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**Effects of Foreign Workers on the
Employment Opportunities for Local Citizens**

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Abstract

The objective of this paper is to investigate whether the influx of foreign workers has minimized the employment opportunities of local citizens in Malaysia. This is done by considering both the positive and the negative effects. Positive effects include abundance of cheap foreign labour which encourages foreign direct investment. Foreign maids also release housewives from the usual household chores and allow them to go for open employment. Foreign workers is an important force in the building up of the infrastructure which is a pre-requisite for Malaysia to achieve the developed country status. Negative effect is the low reservation wage of foreign workers, causing the wage rate for unskilled and semi-skilled occupations to remain unattractive to local citizens. After examining evidence on growth, unemployment and wage trends in Malaysia, the paper conclude that overall, the positive effects from the influx of foreign workers outweigh the negative effects, and as a result it has a positive net effect on the employment opportunities of local citizens.

Effects of Foreign Workers On the Employment Opportunities For Local Citizens

Section I: Introduction

Foreign workers can be defined as citizens of other nations who are not permanently residing in Malaysia but are working in this country in unskilled or semi-skilled occupations. After Malaysia has recovered from its economic recession of 1985/1986, the country has been experiencing a large influx of foreign workers. Due to cultural, religious and language similarities many of the foreign workers come from the neighbouring country of Indonesia. Other countries with significant number of their nationals working here are Philipines, Thailand, Vietnam, Myanmar, Nepal, Pakistan, Bangladesh, India, and China.

From the economy point of view, influx of foreign workers will have both positive and negative effects towards the employment opportunities of local citizens of the host country. On the positive side, a large pool of cheap foreign workers make Malaysia more attractive to foreign direct investors. Inflow of foreign direct investments will create employments opportunities for local citizens in higher level of occupations, such as engineers and managers. The availability of foreign workers also enable Malaysia to embark on large infrastructure and commercial building projects which are necessary for the country's economic development. The many foreign domestic maids doing household chores and babysitting has allowed the more qualified Malaysian housewives to seek open employment. More tax revenue are generated due to the issuing of working

permits, and the increase in company profits as a result of the presence of foreign labour. The increase in tax revenue has enable the government to expand employment opportunities for local citizens in the public sector. On the negative side, the influx of cheap foreign workers has kept wages in Malaysia low. The low wage has made working in Malaysia unattractive for many local citizens who then seek employment opportunities elsewhere, such as Singapore, Taiwan, Japan and Australia.

The net effect, which is the sum of the positive and the negative effects, of the influx of foreign workers on the employment of local citizens will depend on various factors, including labour policies and conditions in the country. This paper seeks to examine whether such net effect is positive or negative for Malaysia. Section II is an overview of the foreign labour market in Malaysia. Section III discuss the methodology used in the study. Section IV discusses the economic growth rate, unemployment, and wage rate in Malaysia. Section V is conclusion.

Section II: An Overview

Malaysia has currently about 2 million foreign workers, representing about 13% of the labour force in the country (Economic Report 2006/07). From this total number, about 1.2 million are legal and the remaining 800,000 are illegal. The Malaysian government requires a foreign worker to possess an approved working permit before he can start working legally (MoHR 2007). Most of the illegal foreign workers are Indonesians, they travel by boat from Indonesia to reach Peninsular Malaysia. Some of the illegal

immigrants are the spouses of legal immigrants, they travel on social passes on the ground of visiting their husbands but later overstayed and work illegally. There are four main sectors which employ large numbers of foreign workers, these are plantation, construction, manufacturing and services; there are also many who work as domestic maids (Ruppert 2003, Economic Report 2006/07). Foreign workers usually take on jobs which are physically demanding and are shunned by most Malaysians.

The influx of foreign workers can generate both positive and negative effects on the employment opportunities of local citizens. The positive effects are addressed first, followed by the negative effects, and later the probable direction of the overall net effect.

Since the second half of the 1990s, the rising wage rate in Malaysia has caused the country to lose many of its foreign direct investments (FDI) to countries such as Indonesia, Thailand, Vietnam and India (Ruppert 2003). In a developing country like Malaysia, foreign direct investments are important in promoting economic growth. Foreign direct investment brings into the country foreign capitals and technology and enhanced export. These investments enriches the coffers of the government and generate important externalities into the rest of the economy (Ishak and Rahmah 2002).

To reduce the outflows of FDI, the Malaysian government has allowed foreign companies to directly source labour from cheaper countries and import them to Malaysia. It is evident that the FDI which will not exist without these foreign workers generate important benefits to Malaysia such as the creation of supporting industries and

tax revenue to the government. As the manager of Epson has rightly said, if the Malaysian government has made the import of foreign workers difficult, the company could easily be pulled out of Malaysia and invest somewhere else. If Epson were to close its operation in Malaysia, many of its vendors which supply material to Epson will also have to be shut down (NST, 14 June, 2006).

The provision of good quality infrastructure is a prerequisite for both social and economic progress (Drabble 2006). Infrastructure refers to power, roads, airports, seaports, water and sanitation, and solid and hazardous wastes. The relevance of the statement can be seen from Singapore, the second country to be declared as a developed country in Asia after Japan. Before the country entered the path of rapid progress, it imported thousands of labourers from Malaysia to build up its infrastructure in the 1970s. Similar to Singapore, Malaysia must also build up its infrastructure before proper economic and social progress can take place. The implementation of such labour intensive projects require a large quantity of labour which Malaysia must source from its less developed neighbours. When these infrastructure projects are completed, the foreign workers will then be returned to their country of origin. The abundance of foreign labour is responsible for the successful completion of many telecommunication, highway and power generation projects, and the mega projects such as the Kuala Lumpur International Airport, Putrajaya, multi media supercorridor and the Petronas Twin Tower. In view of Malaysia's ambition to achieve the developed country status by the year 2020, the presence of foreign workers can be seen as a positive force in creating meaningful employment for the future generations in the country.

In today's Malaysian society, education for both women and men are generally viewed as equally important. In fact, in many colleges and universities, female students outnumbered male students. With the rising education level especially for women, the society has become more liberal and most women prefers to seek open employment instead of becoming a fulltime housewife. Many working women has passed the duty of looking after children and doing household chores to their foreign domestic maids, usually can be hired at only a fraction of their wage rates. According to the 2007 official statistics, there are about 362 thousand foreign domestic maids working in Malaysia, majority of them are Indonesians. The numerous maids taking over the domestic chores has released our women into the workforce, and as such, women participation rate in the labour force has been steadily rising in Malaysia, from 37% in 1970 to 47% in 1995 and remain at this high level until this day (Mosses 1997 and DoS 2006). As such, there are an increasing number of women in occupations traditionally monopolised by men such as doctors and engineers, and there are far more women than men in professions such as nursing, secretarials and teaching. Therefore, the presence of foreign workers especially in the domestic works is a positive force in increasing the employment opportunities of local citizens, especially women.

Foreign workers pay the equivalence of payroll tax to the government. Besides processing fees, foreign workers pay RM1,500 as annual charge for their work permit (plantation workers and domestic maids enjoy a lower charge which is RM360). Given that the total number of legal workers is 1.2 million, the revenue collected from the levy

is estimated to be at least one billion ringgit per year. This revenue collected helps the government to create more employment opportunities for local citizens in the government sector. Foreign workers are also required to undergo medical examination and the employers must also purchase insurance against death or work injury, thus creating further employment opportunities in the health and the insurance industry. As an example, taxi drivers in the Klang Valley complained of poor earnings after an amnesty granted by the Malaysian government which send thousands of illegal Indonesian workers back home.

On the negative side, it can be said that the influx of foreign workers has reduced employment opportunities for local citizens. The foreign workers working in Malaysia comes from comparatively less developed countries and therefore has a very low reservation wage. For example, an Indonesian man working eight hours in the paddy field as a labourer in Indonesia gets only about the equivalent of RM6 per day. The unrestricted entry of foreign workers therefore will depress the wage rate in Malaysia to very low level (MTUC 2005). The low wage rate is a good news for employers, but woes for Malaysian workers who have higher expectations. As a result, many Malaysians seek better employment opportunities abroad. For example, thousands of Johoreans commute daily to Singapore to work, causing massive traffic jam every morning at the causeway. According to government statistics, there are an estimated 300,000 Malaysians working abroad attracted by the high wage rate. For example, the wage rate in Singapore is three times that of Kuala Lumpur. A bus driver in Kuala Lumpur earns about RM1,500 a month, whereas he could earn about RM4,500 in

Singapore. Despite a robust economy, Malaysia faces serious unemployment problem among new graduates. The problem is so serious that the government has to from time to time launch a temporary employment program for new graduates (Ishak and Rahmah 2002).

Section III: Objective and Methodology

The purpose of this paper is to investigate the net effect of the influx of foreign workers on the employment opportunities of the local citizens in Malaysia, net effect is defined the positive minus the negative effect. The research intends to find out whether the net effect is positive or negative. In other words, does local Malaysians benefit from the influx of foreign workers in terms of employment opportunities.

To achieve this objective, we will analyze the conditions of the Malaysian economy in the past 2 decades. This includes growth rates, wage increases and the unemployment situation.

Section IV: Growth and other economic conditions in Malaysia during 1987- 2007 period

The period 1987 to 2007 found Malaysia to be led by two very different leaders: the first period was led by Tun Dr. Mahathir who rule the country from 1982 until he retires in October 2003, and the second period from 2003 to 2007 was led by Datuk Seri Abdullah Ahmad Badawi who succeeded him and rule the country until to the present day. Under Tun Dr. Mahathir, the country enjoyed rapid economic growth, averaging around 8% before the Asian financial crisis of 1997/98 (Drabble 2006). Tun Dr. Mahathir advocates the idea ‘the bigger the better’ and started many mega projects, such as the Petronas Twin Tower, multi media super corridor, the Kuala Lumpur International Airport, the Sepang Formula One circuit, the National Stadium, Putrajaya, Istana Budaya, the light rail transit and the KL Tower. Tun Dr. Mahathir also placed great importance on the development of heavy industries and he initiated the national car project Proton and the car succeeded in controlling the domestic car market until recently. He also provided for the country a multi billion container terminal at Pulau Indah in Klang. During his era, the number of public universities expanded from four to twenty.

Besides the public sector projects, he was seemed by many business men as someone easy to get along. During his era, many gigantic shopping centres were built including the Time Square and Mid Valley Megamall. Many foreign direct investment came to Malaysia and the country became a world leading exporter in several manufacturing goods such as air-conditioners and rubber gloves. Tun Dr. Mahathir traveled to many

poorer neighbouring countries to negotiate with their governments the supply of workers to Malaysia. To encourage the development of information technology in the country, he allowed unrestricted entry of workers in this field to work for companies which have been accorded MSC status. The over expansion of the Malaysian economy came to a halt in 1997 and the Asian financial crisis happen, in which many foreign portfolio investors withdrew their capital from the east Asian region. During the Badawi period, the country enjoyed stable but lower rate of economic growth. The country's GDP rises only at between 4% to 5% per annum. The Badawi government was seemed by many as moderate and his administration continued on the Mahathir policies. His moderate leadership brought stable economic growth and recovery to the country from the east Asia financial crisis. During his era, the Malaysia ringgit was unpegged and since then gain strength vis a vis the US dollar. The Kuala Lumpur composite index has also regained its level attained by the stock market prior to the crisis (Economic Report 2006/07, Bank Negara 2007).

Unemployment

A person is classified as unemployed if he or she is currently not working and is actively looking for a job. Natural unemployment is unemployment caused by natural factors. Natural unemployment is the unemployment that will exist in the country even the country is having full employment. This is because it is normal to move from job to job, some workers may go on strike to force employers to pay higher wages and school leavers will take sometime before a suitable occupation is found. Economists reserves 4%

of unemployment rate for natural unemployment. An economy is thus classified as having full employment when the unemployment rate in the country is 4%. The employment rate in Malaysia throughout the period is low except during the period when the east Asian financial crisis occurred in which the unemployment rate suddenly doubled (Marx 2000). Since 2003, the unemployment rate in Malaysia has fallen below 4%, implying demand for labour outstrip the supply (Economic Report 2006/07). Two sectors of the economy frequently suffered from acute shortage of workers, these are the plantation and the construction sectors.

The noticeable employment problem suffered by Malaysia is the unemployment of fresh graduates. For example, unemployment rate for Universiti Institute Teknologi Mara reached 70% during the first year of leaving the university. Such unemployment is a mismatch between the types of skills demanded and supply, that is university and colleges has not been training their students for skills to fulfill the changing needs of industries (Fong 2003).

Wage Rates

Wages for the labour force in Malaysia can be broadly divided into two categories: (a) wages for unskilled and semi-skilled workers; and (b) wages for skilled and professional workers. Wages for the unskilled and the semi-skilled workers are strongly influenced by wages for the foreign workers. This is because employers can easily substitute locals by foreign workers. During this period, the wages of foreign workers has largely remained

stagnant at around RM800 per month. Under this rate, local unskilled and semi-skilled workers will fetch around RM1,000 per month, the difference being that employers have to pay charges for working permits, medical examination and travel costs for foreign workers. The RM800 paid to foreign workers is considered attractive, as the money when send back to the families back home will have very high purchasing power due to the low cost of living. To the locals, the wage rate is considered meager and will not be able to support a family living in the urban centres. This wage rate is also below the poverty line of RM1,200 per household as stated in the New Development Policy (NDP 2001 - 2010). The wage rate is also below the per capita income of the country, which is the national income divided by the population, this is in year 2006 RM1,700. (Bank Negara annual report 2006

As stated above, skilled and professional occupations are not substitutable by foreign workers as these occupations required either long years of training, college or tertiary education and proficiency in local language and custom. This category of labour is able to earn a much higher level of income. For example, a free-lance plumber who repairs pipes from house to house can easily earn between RM2,000 to RM4,000 per month. A tuition teacher in the Klang Valley can earn between RM2,000 to RM10,000 a month. A university graduate working in the corporate sector will get a starting pay of around RM1,800 and this can increase to many more thousands as her experience increases. Many graduates in information technology earned more than five thousands ringgit per month after working for several years.

Section V: Conclusion

During the period 1987 to 2007, Malaysia is in a transition from an industrializing to a fully industrialized country. The country is aspired to achieve the developed country status by the year 2020. In this transition stage, development of human capital is of utmost important in achieving the goal. While more and more Malaysians are going to technical schools, academic colleges and institutions of higher learning, the many thousands of foreign workers are taking the vacancies left by these Malaysians. These are in low wage rate unskilled and semi-skilled occupations in the plantation, construction, manufacturing and service sectors. The foreign workers have been an essential part in the building of the infrastructure necessary for the country to achieve the developed country status. The abundance of cheap foreign labour encourages the inflow of foreign direct investment into the country, thus transferring higher technologies to Malaysia. The analysis thus concludes that the influx of foreign workers has contributed positively to the economic development of the country. The growth of the economy will ultimately translate into better employment opportunities for the local citizens here.

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