

CHAPTER 1

INTRODUCTION

1.1 Introduction

Since Malaysia achieved its independence in 1957, the economy has gone through a major structural transformation from heavy reliance on tin mining and rubber plantation to an industrial based economy. Most of the industrialization efforts, especially the development of heavy industries in Malaysia were kicked off using the big push approach through HICOM, a government funded agency. Such an approach has caused high financial and administrative burden to the government. Hence, in 1983, Malaysian then Prime Minister, Mahathir Mohamad announced the government's intention to embark on a privatization policy to ease public sector involvement in the economy. However, the privatization in Malaysia has resulted in both success and failure.

Just a few years after independence from the United Kingdom in 1957, had the World Bank's country-classification system been in place, Malaysia would have qualified as a middle-income country. Since then, it has continued to enjoy relative prosperity, initially as a commodity exporter (rubber, tin, then palm oil and petroleum), with total income rising at 6–7 percent each year from 1970 until 2000.

As a result, the number of poor persons (that is, those consuming less than the purchasing power parity US\$1 per day metric) has fallen to fewer than a million, or 3.9 percent of the population of 26.2 million people (compared to about half of the population in 1970) (Zainal Aznam, 2008).

With a per capita yearly income measured at about US\$5,300 in 2007, Malaysia is now an upper-middle-income country. It has gone through several of the structural changes that its income comparators have experienced; nevertheless, it remains highly dependent on favorable external terms of trade to support domestic economic growth. The share of agriculture has fallen from above 30 percent of GDP to below 10 percent, and that of industry (manufacturing) rose from 27 (12) to about 50 (31) percent. The initial growth response to the purposeful and increased industrialization of the economy from the mid-1970s was favorable, with volatility declining and the overall rate of growth rising towards 10 percent per year in the late 1980s. FDI and manufactured exports (especially high technology products) played an important role, with the latter rising from 5 percent of total exports to above 75 percent today, even as the share of total exports rose from 40 percent (mainly commodities) to 80 percent of GDP (Zainal Aznam, 2008).

Since 1970, Malaysia has based its economic development strategy on three long-term policies: the New Economic Policy (NEP), 1970–90, the National Development Policy (NDP), 1990–2000, and the National Vision Policy (NVP), 2001–2010. Although the emphasis in these long-term development policies has always been on economic growth, Malaysian development intends to benefit all groups or communities in society in an equitable manner. Beginning in the late 1960s, specifically following racial riots across the country, distribution issues became more important and moved to the forefront. The overriding objective of the NEP, maintained in the NDP and the NVP, was to preserve national unity by eradicating poverty irrespective of race, and by restructuring Malaysian society to reduce the identification of race with economic function and geographical location. Direct policies to assist the Bumiputera obtain parity with the non-Bumiputera in

income and wealth lay at the heart of the distributive strategy. Growth with equity continues to be the guiding development strategy (Zainal Aznam, 2008).

Because of those developments since 1957, Malaysia had a population of just 7.4 million. Its population has since grown rapidly, such that by 2005 the country had some 26.8 million people and, on current estimates, will rise by 2010 to nearly 29 million. The current population shares reflect major changes over time in favor of the Bumiputera, largely because of their higher fertility levels. Apart from natural increase, population growth reflects a steady influx of immigrant labour, primarily from Indonesia, the Philippines, Bangladesh, and Nepal (Zainal Aznam, 2008).

The progress of Malaysian economy is highly influenced by three critical factors namely public delivery system, foreign direct investments and financial markets. It is believed that the poor public delivery system has caused the slowdown of the Malaysian's economy progress. As a result, Prime Minister, Abdullah Badawi, in year 2007, has instructed the public services and government-link companies to increase their efficiency level. In addition, foreign direct investments are important as they can contribute both financial and human capitals to the economy in Malaysia. Various investment incentives have been granted and special investment zones were developed such as the Iskandar Development Region (IDR) and the Northern Corridor Economic Region (NCER) in an attempt to attract foreign direct investments (Har Wai Mun, 2007).

1.2 Problem Statement

As the economic sector developing, the employment rate also increased rapidly. This was proved by Statistics of Labour Force (figure 1.1), the Labour Force Participant Rate (LFPR) registered an increase of 0.2 percentage point to 64.7 per

cent. The increase was attributed to the increase in the number of labour force by 516,700 persons (4.3%) to 12.58 million, higher than the increase of population outside labour force which only increased by 231,600 persons (3.5%) to 6.86 million persons. The phenomenon also attracted big wave of foreign labours to immigrate to Malaysia. In 2007, there were 2,044,805 foreign labours allowed to work in Malaysia. They mostly were from selected countries such as Indonesian (1,148,050), Bangladesh (217,238), Nepal (216,416), India (142,031) and Myanmar (125,577). Most of them worked in the manufacturing sectors (Department of Immigration, 2008).

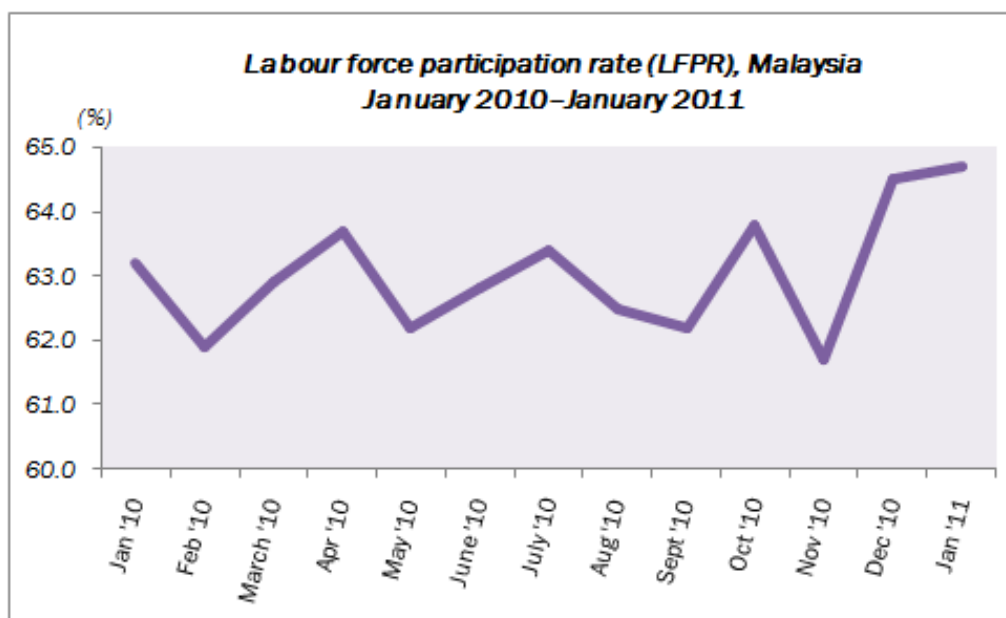


Figure 1.1: Labour Force Participant Rate (LFPR), Malaysia

Source: Department of Statistic Malaysia

Because of the economic development and the increased of employment rate, government had allowed selected foreign labours to work in selected sectors and occupations in Malaysia. The most influent sector was manufacturing sector and followed by construction sector. As shown in figure 1.2, the construction sector also attracts most migrant or foreign labours to emigrate from their country to Malaysia. As the LFPR increased and the immigration flow to Malaysia stream drastically but the unemployment rate still increased. This was proven by the Unemployment Rate

(figure 1.3), the labour market rose in January 2011 with an increase of employed and unemployed persons to 12.15 million and 421,800 persons respectively. However, the percentage increase in unemployed persons was higher (7.8%) than the employed persons (4.2%). Thus, the unemployment rate increased from 3.2 per cent in December 2010 to 3.4 per cent in January 2011.

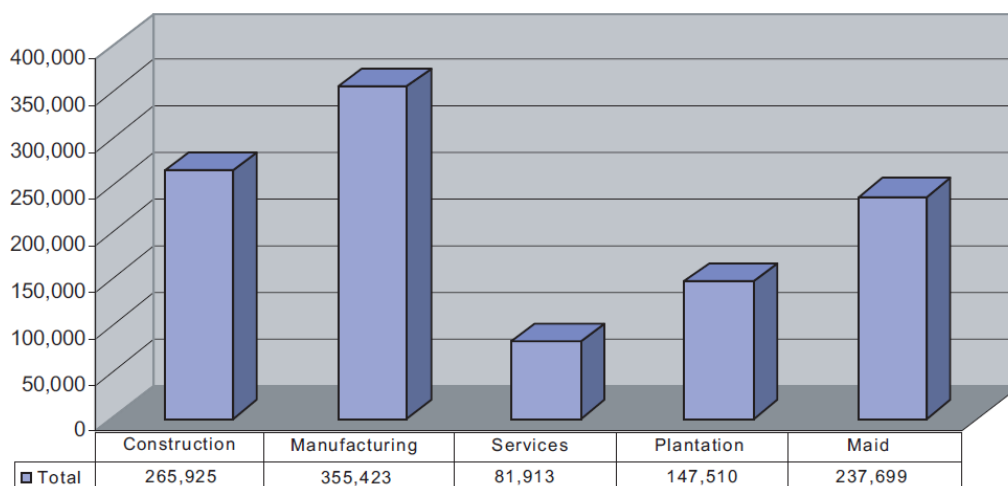


Figure 1.2: Statistics for Employment of Foreign Workers by Sector

Source: MBAM (Master Builders: 2nd Quarter 2005)

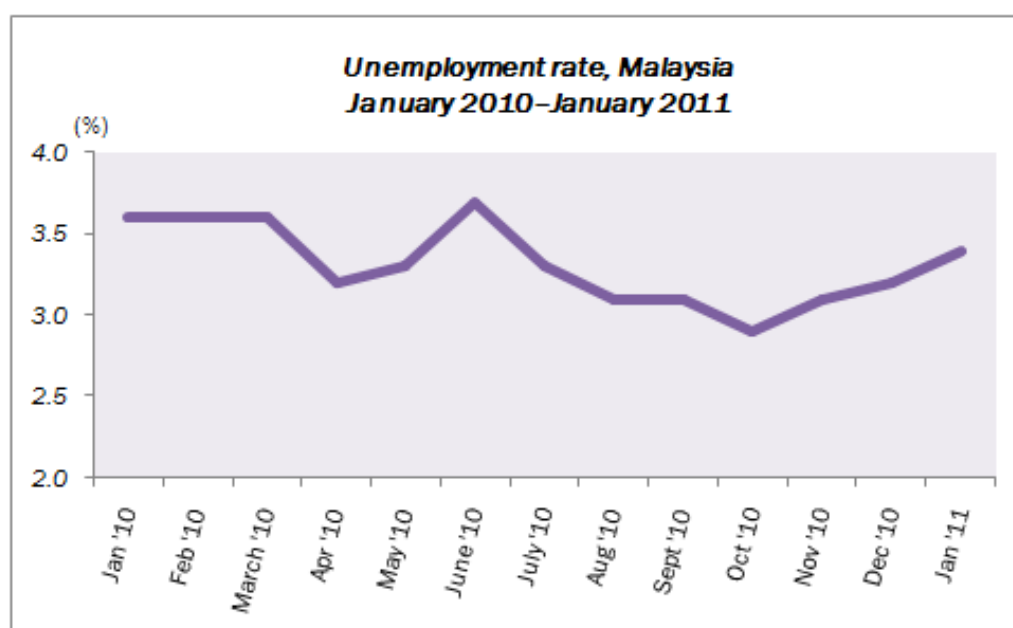


Figure 1.3: Unemployment Rate (Jan 2010 - Jan 2011)

Source: Department of Statistic Malaysia

The phenomenon shows the economic development and the LFPR increased but the Unemployment Rate still increased to 3.4 per cent from 3.2 per cent. The demand of the foreign labours had affected the local's unemployment rate. The question is, where was the local labours? In Malaysia, the government has established various institutions to meet requirements by the industry. These institutions include the Public Training Institute under the Ministry of Youth and Sports, Vocational Secondary Schools and Technical Secondary School under the Ministry of Education and National Council of Vocational Training. In addition, the private sector has also established private training institutions. For example, City College, Institute of Technology Star, MIDAS Institute of Technology, Agro Training Centre and others. It comes under the Construction Industry Development Board Malaysia (CIDB), an institution which aims to train construction workers set up a Construction Academy Malaysia (ABM) (Abd. Ghani Khalid, 2007).

According to Apong Herlina (Indonesian labour activists), many Indonesian workers return to Malaysia as urged by the lack of survival options in their own country. Because of that, all the hurdles by the Malaysian government do not break the desire to return to Malaysia (Reuters, August 30, 2002). Country's economic dependence on foreign labours, mainly in construction and agriculture sectors is inevitable. These sectors are still labour-intensive sectors. Foreign workers are needed for the labour-intensive sectors, but employers also need to find a new approach to reduce dependency on foreign workers. Deputy of Human Resources Minister, Datuk Abdul Rahman Bakar, said the increase in foreign workers is inevitable, especially in the 9th Malaysia Plan (RMK-9), which requires more than 1.2 million new workers to ensure that all sectors can be developed smoothly (Star, July 19, 2007).

Other than that, the country also increased the intake of these foreign workers in 2007, "With the findings, the cabinet committee on foreign workers will be able to decide on the policy for the intake of foreign workers in the future," said Najib. The study would also consider the need for foreign workers in five regional development corridors, three in Peninsular Malaysia and two in Sabah and Sarawak. Demand for

foreign workers to work in these areas is expected to increase (NST, 2007). Department of Statistic, Malaysia estimate that there are now 12 thousand foreign nationals (0.2%) in the country. In year 2011, of a total labour force of around 11.62 million people, 12.0% is employed in agriculture, 0.4 % in mining, 27.6% in manufacturing, 6.6 % in construction and 53.5% in services. However, in 2010 total labour employed in agriculture is 11.8%, 0.4% in mining, 27.8% in manufacturing, 6.5% in construction and 53.6% in services (Economic Planning Unit and Department of Statistics).

The increment of foreign labour employment in Malaysia also brought negative impact resulted on the increased wage pressure to hire local labour. This causes the contractor to take foreign workers easier than local labour to be employed (Hakim, 2009). Other than that, the employer or contractor is more likely to choose foreign workers due to various factors so the number of unemployed has increased somewhat high impression of their arrival to Malaysia (Nurashikin, 2010). This also stated in Utusan Malaysia (2007), But that hard to accept is that employers in other sectors who deliberately employ foreign workers to earn excessive profits. Foreign workers are paid low wages than local people.

Meanwhile, the increment of foreign labour had made the domestic labour force view migrant labour as competitors for scarce jobs, whereas they once saw migrant labour as inexpensive sources of labour to fuel the country's high economic growth (Syarisa, 2002). Foreign migrants in Malaysia also involved crime violences such as robbery and murder (Malaysian Crime Index, 2004). Futhermore, a couple of assemblymen brought up the same issues during the debate, saying that many of their constituents had complained of problems concerning foreign workers. The complained issues consisted unpleasant behaviour that showed by the foreign labour that lack of awareness to local sensitivity and caused culture shock to locals. From the wide opinion, its can be concluded that foreign labours were not accustomed to local norms and culture.

On the positive side, the foreign labours were hardworking and cheaper in cost compared to local labour. The foreign also, gave positive impacts to Malaysian productivity especially in industrial sector (Zaleha, 2011). They can work for long period with low salary and also can work in high risk and uncomfortable work condition (Zaleha, 2011). Because of those issues, this study focused on advantages and disadvantages of foreign labour in local construction projects.

1.3 Aim and Objectives of Study

The aim of this project is to study the present labours profile, their immigration influence factor, common criteria set by the employer and the advantage of hiring the foreign. The objectives of this study are as follows:

- i. To determine common criteria of labour recruitment and selection among employer,
- ii. To investigate the advantages of hiring foreign labours among employer, and
- iii. To examine the negative impact of foreign labour to our country, Malaysia.

1.4 Scope of Study

In order to achieve the objectives of this study, the scope of study only focusing on the development of construction industry in Johor Bahru. This is due to the increment of development in Johor Bahru, proved by In particular the Comprehensive Development Plan (CDP) incorporates the emphasis given under the

Ninth Malaysia Plan, where special provisions were made and RM4.3 billion was allocated for Iskandar Malaysia alone (IRDA, 2010). The scopes of data collection in this study focus on the following aspects:

- i. The labours working for construction company such as contractors and sub-contractors who involved in building construction,
- ii. The manager of the labours working for construction company such as contractors and sub-contractors who involved in building construction,
- iii. The selected construction companies are located around Johor Bahru due to availability of good number of projects

1.5 Significant of Study

Because of that, this study was conducted to ensure the eligibility of information about today construction labour composition, criteria of construction labour recruitment and selection, advantages of foreign labour toward employers and negatives impacts from the foreign labour toward our country, Malaysia. This study will provide useful information for making policies bodies such as Malaysian Government, Human Resource Deputy and others in taking measure on reducing foreign labour dependency in Malaysia.

Through this solution, the construction sector will more develop and also contribute in reducing the unemployment rate in Malaysia. This situation also will reduce the amount of foreign labour and the migrations will be less than before. Government and private institution can also improvise their focus and ways of training among local labours. Together, it will result a balanced economic development between construction sector and human resource economic development.

1.6 Methodology of Study

In general, the study was divided into two phases. The issues, problems, topic, aim and objectives, scope as well as the significance of the study were identified in the first phase. Besides that, literature review and distribution of the questionnaires were conducted in this phase too.

On the other hand, the collection and analysis of the data were conducted in the second phase. Apart from that, the conclusion and recommendation of the study were conducted in this phase as well. Figure 1.4 shows the research methodology flows of the study.

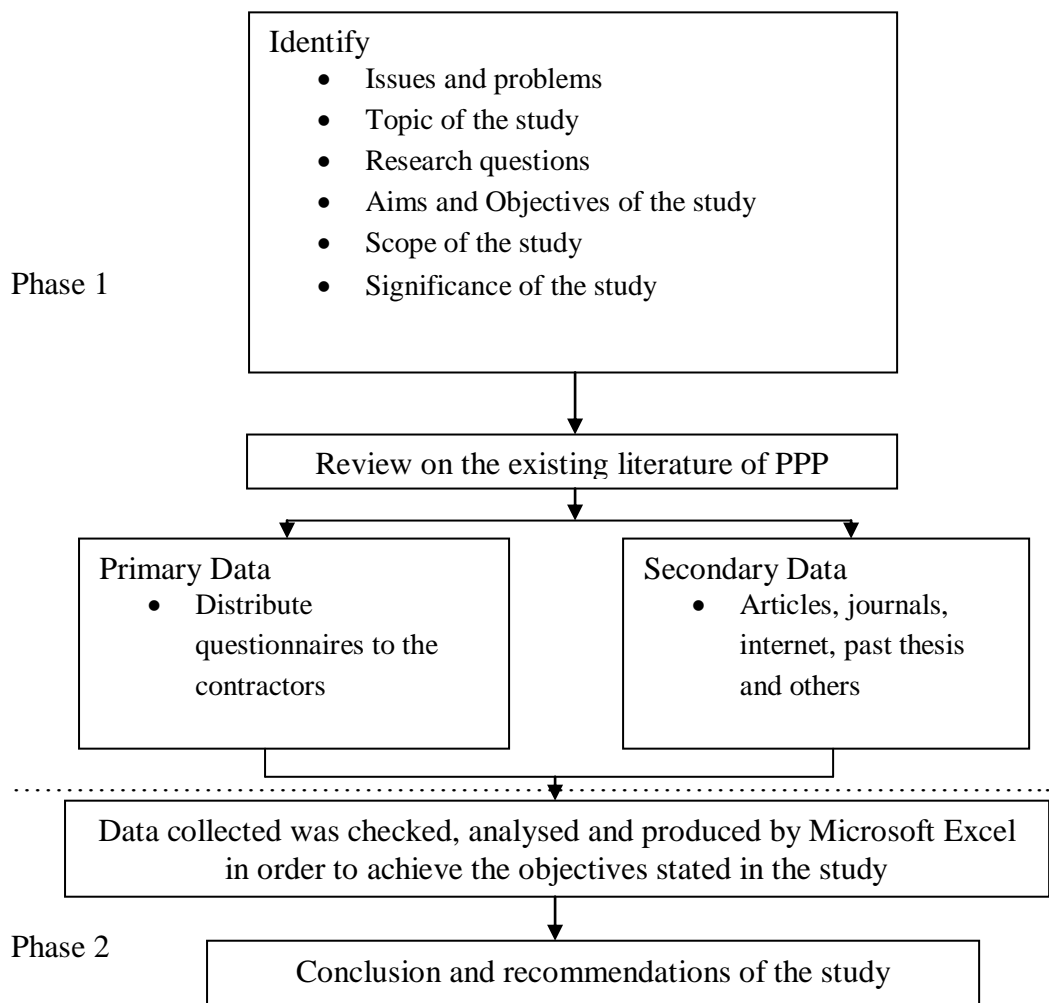


Figure 1.4: Research Methodology Brief