

Overview

A promising trend for the labour market...

The better economic prospects in 2002 spurred by increasing domestic demand and stronger exports benefitted the labour market which experienced a mild pressure on unemployment in 2001. This is evident in the increasing number of job vacancies as industries especially in the manufacturing sector stepped up their production to meet the increasing demand, particularly in the second quarter of 2002. In addition, the smaller expansion of the labour force emanating from a slower growth of the working age group, coupled with expanding job opportunities, have led to an increase in employment. Consequently, the unemployment situation which has been increasing since the onset of the financial crisis in 1997, stabilised.

Although increasing demand has led to the creation of more job opportunities and greater labour input, higher output was also achieved through higher capacity utilisation and productivity improvements. As most industries have not fully recovered from the economic downturn of the past two years, the current improved situation has not exerted undue pressure on wages. For certain sectors, especially those that have undergone restructuring and consolidation, the implementation of Voluntary Separation Schemes (VSS) has placed some restraint on wage increases.

Employment of foreign workers is expected to continue to meet the acute labour shortage in certain sectors such as agriculture, construction and services. With the termination of the amnesty

period for illegal foreign workers on July 31 2002, employment of foreign workers is expected to be regulated more effectively.

To meet future challenges, Malaysia has to prepare its labour force to suit the needs of a knowledge-based economy (K-based economy). A number of programmes in human resource development were initiated with emphasis on the inculcation of new skills. These programmes ranged from the implementation of new approaches in basic education via the use of computer and information technology (IT) in primary and secondary schools to Special Schemes involving programmes on training in IT, mathematics and languages, as well as upgrading the coverage and role of the Human Resource Development Fund (HRDF) in respect to on-the-job-training and retraining.

Labour Force

Quality of labour force improves with better educated labour supply...

The labour force participation rate increased marginally from 65.3% in 2001 to 65.5% in 2002, attributed mainly by school leavers in the 20-24 years age group. Overall, new entrants to the labour market numbered more than 300,000, as shown in *Table 4.1*. More than 50% of the labour force today have secondary school education. Similarly, as a result of an increase in the intake of higher learning institutions, the proportion of labour force with tertiary education also increased from 13.9% in 2000 to 16.6% in 2002.

TABLE 4.1

Labour Market Indicators

	('000)		Change (%)	
	2001	2002 ¹	2001	2002 ¹
Labour force	9,892	10,198	3.3	3.1
Employment	9,535	9,843	2.8	3.2
Unemployment	357	355	3.6*	3.5*

¹ Estimate.

* To labour force.

Source: Economic Planning Unit.

Employment

Better employment opportunities, particularly in the manufacturing sector in tandem with export growth...

With a larger number of job opportunities made available by the improving economy, employment

increased more rapidly in 2002 by 3.2% compared to 2.8% in 2001, as shown in Table 4.2. Higher employment is mainly due to more job openings in the manufacturing sector especially the electronics industry, which resumed its recruitment exercise to take advantage of the rebound in the demand for electronics. Since 2001, many electronic companies transferred their high-end operations from high-cost production centres to Malaysia. There were some relocations out of Malaysia, notably in the low-end electrical product lines to low-cost operation centres, particularly China. These relocations, however, were small and did not adversely affect the total employment in the electrical and electronics sector. Overall, the manufacturing sector is expected to employ 123,400 new workers or 40% of total new employment created in 2002, arresting the decline in employment recorded in 2001 (-0.4%).

The services sector continues to command the largest share of employment with an additional

TABLE 4.2

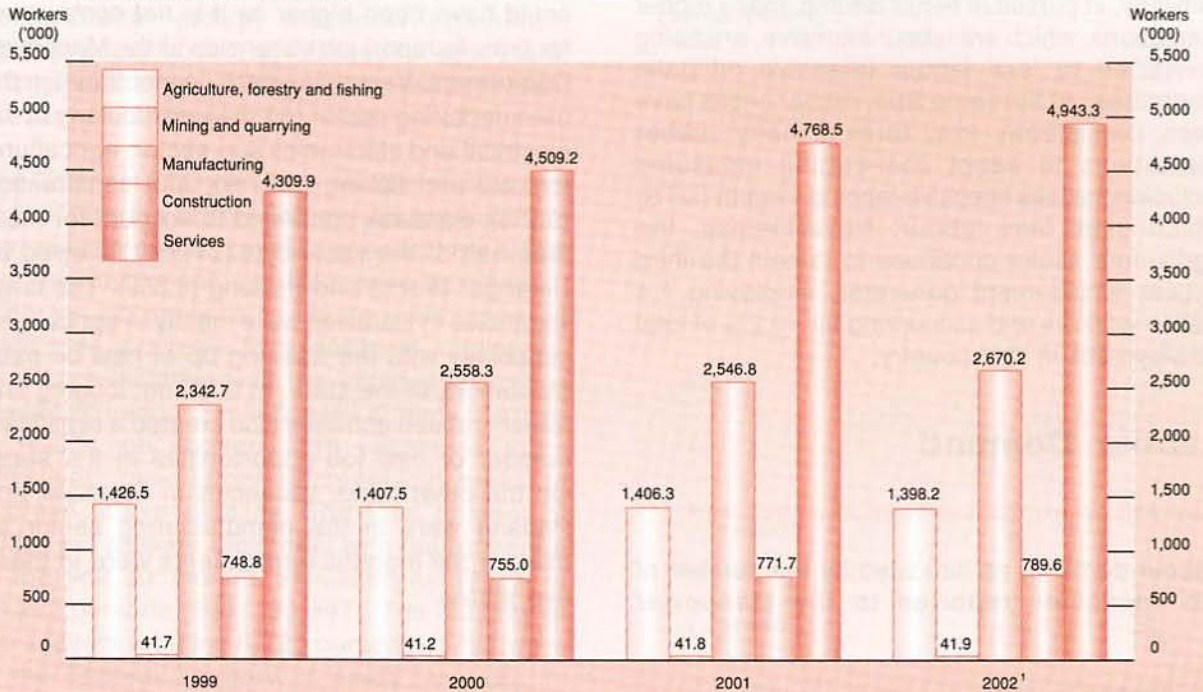
Employment by Sector

	('000)		Share (%)		Change (%)	
	2001	2002 ¹	2001	2002 ¹	2001	2002 ¹
Agriculture, forestry and fishing	1,406.3	1,398.2	14.7	14.2	-0.1	-0.6
Mining	41.8	41.9	0.5	0.4	1.5	0.2
Manufacturing	2,546.8	2,670.2	26.7	27.2	-0.4	4.8
Construction	771.7	789.6	8.1	8.0	2.2	2.3
Services	4,768.5	4,943.3	50.0	50.2	5.8	3.7
Electricity, gas and water	79.6	84.8	0.8	0.9	6.1	6.5
Wholesale and retail trade, hotels and restaurants	1,650.2	1,713.2	17.3	17.4	4.2	3.8
Finance, insurance, real estates and business services	574.6	609.9	6.0	6.2	13.0	6.1
Transport, storage and communications	492.8	515.1	5.2	5.2	6.8	4.5
Government services	1,002.0	1,021.2	10.5	10.4	2.1	1.9
Other services	969.3	999.1	10.2	10.2	7.9	3.1
Total	9,535.1	9,843.2	100.0	100.0	2.8	3.2
Primary sector	1,448.1	1,440.1	15.2	14.6	0.0	-0.6
Secondary sector	3,318.5	3,459.8	34.8	35.2	0.2	4.3
Tertiary sector	4,768.5	4,943.3	50.0	50.2	5.8	3.7

¹ Estimate.

Source: Economic Planning Unit.

CHART 4.1

Employment by Sector¹ Preliminary.

Source: Economic Planning Unit.

174,800 or 56.7% of new jobs, as shown in Chart 4.1. This brings the total number of workers in the services sector to 4.9 million workers or 50% of total employment. Within the sector, new jobs created were largely in wholesale and retail trade, hotels and restaurants (63,000 or 20.4%); finance insurance, real estates and business services (35,300 or 11.5%); other services (29,800 or 9.7%), as well as transport, storage and communication (22,300 or 7.2%). The expansion in the wholesale and retail trade arising from the entry of new large retailers created more job opportunities. Similarly, trade-related services and telecommunication services are also expanding to meet increasing demand as a result of telecommunication companies undertaking large capital investments to upgrade their services, such as the General Packet Radio Services (GPRS). Such investments are expected to create more opportunities for content developers to pave the way for a smoother transition to the 3G platform in the near future.

Within the construction sector, employment continues to register positive growth rate of 2.3% (2001: 2.2%). This was made possible as sustained demand for affordable housing together with ongoing implementation of civil works projects absorbed an additional 17,900 new workers into the construction sector. The expectation of higher incomes with improving economic conditions, low interest rates and incentives provided by the Government, such as stamp duty exemptions for the purchase of residential properties from developers during the first six months of 2002, helped to sustain the demand for housing. In addition, civil engineering works benefitted from higher public development expenditure mainly on infrastructure such as transportation and public utilities as well as the construction of schools, colleges and government quarters.

Employment in the agriculture sector continued to decline for the third consecutive year since 2000, mainly due to structural changes. A larger

area of rubber and oil palm plantations are being converted to more lucrative housing estates, thus displacing the existing agriculture workers. Similarly, in pursuit of better returns, many rubber plantations, which are labour intensive, are being converted to less labour intensive oil palm plantations. At the same time, rubber prices have been persistently low, forcing many rubber plantations to adopt cost-cutting measures including the less intensive tapping system (LITS) which uses less labour. Nevertheless, the agriculture sector continues to remain the third largest employment generator, employing 1.4 million workers and accounting for 14.2% of total employment in the country.

Labour Demand

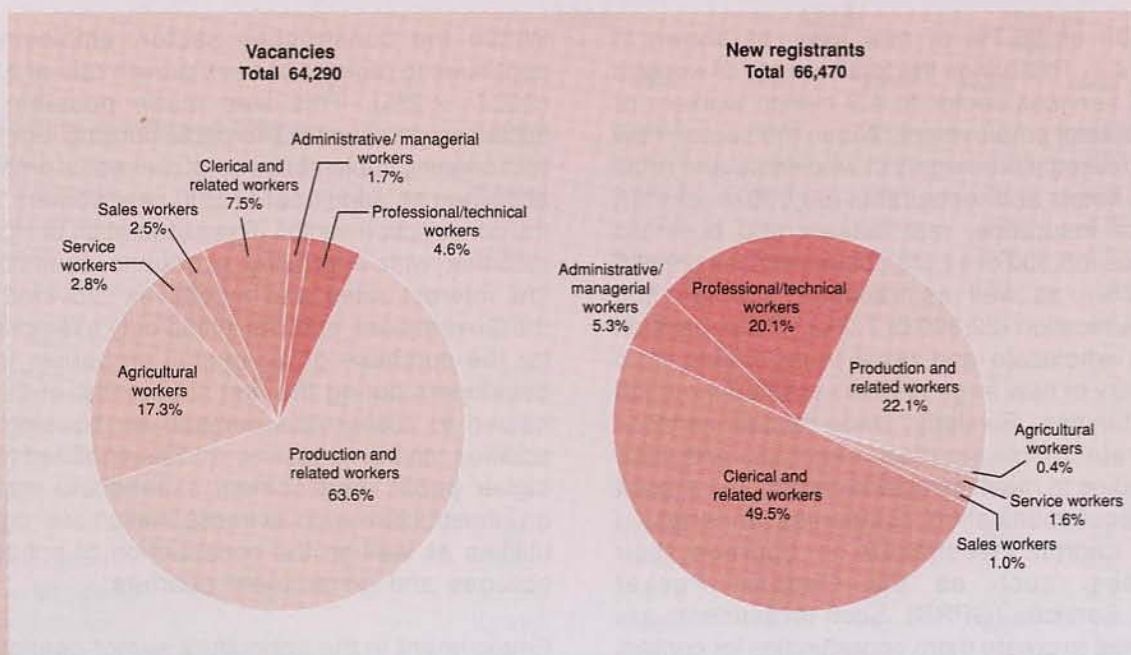
New job openings increase in all sectors...

Labour demand, as indicated by the number of job vacancies reported to the Manpower

Department, increased significantly during the first six months of 2002 to 64,290 vacancies (2001: 58,200). The actual number of vacancies could have been higher as it is not compulsory for firms to report job vacancies to the Manpower Department. Vacancies were concentrated in the manufacturing sector (50.4%), particularly in the electrical and electronics sub-sector, agriculture, forestry and fishing (22.7%), and construction (9.2%). Sarawak continued to account for more than half of the vacancies (57.3%) followed by Selangor (6.9%) and Penang (6.5%). The large vacancies in Sarawak were mainly in agriculture, especially with the opening up of new oil palm plantations in the state. In addition, logging and forest - related activities also created a significant number of new job opportunities in the state. On the other hand, vacancies in Selangor and Penang were in the manufacturing sector as most of the manufacturing plants were in these two states.

CHART 4.2

Vacancies Vs Job Seekers (New Registrants) by Occupations (January-June 2002)



Source: Manpower Department.

Most of the vacancies reported were for lower occupational job categories. More than 63% of the vacancies were in the production and related occupational group, transport equipment operators and labourers, followed by agriculture, animal husbandry, fishing and forestry (17.3%), as shown in *Chart 4.2*.

The Government undertook a number of measures to facilitate the absorption of new entrants into the labour force, particularly graduates from higher learning institutions. Job fairs were held nationwide for job seekers to obtain information on vacancies available from potential employers. One such initiative was the introduction of the Electronic Labour Exchange (ELX) early this year to match job seekers with vacancies more effectively over larger geographical areas to improve labour mobility. The total number of active job seekers registered with the exchange in the first six months increased by 18.2% to 39,222 persons (2001: 33,397). The majority of job seekers totalling 6,720 persons (17%) were in the Federal Territory of Kuala Lumpur.

About 52% or 20,400 persons registered at the exchange were seeking lower skilled occupations such as clerical and related jobs. However, the vacancies reported for this job category was much smaller at a ratio of 1:4.9. On the other hand, the gap between vacancies and job seekers for professional jobs is 1:2.9. Approximately 1,400 or 3.5% of job seekers are currently employed but looking for better job prospects.

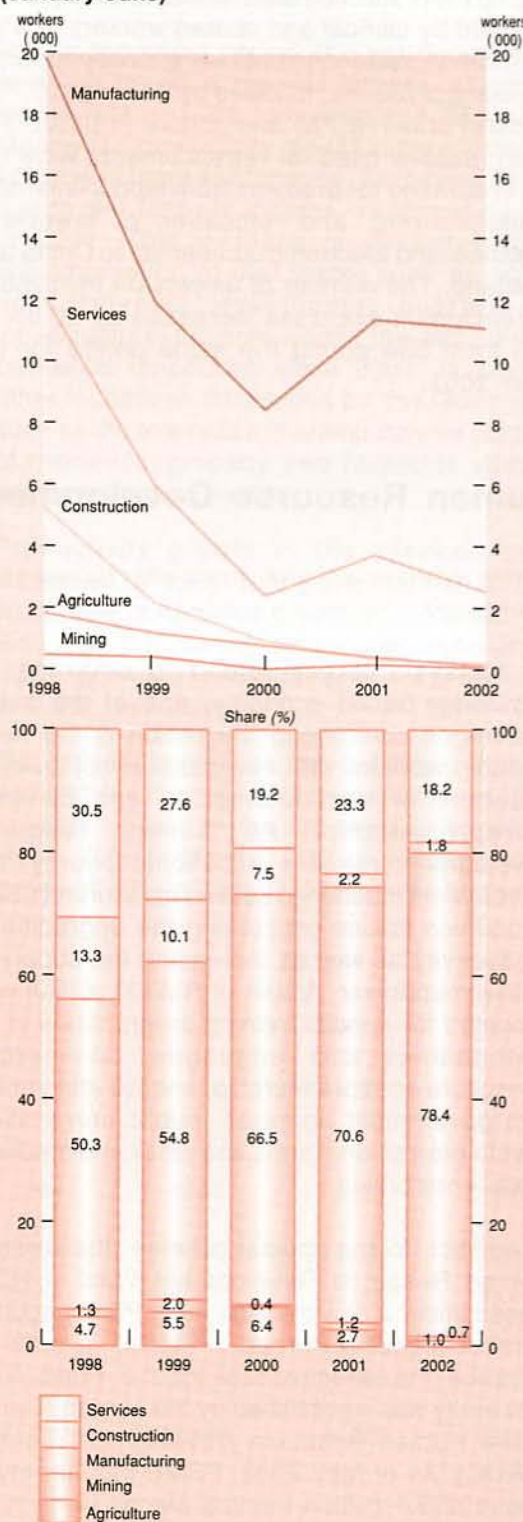
Retrenchment

Retrenchments decline with improving economic performance...

For the first six months of 2002, the number of workers retrenched decreased to 14,130 compared with 16,090 during the same period in 2001. The majority of the workers retrenched were in the manufacturing sector, accounting for 78.4%, followed by wholesale and retail trade; hotels and restaurants (6.2%); finance, insurance, real estate and business services (5.4%); and community, social and personal services (3.7%)

CHART 4.3

Retrenchment by Sector (January-June)



as shown in *Chart 4.3*. Retrenchment among local workers accounted for 91.2%. In terms of occupation, most retrenchments were reported among the production and related workers (12.7%) followed by clerical and related workers (9.4%). By location, retrenchments were mostly reported in Selangor (20.7%) followed by Penang (18.7%), Kedah/Perlis (18.7%) and Johore (18.4%). The main reasons cited for retrenchments were the fall in demand for products from labour-intensive manufacturing, and relocation of lower-end electrical and electronic companies to China and Thailand. The number of employers involved in retrenchment exercises increased by 20.8% to 669 from 554 during the same period for the year 2001.

Human Resource Development

Skills enhancement towards K-based economy...

As Malaysia forges ahead to embrace a knowledge-based economy, one of the major challenges confronting the nation is the need to equip workers with new skills whilst building a culture of high technology and dynamic entrepreneurship. As human resource development remains a national priority, the Government introduced several measures in 2001 to address issues concerning the upgrading of productivity as well as increasing the supply of skilled manpower. A sum of RM300 million was allocated for special training programmes in IT, mathematics and languages, commercial agriculture entrepreneurship, and job attachment with government agencies, public universities, private professional firms and small and medium-scale enterprises.

In addition to the special scheme, the existing Human Resource Development Fund (HRDF) placed under a new management, Pembangunan Sumber Manusia Berhad (PSMB), in order to enhance the effectiveness of the Fund. This new entity was established by the corporatisation of the Human Resource Development Council (HRDC). As of May 2002, PSMB has approved a total of 3.1 million training places involving a total expenditure of RM1 billion. PSMB was also

appointed as one of the coordinating agencies under the special scheme set up for retrenched workers and unemployed graduates. As of May 2002, the number of unemployed and retrenched workers registered with PSMB were 11,820 persons. During the same period, 8,700 employers have registered with PSMB.

To further encourage skill development among the younger generation, a Skills Development Fund (SDF) was established under the Ministry of Human Resource in January 2001 with an allocation of RM140 million. The aim of this Fund is to provide soft loans for technical and vocational training in institutions that are accredited by the National Vocational Training Council (MLVK). At the end of May 2002, about 52,800 applications were approved and a sum of RM90.3 million disbursed.

To facilitate its transition to a K-based economy, the Government provides incentives to encourage overseas Malaysian citizens who have expertise in selected fields for nation building, to return and work in Malaysia. These incentives include tax exemption on income remitted within two years from the date of arrival, and on all personal effects brought into Malaysia including two motorcars, and an offer of permanent resident status for the non-citizen spouse and children. As at end of August 2002, 474 applications were received of which 171 applications were approved. The approved applicants were 40 in accounting and finance, 37 in medical and health, 33 in information technology, 30 in industry, 10 in science and technology and 21 in others. In terms of regions, most of the applicants were Malaysian citizens residing in the United Kingdom (46), Australia (22) and Singapore (22).

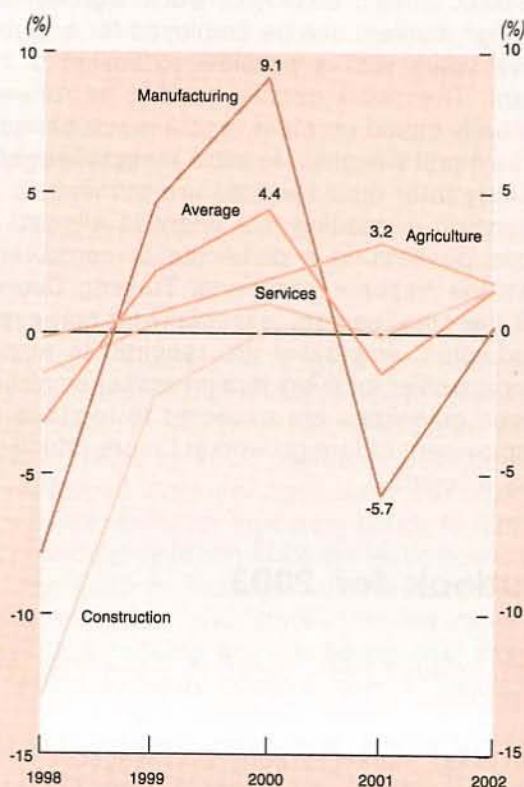
Productivity and Wages

Productivity increases faster than wages...

In line with the faster economic recovery, spurred by increasing external and domestic demand, labour productivity as measured by value added per worker increased in most sectors of the economy, as shown in *Chart 4.4*. The increase in demand for electronic and electrical products

CHART 4.4

Value Added Growth per Worker by Sector (RM in constant value)



° Estimate.
Source : Department of Statistics.

during the first half of 2002 enabled the manufacturing sector to register positive growth in productivity of 0.3% after experiencing negative growth of 5.8% in 2001.

During the same period, the agriculture sector also registered a positive growth, albeit at a slower rate of 1.8% compared to 3.2% in 2001. Meanwhile, productivity growth in the construction sector was more encouraging, increasing by 1.5% during the first six months compared to 0.1% in 2001. This increase is attributed to the implementation of civil works such as schools and colleges, government quarters and infrastructure projects under the two stimulus packages introduced since 2001. In addition, other incentives introduced by the Government such as the exemption of stamp duty for purchase of residential property also helped to stimulate the construction sector.

Productivity growth in the services sector increased by 1.6% during the first half of 2002, compared to negative growth of 0.1% last year. Similarly, the mining sector also registered a higher growth in productivity of 1.8% compared to 0.2% last year.

The pick-up in exports and sustained domestic demand for manufacturing products resulted in capacity utilisation for the sector increased to above 70% in the first half of 2002 compared to around 60% in 2001. Consequently, productivity

TABLE 4.3

Value Added per Worker by Sector (RM in constant value)

	1997	1998	1999	2000	2001	2002*
Agriculture	12,270	12,250	12,340	12,570	12,980	13,220
Manufacturing	25,160	23,180	24,260	26,470	24,950	25,020
Construction	10,870	9,460	9,250	9,270	9,280	9,420
Services	24,940	24,580	24,660	24,920	24,910	25,310
Average*	21,480	20,880	21,260	22,190	21,880	22,230

° Estimate.

* All sectors excluding mining.

as measured by output per worker in the manufacturing sector improved remarkably by 8.8% in the first six months of 2002, higher than the 3.7% increase in unit labour cost. As the productivity of the manufacturing sector is the largest contributor to total national productivity, the improvement in productivity of the sector is expected to increase overall productivity in 2002 to 2.7% (2001: 0.3%).

The labour market remains soft despite higher employment and lower retrenchments due to excess capacities in most sectors. Wage pressures remain subdued throughout the year and the number of collective agreements signed declining from 373 cases in 2001 to 117 cases for the first six months of 2002. At the same time, the number of industrial strikes reported decreased to two cases compared with eight in 2001.

Foreign Workers

New guidelines for more effective management and control...

The rapid expansion of the Malaysian economy during the past two decades has resulted in labour shortages for certain categories of jobs. This phenomenon is more significant for the lower ranked and unskilled jobs. In order to alleviate shortages of semi-skilled and unskilled labour faced by selected employers, the Government has approved as at June 2002, the recruitment of 695,100 foreign workers. The total number of registered foreign workers declined by 10% from 769,600 as of December 2001. The majority of them are from Indonesia numbering 580,300 or 83.5% of total foreign workers. This is followed by Bangladesh 90,200 (13%), Philippines 18,800 (2.7%), Thailand 3,900 (0.6%) and Pakistan 1,900 (0.3%). By sector, the majority was engaged in the manufacturing sector (36%), followed by plantation (26%), domestic services as household maids (23%), and construction sector (8%).

The Government has introduced new guidelines to manage the expected increase in the demand for labour, particularly in the manufacturing sector. The guidelines require employers to provide detailed information on the number of workers

needed. They are advised to revamp or restructure their operations to reduce their dependence on labour such as introducing alternative measures like automation. These guidelines also outline the basic terms of employment of foreign workers. Foreign workers can be employed for a term of three years with a possible extension of two years. Their work permits need to be renewed annually based on merit, and a grace period of three months is given to allow them to leave the country after their services are terminated. An extension exceeding five years is allowed for those possessing a certificate of competency from the National Vocational Training Council. For the other sectors, especially for non-export production, employers are required to employ a local worker for every foreign worker employed. These guidelines are expected to regulate the employment of foreign workers more effectively and efficiently.

Outlook for 2003

Full employment level is expected to continue...

The labour market for 2003 is envisaged to reflect a tighter position given the brighter prospects for a global economic recovery which is expected to remain firm with momentum increasing through the year. The improved external environment, particularly for electronics is expected to spur production resulting in higher capacity utilisation as well as expansion of new production capacities. Consequently, labour demand by all sectors is anticipated to increase in tandem with the higher growths expected for all sectors, led by the manufacturing sector. A total of 303,000 new employment is expected to be created with 139,500 or 46% from the manufacturing sector. The wholesale and retail trade, hotels and restaurants is projected to account for 17.4% or 57,700 of new employment in line with enhanced consumer sentiment and higher tourist arrivals. Total employment is forecast to grow by 3.1% to 10.15 million while the labour force is projected to expand by a slightly lower rate of 3% to 10.5 million. The unemployment rate is, thus, anticipated to further decline from 3.5% in 2002 to 3.4%, and hence the economy continues to remain in full employment.