

Chapter 1: Introduction and Background

The East Asian economies were the role model for other developing countries in the early 1990s. It was the fact that the East Asian economic performance in the late 1980s and early 1990s was probably unprecedented at anytime by any group of economies of comparable size. The World Bank referred to this performance as the East Asian Miracle (World Bank, 1993). These countries achieved high economic growth with competitive exports, moderate inflation, high savings and an absence of significant fiscal imbalances. Malaysia was one of them. Malaysia was undoubtedly development success story.

Malaysia's rapid economic growth since 1988 was sustained through 1995. Between the years real gross domestic product (GDP) growth was generally above 8% per annum. It was generally recognized that Malaysia has strong macroeconomic fundamentals. Rising living standards, greater urbanization and access to health and education, and an improvement in the distribution of income accompanied the economic growth. Since 1987, after recovering from the recession in 1985-86, Malaysia's GDP growth averaged 8.9% per annum and inflation rate of 3.5% per annum, reaching virtual full employment by 1995. Malaysia's impressive decade-long growth record came to an abrupt halt during the Asian economic crisis, which occurred after the floatation of the Thai baht on 2nd July 1997. The fall of the Thai baht raised concerns about the resilience of the exchange rate arrangements in the region.

1.1 Background on the Malaysian Economy

1.1.1 1970s – 1995

Growth of real GNP averaged about 6.5 per cent per annum during the 1970s, but then slowed down in the first half of the 1980s falling to negative one per cent in 1985. This slowdown was partly a reflection of the New Economic Policy (1970 – 1987) base pro-distribution strategy. With better domestic macroeconomic policies and market-based reforms, the Malaysian economy has picked up again since 1987. Real GDP growth accelerated to over 8 per cent a year on average over the eight years up to 1995.

In the 1970s and early 1980s, Malaysian economic growth was predominantly accounted for by the expansion of service industries emanating from public sector activities and growth in primary production. In the primary sector, a rapid expansion of the palm oil sector, and a modest expansion of rubber production led growth performance in the 1970s. In the deregulated environment since the late 1980s, not only has there been a significant increase in growth, but also much of it has come from the expansion of manufacturing through private sector initiatives. Table 1 show the sectors growth performance and contribution to GDP from 1965 to 1996. The services sector which includes public and private sector services activities was a major contributor to the Malaysian economic growth through the years. Agriculture, forestry, logging and fishing sector was another major contributor towards the GDP from 1965 to 1980. From 1980s onwards there was a significant increase in the growth and expansion of the manufacturing sector. From 1985 to 1996 the contribution of manufacturing sector to GDP had increased from 19.7% to 33%. In addition, much of output and expansion in the services sectors in the recent years has been closely related to the expansion of the manufacturing sector.

Table 1: Sector Growth Performance: Contribution to GDP 1965-1996

Sector	1965	1970	1975	1980	1985	1990	1996
Agriculture, Forestry, logging and fishing	31.5	30.8	27.7	22.9	20.8	18.6	12.3
Mining and quarrying	9	6.3	4.6	10.1	10.5	9.7	7
Manufacturing	10.4	13.4	16.4	19.6	19.7	26.8	33
Construction	4.5	3.9	3.8	4.6	4.8	3.5	4.5
Services	44.6	45.6	47.5	42.8	44.2	41.4	43.2
Total	100	100	100	100	100	100	100

Note: Contribution of the services sector includes intermediate and final services
(Source: Bank Negara Malaysia, Department of Treasury and Statistics)

1.1.2 1996 – 1997

In 1996 real GDP growth rate averaged at 8.7%, inflation rate averaged at 3.8% and unemployment rate was only 2.5%. As at June 1996, Malaysian external debt of US\$45.2 billion or 4.2% of GDP was relatively low compared to other East Asian economies that had accumulated heavy external debt. Debt servicing ratios stood at 6.1% of exports. The banking sector was healthy with non-performing loans (NPLs) of only 3.6% of total loans (June 1997). National saving rate was 38.5% in 1996 (recorded to be one of the highest in the world).

Malaysia's success in achieving consistently high growth with price stability, was a result of the implementation of strong macroeconomic policies and strategies. Malaysia was successful in financing the country investment through domestic savings and high inflows of foreign direct investment. The increasingly high growth subsequently added pressures on the country's external and internal macroeconomic balances. Meanwhile the unstable development in the international currency market had also disturbed the local financial market.

1.1.3 July 1997 (The Crisis)

The Asian economic crisis started on 2nd July 1997, when Thailand devaluated its baht against the US dollar to defend its currency. Unfortunately when the devaluation was done, foreign investors backed out and the stock market dropped real estates prices declined and local currencies fell. Prior to the crisis, Asian countries had high inflow of capital investment. In 1996, Indonesia, South Korea, Malaysia, the Philippines and Thailand had received net capital inflows of around US\$95 billion. After the crisis broke out in 1997, the capital inflows reversed direction and an estimated US\$120 billion left these countries. The crisis caused massive capital movements and all of Southeast Asian currencies had depreciated tremendously against the US dollar.

As for Malaysia the ringgit started depreciating against the US dollar in July 1997 when the ringgit depreciated to an average of RM2.57 against US\$1. By the end of 1997 it plunged to RM\$3.77 against the US dollar. In early January 1998, the ringgit plunged astonishingly low to RM4.88 against the US dollar. Since then the ringgit had appreciated and was pegged at RM3.80 to US\$1 in September 1998.

1.2 Background on the Malaysian Labour Market

After Malaya's independence in 1957, its labour market was mainly influence by ethnic segmentation. The population was composed of three main ethnic groups, the Malays, Chinese and Indian. The economy was focused more on agricultural activities, with Malays being involved in rice farming and fishing. The Chinese labourers were brought in for tin mining and Indian labourers for rubber plantations. In 1970s, the New Economic Policy (NEP) was introduced to resolve ethnic imbalances in the distribution of wealth and income. Through educational policies and other forms of state intervention, the NEP managed to change the

boundaries of labour market segments. The pattern of labour supply has also been transformed, following the significant changes in labour supply. The expansion of industry and services had also influenced the labour market. New types of labour entrants such as woman and immigrants have substantially affected the adjustment processes of the labour market.

Unemployment for the first time received public attention as an important issue in Malaysia only in the early 1960s. A sample survey conducted by the Department of Statistics in 1963 reported the rate in Peninsular Malaysia at 6%. When the NEP was introduced in 1970, this rate had increased to 8%. In the early 1980s, the unemployment rate dropped to around 5.6% and continued to increase reaching a peak of 8.1% in 1987. From then on, the unemployment rate began to decline. By 1995 the economy reached virtual full employment with unemployment at only 2.8%. Table 2 shows a summary statistics on unemployment from 1980 – 1996.

Table 2: Summary Statistics on Employment and Unemployment, 1980 and 1985 – 1996

Year	Labour Force (‘000)	Labour Force Participation Rate			Unemployment Rate
		Total	Male	Female	
1980	5122	65.3	87.6	43.1	5.6
1985	6039	65.8	87.4	44.3	6.9
1986	6222	65.8	87.5	44.2	8.3
1987	6409	65.9	86.9	44.9	8.2
1988	6622	66.1	85.8	46.5	8.1
1989	6850	66.3	85.8	46.9	6.3
1990	7042	66.5	85.7	47.3	5.1
1991	7204	66.6	85.7	47.5	4.3
1992	7370	66.7	85.7	47.6	3.7
1993	7627	66.8	87.0	46.1	3.0
1994	7846	66.9	87.1	46.5	2.9
1995	8060	67.0	87.2	46.8	2.8

(Source: Ministry of Finance, Economic report (various issues))

It is interesting to note that the impressive employment record in Malaysia has been achieved in a context of rising labour force participation. This increase is a reflection of both rapid rate urbanization and the increased labour force participation of women. Most of the new employment has come from the rapid expansion of the manufacturing sector. The share of manufacturing in total labour deployment in the economy increased from 14% in the mid-1970s to over 25% in the mid-1990s. The direct contribution of manufacturing to total employment increment between 1987 and 1994 was as high as 60%. In addition, expansion in the service sectors in the recent years has been closely related to the expansion of the manufacturing sector. Table 3 shows the employment by sector distribution from 1976 - 1995.

Table 3: Employment by Sector, 1976, 1980, 1985, 1990 and 1995 (% shares)

Sector	1976	1980	1985	1990	1995
Agriculture, forestry and fishing	43.6	40.6	31.3	29.9	18.9
Industry	20.9	22.7	23.6	24.6	34.9
Manufacturing	14.2	15.8	15.2	17.6	25.5
Services	35.5	36.7	45.1	45.5	46.2
Total	100	100	100	100	100
('000)	4376	4817	5622	6682	8060

(Source: Ministry of Finance, Economic report (various issues))

1.3 Problem Statement

The Asian economic crisis started in July 1997, when Thailand devaluated its baht against US dollar to defend its currency. Unfortunately when the devaluation was done, foreign investors backed out and the stock market dropped real estates prices declined and local currencies fell. The crisis caused massive capital movements and all of Southeast Asian currencies had depreciated tremendously against the US dollar.

As for Malaysia the ringgit started depreciating against the US dollar in July 1997 when the ringgit depreciated to an average of RM2.57 against the US dollar. By the end of 1997 it plunged to RM3.77 against the US dollar. In early January 1998, the ringgit plunged astonishingly low to RM4.88 against the US dollar. Since then the ringgit had appreciated and was pegged at RM3.80 to US1 dollar in September 1998. Following the sharp depreciation of the ringgit, the Malaysian economy has changed significantly.

The full impact of the crisis was felt in the first quarter of 1998, when real GDP rate was -1.8%. Economic sectors such as construction, manufacturing, and services were badly affected and had to retrench workers. The Ministry of Human Resources reported that 83,865 employees were retrenched in 1998. It was noticed that employment opportunity had decrease after the crisis, this led to a rising unemployment rate form 2.6% in 1997 to 3.2% in 1998.

1.4 Objectives

This research will focus on the Malaysian labour market after the July 1997 economic crisis, and analyze the changes in the growth of employment, retrenchment, job opportunities and human resource development. The objective of this research is firstly to identify the economic sectors that had been affected by the crisis through their growth performance and contribution towards GDP. Further analyze whether there is a decrease in the employment growth in the economic sectors that have been affected by the crisis.

The second objective is to analyze the amount of labour being retrenched since 1997 until 2000 in Malaysia and the reasons given by employers for retrenchments. The next objective is to find out what are the alternative measures

taken by some companies to overcome the problem of retrenchments and how effective was the implementation of this measure.

The fourth objective is to analyze the measures taken by the government and employers to improve the employment growth by creating new job opportunities, reducing retrenchment rates and improving the skills and quality of labour force.

Finally to analyze the amount of labor available in the market and what type of labor force does the industry requires. To identify what of skills and qualification is in demand among the labor force.

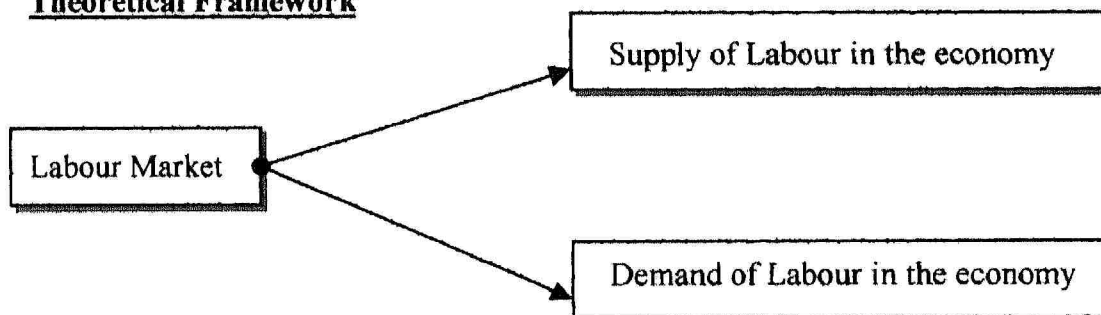
1.4.1 Specific Objectives to be analyzed

- 1) There was a decrease the GDP growth rates after 1997. This shows that the July 1997 economic crisis did affect the *Malaysian GDP growth* rates during the period of 1997–1998
- 2) There was a decrease in the *Malaysia labour force growth* in the period of 1997- 1998. This shows that the amount of labour force available in Malaysia had decreased.
- 3) There was a decrease in the *Malaysian employment growth* in the period of 1997-1998. This shows that employment opportunities in Malaysia had decreased.
- 4) There was an increase in the *unemployment rates* during the period of 1997-1998. Therefore this would indicate the number of unemployed labour force had increased after the crisis.
- 5) There was a decrease in *GDP growth by sectors* and *employment by sectors* from 1997 -1998. To identify the sectors that were affected by the crisis.

- 6) There was an increase in the number of retrenchments from 1997 – 1998. This shows that the crisis had an impact on the labour market by an increase in the number of *retrenchments* from 1997-1998. Therefore the crisis had caused retrenchments among the labour force and increase unemployment rates.
- 7) Some employers took *alternatives measures* on their workers to help reduce labour cost and overcome the crisis. This measures were taken base on the advice of the Ministry of Human Resources. To identify what alternative measure was taken.
- 8) To analyze the types of *labour force* available in our market, and what type of *skill and qualification is in demand among the labour force* in the market.

1.5 Methodology

Theoretical Framework



The labour market equilibrium is influenced by the supply and demand of labour in the economy. The supply of labour in the economy can be measured through labour force growth and the demand of labour in the economy can be seen through employment growth.

If the labour force growth exceeds the employment growth then there will be an increase in the unemployment rates. On the other hand if the employment growth exceeds labour force growth, the economy faces a shortage of labour.

Secondary Data

In this research secondary data is used to analyze the impact of the July 1997 crisis on the labour market and identify whether the economy faced an oversupply or shortage of labour.

This research will compare and analyze data in the period of 1995 to 1999. In this period of years, we can compare the economic performance of the country before and after the crisis. We will analyze the impact of the crisis to our economy and labour market by focusing on the years 1997 and 1998;

- 1997 is the year when the crisis started
- 1998 is the year where the immediate effect of the crisis can be seen

The period of 1995 to 1996 is the years before the crisis, when Malaysia was having rapid economic growth. As for 1999 is the year of recovery from the crisis based on some effective measures taken by the government.

Method of Analysis

The first analysis of this research will compare and analyze Real GDP growth from 1995 – 1999. Through this analysis, we can see the changes in our economic growth before and after the crisis to see whether the crisis had a significant impact on the GDP growth. Next we will analyze the impact of the crisis on the labour market through the labour force growth, employment growth and unemployment rates from 1995 – 1999.

To identify the economic sectors affected by the crisis, this research will analyze the GDP growth by sector and employment by sectors from 1995 to 1999. This analysis look into sector growth performance and the amount of labour employed by each sector.

It was reported that one of the major impacts of the crisis to the labour market was retrenchment. This research paper will focus on the amount of retrenchments on a quarterly and annually period from 1996 to 2000. This analysis specifically focuses on the impact of the crisis on retrenchments from 1998 to 1999.

Further to this analysis this research will also look into the reasons given by employers for retrenchments; and also some alternative measures taken by the employers for retrenchments in 1998 and 1999.

Another factor, which will be analyzed in this research, is the supply and demand of labour force in the market during the crisis. This analysis will focus on the number of new registrants, vacancies and placements reported to the Ministry of Human Resources from 1997 to 1999. The Manpower Department of the Ministry provides this statistics.

All of the analysis in the research is done using Microsoft Excel worksheet. Comparison of economic data between the years will be analyzed using tables, graphs and charts. All of the economic data being analyzed in this research are based on secondary data findings.

1.6 Sources of Data

The Secondary data for this research is obtain from various reports such as :

- i) Labour Market Report 1998 and 1999 published by the Ministry of Human Resources, Malaysia.
- ii) Economic Report 1998/1999 published by the Ministry of Finance, Malaysia.
- iii) Economic Report 1999/2000 published by the Ministry of Finance, Malaysia.
- iv) Mid-term Review of the Seventh Malaysia Plan, 1996-2000 published by the Economic Planning Unit, Prime Minister's Department Malaysia
- v) Labour Market Trends (quarterly) 1999 and 2000 published by Manpower Department, Ministry of Human Resource, Malaysia.

1.7 Limitation of Study

A few limitations was identified in this study:

- i) All statistics obtain for this analysis from 1995 to 1999 is from many different reports and publications. Some reports had provided estimated or forecast figures especially for the year 1999. However this research only used the figures obtain from the latest reports to provide the precise figures for this year.
- ii) The retrenchments recorded in 1996 and 1997 might not be accurate since reporting of retrenchment by employers was only made compulsory in February 1998.
- iii) Information for retrenchments by sector and reason for retrenchment for 1996 and 1997 could not be obtain as reporting of retrenched workers during this two years was not compulsory.

- iv) Alternative measures taken by employers instead of retrenchments were made compulsory to be reported to the Labour Department of the Ministry of Human Resources only in August 1998. Therefore any alternative measures taken by employers before this period cannot be obtained.
- v) The number of vacancies reported to the Ministry in 1997 only represents a portion of the actual number of vacancies in the labour market since employers were not required to report them to the Department of Manpower during this year.
- vi) Many job seekers had found placements by themselves and had not reported it to the Department of Manpower.

1.8 Significance

This research will contribute towards human resource development by analyzing on the Malaysian labour market. This research will be of benefit to :

1) Academicians

Academicians in the area of labour market or labour force development can use this research as a reference material. It can also be used as a resource material to explain to students on the recent developments in the Malaysian labour market and the changes in the labour force.

2) Researchers

Researchers in the area of labour market/ labour force/ labour economics/ human resource developments will find this research useful as a reference material. This research will provide the overall look on the recent developments in the labour market (since 1997), analyzing on the changes in labour force and employment in

Malaysia. This topic is relatively new, it may act as a literature review for future researchers done in this area.

3) The government

The government sector, which is represented by the Ministry of Human Resource, can use this research paper to keep track on the recent developments in the labour market and changes in the employment opportunities in Malaysia.

1.9 Organization of Study

This research is divided in 4 sections. Chapter 1 provides the introduction to the research, the background of the Malaysian economy and labour market. In this chapter the problem and the objectives of the research is identified. The methods of analysis and source the data used in the analysis, limitations in this research and the significance of this research is also included in this chapter.

Chapter 2 covers the Literature Review for this research. In this chapter the studies from various departments and countries related to the research topic is identified.

Chapter 3 provides the analysis of this research. The analysis is done based on the objectives stated in the first chapter. Each analysis has an explanation, to help to understand further analysis.

Finally chapter 4 will identify the impact of the analysis from the previous chapter and some recommendation that can be implemented to overcome the problem.