

Employment of Foreign Workers at Construction Industry in Malaysia—A Review



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Abstract The main pillar to execute and complete construction project is labour resources. Without optimal labour utilization, stages of construction project may be affected. Nevertheless, construction industry in Malaysia has been in a serious labour market predicament whereby local labours are unable to fulfil the construction industry's labour market demand. In consequence, a great number of foreign labours are recruited to join the workforce. Nearly, 70–80% of the construction labours in Malaysia are foreigners. The Malaysian construction industry has been reliant on low-skilled foreign workers for a long-time. This study is to review the circumstance of foreign workers' employment at construction industry in Malaysia. The findings show that foreign workers occupy the workforce in Malaysia due to the unwillingness of the locals to join the workforce. Foreign workers are beneficial to the Malaysian construction industry as the low wages paid to them and their persistency. However, social, economic, political, and crime problems arise because of the foreign workers' employment.

Keywords Foreign workers · Construction industry · Employment

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1 Introductory Background

Population growth relatively grows constant at a high rate in Malaysia. Along with it, economic growth accelerates rapidly, and urbanization increases. In fact, the country's transformation is not in parallel with the local workers' availability, the labour market has been in a complicated phase. Supply of the labour is far less to satisfy the demand of the workforce. It is resulting in a high deficiency of numbers of workforce. Industries in Malaysia need to bring foreign workers into the labour force to replenish the supply of the labour market [1, 2].

The ceaselessly increasing number of foreign workers indicates that foreign labours constitute largely the integral part of Malaysia's workforce. As of September 2019, there were 1.98 million regular migrant workers were employed in Malaysia, which account for approximately 20% of Malaysia's workforce. It is estimated by a World Bank report that in 2017, there were approximately 2.96 to 3.26 million foreign workers, including 1.23 to 1.46 million irregular migrant workers, staying in Malaysia. The influence of the nearly full employment condition since 1990 and the high level of the locals' educational background leads Malaysia to the great dependency on the foreign workers to undertake the low-skilled jobs [1, 2].

The fulfilment of the low-skilled job demand sometimes creates inconvenience. Authority has tried to implement the policy to reduce the foreign workers' dependency. Yet, it results in shortages of workforce in some industries. Foreign workers are portended to be a potential menace to the country's development in the long run. The labour migration regulation tends to focus on controlling immigration and maintaining public safety instead of focusing on the labour administration [2].

Indonesians form the biggest portion of the foreign workers population, which is 40% of total foreign workers in Malaysia by 2019. The other countries that contribute the most in sequence are: Bangladesh (28%), Nepal (16%), and the rest are Myanmar, India, Pakistan, Philippines, Vietnam, and China. By sector categorization, as of 2018, the composition of the foreign workers in order are: Manufacturing (36.7%), construction (18.6%), plantation (15.2%), services (13.6%), agriculture (8.8%), and domestic helper (7.2%) [3].

Construction industry has a big contribution to the economic development of Malaysia, not only contributing directly but also indirectly by interconnecting widely with other sectors from the beneficial union [4]. As of the third quarter of 2021, the number of employed persons in Malaysia was 15.27 million. Meanwhile, the construction industry is one of the sectors that relies heavily on the foreign workers. It employed 1.211 million persons, which is approximately 8% of Malaysia's total employment [5]. In addition, foreign workers compose approximately 70–80% of the construction labours. Employers prefer occupying foreign workers rather than locals because of the lower wages paid to the foreign workers. Despite giving benefits to the employers, the imported labours also import the social, economic, and crime problems [6].

2 Problem Statement

Construction industry is one of the important sectors to develop and transform the country's economy [7]. Yet, the local workers are reluctant to work as the construction sector is considered dirty, dangerous, difficult (3D) environment. Rough environment and better qualifications create the dependency of the foreign workers [8]. Malaysia has approximately 1.98 million regular migrant workers or 20% of the total employment of Malaysia's workforce. The number of irregular migrant workers is estimated to be near to the regular migrant workers' number. The immigration level of the foreign workers is extreme because of the loose immigration and employment policies [7].

It was found that there were many Indonesian workers who came back to Malaysia because of the insufficiency of jobs available in Indonesia, the Malaysian policies ease the process of the return [7]. The construction industry employs approximately 8% (1.21 million persons) of the total employment in Malaysia. The dependence level of Malaysia on the employment of foreign workers is on high level, which the foreign workers are mostly from Indonesia and the Association of Southeast Asian Nations (ASEAN) region. Employment of foreign workers causes various issues in the construction company where they work [4].

Firstly, the unwillingness to learn and implement more high-yielding methods and techniques to reach better quality of work. Secondly, the abundant number of foreign workers with much lower wages compared to local workers. The lower wages may often not be proportional to the quality of the work, whereby the quality of work does not meet the construction standards and the productivity is very low. It may be induced by the insufficiency of the experience that they have. Often the workers are found that they cannot strive in the big projects as they do not have adequate training and are not concentrated on their work. Thirdly, communication difficulties affect the output of the work as the required work done is not interpreted appropriately. Lastly, social, political, economic issues arise, such as crimes, robberies, prostitution, and diseases such as malaria and cholera. Solid regulations and policies enforced in the country can resolve these problems to preserve the country's integrity [4]. However, besides the problems caused by the foreign workers, they also give advantageous impacts such as the low wages and persistency. They take risks far greater than the pay that they get [7].

3 Malaysia Economic Condition

Malaysia is one of the countries in Southeast Asia that is prominent which was colonized by the British [9]. It has a great journey that it has increased the equity and has attained expeditious growth at the same time while reducing the poverty. The successful development of Malaysia provides the strength to compete with other countries as a multi-ethnic nation [10]. The principal characteristics of the economic

development in Malaysia before independence and after independence are the dependency on trade, Foreign Direct Investment (FDI), and foreign labours. These three characteristics obviously emerge in the transformation journey of Malaysia from an agricultural and a commodity-based country to a manufacturing country [11].

Since the independence in 1957, Malaysia has experienced some hardships from inside and outside [9, 12]. Three sectors of the country were impacted: Industry, services and agriculture. Budget deficits and trade deficits were experienced tangibly. Despite being in those states, in the long-term view, Malaysia's condition is in a secured position. Rises emerge in the balance of payments in the long term, investment in domestic, and government expenditure. Solely a few times two-digit inflation was experienced, even if the gross domestic product (GDP) growth was overcome by the inflation rate in some years. In the last several years, the GDP growth rate has overrun the inflation rate. Nevertheless, COVID-19 hits countries all over the world which affects the GDP growth including Malaysia [12]. Malaysia has promoted the economy level from a low-income country to an upper-middle-income country. The living standard has risen and the income of the population has been distributed decently compared to before [10].

4 Malaysian Construction Sector

Tun Dr. Mahathir bin Mohamad, former prime minister of Malaysia, presented a vision for Malaysia, known as Malaysia Vision 2020, in order to be greatly industrialized and to be a modern country. The purpose of this vision is to shift Malaysia into a more wealthy, competitive, and aggressive in 2020. Construction sector has great ability to achieve the goals as it is a fast-paced sector [13].

Construction sector plays a substantial role to the economy of Malaysia. Reciprocally, Malaysian government has a significant position in the construction industry with the aim of increasing the living quality of the citizens by disseminating the country's wealth. The increase in the living standards can be done by increasing the income of the population and employment [4, 14].

Construction industry in Malaysia is a labour-intensive industry. Continual employment has to transpire to fill the workforce. The increasing number of employments every year shows that the economic condition of the country affects the growth of the employment [4].

5 Problems in Malaysian Construction Sector

A lot of challenges have been being faced by the Malaysian Construction Sector: Work quality, productivity, labour shortage, etc. The conventional method of construction used in Malaysia is one of the factors that contribute to those problems, unlike that of the modern construction approach used in developed countries

such as the United Kingdom, Hong Kong, and Singapore. Pronounced framework has not been applied to intensify the competition between labours, manage the resources, and regulate the funding laws. It results in the decrement of the quality of work [15]. Moreover, it is often found that overruns occur in time and cost. Lack of supervision, resources, and skills induce the delay in the project [14]. Currently, the challenges that are being faced are in the area of sustainability, such as sustainability attainment at a slow pace, unrestricted resource usage, pollution, and energy efficiency as a result of improper construction approaches [15].

5.1 Labour Shortage in Construction Industry

Malaysia was starting to lack skilled workers in 2006 when the 9th Malaysian Plan was introduced. This shortage has been continuing until these recent years [16]. Several projects in Malaysia were found to be unsuccessful because of the insufficiency of skilled workers. It is influenced by the low level of basic education, economic condition, and ageing workforce. In addition, young talents and locals are reluctant to join the workforce as there are better opportunities compared to construction sector which has a rough environment, low wages, and bad images of construction sector [17]. In general, there are three types of workers in construction sites: Skilled workers, semi-skilled workers, and unskilled workers [6, 17].

5.2 Low Efficiency and Productivity

A project can be determined as successful when the project is finished on time, on budget, and the quality meets the expected requirements and specifications. These three factors are illustrated as a triangle, which is widely used to depict the projects' success in construction project management. The relationship between the time, cost, and quality constraints is strong and affects one another as the limitations and constraints of a project [18].

A lot of public construction projects in Malaysia are found to be unsuccessful by simply assessing and evaluating from the construction project management triangle. The cost overruns the budget, the projects are not completed on time, and most importantly, the quality does not meet the standards. The cost overruns and delayed project completion are often caused by the changes in functionality, which modifications are required for the specifications and deliverables [18].

80% of construction projects in Malaysia that use the traditional procurement contract deal with time overruns. Both overruns in cost and time have massive impacts to the construction projects by confounding the planning and control of the execution. Delays of the project inflate the construction costs, reduce the profits, and may lead to contract termination. The factors that contribute to the delays are: Financial impediments of the owner, which can be influenced by economic issues and financial

issues which affect the works progress of consultants and contractors, and materials shortages [19].

6 Employment in Malaysia

In 2013, Malaysia was the number 20 country with the lowest unemployment rate. It recorded 3.1%. From 1982 to 1986, Malaysia was facing an increasing unemployment rate. It was triggered by the nonoptimal labour utilization and the number of young people that were unemployed was relatively high [20].

To decrease the unemployment rate, one of the approaches was to escalate foreign investment. Foreign Direct Investment (FDI) expands the country by involving the new technology and expertise to the country. FDI enlarges the opportunities for the locals and boosts the local production. Hence, the Malaysian economy will be stronger [20]. Foreign Direct Investment (FDI) can be used to be impactful in three states in employment. Firstly, FDI can directly increase employment by establishing new businesses, and also indirectly by boosting employment during the production phase. Secondly, when employment preservation is needed, FDI works by acquisition and restructuring of established companies. Lastly, FDI contributes to the reduction of employment by disinvestment and discontinuation of the companies, which this third state is prevalent in developing countries like Malaysia [21].

But at the same time, due to the rapid development, FDI may create labour shortage. Investors penetrate the foreign labours. Migration of foreign labours reduces the level of labour shortage. The employment of foreign workers will affect the labour market and the unemployment rate of the locals. Malaysia has been depending on the FDI resulting in a high rate of unemployment during the financial crisis [20]. The other factors are: Exchange rate and the nation's GDP. Exchange rate has a proportional effect on the unemployment rate, whereby an increased exchange rate will increase the unemployment rate. On the contrary, the unemployment rate will decrease as the country's GDP increases [20].

7 Foreign Workers in Malaysia

Migrant workers are people migrating to another country to earn money. Either legal workers; workers that have legitimate permits or illegal workers are considered migrant workers [22]. Employment of foreign workers in the pre-independence and post-independence of Malaysia, from a commodities-based country, becoming a manufacturing country is one of the determinants of Malaysia's economic development. It alters the economic structure of the country. During the changes of the economic structure in the latest phase, deindustrialization has been occurring since the 1990s. One of the causes is the dependency on low-skilled foreign workers. In fact, deindustrialization is considered a wrong move to reduce the dependency on

low-skilled foreign workers [11]. There are several factors that influence the number of foreign workers. The high ratio of foreign workers, employment permit fraud, country's economic regulation, and poor policy enforcement escalate the number of the foreign workers [1].

There were 164 million foreign workers spread over the countries worldwide in 2017. 68% of the migrant workers work in high-income countries, and 28% of them work in middle-income countries, for instance: Malaysia. Migrant workers in Malaysia are filled and considered low-income workers and unskilled [22]. Based on the estimation from the World Bank, in 2014, 44% of foreign workers employed in Malaysia worked in low-skilled jobs, there were merely 5% of them worked in high-skilled jobs. The construction and agriculture sector are mostly filled by low-skilled workers and the manufacturing sector are mostly filled by high-skilled workers [11]. Malaysia perceives immigration as a short-term solution to eliminate labour shortages. Foreign workers working in Malaysia for the short term are only allowed to work in the determined sectors: Manufacturing, agriculture, construction, plantation, mining, and services. Migrant workers compose approximately 30% of the Malaysian workforce (legal and illegal workers). In numbers, it was recorded as 2 million legal workers and 1 to 3.5 million illegal workers as of June 2019. Labour shortage is the main reason for the migration of foreign workers [22].

7.1 Factors of Employing Foreign Workers

Generally, the migration of the foreign workers in Southeast Asia, Europe, and the USA is in consequence of the interdependency of the economies of the countries for the country's development [23]. The importation factors of the foreign workers can be divided into two categories: Pull factors; factors from the host country and push factors; factors from the country of origin. Neo-classical economic theory describes that migration of foreign workers is caused by the discrepancy in the labour markets. Workers from low-income and high unemployment rate country urged to migrate to higher-income countries with higher employment [24].

The rapid development of Malaysia in almost all sectors forces the need of workers to supply the demand of the workforce. The transition from an agricultural-based economy to an industrial-based economy creates labour shortages. Apart from satisfying the demand, the migration of foreign workers augments the productivity of the country. It results in the increase of the country's export and National Balance of Payment (BOP). Higher productivity conduces the economic growth of the country. Secondly, the reluctance of the locals to fill the jobs that are not suitable for them requires the inflow of the foreign workers [25]. Employment of the locals has been challenging in construction sector. Some reasons found are: Uncertainty of the future, low wages, educational background of the locals, the preference to take an easier job, bad images towards the construction industry, dangerous and challenging work environment and economic condition of the country [1, 16]. These are the pull factors of the foreign workers' employment at construction industry in Malaysia [24].

The Malaysian government uses brilliant strategies when managing salary increases and inflation. By focusing on this aspect to accelerate the economic growth, the wages paid to foreign workers will be minimized. Furthermore, the foreign workers are not concerning much on the wages they get and they don't focus on the salary rise [25]. In addition, foreign workers are more dedicated when extra works are assigned to them compared to the local workers that refuse to work overtime. According to CIDB Singapore (1994c), the general working hours in a week is 44 h. More than that number, it is considered overtime. Foreign workers are able to take the overtime works with being paid low wages. However, the salary paid as a migrant worker will be in a good and greater amount compared to their country of origin. Employers will be benefitted much as they can cut costs significantly and maximize the profit margin [4, 25, 26]. There are other push factors that substantiate the attractiveness of the arrival of the foreigners such as low salaries, high unemployment rate, high poverty from the country of origin, etc. [23, 24].

7.2 Problems of Employing Foreign Workers

The great amount of semi-skilled and unskilled workers creates problems for the country such as negative impacts on the economy, country's threat and political stability [25]. Firstly, the low wages as an advantage of hiring migrant workers can be threatenful to the wage structure in the country at the same time since they don't complain and focus on the wages with higher productivity than the locals. In the long run, defining the wages of the workers will be challenging. The locals' normal wages will be affected as it will give a tendency of perceiving wages equally to the migrant workers. And when the locals are not willing to take the job caused of the wages, there will always be migrant workers that are willing to take it [25]. In the end, locals' existence will slowly be ignored in the labour market and the employers will still choose the foreign workers as the low wages needed to be paid. The low-wages structure creates calamity to the country's employment system and wage structure. Competition between the locals and foreign workers gets stringent whereby it creates the high locals' unemployment. The high unemployment of the locals will affect the purchasing power of the locals, GDP depression, and eventually retards the growth of the country [25, 26].

Secondly, as most of the foreign workers are composed by unskilled workers that execute the work without proper training, the performance and outcome of the work often do not meet the desired outcome. The relationship between the skills and outcome is directly commensurate [6]. Furthermore, communication barriers and workers' attitudes also affect the productivity and quality of the product from the workers [4]. Thirdly, the employment of foreign workers can threaten the country in the social aspect, for instance, health. They may bring the risk of infectious diseases to the country, such as malaria and tuberculosis. The workers' countries of origin are mostly from the under-developed country, where the health system is not controllable. A lot of foreign workers dodge from the health screening before entering the country

[25, 27]. Lastly, criminal increases as there are a lot of illegals, so there is a higher chance to do criminal. Criminals that foreign workers involve are robbery, murder, raping, etc. Risk of trans-border terrorism raises the awareness due to the migration of the foreign workers from countries involving terrorism [25, 27].

8 Conclusion

This study concluded that foreign workers compose the integral workforce in Malaysian Construction Industry to support the success of the construction projects. Indonesia contributes the biggest number of foreign workers to the construction workforce. Contrarily, the local workers' unwillingness to be part of it denigrates the condition of the labour market, whereby, it can be seen that the composition of current workers in the construction industry is mostly composed by foreign workers. The foreign workers' employment brings great benefits to the industry as well as drawbacks. The benefits of it are the lower wages paid to the workers and the undaunted mentality of the workers. However, the benefit of the lower wages paid becomes a carrousel of a set of problems. Lower wages paid to foreign workers complicate the wage structure in the country, and lower wages paid may signify the proportionality of the amount of money paid of the low experience they possess, as most of the foreign workers are unskilled workers. In addition, foreign workers also threaten Malaysia in the area of social, political, and crime. In order to reduce the dependency to the foreign workers and to remedy the adverse effects of foreign workers' employment in Malaysian construction industry, there should be more structured strategies, regulations, and policies. Conviction to the local workers to join the workforce will help to erect the stability of the labour market in Malaysia. Besides, employment and immigration law, regulations, and policies have to be standing firm to constitute. Moreover, the foreign workers are required to have proper skilled training in order to meet the standards and requirements of the construction projects in Malaysia.

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