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**The State of the Nation: Malaysia's continuous struggle with foreign labour**

APPLICATIONS will be open on Tuesday (Feb 15) for local employers to recruit foreign workers in the permitted sectors, including manufacturing, construction, agriculture, services, mining and quarrying and domestic helpers.

This is welcome news for industries that have been hard pressed for foreign workers over the two years of the Covid-19 pandemic, due to the earlier hiring freeze by the government. Employers have also blamed the labour shortage for their losses. Hence, by allowing the hiring of foreign workers, employers say it would help to quicken the rate of recovery for businesses.

Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's Socio-Economic Research Centre (SERC), says while businesses have always supported the government's call to reduce the over-dependence on foreign workers, the acute shortage of workers requires a quick resolution and pragmatic prioritisation to support the local economy towards recovery.



"Business recovery efforts will be severely hampered if employers are not provided with the necessary workers, especially in sectors that are still dependent on foreign workers. Employers are very frustrated at not being able to engage the necessary workers as locals still shun the work performed by foreign workers," he tells The Edge.

Proponents of foreign labour argue that it makes sense to address the immediate issue at hand, given the risks of labour shortages hampering business growth and economic recovery. However, one has to ask if the country's aspirations to move up the value chain and reduce the reliance on low-skilled foreign labour will be realised should hiring resume to what it was before.

"The two-year pandemic would be a 'wasted opportunity' if industries were to revert to the use of foreign workers without considering plans to upgrade, adopt new technology and automate those processes that are performed by low-skilled foreign workers. Such industries should be encouraged to relocate to low labour cost countries in the region," opines Sunway University economics professor Yeah Kim Leng, calling the over-dependence on foreign labour a long-standing structural problem that the country has been grappling with.

He says more critical now is whether the country is using opportunities such as the large budget announced for the rebuilding of the economy to increase the rate and volume of quality investments, skilled job creation and production of high-value goods and services.

“To the extent that the relaxation of the foreign worker intake does not jeopardise the industrial upgrading of the firms and industries in the long term, but contributes to raising the country’s income in the short term, then the ‘wasted opportunity’ would be a moot point,” he adds.

The opportunity for change to take place is still there. People in the automation industry share anecdotal evidence of the changes that have been taking place among manufacturers as a result of the pandemic.

“We have seen instances of manufacturers who have relied on 100% manual labour on their production lines prior to the pandemic now deciding to be fully automated. They are starting to see that machines are more consistent and result in fewer errors in the production process,” says an engineer in the automation field who asked not to be named.

Policy-wise, there have been many proposals aimed at reducing the dependency on foreign labour. One such proposal is a multi-tier, market-based system for the hiring of foreign workers, which aims to allow the forces of demand and supply to determine the number of labourers needed. However, how successful this is in fulfilling its objective will depend on the implementation process.

SERC’s Lee believes that the multi-tier levy, market-based system would help to reduce dependency on foreign labour but the plan, which was supposed to start on Jan 1, has been deferred to July 1.

Since the Eighth Malaysia Plan (2001-2005), the country has been talking about reducing its dependence on foreign labour. In the most recent two Malaysia plans — the 11th and the 12th — the government has placed a threshold to lower the number of foreign workers to not more than 15% of the workforce.

Official statistics show that the authorities have managed to keep the number of foreign workers under the 15% threshold. In 2021, the official number of foreign workers stood at 1.1 million, making up about 7% of the total work force.

However, labour activists say many foreign workers have fallen out of the official numbers because they do not have proper papers during the pandemic for a variety of reasons.

The population of undocumented foreign workers in the country is believed to be large, with some saying that the number is equal to that of legal foreign workers, if not more.

Notably, the number of foreign workers recruited in Malaysia is currently based on a set of conditions and on a ratio of local workers to foreign labour varied by sector.

For example, in the manufacturing sector, the ratio of locals to foreign workers is between 1:3, 1:1 and 2:1, depending on whether it is an export-oriented industry, non-export-oriented industry or the electronics and electrical products industry.

Sectors like plantation have a quota based on hectares while the services industry’s quota is based on the number of seats in the case of an eatery.

However, one thing has been changed in the hiring process of foreign labour: Two weeks ago, Home Minister Datuk Seri Hamzah Zainudin announced that the government will abolish the “special quota” for the recruitment of foreign workers.

Now, all applications from employers will go through the ministry's evaluation committee to determine the number of foreign workers eligible to be employed in accordance with the set terms and conditions.

This was obviously met with mixed reactions, with some calling it a positive move while others feel that it could potentially derail the economic recovery.

The Malaysian Employers Federation is one party that had expressed its concern about this abolishment, saying that the special quota system should continue as it provides businesses with a ready supply of labour to meet urgent needs.

In contrast, the Federation of Manufacturers Malaysia (FMM) supports the move as it removes possible misuse and abuse of the system that results in excessive entries and the possibility of human trafficking issues.

Lee also opines that moving away from special quotas on recruitment will help to ensure a consistent and transparent process for all sectors, without any special treatment, and weed out unproductive rent-seeking.

"Doing away with the middle men in the recruitment of foreign workers, replacing them with a direct recruitment end-to-end system, will expedite the recruitment process while helping to lower the cost of hiring. There is a need for developing a 'simple evaluate-process-submit' online recruitment system, backed by a centralised database for direct recruitment of workers," says Lee.

It is worth noting that the Public Accounts Committee had in November 2020 issued findings on the control of foreign workers that highlighted many issues with the process, one of which was that the number of approvals for special applications was higher than that of regular applications.

The bipartisan oversight committee deems the practice unhealthy, adding that "such practice does not meet the original purpose of the foreign worker quota application process", which is to impose strict qualification screening.

It is well known that the foreign worker recruitment process in Malaysia is complex. Employers frequently use private employment agencies to recruit foreign workers and many have called out the practices of such agencies as lacking in transparency.

"About 95% of Vietnamese low-skilled workers in the manufacturing sector were recruited by private employment agencies and only 2% of experienced [foreign workers] were directly hired by employers.

"Opaque private recruitment practices, sometimes coupled with complex worker deployment procedures set out by governments in labour-sending countries, often involve burdensome recruitment fees, causing or increasing the indebtedness of foreign workers. The transaction costs can be as high as US$2,700 (RM11,000) — equivalent to 10 months' earnings in Malaysia — but can vary, depending on the origin of the workers," says World Bank Group in a report titled "Who is Keeping Score?" that was released in April 2020.

Malaysia also has bilateral government-to-government agreements with countries like Bangladesh in a bid to help reduce costs and improve transparency in foreign worker recruitment practices.

However, the practices themselves continue to be shrouded in controversy. In 2018, recruitment from Bangladesh was frozen due to allegations of corruption and the involvement of a syndicate.

Costs were not reduced nor was recruitment more transparent.

In December last year, the two countries signed a new memorandum of understanding on the recruitment of workers from Bangladesh for employment in Malaysia. The contents of the agreement have not been disclosed.

What is clear is that the foreign labour issue is a multidimensional one. With Malaysian employers needing for foreign labour to do jobs that locals won't, even though many employers say that foreign labour is no longer "cheap" to hire, it feeds into a system of greed and exploitation.

Raising the minimum wage

Not too long after the announcement of the abolishment of special quotas, the Ministry of Human Resources also said that it is looking into raising the minimum wage this year — it could potentially be increased to no more than RM1,500 per month. Currently, the minimum wage stands at RM1,200.

Businesses say that a RM300 rise is too steep given that they have just emerged from the pandemic, adding that such a rise could derail the economic recovery as businesses struggle to cope with additional costs.

Yeah agrees that the notion that many small and medium enterprises would not be in a position to bear the RM300 rise in the minimum wage should be studied objectively.

"While evidence in other countries shows that raising the minimum wage does not result in an increase in unemployment, its negative impact on Malaysia's economic recovery cannot be ruled out, given the likely fragile financial condition of many firms due to the prolonged pandemic.

"If the wage increase is too sharp, there could be business closures and few start-ups, and that may dampen the recovery momentum, hence the proposal by businesses for a staggered increase to provide some lead time for business planning to cope with the proposed minimum wage increase," he says.

However, Lee notes that the higher minimum wage would benefit 2.25 million workers in the country who are currently earning minimum wage.

CGS-CIMB Research head of economics Ahmad Nazmi Idrus says the rise will benefit all workers to some degree, but cautions that a hike in wages without an increase in productivity is merely "inflationary".

"I think the idea is that a higher minimum wage provides the correct price signal for businesses to adopt better technologies. In a way, this will reduce foreign labour.

"But the ultimate goal, in my opinion, is to raise the workers' share of economic wealth. Take the gross domestic product by income released by the **Department of Statistics Malaysia**, for example. Sixty per cent of the wealth is held by the capital owners, while 37% is held by workers. This is low compared with other upper-middle income economies such as South Korea, at 54%," he says.

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