8 Prices, Employment And Wages

Prices

The Consumer Price Index (CPI) continues to remain relatively stable in 1996 estimated at 3.6% (1995: 3.4%), despite increasing price pressures within the economy, particularly arising from higher aggregate demand and supply constraints as well as labour shortages with their attendant pressure on wages. This achievement has largely been on account of the success of a combination of policy measures implemented to address potential price pressures, in particular those directed at managing demand and expanding supply as well as improving distribution and trading practices. In addition, the generally low international inflation has also contributed to greater stabilisation in domestic prices, with increased demand to some extent being accommodated by higher imports.

During the year, the Government continues to implement a comprehensive package of policy measures to curb inflationary pressures on several fronts. Monetary policy was further tightened to contain excess on aggregate demand in the domestic economy. Fiscal restraint continued to be pursued to reduce excessive demand pressure from the public sector. In addition, the 1996 Budget further reduced or abolished import duties of another 1,500 items. Thus, more than 5,000 items have been given reduction or abolition of import duties since the 1994 Budget. In addition, administrative measures continued to be implemented to ensure further improvements in the distributive system as well as to curb unethical business practices.

The CPI, during the first nine months of 1996 rose by 3.6%, slightly higher than the 3.4% increase during the corresponding period in 1995. Among the components of the CPI, the index for food showed the highest increase of 5.7%, while for almost all other components (except medical care and health expenses), the increase did not exceed the overall increase in the CPI. As a result, the increase in food prices had contributed to 57.1% of the overall increase of the CPI.

The year also witnessed the prevalence of supply shortages and the resultant price increases of several essential items. A shortage in the supply of chicken occurred early this year largely due to increased demand during the two main festivities. The price increase was to some extent, exacerbated by retailers who took advantage of the short supply to increase their profit margins. To address the supply shortage, the Government allowed the importation of dressed chicken from Thailand and Holland for the period of January to March, 1996. In addition, chicken was also included in the list of supply-control items to ensure the supply of chicken was able to meet demand.

Earlier this year also saw the escalation in world prices of wheat which subsequently placed pressure on the domestic price of flour, which is a price-controlled item. In the light of the significant increase in the prices of imported wheat (Australian Standard White Wheat), by 56% from US$154 per metric tonne in 1993 to US$240 per metric tonne in the first six months of 1996, the Government gave the approval for the price of flour to increase from 80 sen per kg. to RM1.10 per kg., to avoid shortages in supply as manufacturers could no longer absorb the cost of raw materials. However, the price of flour will be subject to review, to take into account the price movements of imported wheat. Meanwhile, the Enforcement Division of the Ministry of Domestic Trade and Consumer Affairs (MDTCA) conducted a major operation code named "Ops Gandum" to ensure traders did not increase flour-based food items disproportionately. As an additional measure to ensure adequate supply, the Government liberalised imports of wheat flour and at the same time, continued to restrain the export of flour.

The rapid development in the construction sector has also contributed to increased demand for cement, which is estimated to increase by 20% from 12 million metric tonnes in 1995 to 14.4 million metric tonnes in 1996. On the other hand, the domestic supply of cement increased at a slower rate of 12% from 11.7 million metric tonnes to 13.1 million metric tonnes. In August 1995, the Government allowed a 10% increase in the average price of cement from RM180 per metric tonne to RM198 per metric tonne, given higher prices in the external market. In addition, to further expand the production capacity of local cement, the Government has approved four new cement plants as well as allowed the importation of cement from China, Mexico and Iran.

To address the problem of the significant increase in the prices of food which to a large extent was caused by supply constraints, the Government encouraged greater involvement of the private sector in the production of food such as fruits, vegetables, fish and livestock. In this regard, the 1996 Budget extended coverage of the Reinvestment Allowance to include the production of essential food. Exemptions of import duties were also given to specific equipments and inputs directly used in the production of food on commercial or group enterprises basis.

The Fund for Food was increased to RM600 million to provide cheaper loan facilities for the cultivation, production and distribution of food. As of 31 July 1996, a total of RM290.4 million had been approved, of which 56% was channelled to animal husbandry, 18% for vegetables and fruits and 11% for food processing. In addition, a total of RM4.37 billion has been allocated to the Ministry of Agriculture during the Seventh Malaysia Plan period to further encourage the production of food. The allocation for agricultural credit to Bank Pertanian Malaysia is also increased by 8.1% from RM194.9 million to RM200 million.

As part of the Government's efforts to encourage consumer awareness among the public, a "Comfortable Living Family" competition was launched on 4 June 1996 in conjunction with the celebration of the World Consumers' Day. The objective of the competition was to educate and create consumer awareness of their rights and the need to plan their spending prudently. Besides, the competition was also launched to instil responsible business ethics among the Malaysian trading community. It included publicity campaigns on the adverse effects of inflation and the role consumers and traders could take in containing inflation in order to achieve a comfortable standard of living. The criteria set by which families would be judged, include their expenditure on food, housing, clothing and transportation.

To further strengthen consumer awareness, a four-day "Zero Inflation Sales" campaign was launched on 7 June 1996. This campaign, jointly organised by the Penang State Government and the Federation of Malaysian Manufacturers (FMM) northern branch, attracted 78 participants including 23 manufacturers, 20 wholesalers and five Government agencies. The objective of the campaign was to inculcate among businesses and traders the spirit of greater awareness of social responsibilities and not to be drawn to profiteering. In line with the growing concern on the importance of consumer protection, the Enforcement Division of the MDTCA had, up to 3 August 1996, inspected 340,376 business premises. A total of 479,333 business premises was inspected in 1995 of which 5,762 cases were charged and fined a total of RM6,763,528 and another 4,800 cases were compounded a total of RM1,064,205. For 1996, some 500,000 premises are targetted to be inspected.

As a measure to keep consumers better informed through the dissemination of price information and assistance to consumer organisations, the Price Information Centre, established in Kuala Lumpur since 12 October 1993, collected and disseminated the prices of 97 items weekly. Retail prices are also disseminated through the mass-media on a weekly basis to facilitate price comparisons by consumers. In addition, to enable the Government to take pre-emptive measures to ensure adequate and stable supply and thus, prevent sharp and sudden price increases as a result of shortages, the MDTCA through the Advance Warning System Joint Committee, continues to analyse and monitor the price of 170 consumer items weekly. At the same time, wholesalers and retailers are encouraged to practice "fair pricing". Up to 31 July 1996, 984 premises, which include supermarkets, mini-markets and retail shops, had been awarded the title of "Fair Price Store", compared with 458 premises in 1995.

To address the concerns of asset price inflation and to ease price pressures on real properties, the Foreign Investment Committee guidelines on the acquisition of real estate by foreigners were tightened. In addition to the limit of RM250,000 price level of bungalows and condominiums imposed earlier in 1995 to foreigners, the 1996 Budget had imposed a levy of RM100,000 to be collected by the relevant state authorities on every purchase of real estate by foreign interest. At the same time, real property gains tax (RPGT) of 30% was imposed on foreigners, irrespective of their holding period before disposal of their properties. For Malaysians, the RPGT was also raised from 20% to 30% on the disposal of property within two years after acquisition, 15% to 20% within the third year and 10% to 15% within the fourth year.

Reflecting the success of the comprehensive anti-inflation measures, the **CPI** for the first nine months of 1996 moderated slightly to 3.6% compared with 3.4% for the same period in 1995. On a regional basis, the price trends in Sabah and Sarawak revealed a slightly lower increase in the two states compared with Peninsular Malaysia, following a higher increase recorded in the same period last year. The CPI for Peninsular Malaysia rose by 3.9% (January-September 1995: 3.6%). The index for Sarawak increased at a slower pace of 2.2% (January-September 1995: 2.3%) and Sabah 2.8% (January-September 1995: 2.7%), as shown in Table 8.1.

Chart 8.1
Consumer Price Index (1994 = 100)
(annual change)

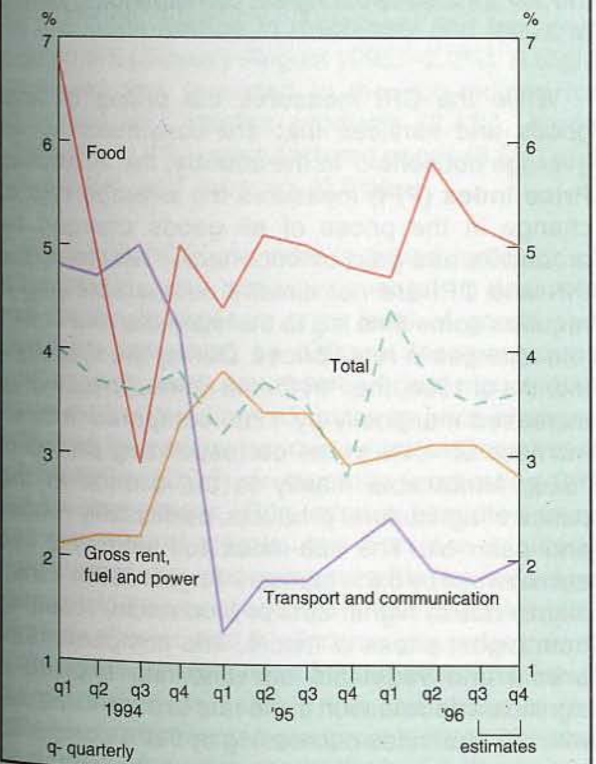


Table 8.1

Malaysia: Consumer Price Index (1994=100)

	Weights[1]	1995	Annual Change (%) (January–September) 1995	1996
TOTAL	**100.0**	**3.4**	**3.4**	**3.6**
Food	34.9	4.9	4.8	5.7
Beverages and tobacco	3.6	2.3	2.3	2.4
Clothing and footwear	3.6	0.0	0.1	-0.7
Gross rent, fuel and power	21.1	3.4	3.5	3.2
Furniture, furnishings and household equipment and operation	5.6	2.8	2.4	1.6
Medical care and health expenses	1.9	3.1	3.2	3.6
Transport and communication	17.9	1.8	1.7	1.7
Recreation, entertainment, education and cultural services	5.8	2.5	2.4	3.5
Miscellaneous goods and services	5.6	4.2	4.8	2.6
Peninsular Malaysia	100	3.7	3.6	3.9
Sabah	100	2.8	2.7	2.8
Sarawak	100	2.2	2.3	2.2

[1] The weights used are based on the final weights from the 1994 Household Expenditure Survey.

Source: Department of Statistics.

The CPI for the sub-indices of food and medical care and health expenses registered higher increases for 5 consecutive months. These two groups together contributed to 59% of the overall CPI increase compared with 51.4% during the corresponding period of 1995. The **food sub-index,** which contributed for more than half of the overall increase in CPI, increased by 5.7% (January-September 1995: 4.8%), mainly due to significant increases in the sub-groups for fish (12.5%), rice, bread and other cereals (6.9%) and fruits and vegetables (3.4%), as shown in Table 8.2.

Table 8.2

Malaysia: Consumer Price Index For Food (1994=100)

			Annual Change (%) (January–September)	
	Weights[1]	*1995*	*1995*	*1996*
Total Food	34.9	4.9	4.8	5.7
Food at home	25.1	5.3	5.2	6.0
Rice, bread and other cereals	5.5	1.4	1.0	6.9
Meat	3.8	0.8	1.4	3.9
Fish	4.9	12.1	11.9	12.5
Milk and eggs	2.3	–0.4	–0.9	3.8
Oils and fats	0.7	11.2	13.3	0.8
Fruits and vegetables	5.4	8.7	8.6	3.4
Sugar	0.6	0.7	0.5	1.0
Coffee and tea	0.8	4.6	5.1	0.6
Other food	1.1	2.7	2.1	4.5
Food away from home	9.8	3.7	3.8	4.7

[1] The weights used are based on the final weights from the 1994 Household Expenditure Survey.

Source: Department of Statistics.

During the first nine months of 1996, the sub-index for transport and communication rose by 1.7%, the same rate as that for the corresponding period of 1995. This is mainly due to the reduction in import and excise duties on tyres and lower price of unleaded petrol. The sub-index for gross rent, fuel and power continued to rise by 3.2%, (January-September 1995: 3.5%) mainly due to increases in rental of residential units.

The sub-index for clothing and footwear registered a reduction of 0.7% (January-September 1995: 0.1%) on account of lower prices of apparel and footwear, following the reduction in import duty for some of these items, as announced in the 1995 and 1996 Budgets. On the other hand, the sub-index for beverages and tobacco continued to increase by 2.4% (January-September 1995: 2.3%).

For durable and non-durable goods, prices rose by 2.1% and 4.2%, respectively (January-September 1995: 1.5%, 4.0%) reflecting mainly significant increases in the prices of fish, flour, fruits and vegetables. In contrast, the sub-index for semi-durable goods (which include clothing, linen and garden tools) increased by 1.2% (January-September 1995: 0.3%), while the sub-index for services rose moderately by 3.6% compared with the 3.7% increase during the corresponding period of 1995.

While the CPI measures the prices of final goods and services that are consumed by an average household in the country, the **Producer Price Index (PPI)** measures the average rate of change in the prices of all goods charged by producers and paid by importers. Therefore, the PPI and CPI are not directly comparable and it requires some time lag to translate the rise in PPI into changes in retail prices. During the first eight months of 1996, the PPI for the domestic economy increased marginally by 1.5% compared with an increase of 4.4% in the corresponding period of 1995, attributable mainly to the decline in the prices of agricultural products, particularly rubber and palm oil. The sub-index for food and live animals rose by 5.6% (January-August 1995: 1.9%), mainly due to higher cost of production, resulting from higher prices of inputs. The components of animal and vegetable oils and fats showed a significant deceleration in the rate of price increase, with the sub-index decreasing by 7.0% compared with an increase of 27.5% during the period of

January-August 1995, due to lower prices of crude and processed palm oil, in line with strong world supply. The sub-index for crude materials decreased slightly from an increase of 8.4% during the first eight months of 1995, primarily as a result of the continued slowdown in the prices of natural rubber and unprocessed palm oil. (See Table 8.3).

At the disaggregated level, the PPI for local production rose by 2.0% during the first eight months of 1996 compared with 6.1% during the corresponding period of 1995. The marginal increase was mainly due to price decline of animal and vegetable oils and fats of 7.0% (January-August 1995: 32.3%), crude materials of 1.3% (January-August 1995: 10.4%). The sub-indices for machinery and transport equipment rose by 2.3% (January-August 1995: –1.7%). The sub-indices for mineral fuels, lubricants and related materials increased by 9.9%, while the increase in the sub-index for beverages and tobacco moderated to 0.7% (January-August 1995: 2.7%). The PPI for imports continued to declined marginally by 0.5% (January-August 1995: 1.0%), resulting from lower inflation abroad together with the abolition and reduction of import duties on many items. This resulted in a further 0.3% decline in the prices of mineral fuels, lubricants and related materials (January-August 1995: 1.7%) as well as the 3.3% decline in machinery and transport equipment (January-August 1995: –2.2%). A slight increase was recorded in the sub-indices for chemical and related products (2.4%), crude materials (1.1%), manufactured goods (0.5%) and beverages and tobacco (0.8%).

While the CPI provides a broad indicator of changes in retail prices in general, it does not reflect the changes in price level of goods and services consumed by different income groups and regions, such as urban and rural areas. With the view to providing indicators on price changes affecting the various income levels, the Department of Statistics (DOS), is currently formulating CPI by income groups. This index is based on price movements of goods and services typically consumed by consumers with an average household income of equal to or less than RM1,500. A study showed that this income group comprised about 65% of Malaysian households. The list of consumer goods used in the calculation of the price index by income group consists of 75 items including rice, flour, condensed milk, bread,

Table 8.3

Malaysia: Producer Price Index (1989 = 100)

			Annual Change (%) (January–August)	
	Weights	*1995*	*1995*	*1996*
Domestic Economy	**100.0**	**4.0**	**4.4**	**1.5**
Food and live animals chiefly for food	14.9	2.4	1.9	5.6
Beverages and tobacco	2.1	2.3	2.1	0.7
Crude materials, inedible except fuels	17.9	7.0	8.4	–1.2
Mineral fuels, lubricants	18.8	–0.4	0.0	8.4
Animal and vegetable oils and fats	8.47	26.0	27.5	–7.0
Chemicals and chemical products	4.4	1.9	1.7	1.3
Manufactured goods classified chiefly by materials	10.8	–0.1	–0.5	1.3
Machinery and transport equipment	18.4	–1.8	–1.4	–0.2
Miscellaneous manufactured articles	3.6	2.3	1.5	4.2
Commodities and transactions not classified elsewhere	0.6	–0.4	–0.4	0.3
Local production	***79.8***	***4.8***	***6.1***	***2.0***
Import	***20.2***	***0.7***	***1.0***	***–0.5***

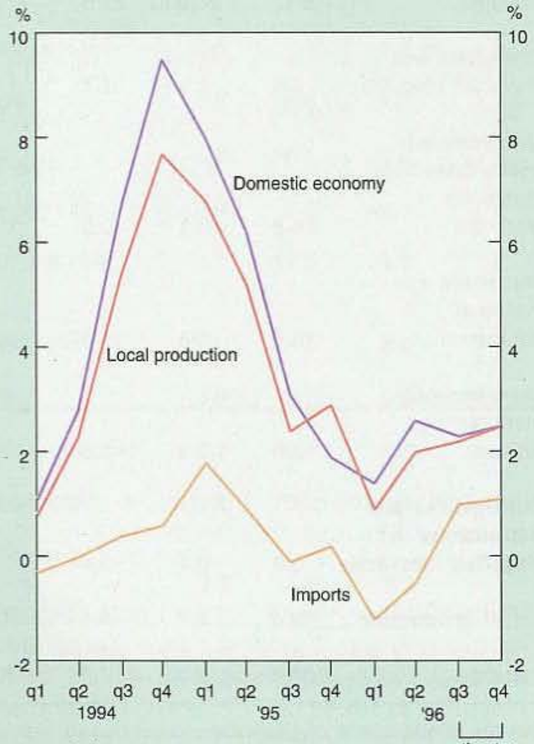
Source: Department of Statistics.

chicken, onions, salt and canned sardines. While preliminary result shows marginal differences between the overall CPI and those of the income groups, the price indices for certain components of the CPI differ significantly, in particular that of food and its sub-components, reflecting the higher weightage of food items in the basket of goods for the lower income group. In addition, the DOS has also undertaken the computation of CPI for the urban and rural areas. Similarly, results showed marginal differences between urban and rural areas, largely on account of marginal differences in the pattern of expenditure between the rural and urban.

Employment

As the economy enters its ninth year of rapid expansion, the tight labour market continues to persist. In 1996, the expansion in employment opportunities continues to exceed growth in labour supply. With employment envisaged to grow by 3.4%, a total of 265,000 new job opportunities is expected to be created compared with 312,000 in 1995. However, the growth in labour force is estimated to be lower at 3.2% (1995: 3.9%). Subsequently, the unemployment rate declines further to 2.6% from 2.8% in 1995, indicating that the economy continues to operate at a full employment level. This tight labour market situation continues to be experienced in all sectors of the economy.

Chart 8.2
Producer Price Index (1989 = 100)
(annual change)



q - quarterly

The total number of job seekers registered with the Manpower Department of the Ministry of Human Resources as at the end of July 1996 was 24,070 persons compared with 23,329 persons during the corresponding period in 1995, an increase of 3.2%. Higher rates of increases were recorded in the states of Sabah, Kelantan and Trengganu, showing an increase of 56.7%, 49.3% and 41.5%, respectively. In contrast, Selangor, Sarawak and Kedah recorded a significant decline of 46.2%, 19.9% and 18.1%, respectively. Total new vacancies reported during the first seven months of 1996 decreased by 3.8% to 33,483 compared with 34,809 during the corresponding period in 1995. However, the state of Kedah registered a decline of 49.2%, Sarawak 26.7% and Perak and Wilayah Persekutuan, 24.7% each. The significant decline in these states was however offset by large increases in new vacancies in the states of Kelantan (114.5%), Terengganu (56.8%) and Pahang (32.6%). (See Table 8.4).

Total employment in 1996 is estimated to reach 8.2 million (1995: 7.9 million), with the secondary and tertiary sectors expected to continue as the major contributors, accounting for 82.7% of total employment in 1996 compared with 81.4% in 1995. On the other hand, the share of employment in the primary sector (comprising of agriculture, forestry and fishing and mining) to total employment is expected to further decline to 16.8% (1995: 18%). (See Table 8.5).

On a sectoral basis, employment in the manufacturing sector is expected to continue to account for the bulk of total employment. In 1996, its share to total employment is expected to increase to 27% compared with 25.9% in 1995. The manufacturing sector therefore, remains as the major source of employment due to the continued strong expansion in export-oriented and domestic market-oriented activities. With the sector

Table 8.4

Comparison of Active Registrants and New Vacancies According to States for January-July 1996

	Active Registrants			*New Vacancies*		
	July+ 1995	*July+ *1996*	*Change (%)*	*Jan-Jul 1995*	*Jan-Jul *1996*	*Change (%)*
Perlis	770	740	–3.9	498	400	–19.7
Kedah	2,941	2,410	–18.1	4,864	2,473	–49.2
Pulau Pinang	1,002	1,031	2.9	4,909	5,431	10.6
Perak	1,858	1,624	–12.6	3,738	2,813	–24.7
Selangor	2,303	1,239	–46.2	4,773	4,549	–4.7
Negeri Sembilan	1,362	1,190	–12.6	3,489	3,013	–13.6
Melaka	616	512	–16.9	351	455	29.6
Johor	1,543	1,458	–5.5	3,654	4,749	30.0
Pahang	1,240	1,319	6.4	951	1,261	32.6
Terengganu	1,464	2,072	41.5	892	1,399	56.8
Kelantan	1,480	2,209	49.3	932	1,999	114.5
Wilayah Persekutuan	2,210	2,448	10.8	2,377	1,791	–24.7
Sabah	2,848	4,462	56.7	1,230	1,573	27.9
Sarawak	1,692	1,356	–19.9	2,151	1,577	–26.7
Total Malaysia	23,329	24,070	3.2	34,809	33,483	–3.8

Source: Manpower Department, Ministry of Human Resources

Note: + Accumulative figures as at end of July

* Figures for July 1996 are unvalidated

undergoing structural transformation, shifting towards higher value-added activities with the utilization of modern technology and labour-saving methods, the growing demand for skilled and semi-skilled workers is expected to intensify over the years. While the capital investment in plant and machinery to every job created has increased to RM359,464 in the first half of 1996 from RM184,632 during the same period of 1995. The demand for skilled and semi-skilled workers is expected to increase by 9% from 36,237 in 1995 to 39,498 in 1996.

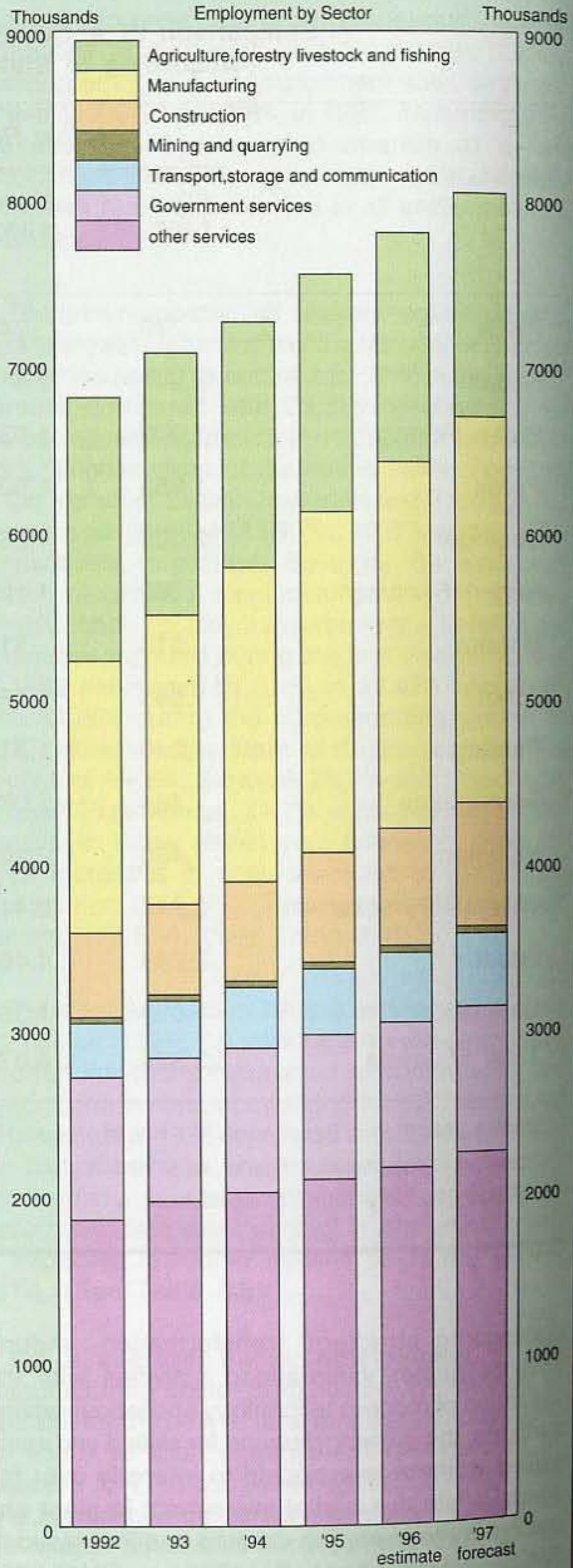
Reflecting the overall buoyant performance of economic activity, the services sector continued to account for a large share of 47.1% of total employment in 1996 (1995: 47.2%). The wholesale and retail trade, hotels and restaurants as well as the transport, storage and communication sub-

Table 8.5 Employment by Sector (% share to total)		
	1995	*1996*
Agriculture, forestry and fishing	18.0	16.8
Mining	0.5	0.5
Manufacturing	25.9	27.0
Construction	8.3	8.6
Electricity, gas and water	0.9	0.9
Wholesale and retail trade, hotels and restaurants	16.8	16.5
Finance, insurance real estates, business services	4.8	4.8
Transport,storage and communication	5.0	5.1
Government services	11.0	10.7
Other services	8.7	8.9
Total	**100.0**	**100.0**
Primary sector	18.6	17.3
Secondary sector	34.2	35.6
Services sector	47.2	47.1

Source : Economic Planning Unit

sectors remain the major contributors to employment creation with 1,353,700 and 420,400 new jobs which are expected to account for 16.5% and 5.1%, respectively of total new jobs created in 1996. The share of Government services sub-sector in total employment, however, is expected to decline slightly to 10.7% in 1996 compared with 11.1% in 1995, reflecting the continued efforts by the Government "to right size" the public sector, through its privatisation programmes and consolidation of several Government agencies.

Chart 8.3
Employment Indicators



Source : EPU

With the increased investment in construction activities, such as the Kuala Lumpur City Centre, Kuala Lumpur International Airport (KLIA) in Sepang as well as in commercial and residential property development, total employment grew by 3.4% in 1996 (1995: 4.1%), resulting in new job creation of 45,700. The KLIA project alone creates about 25,000 new jobs, more than half of the new jobs created. In contrast, the agriculture, forestry and fishing sector's share of total employment is expected to continue its downward trend with its share to total employment declining to 16.8% compared with 18.0% in 1995. The mining and quarrying sector's share in total employment remains at 0.5%, sustained mainly by the growth of the petroleum and gas sub-sector.

The buoyancy of the economy for the past eight years has led to the continued creation of employment opportunities which has resulted in the economy operating from a labour surplus to a labour shortage situation. As a consequence, a high incidence of voluntary turnover of workers was experienced by all sectors of the economy, particularly in the construction, services and manufacturing sectors. A survey on employment by the Manpower Department showed that in the first half of 1996, the manufacturing, construction, plantations and mining sectors experienced a labour shortage of 20,796 workers, whilst the service sector experienced 7,957 shortages.

To cope with the nation's rising needs for skilled workers, the Government has allocated a total of RM90 million under the Seventh Malaysia Plan to set up nine more skills training institutes. At present, there are eight such institutions. With the additional institutes, the intake of students would be increased three-fold. Earlier in 1995, in line with the objective to increase training capacity in new areas as well as higher level skills, the coverage of the Human Resources Development Fund was expanded. Selected industries in the services sector, namely the hotel industry, telecommunications, tour and travel agencies, shipping, freight forwarding, courier services, advertising and computer services are allowed to access the Fund. With this amendment, the Human Resource Development Council (HRDC) is expected to collect a total levy of RM303.9 million up to August 1996 compared with RM229.9 million as at the end of 1995. A total of RM139.7 million has been allocated for training programmes. A total of 639,110 employees had benefitted from the existing four training schemes, namely Skim Bantuan Latihan (SBL), Skim Program Latihan Yang Diluluskan (PROLUS), Skim Perjanjian Latihan Dengan Penyedia Latihan (PERLA) and Pelan Latihan Tahunan (PLT). Of the four schemes, the SBL which provides flexibility to the employers to conduct in-plant training had the largest number of trainees of about 76% of the total and the highest allocation of 80.8%. This indicates the preference of the majority of the employers to have in-plant training rather than external training.

In line with the objective to increase training capacity in new areas, the HRDC launched three additional schemes and facilities, namely the Joint Training Schemes, Apprenticeship Training Scheme and the Soft Loan Facility at the end of 1995. At present, these three schemes received low response with only 1.4% of loan allocated being taken up. In order to speed up loan utilization, HRDC is encouraging all technical skill training centres and institutes that are incorporated or registered in Malaysia and fully Malaysian owned, to apply for soft loans from the HRDC to upgrade their training facilities. Such loans will also be available for centres administered by the employers' associations and industry groups with an interest rate of 2% while for private training centres, the interest rate will be at 4%.

To meet the need for skilled manpower in new skill areas at the higher level and to take advantage of advanced technology in developed countries, advanced skill training institutes were established with the cooperation of the Federal Republic of Germany, France and Japan. The German-Malaysian Institute, established in 1992, is expected to produce 87 graduates at the end of 1996, in the area of production technology and industrial electronics. The Malaysia-France Institute, on the other hand, offered courses at advanced level in areas such as maintenance of automated mechanical system and machine, electrical equipment installation and welding technology. The Institute with a capacity of 253 trainees, began its operation in October 1995.

The Government is reviewing the capacity of existing industrial training institutes. In addition to the five new Industrial Training Institutes (ITI), two new Advanced Skill Technology Centres (STC) and four new polytechnics will be built in 1996. There are also plans to expedite the upgrading of existing 69 secondary vocational schools (SVS) to technical colleges. In this regard, 20 SVS were converted into STC for the 1996 school session. New technology courses such as computer related technologies, telecommunications and information, automation, manufacturing of aircraft components, plastic technology, Computer Aided Design (CAD), advanced printing and technology management will be introduced. In order to provide opportunities for students in secondary schools to study engineering technology and engineering drawing, these subjects were also introduced in selected secondary schools. Government efforts in expanding education and training facilities at all levels were supplemented by those of the Non-Financial Public Enterprises (NFPEs), in particular Telekom, Petronas and Tenaga Nasional. These corporations conducted courses at tertiary level in the area of engineering and information technology and expanded their training capacities and education programmes to increase their intake of trainees.

Measures to increase the number of trainers and instructors in the training institutions have also been stepped up. The Government has increased its intake by 2.5% from 3,110 persons in 1995 to 3,190 persons in 1996 at the Centre for Instructors and Advanced Skill Training. The Government has also allowed private technical skills training colleges to recruit foreign lecturers on contract basis, from countries like India, Pakistan and the United Kingdom. The Ministry of Youth and Sports through its seven Specialised Training Centres, will increase its intake by an estimated 3,600 trainees in 1996 compared with 3,422 in 1995. In order to attract and retain qualified and experienced instructors, the Government will review the terms and conditions of service for instructors. A computerised Vocational Training Information System called VOCATIONS has been set up in 1995 to establish data base on the supply and demand of skills, workforce with certified skills and availability of instructors for skill development.

The Government is also encouraging greater utilization of local labour, including raising female labour force participation and utilizing more handicapped persons for appropriate jobs and rehabilitated drug addicts. Retirees can also be reemployed, on a case-by-case basis. The Government is currently studying the possibility of amending rules relating to part-time employment under the Employment Act 1995. This will enable workers to hold more than one job in a concerted effort to boost the workforce and increase productivity. It will also permit women to be gainfully employed in part-time employment. To further raise female participation rate, firms will be encouraged to adopt flexible work practices. This family-friendly approach will provide women the flexibility to balance their time between work and family. In addition, various incentives are being planned, including the setting up of day care centres at the workplace. Further, the greater use of information technology will provide opportunities to women to be gainfully employed from home. In addition, Malaysians working overseas are also encouraged to return to take up employment in Malaysia.

The Foreign Worker Task Force (PPPA) under the Home Ministry has taken various measures and introduced new guidelines to effectively monitor and regulate the recruitment and entry of foreign labour. Between 15 August 1996 and 31 December 1996, a Peninsular Malaysia-wide exercise is being undertaken to legalise illegal foreign workers. The legalization exercise applies to all illegal foreign workers, including those in the construction, services, manufacturing and domestic sectors, who entered Malaysia on or before July 10, 1996. The new rules involve procedures pertaining to recruitment of foreign workers which are based on agreements between the Malaysian Government and the Governments of the countries of the foreign workers. The PPPA's new regulations would establish closer collaboration between Malaysia and the foreign authorities providing workers to this country and enable better monitoring of the movement of workers at both entry and exit points. The main features of the new guidelines governing the recruitment of foreign workers are:

(i) source countries:

the Government allows recruitment of foreign labour from five countries: Bangladesh, Philippines, Indonesia, Pakistan and Thailand;

(ii) permitted sectors:

sectors allowed to engage foreign workers are the plantation (oil palm, cocoa, rubber, tea and poultry rearing), manufacturing, construction and services;

(iii) approval criteria:

to be taken into consideration among others are the following factors: financial capability, provision of accommodation, industries with over 30% value-added status and production or activity carried out by industries which are listed in the Investment Incentive Act 1986;

(iv) restrictions placed upon foreign workers: foreign workers are allowed to work in Malaysia for five years and are not allowed to switch sectors.

Wages

The continued rapid economic development has led to a situation of virtually full employment with subsequent pressures on wages. Data derived from the Statistics Department's Monthly Survey on Manufacturing sector showed an increase of 8.6% in average wage during the first seven months of 1996, compared with 10.5% during the same period in 1995. The increase in real average wage estimated at 7.1% did not commensurate with the 3.9% (1995: 3.8%) increase in productivity. Such increase in average wage in excess of productivity improvement could trigger a wage-price spiral. As a result, there is an increase in the real unit labour cost of 3.2% during the first seven months of 1996 compared with a decline of 3.2% for the same period of 1995. A continuous increase in the unit labour cost will adversely affect Malaysia's exports as well as their competitiveness at the international level. Increases in wages which are solely indexed to CPI without matching it to productivity increases, will be inflationary and will ultimately nullify and render meaningless the intention of having higher wages but resulting in lower purchasing power.

In the unionised sector, the average wage increase, as reflected in the collective wage agreements, for the first seven months of 1996 was 12.3% compared with 11.7% during the corresponding period in 1995 (this covers only 10% of the total unionised workers). The manufacturing and commercial sectors showed increases in average wages of 13.7% and 10.6% respectively compared with 11.8% and 12.2% in 1995.

A substantially higher number of collective wage agreements was concluded during the first seven months of 1996 compared with the corresponding period in 1995. During this period, 226 collective agreements were concluded, involving 48,833 workers, compared with 257 involving 79,302 workers reported over the same period in 1995. On a sectoral basis, the manufacturing sector accounted for the largest number of wage agreements, followed by the transport, storage and communication and commercial sectors, as shown in Table 8.6.

In the light of the increasing concern with respect to the widening gap between labour productivity and wage increases, particularly in the manufacturing sector, the National Labour Advisory Council (NLAC), the country's highest tripartite forum on labour matters, has agreed on a framework for a national wage reform in August 1996. A set of guidelines on the proposed wage reform was adopted by the Government and the Guidelines are to be adopted by companies and their trade unions in future collective agreements. The wage guidelines give emphasis on a closer link between wages and productivity increases which enable employers to develop a wider and more systematic approach towards improving productivity and wages so as to enhance competitiveness and promote employment stability. The objective of the guidelines is to enable employees to obtain a fair share of the gains arising from productivity and performance improvements. This will, in turn, promote equity, social cohesion and job satisfaction through the creation of improved skills-related career path. Among the key elements of the wage reform are:

— wages will cover a combination of monthly or other frequent payments, annual increments, an annual or other infrequent bonus;

— wages should comprise a fixed and a variable component. Key elements of the fixed component include basic wage, annual increment and contractual bonus (where applicable). The variable components on the other hand, are wage increase based on productivity improvement and profit sharing;

— changes in basic wages shall take into account factors like the cost of living;

— the fixed component should reflect the value of the job and annual increment is paid in recognition of an employee's length of service and experience; and

— the variable component could be determined in relation to productivity and performance of the individual, work group or organisation. The indicators used must be transparent and measurable and consideration must also be given to the timing of payment of the component.

Table 8.6

Private Sector Wage Agreements
(January-July)

	No. of Wage Agreements		*No. of Workers Involved*		*Average wage Increases (%)*	
	1995	1996	1995	1996	1995	1996
Manufacturing	134	100	37,667	22,681	11.8	13.7
Commercial	66	27	8,071	3,876	12.2	10.6
Transport/Storage & Communication	24	41	1,194	7,265	10.7	10.4
Services	20	23	31,008	3,786	10.2	8.8
Agriculture Product Requiring/Processing	8	22	125	1,455	9.1	17.6
Mining & Quarrying	0	4	0	1,342	0.0	10.9
Electrical/Gas and water supply	0	6	0	8,419	0.0	12.3
Construction	1	0	1,237	0	16.3	0.0
Others	4	3	0	9	0.0	13.7
TOTAL	257	226	79,302	48,833	11.7	12.3

Source: Ministry of Human Resources

The more harmonious industrial relations climate continues to exist as reflected in the decline in the number of industrial disputes during the first seven months of 1996, with a total of 270 cases involving 31,760 workers compared with 511 cases, involving 48,657 workers during the same period in 1995. Of the total, incidence of industrial disputes during the first seven months of 1996, 109 cases or 40.4% occurred in the manufacturing sector, involving 18,891 workers, as against 96 cases involving 18,320 workers during the same period of 1995. Most of the disputes were due to disagreements on the terms and conditions of contractual terms in collective agreement and other service contracts, particularly over allowances and bonuses, deadlocks in collective bargaining as well as dissatisfaction over management's prerogatives and actions against workers. A total of seven strikes and lockouts, involving 876 workers, was recorded during the first seven months of 1996 compared with thirteen strikes and lockouts involving 1,748 workers during the corresponding period of 1995. Of the total, three cases of strikes and lockouts were recorded in the manufacturing sector and four in the agriculture sector.

Various efforts have been taken by the Government to overcome the increase in industrial accidents. The enforcement of the Occupational Safety and Health Act 1994 and Factories and Machinery Act 1967 to safeguard the safety of workers in the workplace was stepped up in 1996. A total of eight companies was charged and fined by the Industrial Court for offences committed under this Act. In line with the downturn in the global electronics market, the Government is setting up a task force to monitor the retrenchment of workers in the electronics industry. The objective of the task force is to ensure that those retrenched will be re-employed in other industries.