Prices, Employment and Wages

Overview

Given the weak external environment, economic management in 2001 focuses on policy responses as well as the implementation of pro-growth measures to raise domestic consumption and investment. Budgetary expansion and continued accommodative monetary policies have provided the stimulus to domestic demand. One of the key factors that has enabled the Government to implement such policy flexibility has been the subdued pressures on prices. The nation has benefitted from an environment of low inflation, particularly since 1999 with an average rate below 2%. As such, the fiscal stimulus coupled with the continued easing of monetary policy stance have not led to renewed inflationary pressures.

In terms of the employment position, while the weak external sector is expected to adversely affect labour demand, particularly in the export-oriented manufacturing industries, resulting in higher labour retrenchment, the labour market remains favourable. Unemployment rate , although rising, is expected to be contained at about 3.9%, still maintaining full employment situation. In addition, continued labour shortages in several sectors of the economy, have necessitated the continued presence of foreign workers in the country, both skilled and unskilled.

Consumer Price Index

The economic slowdown, widening output gap and weak consumer sentiment which have resulted in the moderation in domestic demand are expected to dampen inflationary build-up as well as contain wage pressures. In addition, the stability from the pegged exchange rate and lower imported inflation expected from the nation's major trading partners have contributed to ease inflationary expectations. With these developments, inflation is expected to remain low in 2001.

Early in the year, there were concerns that inflation would edge upwards due to the lagged impact of one-off price increases in October 2000, especially petroleum products and bus fares as well as beverages and tobacco. Following these price increases, the **Consumer Price Index (CPI)** rose 1.5% during the first eight months of 2001. Subsequent eight months increases in the price level, particularly in transport and communications, gross rent, fuel and power as well as beverages and tobacco have, however, been moderated by the marginal increase in food prices given that food accounts for one-third of the weightage of the CPI, as shown in *Table 7.1*. As such, the general price increase for the whole of 2001 is estimated to moderate to 1.3%(2000: 1.6%).

In terms of components, the highest price increase of 4.7% was recorded for **beverages and tobacco**, reflecting the higher sales tax announced in the 2001 Budget; followed by **transport and communications** (3.9%) as a result of the increase in bus fares as well as prices of petroleum products. The third highest increase was for **medical care and health expenses**, increasing by 2.8%, attributed to higher prices for drugs. In addition, prices for gross rent, fuel and power increased by 1.6%. Price increases in these major components of the CPI contributed to 90.1% of the overall CPI increase during the first eight months in 2001.

TABLE 7.1

Consumer Price Index
(2000=100)

	Weights			Change (%)	Change (%) (January-August)	
	Difference	1994	2000	2000	2000	2001
Total		**100.0**	**100.0**	***1.6***	***1.4***	***1.5***
Food	-1.1	34.9	33.8	*1.9*	*2.1*	*0.6*
Beverages and tobacco	-0.5	3.6	3.1	*2.8*	*2.6*	*4.7*
Clothing and footwear	-0.2	3.6	3.4	*-1.7*	*-1.8*	*-2.4*
Gross rent, fuel and power	+1.3	21.1	22.4	*1.5*	*1.3*	*1.6*
Furniture, furnishings and household equipment and operation	-0.3	5.6	5.3	*0.0*	*0.1*	*0.1*
Medical care and health expenses	-0.1	1.9	1.8	*2.0*	*2.2*	*2.8*
Transport and communications	+0.9	17.9	18.8	*2.1*	*1.2*	*3.9*
Recreation, entertainment, education and cultural services	+0.1	5.8	5.9	*0.5*	*0.4*	*0.2*
Miscellaneous goods and services	-0.1	5.6	5.5	*0.9*	*1.2*	*0.6*
Peninsular Malaysia		**100.0**	**100.0**	***1.7***	***1.6***	***1.6***
Sabah		**100.0**	**100.0**	***0.6***	***0.4***	***0.7***
Sarawak		**100.0**	**100.0**	***1.5***	***1.5***	***1.0***

Source: Department of Statistics.

The significant price increase for **gross rent, fuel and power** was mainly attributed to higher water tariffs. In April 2001, water tariffs for households in Selangor and the Wilayah Persekutuan were increased between 20% to 60% while for commercial and industrial users, between 50% to 60%. The increase took into account higher cost of water treatment following large investments undertaken to upgrade and modernise water treatment plants.

Food prices remain relatively stable increasing slightly by 0.6%, as shown in *Table 7.2*. The only sub-component of food that recorded significant price increase was fish, increasing by 3.6% due to supply constraints. Marine fish landing and imports as well as aquaculture production either declined or increased marginally, while demand for fish, on the other hand, has continued to increase.

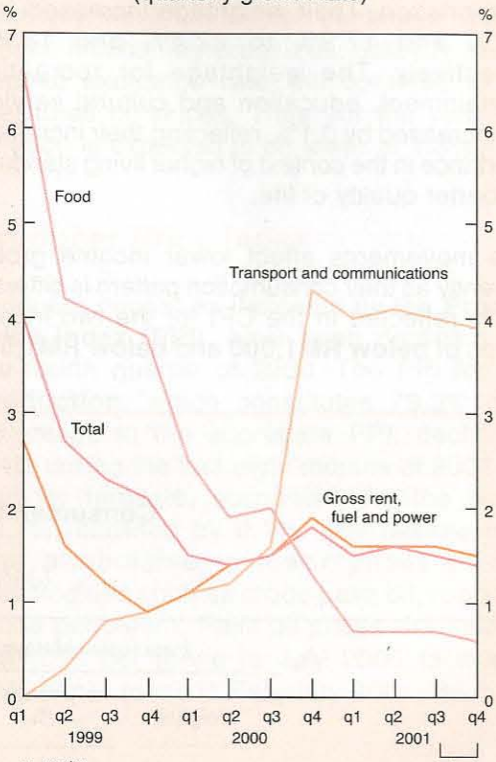
Price pressures on food items rising from cyclical and seasonal shortages remain a concern, although the increase in general price level is subdued, particularly with regard to its impact on the lower income group. In this respect, the Government continued to monitor closely price movements of several essential food items during festivals, especially *Hari Raya* and the Chinese New Year. While imports of consumer goods have eased domestic supply constraints, the Government continued to intensify efforts to promote measures to increase domestic food production as well as improve services related to the food industry with a view to reducing reliance on imports.

Food imports remained high, amounting to RM11,000 million in 2000. In this regard, incentives were provided in the 2001 Budget to further encourage domestic food production as well as food-related services. Investments by companies in their wholly-owned subsidiaries undertaking food production are allowed as deductions equivalent to the amount invested against their statutory income. Besides this, companies involved in food production are allowed full exemption from income tax for a period of 10 years, commencing from the first year the companies record profits. To improve the efficiency of distribution of food products, companies which provide cold chain facilities are given pioneer status for a period of five years or Investment Tax Allowance of 60 per cent. To further develop the agriculture sector, an allocation of RM2.4 billion was provided. Of this, a total of RM84 million was set aside to develop 18,400 hectares of Permanent Food Production Parks on a joint-venture basis between the Federal and state governments. These parks are designated as permanent agriculture production zones that can be leased at low rates to entrepreneurs and private sector operators.

CHART 7.1

Consumer Price Index (2000 = 100)

(quarterly growth rate)



q - quarter

Source: Department of Statistics.

TABLE 7.2

Consumer Price Index for Food

(2000=100)

	Weights	Change (%)	Change (%) (January-August)	
		2000	2000	2001
Total Food	**33.8**	***1.9***	***2.1***	***0.6***
Food at home	24.1	*1.7*	*1.8*	*0.3*
Rice, bread and other cereals	5.5	*0.3*	*0.4*	*0.2*
Meat	3.4	*3.8*	*3.8*	*-0.6*
Fish	4.9	*5.4*	*5.6*	*3.6*
Milk and eggs	2.1	*-1.4*	*-1.1*	*-0.9*
Oils and fats	0.8	*-1.5*	*-0.8*	*-7.2*
Fruits and vegetables	5.0	*-0.7*	*-0.8*	*-0.8*
Sugar	0.5	*-0.2*	*-0.3*	*0.1*
Coffee and tea	0.8	*0.0*	*0.2*	*-0.1*
Other foods	1.1	*1.1*	*1.5*	*-0.1*
Food away from home	9.7	*2.6*	*3.1*	*1.4*

Source: Department of Statistics.

The CPI is adjusted periodically to reflect current consumption pattern of the population. Based on the household expenditure survey undertaken during July 1998 to June 1999, new expenditure weights were derived and adjusted to base year 2000 from the previous base year of 1994. Findings from the survey indicated some shifts in the consumption pattern of households over the last five years. Of the total expenditure of households, the weightage for food showed the highest contraction of 1.1 point, followed by beverages and tobacco, clothing and footwear, furniture, furnishings and household equipment and operation as well as medical care and health expenses, as shown in *Table 7.1*. Notable changes in weightage were for gross rent, fuel and power as well as transport and communications, reflecting higher prices for fuel as well as cost of transportation. Their weightage increased from 21.1% and 17.9% to 22.4% and 18.8%, respectively. The weightage for recreation, entertainment, education and cultural services also increased by 0.1%, reflecting their increasing importance in the context of higher living standards and better quality of life.

Price movements affect lower income groups differently as their consumption pattern is different. This is reflected in the CPI for the two income groups of **below RM1,000** and **below RM1,500**, which increased at a smaller rate of 1.2% compared to the overall CPI increase of 1.5%. This is due mainly to the greater impact of the marginal increase in food prices on the lower income groups, given their significantly higher expenditure on food as reflected in their greater weightages of 44.2% and 42% compared with the national weightage of 33.8%.

Price movements during the first eight months of 2001 vary significantly across **regions,** as shown in *Table 7.3*. The CPI increase for **Peninsular Malaysia** was 1.6%, higher than the national average, whereas in **Sabah** and **Sarawak** the increase was significantly lower at

TABLE 7.3

Consumer Price Index by Region
(2000=100)
(January – August)

	Peninsular Malaysia			Sabah			Sarawak		
	Weights	Change (%)		Weights	Change (%)		Weights	Change (%)	
		2000	2001		2000	2001		2000	2001
Total	**100.0**	***1.6***	***1.6***	**100.0**	***0.4***	***0.7***	**100.0**	***1.5***	***1.0***
Food	33.8	*2.3*	*0.7*	34.8	*0.8*	*-0.3*	32.5	*2.5*	*0.6*
Beverages and tobacco	3.2	*2.8*	*4.9*	2.7	*1.9*	*3.4*	3.1	*2.3*	*3.8*
Clothing and footwear	3.3	*-1.6*	*-2.3*	3.7	*-1.4*	*-4.1*	3.9	*-2.4*	*-2.5*
Gross rent, fuel and power	22.2	*1.6*	*1.9*	27.6	*-0.9*	*-0.1*	19.1	*0.5*	*0.6*
Furniture, furnishings and household equipment and operation	5.3	*0.2*	*0.0*	5.0	*-0.7*	*1.2*	5.2	*-0.3*	*-0.3*
Medical care and health expenses	1.9	*2.3*	*3.1*	1.8	*0.9*	*1.3*	1.6	*1.3*	*1.1*
Transport and communications	19.1	*1.0*	*4.0*	14.0	*1.8*	*5.8*	21.0	*2.6*	*2.6*
Recreation, entertainment, education and cultural services	5.7	*0.4*	*0.1*	5.4	*-0.1*	*1.3*	7.7	*1.2*	*0.3*
Miscellaneous goods and services	5.5	*1.2*	*0.8*	5.0	*1.2*	*0.2*	5.9	*0.7*	*-0.3*

Source: Department of Statistics.

0.7% and 1%, respectively. Significant differences in weightage of various components in the CPI exist among the regions, particularly for food, gross rent, fuel and power as well as transport and communications. Rental charges in Sabah have been declining since 2000, contributing to the negative growth of 0.1% in gross rent, fuel and power. In Sarawak, as water transportation predominates in the transport and communications sector, the recent price increase in bus fares has a lesser effect as compared to the national increases.

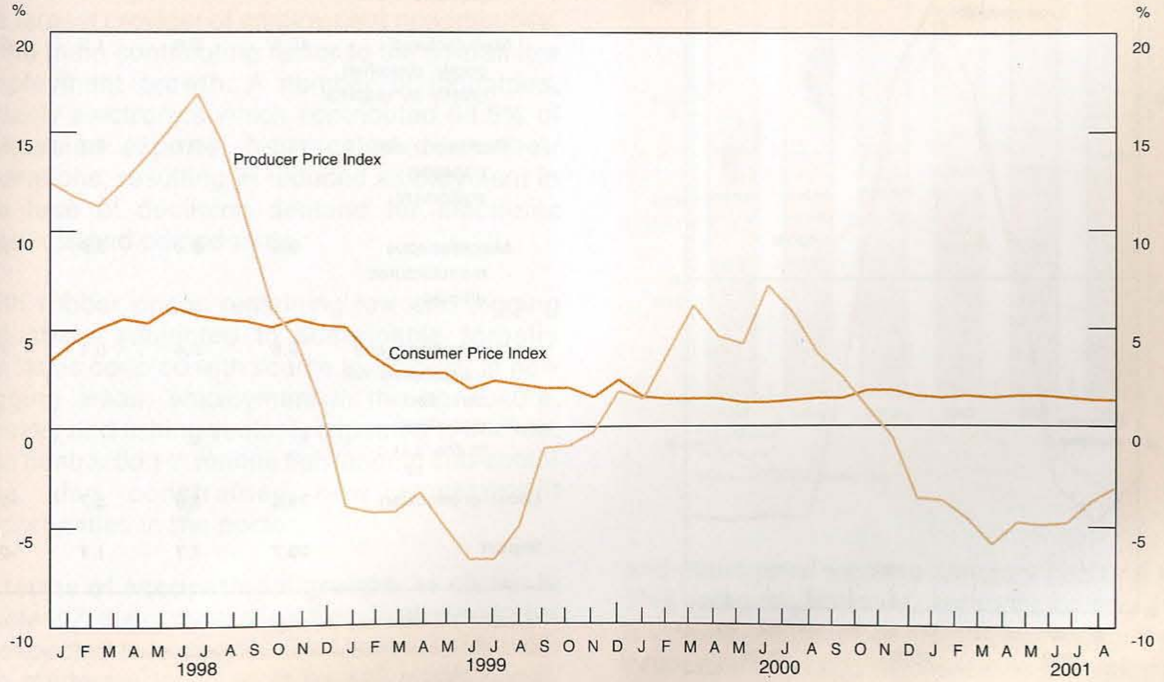
In terms of rural and urban classification, the CPI in **urban areas** increased by 1.5% during the first eight months of 2001, while the CPI for **rural areas** increased by 1.4%. Food prices for urban areas increased by 0.8%, marginally higher than 0.2% recorded in rural areas, while that for gross rent, fuel and power, transportation and communications for both areas increased by 1.7%, 4% (urban areas) and 1.6%, 4.2% (rural areas), respectively.

Price pressures for the latter part of the year is expected to remain subdued in the light of the slowdown in external as well as domestic economic activities. In addition, the less-than-favourable employment situation as well as relatively weak consumer sentiment will also reduce inflationary pressures. Stability from the pegged exchange rate will continue to ease pressures on prices. Thus, for the year 2001, inflation is expected to be lower at 1.3%.

Producer Price Index

Producer prices, as indicated by the **Producer Price Index (PPI),** have been declining since the fourth quarter of 2000. The PPI for **local production**, which constitutes 79.3% of the weightage in the aggregate PPI, declined by 5.4% during the first eight months of 2001 while that for **imports,** accounting for the balance 20.7%, declined by 0.1%. The decline in PPI was attributable to lower prices of major commodities such as crude palm oil, rubber and crude petroleum. Palm oil prices declined from RM1,015 per tonne in July 2000 to a low of RM695 per tonne in February 2001. By August,

CHART 7.2
Consumer Price Index and Producer Price Index
(monthly growth rate)

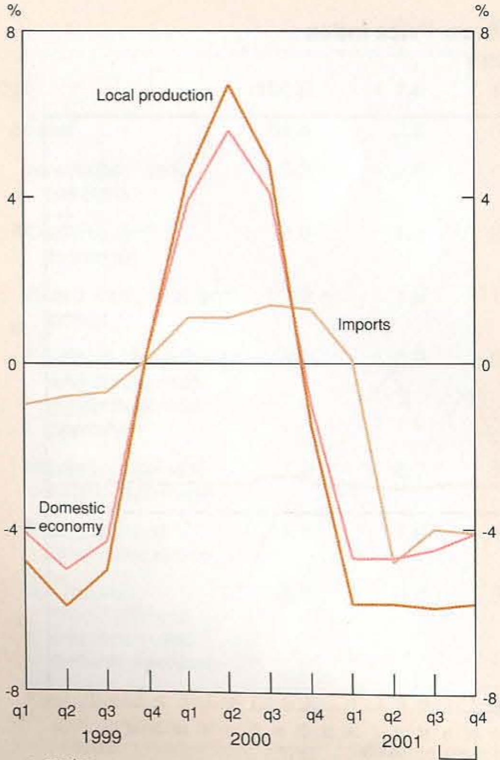


Source: Department of Statistics.

however, following measures taken by the Government to arrest declining prices and reduce stocks, prices have recovered to RM1,215 per tonne. The price, however, was not sustained and started to decline to RM998 per tonne by the following month. The price of rubber started to decline in December 2000 from RM252.78 per kilogramme to RM227.03 per kilogramme on August 2001. Crude petroleum prices also declined from RM32.65 per barrel in November 2000 to RM25.67 per barrel in August 2001. Details on the movement of the PPI is as shown in *Table 7.4*.

Price increases were recorded for several sub-groups of food and live animals for food, beverages and tobacco as well as commodities and transactions not classified elsewhere ranging from 0.6% to 9.5%. These increases, however, were offset by declines in the prices of other sub-groups, notably animal and vegetable oils and fats by 28.6%.

CHART 7.3
Producer Price Index (1989 = 100)
(quarterly growth rate)



q - quarter
Source: Department of Statistics.

TABLE 7.4
Producer Price Index
(1989=100)

	Weights	Change (%) 2000	Change (%) (January-August) 2000	Change (%) (January-August) 2001
Domestic economy	**100.0**	***3.1***	***4.8***	***-4.4***
Food and live animals chiefly for food	14.9	*0.4*	*-0.1*	*0.6*
Beverages and tobacco	2.1	*0.4*	*0.5*	*1.6*
Crude materials, inedible except fuels	18.0	*1.3*	*3.7*	*-6.3*
Mineral fuels, lubricants and related materials	18.8	*33.9*	*41.8*	*-3.6*
Animal and vegetable oils and fats	8.5	*-31.9*	*-28.2*	*-28.6*
Chemicals and related products n.e.c	4.4	*1.0*	*1.3*	*-0.7*
Manufactured goods classified chiefly by material	10.8	*0.9*	*1.0*	*-0.3*
Machinery and transport equipment	18.3	*-0.1*	*0.3*	*-0.2*
Miscellaneous manufactured articles	3.6	*0.9*	*0.9*	*-0.5*
Commodities and transactions not classified elsewhere in the s.i.t.c	0.6	*0.4*	*0.1*	*9.5*
Local production	**79.3**	***3.6***	***5.7***	***-5.4***
Import	**20.7**	***1.1***	***1.1***	***-0.1***

*n.e.c. – not elsewhere classified.
s.i.t.c – standard international trade classification.

Source: Department of Statistics.

Employment and Wages

Employment prospects for the whole of 2001 is expected to be more subdued in the light of the slowdown in the world economy, which will continue to adversely affect the manufacturing sector, particularly export-oriented industries. With the smaller increase in labour force of 2.4% (2000: 4.3%), however, the unemployment rate is expected to be contained at 3.9% of total labour force, as shown in *Table 7.5*. Thus, the economy is expected to continue to operate at full employment.

TABLE 7.5

Labour Market Indicators

	('000)			Change (%)	
	1999	2000	2001[1]	2000	2001[1]
Labour Force	9,178	9,573	9,801	*4.3*	*2.4*
Employment	8,862	9,271	9,411	*4.6*	*1.5*
Unemployment	316	302	390	*3.1*[a]	*3.9*[a]

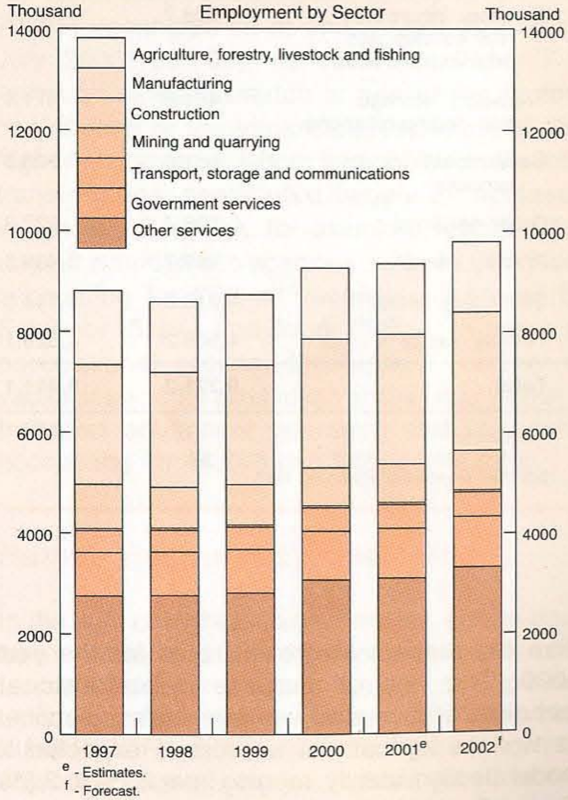
[a] To labour force.
[1] Estimate.

Source: Economic Planning Unit.

Given the weak outlook for the export oriented-industries, employment creation is expected to be generated in the domestic-oriented sectors. Employment in 2001 is therefore, expected to increase by 1.5% (2000:4.6%), largely from the services sector notably finance, insurance, real estates and business services (3.6%), wholesale and retail trade, hotels and restaurants (2.7%) as well as transport, storage and communications (2.2%), as shown in *Table 7.6*. Employment in the agriculture, forestry and fishing sector on the other hand, is expected to decline marginally by 0.7%. Manufacturing and mining only recorded marginal increases of 0.6% and 0.5%, respectively. The marginal increase in the manufacturing sector, which traditionally has been the largest provider of employment opportunities, is the main contributing factor to the overall low employment growth. A number of industries, notably electronics which contributed 68.5% of Malaysian exports, has scaled down their operations, resulting in reduced employment in the face of declining demand for electronic products and components.

CHART 7.4

Employment Indicators



e - Estimates.
f - Forecast.

Source: Economic Planning Unit.

With rubber prices remaining low and logging industries subjected to sustainable forestry practices coupled with scarce availability of new logging areas, employment in the agriculture, forestry and fishing sector is expected to decline. The contraction in marine fish landing sub-sector has also constrained new employment opportunities in the sector.

In terms of occupational groups, as shown in *Table 7.7*, the number of workers in all categories is expected to increase, albeit lower, in line with the moderate increase in overall employment. The largest increase, 4.1%, is in the administrative and managerial workers category (2000: 4.6%). This category, however, accounts for only 4% of total employment. For most major categories of occupational groups the increases in employment range between 2.1% to 2.5%, significantly lower

TABLE 7.6

Employment by Sector

	('000)		Share (%)		Change (%)	
	2000	2001[1]	2000	2001[1]	2000	2001[1]
Agriculture, forestry and fishing	1,407.5	1,397.1	*15.2*	*14.8*	*-0.8*	*-0.7*
Mining	41.2	41.4	*0.4*	*0.4*	*-1.2*	*0.5*
Manufacturing	2,558.3	2,574.2	*27.6*	*27.4*	*9.2*	*0.6*
Construction	755.0	769.3	*8.1*	*8.2*	*0.8*	*1.9*
Electricity, gas and water	75.0	76.9	*0.8*	*0.8*	*3.6*	*2.5*
Wholesale and retail trade, hotels and restaurants	1,584.2	1,627.4	*17.1*	*17.4*	*4.5*	*2.7*
Finance, Insurance, real estates and business services	508.7	527.1	*5.5*	*5.7*	*7.3*	*3.6*
Transport, storage and communications	461.6	471.9	*5.0*	*5.1*	*4.6*	*2.2*
Government services	981.0	998.6	*10.6*	*10.6*	*2.1*	*1.8*
Other services	898.7	927.2	*9.7*	*9.6*	*6.4*	*3.2*
Primary sector	1,448.7	1,438.5	*15.6*	*15.3*	*-0.8*	*-0.7*
Secondary sector	3,313.3	3,343.5	*35.7*	*35.5*	*7.2*	*0.9*
Tertiary sector	4,509.2	4,629.1	*48.7*	*49.2*	*4.6*	*2.7*
Total	**9,271.2**	**9,411.1**	***100.0***	***100.0***	***4.6***	***1.5***

[1] Estimate.

Source: Economic Planning Unit.

than the respective growth rates for the year 2000. The rate of increase in professional, technical and related workers, sales, services as well as agricultural workers is expected to moderate significantly, ranging from 2.1% to 2.5%. For production and related workers, and transport equipment operators and labourers, which account for the largest employment with 32.6%, the increase is projected to be marginal at only 0.3% compared with 5.6% in 2000. On the other hand, employment in the clerical and related workers group is expected to turn around from a contraction of 1% to record a small increase of 0.6%.

Labour Market

Labour market conditions weakened in the first seven months of 2001 as industries undertook measures to counter the impact of the global economic slowdown. Consequently, the number of **retrenched workers** increased by 37% to 20,038 (January-July 2000: -40%; 14,617), of which 85.7% were locals, while the remaining 14.3%, foreigners. By sectors, retrenchments in the manufacturing sector were the highest, accounting for 69.4%, particularly in the electronics and electrical sub-sector. The finance, insurance,

TABLE 7.7

Employment by Occupational Groups

	('000)		Change (%)	
	2000	2001[1]	2000	2001[1]
Professional, technical & related workers	982.7	1,007.0	*4.6*	*2.5*
Administrative & managerial workers	361.6	376.4	*4.6*	*4.1*
Clerical & related workers	982.7	988.2	*-1.0*	*0.6*
Sales workers	1,047.6	1,072.9	*5.5*	*2.4*
Services workers	1,140.4	1,167.0	*8.1*	*2.3*
Production & related workers, transport equipment operators & labourers	3,059.5	3,068.0	*5.6*	*0.3*
Agricultural, animal husbandry & forestry workers, fishermen & hunters	1,696.6	1,731.6	*3.5*	*2.1*
Total	**9,271.2**	**9,411.1**	***4.6***	***1.5***

[1] Estimate.

Source: Economic Planning Unit.

real estates and business services, wholesale and retail trade, hotels and restaurants as well as social services sectors were also affected with retrenchments of 1,641, 1,472 and 1,179 workers, respectively. Penang, the major center of electronics industry in Malaysia, recorded the highest number of retrenchments with 5,102 workers, mainly among hard disk manufacturers. Retrenchments in Selangor and Johor were also high with 4,200 and 3,695 workers, respectively. The number of employers who had retrenched workers was also larger, increasing by 40.2% to 732 (2000: 522).

Inspite of larger retrenchments and higher number of job seekers, **active registrants** declined by 6.3% to 34,072 by end-July 2001(end-July 2000: -2.5%; 36,380). The decline was mostly among administrative and managerial workers (40%), production and related workers as well as transport equipment operators and labourers (14%). By region, active registrants increased in seven states, ranging from 0.4% for Sarawak to 172% for Melaka. These states accounted for almost half of the total active registrants. The other seven states registered declines in active registrants, ranging from 1.9% for Perlis to 43.8% for Pahang. In Wilayah Persekutuan Kuala Lumpur, the number of active registrants decreased by 32.7%, contributing to the decline in overall active registrants given the larger number of registrants in Wilayah Persekutuan Kuala Lumpur, accounting for 15% of the total.

Inspite of weakening labour market conditions, job **vacancies** increased marginally by 0.9% to 70,394 vacancies as at end of July 2001 (end July 2000: 69,769), as shown in *Table 7.8.* Although skills mismatch is one of the factors contributing to the vacancies, especially at the higher job category, labour immobility, particularly trans-regional contributed largely to increased vacancies. Sarawak, for example, reported the largest number of vacancies with 45,787 jobs, accounting for 65% of vacancies, followed by Selangor (5.9%) and Johor (5.8%). In terms of occupational groups, the highest number of vacancies was for production and related workers, transport equipment operators and labourers, accounting for 44,808 or 63.6% of the total.

Human Resources Development

In the light of higher retrenchments, efforts have been made to increase the opportunities for workers to be retrained through the greater utilisation of the Human Resource Development Fund (HRDF). At the same time, the long-term objective of generating a highly trained labour force to meet the demand of the New Economy remains in focus, in cognisance of the fact that human resource development is an important element in enhancing the nation's competitiveness. In this regard, the Government has allocated additional resources for human resource development to narrow the knowledge and skills gap. The share of education and training

TABLE 7.8

Comparison of Active Registrants and New Vacancies by State

	Active Registrants[1]			New Vacancies		
	July 2000	July 2001	Change (%)	As at July 2000	As at July 2001	Change (%)
Johor	2,683	3,548	*32.2*	5,110	4,098	*-19.8*
Kedah	2,998	1,985	*-33.8*	1,565	1,006	*-35.7*
Kelantan	1,493	1,393	*-6.7*	2,496	1,887	*-24.4*
Melaka	508	1,382	*172.0*	554	1,064	*92.0*
Negeri Sembilan	1,740	2,007	*15.3*	1,803	1,030	*-42.8*
Pahang	3,000	1,686	*-43.8*	1,752	1,665	*-4.9*
Perak	1,898	2,734	*44.0*	1,955	1,644	*-15.9*
Perlis	710	696	*-1.9*	131	243	*85.5*
Pulau Pinang	1,322	1,492	*12.9*	5,423	2,639	*-51.3*
Sabah	4,466	3,844	*-13.9*	1,989	1,330	*-33.1*
Sarawak	3,111	3,123	*0.4*	37,287	45,787	*22.8*
Selangor	2,169	2,545	*17.3*	4,915	4,140	*-15.7*
Terengganu	2,912	2,677	*-8.1*	2,749	1,664	*-39.5*
Wilayah Persekutuan, Kuala Lumpur	7,370	4,960	*-32.7*	2,040	2,197	*7.7*
Total	**36,380**	**34,072**	***-6.3***	**69,769**	**70,394**	***0.9***

[1] Cumulative figures.

Source: Ministry of Human Resources.

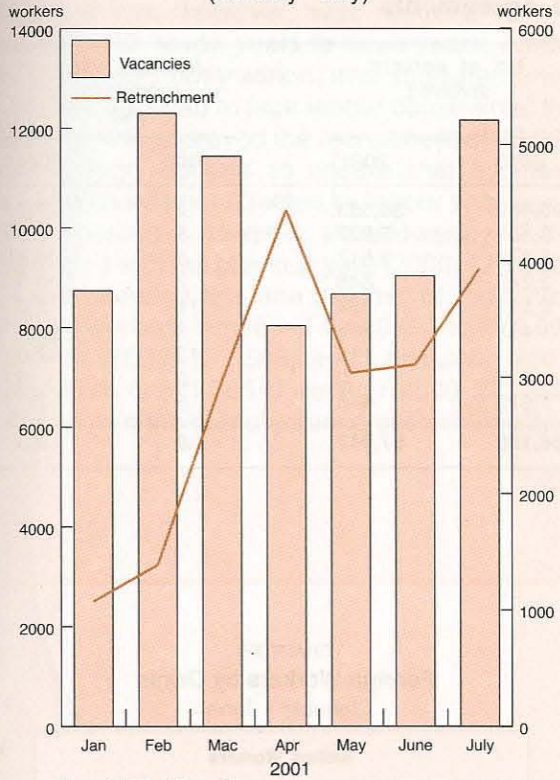
to total expenditure remains high at 25.4% in 2001. Measures were also introduced to promote computer literacy among students and workers through the setting up of 4,400 computer laboratories in schools. Of this, 50 projects have been completed, 1,354 are under various stages of construction and the rest are under the planning stage. To enhance accessibility to computers in line with the one-computer-per-family policy, amendments to the Employees Provident Fund (EPF) Act were made, allowing withdrawals for the purchase of the computers. By end-August, EPF has approved 467,832 applications totalling RM1,555 million.

To complement the efforts on promoting advanced skills development through training, retraining and apprenticeships, efforts to pool the best talents from abroad have also been intensified so that the country will have a world-class work force. In this regard, incentives have been provided in the 2001 Budget to attract highly skilled Malaysians working abroad to return to Malaysia. Among the incentives were exemption from income tax of income remitted within two years from the date of arrival and granting of permanent resident status for the spouse of the Malaysian citizen within six months from the date of arrival. The response thus far has been encouraging, with a total of 122 out of 356 applications from such professionals approved as at mid-September 2001, covering expertise in the fields of finance and accounting, industrial, information technology, medical as well as science

CHART 7.5

Vacancies and Retrenchment

(January - July)



Source: Ministry of Human Resources.

and technology. A large number of K-workers are employed in the Multimedia Super Corridor (MSC) area, wherein out of 11,911 workers employed, 9,842 or 82.6% are K-workers in 2000. The number is expected to increase to 14,438 and 12,169 workers, respectively in 2001.

As part of the efforts to increase the number of skilled workers, especially in ICT, in line with the strategic transition into K-based economy, the Government undertook to upgrade existing training institutions as well as establish five new ones. With this programme, industrial training capacities will be increased from 4,000 to 17,000 annually. At the tertiary level, the number of students graduating from universities is estimated to increase by 15.5% (2000: 59,584).

To further facilitate and increase accessibility to skill training, the Government established the Skill Development Fund (SDF) in 2001 to provide soft loans for technical and vocational trainees, including for ICT courses in both public and private institutions accredited by *Majlis Lembaga Vokasional Kebangsaan* (MLVK). An allocation of RM140 million was provided in 2001. In addition, the Human Resources Development Fund (HRDF) also provides funding to upgrade the skills as well as retraining of existing workers. As at end-June 2001, 203,952 workers have benefitted from this Fund. To further cushion the labour market from the impact of global slowdown, employers can now send their workers for retraining without having to pay the retraining fee.

The Electronic Labour Exchange Project under the Government flagship application of the MSC is expected to be operational in early 2002. This project aimed at improving labour market information is also designed to match job-seekers and vacancies beyond geographical boundaries, thus optimising the country's human resource utilisation.

Wages

In the light of excess capacity prevailing in the economy, **wage** pressures are expected to remain subdued. In the first six months of 2001, collective wage agreements signed totalled 200, covering 57,047 workers (2000: 107; 16,381). Average wages in the manufacturing and agriculture sectors showed an increase of 7.7% and 8.3%, respectively, as shown in *Table 7.9*. In the plantation sector, the Government agreed on minimum monthly wages of at least RM325 for oil palm plantation workers effective, from 1 January 2001.

The average wage per worker in the manufacturing sector increased to RM1,455. On the other hand, real average wage per worker increased marginally by 0.9% (January-July 2000: 4.4%), after taking into account price changes. With real average wage continuing to increase and labour productivity contracting, real labour cost per unit of output rose by 7.6% (January-July 2000: -11.7%). This was reflected in the increase in unit labour cost in the electrical, electronics and machinery industries, wood-based industry as well as textiles and chemical industries.

TABLE 7.9

Private Sector Wage Agreements

	No. of wage agreements		No. of workers involved		Average wage increases (%)	
	2000	2001[1]	2000	2001[1]	2000	2001[1]
Manufacturing	215	116	43,439	38,553	*8*	*7.7*
Commerce	35	38	3,101	6,907	*8*	*7.8*
Transport	24	24	5,772	9,517	*8*	*8.5*
Services	16	8	3,249	646	*7*	*8.5*
Agriculture	14	7	2,517	558	*11*	*8.3*
Mining	5	1	402	305	*9*	*6.0*
Construction	2	1	-	116	*13*	*7.0*
Electricity	0	0	0	0	*0*	*0*
Others	13	5	1,670	445	*8*	*7.7*
Total	**324**	**200**	**66,150**	**57,047**	***8***	***6.3***

[1] January-June.

Source: Ministry of Human Resources.

Industrial Relations

Industrial relations remained stable during the first seven months of 2001, with 10 strikes taking place during the period, two more than the corresponding period of 2000. The number of workers involved were, however, significantly lower at 1,342 workers (2000:2,580). Of the total, six cases were recorded in the manufacturing sector, involving 979 workers (2000: 3,770) and two in the agriculture sector, involving 128 workers (2000: 2,104). A total of 3,371 man-days were lost as a result of these strikes. This was, however, significantly lower than the 5,073 man-days lost during same period last year. The strikes were mainly attributed to the disputes and dissatisfactions over the terms and conditions of employment, dismissals and retrenchments.

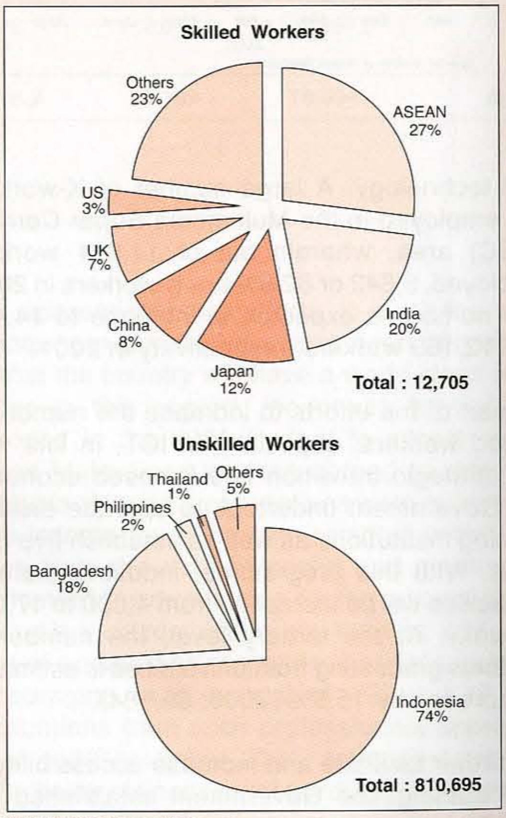
Foreign Workers

Taking cognisance of the increasing number of foreign workers, the Government maintains a policy to reduce the dependence on foreign workers, particularly unskilled. However, with the increasing shortage of unskilled workers in

CHART 7.6

Foreign Workers by Origin

(January - June)



Source: Ministry of Home Affairs.

both the primary and secondary sectors, the Government has continued to allow the employment of foreign workers. The duration of work permits, however, was reduced from a maximum of seven years to three years. As the agriculture, construction and manufacturing sectors continued to face labour constraints, the Government approved the recruitment of 93,025 new foreign workers to ensure that business expansion was not affected by labour shortages. Such approvals, however, were lower by 22.8% compared with the previous year (2000: 120,502). Notwithstanding this, the number of registered foreign workers increased by 10.6% to 810,695 workers (2000: 732,588) as at end-June 2001, with 38.5% or 311,785 of workers (2000: 271,892) employed in the manufacturing sector. Similarly, foreign workers in the agriculture sector increased by 16.4% to 204,814 (2000: 175,834) while in the construction sector, by 3.7% to 68,355 (2000: 65,891). Indonesia accounted for the largest number with 598,900 workers, followed by Bangladesh (147,637), Philippines (15,323), Thailand (6,538), and 42,297 workers from other countries. Of the recruitment of foreign workers, only 12,705 in the first six months of 2001 were **skilled workers**. India recorded the largest number of skilled foreign workers approved, totalling 2,489 workers or 19.5% of the total, followed by Japan (1,537 or 12.4%) and China (1,007 or 8.1%). In terms of occupational groups, directors accounted for the largest number of foreign workers (1,269), followed by managers (1,237) and engineers (967).