

Chapter 4: Impact and Recommendation

4.1 Impact of the crisis on the labour market

Base on the analysis in this research, we can see that the July 1997 economic crisis had severely affected the Malaysian economic growth and development. Further to this, the labour market was also affected by the crisis. The impact of the crisis can be clearly seen by comparing 1997 and 1998, because the crisis had only started in July 1997. In short, a summary of the analysis clearly shows the impact of the crisis;

- i) The Malaysian real GDP growth had decreased from 7.7% in 1997 to – 7.5% in 1998. This shows that the Malaysian economic was adversely affected by the July 1997 economic crisis. The real impact was seen in the first quarter of 1998 and continued throughout the year.
- ii) Labour force growth had decreased from 4.6% in 1997 to –1.7% in 1998, due to the July 1997 economic crisis. The government had to repatriate foreign labour since early 1998 because of the uncertainties in the economy.
- iii) Employment growth had also declined from 4.6% in 1997 to –2.5% in 1998 due the economic crisis problem, the government had frozen the recruitment of foreigners in all sectors.
- iv) GDP growth by sectors, shows that the most affected sectors from the economic crisis were;
 - a) Construction sector was severely affected with declining growth from 9.5% in 1997 to –23% in 1998.
 - b) Manufacturing sector growth declined from 12.5% in 1997 to –13.7% in 1998.

- c) Agriculture, forestry and fishing sector growth declined from 1.3%(1997) to -4.5%(1998).
- v) Employment by sectors also shows that the manufacturing, construction and agriculture, forestry and fishing sectors had decreased in employment, because these sectors were the most affected by the July 1997 economic crisis.
- vi) Retrenchment rates massively increased from 18,863 workers in 1997 to 83,865 workers in 1998. Fifty four percent of the retrenchments were from the manufacturing sector. Most employers stated that reduction in demand for product as the main reason for retrenchment, some stated high production cost. All reason given by the employers was because their organization was affected by the July 1997 economic crisis.
- vii) Many employers who had not retrenched workers had either frozen recruitment during the crisis or resorted to alternative measures such as pay-cut, voluntary lay-off and voluntary separation scheme. From August to December 1998 a total of 1,183 employers had resorted for this alternative measure instead of retrenchments.
- viii) As for the supply and demand of labour in the market in 1997 and 1998, the number of registered job seekers had increased by 32.7% from 1997 to 1998, this increase was due to the economic crisis. Many job seekers had registered with Department of Manpower for assistance to obtain jobs because of the limited job opportunities available in the market during the crisis. The number of vacancies reported had also increased by 15.7% from 1997 to 1998. The vacancies were mostly for non-professionals in the manufacturing activities for export oriented industry. As for placement of registrants there was a decrease by -13.8% from 1997 to 1998, this was because many employers had frozen recruitment during the crisis and there

was a mismatch in the requirements of the employers for jobs and the qualification of the job seekers.

Some of the effects of the July 1997 economic crisis on the labour market were similar to the effects of the mid-1980s recession such as;

- There was an increase in the unemployment rate during both the recession period and supply for labour exceeded the demand for labour in the economy.
- Employment growth during both the recession period was below the labour force growth
- There was a sharp increase in the number of retrenchments from 1983 to 1986 and from 1997 to 1998

However in the year 1999, the GDP growth was 4.3% and labour growth had increased to 1.5%. Employment growth had also increased to 1.7%. GDP growth by sectors had improved in 1999 to mostly positive figures. Employment by sectors had also increased in all sectors in 1999. This shows that the economy was recovering in 1999. Retrenchments had decreased by 55% from 1998 to 1999 (37,357 workers). Employers using alternative measures for retrenchments had reduced to 792 employers for 1999. As for the supply and demand of labour in 1999, registered job seekers had only increased by 1.3% from 1998 to 1999 because many job seekers had found jobs in 1999. The number vacancies reported had increased by 45.2% from 1998 to 1999. This was a clear sign that the labour market was also recovering from the crisis. The placements of registrants had only increased slightly because many job seekers had found placements by themselves and had not reported it to the Department of Labour. The improvements in the economic growth and labour market in 1999 shows that the Malaysian economy was already recovering from the crisis.

4.2 Recovery Measures

The analysis clearly shows that the July 1997 economic crisis had a significant impact on the economic growth and labour market in Malaysia. However, the impact was only significant in 1998. From the analysis we can see that in 1999 the country was also recovering from the crisis. The recovery was mainly because of the intensive measures taken by the government and Ministry of Human Resources in 1998 and 1999 to help the country. Some of the measures which deserves special mention are:

i) Measures taken by the government to deal with the crisis.

In order to deal with the financial crisis and stabilize the economy the government adopted a series of policy measures. It aims is to reduce current account deficit, strengthen balance of payment and fiscal account, improve competitiveness, increase monetary and financial stability, strengthening economic stability and instilling confidence in the financial system. In January 1998 the National Economic Action Council (NEAC) was formed to assist the government to deal with economic problems and restore the economic. The NEAC was established to assist in policy formulation and implementation of short-term and medium-term strategies in order to:

- ❖ Restore public and investor confidence, particularly that of foreign investors with regard to the economy which is still fundamentally strong;
- ❖ Ensure that the country does not enter into an economic recession as a result of the decline in the value of the ringgit and the fall in the share market;

- ❖ Revive the national economy and make it competitive globally by implementing decisions of the NEAC with regard to enhancing international competitiveness; and
- ❖ Strengthen the economic base of the country so as to achieve a developed nation status through rapid and sustainable economic growth.

The NEAC prepared a National Economy Recovery Plan in order to provide a comprehensive framework for the economic recovery. In July 1998, the NEAC announced the comprehensive Economic Recovery Plan that focused on 6 key areas:

- Stabilizing the Ringgit
- Restoring Market Confidence
- Maintaining Financial Market Stability
- Strengthening Economic Fundamentals
- Continuing the Equity and Socio-Economic Agenda
- Revitalizing Affected Sectors

Another important measure taken by the Government was to implement the recovery plan through the implementation of selective capital and exchange control measures. Malaysia had adopted a mild and limited form of capital control. These measures are aimed at containing speculation on the ringgit and minimize the impact of short-term capital inflows that are considered to be the main source of economic problem. One measure of capital control is to bring back stock trading to Malaysia to stop the slide in the currency & shares.

The exchange control measures are aimed specifically at eliminating access to ringgit by speculators by reducing the offshore market in ringgit, limiting the

supply of ringgit to speculators. The controls are also aimed to stabilizing short-term-capital inflows, by requiring inflows of capital to remain in the country for a period of 12 months.

Selected exchange controls introduced to insulate the domestic economy from global financial crisis that provide the economy some breathing room to recover. It allows the Government to ease interest rates and raise domestic demand without destabilizing the ringgit further. Foreign exchange stability makes's it crucial for us to implement the other policy reforms including bank and corporate restructuring. A stable exchange rate allows businessmen to plan ahead without having to worry about currency fluctuations. Having this control measure makes it easier to implement other action measures recommended in the plan.

ii) Measures undertaken by the Ministry of Human Resources (MHR)

The measures undertaken by MHR cover the following aspects:

- Established a mechanism for collecting labour market information on retrenchment, vacancies, job seekers, strikes and pickets by the Department of Manpower
- Stepped-up efforts in providing employment services to retrenched workers
- Enhanced consultation/counseling services to employers and employees involved in the retrenchment
- Increase training and retraining activities of workers as alternatives to retrenchment and established a Training Scheme for Retrenched Workers.

Details of some efforts undertaken by Ministry of Human Resources are as follows:

1. It was made mandatory for employers to report any retrenchment to the nearest Labour Office, with effect of 1st February 1998.

2. Provide a Guideline on Retrenchment for employers and workers involved in retrenchment
3. Pay-cuts, temporary lay-off and voluntary separation scheme became subject to mandatory reporting, with effect of 1st August 1998.
4. Employers involved in retrenchment have been encouraged to provide services such as interview techniques, counseling and career guidance to assist workers in finding alternative jobs. The Ministry of Human Resources also provides in-situ service to employers and workers in various aspects such as statutory retrenchment benefits, registration and emplacement to alternative jobs. The departments also act as intermediaries in settling any problems that arise thereof. In this case, most of the workers were able to secure alternative jobs before the actual effective date of retrenchment.
5. Established a Task Force on Retrenchment at national level, forums were held comprising of representatives from relevant Government departments, employers and workers' unions
6. Established Task Force at state and district level where the Department of Labour and Manpower Department jointly register retrenched workers seeking alternative employment
7. Encourage training and retraining of workers as alternative to retrenchment via:
 - (a) exemption from paying Human Resource Development Council (HRDC) levy to employers facing financial difficulties effective 12 February 1998;
 - (b) credited unclaimed levy amounting to RM66 million to employers' account to encourage employers to continue training their workforce even during the economic downturn;
 - (c) established a Training Scheme for Retrenched Workers under HRDC with an initial allocation of RM5 million in May 1998. Workers retrenched

from sectors covered by HRDC are eligible to apply for training for any courses up to diploma level. As of 31 December 1998, 572 applications were approved with financial assistance of RM2.52 million;

8. Ensuring that employers pay retrenchment benefits to their workers.
9. Amended the Employment Act 1955, effective 1 August 1998, where employers are required to retrench foreign workers before retrenching the local workers. This step is taken to ensure that the job opportunities of local workers are secured.

4.3 Recommendation

We have seen that the 1997 economic crisis had impacted the labour market in 1998 by increasing the unemployment rate to 3.2% and many workers were retrenched. Employment opportunities were also very low compared to the supply of labour force. In 1998 and 1999 various measures were taken to help the economy and labour market to recover. Although there were signs of recovery in the labour market in 1999, graduate unemployment was a major problem. There was a high increase in the number of registered job seekers reported for professionals from 1997 (5634) to 1999 (15396). However the vacancies reported for professionals from 1997 to 1999 only increase from 1574 to 1702. The overall analysis shows that the placement of professionals were also very low due to the mismatch in position chosen by the professional job seekers and vacancies in the labour market. Although the labour market had improved and unemployment rates had decreased after 1998, the employment opportunities for professionals is still a problem and need to be addressed.

In the 7th Malaysia Plan (1996-2000) it was mentioned that in order for Malaysia to move towards a high technology industry-based economy, it would require a

pool of technical and professional manpower. Furthermore, Malaysia is now moving towards achieving K-Economy (Knowledge-based economy). In the Malaysian context, K-economy is define as:

- a) optimal and ever increasing use and application of knowledge in all sector of the economy
- b) Development of viable, profitable and high value added knowledge intensive industries.

The government is now focused towards adapting and embracing the information age, therefore there is an urgent need for Malaysia to have a sufficient amount of knowledge or skilled labour force to help the country. Although there had been an increasing trend for the supply of professional labour since 1997, unfortunately most of the professional labour force available does not fit into the category of technical, knowledgeable or skilled. Therefore, the problem arises that the demand for professional worker in the industry does not match the qualification of the labour force available. Furthermore majority of the professional labour force available are fresh graduates without any working experience. Therefore, Malaysia still lacks on experienced high skilled, professional and technically knowledgeable workers.

Multimedia Development Corporation (MDC) defines knowledge workers as individuals possessing any one of the following qualifications;

- 5 or more years of professional experience in multimedia/Information Technology

- Bachelor degree (any discipline) or Diploma in multimedia/Information Technology from a college, plus 2 or more years of professional experience in multimedia/Information Technology
- A masters' degree or above in any discipline

It was noted in the 7th Malaysia Plan that the training capacity of the public and private sectors was not sufficient to meet the strong demand for Information Technology (IT)-related workers. One problem that was identified was the potential shortages of IT manpower in the future. Another concern was also on the schooling system, where creative thinking should be given importance.

Malaysia currently lacks on adequate professional and skilled labour. We also require a supportive education and training system. There should also be an increase in job opportunities for professional labour force. Base on the analysis of this research some recommendations can be taken into consideration as Malaysia moves towards achieving K-economy and globalization:

i) The education and human resource development system need to be changed. We must ensure that all Malaysian are well skilled and educated. They must be capable of using their knowledge and creativity and also be able to participate in the new industries of the future. There must be a willingness to explore, learn from others and create new innovations. Learning will be a lifelong process.

ii) Encourage firms and individuals in training and developing and appropriate education and training policies to promote a 'learning society'. The number of graduates in Malaysia has been increasing, however only a very small percentage of them are IT graduates. Therefore, there will be a need to provide training to the graduates to create a more technically skilled workforce. Furthermore, the present

workforce available both in the public and private sector lacks IT and technical knowledge. Public and private organizations should provide adequate training for their employees to ensure that they will also be as competent as the future workforce will. This will also help create more experienced technologically skilled labour force.

iii) The problem of mismatch between supply and demand for professional and skilled labour force has to be addressed by both public and private sector. Public and private organizations should be clear on what type of labour force they require. Although there has been an increasing supply of professional labour force, two important issues will have to be considered:

- Suitable mix in terms of level of qualification and area of specialization. The right mixes are the one compatible with the industry demand.
- Ensuring that quality education and training is provided at every level of programs. The education and training provided must be related to the industry requirements.

iv) Encouraging the labour force to be knowledgeable and innovative and improving the education and training system are measures taken towards improving the quality and supply of the labour force. There is a need to increase the demand for professional and skilled labour force. The country should move towards a more high value-added and knowledge- intensive activity. Private sector should be encouraged to move towards knowledge-intensive activities in order to create more demand for professionally skilled labour.

v) In the 8th Malaysia Plan (2001 –2005), the government had proposed to use education and training to boost K-economy. The education system will be

improved to meet the demand for highly skilled workers. Finally the government plays an important role in the development of the countries labour force. The government has to maintain a sound macroeconomic policy towards achieving a stable economic growth. At the same time create a learning society and manage social problems within the country. As Malaysia moves towards achieving K-Economy and globalization, proper planning and management is required by the government to help the people and country. Perhaps the government can start creating a knowledgeable, creative and innovative work force within the public sector.

4.4 Conclusion

It can be conclude that the Malaysian economy still has weakness in the supply and demand side for highly skilled and technology knowledgeable labour force. With the upcoming challenges of K-Economy (Knowledge base economy), globalization and liberalization there will be rapid changes and development in the economy. Therefore the labour force will have to upgrade themselves to suit the changes in the developing economy.