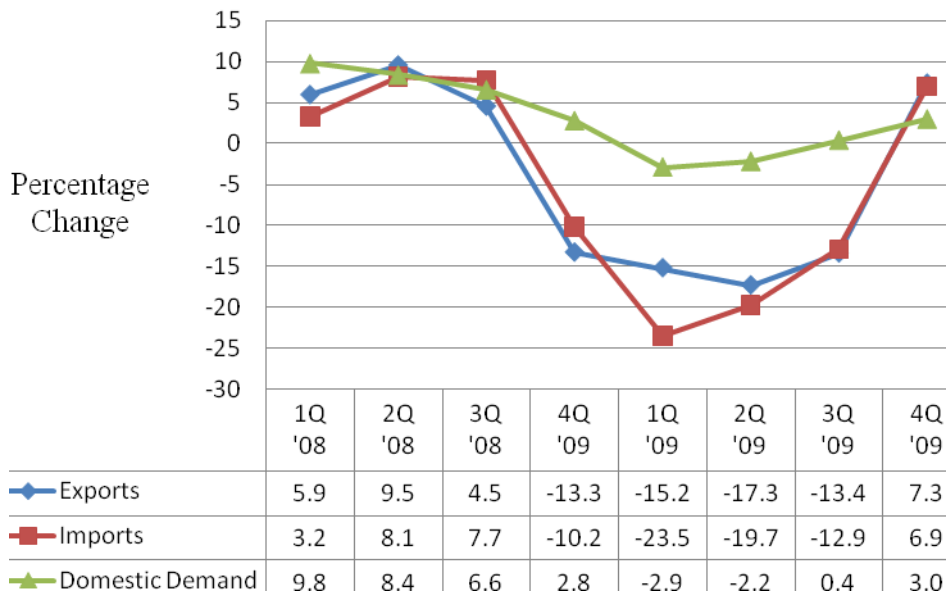


Table 1
Malaysia: Principal Economic Indicators, 2006-2010

	2006	2007	2008	2009 ^e	2010 ^f
GDP (%)	5.8	6.3	4.6	-1.7	5.0
CPI (%)	3.6	2.0	5.4	1.3	-
Labour Force ('000)	11,545	11,775	11,968	12,061	-
Change in Labour Force (%)	2.2	2.0	1.6	0.8	-
					4.0
Total Employed ('000)	11,159	11,398	11,577	11,585	-
Change in Employment (%)	2.2	2.0	1.6	0.07	-
Unemployment Rate (%)	3.3	3.2	3.3	3.9	-
Retrenchment (nos.) [*]	15,360	14,035	13,851	25,064	-
New Vacancies (nos.) ⁺	834,675	825,182	1,058,980	1,546,347	-
Registered Job-Seekers (nos.)	119,135	131,928	178,621	369,799	-

Notes: e – estimate

f – forecast

* Since 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/.

+ The number of job vacancies could be under-reported as it is not compulsory for firms to report vacancies to the Manpower Department.

likewise recovered from the global financial crisis, as well as stronger commodity prices. There was strong external demand, especially for electrical and electronics products, which saw total exports growing by 7.3 per cent in the last quarter of 2009, after four consecutive quarters of contraction (Chart 2). From the supply side, with the exception of mining, all other sectors recorded positive growth. The mining sector contracted due to the decline in the output of crude oil. The economy is expected to gain momentum and grow at 5.0 per cent in 2010 as the global economy rebounds (Table 1).

With economic recovery, labour market conditions have improved. Unemployment has fallen from 3.9 in the first quarter of 2009 to stabilise at 3.6 per cent. This is much lower than the earlier estimate of 4.9 per cent for 2009. The unemployment rate has remained stable as the brunt of the recession has largely been borne by foreign workers. Permits for many foreign workers were not renewed following the economic slowdown and as a result their total number fell from 2.1 million as at the end of 2008 to 1.9 million as at January 2009. Though the total number retrenched in 2009 was almost twice that in 2008, the number retrenched continued to decline from 12,590 in the first quarter of 2009 to 2,125 in the last quarter of 2009 (Monthly Statistical Bulletin, Bank Negara Malaysia, January 2010). Total vacancies posted in the JobsMalaysia portal increased in the last quarter of 2009 supported by increased capacity utilisation and sales order expansion especially in the electronics sector that started rehiring workers.

While the short-term economic activity has gained momentum, serious concerns have been expressed with respect to the medium and longer-term growth prospects for the country. Growth in the last decade has been relatively weak and Malaysia is seen to be trapped in a low-value-added, low-wage and low-productivity structure. As a result a new development strategy is to be announced as part of the Tenth Malaysian Plan 2011-2015 and the New Economic Model. The new growth strategy is expected to transform the deeply-entrenched economic and social policies that deter the drive towards a competitive and sustainable growth.

The New Economic Model (NEM) has risen essentially out of concerns that Malaysia has been caught in the middle-income trap, unable to compete either with the more advanced high-income countries or the less-advanced labour surplus developing economies. The fundamental concept of the New Model is to transform Malaysia into a high income economy, shift reliance from a manufacturing base dependent on semi-skilled and low-cost labour to one that hinges on high technology and modern services sectors employing skilled and highly paid workers. The underlying principle of the

NEM is to make the economy more market driven by gradually dismantling the long-established subsidy and quota system. As a result there has been strong opposition from interest groups. The announcement of the NEM was postponed twice. Finally, the first stage of the NEM was revealed in at the end of March, while the second is to be announced later in the year. It remains to be seen if policy makers have the political resolve to undertake serious structural reforms and fundamental policy changes to revitalise the economy.

The underlying growth strategy of the New Economic Model (NEM) has important implications for foreign workers. It has been argued by policy makers and analysts alike that the large presence of low-skill foreign labour has suppressed wages and trapped the economy in low-skill low-wage equilibrium. Therefore a key component of the new growth strategy is to reduce the dependence on low-skill foreign labour. Even prior to the official announcement of the NEM, several new measures were introduced to further streamline the implementation of foreign worker management policies and to scale down dependence on the low-skilled foreign workers. Past experiences have shown that too drastic an action to reduce foreign worker dependence has adversely effected production in many sectors. Thus measures to cutback dependency on foreign workers are being carried out cautiously so as not to disrupt economic growth and employment of local workers.

3. Policy Measures to Reduce Foreign Labour Dependency

In response to the global financial crisis, a number of measures were announced in 2008 to scale back on the number of foreign workers in the country. These include:

- (i) Termination of foreign workers first in the event of retrenchment;
- (ii) Fast-track the deportation of undocumented migrants;
- (iii) Regularize undocumented workers; and
- (iv) Introduce measures to reduce longer-term foreign labour dependence.

The initial plan to impose a temporary freeze on the intake of new foreign workers was revoked as employers in some sectors complained of difficulties in hiring local

workers. In general there was no blanket freeze on the recruitment of foreign workers, but work permits were issued "on a case by case basis" for selected occupations in the plantation, construction sectors and services sectors. However, the policy to freeze the intake of workers from Bangladesh was sustained². Measures are also directed at reducing demand for low-skilled workers. Some of the measures include self-service in sectors like restaurant, petrol station and mini market, and use of the integrated building system by up to 70 per cent in all government construction projects.

However as the economy picked up in the last quarter of 2009, a total of 98,916 new visas were issued to foreign workers as of March 11 2010. The new approvals were largely for the critical export industries such as electronic subsectors (54,844), furniture (17,033, plastics (11,044), gloves (10,430) and textiles (5,655) industries. Though there was recognition that foreign workers were required to sustain the profitability and competitiveness of some export sectors, the government is in the process of revamping the system of hiring low-skilled foreign workers and encouraging employers to hire local job-seekers with better pay and working conditions. Some of the new measures announced in 2009 include the following.

(i) Foreign Worker Levy to be Borne by Employers

The foreign worker levy³ was to be entirely borne by employers with effect from April 2009 as a move to discourage employers from employing foreign workers. Prior to this, employers were allowed to pay the levy upfront and later make monthly deductions from their workers' salaries.

² The government froze the intake of Bangladeshi workers in October 2007 due to social reasons. The first freeze on Bangladeshi workers was imposed in 1999.

³ The levy, paid annually, varies from sector to sector, with RM1,200 per foreign worker for the manufacturing and construction sector, RM1,800 for restaurant and RM360 for maids

(ii) Doubling of Levy

A decision to double the levy was announced in March 2009⁴, but two months later the decision was postponed following pressure from employers who complained of difficulties in coping with the economic slowdown.

(iii) Restrictions on Outsourcing Companies

Stricter measures were imposed on outsourcing companies to ensure that they do not bring excess labour. Currently, there are 266 registered outsourcing companies dealing in foreign labour. Outsourcing companies were now only allowed to bring in foreign workers to fill in existing vacancies. Previously permits were issued on the strength of letters from local manufacturers and industries requesting workers. There was no proper vetting by the various authorities that determine the number of work permits issued to foreign workers. This system had resulted in excess workers being brought into the country and those without secure employment were abandoned by their outsourcing agents. Outsourcing companies came under the jurisdiction of the Ministry of Home Affairs, but they were now required to comply with the Ministry of Human Resources' Job Clearing System where employers with vacancies could register, justify why they need the foreign workers and also state the duration of the employment contract.

(iv) Allowing Refugees to Work

The government is currently re-examining the feasibility of allowing refugees in the country to work. According to the United Nations High Commissioner for Refugees (UNHCR), Malaysia hosts some 90,000 refugees. The move is also supported by the trade unions that contend that such a measure would allow refugees to financially support themselves.

⁴ In the mini-budget announcement in March 2009, foreign workers, except for those in the plantation, construction and domestic sectors, would have their levy doubled from RM1,800 per year currently.

(v) Encouraging Local Job-Seekers to Take on Jobs by Foreigners

The government has announced a series of measures to encourage local job-seekers to take on selected occupations currently held by foreigners. It is believed that it is easier to replace foreign workers with local job-seekers in urban services occupations such as security guards and restaurant workers than in the plantation or construction sectors. Apart from skills training, the government is in the process of announcing statutory minimum wages in selected services sectors. For instance, a national minimum wage for security guards was announced in April, 2010, while the Wage Councils are in the process of formulating minimum wages for the hospitality, electronic and textile sectors. In addition, security-service firms that currently hire foreign workers have been asked to employ personnel from the Peoples Volunteers Corps (Rela) to reduce the number of foreigners employed as security guards. Foreign workers are also prohibited to work in the frontline sectors.

Coordinate and Streamline Foreign Worker Policies

There are on-going efforts to coordinate and streamline the functions and responsibilities of various ministries and agencies involved in the management of foreign labour. The Ministry of Home Affairs has set up a foreign workers management laboratory that will operate from March 23 to April 23 to address four key areas on foreign labour management. The four areas include: legislation, checks on entry procedures, monitoring mechanism and information system, and tightening of enforcement strategies. Its members include 14 ministries and 11 departments and agencies as well as 33 organisations that will serve as syndicated partners. The laboratory will serve as a platform to discuss issues and find strategies to improve the management of foreign workers in the country (Bernama News Agency, March 18 2010).

Five-Year Ceiling on Foreign Workers

The government has introduced a five-year ceiling on foreign workers, with the exception of domestic workers, staying in the country to reduce dependence. After five years, the workers would have to submit a fresh application if they still wanted to work in Malaysia and this would be treated as a new application. Only those with certified skills were considered for rehiring.

(vi) Enhanced Surveillance

The government had announced a nationwide crackdown on undocumented workers scheduled for February 15 2010, but the operation was deferred. The Home Ministry recently reiterated its plans to carry out nationwide surveillance of work places to ensure employers comply with the labour and immigration requirements for foreign workers. The operations are to be carried out jointly by the Labour, Immigration and Police Departments and the local authorities to check for human trafficking activities as well as to ensure foreign workers are not exploited.

These additional measures, many of which are still on-going, are not purely a response to the economic slowdown but rather part and parcel of the nation's new growth strategy

4. Number of Foreign Workers in Malaysia

The number of foreign workers in the country has gradually declined from a peak of about 2.1 million registered workers in the country as at December 2008 (Table 2) to 1.8 million as at December, 2009. About 200,000 of them were repatriated to their home country upon expiry of their work permits. About 39.0 per cent were employed in manufacturing, followed by plantation (14.0 per cent), construction (19.0 per cent), services (10.0 per cent) and domestic workers (12.0 per cent). The remainder 6.0 per cent were employed in agriculture. The main sending country was Indonesia (50.9 per cent), followed by Bangladesh (17.4 per cent), Nepal (9.7 per cent), Myanmar (7.8 per

cent and India (6.3 per cent). Based on estimates reported by the Minister of Home Affairs, there are about 1.5 million undocumented migrants in the country (Bernama News Agency, December 10, 2009). In other words, the total number of migrants (documented and undocumented) at the end of 2009 was around 3.3 million or about 28 per cent of total employed.

In addition to low-skilled workers, there were a total of 33,601 expatriates or skilled workers mainly from India (18.8 per cent) and China (8.6 per cent). The majority were employed in the services sector (70.5 per cent), while the rest were mainly in manufacturing (24.0 per cent) (Economic Report, 2009/2010, p. 78).

Table 2

Foreign Workers with Work Permits by Sector, 2000-2008 (%)

	Agriculture & Plantation	Construction	Manufacturing	Services	Domestic Workers	Total	Number
2000	24.8	8.5	38.1	6.7	22.0	100.0	807,096
2001	26.2	7.5	36.8	6.6	22.9	100.0	849,829
2002	28.2	14.1	30.6	6.1	22.0	100.0	1,057,156
2003	28.3	20.4	31.1	6.9	21.2	100.0	1,239,862
2004	26.2	15.7	32.4	6.3	19.4	100.0	1,470,090
2005	26.0	15.5	32.0	8.8	17.6	100.0	1,815,238
2006	25.5	14.3	34.6	8.9	16.6	100.0	1,869,209
2007	24.6	14.4	35.9	9.8	15.4	100.0	2,044,805
2008	25.3	14.9	35.3	10.3	14.2	100.0	2,062,596

Source: Department of Immigration (unpublished)

The fall in the number of low-skilled foreign workers has been attributed to the various measures adopted by the government such as stricter enforcement of regulations, curtailing new intake of foreign labour, giving top priority to locals, improving work conditions in factories to attract locals and freezing licences to foreign labour outsourcing companies. Even if permission were given to hire foreigners, they had to strictly comply with another regulation, which was to maintain the ratio between locals and foreigners. A new quota system has been introduced, where for the manufacturing sector dealing in exports it is two foreigners to one local and one local to one foreigner for all other sectors. (Bernama News Agency, August 28 2009)

In addition the Indonesian government has imposed a freeze on the sending of domestic workers to Malaysia pending the signing of a revised MOU⁵, which seeks better protection for both maids and employers. While four main outstanding issues, namely one day off per week, insurance coverage, improving the standard employment contract, and monthly or regular salary payments were agreed upon at the July 14 2009 meeting, the issue with respect to minimum wages has yet to be resolved. The Indonesian government wants a minimum salary set at RM800 a month, while Malaysia wants a market-driven wage policy for foreign workers. Currently, there are some 280,000 foreign maids working in Malaysia of which Indonesians make up more than 90%, 15,000 are from the Philippines and between 1,000 and 2,000 each from Thailand, Myanmar, Vietnam and Cambodia.

To reduce the incidence of undocumented workers, the Immigration Department together with the police and RELA (Peoples' Volunteer Corps) continued to

⁵ Indonesian and Malaysian officials signed a Memorandum of Understanding (MoU) on domestic workers in 2006.

crackdown on unauthorised entry and employment. In 2009, the Immigration Department carried out a total of 7,099 operations nationwide with 47,310 arrests made. This included 26,545 cases of illegal entry, 8,655 cases of overstaying, 6,836 cases of violating pass/permit regulations, 669 cases of owning or utilising fake passes or permits, and another 4,605 cases involving various other irregularities (Table 3).

Table 3
Number of Arrests of Foreigners by Type of Violation, 2009

Number of Operations	7,009
Number of Arrests	47,310
Illegal entry	26,545
Overstaying	8,655
Violation of pass/permit	6,836
Fake pass/permit	699
Other irregularities	4,605

Source: Ministry of Home Affairs (unpublished)

5. Situation in Sabah

A special amnesty was granted to undocumented foreign workers in Sabah to register themselves. The approach was taken to protect the interest of the plantation sectors in Sabah. Sabah is the main palm oil producing state in the country with its total oil palm planted area amounting to 1.33 million hectares or 30.0 percent of the country's total oil palm planted area. Following the registration exercise, a total of 610,614 foreigners have been enumerated as working in Sabah. This included 5,643 illegal immigrants identified under the first phase of Operasi Bersepadu, 4,425 illegal immigrants identified under the second phase of the same operations, 312,837 under the registration of undocumented workers and their dependents, 57,197 refugees and 230,000 foreign workers with valid permits. The foreign-worker levy in Sabah was reduced by 50 per cent from July 1 to end of 2009.

6. Number of Malaysians Abroad

Though Malaysia has experienced brain drain from as early as the 1960s, the phenomenon appears to be on the rise in recent years. According to a recent parliamentary report, 139,696 Malaysians left the country in 2007. Between March 2008 and August 2009, the figure more than doubled to 304,358. It included an estimated 50,000 students who left to study abroad during that period. The estimate is based on only those who had registered with Malaysia's representative offices abroad and therefore represent an underestimate of the actual number of Malaysians abroad. Among the factors stated for their migration include education, brighter career or business prospects as well following their spouses for Malaysians who married foreigners. Though traditionally ethnic Chinese and Indians formed the majority of those emigrating, recent trends show that increasing numbers of Malays have emigrated as well. About 40.0 per cent of Malaysian emigrants were bound for Singapore.

Policy measures have also been introduced since the mid-1990s to ensure ample supply of skilled labour. The latest policy measure includes attractive tax incentives introduced in the last National Budget. Malaysian and foreign knowledge workers engaged in promoted activities in Iskandar Malaysia, the designated south region economic corridor, will enjoy a 15 per cent income tax rate on their employment income, compared to those in other areas who are imposed the normal staggered rates of up to 26 per cent (a reduction in the 2010 Budget from 27 per cent previously). The incentive was aimed at attracting local and foreign talents to spur development in Iskandar Malaysia in qualifying activities such as green technology, biotechnology, educational services, healthcare, creative industries, financial advisory and consultancy services as well as logistic services and tourism. Knowledge workers in the identified fields who apply for and start their employment in Iskandar Malaysia between 24 Oct 2009 (Budget Day) and 31 December 2015 will be eligible for the new income tax rate.

7. Remittances by Foreign Labour

Total remittances by foreign labour in Malaysia has increased marginally from RM23.2 billion in 2006 to RM24.1 billion in 2008 (Table 4). Despite the economic slowdown in 2009, total remittances have remained relatively stable at RM19.8 billion for the first nine months of 2009. On the average, given the relatively large number of low-skilled foreign workers, they remitted more than three times that sent by high-skilled workers.

Table 4

Remittances by Foreign Labour, 2008 & 2009 (Ringgit million)

	2006	2007	2008	2009*
Expatriates	5,313	5,972	5,152	4,062
Low and semi-skilled labour	17,889	17,187	18,905	15,760
Total	23,202	23,159	24,057	19,822
As a % of GDP at purchasers' value	4.0	3.6	3.3	-

Note: * Jan to Sept 2009

Source: Bank Negara Malaysia, Monthly Statistical Bulletin, January 2010

8. Agencies Providing Services to Foreign Workers

As Malaysian law prohibits foreigners from forming their own organizations, currently there are no migrant run agencies to assist migrant workers. Foreign-based assistance for migrants in Malaysia is largely restricted to those established within foreign embassies. A few foreign embassies provide assistance to its nationals working in Malaysia that go beyond visa/work permit related matters. Of these, the most active is the services provided by the Philippines Embassy that offers a wide range of services to its migrant workers. These include conciliation services where

workers can lodge complaints against employers or agencies, counselling and advisory services on legal and technical matters, as well as skills training programmes for Overseas Filipino Workers (OFWs).

The Embassy runs the Filipino Workers' Resource Centre (FWRC) in Kuala Lumpur that provides shelter and assistance to Overseas Filipino Workers (OFWs) having problems with their employment here. As of January 14th 2009, a total of 71 Filipino workers – nearly half of them men – were housed at the Centre. The major complaints by migrants include excessive placement charges by the Philippine and Malaysian agents (P 60,000), substituting new contracts to supplant those that previously met Philippine government standards. Other violations include unscheduled salary deductions and being made to work 12-hour shifts while getting paid for only 8 hours, not to mention threats and other acts of harassment at the work place (<http://www.philembassykl.or.my>)

The Indonesian Embassy also runs a shelter for its workers and provides counselling and conciliations services. However, given the large presence of Indonesian migrant workers in Malaysia and limited resources, it has difficulties coping with the huge demand for its services. Likewise, the Bangladesh Embassy has a labour attache' to provide counselling and conciliation services to its workers in Malaysia.

Apart from the embassies, there are a number of Malaysian NGOs that provide services for migrant workers, especially for foreign domestic workers. These are not exclusively migrant-focused organizations, but they assist migrants as part of their larger mandate to protect basic human rights, women's rights or labour rights. Of these, Tenaganita, set up in 1991, is the most active NGO that provides a comprehensive programme for migrant workers that include counselling, legal aid, advocacy and education. Up till 2009, it had received about 5,600 reports from foreign workers who claimed they did not receive their wages, were subject to unknown

deductions and were not issued with salary slips (Malay Mail, March 15 2010). The Women's Aid Organization (WAO) established in 1982 also provides counselling services as well as provides shelter to abused domestic workers as well as trafficked women. SUARAM, a human rights-based organization formed in 1989, also carries out advocacy activities for migrant workers.

The Malaysian Trade Union Congress (MTUC) since the late 1980s has been providing assistance to migrant workers. It carries out advocacy activities through workshops, organising and participating in international seminars as well as representing migrant workers at the Labour Department, usually with respect to non-payment of wages. Currently, it has two full-time officers helping domestic workers in the main, as part of a project supported by the Dutch union FNV (Federatie Nederlandse Vakbeweging). For the past two years MTUC has also been involved in another project for all migrant workers with funding from the Swedish Trade unions LO-TCO (Landsorganisationen –Tjanstemannens Centralorganisation). The majority of them approached MTUC with the problems related to wages

9. Conclusion

Aggressive fiscal and monetary policies as well as export recovery have helped to avert a prolonged and deep economic downturn. With economic recovery, the labour market has improved and demand for foreign labour is once again on the rise. The official policy is to impose more stringent regulations on the intake of foreign labour to reduce Malaysia's longer-term dependence on low-skill foreign labour. Several measures have been announced to ensure foreign workers are only hired in sectors or occupations that are in critical need of foreign workers. These measures are not only a response to the economic slowdown but are part and parcel of a New Economic Model that seeks to foster productivity driven growth to attain high-income status by the year 2020. The NEM has important implications for the employment of migrant

workers since one of its major challenges is to address the heavy reliance on low-skilled foreign labour and stem the brain drain.