

# ***Impact of Immigration on Labor Markets in Peninsular Malaysia***

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**NUPRI Research Paper Series No.31**

**March 1986**

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## A B S T R A C T

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The paper examines the impact of both legal and illegal immigration on the dynamics of labor markets in Peninsular Malaysia. The impact is seen as dependent on the particular labor markets which absorb such immigrant workers. There tend to be certain characteristic features which determine the role of particular labor markets in drawing in migrant labor and which influence the flexibility of labor supply. The focus of the paper is on the extent to which foreign labor inflows stabilize labor market disequilibrium, the manner in which different types of immigrant labor affect labor market segmentation, and the impact on the productivity and mobility of the local labor force. The final section of the paper draws out the broader implications of the Malaysian experience. For countries that rely upon imports to augment local labor supply or to deal with labor market distortions, the key issues are whether such workers are indeed flexible or temporary and whether their presence may not in fact hamper the adjustment process in local labor markets and the structural transformation of a developing economy.

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## I. Introduction

Studies on population mobility in Malaysia have focussed almost exclusively on internal migration. But since the end of the 1970's, a new migration phenomenon has come to the fore, viz. the significant inflow of immigrant labor, both legal and illegal, into Malaysia. This paper examines the impact of such labor immigration on the dynamics of labor markets in Peninsular Malaysia. Only Peninsular Malaysia is covered because, unfortunately, data are in short supply for East Malaysia where the labor market experiences have been quite different. East Malaysia has always been generally labor-short and has traditionally had relatively large inflows of migrants mainly from the Philippines and Indonesia. The focus of the paper is on the processes of labor market adjustments and changes due to the presence of migrant labor and the specific issues of concern are:

- i) the extent to which foreign labor inflows stabilize labor market disequilibrium. The impact of international migration can be seen as dependent on the particular labor market conditions in the country of immigration. There are three main labor market situations which tend to be related to international migration:
  - a) where excess labor demand is at the origin of labor imports either because of a general labor scarcity or because of occupationally localized labor shortages;
  - b) where there is still substantial unemployment, migrants whose presence is not dictated by flexible or temporary supply considerations may compete with or displace native labor; and
  - c) where not structurally required, the presence of immigrant labor may stimulate the growth of its own demand in labor-sensitive industries or may create its own employment in the informal sector.
- ii) the manner in which different types of immigrant labor affect labor market segmentation. The extent to which migrant status acts as some form of barrier which isolates such workers as a non-competing group within local labor markets or which restricts them from taking any action aimed at altering their location in the market. In this context, it is important to examine wage differentials between migrant and non-migrant workers and the impact of immigration on wage adjustments. There is also the issue of

whether domestic labor markets are not themselves already so segmented that unemployment can persist because locals are not prepared to go into certain jobs.

- iii) the impact on labor productivity. One rationale given for the government policy on the importation of foreign labor is that it not only makes available the necessary skills for rapid economic progress but also ensures that these skills are imparted to the local labor force. The question is raised if in other ways, the presence of migrant labor discourages investment in local human capital.
- iv) whether immigrants contribute to the more efficient functioning of local labor markets through sustaining or improving the geographical and occupational mobility of the Malaysian labor force. Does the presence of international migrants stimulate the internal migration of natives? Where migrant workers go into those jobs and areas which are no longer attractive to locals, they may in fact increase the range and flexibility of the host country's human resources by "freeing" them for work in other labor markets.
- v) the impact on the processes of adjustment within particular labor markets and the economy as a whole. The traditional argument was that in situations of labor shortages, migrant labor contributes to flexibility of labor supply for meeting short-term, seasonal or cyclical labor requirements. But whether, in fact, such labor is indeed flexible or temporary is a key question. The presence of immigrant labor may also hamper the adjustment process in labor markets and the structural transformation of a developing economy. Importing foreign labor is but one, and not necessarily the best, solution to a labor supply-demand imbalance problem.

To address these issues, the paper is organized as follows. The first section provides an overview of the labor markets in Malaysia and the main types and magnitudes of migrant labor flows into the country. The second section identifies the labor markets which absorb migrant workers. There tend to be certain characteristic features which determine the role of particular labor markets in drawing in migrant labor and which tend to affect the flexibility of labor supply. Subsequent sections examine the labor market and workplace experience of migrant workers to analyze the role of immigration in labor market segmentation, labor productivity and labor mobility. In the final section, the

broader implications of the Malaysian experience are reviewed. For countries that have relied upon imports to augment local labor supply or to deal with labor market distortions, there are several longer-term policy considerations.

## II. An Overview of Malaysian Labor Markets and Migrant Flows

In colonial times, the labor needed for the country's early economic development was supplied by the various waves of migratory movements. From the late nineteenth century up to the 1930's, immigrant labor from China and India came into Peninsular Malaysia either on an individual basis or under a contract labor system to meet the demand for labor created by the expansion of the tin-mining industry and rubber plantations. Since the Second World War, however, the more settled population in the country has been indigenously supplying the bulk of the local labor markets. Largely as a consequence of the high fertility rates in the 1950's, there has been a rapid growth of the Malaysian labor force, particularly of young, first-time job-seekers.

Peninsular Malaysia entered the decade of the 1970's with labor force growth outstripping employment creation. There was general labor surplus and open unemployment as high as 7.8 percent per annum. But with significant economic and social growth and restructuring, there has since been a dramatic reversal of Malaysia's labor supply and demand trends. The country entered the decade of the 1980's with increasing supply tightness in the labor market in particular sectors of the economy, in spite of overall labor force growth of 2.9 percent per annum, considerable increases in productivity and a deceleration of labor demand due to the recession.

Serious shortfalls of workers have been experienced in the commercial rubber and oil palm plantation sector particularly in the southern state of Johore, in the new land development schemes on the East coast of Peninsular Malaysia, in paddy and rubber smallholding areas, and in the building industry.<sup>1/</sup>

The inadequate supply of highly skilled professional, technical and management manpower is the other form of labor shortage which has long been recognized as a constraint on the country's development efforts. This problem has become more crucial as Malaysian attempts to

move into high technology and more sophisticated capital-intensive industries.

The shortages related to labor at the lower end of the skill spectrum tend to reflect more fundamentally the overall trends in quantitative labor supply in the country. On the other hand, shortages of semi-skilled or skilled urban manpower may be more a qualitative matter of manpower mismanagement or mistraining so that there are mismatches or adjustment problems in the market.

While the labor shortages became more prevalent at both ends of the skill spectrum, there was at the same time a burgeoning of the labor surplus among the middle level occupational categories. With the still substantial growth of working age population and as a consequence of the rapid expansion of secondary education, the number of labor market entrants with secondary educational qualifications has been exceeding the number of lower white collar occupations created by the development process.

The existence of labor shortages side-by-side with labor surplus occupations, sectors and locations and inflexibilities in adjustments can be briefly explained in terms of the historical and cultural fragmentation of Malaysian labor markets along ethnic lines, institutional regulations and government intervention, rigid market structures, and mobility/immobility of local labor.

Traditionally, ethnic fragmentation was so strong that in effect there were insulated labor markets for each of the three main ethnic groups in Malaysia. The Malays have been heavily concentrated in agriculture and the public sector. The Chinese have been predominantly in the private sector in mining and quarrying, manufacturing, commerce, construction, and personal services. The Indians made up virtually the entire resident workforce in the plantation sector and have also been heavily represented in public utilities. At least up to the implementation of the New Economic Policy in 1970, and to some extent even since then, institutional and customary rules tended to maintain these separate markets (Hirschman 1972; Mehmet 1972; and Snodgrass 1980). In these insulated labor markets, it was possible for wage differentials to persist and for labor surplus to co-exist with labor shortage without generating any appreciable mobility or interchange of labor between them.

Although one aim of the New Economic Policy has been to break down

these segregated and segmented labor markets, other types of institutional barriers have developed and workers of different ethnic groups may still tend to retain different occupational prestige scales and job preferences. For instance, the Chinese have never shown an affinity for agriculture. In all three ethnic groups, the returns on education have been associated strongly with white collar jobs and there has been a growing reluctance on the part of educated first-time job-seekers to go into rural, agricultural jobs. Since 1970, the quota system established under the New Economic Policy has ensured a market for Malay workers in the higher income modern urban sectors. Also, the more recent policies of encouraging joint venture enterprises between locals and foreigners and awarding large contracts to foreign contractors and firms have effectively reserved a section of the relevant labor markets for foreign workers.

Other factors which have exacerbated market rigidities, or the lag in labor market adjustments to the tightening supply situation, include the reluctance of employers to adjust wages, especially with the down trend in economic conditions and the fall in agricultural prices; the existence of employers associations, particularly in the plantation sector which observe collective wage agreements and inhibit individual employers from making wage adjustments as appropriate to their particular locations; the persistence of contract hiring for unskilled labor, which clearly reduces worker organization and their effectiveness in pressing for wage adjustments; and the more limited scope for labor substitution or mechanization for tree crops in the plantation sector.

Supply-demand imbalances in both rural and urban labor markets can be viewed in the context of labor mobility within the country. Increasing mobility and redistribution of population in the process of structural transformation of an economy is a common phenomenon. It is interesting that in Malaysia there has been an exodus on a scale sufficient to change a basic under-utilization situation in the rural areas to large pockets of labor shortages, and although moving increasingly to urban areas and even to international markets, labor tends to be laterally immobile between surplus and shortage areas within the rural sector itself. Although the official census statistics indicate that rural-rural migration is still the dominant form of mobility in the country, the movement was almost exclusively

into land schemes and has tended to be only a first generation move, with the second generation subsequently migrating out of the schemes. Also, in absolute numbers, the movement into urban areas was substantial especially since urban in-migration was concentrated mainly in a few large urban centers, with the redistribution of population up the urban hierarchy. Over the decade 1970-80, the Klang Valley conurbation (The word "conurbation" is a geographical term referring to the spatial concept of a large city surrounded by several urban districts. This term is often used to refer to Kuala Lumpur, Petaling Jaya, Shah Alam and Klang viewed as one large urban concentration.) alone received a net inflow of some 450,000 (or about 40 percent of all) interstate migrants.

With the emerging labor shortages, Malaysia has come to rely again on the importation of labor. The frontiers of labor recruitment have expanded de facto beyond the country's political boundaries and although not a concerted action, there has come to be reliance on the seemingly unlimited supply of cheap labor from neighboring countries. Complementing this, the poorer economic conditions in these countries have stimulated labor emigration to Malaysia. The circulation of migrant workers to and from other countries is now a significant feature of Malaysia's labor situation.

The main labor flows into Peninsular Malaysia, albeit illegal, are from the neighboring ASEAN countries, chiefly from Sumatra and other nearby Indonesian islands and from Southern Thailand. Officially, the largest number of immigrant workers appear to come from Malaysia's neighbor to the north which shares a common border. The 1980 Population Census recorded the number of Thais living in Peninsular Malaysia as having increased from 7,000 in 1970 to 17,500 in 1980, an increase of two and a half times. The majority were recent migrants, with about 59 percent having resided in Malaysia for less than five years. Official census statistics recorded an increase of only 1.8 thousand Indonesians in Peninsular Malaysia between 1970-80, but the Census Report itself admitted this figure to be an under-estimation because of the illegal status of those concerned. Unofficial figures go as high as 700,000 but the generally accepted estimates are in the range of 100,000 to 300,000.<sup>2/</sup>

In May 1984, the Malaysian government signed a Supply of Workers Agreement (the Medan Agreement) with Indonesia under which the latter

would supply six specific categories of workers on two-year contracts as and when requested by Malaysia. This agreement was supposed to be the manifestation of a Malaysian government decision made early in 1982 to import workers from the ASEAN countries, India, Bangladesh and Sri Lanka to boost its labor force, and was seen to be the first of a series of government-to-government labor procurement deals that would have committees from both countries to oversee recruitment arrangements to hire guest workers directly, with the standard pay and fringe benefits of Malaysian workers. However, as of October 1984, only 100 Indonesian workers were reported to have been brought in legally under this agreement (which requires employers to pay M\$500 deposit for each immigrant worker). Even then, the plantation that brought in these workers reported that as of February 1985, it had only 35 workers left, the others had absconded (presumably for other sectors) leaving behind their work permit papers, identification documents, etc. This would imply not only that employers are not ready to go through the formal channels for employing such workers but more important, that the Indonesia workers were still choosing and still able to enter Malaysian labor markets through clandestine means through which their wages and whereabouts are not closely monitored by the authorities.

While the illegal Thai and Indonesia immigrant workers have been mainly attracted by the availability of unskilled manual jobs in certain sectors and locations, other foreigners have also been coming in to meet a more widespread demand for skilled and semi-skilled workers. Top-level expatriates and skilled and semi-skilled workers have been issued special employment passes to come into the country under varying conditions. Those holding key positions representing the interests of foreign companies are allowed to stay indefinitely. Those with skills or expertise for which qualified and experienced Malaysians are not available, normally are granted five-year stays. But more recently, skilled and semi-skilled workers have also been allowed in for a few months or for the length of a specific project. Those who come in on such short-term stints include workers with skills the country is supposedly short of--such as masons in the construction industry or underwater welders in the petroleum industry. The stay of such workers is determined by the work schedule and progress of the project on which they are engaged.

The number of such legal migrant workers has been rising sharply

from an average of 3,000-4,000 per annum in the 1970's to about 14,000 in 1982 and more than 20,000 in 1983. The ethnic composition of these foreign workers has also changed over the years in line with the changing pattern of foreign investments in Malaysia. In 1981, 19 percent of those on employment passes were Japanese who have edged out the British (14 percent), while 11 percent were Americans, 10 percent Indians, 8 percent Singaporeans, 6 percent South Koreans and the rest from a number of other nations.

The picture would not be complete without brief mention of the international flows of Malaysian labor. While on the one hand, the major proportion of immigrant labor joining Malaysian labor markets is unskilled; on the other hand, skilled Malaysians have been emigrating (mainly temporarily, although there is some permanent brain drain), to work in other countries. The largest outflow is that to Singapore. Up to 1982, Malaysians comprised 10-12 percent of Singapore's workforce and were estimated to number about 100,000-120,000, of which 11,000-12,000 commuted to work daily between the southern tip of the Peninsula and Singapore. In the second half of the 1970's, Malaysian workers also left for the lucrative labor markets in the Middle East. Although there has been a slowdown in recruitment since 1979, it was estimated in 1983 that there were still about 3,000 Malaysian workers in the Middle East.

The emigration of Malaysian labor to other countries is a definite loss to Malaysia, not only in terms of the loss of human capital but also because Malaysia, unlike other poor labor-exporting countries, is not looking to this channel to solve its employment problems. In fact, labor emigration was partly responsible for the shortage in certain markets. So long as the channels remain open for lucrative work overseas, they affect the attitudes of potential job seekers towards the Malaysian labor markets. For the potential emigrants, overseas jobs represent a means of economic, geographical and social mobility, so they are less willing to take up the mundane jobs available locally. However, since Singapore's announcement in January 1982 that it is phasing out guest workers to move towards a wholly indigenous workforce, there has been a reversal in the flow. The latest estimate is that some 50,000-70,000 Malaysian workers have been retrenched from Singapore (Sunday Times, January 12, 1986, p. 1 quoting Malaysia's Prime Minister).

### III. The Labor Markets for Migrant Workers

The impact of labor immigration depends on which labor markets such migrants enter. Certain labor markets are more likely to attract illegal migrant workers, and particular labor market conditions will determine the impact of immigrant labor.

The illegal Thai and Indonesian migrants go mainly into the blue-collar manual labor markets where job information is available through informal channels, employment is freely available and flexible, and the chances of being reported to official authorities small. The ease of entry into these labor markets is an important consideration. This explains the concentration of illegal migrants in the labor shortage sectors and in the informal sector. The Thai immigrants have gone mainly into agriculture and the personal service sector confined to the northern states of Perlis and Kelantan. As many as 10,000 Thai male migrants cross over from Southern Thailand to temporarily fill the high demand for labor during the peak paddy seasons. Thai girls work in restaurants and other eating shops or as housemaids. Indonesian girls are similarly in demand for domestic service. But Indonesian men have gone into a wider range of labor markets because they are of the same ethnic stock and speak the same language as the Malays so they find it easier to achieve both economic and social integration. They work as contract labor on plantations and new land development schemes particularly in the labor shortage states of Pahang and Johore, on many construction sites in urban areas and are actively and openly engaged in the informal sector hawking or engaged in petty trading. The Indonesian migrants become part of the local landscape quite easily and this allows them to mingle in the street economy. They also have the advantage of access to avenues for legalizing their status in the country<sup>3/</sup> and are therefore in a better position to enter the labor market for locals.

The labor markets for illegal migrants tend to be characterized by subcontracting since it is convenient both for such workers who often have to rely on contractors for contacts and job information, as well as for employers who do not want them on their permanent employment list, and who are interested in reducing their fixed costs and avoiding payment of social benefits. In a dynamic sense, use of migrant labor through subcontracting allows for more flexible adjustments in the

labor markets since they are hired only for specific jobs and time-spans. They represent a convenient floating reserve of labor which is capable of satisfying fluctuating labor requirements. Insofar as they are more mobile and can be easily hired and fired, they are an attractive source of labor in those sectors where demand for labor is seasonal, as in agriculture, or on construction sites which spring up in different places and operate for limited periods only.

Migrant workers also predominate where the availability of a cheap source of labor supply as compared to other more expensive labor-saving devices (such as mechanization in construction or laundries instead of housemaids) tend to reinforce the demand for such labor. Construction and domestic service can be seen as flexible sectors since with an abundant supply of cheap, amenable migrant labor, demand can tend to be extremely elastic and although less labor-intensive techniques are technologically possible, there is little incentive to switch.

Where unskilled illegal migrants have gone into the quantitatively labor-short sectors and areas or do jobs no longer attractive to locals, they do not appear to put pressure on these labor markets nor do they arouse the resentment of locals.<sup>4/</sup> But where illegal migrants have taken it upon themselves to "create" their own employment in the informal sector, they have been seen as crowding out the market and providing unwelcome competition.<sup>5/</sup> It is the Indonesians who seem to be most resented by the locals; this resentment has clearly grown with the recessionary effects and the increasing scale of retrenchment in the country.

At the other end of the scale, the presence of guest workers on employment passes has been sanctioned by the Malaysian government on the grounds that they are needed to represent the rapidly growing foreign investments in the country and to carry out major projects requiring highly sophisticated levels of technology and specialized skills. These guest workers therefore tend to go into the new growth, high technology industries which depend on technical and management knowledge not currently possessed by locals. In the earlier years of Malaysia's economic development, such skilled personnel went mainly into the plantations sector, but now their demand is highest in the leading manufacturing, petroleum and construction industries. They are supposed to be responsible for the installation and operation of new machinery or techniques, for training local workers and for providing

supervisory, management and consultancy services.

Guest workers have also carved a niche for themselves in local labor markets through foreign investments. The Malaysian government has been actively encouraging the setting up of joint ventures between foreigners and locals either on a permanent or project-to-project basis. As part of the agreement, top-level executive staff are allowed unlimited stay in the country to represent their investment interests. More recently, foreign workers have also won places for themselves on major development projects where the government considered control of the time schedule and quality control to be of prime importance. The Malaysian government itself created a market for these guest workers by awarding large construction projects and turnkey projects to foreign contractors who brought in large teams of their own workers. On all new government or joint venture projects, it was common to find groups of Japanese or Korean workers on-site.

These skilled foreign workers theoretically represent a source of flexible supply: they are available at short notice, their entry and length of stay are determined by the perceived need for their skills or expertise, and they do not require training as do local personnel. The fact that their employment passes are issued through the Malaysianization Secretariat of the Immigration Department is reflective of the official government policy to allow these migrants only temporary employment in the country and to have scheduled programs for eventually replacing them with Malaysians. Firms which apply for expatriate posts are also required at the same time to submit plans for training Malaysian staff in various capacities to the two inter-Ministry committees that process such applications. The length of stay granted to such foreign workers is granted according to how long it will take to train Malaysians to take over.

Official reports all stress that Malaysia needs these skilled foreign workers and foreign investments. But at the actual labor market level, it has been less clear that, unlike the case of the unskilled labor markets in which illegal migrants work, there has been no crowding-out effect. In certain skilled and professional labor markets, there has been growing local resentment that foreign firms and foreign workers are providing unnecessary, if not unfair, competition. It is not just that the government has been awarding tenders for multi-million dollar projects to foreign firms or multinationals. Locals

have expressed alarm at the way these MNCs have brought in whole in-house teams of architects, engineers, technicians, skilled and semi-skilled workers. Locals feel that the government rationale that important projects will thus be finished on schedule does not justify the entry of additional thousands of temporary migrant workers, especially when insufficient efforts have been made to train locals. The local versus foreign competition aspect has intensified as the world-wide recession has shrunk markets in the domestic economy and as foreign firms have turned to Malaysian development contracts to keep their own overheads paid or their own workers employed, and are prepared and able to bid very low against local competitors.

#### IV. Immigration and Labor Market Segmentation

Intrinsic in the labor market dynamics of international migration is labor market segmentation. Firstly, it is important to recognize that domestic labor markets may be so segmented that unemployment can persist because locals are not prepared to go into certain jobs. Immigrant labor would then merely fill the gap rather than pose competition. Chinese labor, for instance, has never been attracted to the agricultural sector and insofar as agricultural work and the lifestyle normally associated with such work have lost their appeal, especially to the educated young Malay entrants into the labor force, the labor shortage in this sector can persist even in a situation of growing unemployment in the country. Malaysia may also need to consider that (as the experience of the European and Mediterranean countries has shown; Reyneri 1985: p. 190), due to the segmentation of domestic labor markets (where the primary labor supply is inflexibly opposed to jobs which are no longer socially acceptable), it may be difficult to replace foreign workers by domestic workers and the demand for immigrant labor particularly in agriculture can remain considerable even in the face of the economic crisis and rising unemployment of the 1980's.

In the context of segmentation, it may also be important to examine the extent to which migrant status acts as some form of barrier which isolates such workers as a non-competing group within local labor markets or which restricts them from taking any action aimed at altering their location in the market. The impact of immigration can

be viewed in terms of how it divides the labor market into separate sub-markets or segments distinguished by different characteristics, behavioral rules and working conditions. The labor market can be further segmented depending on whether the migrant workers are accorded legal or illegal status. It is important to examine labor market segmentation if migrants are defined in separate labor markets and are not integrated with locals, as there may be no visible displacement effects on the one hand, nor easy mobility or access from one market to another, on the other hand. If, for instance, the markets for illegals are characterized by lower wages and unstable and poor working conditions, locals might not want to move into these markets; and furthermore, by accepting such conditions, the illegals are virtually cornering these markets for themselves.

Just as local labor supply is not homogenous, so immigrants are distinguished not only by their personal qualifications such as education, skills and experience, but also by certain given characteristics over which they have little or no control (such as their legal or illegal status or their ethnic origin), which determine their access to employment and income opportunities. Migrant workers, whether their status is legal or not, are in the first instance segmented from local workers in that they are officially only temporary workers. The Malaysian government has so far not offered citizenship to this wave of immigrants which means that with little notice, they may be asked to leave (as was evident from the deportation of more than 9,000 Indonesians from the state of Johore alone in 1985; The Star, January 17, 1986, p. 2). The impact of legality of status of the migrants is also important in that not only are migrants segregated from locals but legal and illegal migrants represent distinctly different inflows impinging on completely separate labor markets. Those with illegal status are more clearly defined as a non-competing group in that their presence in the labor market is clandestine in relation to locals and those legal migrants who have the "right" to work. This segmentation occurs because the Malaysian government grants legal status only to the top level skills, so legals and illegals are at different ends of the skill spectrum.

A significant aspect of the impact of immigration on labor market segmentation is the different earnings functions both in terms of monetary remuneration and other fringe benefits facing migrants and

locals. Although Malaysian wage statistics are not differentiated for immigrant and non-immigrant workers, industry sources confirm that the earnings functions facing these non-competing groups differ widely. It is a common fact that illegal migrant workers find a ready labor market not just because they help to ease supply bottlenecks but because they are prepared to do so under less favorable conditions and for less pay and they are not likely to complain or seek redress. Differentials of one and a half to two times between the wages of locals and migrants are not uncommon. Table 1 indicates the magnitude of the wage differentials in the construction industry. In other sectors, Thai migrant workers on the trawlers off the East Coast states get M\$10 a day while the Malaysian crew ask for twice as much. The Thai and Indonesian girls working as maids earn between M\$100-150 per month compared to Malay maids who earn M\$150-200 and Chinese maids who get between M\$300-400. In the plantation sector, employers claim that they pay the immigrant labor sufficient rates to abide by the Malaysian Agricultural Producers Association/National Union of Plantation Workers agreements

Table 1. Average Monthly Wages for Selected Occupations in the Construction Industry (M\$)

	Malay	Chinese	Indian	Non-Citizen (Indonesian)	All
Barbender	690	889	688	645	727
Carpenter	765	878	690	635	772
Plasterer	769	1,015	723	509	890
Bricklayer	777	759	605	580	749
Concreter	739	758	631	564	695
Mason	728	925	727	652	793
General Worker	517	860	569	651	627

Source: Ministry of Labour 1985: 140

but admit that they are aware that since such workers are normally hired through contractors rather than directly, they may receive much lower rates from the contractors. In addition, migrant workers are not entitled to Employees Provident Fund contributions nor other social security benefits. Some plantations also do not make available to migrant workers hired through contractors, the housing, health services, estate schools, creches and other basic amenities which are a crucial aspect of plantation life.

The situation is reversed in the case of earnings differentials between locals and those on employment passes. These foreign workers earn wages determined with reference to the rates in their native countries rather than the prevailing rates for comparable positions in Malaysia. Such a process of wage determination places salaries for foreign workers at one and a half times to twice what Malaysians in similar positions would earn. Expatriates are also entitled to a wide range of fringe benefits including housing, home leave and passage arrangements, free education for children, membership in exclusive clubs, etc. to supposedly compensate them for the overseas posting.<sup>6/</sup>

Perhaps the more significant consideration is the impact of immigration on wage adjustments. It has been argued that migrant workers affect the dynamics of labor market processes in that their availability on cheap, easily controllable terms would tend to discourage upward wage adjustments by local employers. The most obvious way of dealing with a labor shortage situation is through increasing the supply price of labor, and this would be a desirable solution in terms of Malaysia's poverty eradication and equity objectives.<sup>7/</sup> But automatic wage adjustments would be less likely when the supply of labor can be augmented from outside sources at relatively low cost.

A cursory examination of wage trends and differentials in Malaysia do not, however, bear out clearly that immigration has had a significant impact in this direction. In the plantation sector where labor shortages have been most serious and the intake of migrants large, available wage data indicate that earnings of manual estate workers had generally risen by the end of the 1970's and increases in wage rates for the occupations in short supply, in particular weeders and oil palm harvestors, have been comparable, if not higher than for those occupations which have not experienced such tight supply and which therefore have not absorbed so many migrants. The average annual increase in

wage rates between 1973-83 for weeders in rubber estates was about 9.4 percent compared to increases of between 7-9 percent for other blue-collar occupations in the industry including mandores (supervisors), rubber tappers and arsenite sprayers. In fact, wages for rubber tapping, which tends to require more skill or experience and which therefore uses less migrant workers, increased at only about 6.5 percent per annum over the same period. In the oil palm industry, monthly earnings for harvestors rose by about 9 percent per annum for the same period which again was higher than the increases registered for other categories of manual work in the industry. A comparison with wage trends in other industries also did not indicate that wages were appreciably depressed by immigration. For instance, unskilled production workers in manufacturing who were not in such short supply and who do not normally include migrants, had increases in average annual earnings of just over 10 percent for the period 1972-83. Construction, the other major sector using migrant labor, registered dramatic increases in wages for various categories of skilled and unskilled workers in the second half of the 1970's. For instance, average monthly earnings of unskilled laborers went up from M\$140 in 1972 to M\$397 by 1983.

It would appear that in the labor markets where supply was extremely tight, the entry of immigrant labor did not significantly depress upward wage adjustments. Employers have also claimed that, in partial response to labor market tightness, they resorted increasingly to non-wage adjustments such as improved housing amenities, worker-owned housing schemes, etc. to retain rural workers. However, it could be pointed out that since wages in the labor-short sectors were very low to begin with, the wage adjustments that have taken place have not been sufficient to attract local labor. In the absence of migrant workers, more substantial adjustments might have been made.

#### V. Impact of Immigration on Labor Productivity and Mobility

A major contribution of foreign workers is supposed to be skill development and skill transfer to Malaysians so that there should be some upgrading of the quality of the local labor force. The presence of foreign workers should therefore increase supply not only in quantitative but also in qualitative terms. Foreigners are supposed to train

local manpower and transfer skills and technology through on-site training of local workers, arranging training programs such as bringing Malaysians to their home countries and through having Malaysians understudy the foreigners in executive positions. The government view appears to be that local labor working side-by-side with foreign workers will have vast opportunities for acquiring the necessary skills and technology. The Malaysian Prime Minister himself has stressed that locals should also be able to learn a lot from the management skills practised by the foreigners.

To ensure technology transfer and skill training for locals, the Malaysian government has stipulated that multinational firms awarded large government contracts will not only have to provide training schemes for local semi-skilled and skilled workers, professionals and sub-professionals, but there should also be 30 percent Malay participation. The Malaysian government also requires that local firms applying for foreign workers' employment passes must submit plans and schedules for training Malaysian staff in various capacities.

Government officials also indicated that implicitly the government believed that immigrant workers may raise the competitive spirit of Malaysians and inspire jobless locals. Malaysia's Prime Minister has argued that Malaysians should not complain that jobs have been given to foreigners but should prove instead that they can handle the jobs as well and that they should not expect to be given contracts only on the basis of their Malaysian citizenship. The presence of foreign workers was therefore expected to motivate locals and to encourage them to match the foreigners in skills and expertise.

On the whole, official statements indicate that the government is generally satisfied with the role legal migrants have played in terms of the transfer of technology and skill training for locals. But several Malaysian workers' unions and professional associations have vehemently claimed that the actual amount of technology transfer and skill development gained by locals is very limited. Apart from a language barrier (a number of experts attached to firms here are non-English and non-Malay speaking), skill transfers have been difficult to achieve in the commonly encountered situations of discriminatory treatment between foreign and local workers on the same job. Furthermore, the natural suspicion on the part of locals and the cliquishness of foreigners in a strange country make it difficult for the locals to

emulate or learn from the foreign workers.

At another level, productivity can also be affected where illegal migrants have weaker physical constitutions or are overworked or do not have the necessary experience for manual work. For example, it has been found on some rubber estates that rubber trees have been spoiled by inexperienced migrant tappers. Of course, there are other situations where these illegals have contributed to raising productivity through their hardworking ways. The Construction Workers Union has admitted that the Indonesians are hardworking, taking over from local workers in the evenings and doing overtime.

But the presence of migrant workers may seriously affect productivity through delaying, inhibiting or preventing the upgrading of the local labor force. The availability of low-cost foreign labor may discourage local employers from investing in the training of citizen workers or from searching for ways of more effectively tapping unutilized local resources, such as through the introduction of flexible shift work or work at home schemes or raising the retirement age to draw educated married women or older people into the labor force.

However, to the extent that immigrant workers stimulate the internal migration of locals in both spatial and occupational terms, they make a positive contribution. Labor mobility is an essential feature of well-functioning labor markets. Immigration can be seen as a form of replacement mobility in situations where the immigrant labor goes into the vacancies created by either the internal or international migration of locals. There is a process of readjustment in domestic labor markets as Malaysians leave rural areas and agricultural jobs for modern industrial or public sector employment or go overseas to more lucrative labor markets, and illegals come in to fill the less attractive positions the locals have vacated. In this sense, immigrant workers help to promote the geographical and vertical mobility of locals and "free" them for work in the modern urban sectors. One reason why Thai immigrants have been snapped up in Kelantan is that they took the place of some 30,000 Kelantanese youths who left the state to work in the large towns or Singapore. The availability of these unskilled migrant workers may also allow the increased mobility of female labor from the rural areas. Where the menfolk have migrated from the rural areas, women normally have to take their place on the farms or smallholdings. But with the migrant labor to keep the farms

operating, young Malaysian females may have found it easier to leave the rural areas to work in the industrial factories, etc. Especially if internal labor reserves become progressively exhausted as in rural areas, and if illegal immigrant workers continue to flow into the country unchecked, the tendency may be for these migrant workers to increasingly replace locals in the less-skilled manual jobs.

At another level, there may be a negative impact if increasing competition between the rising Malaysian professional class and foreigners for superior employment and other facilities (particularly the non-Malaya who may have to compete not only against the Malays but also the foreigners). Such a negative impact may lead these locals to emigrate to other countries where they feel their skills and expertise will be more lucratively recognized. This would represent a serious loss of already scarce domestic resources. Protests are often lodged by Malaysian professional bodies that in the competition for jobs equally well qualified locals have been passed over in favor of foreigners. If professional Malaysians become disgruntled with their prospects for advancement, they may be prompted to move to another country--especially Singapore--where plans for restructuring into high-technology industries is likely to increase the demand for their skills and where wages have traditionally been at least 40 percent higher (although, admittedly, Singapore's current economic problems mean such a direction of labor flow is for the moment not likely).

On the other hand, the return migration of semiskilled or lower-skilled Malaysians from Singapore would represent a potential means of alleviating domestic labor shortages and should be preferable to the importation of foreign workers. But their actual impact on local labor markets is uncertain. It is not likely that they will want to go into the agricultural sector where the most severe bottlenecks exist. They may not even employ the skills acquired abroad upon their return either because they do not wish to resume work at relatively low wages and may therefore seek to emigrate again or because, as some evidence suggests, they prefer to put their accumulated savings into businesses which may bear no relationship to their acquired skills. In such cases, Malaysia will not benefit from the skill transfer.

## VI. The Broader Implications and Policy Considerations

The impact of labor immigration in Malaysia has been portrayed in terms of the conditions in separate segmented labor markets where there have been essentially three main types of effects: complementarity in excess labor demand situations, competition or displacement in excess labor supply situations, and creation or stimulation of demand in labor-sensitive industries. But labor immigration can also be seen as affecting the processes of adjustment within particular labor markets and long-term structural changes in the economy as a whole, a view especially important for developing countries like Malaysia. The danger could be that while the original rationale for labor imports may have been to ensure flexible supply-demand adjustments, in reality such labor may not be flexible or temporary and their continued and enduring presence may impede dynamic labor market changes and structural transformation of the economy.

The traditional argument was that countries that are faced with a growing gap between demand for and indigenous supply of labor have the option of augmenting supply from foreign sources. Labor shortages of both unskilled and skilled labor can be met through implicitly or explicitly extending the market beyond national boundaries. In fact labor mobility among countries can be viewed as a form of internationalization of labor markets which appears, at least superficially, to be beneficial to all parties. The labor emigration countries are expected to gain from the export of their surplus labor and the relief of unemployment and underemployment and the inflow of foreign exchange remittances. To the host countries, labor immigration is supposed to ensure flexible supply to relieve bottlenecks, provide needed skills and expertise and maintain wage rates so that development efforts are not adversely affected.

In periods of economic boom or high demand, migrant labor is supposed to represent a readily available supply; while in periods of recession, they are theoretically simply dismissed, and sent away without exacerbating unemployment among locals. Labor imports therefore are expected to have the role of stabilizing cyclical fluctuations in the labor markets of receiving nations. Even in the longer term, there is supposed to be flexibility since foreign workers can still be retrenched, repatriated or deported since it is not the practice of

host countries to offer permanent immigration status. Within the domestic labor markets, flexibility of supply is expected to be ensured through the use of such workers as contract or ambulatory labor and through the system of recruitment for specific lengths of stay.

The stress on immigrant labor as a source of flexible supply is because host governments are essentially interested in depending on such labor only insofar and as long as they represent greater benefits than costs. In other words, the official government position is that such workers are a readily available temporary solution to current domestic manpower shortages, but they do not anticipate a foreign worker residence once they represent a liability rather than an asset. Also, from the labor market point of view, it has been argued that migrant workers represent a means of overcoming structural or institutional rigidities. In such a context, it is important to examine whether, in fact, migrant labor supply is really that flexible or temporary, and whether they contribute positively to the dynamic changes in the economy and labor markets that represent an integral component of the development process.

The evidence from Malaysia and many other labor importing countries have indicated that the migration process tends to be self-sustaining and enduring, and that flexibility of adjustments in the economy and labor markets may be hampered. Although work or residence permits are given for limited periods and although all migrants are temporary workers by law, in practice, many migrants stay for extended periods, if not the remainder of their lives. In Malaysia, the main aim of the majority of Indonesian migrants is to legalize their status, bring their families over and stay permanently. Even when some illegals are deported, they find means of coming into the country again or others replace them.<sup>8/</sup> Where the desire to stay is strong, attempts by the government to control their movements may merely lead them to switch to underground activities in the informal sector, to turn to crime, or to work for unscrupulous employers under seriously exploitative conditions. There have even been reports of employers dismissing locals and keeping on illegal migrants at much lower costs. In such cases, a flexible supply of migrants to reduce seasonal unemployment to locals is a meaningless rationale.

Labor immigration does not promote flexible adjustments if in reality such fundamental structural changes have taken place in the

economy and labor markets of the country that non-nationals are an enduring part of the labor force. Where the dependence on foreign labor, whether skilled or unskilled, is very strong, it is doubtful that they can be removed quickly or easily without serious economic, social and demographic disruptions. It is a distressing sign when development plans of particular regions of a country or even national development plans are premised on the continued availability of migrant labor.

The presence of migrant workers tends to have adverse long-term implications if their continued presence impedes or holds up dynamic changes in terms of training, retraining or upgrading the labor force, removing institutional barriers or other rigidities in the labor markets, or adopting techniques of production or output mix, appropriate to the country's resources.

The availability of skilled and experienced foreign workers may discourage local investment in human capital which may involve heavy training costs or long gestation periods. The appropriate domestic policy should, however, be to improve productivity of the local labor force through increased skill training, research and development efforts and improvements in efficiency through better management. There may also be no incentive to eliminate market rigidities which may hinder the flow of workers between labor surplus and shortage areas, or to work out flexible arrangements for drawing unutilized local capacity into the relevant labor markets. Such considerations are particularly important where large numbers of first-time job seekers are still entering the labor force every year and the unemployment situation is deteriorating.

The market signal of tight labor supply should be rising wages. But very often, employers report shortages on the basis of vacancies unfilled at current rates or at wages they would like to continue paying. With migrant labor, employers may be able to maintain current wage rates. But the dynamic solution to tightening labor supply should be appropriate changes in economic cost structures. Realistic wage adjustments, particularly where labor shortages are still localized to certain sectors or regions, may have the effect not only of improving mobility and drawing in those previously not interested in working, but also of reducing income disparities.

In the final analysis, it is not the market but rather the govern-

ment that determines the role and characteristics of migrant labor. Whether migrants will be allowed to enter the country for work purposes, from which countries of origin, for what jobs, at what wages, and with what rights or privileges, reflect primarily policy decisions, and only secondarily, the interplay of market forces. The role of labor immigration in labor market dynamics should therefore be viewed within the broader framework of a country's socioeconomic, political and demographic policy concerns.

In the process of development and economic restructuring, a country will experience fundamental changes in supply-demand conditions for its labor and adjustments in its economic cost structures. A tightening labor market need not then be seen as a detrimental trend but rather as an integral aspect of the development process, as an incentive and an opportunity to innovate in a period of transition. It must be remembered that labor is short only relative to a fixed factors proportion which is based on a particular set of techniques of production. Therefore, rather than using migrants to sustain the operation of less efficient, labor-intensive industries, the aim should be to upgrade to higher value technologies that are capital-intensive or more productive per unit of labor input, or an output mix that is realistic in the light of local manpower supply. After all, development does not involve static adjustment to existing imbalances, but rather dynamic economic changes and labor market restructuring.

## VII. Final Comment

The supply-demand imbalances which have provided the background for the discussion of the impact of immigrant labor have been altered somewhat by the effects of the current recession. With growing unemployment, retrenchments, business failures, cost-cutting concerns and return migration of retrenched Malaysians from Singapore (increasingly the order of the day), the role of and the attitudes towards migrant workers, both legal and illegal, have been modified to some extent. In partial response to the problems of the recession and the increasingly vocal resentment of locals, the government has been recently attempting to round up and deport the illegals. But its efforts to date, have been neither very successful in dealing with the illegal immigration problem nor with the unemployment situation. Legal migration has been

easier to deal with since the applications for employment passes have fallen and the government has the option of not issuing them.

It should, however, be cautioned that although there appears to be a strong feeling among Malaysians that getting rid of the illegals will directly help to solve the escalating unemployment situation in the country, the solution might not be so simple nor automatic. Apart from the tenacity of the illegals, the growing retrenchments and concern for cost reductions mean that employers are not likely, or are not able to adjust wages or offer more attractive work conditions to draw local workers into those sectors where shortages prevail. The primary cause was that locals were not prepared to go into such jobs. And although unemployment has been rising, there will be some time lag before the retrenched or first-time job-seekers may be prepared to lower their job expectations and go into those sectors which previously had been relegated to illegal migrant labor.

## Notes

- 1/ Data on the magnitude of the labor shortages are difficult to acquire. But piecemeal information does indicate a growing problem. For instance, the open unemployment rates in both rural and urban areas and for both males and females declined noticeably through the 1970's, the duration of unemployment also shortened and employment turnover increased. The shortfalls were estimated at 7 percent each of the work forces in plantations and manufacturing, and 28 percent of the total construction workforce. Also, in a number of surveyed occupations, employment turnover was more than 10 percent a year by early 1982. Ministry of Labour, Labour and Manpower Report 1981/82 (Kuala Lumpur: Ministry of labour, 1984), pp. 99-103; and Ministry of Labour, Labour and Manpower Report 1983/84 (Kuala Lumpur: Ministry of labour, 1985), pp. 88-93. Another recent report quoted Malaysia's Land and Regional Development Minister as estimating the overall shortage in the plantation sector at 346,000 workers in 1984. Asiaweek, November 1, 1985, p. 44.
- 2/ For Malaysia as a whole, the mass illegal immigration of Indonesians is generally estimated at between 350,000-450,000, of whom at least 120,000 are in Sabah. Some place the figure much higher--at between 800,000 to 1 million or close to 7 percent of the country's total population.
- 3/ There have been many reports of unscrupulous Malaysian officials assisting these Indonesian migrants to get red identification cards (which identify the holders as permanent residents of the country) for a fee. There have even been reports of such migrants being officially given citizenship, although mainly in East Malaysia.
- 4/ Thai workers appear to have been tacitly accepted by the locals as contributing to the village and small town economies of the northern states where they take the place of the large number of local out-migrants at lower wages. Malaysian restaurant and other shop owners even admit to crossing the border to recruit girls from small Thai villages. Local paddy farmers who are no longer keen to work their own land are also prepared to engage the cheap Thai labor.
- 5/ For instance, the Malaysian Chamber of Commerce and the Petty Traders and Hawkers Associations have called for an official clamp-down on the Indonesian "intruders" who have adversely affected the livelihood of locals in the same line of business. Resentment against the Indonesians, however, goes beyond labor market competition--they have been held responsible for an alleged increase in violent robberies and break-ins and in addition, non-Malays are concerned about their long-term impact on the country's ethnic balance.
- 6/ A newspaper report clearly illustrates the discriminatory treatment--"the 1,270 semi-skilled workers on the M\$1 billion Penang Bridge Project have been set apart from their 830 Korean counterparts by lower pay (M\$13 a day which tends to be even lower than the rate of local firms as compared to M\$30 a day plus food, board, and travel to Korea every 8 months), separate bunkhouses (air-

conditioned for the Koreans) and provision of a Korean-speaking counsellor only for the Korean workers". New Straits Times, July 1, 1983.

7/ Malaysia's Outline Perspective Plan 1971-90 has the two-pronged objectives of eradicating poverty irrespective of race and of restructuring society to eliminate the identification of race with economic functions.

8/ It was pointed out by the leader of the Opposition in the Malaysian Parliament that "30 percent of the 9,000 illegal immigrants (who were deported from Johore in 1985) would probably have returned to Malaysia the same day or the next day after the deportation and the overwhelming majority of the rest would have by now returned to Malaysia . . . In actual fact, the same illegal Indonesian immigrants would have probably appeared as a statistic in the 9,000 figure many times." The Star, January 17, 1986. p. 2.

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