

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis

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Abstract: This paper presents the employment patterns of foreign workers in Malaysia using two key datasets, the Malaysian Labour Force Survey and the Economic Census, which are compiled by the Department of Statistics of Malaysia. The datasets provide complementary individual- and firm-level information about the employment of foreign workers and offer a comprehensive picture of the utilisation of foreign labour in the country. The datasets discussed should be useful for other researchers to further explore the questions raised in the paper.

Keywords: Department of Statistics, foreign workers, labour market, patterns
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1. Introduction

Globalisation and integration of markets have been the defining features of the world economy over the last two decades. One of the key components of globalisation is the integration of labour markets. The policy debate creates the impression that foreign workers and immigrants are flooding destination countries, especially those that are members of the OECD. However, labour markets are probably the only area where global integration has been relatively slow. The share of the international migrants – people living or working in a country in which they were not born – has been relatively steady at around 3% of the global population over the last six decades (Ozden *et al.* 2011).

A prominent misperception is about the importance of OECD countries as the key destinations for migrants. Yet, migration between developing or non-OECD countries accounts for almost half of all international migrant stocks (Artuc *et al.* forthcoming). Many developing countries and regions have become important destinations, especially for migrants from their neighbours and other developing countries.¹ In this group, we also need to include several East Asian countries including Malaysia (Athukorala 2006).

Malaysia is an excellent country to study the main features and implications of regional labour mobility. It has developed faster and more steadily than its two more populous neighbours – Indonesia and the Philippines. Furthermore, the impressive and rapid improvements in education created relative shortages for unskilled workers needed in low-skill sectors such as agriculture, construction and low-tech manufacturing. These patterns led to excess demand for unskilled labour which was met with willing workers, not only from these two neighbouring countries but also from other countries in Asia, including Thailand, India, Bangladesh, Nepal, Myanmar and Cambodia. The lessons learned from Malaysia will provide important insights into the implications of South-South migration patterns that are likely to dominate the global landscape for the decades to come.

The share of foreign workers in the Malaysian labour force has increased substantially over the last two decades. This has given rise to an active debate on foreign workers' impact on Malaysian workers and firms, and created an urgent need for an evidence-based understanding of the role of foreign workers in the Malaysian economy. The first concern is that foreign workers take away the jobs of Malaysian workers or depress their wages², a concern which is frequently voiced in OECD countries as well. A second worry is that the presence of cheap and abundant labour takes away the firms' incentive to invest in superior technologies and upgrade their investments. This is viewed as a critical roadblock on Malaysia's road to becoming a high income economy by 2020.

Of particular concern is the increase in the numbers of undocumented foreign workers who either entered Malaysia without proper permits or overstayed their existing visas. The presence of a large number of undocumented foreign workers can complicate many policy initiatives – such as the implementation of the minimum wage laws – as well as many migration policies such as sector specific visa quotas and levies.

¹ Prominent destination countries are the oil-rich Persian countries, South Africa, Turkey, Chile, Brazil and Mexico.

² Athukorala and Devadason (2012) find that in the manufacturing sector, the impact of foreign workers on the growth of low skilled worker wages is negative but very small.

Within this framework, an emerging key policy objective is how to manage the process of admitting foreign workers and reducing overdependence on them without harming Malaysian workers, firms and economic growth, especially in key sectors. For this purpose, the Ministry of Human Resources (MOHR) and the World Bank collaborated on a report on foreign workers in Malaysia, as part of a larger project that aims to identify the human resource needs, constraints and strengths of Malaysia. In addition to quantifying the impact of foreign labour on Malaysian workers, firms as well as macroeconomic variables, the project aims to help the MOHR in identifying immigration policy areas that need to be reformed in order for the Government to meet its overall foreign labour related objectives.

This paper is one of the background papers prepared for this project. Its main objective is the presentation of the patterns observed in two of the main databases used for the analysis. These are the Labour Force Surveys (LFS) for 1990-2010 and the Malaysian Economic Censuses that collect establishment level data every five years for most economic sectors and sub-sectors: 2000, 2005 and 2010. Given the distinct sampling methodologies used by these data sources, they each capture slightly different groups of workers. For example, the LFS dataset does not record foreigners living in communal housing (only in individual housing) whereas establishment data do. On the other hand, establishment data do not capture informal foreigners working in unregistered firms (only formally registered firms are interviewed) whereas the LFS data partially do.

This paper does not present detailed econometric analyses; these were performed in several other background papers prepared and are discussed in detail there. The goal here is to introduce the two key datasets, examine their main features, present the main patterns and finally discuss how they can be used in further analysis.

2. Background

Although the reliance on foreign workers began in the early 1970s and through the 1980s to support Malaysia's rapid growth, formal guidelines pertaining to foreign workers were only introduced in the early 1990s (Azizah and Zin 2011). The official policy stance was to permit foreign workers as an interim solution to meet the increasing demand for low-skilled labour in the country. The Government's stated plan was to support the nation's high growth while it pursued a longer-term strategy to upgrade the economy and expand the supply of skilled labour (Kanapathy 2006). As a result, the use of foreign workers gained wide acceptance, first in plantations, and later in other industries employing a lot of low-skilled labour, such as construction and domestic services. Local labour was either unavailable in these sectors or it was perceived that wages and conditions of work could not attract Malaysian workers in sufficient numbers to fill the rapidly expanding demand (Hugo 2004). Internally, the driving force is (and has been) a combination of economic, socio-cultural, and political factors. In addition to rapid industrialisation, urbanisation, and strong economic growth (well above an average rate of five per cent annually during the last two decades), an additional factor was the rapid increase in education levels, and a relatively small population base. All of these factors jointly created a situation of tight labour markets and increased demand for low-skilled foreign workers.

The implementation of the New Economic Policy (NEP) in 1971 led to massive urbanisation and a population movement from rural to urban areas. This led to labour

shortages in several key economic sectors, especially in rural areas, such as plantations and other natural resource related sectors. These shortages were largely addressed by the arrival of foreign workers from Indonesia, the Philippines and Thailand. The presence of immigrants from other countries was low at that time. Over time, labour shortages became a concern in the urban sectors such as construction and domestic services, where increased prosperity generated increased demand for more workers. Initially, the recruitment of foreign workers was done surreptitiously as there were no legal provisions. But this changed over time. Immigration policy began to develop (heavily influenced by necessity) to allow a sufficient supply of unskilled and semi-skilled foreign workers into the country to maintain economic growth.

The expansion of formal education since independence led to changes in job preferences of many Malaysians. More specifically, young Malaysian workers with formal education shunned menial jobs such as those in agriculture and construction in favour of formal and better-remunerated employment in the public and private sectors (Athukorala 2006). Rapidly increasing education rates also led to a rise in the number of educated women who sought formal jobs, which in turn led to an increase in the demand for domestic workers.

External economic and political factors have also contributed to an increase in the inflow of migrant workers into Malaysia. Political instability in neighbouring countries created asylum seekers and refugees who ended up joining the Malaysian labour market as irregular workers. However, the main factors were the comparatively slower economic growth rates in several neighbouring countries, accompanied by low wages and sometimes higher levels of unemployment that gave rise to disparities in living standards and economic structures between Malaysia and source countries. All these forces provided increased incentives for workers to emigrate out of their countries and into the rapidly growing, stable and nearby Malaysia. Different population dynamics in East and South-east Asia will continue to trigger immigration in the region in the next few years (Walmsley *et al.* 2013).

3. Labour Market Data

The following section of the paper uses Labour Force Surveys (LFS), collected between 1990 and 2010, for labour market analysis of both Malaysian and foreign workers. The Department of Statistics of Malaysia has been collecting labour force data for an extended period of time. The surveys ask questions on nationalities and countries of birth of the respondents as well as several additional questions on the education levels, sectors of employment, age, wages (starting from 2007), employment status (full-time, part-time, unemployed), and non-employment status (student, housewife, retired, disabled).³ As a result, LFS data can be used to analyse the patterns and economic implications of the presence of foreign workers in different sectors, regions and over time. One concern remains—the sampling is such that it fails to collect data on workers who live in communal or group housing. This tends to be the case in plantations and various low-skill intensive

³ Note that the LFS is a representative repeated cross-section of the Malaysian population and does not follow individuals over time.

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis



Figure 1. Foreigners in Malaysia, 1990-2010

Source: Authors' calculations with Department of Statistics, Labour Force Survey

enterprises. Since foreigners tend to be over-represented among the workers in these cases, and there is anecdotal evidence that they also tend to be undocumented, the data possibly undercounts these types of foreigners in the LFS.

The number of foreign workers in Malaysia has grown rapidly over the last twenty years. It is difficult to accurately measure their number since data are imperfect.⁴ As seen in Figure 1, there were around 380,000 foreign workers in Malaysia in 1990 according to the LFS. The number increased rapidly to around 2.1 million in 2010. Male foreigners currently constitute around 55 per cent of the overall foreign population, after declining from a peak level of 62 per cent in 1998. There is a slight peak in 2001 (to 1.85 million), a relatively rapid drop to 1.56 million in 2002, and then a smooth increase during the next eight years, reaching over two million. It seems the peak in 2001 and drop in 2002 were due to a switch in the sampling frame of the underlying survey and new weights created based on the new 2000 census. Hence, it is likely that the 'bump' in the graph is a statistical artifact and the actual time series is smoother. The dotted lines represent the smoothed time-series of the fraction of immigrants.

The second critical statistic is the share of foreigners in the total labour force, which increased from 3.5 per cent in 1990 to 9.5 per cent in 2010.

Figure 2 presents the significant change that has taken place over the last twenty years. A related statistic worth noting is the significant increase in the share of foreigners among the population above 15 years of age (who are considered to be in the labour force). Both lines follow quite closely, with the share of foreigners among the working

⁴ The LFS captures a large portion of the migrant population in the economy and provide a statistically acceptable source for the analysis presented in this paper. Further details on the surveys used are provided in the last part of this paper.

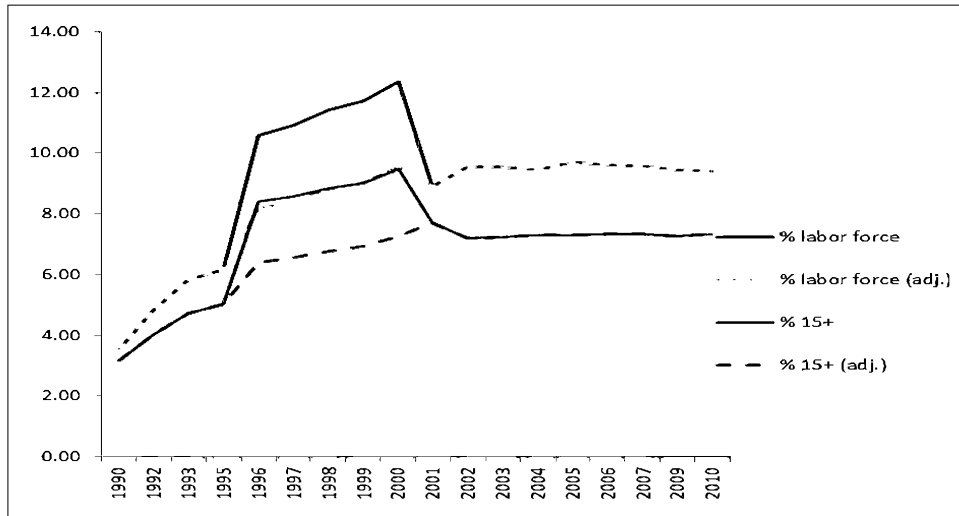


Figure 2. Foreigners as a (per cent) share of the labour force, 1990-2010
 Source: Authors' calculations with Department of Statistics, Labor Force Survey

population increasing from 3.2 per cent to 7.4 percent in 2010. Again, the 'blip' in 2001 is present in this graph as well. However, it does not distract from the overall trend, which shows an increase until 2001 and then stays stable around 9.5 per cent until 2010. The dotted lines represent the smoothed time-series of the fraction of foreign workers.

While their numbers were increasing, foreign workers were participating in the labour force at higher levels than Malaysians. This is to be expected since the main reason for foreigners to come to Malaysia is to increase their earnings and savings, possibly to send remittances to their families back in their home countries. As a result, employment levels of both male and female foreigners are higher than their Malaysian counterparts. During 1990 and through to 2010, the employment rate of male foreigners moved within a narrow range (between 93 and 95 per cent) while it increased from 41 per cent to over 60 per cent for female immigrants. On the other hand, the employment rate of Malaysian males declined from 81 per cent in 1990 to 73 per cent in 2010. The participation of Malaysian females in the labour force, between 41 and 46 per cent, is chronically low despite the fact that they are highly educated.

As of 2010, Indonesians were (still) the main foreign group (55 per cent), and Filipinos the second largest group in Labour Force Surveys (20 per cent). The prominence of Indonesians among foreigners is not surprising given the cultural and physical proximity of the two countries. For many Filipinos, migration is a common part of life and Filipino maids, seamen and nurses are prominent features of the labour markets in many OECD, Persian Gulf and East Asian countries. Filipino workers account for around 20 per cent of the total foreign worker population in the LFS, working primarily in the nearby states of Sabah and Sarawak. The rest of the immigrants, between 20 per cent and 25 per cent of the total, come from numerous other countries and their composition has been changing over time. Historically, South Asian countries, such as India and Bangladesh, were important sources due to their excess population and cultural links. In recent years, people

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis

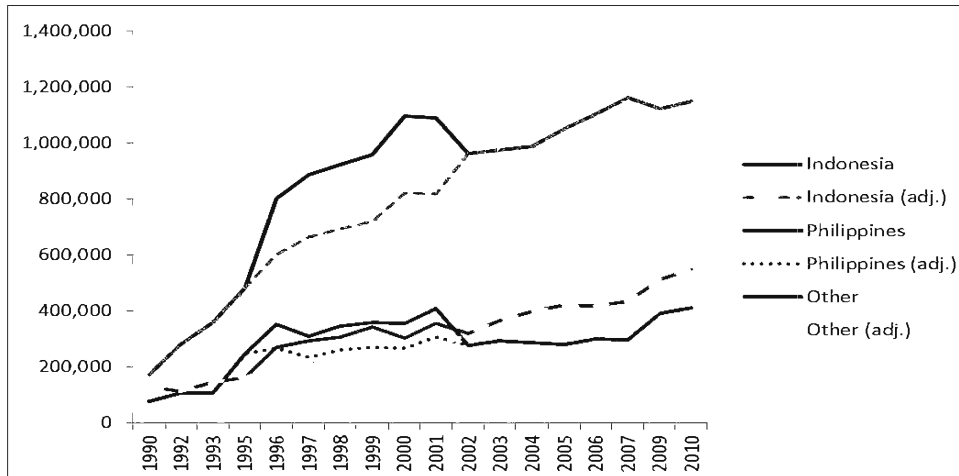


Figure 3. Countries of origin of foreigners
 Source: Authors' calculations with Department of Statistics, Labor Force Survey

from other ASEAN countries—such as Vietnam, Laos, and Myanmar—have become more commonplace in Malaysia as regional integration has been strengthened, labour mobility costs lowered, and restrictions reduced (Figure 3).

Foreign workers are concentrated in several big states and their distribution across states is stable over time. Sabah has always been the largest destination state in Malaysia for immigrants, with over 36 per cent of the total foreign population residing there in 2010, down from 44 per cent in 2000. Proximity to Indonesia and the Philippines, cultural affinity, and the prominent role of agriculture, especially plantations, in the economy of the state are among the main reasons why it is an attractive destination. Selangor and Johor follow with 15 per cent and 12 per cent of the foreign population, respectively, in 2010 (Figure 4). As of 2010, these three states were hosts to almost two-thirds of all foreigners in Malaysia. Other states (or territories) with over five per cent share of foreigners are Pahang, Pulau Pinang, Sarawak, and Kuala Lumpur.⁵

The concentration of foreign workers in a few large states is due to the concentration of economic opportunities available for low-skilled labour in those states. It is natural for foreign workers to be attracted to states where economic opportunities abound for their skill sets. Figure 5 displays the share of the total population in a given state that is foreign-born. Sabah leads the list with foreigners making up almost 30 per cent of the total population. Foreign workers are less concentrated in other states. For example, they make up 10 per cent of the population in each of the following states: Johor, Pahang, Kuala Lumpur, and Pulau Pinang. In Selangor, Melaka, Negeri Sembilan, Sarawak, and

⁵ For the purpose of this analysis, the territory of Putrajaya, which became a Federal Territory in 2001 was merged with Selangor in order to have a consistent time series. Labuan was excluded from this figure, despite the large number of immigrants, because of its small size and small population share.

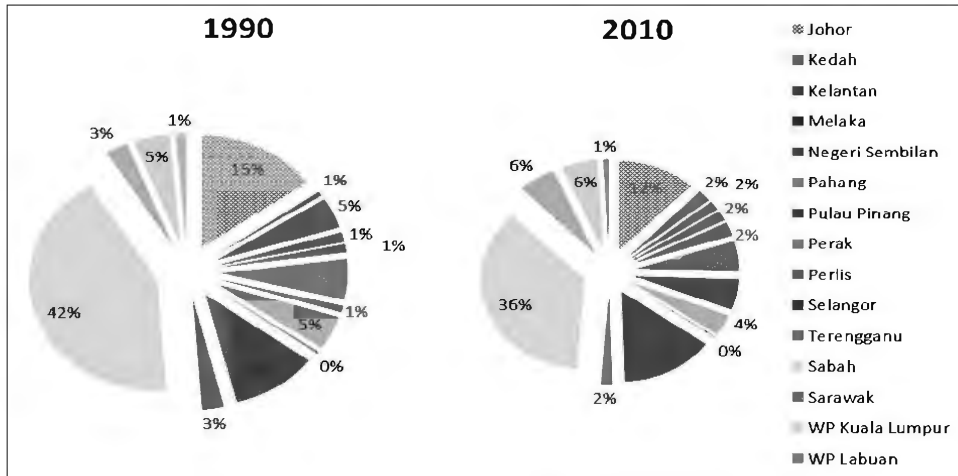


Figure 4. Distribution of foreign workers across states
Source: Authors' calculations with Department of Statistics, Labor Force Survey

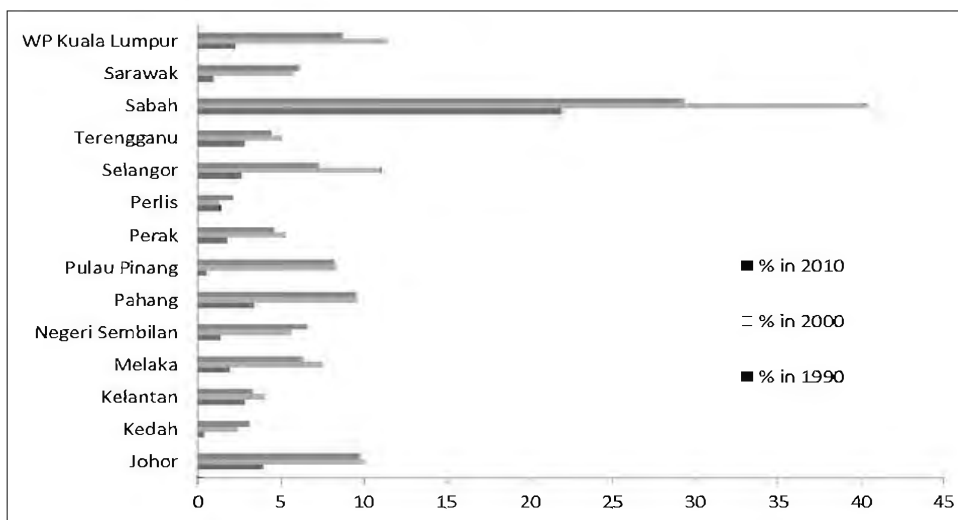


Figure 5. Share of foreign workers in different states
Source: Authors' calculations with Department of Statistics, Labor Force Survey

Kuala Lumpur they only make up 5 per cent of the total population. All other states have a negligible share of foreign population.

Foreign labour continues to be largely concentrated in physically demanding sectors of the economy such as agriculture, plantations and construction. About 32 per cent of all foreign employment was in the agricultural and plantation sector in 2010; this percentage was down from a higher level of 35 per cent and 48 per cent in 2000 and 1990, respectively. It needs to be added that the Labour Force Survey is likely to undercount the

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis

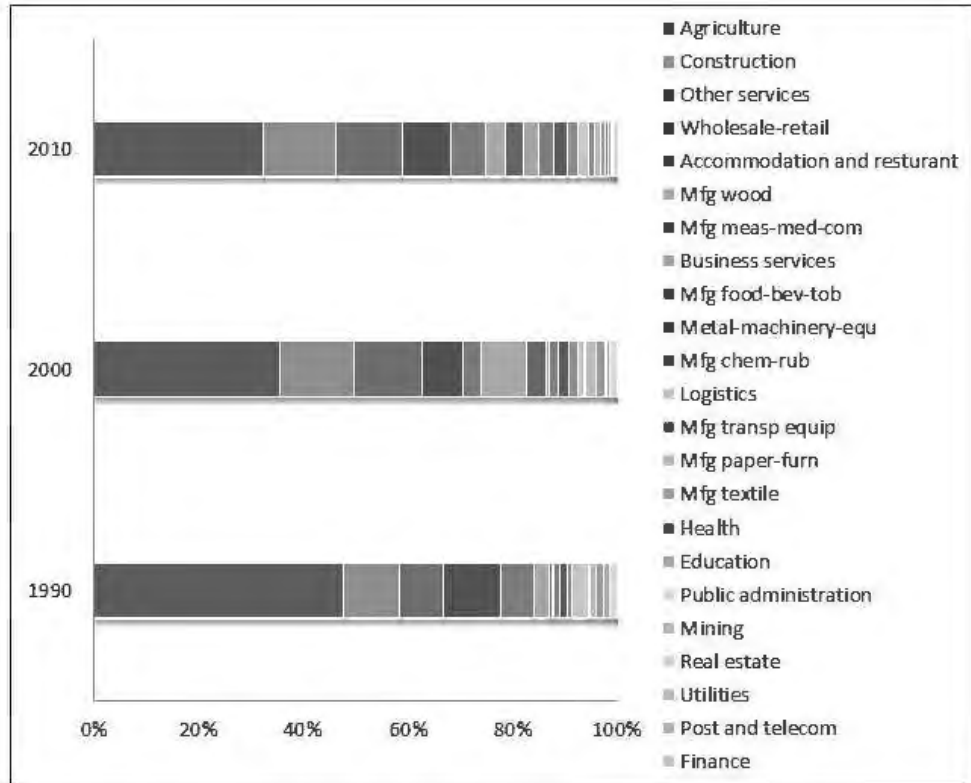


Figure 6. Distribution of foreign workers across sectors
 Source: Authors' calculations with Department of Statistics, Labor Force Survey

number of foreign workers in plantations since workers in communal and group housing are under-represented in the sample. The construction sector was the second largest employer of immigrants, with 14 per cent of the total, in 2010 (Figure 6). It was followed by other services that encompass a host of low-skilled demanding services⁶ (12 per cent), wholesale retail (11 per cent), and accommodation services such as hotels (7 per cent). With the exception of the relatively rapid decline in the share of agricultural employment among immigrants, other sectors were more stable. This was especially true for service sectors that employ relatively more unskilled workers (for instance, hotels, construction, and restaurants), and are spread across the country. High technology, high-skilled manufacturing and high-skilled service sectors were not big employers of foreigners given that they often require specialised skills that most foreigners tend not to possess.

As a share of an entire economic sector, foreign workers make up the largest share of the labour force in wood-manufacturing sector, followed by other services, and agriculture. The data shown in Figure 7 provide a picture of the distribution of foreigners

⁶ Among others, other services include domestic services, sports and recreation and culture.

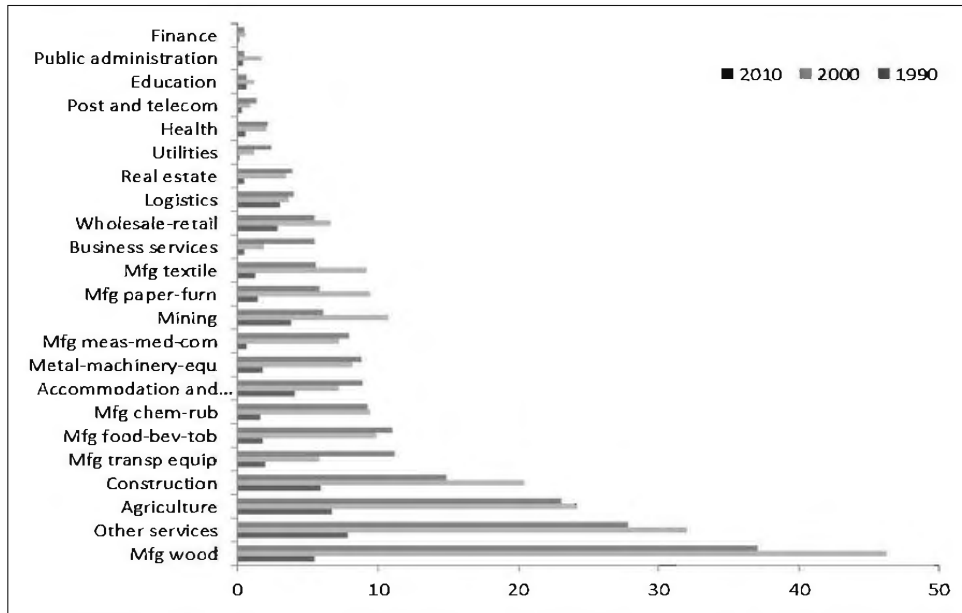


Figure 7. Share of foreign workers in different sectors (per cent)
 Source: Authors' calculations with Department of Statistics, Labour Force Survey

and their role across sectors. Foreigners had the highest share of employment in the manufacturing of wood products (37 per cent in 2010, down from 46 per cent in 2000), other service sectors of the economy (27 per cent in 2010), agriculture and plantations (23 per cent), construction (14 per cent), and manufacturing of transportation machinery and manufacturing of food products (each 11 per cent). Even though agriculture, construction and other services employed most of the immigrants, it is clear that foreigners played a significant role in several relatively smaller manufacturing sectors (wood, food and transport equipment). Also, as mentioned previously, foreigners were not present in service sectors that either required high levels of human capital or where public servants were employed—for instance, finance, telecommunications, health, education, and public administration.

There is a widening gap between the educational attainments of foreign and Malaysian workers, indicating that foreign workers complement the Malaysia workers and close the shortages at the low end of the human capital spectrum. Educational attainment, a proxy for skill level, is often used as an indicator for income and labour market outcomes. The education levels in Malaysia have been rapidly improving over the last 20 years (World Bank 2013). One can argue that this is the most important defining feature of the Malaysian labour force over the last two decades. While the share of the population with primary school education or less went from 61 per cent in 1990 to 26 per cent in 2010, the share of diploma/certificate and degree holders increased from five per cent to 18 per cent (Figure 8).

The largest increase in terms of educational attainment took place in the share of the secondary school graduates over the last two decades. Education for this group expanded

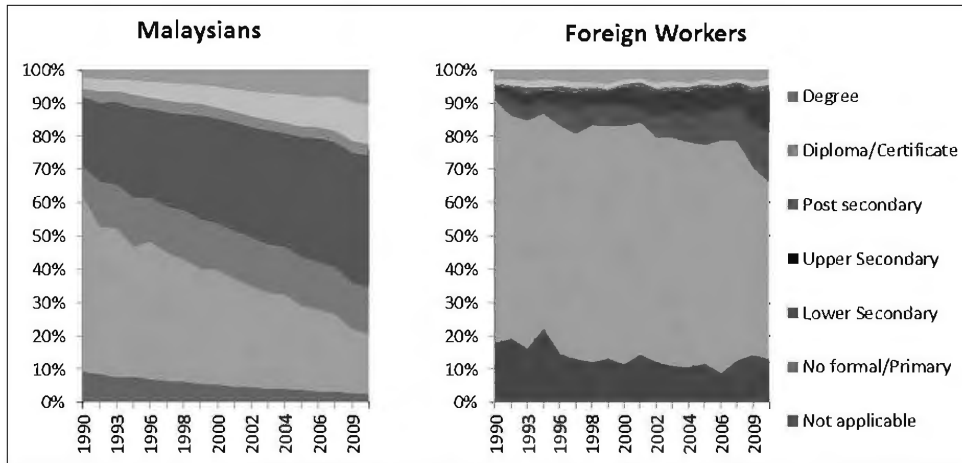


Figure 8. Distribution of Malaysians and foreigners by education over time
Source: Authors' calculations with Department of Statistics, Labor Force Survey

from 31 per cent in 1990 to 55 per cent in 2010. Immigrants, on the other hand, were significantly less educated than Malaysians and their placement in the labour market reflected their low levels of educational attainment. Furthermore, unlike the increasingly evolving levels of education for the Malaysian population, foreigners had educational distributions that were more or less stable over time. For example, the share of primary (or less) educated fluctuated between 85 per cent and 91 per cent over the 20-year period studied. Similarly, the share of university educated foreigners stayed between 4 per cent and 6 per cent. Finally, foreigners with secondary education were the only group that managed to increase their share of education from 10 per cent to 18 per cent over the 20-year period under review.

Labour-intensive economic sectors, i.e. those with a high labour-to-capital ratio, rely more heavily on foreign labour than capital-intensive sectors. Furthermore, even in capital-intensive sectors, foreigners typically hold low-skilled occupations. Labour-intensity varies across sub-sectors in the Malaysian economy. For instance, just over half of Malaysian workers in the agriculture sector of the economy have low levels of education; this is a labour-intensive sector that relies heavily on foreign labour and only a small subset of workers have medium or high levels of education. Similarly, low-skilled service sectors such as accommodation (26 per cent), construction (28 per cent), logistics (21 per cent), and other services (25 per cent), have very high shares of workers with primary levels of education. On the other hand, sectors with higher skill intensity such as education (77 per cent), finance (59 per cent), health and real estate (48 per cent) have increasingly higher shares of university educated workers. Foreigners in these sectors are much less educated than their Malaysian counterparts. For example, within the last group of high-skilled services, only 13 per cent to 35 per cent of foreigners are college educated (Figure 9). Similarly, even in agriculture, 79 per cent of foreigners have primary education or less compared to 57 per cent for Malaysians. Similar gaps exist in other sectors.

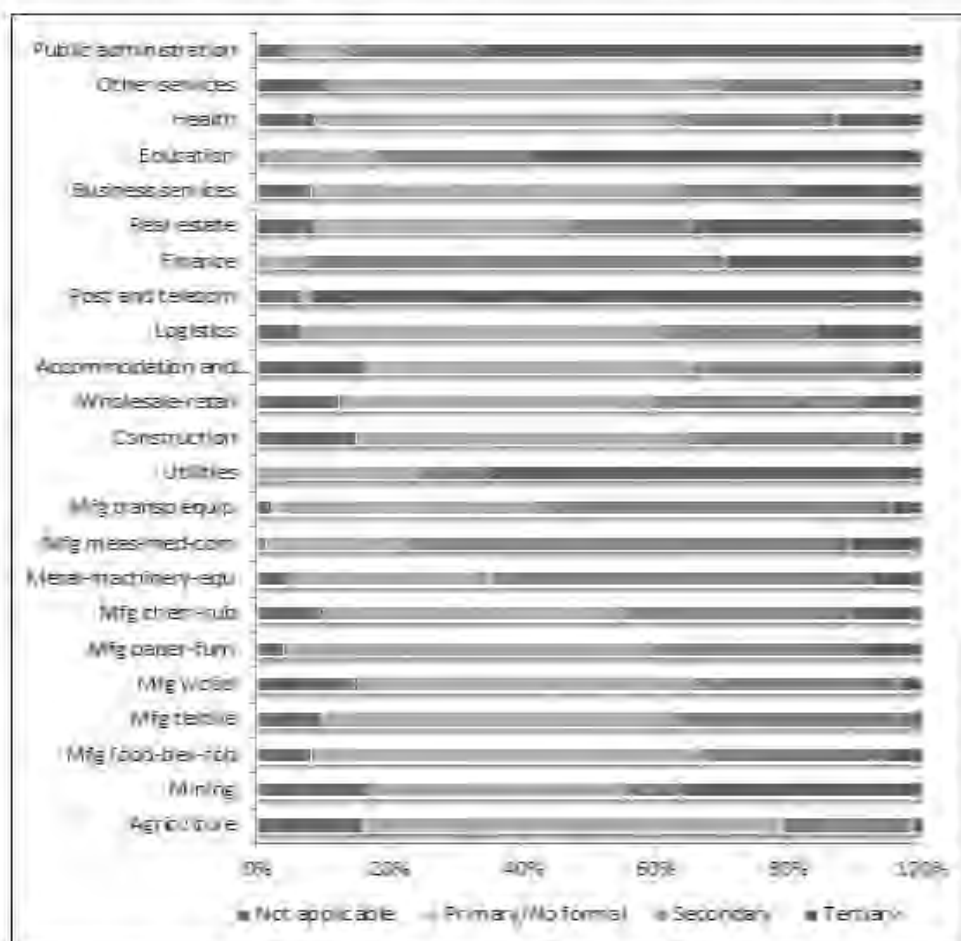


Figure 9. Education of immigrants by economic sector, 2010
 Source: Authors' calculations with Department of Statistics, Labour Force Survey

4. FIRM LEVEL DATA

For the firm/establishment level analysis, the paper uses the Malaysian Economic Census, a sector by sector census of establishments, collected by the Department of Statistics of Malaysia. The data were collected in 2000, 2005, and 2010 for most economic sectors and sub-sectors.⁷ There are two important differences with respect to sampling between establishment census data and LFS. Unlike the labour force data that are collected from a sample of all (formal and informal) workers via household surveys, the establishment

⁷ These are Accommodation, Agriculture, Arts, Education, Financial Brokerage, Food Services, Health Education, ICT, Manufacturing, Mining, Other Services, Professional, Real Estate, Recreation, Repair, Sports, Transportation, and Travel Agent.

data are collected from a sample of firms/establishments that are all formally registered. Thus, the LFS is able to measure the impact of 'all' foreigners on 'all' Malaysians, whereas the establishment-level information is only able to measure their impact on formally registered firms. Another important difference between the two data sources is that the LFS is unable to collect data from workers living in communal housing, and is thus likely to undercount the number of foreigners in certain sectors (namely agriculture and manufacturing). On the other hand, the establishment data are able to convey information on all formal firms in all sectors, and thus able to account for all workers regardless of their living arrangements (assuming that the firms include the information on all workers when responding to the questions). Therefore, the establishment data allow for a more accurate count of foreigners working in sectors previously missed by the LFS. An important implication of their differences is that the data sources are likely to reflect different estimates of foreigners in the economy.⁸

Industrialisation in Malaysia was accompanied by increased foreign direct investment (FDI) in labour-intensive sectors during the 1990s which prompted the need for more labour in an already tight market. The Government increased flexibility to import labour from neighbouring countries to work in the growing sectors of the economy—mainly in manufacturing (Noor *et al.* 2011) but also in agriculture and construction. Over time, more foreign firms came to Malaysia to invest and more foreigners came to work in labour-intensive sectors. Currently, the services sector is the largest contributor to the country's gross domestic product (59 per cent) and labour force (52 per cent), followed by the manufacturing sector (with about 27 per cent of GDP and 28 per cent of employment share). Third is the agriculture and plantation sector (7 per cent of GDP and 12 per cent of employment) followed by mining and construction (together they make up 9 per cent of GDP and 7 per cent of the employment share).

Establishment data from all economic sectors corroborate that the foreign workforce has increased in terms of numbers as well as a share of the labour force over the last decade. Foreign workers comprise 30 per cent of the manufacturing labour force, according to the Economic Census that captures all registered firms. There are almost 40,000 firms in eight manufacturing sub-sectors and they jointly employed a total of 1.8 million workers in 2010, with around 515,000 immigrants. About 2,300 of the largest firms (with over 150 workers each) accounted for 67 per cent of all manufacturing employment.

Figure 10 shows that the percentage of foreigners employed in Malaysian manufacturing establishments has more than doubled since year 2000. This increase represents a significant portion of the manufacturing labour force.

⁸ A clear advantage of the Economic Census is that it is a census (of firms), while the LFS is only a small sample of individuals at the household level, typically 1-2% of the population. It is difficult for the LFS to provide an accurate view of the role of foreigners in each sector with such a small sample size. This is especially the case for sectors where the sampling might pose challenges, especially for migrants. On the other hand, the Economic Census is unlikely to capture foreign workers that are either not in the labour force or are employed in informal sectors/firms that are not listed in the sampling frame of the Economic Census. These are the reasons why we provide the different types of data from both sources and note that they should be used to answer different questions. All of these reasons make it unlikely that a sector-by-sector comparison of the Economic Census and the LFS is truly meaningful.

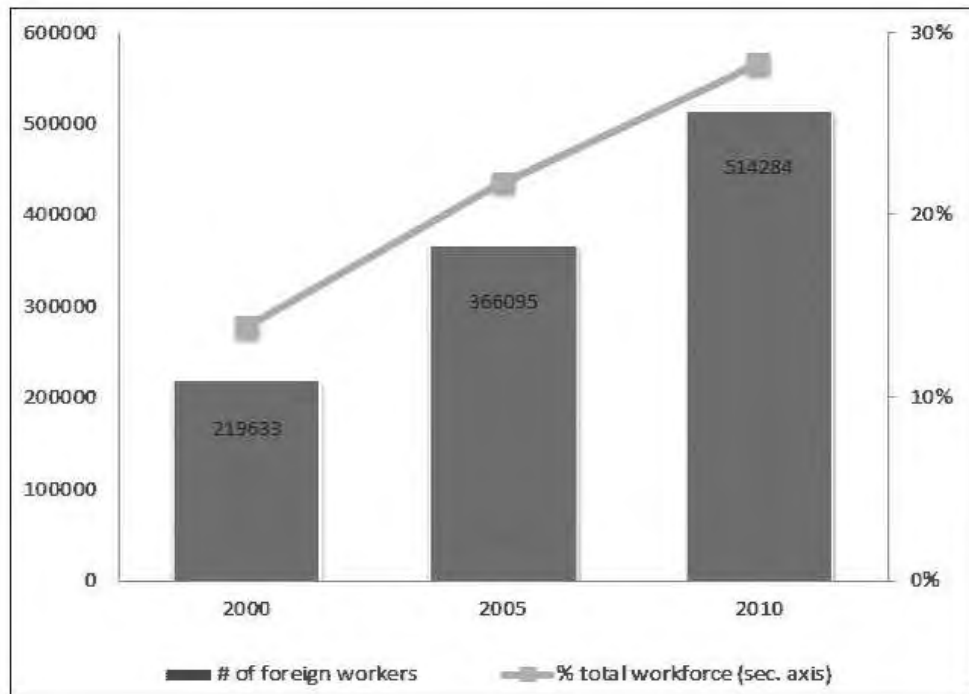


Figure 10. Total number of foreigners by year and percentage in manufacturing
 Source: Authors' calculations with Department of Statistics, Economic Census

Foreign labour has also increased in formally registered firms in agriculture and plantations, in both nominal terms and as a share of the total workforce in the sector. There were 6,300 registered firms in 2010 and 10.8 per cent were classified as large (employed over 150 workers). Since most of the large firms are in plantations and they employ significantly more foreign workers relative to other agricultural enterprises, the rest of this section of the paper will focus on plantations. In 2010, there were 4,892 establishments in the plantations section of the establishment database and 13.8 per cent could be classified as large. These firms employed about 66.7 per cent of the 319 thousand plantations workers. About 98 per cent of plantations workers were unskilled and a staggering 69 per cent of the total plantations labour force was composed of foreign workers. Their percentage, as a share of the labour force in the sector, had gone up from 66 per cent to 69 per cent from 2005 to 2010 (Figure 11). The increased supply of immigrant labour likely affected production levels and the marginal product of all types of labour in the sector, local and foreign.

Over 60 per cent of all construction establishments and 80 per cent of all workers focus on building construction, the sub-sector where foreign labour is most needed. The sector has been growing rapidly in Malaysia in the last decade and is expected to continue growing with large projects—the Klang Valley Mass Rapid Transit estimated at RM 50 billion, highways in the Iskandar region, Kuala Lumpur (KL) financial district, a

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis

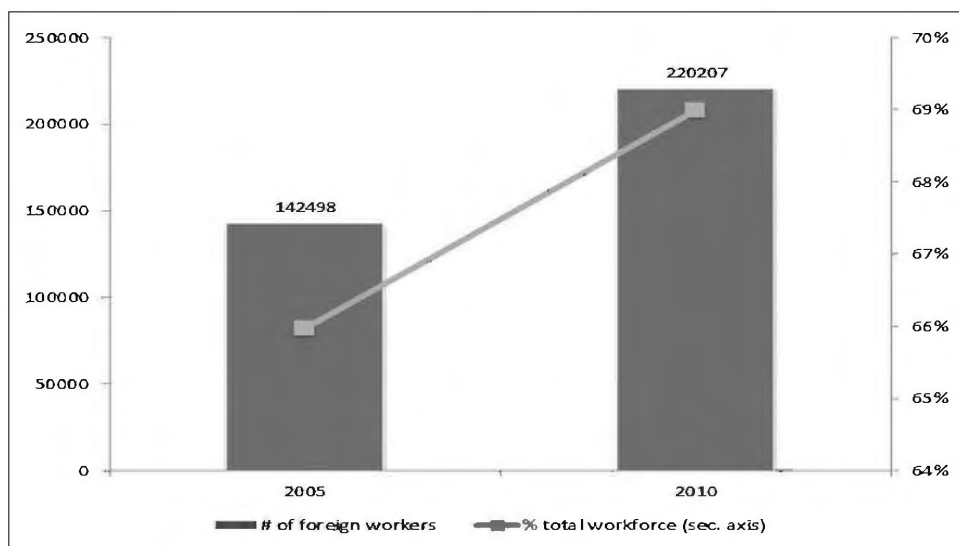


Figure 11. Total number of immigrants by year and percentage in plantations
Source: Authors' calculations with Department of Statistics, Economic Census

new 100-story building known as the Warisan Merdeka in the middle of KL—underway or planned. About half of the sector's workforce is foreign-born. The sector is largely dependent on foreign workers, most of whom are low-to medium-skilled and acquire their work knowledge when they are hired to assist more experienced workers.

Various reports show that the construction industry faces shortages of labour on a regular basis and local recruitment is a big challenge for the sector. The sector is known for paying low wages, offering difficult working conditions, and having limited upward career movement. Thus, young Malaysians, even those with low skills and work experience, are not attracted to the sector, which makes hiring foreigners a necessity. The official data at the Ministry of Home Affairs records a significantly lower number of registered workers in the sector than what the sector actually employs. In 2007, the last year for which establishment data are available for this sector, about 45 per cent of all workers in the sector were foreign born. This is almost double the number from year 2000 (Figure 12).

Most medium-sized and large firms in the sectors analysed employ foreign workers. The manufacturing and construction sectors rely on foreigners for low value-added activities that require lower levels of skills, offer low remuneration, and are unattractive to Malaysian workers. In manufacturing, both export-oriented and domestic-oriented establishments tend to keep high utilisation rates of their plants, thus requiring a regular flow of all types of workers (high-, medium- and low-skilled, as well as foreign and domestic). Figure 13 shows that about 29 per cent of small firms (defined here as having six to 50 workers), 71 per cent of medium-size (defined as having 51 to 149 workers), and 87 per cent of large firms (150 and more workers) employ foreign workers.

Medium- and large-sized establishments in plantations and construction also rely heavily on foreign labour. Moreover, in plantations and construction, the widespread

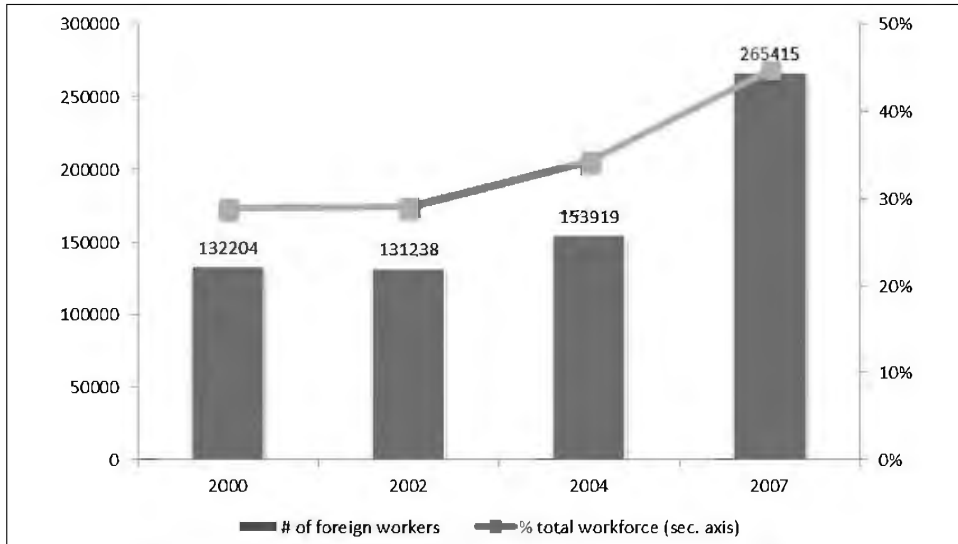


Figure 12. Total number of immigrants, by year and percentage, in construction
Source: Authors' calculations with Department of Statistics, Economic Census

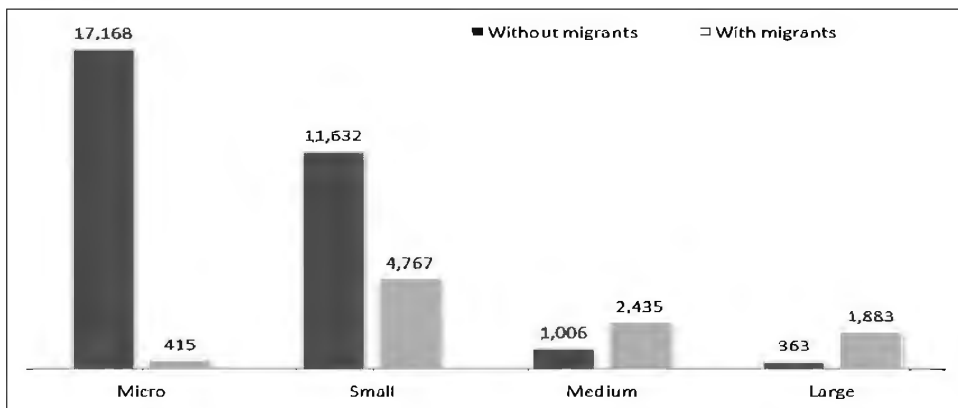


Figure 13. Manufacturing firms with/without immigrants, by size, in 2010
Source: Authors' calculations with the Department of Statistics, Economic Census

presence of foreign workers is also apparent in small firms. This indicates that foreign labour is used in all establishments except in family farms, family-run businesses and micro-size establishments (Figures 14 and 15).

5. CONCLUSIONS

The Malaysian Labour Force Survey and Economic Census are excellent data sources for understanding the role of foreign workers in Malaysia. The data presented in this paper

Foreign Workers in Malaysia: Labour Market and Firm Level Analysis

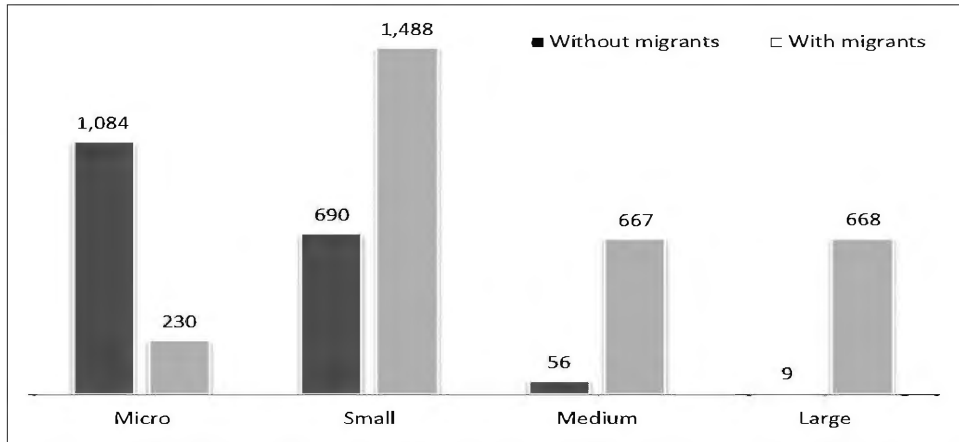


Figure 14. Plantations with/without immigrants, by size, in 2010
 Source: Authors' calculations with the Department of Statistics, Economic Census

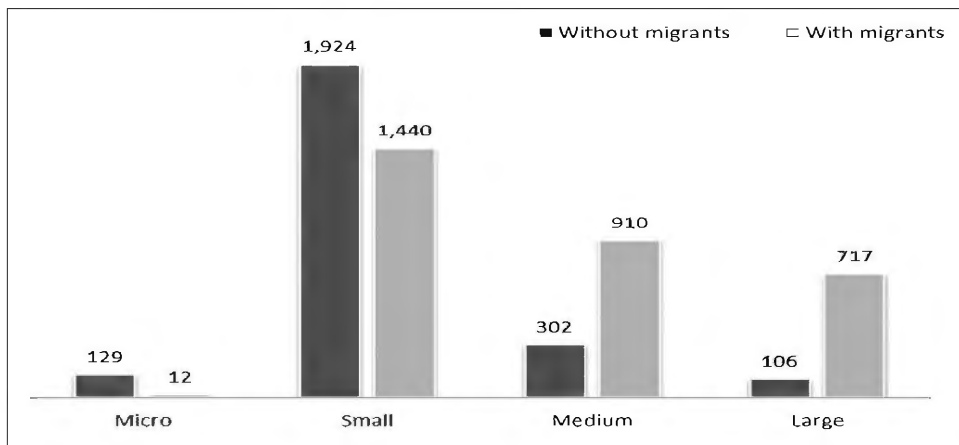


Figure 15. Construction with/without immigrants, by size, in 2007
 Source: Authors' calculations with the Department of Statistics, Economic Census

suggest the critical economic role played by foreign workers in Malaysia across a wide range of sectors and geographic areas. This is especially true as most Malaysians continue to raise their education levels, while labour-intensive sectors such as agriculture and construction (and sub-sectors in manufacturing and services) remain important to the country's future growth.

Malaysia's rapid economic growth, accompanied by labour market shortages for unskilled workers, will continue to attract foreigners from neighbouring countries. The differences in growth differentials and overall educational gaps between the labour force in Malaysia and those of its more populous neighbours, such as Indonesia and the

Philippines, are the key pull and push factors that fuel the current migration patterns. These fundamental gaps need to be kept in mind in any discussion and analysis.

Demand for foreign unskilled labour in Malaysia has amplified several long-term factors that are critical for economic growth. The first one is the rapid advance in the education level and skill upgrading of the Malaysian labour force. This is very clearly visible in LFS data through the decline in the ratio of the population with primary schooling (or less) and the accompanying increase in the higher secondary and tertiary educated groups in the labour force. The second factor is the continuing importance of certain natural resources and labour-intensive sectors such as agriculture, low-skill and low-technology manufacturing such as wood products, as well as domestic service sectors such as construction. The former group led the export boom and integration of the Malaysian economy into the global economy. They are still important within the economy and employ a sizeable portion of the domestic labour force. Service sectors, such as construction, are important components of the dynamic domestic economy that have visibly shaped the landscape of the country.

On the enterprise side, the presence of foreign workers has been (and continues to be) a key factor for expansion in many sectors, especially among export-oriented companies in the manufacturing sector. Firm size seems to matter when it comes to employing foreign labour and is likely to have an impact on productivity.

The excellence of the data withstanding, there are some areas in which the value of the LFS and Malaysian Economic Census in understanding the role of foreign workers in the Malaysian economy could be enhanced. First, coverage continues to be an issue in the LFS. It would help if the LFS started sampling people living in communal housing and paid additional attention to ensuring that the sampling framework was representative of foreign workers, documented and undocumented. Second, having part of the LFS follow a rotating two-year panel, i.e. some individuals are sampled in subsequent years, would help enormously in understanding some dynamic aspects of the impact of an inflow of foreign workers on sectors and regions of Malaysia. The introduction of a few retrospective questions may achieve similar ends. Third, the introduction of more detailed information on the foreign workforce in the Malaysian Economic Census, for example, the number of foreign employees by education level or the payroll for foreigners, would help enormously to enhance this data source for understanding the economic role of foreign workers in Malaysian firms.

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