

The Migration Transition in Malaysia

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Exploring the unique experience of migration transition in Malaysia, this paper identifies the turning points in relation to the level and nature of economic and labor market developments in Malaysia. Examining the development dynamics that mark the passage from exporting labor to depending on foreign labor, the paper concludes that such dynamics are influenced not only by economic but also sociocultural, demographic and policy factors. Several lessons from the Malaysian experience are drawn at the end to be utilized by other countries that still have to reach the turning points of the migration transition.

The Malaysian experience of migration transition is unique and interesting for a number of reasons. Malaysia has been concurrently labor exporter and importer, but within a short period of six years, 1987-1993, Malaysia moved from being a net labor exporter to being a significant net labor importer. Not only has the transition been very rapid, but it occurred long before the country achieved full employment. Other countries such as Japan, Taiwan and the Republic of Korea did not attract large inflows of unskilled labor until about a decade after reaching full employment. Malaysia started importing unskilled foreign workers when its domestic labor force was still growing by over three percent per annum and population growth rates continue to be high. Several other Asian countries had completed their demographic transitions when they began to import unskilled labor. Malaysia has an officially enunciated pro-natalist population policy, yet it is among the largest importers of labor in Asia. Its dependence on foreign labor is striking. While Malaysian workers abroad (including those who commute daily to Singapore) account for about 3 percent of the domestic labor force, immigrant workers, both legal and illegal, make up roughly 15 percent of the labor force. Every one in six workers in Malaysia is now a foreigner. Migrant workers contribute

about one-eighth of the gross domestic product and spend almost two-thirds of their earnings in Malaysia (World Bank, 1995:vii, 58). The ratio of migrant workers to the local labor force is estimated at one percent in Taiwan, less than one percent in Japan (Kok, 1994:136) and 14 percent in Singapore (Pang, 1994:89).

The first section of the paper describes the evolution of emigration and immigration in Malaysia. The next describes the profile of the migration transition and identifies the turning points in relation to the level and nature of economic and labor market developments in Malaysia. The third section examines the development dynamics that mark the passage of the country from exporting labor to depending heavily on foreign labor. The development dynamics are influenced not only by economic but also sociocultural, demographic and, importantly, policy factors. The final section considers whether there are policy lessons from the Malaysian experience which might be of interest to countries attempting to deal with their migration transitions.

Emigration and Immigration in Malaysia

To better understand the evolution of emigration and immigration in Malaysia, the key features are described in this section (for more detailed information, *see*, for example, Lim, 1989; Pillai, 1992; Kassim, 1994; World Bank, 1995).

Malaysian workers started emigrating since the 1960s, mainly to Singapore. There are now still about 100,000 Malaysians working in Singapore, about a quarter of whom commute daily. Proximity to Singapore, the ease of commuting and wages two to four times higher than in Malaysia explain why this particular form of labor emigration has persisted in spite of increasingly acute labor shortages in the southern most state of Johore. Malaysians also joined in the exodus of Asian workers to the Middle East during the oil price-fuelled economic boom of the 1970s. But migration to the Middle East was largely a temporary phenomenon. Bad publicity about working conditions slowed the flows even before the Gulf War. It was the 1985-86 domestic economic recession, when the unemployment rate reached 8.3 percent, that encouraged Malaysians to seek jobs, many illegally, in "new" countries (Pillai, 1992:25). Malaysians, mainly those of Chinese origin, went to Taiwan (where their number was estimated at between 5,000 to 30,000 in the early 1990s and where they accounted for the largest proportion of illegals in 1991), Japan (where the press reported over 17,000 illegal Malaysians in 1991 and where they accounted for the largest proportion of illegals apprehended in 1992), Australia, New Zealand, Canada and the United States (where they accounted for almost 4 percent of the 300,000 Asian illegal aliens in 1992) (Warren, 1994:26).

But the export of labor has never been an official policy, neither for employment generation nor for foreign exchange earnings. Other labor send-

ing countries, such as Thailand, Indonesia and the Republic of Korea, included the export of surplus labor as a specific objective of their development plans and licensed public and private recruitment agents to facilitate the flows. "Non-professional migration from Malaysia seems to represent special cases in which some Malaysian workers can earn high wages because of their location (near Singapore) or language and job contacts (Taiwan and Japan)" (World Bank, 1995:82). Already there are indications that the illegal flows have been slowing especially as, on the one hand, the destination countries have been adopting harsher measures including deportation, and, on the other, the wage gap between Malaysia and these countries is narrowing. The return migration or deportation of Malaysians illegally working in Taiwan was so significant that one of the political parties in Malaysia set up a committee to assist them.

Permanent emigration was a major issue after the May 1969 ethnic riots, with a significant number of Indian families returning to their homeland and Chinese migrating to the four traditional immigration countries (Australia, New Zealand, Canada and the United States). The outflow of professional Malaysians and those with substantial investment capital can be explained, on the one hand, by their concerns over their "non-bumiputra" (non "sons of the soil") status vis-a-vis the privileged position of the Malays under the New Economic Policy which was introduced after May 1969 and, on the other hand, by some relaxation of immigration rules (especially those permitting business migration) by the traditional immigration countries. The emigration of professional Malaysians to the traditional immigration countries averaged 5,000 annually during the 1980s. But since the early 1990s, economic recession especially in Australia and Canada relative to the booming conditions in Malaysia slowed economically motivated emigration. One indicator of the turning point is that between mid-1992 and mid-1993, only 1,555 Malaysians migrated to Australia as compared to 3,123 the year before and 7,681 between 1988-89 and 8,030 in 1986. Another indicator is the increasing return migration of professional Malaysians. Many of those who left are coming back as employees of multinational companies to reinvest capital they took out earlier, to find jobs, to resettle. Australian figures show that Malaysians who had been granted permanent residence were emigrating back to Malaysia at a rate of 2.6 percent of arrivals for the 1981-90 period and that the return migration of Asian immigrants to Australia was especially evident in the case of Malaysians (Hugo, 1994:58).

In colonial times, the British government in Malaysia pursued a policy of "cheap labor" imports to work the tin mines and rubber plantations. The labor needs for the country's early economic development was supplied by various waves of migratory movements, mainly from China and India, and which since account for the multi-ethnic population. Post-Independence develop-

ment also relied increasingly on immigrant labor. Since the 1970s when its industrialization process was just taking off and rural-urban migration started escalating, before the economy ran short of unskilled labor and while it was still sending thousands of workers mainly to Singapore, Malaysia was receiving a large, and mostly undocumented, inflow of foreign workers into its agricultural and plantation sectors. The East Malaysian states of Sabah and Sarawak have traditionally relied on immigrant labor mainly from Indonesia and the Philippines; while the northern states in Peninsular Malaysia use Thai workers every year for the harvesting and planting seasons. The inflows into Malaysia have been numerically the largest in the ASEAN subregion. For instance, in the East Malaysian state of Sabah, migrant workers almost matched the local population size in some areas, and between 1970 and 1980, the proportion of foreign born increased from 8 percent to 13 percent.

The first landmark in the migration transition was reached when Malaysia signed the Supply of Workers Agreement with Indonesia in 1984 permitting Malaysian agricultural plantations and land schemes to recruit immigrant workers if there were no Malaysian workers available. The government-to-government labor procurement agreement was soon extended to the Philippines, Thailand, Bangladesh, India and Pakistan. Committees were set up in Malaysia and the sending countries to oversee recruitment arrangements to hire guestworkers directly, with the standard pay and fringe benefits of Malaysian workers. Currently, immigrant workers are also employed in construction, manufacturing and services (domestic service, restaurants, gas stations). They are even in the informal sector (street hawking). Their numbers have multiplied. Between 1980-90, the Immigration Department approved 255,675 applications from foreigners to work in a range of unskilled, skilled and professional jobs. Those issued employment passes include foreigners representing and managing foreign investment interests in Malaysia and professions in increasingly short supply, such as doctors, lecturers and engineers. The number of legal guestworkers was one and a half times larger in the 1986-90 period than in the earlier five years. In 1991, another 134,000 skilled and unskilled workers were issued employment passes. Between 1991-1992, 447,000 illegal migrants were registered in the amnesty or registration program. Between 1992-1993, 54,155 illegals were apprehended. During this same period, there were requests from 4,400 employers for an additional 431,000 workers, of which 41 percent or 179,000 were certified as needed by the Ministry of Human Resources. The largest number of requests for foreign workers came from the agricultural and manufacturing sectors (about 85 percent of total requests, with manufacturing alone accounting for almost two-thirds).

However, the importation of foreign workers into Malaysia has had a "stop-go" quality which "has resulted in much confusion among employers and may have contributed to the growth of illegal immigration" (World Bank,

1995:vii). The Supply of Workers Agreements which were first signed in 1984 were suspended in early 1986 when the unemployment situation in the country became more serious. In 1989, the government launched its first amnesty or registration program for illegal immigrants, and has since had two additional campaigns. In October 1991, it revised its immigration policy which is supposed to be effective for five years and which requires all foreign workers to have a legal status and to receive the same wages and benefits as Malaysian workers and all employers to pay an annual levy per worker. Initially, the 1991 policy allowed only plantations, construction companies, households seeking maids and manufacturing companies to recruit unskilled workers and only on a case-by-case basis. In July 1992, permission was extended to the service sector (restaurants and gas stations) and small factories. In April 1993, the recruitment of unskilled foreign worker recruitment was suspended, but was lifted for manufacturers in June 1993. In January 1994, the legal recruitment of unskilled and semi-skilled workers from abroad was again stopped, but the manufacturing sector was permitted to recruit skilled foreign workers.

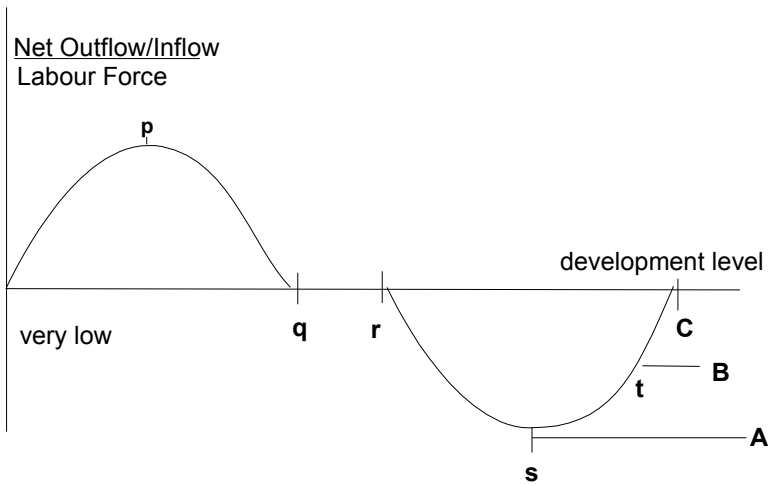
It was estimated that there were some 1.2 million immigrant workers in Malaysia in 1993. They made up about 15 percent of the labor force and 16 percent of the 7.4 million employed workers. Of the 562,000 new jobs created between 1991-1993, 6 percent were filled by migrant workers (World Bank, 1995:59-60). Migrant worker employment increased 3 percent, while total employment rose 8 percent between 1991-1993. They were mainly concentrated in construction (where they account for 70 percent of the total workforce), agriculture (30 percent), non-government services (10 percent) and manufacturing (3 percent, although demand has been rising fastest in this sector).

Economic Development and the Turning Points

The relationship between migration turning points and economic development is depicted by Pang (1994:85) as shown in Figure 1. The country's level of economic development is on the x axis, while the y axis indicates the net stock of migrant workers expressed as a percentage of the country's labor force. At very low levels of development, a country's net migration position is effectively close to zero. As a country's per capita income rises, there is likely to be an increase in the country's net outflow of people but because it is still in the early stages of development, it is not seen as an attractive destination by migrant workers. The outmigration does not greatly improve the country's serious unemployment and underemployment problem, which arises because labor force growth outstrips employment creation. While the country may attract a few migrants from poorer neighboring countries, the inflow is very small relative to the size of the domestic labor force. As domestic job

opportunities increase and become more attractive, the rate of net outflow slows to match the rate of labor force growth, and at point *p* the country reaches the first turning point in its migration profile. The economy then reaches a stage when the outflows are in balance with inflows (point *q*). There is then an important phase where 'people's values and attitudes to work' change even if full employment is not yet reached. Here sectoral shortages begin to be felt, notably in construction and agriculture and in the so-called 3-D ('dirty, dangerous and difficult') jobs. Because of labor market imperfections and immobility, the appearance of sectoral labor shortages does not necessarily signal full employment and whether and how quickly it leads to inflows of foreign

Figure 1



SOURCE: Pang (1994:85)

workers depends on the characteristics and policies of a country. Once a country approaches the net zero migration position, it comes under increasing pressure from labor-short employers to allow legal access to unskilled foreign labor. The country's dependence on foreign labor rises, and point *s* represents its peak as a net labor receiver. In this section, we examine whether Pang's description of the migration profile in the process of economic development fits the Malaysian case. In attempting to do this, we are, however, constrained by the lack of time series data. As noted by the World Bank

(1995:86), "the most widely cited estimates of the stock of immigrant workers are based on cross-sectional or one-shot assumptions about the immigrant share of employment in several economic sectors known to employ foreign workers."

Firstly, Malaysia did not start with a zero net migration position. As mentioned earlier, its early economic development was based on the inflow of migrant workers mainly from China and India. Its history of immigration accounts for the multi-ethnic character of the population and "for ethnically heterogeneous and immigrant countries like Malaysia, for example, the transition from being a net sender to a net receiver can be swift and may precede the appearance of full employment. For these countries, points q and r in Figure 1 are one and the same" (Pang, 1994:87).

In Malaysia, however, point q , and even point p , occurred before point r or the point of full employment. Malaysia officially achieved full employment only in 1993, when the recorded unemployment rate fell below 2.8 percent (although real wages have been rising since 1987 for all categories of workers, indicating that the labor market especially for skilled workers but also for unskilled workers was already tightening for some time). Furthermore, labor inflows probably matched labor outflows (point q , according to Figure 1) before the rate of net outflows slowed to match the rate of labor force growth (point p). In part because it has been both labor exporter and importer, the Malaysian migration profile is more complicated than depicted in Figure 1.

Malaysia could be said to have reached the first turning point when labor inflows and outflows balanced. Taking the outflows to be between 150,000-200,000, point q would have occurred in the early 1980s, certainly well before 1987. There were already significant inflows before the tightening of the labor market and therefore several years before point r or the point of full employment indicated in Figure 1. Abella (1996:Table 1, p.3) estimates that there were already 500,000 immigrant workers in Malaysia in 1984. The early inflow of migrant workers was linked to sectoral labor shortages, mainly in the commercial plantation sector and the large-scale, government-sponsored, agricultural land schemes. That the inflows were initially linked to sectoral rather than generalized labor shortages can also be judged from the fact that open unemployment rates were still above 5 percent, and the labor force was still growing by 3 percent per annum. As early as 1978, there were already reports of labor shortages in the plantations (Nayagam and Sapien, 1979); and in the early 1980s, illegal migrant workers were already being used on the government land development schemes to clear the land and put in the infrastructure before the actual settlers moved in (Katzen, 1980; Rema Devi, 1988). The burgeoning of opportunities in urban areas, especially in labor-intensive manufacturing and also in public services, had three major impacts. Rural youths increasingly shunned work in the commercial plantations, which they viewed as "green ghettos". The massive land development schemes into which the government had poured huge investments but which tended to be

isolated and did not offer adequate infrastructure facilities or individual ownership titles were not able to attract sufficient workers nor settlers. Also, the problem of "*tanah terbiar*" (abandoned agricultural land) in the own account and smallholding sector magnified (Lim, 1989).

In the Malaysian profile, the second turning point would actually be point *p* in Figure 1. This is the point at which gross outflow of workers (not the net outflow) equalled 2.8 percent of the labor force and domestic labor force growth was also about 2.8 percent around 1990-1991. What is also worth pointing out is that the emigration of Malaysian workers abroad only escalated after the domestic economic recession of 1985. The peak unemployment rate was 8.3 percent in 1986. But by 1987, the economy was already on the upturn and unemployment started consistently falling and real wages started consistently rising. By the early 1990s, return migration was already noticeable.

The period 1987-1993 marked a significant shift in Malaysia's status to net labor importer. This is the period that coincided with growing supply constraints in a tightening domestic labor market. Interestingly, just before this, around 1985, Malaysia had reversed its population policy and announced a pro-natalist approach to raise its population to 70 million (or four and a half times the size then) by the year 2100. Between 1987-1993, the unemployment rate fell from 7.3 percent to below 2.8 percent. Malaysia created 14 million new jobs at a rate of 3.9 percent compared to domestic labor force growth of 3.1 percent. The gap has been filled by migrant workers, although there is still scope for raising the labor force participation rate of locals. For example, in 1990, the total labor force participation rate was 79.7 percent for males and only 49.9 percent for females in Malaysia, as compared to 87.7 percent and 76.3 percent respectively in neighboring Thailand (World Bank, 1995: Table 1.5, p.12).

The labor shortages are no longer confined to a couple of sectors of the economy and not only to unskilled work. In fact, it is the emerging skills shortages that are of serious concern. There have been growing demands from employers to hire foreign workers, with the highest proportion of requests coming from the manufacturing sector. While 71 percent of the reported manufacturing job vacancies were filled within the year in 1987, as many as 76 percent of the vacancies went unfilled in 1993. This period was also characterized by rising average real wages. Between 1987-92, the average real wage in Malaysia increased 46 percent. In manufacturing, the fastest growing sector in the economy, the increase was 55 percent. More important, wages have been rising faster than productivity growth, thus pushing up the unit labor cost, affecting profitability and investors' perception regarding Malaysia's competitiveness (World Bank, 1995:3-5). How quickly and how far Malaysia has progressed in its migration transition is also evident from the fact that at point *r*, the point of full employment which occurred in 1993, the net inflow

(1.2 million immigrants minus 200,000 emigrants) represented about 13 percent of the domestic labor force.

Whether this represents the peak of net inflows, that is whether Malaysia has reached point *s* in Figure 1, is not yet evident. Pang (1994:88) points out that "because of their long experience in assimilating immigrants, countries with heterogeneous populations are more likely than countries with homogeneous populations to accept a higher proportion of foreign workers in their midst. They are therefore more likely to show a higher peak in the course of their development." Recent data show that immigrant worker employment increased at a slower rate than did total employment (3 percent as compared to 8 percent) between 1991-1993. Data on employment and output growth (Asian Development Bank, 1995) also indicate that employment elasticity has been declining, and that as Malaysia increasingly shifts to higher value added products, it will require less and less labor for each unit of output. But the World Bank (1995:60) notes that, while the demand for migrant workers seems to be declining, immigrant workers are not of declining importance in the Malaysian economy for three main reasons: (i) manufacturing and service employers are complaining of labor shortages and requesting permission to employ migrant workers; (ii) many migrant workers enter the domestic labor market through the agricultural and construction sectors but then move into the informal economy; and so long as these sectors remain dependent on immigrant workers, the number of immigrants will grow faster than the foreign worker employment by sector; and (iii) the Malaysian government has announced ambitious development projects in Sabah which is believed to be already host to over 40 percent of all Malaysia's foreign workers.

Development Dynamics and the Migration Transition

In this section, we attempt to explain the factors behind the rapid migration transition in Malaysia. While migration transitions occur in the context of economic and labor market developments, it is important to examine the changes in economic structures, trade and investments, the supply of and demand for labor that influence when and how quickly a country makes the transition. These changes themselves are influenced by not only economic but also sociocultural, demographic and, importantly, policy variables.

The rapid migration transition in Malaysia is clearly linked to rapid economic progress. For the period 1987-1993, Malaysia's GDP (at 1978 constant prices) grew at an average annual rate of 8.8 percent, as compared to 4.4 percent for the 1980-1986 period. It is also interesting to note that Malaysia went through its transition when its GNP per capita was only about US\$1,800 (since 1987, however, GNP per capita has risen very rapidly to US\$3,140 by 1993). This represented a much lower level of development than when, for example, Japan or the Republic of Korea reached their turning points

(Japan's growing attraction to foreign labor was only after 1985, when its per capita income was already close to US\$15,000 and Korea reached its turning point around 1990 at per capita income US\$5,400).

Malaysia's early development was based on its premier position as one of the largest, if not the largest, world exporters of rubber, palm oil and cocoa. The openness of the Malaysian economy has always been a characteristic feature (for example, in 1990, the export of goods and non-factor services represented 82 percent of the GNP, as compared to 60 percent in 1985; see *Sixth Malaysia Plan 1991-1995*, Table 1.1, p.18). But to avoid the instability associated with agricultural exports, the government embarked on a diversification program based on export-oriented industrialization. This has been a catalytic factor behind Malaysia's recent economic progress. Table 1 shows that while Malaysia entered the decade of the 1980s with agriculture as the mainstay of the economy, by 1990, the manufacturing share of GDP was larger than that of agriculture. During the 1985-1990 period, Malaysia's manufacturing exports expanded at an average annual rate of 31 percent per year to account for 60 percent of total exports in 1990. Agricultural exports grew at only 1.6 percent annually although agricultural and forestry products still accounted for almost one-fifth of total exports (*Sixth Malaysia Plan 1991-1995*, Table 1.3, p.22). What is also significant in Table 1 is that the size of the public sector increased tremendously especially in the early 1980s.

The structural transformation of the economy was accompanied by major shifts of population from rural to urban areas and supply-demand imbalances in the labor market, sectoral changes in employment, and supply-demand imbalances in the labor market. The proportion of the population in urban areas increased from 34 percent in 1980 to 41 percent in 1990. The earlier concern with unemployment and job creation has shifted to serious problems of labor shortages. These shortages were initially confined to mainly the rural and agricultural sectors, but with unemployment reaching its "natural" floor (as shown in Table 1), the shortages have spread to a growing number of sectors.

The labor-intensive, export-oriented industrialization policy resulted not only in significant job creation but also in rural urban-migration especially of young females who had previously helped out on family farms or worked as laborers in the commercial plantations. For young men from the rural areas, outmigration was often not just to Kuala Lumpur or other Malaysian towns but also to Singapore. Before the labor market tightened, micro level studies (Mat Sin, 1979) noted that the men who found that jobs were limited for them in the female labor-intensive manufacturing sector sought alternatives in Singapore. But the more interesting issue is the link between the country's industrialization strategy, export-orientation and international migration. One aspect is that rapid industrialization has been fuelled by the inflow of foreign investments, which were attracted largely by the comparative advan-

TABLE 1
STRUCTURAL TRANSFORMATION AND EMPLOYMENT/UNEMPLOYMENT IN MALAYSIA

	Percentage Share				Average Annual Growth Rate	
	1980	1987	1990	1993	1980-87	1987-93
Gross Domestic Product	100.0	100.0	100.0	100.0	4.6	8.8
Agriculture	22.8	21.7	18.7	15.9	3.8	3.3
Mining	10.1	10.5	9.8	8.0	5.2	3.8
Manufacturing	19.6	22.6	26.8	30.1	6.7	14.1
Electricity, gas and water	1.4	1.8	1.9	2.2	8.2	11.9
Construction	4.6	3.4	3.6	4.0	0.1	11.6
Trade	12.1	10.6	11.1	12.2	2.6	11.4
Transport and Communications	5.7	6.7	6.9	6.9	6.9	9.5
Finance	8.3	9.0	9.8	10.7	5.8	11.9
Public Administration	10.2	12.4	10.8	10.3	7.4	5.4
Others	5.0	1.3	0.7	-0.2
Employment	100.0	100.0	100.0	100.0	3.1	3.6
Agriculture	37.2	30.8	26.0	21.3	0.4	-3.0
Manufacturing	15.5	15.5	19.9	23.6	3.1	11.1
Mining	1.3	0.6	0.6	0.5	-9.0	1.9
Others	46.0	53.1	53.5	54.6	5.2	4.1
Unemployment Rate	5.6	7.3	5.1	3.0		

SOURCE: Asian Development Bank (1995).

tage of a relatively educated and cheap labor supply. Between 1985-1990, net foreign direct investments rose by 79 percent per annum (*Sixth Malaysia Plan 1991-1995*, Table 4.6, p.135). The foreign investments were from countries which were themselves experiencing labor shortages and escalating labor costs and which were therefore keen to shift their labor-intensive operations to cheaper countries.

According to conventional neo-classical theory, the movement of capital should substitute for the movement of labor between countries. On the one hand, the foreign investments or "capital-to-labor" policies have created job opportunities which have helped to keep Malaysians at home rather than finding work overseas. But, on the other hand, the three largest foreign investors in Malaysia — Taiwan, Japan and Singapore — are also the three main destinations of Malaysian emigrant workers. What has happened is that foreign investments and international trade create objective and subjective

tive bridges between trading and investing partners that activate the flows of labor, whether legal or illegal, between particular countries. Close economic ties imply well-developed transportation and communication systems that, by reducing the costs of information and travel, help focus the attention of potential migrants on specific locations. "Japan's economic presence in the countries of origin has been instrumental in exposing potential migrants to Japanese mores, culture and economic success, encouraging them to seek jobs in the new land of opportunity..... In addition, Japanese multinationals move trainees from their overseas subsidiaries to work in the parent company" (Lim, 1994:345-346). In the case of Taiwan, there is the added cultural and language factor because the Malaysians who migrate to work there are ethnic Chinese. It is also worth noting the reverse aspect which is that the Japanese, Taiwanese and Singaporeans are among the largest groups of expatriate professionals in Malaysia.

There is another aspect of the foreign investment link to international migration. As labor shortages have become more serious in the manufacturing sector, there are various indications that Malaysia is losing its comparative advantage and that foreign investments are increasingly staying away from Malaysia or shifting their operations to other countries because of rising labor costs and recruitment difficulties (for example, data on investments to ASEAN from Japan and Taiwan during 1992-1993 show the largest decline for Malaysia, World Bank, 1995:20-22). There are also growing concerns that labor supply constrained wage growth may discourage foreign direct investment as well as domestically financed investment in the very industries that Malaysia needs to transform itself into an industrial economy. In such a context, it is easy to understand the pressure that the government is under to permit the use of migrant labor in the manufacturing sector.

It should also be pointed out that the pressure to use migrant labor is partly because female labor force participation rates have not really risen to augment domestic labor supply. The female labor force participation rate rose from 37 percent to only about 50 percent between 1970-1990 (*Sixth Malaysia Plan 1991-1995*, p.414), although women have moved from low-skilled, poorly-remunerated self-employment and agricultural jobs to more skilled, better-paid wage employment, and the gender wage gap has declined. The World Bank (1995: vi) has emphasized the point that there is considerable scope for increasing female labor force participation in Malaysia and reducing the need for immigrant labor.

The most important source of labor for the growing manufacturing sector has been the release of workers from the agricultural sector. Over the period 1987-1994, over 15 percent of the additional jobs created in non-agriculture were filled by the labor released from agriculture; and between 1990-1994, the contribution was even larger at nearly 20 percent. But at the same time, the shortages in the agricultural sector have become more serious. Employment

on plantations or the government land schemes has clearly lost its attraction for Malaysian job seekers. Various surveys found that even during the recession of the mid-1980s, high unemployment rates did not ease the labor shortages in the agricultural sector and that even improved wages and working conditions will not attract the required domestic labor force. It has long been argued that Malaysia should not lose its premier position in international commodity markets, that the foreign exchange earnings are invaluable, and that "the migrant workforce may be the only viable solution until there is greater capital investment in the plantation industry, a higher level of mechanization and the benefits of the research and development projects begin to accrue" (Amin, 1988:204). The incentive to use migrant labor in the government land schemes has also been strong for at least two reasons: their agricultural output is important to the economy and to export earnings; and the government had invested very heavily in the land schemes (in 1983, the average cost to resettle a family in a land scheme was quoted at M\$51,000 or about US\$20,000, *Mid Term Review of the Fourth Malaysia Plan 1981-1985*, p.232).

What is interesting in the Malaysian context is that much of the explanation for the emerging labor shortages and especially for the changing attitudes of locals towards work in various sectors of the domestic economy can be traced to the government's New Economic Policy. It was first introduced in 1970 and for the next twenty years, it was the most important influence in Malaysia's political, economic and social scenario. As part of the New Economic Policy to reduce the identification of ethnic groups in the country with location and occupation, the government greatly expanded the civil service, set up public economic enterprises, established ethnic quotas for private sector jobs, and increased educational opportunities especially for the Malay community who had previously been associated with rural locations and agricultural activities. For example, between 1981-1985, the government services sector accounted for about one-quarter of the total number of jobs created (*Fifth Malaysia Plan 1986-1990*, p. 137), in addition to the jobs created in the newly set up public enterprises. The role of the government in actively participating in the economy contributed to the tightening of the labor market. For the Malay community, the unprecedented opportunities for much better paying, urban, white collar jobs and greatly improved educational opportunities (for very large numbers of young Malays, these opportunities were abroad, sponsored by the Malaysian government), clearly altered attitudes towards remaining in rural areas and towards "dirty, dangerous and difficult" jobs. For the non-Malay community, concerns about educational and economic opportunities especially for their children, led those with the means (professional qualifications or investment capital) to consider permanent emigration, especially in the earlier years of the New Economic Policy. The

non-professionals and those without the requisite business capital and who were facing increasing competition from the Malays began to look East to Japan and Taiwan for more lucrative wage employment opportunities.

Some Policy Lessons

A number of studies (for example, Lim, 1988, 1989; Pillai, 1992; Kassim, 1994; World Bank, 1995) have examined the implications of emigration and immigration for Malaysia. Instead of repeating the findings, we attempt in this section to highlight some of the main policy lessons from the Malaysian experience which might be of interest to other countries attempting to deal with their migration transitions.

A country experiencing rapid economic progress and outward-oriented structural transformation, irrespective of the actual level of development (although, naturally, not at very low levels), can expect to face growing immigration pressures, even if it still has not completed its demographic transition, domestic labor force growth rates are still high and full employment has not been reached. This would be especially the case for countries which, on the one hand, are anxious to hold back supply constrained wage increases so as to retain their comparative advantage in international markets and to continue attracting foreign investments, and which, on the other hand, are surrounded by neighboring countries at lower and slower levels of development and serious unemployment problems. The Malaysian experience shows that the transition from widespread unemployment to sectoral shortages to a natural level of unemployment and growing shortages can all occur within a very short space of time. Unless timely adjustments are made, both legal and illegal immigration could well escalate so that the country becomes increasingly dependent on foreign labor. Even with declining elasticities of employment, the dependence on foreign labor can grow.

Adjustments or efforts to augment domestic labor supply, instead of importing foreign labor, can be from three major sources: wage adjustments; increased female labor force participation; and the release of labor from the agricultural and services sectors for the rapidly expanding manufacturing sector. The main policy considerations are:

- A trend of rising wages due to labor supply constraints should not of itself be a signal for importing foreign workers. Where previously the domestic labor force was paid relatively low wages and there were wage restraints, emerging labor shortages could be the opportunity for raising incomes of workers rather than for bringing in foreign workers to keep wages low. It could be simplistically argued that the first adjustment should be to raise wages at least up to the point where they match productivity increases.

It is only after this point or where raising wage levels still does not permit the necessary adjustments that the use of foreign workers may be justifiable. Consistently rising unit labor costs that threaten a country's international competitive position could signal that a country is approaching its migration turning point. But whether the importation of foreign workers will help to impede rising labor costs relative to productivity growth will depend on the skills and experience of the migrant workers, the selection process for entry, *etc.*

- Serious efforts should be made to tap domestic female human resources before turning to foreign workers. A country that focuses on such efforts is likely to reach its turning point of becoming a net labor importer later than one that does not. Especially as educational levels of women have gone up in most countries, it is important to concentrate on drawing them into the labor force, including through enhancing their skills training and providing them with various services and support structures to cope with their family responsibilities. In this context, it should, however, be mentioned that the importation of domestic maids could represent a form of "replacement mobility" to relieve local women of their household responsibilities and enable them to take up wage employment in the modern sector. This may explain why labor importing countries tend to be most relaxed about the numbers of such immigrant women coming into the country as compared to other types of workers (Lim and Oishi, 1996).
- In the normal process of economic development, there is a shift from agriculture to manufacturing. The "release" of labor from agriculture augments the domestic labor force for the modern sector, especially for manufacturing. In the process of rapid industrialization and with educational improvements, the agricultural sector also tends to quickly lose its attraction as a source of employment for new entrants to the labor force. It has been argued that the release of labor from the agricultural sector enhances aggregate productivity gains for the country and that policies that retard the process of labor release should be avoided (World Bank, 1995:vii). But the policy dilemma should be pointed out. For countries, such as Malaysia, that have been enjoying a strong comparative advantage in agricultural exports and that have invested very heavily (in terms of both private and public investments) in the agricultural sector, it is harder to argue that the agricultural sector should be allowed to shrink for the lack of labor. One rationale for importing migrant workers is that the potential of the agricultural sector to continue to earn substantial foreign exchange should not be entirely neglected in favor of manufacturing. How many and how quickly domestic workers can be released from

agriculture depends on a number of factors, including the previous extent of underemployment, the level of productivity, and the scope for mechanization and technological developments. It is hard to argue, for example, that Malaysia can emulate the example of Japan which at Malaysia's current level of GNP per capita had a much smaller share of its labor force in agriculture (World Bank, 1995:14) and that therefore there is still considerable scope for Malaysia to release labor from agriculture for manufacturing, without needing to import workers. In the first place, the types of tree crops that Malaysia enjoys a comparative advantage in tend to require more labor-intensive operations and less scope for mechanization. Perhaps more important, Malaysia has much to lose from giving up its premier position in international commodity markets.

- The services sector could also be a source of domestic labor supply for an expanding manufacturing sector. Workers released from labor-intensive services could be channelled into more productive employment. But the jobs that they leave in the services sector should not be filled by immigrant workers. In Malaysia, for example, immigrant workers have been allowed to work in restaurants, gas stations, *etc.* But these are areas that could be much leaner in terms of labor intensity. Care should also be taken to avoid situations where the immigrant workers leave the sectors which really "need" them for the informal sector, such as trading and hawking, and where they compete unnecessarily with locals.

Countries that experience a rapid fertility transition can also expect to undergo a migration transition more rapidly than countries that have been slower in bringing down their fertility rates. It is worth noting that, other than Malaysia, the Asian countries that have undergone a migration transition are also the countries that have experienced the fastest fertility transition and that are already having to deal not only with increasingly serious labor shortages but also with the aging of their population (in the 1990s, considerably fewer nationals will be entering the labor force in Japan, Singapore, Korea, Taiwan and Thailand; and the median age of the labor force in these countries is also expected to rise rapidly; *see* Bauer, 1990:623-624). When Malaysia's Prime Minister announced in 1984 a pro-natalist population policy to increase the total population to 70 million (or four and a half times its size then) by the year 2100, there was a great deal of surprise, skepticism and questions especially concerning the rationale. Now in view of the extent of the labor shortage problem, the policy may even seem expedient, although, of course, there will be a considerable lag between population and labor force growth and although an increase in numbers entering the labor force does not necessarily mean there will not be labor market imbalances among sectors.

When a country reaches its peak as a net labor importer will depend on a number of factors. The Malaysian case does suggest that a multi-ethnic country with a history of immigration is likely to accept a higher proportion of immigrant workers. Cultural factors can be important. For example, the fact that the Indonesians are of the same ethnic stock and speak the same language as the Malays may explain not only why Malaysia turned first to Indonesia as the source of labor inflow on a government-to-government basis but also why there are such large illegal flows. However, ethnic similarity does not necessarily mean that immigrant workers will be readily welcomed by the host community. Various studies have shown that social tensions and mutual distrust tend to be strong between the Malays and the immigrant Indonesians.

The Malaysian experience also suggests that it is useful for the government to spell out a time horizon for the use of immigrant labor. The horizon would help set a time frame within which the government and the private sector should focus on shifting the economy to higher value added and higher technology production and on upgrading the skills of the labor force, so that the need for immigrant labor will decline. A "stop-go" policy (shifting between allowing and disallowing the use of such labor or changing the rules for their entry) is not recommended. In Malaysia, such a policy only resulted in confusing employers and contributing to the growth of illegal immigration.

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