

### **An overly 'optimistic' low unemployment rate?**

THE latest statistics showed the unemployment rate in Malaysia remained below 4% for the second consecutive month since April – the transition month into the endemic period.

However, does the 3.9% figure for the country's unemployment rate as of May genuinely reflect the reality on the ground?

This is given the irony that some industries still face enormous challenges in hiring additional workers despite the economy and border fully reopening – after the two years of the pandemic (on and off) lockdowns.

As the current administration has been slow in approving the issuance of foreign worker permits, the palm oil plantation and semiconductor industries, for instance, are forced to turn down orders and forgo huge potential revenue in sales.

As of June 13, industry and government data indicated Malaysia is facing a labour shortage of at least 1.2 million workers across the manufacturing, plantation and construction sectors. The manufacturing sector is the one that lacks the most number of workers (at 600,000), followed by construction (550,000), palm oil (120,000), chip-making (15,000) and medical glove-making (12,000).

There is no "definitive" figure on the number of workers required for tourism and hospitality and its ancillary, the food and beverage (F&B) sub-sector. However, it is understood that the new minimum wage rate implementation at RM1,500 per month from May 1 onwards has financially constrained hoteliers and restaurant owners from hiring additional staff.

With merely 34,000 foreign workers approved to enter the tourism and hospitality industry between 2022 and 2024, it would be challenging for these sub-sectors concerned to meet rising demand from the combination of domestic and foreign tourists.

According to Tourism, Arts and Culture Minister Nancy Shukri, Malaysia has surpassed the initial target for this year for foreign tourists between April 1 and June 21 – at two million. If more tourists come to Malaysia in the next six months, the huge influx might prove problematic for hoteliers and restaurateurs in terms of operational capacity and manpower requirements.

In fact, many hotels have started the practice of reducing daily changes of linens and towels to three times a week. Staffing limitations also led some hotels with 400 rooms operating at half capacity, assigning only 200 rooms as available (The State of the Nation: Hospitality industry struggling to cope despite borders reopening, *brighter, The Edge Markets*, June 27, 2022)

In addition, the Malaysian Indian Restaurant Owners Association president J. Govindasamy revealed to Free Malaysia Today that the labour shortage also left restaurants with no choice but to shorten their operating hours or reduce menu offerings. Some mamak restaurants that used to open 24 hours daily in pre-pandemic times only could operate until 2am or 3am at most nowadays due to labour shortages.

Concerning the ongoing labour crunch in Malaysia, this raises the critical question as to whether the latest unemployment figure is truly reflective of the current employment landscape.

By extension, is the labour crunch indicative of a tight labour market and, hence, the economy is on a stronger footing now?

That is, in terms of the proximity between the actual output level with the potential output level, can we, therefore, by extension say that aggregate demand is stronger than before?

Let us look into the category of “employed persons” as defined by the Statistics Department.

Aside from those who work for eight hours per day in a five-day work week, “employed persons” also involve those who work only one hour a week and may be unpaid workers in a family enterprise setting.

In this case, e-hailing drivers, delivery riders, and other type of freelancers are also classified as (fully) “employed” individuals.

As the official employment figure includes individuals in the wider gig sector, it may not clearly capture to what extent labour is underutilised in Malaysia relative to the productive capacity or potential output.

Emir Research’s findings in 2020 showed that close to 26% of Malaysia’s workforce (equivalent of four million freelancers) work in the gig economy. However, as lockdown measures arising from the Covid-19 pandemic over the past two years have given some the opportunity to re-evaluate their life priorities and career or occupational choices, there has a “permanent” switch from conventional to gig economy jobs.

Hence, it will not be surprising if estimates suggest that Malaysia currently has around one-third of the labour force (more than five million) employed as gig workers.

Such changes in career perceptions appear to tally with recent findings from human resources solutions agency Randstad. Nine out of 10 now prefer to “take matters into their own hands” to improve their work-life balance – with 44% opting for flexible work time slots and 33% choosing to work from home more often.

As a result, many corporate and industrial players are currently facing some difficulty recruiting workers who were initially laid off during the pandemic. Although some business owners offer higher salaries ranging from RM2,000 to RM5,000 per month, quite a number of Malaysians are more attracted to gig economy style of employment terms and conditions.

To ensure we are not overly reliant on the gig economy to generate employment, Emir Research has several policy recommendations for the current administration to consider:

Short-term:

Speed up approvals on hiring skilled and low-skilled foreign labour to counter the current shortage.

The government should harness foreign-skilled talents to fill up a total of 73,766 job vacancies requiring qualifications in technical and vocational education and training; backgrounds in science, technology, engineering and mathematics subjects; and under the critical occupation list, as highlighted in **Statistics Department’s Job Market Insights and Job Profile** report in the first quarter.

In addition, the government could reduce the documentation required for foreign labour permit applications and shorten the approval process from five to two days.

#### Medium-term:

Recruiting foreign labour is only a temporary solution for Malaysia to have a bigger workforce stimulating the country's production and economic growth.

At the same time, the current administration could reassess and improve on the effectiveness of the Returning Expert Programme (REP) that was introduced by Talent Corp Malaysia Bhd two decades ago in order to attract more overseas Malaysians to return home.

A total number of 5,774 REP applications were approved between 2011 to 2020. However, this is still far from sufficient to address the ongoing brain drain issue in Malaysia. Emir Research has addressed the issue in "Malaysian brain drain – don't go chasing waterfalls" (May 25, 2022, Malaysiakini) that the global Malaysian diaspora could reach up to two million by 2022, whereby about half a million highly skilled professionals are in the category of 25 years' old and above.

To prevent more young Malaysians from leaving the country for good, the government should be thinking about designing (high-skilled and high-income) jobs that meet the expectations and aspirations of Gen Z and millennials. This might include an "open concept" workspace and flexible working hours as well as integrating work and play in the same environment.

In addition, the Human Resources Ministry and TalentCorp could introduce an annual Asean exchange programme for professionals aged 21 to 40 with a duration of up to six months.

Malaysians could choose to work in one of the Asean countries such as Indonesia, Thailand and Vietnam and experience and be exposed to the local work culture there. Upon returning, they could then provide feedback on how lessons could be learnt to further enhance or improve the working environment back in Malaysia.

#### Long-term:

Revamping the education system with a stronger focus on Science, Technology, Reading, Engineering, Arts and Mathematics (STREAM) at primary, secondary and university levels.

It is critical, however, that the STREAM initiative is supported by the necessary digital devices and connectivity. Students without digital and internet accessibility are not able to upgrade themselves with the relevant knowledge set and practical skills, thereby diminishing their chances of finding well-paying jobs later in life.

Incorporating a mix-and-match academic culture whereby students from one discipline can minor in or adopt a discipline or field of study from a different faculty. For example, a law student should be able to incorporate some modules in engineering, which will enhance problem-solving skills. Students can then be better equipped with the necessary technical or digital and soft skills while adapting to rapid changes in industry demand.

To conclude, Malaysia needs to embark on wide-ranging structural reforms before "it is too late".

Perhaps, we can start to classify brain drain as a form of “voluntary unemployment” (borrowing the cue from mainstream economics textbooks). Then the government might be compelled to take the issue more seriously.

With a stronger emphasis on nurturing high-skilled local talents and creating high-skilled, high-income jobs, Malaysians tempted to seek greener pastures abroad will be motivated to stay back and contribute to the nation’s economy. – July 15, 2022.

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