

Malaysia's labour abuse allegations a risk to export growth model

KUALA LUMPUR, Dec 21 — Malaysian government and companies must address mounting allegations of workplace abuse of migrant labourers who fuel the country's economy, or face risks to its export-reliant growth model, experts warn.

The country has for decades banked on migrant workers to power mainstay manufacturing and agriculture, becoming an integral part of the global supply chain for products as diverse as semiconductors, iPhone components, medical gloves and palm oil.

But as the reliance on foreign labour has increased, so have complaints of abusive working and living conditions for workers, who come mainly from Indonesia, Bangladesh and Nepal.

As Southeast Asia's third-biggest economy, it must reform its labour laws and improve enforcement, while companies should invest to ensure better conditions, said 11 analysts, rating agencies, researchers, corporate consultants and activists interviewed by Reuters.

In the past two years, seven Malaysian firms, including the world's biggest glove maker and palm oil producer, have faced US import bans over allegations of forced labour. Last month, high-tech home-appliance maker Dyson Ltd cut ties with its biggest supplier, a Malaysian firm, over labour conditions.

"It is a wake-up call," said Anthony Dass, head of AmBank Research in Kuala Lumpur. "If Malaysia does not change and with the global focus on environmental, social and governance practices, businesses could move to other countries."

The Labour Department did not respond to questions about changing the country's labour laws, and the trade ministry did not reply to questions on potential investment losses.

Human Resources Minister M Saravanan acknowledged early this month that "forced labour issues" had "affected foreign investors' confidence towards the country's supply of products." He urged companies to protect workers' rights and welfare.

"Malaysia has become the poster child" for forced labour issues, said Rosey Hurst of London-based ethical trade consultancy Impactt. "And that starts to do economic damage. Real change needs to happen."

Hurst said queries from global investors about the country's labour practices have increased, including from asset managers and private equity firms.

Other Asian manufacturing hubs, including China and Thailand, face similar accusations of labour abuses. But investors have taken an immediate interest in recent scrutiny of Malaysia, and this could affect future foreign direct investment and supply contracts, analysts say.

Forced-labour indicators

Government officials have acknowledged excessive overtime hours, unpaid wages, lack of rest days and unhygienic dormitories. Those conditions are among 11 indicators of forced labour, according to the International Labour Organisation (ILO).

The law allows more than the widely accepted maximum of 60 hours of work a week and allows work on what are supposed to be rest days.

“The legal framework in Malaysia allows, and indeed sometimes insists on, practices which are on a collision course with the ILO 11 indicators of forced labour,” Hurst said.

Putrajaya last month launched a National Action Plan on Forced Labour to eliminate such practices by 2030.

The country is the world’s second-largest palm oil exporter and its chip-assembly industry accounts for more than a tenth of global chip trade. It had about 2 million foreign workers in late 2020, 10 per cent of its workforce and double that of 20 years ago, according to the **Department of Statistics**. The government and labour groups estimate as many as 4 million more undocumented migrants work in the country.

Foreign workers are concentrated in manufacturing, agriculture, construction and services.

As companies shy away from lower-paid, labour-intensive work, the country’s electronics and palm oil companies especially are relying on migrants, whose treatment is gaining scrutiny.

Malaysia has had the most US Customs and Border Protection bans after China. In July, Washington put the country on a list with China and North Korea for limited progress in eliminating labour trafficking, its lowest ranking.

Dyson terminated its contract with parts maker ATA IMS Bhd just months after the firm posted record profits. ATA has acknowledged some violations, made some improvements and said it now complies with all regulations and standards.

ATA told Reuters in a statement it is stepping up practices for sustainable and equitable growth amid scrutiny of the company and Malaysia.

“For ATA, this has meant relooking at some of the practices that have long been a norm, not just in Malaysia but overseas too, for instance, excessive overtime and more engagement between management and rank and file employees,” the company said.

‘Modern slavery’

When the United States last year banned Top Glove Corp, the world’s biggest medical glovemaking company, it agreed to pay US\$33 million to workers to reimburse recruitment fees they paid in their home countries – which activists say result in debt bondage.

US customs revoked the ban after Top Glove made the changes.

Top Glove told Reuters in a statement that exporters must “follow the best global practices as customer expectations have changed over the years,” adding it was “no longer sufficient for businesses to just be cost-efficient”.

Its peers also decided to repay recruitment fees.

Palm oil producers in Malaysia, the world's biggest exporter of the widely used product after neighbouring Indonesia, have spent tens of millions of dollars to improve workers' living conditions following similar bans.

To be sure, higher costs from improving working and living conditions may not necessarily drive away investors.

"Companies operating in Australia, the UK, the EU and some US states are subject to regulations that address modern slavery in supply chains," said Nneka Chike-Obi, director of sustainable finance at Fitch Solutions. "So they may have to accept higher costs in exchange for less supply-chain risk."

The impact on the electronics industry, which accounts for nearly 40 per cent of Malaysia's exports, in particular, could have a multiplier effect on the economy.

Dell Inc, Samsung Electronics Co and Western Digital Corp have manufacturing facilities in Malaysia, while Apple Inc uses local suppliers.

Samsung declined to comment. The other tech firms did not respond to Reuters' requests for comment on their Malaysian operations or suppliers.

"If companies start scrutinising and pulling out contracts" from electric and electronics companies, "it will have a knock-on effect on the economy," said AmBank's Dass.

— Reuters

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