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SOCIO-ECONOMIC EFFECTS OF FOREIGN WORKERS ON THE HOST LABOUR MARKET: THE MALAYSIAN PERSPECTIVE[1]

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ABSTRACT

Managing the inflows of foreign workers, and the ability of the domestic labour market to integrate them, is now at the heart of the policy debate in Malaysia. It is therefore relevant to assess the socio-economic interactive effects of foreign workers with the domestic job market to provide a better understanding of their assumed influence specifically on the Malaysian manufacturing sector. This paper has a two-pronged objective. First, it estimates the impact of foreign workers on wage inequality. Second, it complements the economic discussion with social ills related to foreign workers. The results suggest that a higher presence of unskilled foreign workers raises wage inequality through plausible wage suppression of the unskilled segments. From the social perspective, the problems related to foreign workers stem from the unfair treatment in terms of poor terms and working conditions accorded to unskilled foreign workers. The paper contends that appropriate socio-economic integration and positive interactions of unskilled foreign workers with the domestic labour market could be acquired through the recognition and deployment of basic human rights.

JEL CLASSIFICATION: J21, J23, J31.

KEYWORDS: Unskilled foreign workers, wage inequality, social ills, Malaysia.

1. INTRODUCTION

Malaysia records a total of 2 million registered (documented or regular) foreign workers[2] as of year-end 2008 (Ministry of Finance, 2010), a sharp rise from 532,000 workers in 1993. Currently, foreign workers constitute approximately 21 per cent of the Malaysian workforce, thereby maintaining her position as the largest importer of labour in Asia (Prasai, 1993; Gurowitz, 1999; Kanapathy, 2006; Amarjit, 2004, 2007). To date, foreign workers are noted in all the major sectors of the economy. Of the total number of foreign workers in Malaysia, 35 per cent [unpublished returns to the Annual Survey of the Manufacturing Industries (ASM), Malaysia] of them are employed in manufacturing.

It is interesting to analyze foreign workers in the Malaysian manufacturing context due to its historical predominance. The widespread labour shortages in the late 1980s saw an influx of unskilled foreign workers to the formal manufacturing. The Asian financial crisis (AFC) in the late 1990s however led to a temporary movement to expel unskilled and undocumented foreign workers. Thereafter, foreign worker inflows were encouraged to arrest the decline in foreign direct investment (FDI). The reliance on foreign workers until the present day is blamed on the tight labour market conditions and growing dualism [reluctance of domestic workers to perform dirty, demeaning and dangerous (3-D) jobs] in Malaysia. The government promoted the inflow of foreign workers as a short-term response from painful process of adjustments (alleviating labour shortages and lowering labour costs), since neighbouring countries provided opportunities for the importation of low-waged workers. In fact, the temporary shortfall in labour experienced in manufacturing in March 2005 due to some delays in the return of legal foreign workers from Indonesia, led to the hiring of new workers from a number of different countries such as Vietnam, Pakistan, India, Nepal and Myanmar (Central Bank of Malaysia, 2006).

However, the slowdown in exports following the global financial crisis (GFC) once again seems to reverse the preference towards foreign workers, as that witnessed in the mid-1980s recession and the AFC. With the GFC, there was again a freeze in the importation of foreign workers in manufacturing given the number of company closures and ensuing job layoffs. Nevertheless, as orders for manufactured products begin to pick up, the government reopened the intake of foreign workers in the electrical, electronics and textiles sectors (The Star, 18 July 2009), to allow the export sector to recover.

The historical reliance, changes in the process of hiring (dilemma of arresting and increasing the inflows) foreign workers and the diversification of import sources of labour reflect their critical need in manufacturing. Amidst this, the government remains committed to reducing foreign workers to 1.5 million by 2015. Managing the inflows of foreign workers, and the ability of the domestic labour market to integrate them, is now at the heart of the policy debate. In this context, it is relevant to assess the socio-economic interactions of foreign workers with the domestic labour market to provide a better understanding of their assumed role in the Malaysian manufacturing sector. The study specifically seeks to address two questions: Do foreign workers influence wage inequality? Can foreign workers be blamed in entirety for social insecurities?

The paper is structured in the following manner. The second section highlights the key characteristics of foreign workers and wage inequality trends in manufacturing to set the stage for the empirical analysis. The third section presents the evidence and arguments pertaining to the economic and social implications of unskilled foreign workers on the domestic market. The final section concludes.

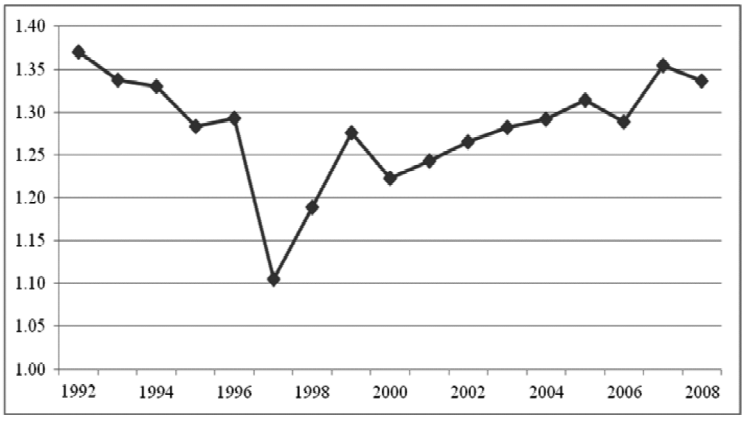
2. TRENDS IN WAGE INEQUALITY: THE DATA AT A GLANCE

Foreign workers in Malaysia comprise both expatriates (skilled technocrats, professional and managerial workers) and contract workers (semi-skilled and unskilled workers). The inflow of foreign workers to Malaysia centers on contract labour (based on work permits[3]) (Kanapathy, 2004). They are imported for a short duration[4], with prohibition of settlement/ citizenship (see Amarjit, 2007; Amarjit and Metcalfe, 2007; Leigh, 2007), to address the labour market imbalances in specific sectors. The temporary nature of foreign workers bars their mobility[5], confining them to certain occupations and certain sectors. The contract-based work is a crucial factor that needs to be taken into account when considering the interactive effects with the Malaysian job market since it limits the scope for the full recognition of foreign workers' rights and their socio-economic integration.

Based on skill types, foreign workers basically occupied unskilled positions (see also Athukorala, 2006), mainly that of production operators (Kassim, 2001). The proportion of unskilled foreigners to total foreign workers in manufacturing grew from 84 per cent in 1992, when they were formally permitted to worker in this sector, to 96 per cent in 2008. More importantly, unskilled foreigners comprised 38 per cent (an increase from 4 per cent in 1992) of the unskilled workforce in 2008, while the share of skilled foreigners to the total skilled workforce manufacturing remained at a low 3 per cent for the period under review (unpublished returns to the ASM).

The magnitude (level) of the inflows of unskilled foreign workers vis-à-vis suggests their varying importance for the skilled-unskilled inequality in terms of wages. Figure 1 shows the wage inequality patterns in manufacturing over the period

Figure 1
Wage Inequality in Manufacturing, 1992-2008



Note: Wage inequality (SWS) is the share of annual average wages of the skilled to the unskilled, expressed in logarithmic value.

Source: Compiled from unpublished returns to the Annual Survey of Manufacturing Industries conducted by the Department of Statistics, Malaysia.

1992 to 2008. The declining trend in wage inequality of the 1990s seems to have reverted in the 2000s decade. The sharp downturn in the wage inequality in 1997 followed by less prominent downward spikes in 2000 and 2008 coincided neatly with the AFC, the 2000 dot.com bubble burst and the GFC respectively. It is learnt that the brunt of the adjustments in the manufacturing labour market during these crises years were borne mainly by unskilled foreign workers. Figure 1, therefore, suggests that the 'quality effect' (or composition) of foreign workers has some bearing on wage inequality in the manufacturing sector.

Though there is lack of variation in wage inequality across the manufacturing industries, most of them witnessed increases in wage inequality between 2000 and 2008 (Table 1). Interestingly, the wage inequality is found to be the largest for the

Table 1
Key Indicators, by Broad Industry Groups

	Wage Inequality (lnSWS)			*Distribution of Unskilled Foreign Workers (%)*			*Share of Unskilled Foreign Workers (FWS) (%)*		
Industry	*1992*	*2000*	*2008*	*1992*	*2000*	*2008*	*1992*	*2000*	*2008*
Food	3.77	3.54	3.72	6.39	5.82	8.91	3.46	15.29	33.08
Beverages	3.31	3.58	3.33	0.17	0.08	0.14	1.63	4.86	14.08
Tobacco	3.93	4.24	3.55	0.00	0.05	0.02	0.00	2.25	3.06
Textiles	3.56	3.50	3.27	2.11	4.62	2.24	1.72	29.88	46.87
Garments	3.23	3.33	3.52	1.21	7.27	5.91	0.58	25.53	53.05
Leather	3.40	3.63	3.65	0.35	0.17	0.18	3.75	17.21	41.37
Footwear	3.70	3.55	3.88	0.00	0.50	0.35	0.00	19.58	33.14
Wood & Wood Products	3.61	3.71	3.74	63.84	21.11	13.36	19.29	41.80	61.67
Furniture & Fixtures	3.63	3.57	3.60	4.01	9.00	12.07	5.43	33.31	67.54
Paper, Printing & Publishing	3.52	3.53	3.57	0.71	2.41	4.04	0.75	11.76	30.93
Chemicals	3.73	3.44	3.56	0.21	0.89	1.68	0.41	7.37	19.98
Petroleum	3.60	3.24	3.33	0.10	0.01	0.13	3.61	0.33	15.80
Rubber	3.74	3.63	3.54	4.29	5.84	7.11	2.27	20.76	48.59
Plastic	3.66	3.54	3.60	0.92	5.80	8.96	0.66	17.24	46.00
Glass	3.33	3.20	3.14	1.33	0.43	0.25	14.19	11.38	16.52
Non-Metallic Mineral	3.71	3.44	3.56	2.63	2.60	2.73	2.67	16.76	33.18
Basic Metal	3.39	3.32	3.44	0.65	1.90	2.46	1.18	14.00	29.44
Fabricated Metal	3.52	3.44	3.50	4.25	3.55	6.12	5.47	15.42	39.25
Machinery	3.52	3.39	3.45	1.20	1.59	2.80	1.22	9.28	26.91
Electrical & Electronics	3.68	3.47	3.69	3.39	22.98	16.25	0.42	13.39	27.99
Transport Equipment	3.72	3.13	3.32	1.09	1.18	2.67	1.26	8.07	29.53
Scientific & Measuring Equipment	3.52	3.46	3.58	0.01	0.93	0.44	0.01	13.07	8.22
Miscellaneous	3.80	3.53	3.54	1.16	1.26	1.16	1.84	13.01	29.07
Total Manufacturing	1.37	3.40	3.80	100.00	100.00	100.00	3.53	18.52	38.17

Notes: 1. SWS or wage inequality is the share of annual average wages of the skilled to the unskilled.
2. FWS refers to the share of unskilled foreign workers to total unskilled workers at the industry level.

Source: Compiled from unpublished returns to the Annual Survey of Manufacturing Industries conducted by the Department of Statistics, Malaysia.

wood and furniture industries, whereby foreigners dominated in the unskilled segments of the workforce. The unskilled foreign presence is also highly concentrated in both the above mentioned industries. In contrast, the petroleum and tobacco industries with relatively smaller wage inequalities, recorded amongst the lowest shares of unskilled foreign workers in total unskilled workers, and the lowest concentration of unskilled foreign workers vis-à-vis the other manufacturing industries. The electrical and electronics industry, the key industry of the Malaysian manufacturing sector in terms of output and export contribution, has also become a major employer of unskilled foreigners. Generally, the distribution of unskilled foreigners appears to be highly concentrated in export-oriented industries, which are dependent on FDI (Hyoji, 2007). The demand for unskilled workers in the Malaysian manufacturing sector has largely been accomplished through foreign capital (Manning, 2000).

3. LABOUR MARKET EFFECTS: ECONOMIC AND SOCIAL CONCERNS

3.1. Theoretical Exposition

The major economic concerns of the foreign worker presence in the host country relate to their impact on employment and wages. In terms of employment, if foreign workers are largely unskilled, it is likely that they have substitution effects on the domestic unskilled. In Malaysia, Pillai (1995) emphasizes that foreign workers substitute for domestic workers in labour intensive industries. There are further arguments that their presence augments the domestic supply of unskilled labour and raises unemployment (or reduces employment) amongst native workers (Winter-Ebmer and Zweimuller, 1999; Dustmann *et al.,* 2003; Feridun, 2004; Borjas *et al*., 1997). These inflows, if remain unchecked, eventually hinder local skill upgrading in the long run. However, the results on the negative employment effects of migrant workers are found to vary across age groups, skill groups, and ethnic groups.

Despite that, there are inconsistencies in the evidence because some studies still find weak and negligible (or modest) effects of foreign workers on employment (Grossman, 1982; Card, 1990; Winegarden and Khor, 1991; Hunt 1992; Friedberg and Hunt, 1995; Shan *et al*., 1999) or even positive employment effects (Gross, 2002, 2004; Konya, 2000; Islam, 2007) in the host labour market. Simon (1999), in fact, theoretically argues (based on his 'queue theory' which examines the extent of additional labour market "congestion" caused by additional competitors for jobs) that the effect upon natives' unemployment is much less than common belief has it, and native unemployment may even be lessened rather than increased due to foreign worker inflows.

In wage terms, the greater utilization of cheap foreign workers is deemed to have suppressed the upward pressure of real wages of the unskilled category. Therefore, there are concerns that unskilled foreign workers in Malaysia specifically dampen unskilled wage growth (Mehmet, 1986; Pillai, 1995) and increase wage inequality, in

spite of evidence of labour market segmentation (Ruppert, 1999). A number studies have found significant negative impact on foreign workers on native wages (see also Borjas *et al.*, 1997; Borjas, 2005; Friedberg, 2001; Epstein and Hillman, 2003; Aydemir and Borjas, 2006; Orrenius and Zavodny, 2003) by investigating the matter at the local and national levels, across occupational/skill groups and ethnic groups. In contrast, there are some studies that find the wage effects of foreign workers to be either negligible or even positive (Bauer, 1997; Laryea, 1998; Fuest and Thum, 2001; Gross, 2002; Kemnitz, 2005; Dustmann *et al.*, 2003; Card, 2005; Ottaviano and Peri, 2006).

The above evidence indicates that the presence of foreign workers on the host labour market may not necessarily be harmful. There is a possibility that foreign workers may not necessarily compete with locals but instead complement the domestic workforce. Similarly, there are also instances that the inflow of foreign workers may enhance the welfare of domestic workers through an increase in jobs (employment creation), efficiency wages (above market competitive rates due to trade unions; see also Fuest and Thum, 2001) and higher tax-financed income transfers (Epstein and Hillman, 2003).

Given that the unskilled segments of foreign labour are predominant in the Malaysian manufacturing and that their presence is unevenly distributed across various industries, the study specifically puts to the test the effects of unskilled foreign workers on wage inequality.

3.2. Model Specification and Data Description

To address the impact of foreign workers on the Malaysian manufacturing labour market, the analysis is conducted based on a derived econometric specification of wage inequality (see also Machin *et al.*, 1996; Hansson, 2000; Anderton *et al.*, 2001) as follows:

$$SWS_{it} = \beta_0 + \beta_1 FWS_{it} + \beta_2 Q_{it} + \gamma Z_{it} + \eta_i + \varepsilon_{it} \quad (1)$$

$$SWS_{it} = \beta_0 + \beta_1 FWS_{it} + \beta_2 Q_{it} + \beta_3 EO_{it} + \beta_4 SIZE_{it} + \beta_5 KL_{it} + \beta_6 SI_{it} + \beta_7 FOW_{it} + \beta_8 CR_{it} + \beta_9 DTU_i + \eta_t + \varepsilon_{it} \quad (1a)$$

where *SWS* or wage inequality is the ratio of skilled (professional and managerial workers) wages[6] to unskilled (production/operative workers) wages in industry *i* at time *t*. *FWS* is the share of unskilled foreign workers in total unskilled employment, *Q* is the real value-added (measured as gross output minus cost of input), *EO* is the export orientation (measured as the share of exports in output) and *Z* refers to industry level characteristics. The latter includes the size of the industry (*SIZE*, captured by number of full-time employees per firm), capital intensity (*KL*, measured as real fixed assets per full-time employee), skill intensity (*SI*, measured as the share of professional and managerial workers in total full-time employment), foreign ownership (*FOW*, proxied as the share of firms with 50 per cent or more foreign equity ownership in total output), industry concentration ratio

(*CR*, proxied by the share of the four largest plants in total industry output) and trade union influence (*DTUN*, captured as a dummy variable, 1 for industries in which national trade union membership is prohibited and 0 for the remaining industries). Finally η are time-specific fixed effects and ε is an (unobserved) industry-specific error term. All the variables in the above specifications are in logarithmic values, except for the following variables which are in percentages: *FWS*, *EO*, *SI* and *FOW*.

The main coefficient of interest in equation (1a) is β_1. A positive β_1 is suggestive of a higher presence of unskilled foreign workers at the industry level being associated with an increase in wage inequality. Given prior anecdotal evidence that unskilled foreigners are paid differently than their comparable local workers (or wage discrimination; see Kassim, 1998; Osman *et al.*, 1998; Ruppert, 1999; Wickramasekara, 2002; Liow, 2004), it is anticipated that a higher presence of unskilled foreign workers at the industrial level depresses the average wages for the unskilled and therefore results in a widening of the skilled-unskilled wage ratio for that particular industry.

The data source for the analysis is the establishment censuses/surveys, conducted annually by the Department of Statistics (DOS), Malaysia. The dataset comprises detailed industry-level compilations of the plant level data underlying the DOS census/surveys spanning the period 2000-2008 (the latest data available at the time of study). The study considers 2000 as the start year to provide a more meaningful analysis given the reclassification of industries to the new 5-digit Malaysia Standard Industrial Classification (MSIC, 2000), Category D, which is very similar to the version 3 of the International Standard Industrial Classification (ISIC, Revision 3) published by the United Nations. This provides a panel of 1,521 observations (169 industries x 9 years). Though the sample is governed very much by the change in the industrial classification, the time-frame covered is consistent with the observed rise in the wage inequality patterns for the manufacturing sector since 2000 (see Figure 1).

Some limitations that arise from data constraints are worth mentioning here. There is no data on wages for foreign workers (at the disaggregated occupational levels) to distinguish local from foreign worker earnings. As such, industry level wages are a composite of immigrants and natives in that industry. Accordingly, Friedberg and Hunt (1995) point out that the results may be affected by the composition problem which then makes it difficult to sort out between the two alternatives, which are industries with higher proportion of immigrants have lower average wages (given wage discrimination towards immigrants) even if immigrants have no negative impact on native wages.

Relevant to this study also is that, selection may be a problem (though identified more in cross section analysis) since immigrants may occupy positions in industries where job growth may be stronger and therefore wage levels higher (see also Pedace, 1998). In this case, immigrant inflows are not only driven by labour market changes but labour market changes, in turn, are driven by inflows. As such, this would lead to an upward bias in the estimations. Instrumentation is thus required in this case.

To adequately address the endogeneity issue of industry selection (Zorlu and Hartog, 2005), the level of foreign workers is instrumented with its own lag as the number of foreign workers in the past is likely to affect the influx of foreign workers to that industry [the notion of 'immigrant enclaves' (Borjas, 1994) or immigrant networks (Kerr and Kerr, 2009); see also Aranki and Daoud, 2010] and this initial concentration of immigrants does not influence directly the outcome variable (see also Friedberg and Hunt, 1995).

3.3. Discussion of Main Empirical Findings

Table 2 presents the estimations for wage inequality. The wage inequality equations of (1a) are conducted first using the fixed and random effects models. The choice between the fixed effects (FE) and the random effects (RE) models is determined by consistency properties. The Hausman (1978) specification test is performed to check if the coefficients estimated by the fixed-effects estimator and the same coefficients estimated by the random effects estimator do not differ statistically. The Hausman test reveals that the coefficients of the FE and RE models do not differ statistically for all estimations. Nevertheless the RE estimates are still reported given that DTUN is a time invariant regressor. It is noted that DTUN remains significant for all cases. Note that Table 2 also contains the Breusch-Pagan (1980) Lagrange Multiplier (LM) test to examine whether the RE is appropriate and the simple pooling has to be rejected. The LM statistics are overwhelmingly significant and support the appropriateness of the RE model. Finally, the last columns of Table 2 report the results of the instrumental variable approach (IV-2SLS fixed and random effects specification) using the lag of the FWS to mitigate the endogeneity problem. The test for endogeneity indicates that the endogenous regressor is relevant. This suggests that the other estimates in Table 2 may be biased as a consequence of immigrants being predisposed to industries with high job/wage growth. The validity of the instrument likewise is supported by the statistics from the first-stage regressions with under-identification (Kleinbergen-Paap rk LM statistic) and weak-identification (Kleinbergen-Paap rk Wald F statistic).

The FWS variable is positive and statistically significant based on the IV-2SLS approach. This lends support to the argument that the higher presence of unskilled foreign workers increases wage inequality. In itself, it should be mentioned here that these results do not decisively imply that through wage suppression of the unskilled segments, the unskilled local workers are displaced. Despite that, the controversy on foreign workers minimizing or even "displacing" local jobs is continuously propounded by trade unionists. The unionists claim that there are no real shortages in manufacturing. They assert that businesses and enterprises prefer foreigners to local citizens for the following reasons. First, foreigners may be easily exploited, as they do not normally seek recourse to law and justice given their temporary status. Second, they are believed to be diligent, docile and willing to work overtime including public holidays and weekends. Third, foreigners are ready to accept lower pay than that offered to local workers, are prepared to risk their lives and work in deplorable conditions.

Table 2
Wage Inequality Estimations

			Instrumentation: FWS_{t-1}	
Regressors	*FE*	*RE*	*FE*	*RE*
Constant	6.545***	6.539***	6.413***	6.416***
	(0.414)	(0.202)	(0.319)	(0.186)
FWS	0.001	0.001*	0.006**	0.003**
	(0.001)	(0.001)	(0.003)	(0.001)
Q	0.010	0.001	0.016	0.002
	(0.019)	(0.010)	(0.017)	(0.009)
SIZE	-0.030	-0.022	-0.040*	-0.024*
	(0.026)	(0.014)	(0.022)	(0.013)
KL	-0.076***	-0.054***	-0.080***	-0.050***
	(0.029)	(0.015)	(0.024)	(0.014)
SI	0.002	-0.001	0.001	-0.001
	(0.004)	(0.003)	(0.003)	(0.002)
FOW	-0.0004	-0.0003	0.001	0.000
	(0.001)	(0.001)	(0.001)	(0.001)
EO	-0.000	0.000	0.000	-0.000
	(0.001)	(0.0004)	(0.0004)	(0.003)
CR	0.002	-0.002	0.001	-0.002**
	(0.002)	(0.001)	(0.001)	(0.001)
DTUN		0.165***		0.168***
		(0.051)		(0.058)
Time dummies	Yes	Yes	Yes	Yes
F-statistics	2.66		3.17	
Wald χ 2		69.92		79.92
R^2 overall	0.022	0.109	0.032	0.105
No. of observations	1521	1521	1352	1352
No. of groups	169	169	169	169
Breusch-Pagan LM test		χ^2 (1) = 1649.47		
Wu-Hausman test	χ^2 (15) = 0.941		χ^2 (15) = 16.370	
Kleinbergen-Paap LM test			61.733 (0.000)	
Kleinbergen-Paap Wald F test			56.170 (16.38)	

Notes: 1. Standard errors adjusted for arbitrary heteroskedasticity and intra-group correlation are given in brackets, with statistical significance denoted as *** 1%, ** 5% and * 10%.
2. Under identification test: Kleibergen-Paap rk LM statistic with p-value in parenthesis.
3. Weak identification test: Kleibergen-Paap rk Wald F statistic with the Stock-Yogo weak ID test critical value at 10% maximal IV size in parenthesis.

Thus, the unionists and some quarters argue that there is no "inflexible" need for unskilled foreign workers. In short, the inflows of unskilled foreign workers are considered to be demand-driven since they remain a cost-effective alternative. Employers are merely resorting to contract labour to thrive on profits on the back of

cheap, easily exploited and vulnerable foreign workers. Is it true then to state that "outsourcing" of unskilled foreigners on a contract basis is a threat to employing local citizens on a permanent basis? To date, there is no hard evidence to validate these claims and justify the extent of the indirect effects of unskilled foreign workers on the labour market.

There are however three key issues following from the AFC that clearly reveal the non-competing (complementary) effects of foreign workers. First, the fact that the government treats foreign workers as an itinerant labour force (disposable workers) indicates that their role in the Malaysian labour market is specific to filling the gaps in the manpower needs. A clear testimony to this is when unskilled foreign workers bore the brunt of the financial crisis. Almost 14 per cent (1,598 foreign workers retrenched) of the workers retrenched from the manufacturing sector in the first quarter of 1998 were foreigners (Abubakar, 2002). Not surprising is that the recession had reduced the intensity of foreign labour usage since the Malaysian government follows a policy of job priority for locals (Dairiam, 2006).

Second, despite the retrenchments and the increase in unemployment rate, labour shortages still prevailed by the end of 1998 and mid 2009. It was reported that approximately 40,000 jobs were then available in manufacturing (Abubakar, 2002) by end of 1998. The shortages were mainly in the category of 'production and related workers, transport equipment operators and labourers' (Shamsulbahriah, 1998; 2003). The shortages were also evident in mid 2009 once companies began receiving fresh orders for their manufactured products. This highlights the structural nature of the demand for foreign workers. Even in a period of high unemployment, the locals did not take up the jobs vacated by migrants, as anticipated by the government.

Third, following the critical shortage, the government then had to re-deploy the retrenched migrants into the manufacturing (ESCAP, 2002). The retrenchments and subsequent deportations of foreign workers following any economic downturn in the Malaysian case are most often short-lived. In August 1999, the government extended foreign permits for an additional year following pressures from low-wage industries (Athukorala, 2006). Similarly in October 2004, undocumented foreign workers who were deported under a four-month amnesty programme were thereafter allowed to return on official permits (Morris-Suzuki, 2007). More recently, in mid 2009, the government reopened the intake of foreign workers, which was previously frozen in early 2009, in selected industries.

The confounding evidence on the shortages that prevail (job vacancies) even with unemployment during the financial crises and the evidence of the policy turn-around on hiring foreign workers are a joint testimony to the critical need for foreign manpower in manufacturing. If labour shortages create serious work disruption and hurt businesses (Business Times, 20 July 2009), repatriating foreign workers would only cause higher number of job losses to the local after their departure (Wickramasekera, 2002). The intention to stabilize foreign worker inflows

will eventually backfire if the affected sectors of the economy are forced to retrench local workers (even the skilled) due to the shutting down of some operations. It appears that complementary effects prevail between foreigners and locals not because of a discrepancy in skills between the former and latter but because the existing workforce (particularly the unskilled) is not availing themselves to work. The above line of argument suggests that the problems related to foreign workers are not that of unskilled labour augmentation or labour displacement, but rather the possible erosion of the overall bargaining power of the unskilled segments in manufacturing.

3.4. Social Stability

Pillai (1995) contends that the loose policy pertaining to foreign workers has also disturbed social stability (see also Kassim, 1998; Chin, 2002; Liow, 2004). A recurrent theme in the mass media is that unskilled foreign workers cause the spread of diseases, conflicts and crimes, thereby encroaching on public safety and security. Whilst this is true to a large extent, it also raises concern about the ability of the labour market to integrate foreign workers. The following discussion will uncover some of the social issues related to foreign workers and identify the potential root causes of those problems.

The deplorable accommodation (Kassim, 1986; 1998) provided by employers coupled with the meager earnings of foreigners exposes them to communicable diseases [tuberculosis, malaria, hepatitis, whooping cough and Acquired Immune Deficiency Syndrome (AIDS)] and limits their access to public health. Following from ill-working conditions, communicable diseases spread rampantly amongst these workers. The infected workers do not seek treatment as some employers do not provide healthcare benefits or alternatively because they are just ill-equipped with knowledge on public health. In some cases, the diseases are brought from their home countries due to lack of screening by local authorities. The diseases spread as some foreigners resort to illegal activities to compensate for their low earnings. Some female foreign workers engage in prostitution, thereby exposing themselves to being infected with the AIDS. Other notable criminal activities by foreigners in general include theft and burglary (Kassim, 2005).

Notwithstanding the above, foreign workers are found to still commit less crime than the locals (Hugo, 2005; Sidhu, 2005; Kanapathy, 2006; Hyoji, 2007). The percentage of foreigners' involvement in total crimes was about 2 per cent in 2002, with a ratio of 3.8 crimes per 1000 foreigners as opposed to 5.3 crimes per 1000 Malaysians (Hyoji, 2007). Hugo (2005) therefore asserts that blaming foreign workers for the high crime rates and the spread of diseases is simply a reflection of a high degree of stigmatization and stereotyping of migrants.

The discussion on public safety and security imply causality from poor working terms and conditions (housing, wages and other benefits such as overtime work and

healthcare; for example severance of work contract in the form of late payment of wages or deduction from wages higher than in agreement) to social ills (diseases and crime). The perceived diseases and crime are hazards that result from the exploitation of foreign workers by employers who do not accord fair treatment. Foreign workers in turn also lend themselves willing to accept limitations of their rights and exclusion from social protection. Some believe that the indirect effect of this is that employers prefer foreign workers whilst local unskilled workers get left behind.

The responsibility of social stability thus rests with employers (also enforcement and other interested parties such as the recruitment agencies and outsourcing companies) and failure to recognize this leads to the fallacy of blaming social ills entirely on foreign workers *per se*. In the context of social stability, the rights of foreign workers are central to the argument. So long as foreigners contribute to domestic activities, their human rights should be preserved to ensure overall positive interactions with the domestic market. Until recently, foreign workers have been at the mercy of unscrupulous private recruitment agencies that have provided deceitful information, imposed expensive charges and forged false contracts for non-existing jobs (ILO, 1999: Gurowitz, 2000; Wickramasekara, 2006; Amarjit, 2007; Hyoji, 2007). This lends some of them to become illegal workers, who subsequently fall prey to sexual exploitation, abuse and trafficking[7] (Wong and Saat, 2002). Again the causality here appears to run from abusive practices in human rights and poor governance to crime.

The social ills connected to foreign workers as expounded above are directly linked to the indifference towards human rights (*via* proper working conditions, adequate wages and benefits, transparency and proper enforcement of regulations) as a whole. To quote the United Nations Committee on migrant workers: *"Where migration is seen only in economic terms, migrants may come to be regarded as commodities, rather than as individuals entitled to the full employment of their human rights"* (cited from Wickramasekara, 2006).

4. CONCLUDING REMARKS

The economic interactions of foreign workers with wage inequality in the Malaysian manufacturing sector reveal negative consequences for the labour market. The empirical findings suggest that a higher presence of unskilled foreign workers at the industry level is associated with higher wage inequality. The issue plausibly points to one of wage discrimination with unskilled foreign workers being paid less than their local counterparts, thereby suppressing the average wages of the unskilled segments.

Further the arguments allude to the fact that foreign workers are susceptible to diseases and resort to crime mainly because of the poor working terms and conditions. The paper contends that a focus on the social problems imposed by foreign workers on society masks the reality of the problems faced by them. To

ensure positive interactions with the domestic labour market, foreign workers should be accorded fair and equal treatment as that which is offered to their local counterparts. In short, better socio-economic integration of foreign workers with the domestic labour market requires that all forms of malpractice and abuses are dealt with.

NOTES

1. Revised version of the paper presented at the International Conference on Social Sciences (ICSS), Dokuz Eylul University, Izmir, Turkey, 10-11 September 2009.
2. The latest information released suggests a total of 2.1 million registered foreign workers in Malaysia (The Star, 18 July 2009).
3. The number of permits approved is regulated and is dependent on the type of industry, export/non-export orientation, paid-up capital, sales value and the ratio of local to foreign workers (Amarjit, 2010).
4. The government has introduced a five-year ceiling on foreign workers staying in the country.
5. However, in 2005, the government allowed for foreign workers whose contracts have expired to change employers within the same economic sector as long as their work permits were still valid.
6. The wage measure used for the study is the real annual wages per employee. The data on salaries and wages of employees refer to cash payments, including bonuses, commissions, over-time wages, cost of living allowances. The employees' contribution to the Employees Provident Fund (EPF) and social security schemes (such as SOCSO) or to other provident or superannuating funds is included but the employer's contribution is excluded.
7. The government is placing additional emphasis on adherence to the Anti Trafficking in Persons Act 2007 to improve the country's rating on the human trafficking blacklist.

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