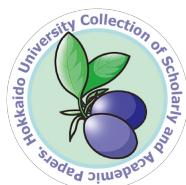




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The Labor Market of Malaysia

— A Case Study of the Kuala Lumpur Metropolitan District —

Kensuke Miyamoto

One of my research subjects is to cross-nationally compare the labor markets at the forefront of development in Asia. This paper examines the structure of the domestic market in Malaysia and the development of the international labor market that centers on Malaysia.

The formations of the diversified labor market in the contemporary Southeast Asia have shown unique evolutions with interactive relation between the specific indigenous socio-institutional factors and the market principles that pervade with an impact mainly from foreign direct investments. In addition to the stratification of the domestic labor markets of Malaysia, the multi-layered markets become prominent internationally causing widening of the labor gap.

JEL Classification: J41, J31, J71, J81

Keywords: International Division of Labor, Bumiputra Policy, Segmented Labor Market, Japanese-style Management/Production System

Preface

Most scholars in the field know that the economic program that has characterized modern Malaysia is called Bumiputra policy. In the wake of the anti-Chinese riots of 1969, the Malaysian government hammered out its “New Economic Policy” (NEP), and Bumiputra policy was established as its core. Since 1971, with the aim of correcting racial gaps in income and wealth amongst the three ethnic groups of Malays, Chinese, and Indians, the government has implemented policies on fund loans and authorization for commercial and industrial promotion, employment and educational opportunities, and land ownership through the promotion of agricultural endowments of allotment/privilege in favor of Malays. The employment policies have also aimed to reflect the population ratio by race in the composition of employment distribution by industry/profession. (In general, the policies were targeted to raise the ratios of Malays in corporate management and share capital holding to 30%.)

According to the Government of Malaysia's latest demographic statistics, the population of the major three ethnic groups in 1995 comprised Malays 57.8%, Chinese 25.6%, and Indians 7.2%, out of a total population of 20.69 million (*Seventh Malaysian Plan 1996-2000* [1996]). The historical starting point of what has become the heterogeneous nation, Malaysia, was, as we all know, the monoculture economy specializing in tin and rubber that was established in the 19th century during the British colonial era. While taking a conciliatory

approach to the Malay sultans, the British colonial government was able, through the intermediary agency of the Chinese leaders throughout the peninsula, to dispatch a massive number of indentured immigrants from the Chinese continent to the tin mines, while people of lower castes and outcastes were procured by Kanganies (Indian agents) from the Tamil region in India to work in the rubber plantations. Subsequently, under the colonial government's policy of profession-classified ethnic separation, Chinese residents who settled in Malaysia advanced into such fields as small-and-medium-scale commerce, trading and finance, while the Malays specialized in small-scale farm management and local government, and the Indians worked as laborers on farms or in transport and construction. Such was the historical background of the multiethnic society and race-dividing employment structure that stemmed from the monoculture-type colonial economy peculiar to Malaysia, and that the postwar Bumiputra policy was focused on dissolving.

As we noted in a previous manuscript (part 1 of this research), the basic trend in development and industrialization policies of Southeast Asian nations began, in the 1980s, to shift from import-substituting industrialization to export-oriented industrialization, although some differences among nations may naturally be seen. Malaysia adopted multiple development strategies to increase the ratio of export-oriented industries: by the Promotion of Investments Act of 1986, it sought to further export-oriented industrialization through substantial deregulation of foreign capital restrictions (e.g. deregulation of investment restrictions and licensing conditions of 100% foreign enterprises) and the privatization of public corporations, while simultaneously it firmly maintained alternative import substitutes in parts of the heavy industry sector (such as the automobile industry). Since the late 1980's, with the deregulation of foreign capital restrictions, the older conventional investing nations of occidental countries (such as the U.K. and the U.S. mainly in resource-processing industries) have mostly been replaced, and quite a number of Japanese and Taiwanese multinational enterprises have advanced into the export-oriented electric/electronics industries. Since then, the fields open to foreign capital investment have also been expanded from conventional resource-processing/labor-intensive sectors to such capital/technology intensive sectors as machinery and the electric industries (the labor-intensive sector coexists in the mass production process of electric/electronics industries). The government has also successively designated and prioritized regions for development, industrial complexes, free-trade zones, while a variety of preferential tax incentives have been offered for enterprises locating themselves in government-designated areas. Although we might regard a policy of inviting foreign investment as running counter to capital adjustment under Bumiputra, the Mahathir concept estimated that trickle-down (penetration) effects based on a growing economic pie would moderate Chinese-Malaysians' grievances over the distribution of wealth and income while it would also boost Malay-Malaysians' economic power. As Prime Minister Mahathir's 1991 statement "Vision 2020 (Wawasan 2020)" plainly suggests that it would, Malaysia has, since the 1990s, centered its economic policies upon sustainable economic

growth (targeted annual rate: 7%) and high-tech industrialization.

Malaysia's Achilles tendon, however, is not only the disparity of the domestic racial structure, but also the intensification of the racial issues that have arisen as a result of the introduction of foreign laborers to cope with a serious labor shortage, and the primary objective of this paper is to grasp the characteristics that are attributed to Malaysia's labor market. In short, it is of vital importance to understand the segmentation of Malaysia's labor market as an issue that not only has to do with the qualitative composition of labor in such terms as the formation of academic-background/skill, but on the labor market of a heterogeneous society. Furthermore, the problem of Malaysia's multi-ethnicity has now gone well beyond the issue of the three ethnic groups with Malaysian nationality to that of races and labor conditions related to the mass influx of foreign laborers to compensate for the labor shortage. In other words, this development widens the analytic angles to take in the global labor market that here centers on Malaysia. This paper looks at the segmental structure of Malaysia's labor market from this standpoint as a workforce structure of three domestic ethnic groups considered under Bumiputra policy and that of a multiethnic society that has to subsume large numbers of foreign laborers.

An overview of socioeconomic research on present-day Malaysia reveals that researchers' interests have been concentrated on analyses of Bumiputra policy since this is considered to be the chief feature of Malaysia's nation building and its related projects, along with analyses of statutory companies represented by the National Car Project, and the success and failure of the small-and-medium (subcontracting) enterprise development policy that the government has been vigorously promoting. The following papers are particularly beneficial: Horii (ed.) [1989] and [1991], and Hagiwara [1989] offer outlines of Malaysia's development & industrialization and its Bumiputra policy, while Hara (ed.) [1994] and [1995] stress the importance of the relationship between Bumiputra policy and formulation of business groups; Anazawa [1998] and [2000] discusses small-and-medium-sized subcontracting enterprises, while Ikuta et. al. (eds.) [2000] offer a theoretical model to cover the Kuala Lumpur metropolitan area. Yet they rarely present full-fledged analyses of the labor market. Among the few who do, Yoshimura [1998] deserves attention. Yoshimura [1998] is a case study based on an on-site fact-finding survey of the labor force structure in Japanese-affiliated firms and farm enterprises, and its objective is an analysis of segmentation (segmented characteristics in this paper) of the labor market that includes foreign laborers as well as Malaysians (the three domestic ethnic groups). Although some of Yoshimura's arguments overlap with some in this paper, we here make use of a field survey conducted after the Asian economic crisis to argue for the relationship between the economic crisis and racial issues in the labor market. Furthermore, Yoshimura scarcely ever takes into consideration what is the objective setting of this present paper, which is to pay special attention to theories that relate to Japanese-style management and to the production system defined as that of broadly-defined labor market and issues that focus on the source of workforce supply.

The present author carried out his fact-finding survey in the Kuala Lumpur metropolitan area in August 2000 (see Figure 1).

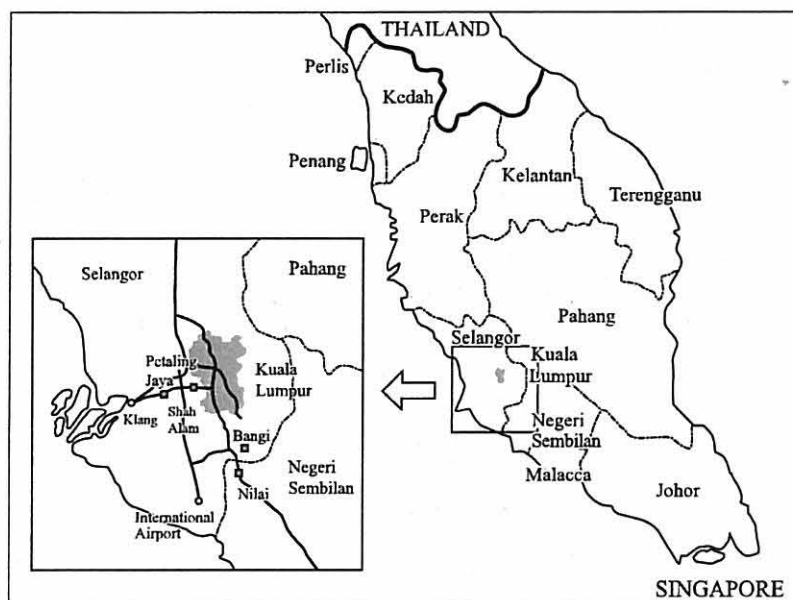


Fig 1. West Malaysia, Kuala Lumpur Metropolitan Area

I. Conversion of the Industrial Structure and Labor Force Structure by Race

1. Labor Force Structure

This chapter utilizes macro statistics to overview the main characteristics of the labor force structure. The official workforce population of Malaysia is approximately 8,000,000, a figure which does not include illegal foreign workers, estimated as 1,500,000 or even 2,000,000; consequently, the official data do not adequately reflect the real status of the labor force structure as it encompasses foreign workers. Keeping this in mind, let us now, before going any further, examine all the characteristics that macro statistics enable us to deduce.

Table 1 indicates the changes in labor force population by industry. A prominent feature of the transition of the labor force population in the early 1990's is the unconditional decline in the laboring population in agriculture /forestry, and the increase in manufacturing and construction, followed by commerce and finance. During 1990, and through 1995, the additional labor demands in the manufacturing industry are outstanding; the labor force in manufacturing reached 25% of the total employed and accounted for 60% of the additional labor demand.

Table 2 shows the 1995 labor force population by industry for each racial group: Malays accounted for 52.4% in the population ratio of the labor force;

Table 1 . Malaysia: Changes in Labor Force Population by Industry

(Unit: 1,000 persons)

	1990		1995		Additional Labor Force (1990-1995)	Mean Annual Growth Rate (%) (1990-1995)
		Composition Ratio (%)		Composition Ratio (%)		
Agriculture/Forestry	1,738.0	26.0	1,428.7	18.0	-309.3	-3.8
Mining	37.0	0.6	40.7	0.5	3.7	1.9
Manufacturing	1,333.0	19.9	2,051.6	25.9	718.6	9.0
Construction	424.0	6.3	659.4	8.3	235.4	9.2
Electricity/Gas/Water	47.0	0.7	69.1	0.8	22.1	8.0
Transport/Communication	302.0	4.5	395.2	5.0	93.2	5.5
Commerce/Hotels/Restaurants	1,218.0	18.2	1,327.8	16.8	109.8	1.7
Finance/Insurance/Real Estate	258.0	3.9	378.5	4.8	120.5	8.0
Governmental Services	850.0	12.7	872.2	11.0	22.2	0.5
Others	479.0	7.2	692.2	8.7	213.2	7.6
Total	6,686.0	100.0	7,915.4	100.0	1,229.4	3.4

(Source) Percetakan Nasional Malaysia Berhad, Seventh Malaysia Plan 1996-2000.

Table 2 . Malaysia: Labor Force Population by Industry in Each Race (as of 1995)

(Unit: 1,000 persons)

	Malay		Chinese		Indian		Others	
		Composition Ratio (%)		Composition Ratio (%)		Composition Ratio (%)		Composition Ratio (%)
Agriculture/Forestry	887.2	21.4	175.7	7.3	92.9	14.0	272.9	38.5
(Composition Ratio)	(62.1)		(12.3)		(6.5)		(19.1)	
Mining	23.8	0.6	8.5	0.4	4.7	0.7	3.7	0.5
(Composition Ratio)	(58.4)		(20.9)		(11.3)		(9.1)	
Manufacturing	1,038.0	25.0	634.0	26.4	242.1	36.5	137.5	19.4
(Composition Ratio)	(50.6)		(30.9)		(11.8)		(6.7)	
Construction	252.5	6.1	281.6	11.7	33.0	5.0	92.3	13
(Composition Ratio)	(38.3)		(42.7)		(5.0)		(14.0)	
Electricity/Gas/Water	51.1	1.2	6.5	0.3	9.8	1.2	3.7	0.5
(Composition Ratio)	(73.9)		(9.4)		(11.3)		(3.4)	
Transport/Communication	210.6	5.1	118.2	4.9	48.2	7.3	18.2	2.6
(Composition Ratio)	(53.3)		(29.9)		(12.2)		(4.6)	
Commerce/Hotels/Restaurants	488.6	11.8	674.5	28.1	85.0	12.8	79.7	11.3
(Composition Ratio)	(36.8)		(50.8)		(6.4)		(6.0)	
Finance/Insurance/Real Estate	171.5	4.1	160.9	6.7	36.3	5.5	9.8	1.4
(Composition Ratio)	(43.3)		(42.5)		(9.6)		(2.6)	
Other Services	1,021.6	24.7	339.5	14.2	112.6	17.0	90.7	12.8
(Composition Ratio)	(65.3)		(21.7)		(7.2)		(5.8)	
Total	4,144.9	100.0	2,399.4	100.0	664.6	100.0	708.5	100.0
(Composition Ratio)	(52.4)		(30.3)		(8.4)		(8.9)	

(Source) Percetakan Nasional Malaysia Berhad, Seventh Malaysia Plan 1996-2000.

compared to the Chinese and the Indians, the Malay ratios in agriculture/forestry and mining remained high, while delay in their advancement in such service sectors as commerce and finance was a salient feature. The Chinese made up 30.3% of the population ratio of the labor force yet surpassed by far the ratio by race in the sectors of construction, commerce, and finance. The Indians accounted for 8.4% of the labor force, and although they exceeded the racial population ratio in mining, manufacturing and transport/communication, we notice no extreme concentration on specific industries, as we are able to do with the Chinese. Legal foreign laborers, of which the majority was probably included in the "others" category, accounted for 8.9%, around 710,000 of the total labor force, though we estimate that the number of illegal workers who have not been included in the statistics heavily outnumbers this figure. While many foreign workers were found, as was to expected, in agriculture and construction work, since these are considered to be the major job openings for foreign laborers, the composition ratio in the manufacturing sector recently opened to foreign laborers was nonetheless also high (a point we discuss later).

Since, along with the composition by industry, the composition by occupation is also of importance in examining the labor force structure of the three domestic ethnic groups, let us observe Table 3, which shows the labor force population by occupation for each racial group (1995). Besides their traditional role in agricultural labor, Malays marked higher composition ratios than the racial population rate in professional/technical works, clerical works, and services, but a rather low ratio in production labor. We may thus conjecture that

Table 3 . Malaysia: Labor Force Population by Occupation in Each Race (as of 1995)

(Unit: 1,000 persons)

	Malay		Chinese		Indian		Others		Total	
		Composition Ratio (%)		Composition Ratio (%)		Composition Ratio (%)		Composition Ratio (%)		Composition Ratio (%)
Professional/Technical	524.3	12.7	213.6	8.9	59.5	9.0	17.9	2.5	815.3	10.3
(Composition Ratio)	(64.3)		(26.2)		(7.5)		(2.2)		(100)	
Management/Administrative	77.1	1.9	116.9	4.9	10.9	1.6	8.8	1.3	213.7	2.7
(Composition Ratio)	(36.1)		(54.7)		(5.1)		(4.1)		(100)	
Clerical	457.3	11.0	275.0	11.5	61.6	9.3	5.6	0.8	799.5	10.1
(Composition Ratio)	(57.2)		(34.4)		(7.7)		(0.7)		(100)	
Sales	323.8	7.8	464.2	19.3	58.1	8.8	48.3	6.8	894.4	11.3
(Composition Ratio)	(36.2)		(51.9)		(6.5)		(5.4)		(100)	
Service Labor	571.2	13.8	223.8	9.3	85.4	12.9	101.3	14.3	981.7	12.4
(Composition Ratio)	(58.2)		(22.8)		(8.7)		(10.3)		(100)	
Agricultural Labor	1,049.3	25.3	214.0	8.9	124.6	18.8	274.3	38.7	1,662.2	21.0
(Composition Ratio)	(63.1)		(12.9)		(7.5)		(16.5)		(100)	
Production Labor	1,141.9	27.5	892.1	37.2	262.5	39.6	252.1	35.6	2,548.6	32.2
(Composition Ratio)	(44.8)		(35.0)		(10.3)		(9.1)		(100)	
Total	4,144.9	100.0	2,399.6	100.0	662.6	100.0	708.3	100.0	7,915.4	100.0
(Composition Ratio)	(52.4)		(30.3)		(8.4)		(8.9)		(100)	

(Source) Percetakan Nasional Malaysia Berhad, Seventh Malaysia Plan 1996-2000.

Malays have entered the upper labor market (such as large-scale manufacturing industries, finance and information service industries, the labor market that mainly hires highly-educated workers). On the other hand, the Chinese show a remarkably high composition ratio in management/administration, followed by such service sectors as sales, while the Indians are characterized by high ratios in service and production work; overall, however, we have found no extremes of uneven distribution in the composition by occupation. As we might expect, the foreign workers grouped together as "others" take on the duties of agricultural, service and production labor.

While Table 3 shows that, amongst the racial populations, the Malays have a higher ratio in professional/technical works, Table 4 offers a rather different perspective that allows us, to some extent, to go into more detail with regard to the race-specific labor force compositions of high-skill professional/technical jobs. According to Table 4, the racial composition of high-skill professional/technical jobs differs substantially from that of the total labor force composition. Furthermore, the overall characteristics are seen as high rates for the Chinese in such fields as accountancy and architecture, and the outstanding advancement of Indians as doctors and lawyers. In short, although Table 3 seemed to show a remarkable entry of Malays into professional/technical jobs, in the really high-skill professions a Chinese-dominant racial disparity can still be seen.

These characteristics of the composition of the labor force by industry and occupation for each racial group suggest one aspect at least of how the Malay-

**Table 4 . Malaysia: Labor Force Population by High-skill Professional/
Technical Works in Each Race (as of 1995)**

	Malay	Chinese	Indian	Others	Total
Accountants	1,422	6,655	692	75	8,844
(Composition Ratio)	(16.1)	(75.2)	(7.9)	(0.8)	(100)
Architects	368	948	20	3	1,339
(Composition Ratio)	(27.6)	(70.7)	(1.5)	(0.2)	(100)
Dentist	577	854	409	29	1,869
(Composition Ratio)	(30.9)	(45.7)	(21.9)	(1.5)	(100)
Physicians	3,212	3,086	3,069	241	9,608
(Composition Ratio)	(33.4)	(32.1)	(32.0)	(2.5)	(100)
Engineers	10,415	15,091	1,416	427	27,349
(Composition Ratio)	(38.1)	(55.2)	(5.2)	(1.3)	(100)
Lawyers	1,731	2,589	1,591	65	5,976
(Composition Ratio)	(29.0)	(43.3)	(26.6)	(1.1)	(100)
Surveyor Engineer	1,309	1,235	86	79	2,709
(Composition Ratio)	(48.3)	(45.6)	(3.2)	(2.9)	(100)
Veterinarians	310	183	259	20	772
(Composition Ratio)	(40.2)	(23.7)	(33.5)	(2.6)	(100)
Total	19,344	30,641	7,542	939	58,466
(Composition Ratio)	(33.2)	(52.4)	(12.9)	(1.6)	(100)

(Source) Percetakan Nasional Malaysia Berhad, Seventh Malaysia Plan 1996-2000.

sian labor market is segmented. The Malaysian authorities claim that under Bumiputra policy the disparity structure of the labor market which the three domestic ethnic groups have traditionally occupied is being rectified, a feature that we shall examine later with some case analyses of Japanese-affiliated enterprises. Since we can expect that the foreign workers positioned below the three domestic ethnic groups will be moving into the low-skill labor market of low-skill laborers in terms of both industry and occupation, since this is all that is open to them, we need to elucidate the racial hierarchy structure of the labor force that comprises the foreign workers. At the same time, this paper will also develop other arguments of vital significance in terms of how such a labor market segmented by race functions during periods of economic crisis.

2. Foreign Worker Issues

The number of foreign laborers in Malaysia, a group composed mainly that of illegally employed Indonesians, soared during the 1980's. We know that, apart from Indonesians, many Thais, Filipinos, Bangladeshis, etc., have also been illegally employed, but it is not easy even to estimate the number of these laborers. The following discussion offers a brief explanation of the background of the influx of foreign laborers, mainly of Indonesian workers, who are said to constitute roughly 80% of the foreign labor force.

In 1980, the figures for Indonesian laborers working in Malaysia were set at 1,500 legal employees and an estimated 700,000 illegal workers. In 1990, the number of legal Indonesian laborers was 20,000, and the estimated number of illegal workers had reached an estimated total of 1,000,000 (at that time, the whole workforce population in Malaysia was 6,700,000). The total of illegal foreign labor in the early 1990s was reckoned to be 1,200,000, and the breakdown of the foreign laborers by industry was as follows: 550,000 in agriculture (31.6% of the total labor population of 1,740,000), 320,000 in construction (76.2% of the total 420,000), 230,000 in non-governmental services (11.7% of the total 1,960,000) [Hugo:1993]. With regard to agriculture-related labor, out of 235,000 plantation laborers in the same period, 150,000 to 160,000 were illegal Indonesian workers, and in the subcontracting labor under the federal rural settlement projects (of FELDA: Federal Development Authority) approximately 60% of the contract workers were illegal Indonesian immigrants. Turning to other industries, we find that since employment in the construction industry falls mainly within the subcontracting conditions of heavy muscular work in road and building construction, young Indonesian males were hired in this sector through local contractors. In the service industry, we know of the illegal employment of male Bangladeshis for miscellaneous work at hotels and restaurants (such as cleaning and driving) and of Filipinas for homemaking and as maids. As for the regions, we can see remarkable regional concentrations as one of the characteristics of illegal labor; agricultural labor in Johor and Sabah states, and construction work in the capital Kuala Lumpur and the metropolitan area of Selangor state. In any case, by the early 1990s, almost the only work that foreign laborers were able to engage in was the low-wage and

heavy physical labor that Malaysians tried to avoid (and that corresponds to what is known as 3K labor in Japan, namely work that is “difficult,” “dirty,” and “dangerous”), and most of them were thus confined to the unskilled/manual labor market.

Initially, the Malaysian government responded to the mass influx of unlawful workers by taking precautionary countermeasures. In the 1980s, when the numbers of illegal Indonesian workers ballooned, the government reinforced a crackdown on illegal immigrants, which resulted in the arrest of 14,000 Indonesian illegal workers and the repatriation of 13,000 of them in 1985. In the following year, 1986, 13,000 were arrested and 11,000 were repatriated. In addition, the state government of Johor State, which had experienced an intensive influx of illegal Indonesian workers, is said to have arrested 48 Malaysians who had helped to arrange the illegal entry and imposed a stiff penalty on them for the employment of illegal workers (a fine of 2,000 ringgit or imprisonment of 6 months, Guinness: 1990). Despite such a crackdown, however, numbers of Indonesian employees did not diminish. Ultimately, the government, concerned with a labor shortage, altered its response to foreign labor and shifted its initial policy of forced repatriation to one of limited acceptance, and, further, has subsequently taken measures to convert illegal laborers into persons legally employed.

In January 1989, the Malaysian government announced a new employment plan for Indonesian workers, and made a particular point of issuing regulations to cover plantation workers in the private sector. These regulations stipulated that employers must pay a deposit of 250 dollars to the Ministry of Human Resources (expenses to be spent on repatriation of workers who violate regulations), that such workers could be employed only in cases of approved labor shortage, that employment would be authorized with a time limit of three years (any extension of the term is banned), that workers have to be recruited directly from Indonesia and that no intermediation by agencies is to be allowed (Guinness: 1990). We should note, however, that this plan applies exclusively to new plantation laborers, not to workers in other occupations or to laborers already employed. Moreover, in 1990, a legalization program was set up for Indonesian workers who had entered the country illegally, and under this special measure the status of roughly 130,000 of these workers was legalized. Even so, the numbers of applicants for registration for legal employment were only a fraction of those working illegally (Hugo: 1993). The number of illegal Indonesian laborers registered from 1991 to 1992 (June, 1992, as deadline) totaled 311,434: 183,579 in construction work (58.9%), 88,743 working in plantations (28.5%), and 39,112 employed in housekeeping duties (12.6%). These figures indicate that many of the illegal workers were hired by the construction industry, and the workers granted work permits through this registration measure were authorized to stay for five-year term of continuous labor. This measure enabled 374,205 foreign laborers to obtain legal work permits: 83.2% came from Indonesia, 6.0% from Thailand, 5.1% from Bangladesh, 2.5% from Myanmar, 2.3% from India, and 0.5% from Pakistan. This confirms the estimation proposed earlier that Indonesians comprised around 80% of the

illegal labor (Hugo:1993)¹⁾.

The first reason for the unceasing flow of illegal laborers into the country is that employers actively utilize the international migration networks organized by the unofficial "immigration industry" to facilitate the movement of laborers migrating from overseas. Given the scope of the overseas migrant workers' operation, illegal employment through unofficial networks is far easier and less costly than having to negotiate travel procedures, which require an official work permit, while it also enables managers to obtain information easily and quickly about human relations at the work sites (it is particularly significant for overseas migrant workers that they can share the same language, religion and daily customs with people of the same nationality). The personnel cost reduction measures taken by Malaysian business managers constitutes a second reason, since the employers, when employing legal laborers, are obliged, on top of the basic wage, to pay the employees' income tax and to make payments of various allowances, just as they must do for their Malaysian workers. Consequently, quite a number of business managers do not undertake the legal registration required by the government. At the same time, in order to prevent excessive dependence on foreign labor, the government imposes a tax upon business managers who employ foreign laborers, ranging from 360 to 2,400 ringgit per worker per annum, in line with the occupation and the position, all of which is said to add an extra burden upon administrative expenses of the individual businesses (Hugo:1993).

During the 1990s, the government sought ways to deregulate its foreign worker policy still further, and, in 1991, it extended the types of industry that foreign workers could enter for engagement in production labor; in addition to the conventional plantation, construction and service industries, the government permitted employment in manufacturing industry, with certain conditions (see the case studies), and took related deregulation measures to clarify these conditions; simply, it opened entry to foreign workers who were able to fill professional and technical positions (skilled and semi-skilled), and abolished obligations imposed on permanent foreign residents to acquire a work permit (the Employment Act, 1968).

As we have said, foreign laborers mainly enter the low-skill labor market of unskilled manual labor, and the deregulations on employment since the 1990s have led to an ever-increasing influx of foreign workers who have come to constitute a large pool of unstable employees in Malaysian society. Disparities in labor between Malaysians (the three domestic ethnic groups) and foreign workers in today's labor market are very evident, and, in this connection, more attention has to be paid to the segmented labor market between Malaysians on the one hand and foreigners on the other than to segmentation of the labor market which Malaysians alone can enter (specific case studies of

¹⁾ Yoshimura [1998] reported that following the deregulation of labor regulations for foreign workers in 1991, 649,680 work permits had been issued by 1995; two-thirds of the work permits were issued for plantation and construction labor (66%), 11% for manufacturing, and 23% for homemaking/maid services.

Japanese-affiliated manufacturers are discussed later).

3. The Position of Foreign-Affiliated Enterprises

Although we might have expected that under Bumiputra policy native Malaysians would have flocked into the commercial and industrial sectors, the capital formation of Malays remains fragile; and since Chinese capital can not be used officially to play a major role in promoting industries, dependence on foreign capitals becomes inevitable. (The original plan of Bumiputra policy set the composition ratios of capital as 3:4:3 for Malay: non-Malay: foreign. Although Chinese-affiliated conglomerates are positioned at the core of the Malaysian economy, the receipt of direct investment from overseas surged after greater importance was given to export-oriented industrialization.).

Table 5 depicts the composition in 1997 of foreign corporate assets by industry nation by nation, with a parameter of fixed assets. Japan, which ranks first in terms of the amount of assets, exhibits the highest composition ratio in the electric/electronics sector, followed by chemistry, transport equipment, and metal. In second-ranked Taiwan, the conventional labor-intensive textile industry occupies the largest place, followed by electric/electronics. The U.S., in the third place, has the second highest amount of assets in such energy sectors as petroleum and coal, while having the highest share of the electric/electronics

Table 5 . Malaysia: Foreign Investors' Fixed Assets by Industry (as of 1997)

(Unit: 1,000RM)

	1. Japan	2. Taiwan	3. U.S.	4. Singapore	Total Amount by Foreign Investors
Food Manufacturing	205,874	4,393	149,623	417,130	1,376,928
Beverages & Tobacco	14,549	—	890	189,571	415,078
Textiles & Textile Products	559,803	3,548,911	5,482	303,765	4,724,086
Leather & Leather Products	—	10,821	—	24,071	60,174
Wood & Wood Products	141,885	491,226	37,213	252,370	1,292,460
Furniture & Fixtures	24,505	92,320	165	24,447	157,171
Paper, Printing & Publishing	43,460	6,885	181,312	183,744	491,446
Chemical & Chemical Products	1,010,459	55,571	157,630	147,402	2,262,319
Petroleum & Coal	385,609	433,580	1,069,503	110,641	4,417,154
Rubber Products	158,313	15,314	418,287	44,708	1,197,191
Plastic Products	611,007	32,621	4,771	129,344	1,031,862
Non-Metallic Mineral Products	637,925	60,975	21,643	397,829	2,005,148
Basic Metal Products	652,108	187,561	20,842	313,139	2,006,104
Fabricated Metal Products	388,714	194,126	71,434	209,411	1,125,587
Machinery Manufacturing	560,629	25,746	39,016	165,061	1,052,884
Electronics & Electrical Products	5,307,724	953,096	2,933,146	1,584,120	12,619,387
Transport Equipment	677,174	27,814	89,893	65,052	1,425,983
Scientific & Measuring Products	187,508	4,373	—	66,256	478,520
Miscellaneous	136,936	13,588	20,126	140,762	370,605
Total	11,704,182	6,158,921	5,220,976	4,768,823	38,510,087

(Source) MIDA, Statistics on the Manufacturing Sector, 1994-1998.

industry. In fourth place, Singapore's electric/electronics contribution is outstanding, followed by its food industry. The table also reveals the characteristic that, besides Japan, Asian NIEs nations such as Taiwan and Singapore are also listed in the top positions. This reflects the increasing investment ratios among Asian nations since the late 1980s, a feature that was pointed out in our earlier paper (Miyamoto: 2001a).

Table 6 shows the transition of investment amounts (authorization basis) and labor demands by region over the five years from 1994 to 1998. Investments are progressively expanding not only in the capital region of Selangor but also in intensive-development regions such as Johor, Kedah, and Terengganu. In the light of its additional labor demands, Penang, where industries related to electric/electronics are concentrated, is also significant as one of the nation's development centers. These trends reflect the regional dispersion of development, and, prior to the economic crisis, the demands for additional labor reached 100,000 persons a year.

As far as Japanese-affiliated enterprises in Malaysia are concerned, the number of local corporations listed by industry can be seen in Table 7. The number of enterprises increased from 487 in 1990 to 825 in 1999, and in line with composition by industry, their advancement into both the electric manufacturing sector and the commercial sector is striking.

We therefore observe that direct investments in the Malaysian economy are mainly and principally intra-regional within Asia, and are made by such nations as Japan, Taiwan and Singapore; and we can see, in response to the high-tech industrialization policy of the Malaysian government, the remarkable foray that has been made into the intensive development bases of, among others, electric/electronics. It is now time, therefore to examine the various features of the upper labor market in the Kuala Lumpur metropolitan area with case studies of Japanese-affiliated enterprises that play a central role among foreign-affiliated corporations.

II. The Labor Market of Japanese-Affiliated Enterprises

1. Management Strategies of the Surveyed Enterprises

Table 8 offers an overview of the four Japanese-affiliated companies surveyed in this study. Two of them are located in the Shah Alam Industrial Estate that was built in the early stages of development as an industrial complex in the capital, concentrating on the categories of electric/electronics, and automobiles. The site locations of the other two companies are in the Bangi Industrial Estate and the Nilai Industrial Estate that were developed more recently in the southern part of the capital area. We offer below some supplementary information regarding these respective enterprises:

Company A is a pioneering Japanese-affiliated home appliance manufacturer located in Shah Alam with 100% individual ownership, and its main products are cathode-ray tubes for television sets and the display panels of personal computers. Although 55% of the components of these products are locally procured, 45% of them are purchased from Japanese-affiliated manufac-

Table 6 . Malaysia: Changes in Authorized Investments & Labor Demanded by Region (1994~1998)

(Unit: 1,000RM)

	Authorized Investments (Million RM)							Labor Demanded						
	1994	1995	1996	1997	1998	TOTAL	Composition Ratio (%)	1994	1995	1996	1997	1998	TOTAL	Composition Ratio (%)
Kuala Lumpur	149.3	66.8	100.4	244.1	74.2	634.8	0.5	2,196	1,317	1,545	1,225	413	6,696	1.3
Labuan	467.4	2.4	4.5	0.6	—	474.9	0.4	291	167	66	53	—	577	0.1
Selangor	3,429.3	4,358.2	4,716.4	4,541.4	3,832.5	20,877.8	16.0	29,538	17,769	20,117	18,865	18,951	105,240	20.9
Penang	934.5	1,606.7	3,185.4	1,449.1	2,685.3	9,861.0	7.6	15,203	13,779	11,993	9,736	10,911	61,622	12.3
Perak	454.5	953.0	795.1	625.7	510.9	3,339.2	2.6	5,648	10,160	3,697	4,571	4,837	28,913	5.8
Johore	1,884.4	3,660.3	5,985.9	4,540.5	4,516.5	20,587.6	15.8	25,168	22,298	20,451	12,691	12,591	93,199	18.5
Negeri Sembilan	1,806.4	1,917.1	1,740.2	991.8	916.7	7,372.2	5.7	7,708	7,344	2,834	2,115	3,110	23,111	4.6
Malacca	1,525.6	514.9	1,401.9	572.5	903.1	4,918.0	3.8	7,561	2,276	5,507	3,094	3,049	21,487	4.3
Kedah	5,151.2	1,851.0	5,290.1	4,649.7	718.1	17,660.1	13.6	11,805	12,492	7,583	7,867	4,232	43,979	8.8
Pahang	561.4	423.6	1,718.5	3,066.2	2,462.5	8,232.2	6.3	7,275	2,420	3,374	2,562	2,331	17,962	3.6
Kelantan	23.5	771.3	65.6	364.9	62.7	1,288.0	1.0	1,046	905	1,472	1,175	1,114	5,712	1.1
Trengganu	3,882.5	1,763.1	2,338.8	2,290.8	7,165.3	17,440.5	13.4	6,462	4,693	1,386	1,720	3,708	17,969	3.6
Perlis	1,246.6	308.9	1,452.4	102.5	20.1	3,130.5	2.4	1,500	783	529	489	254	3,555	0.7
Sabah	690.6	1,862.2	611.3	1,817.8	899.5	5,881.4	4.5	11,058	12,956	4,880	3,391	5,521	37,806	7.5
Sarawak	744.1	809.6	4,851.1	563.0	1,549.5	8,517.3	6.5	4,028	8,248	6,457	3,867	12,142	34,742	6.9
Total	22,951.3	20,869.1	34,257.6	25,820.6	26,316.9	130,215.5	100.0	136,487	117,607	91,891	73,421	83,164	502,570	100.0

(Source: MIDA. Statistics on the Manufacturing Sector, 1994 ~ 1998.

Table 7. Malaysia: Compositions of Japanese-affiliated Companies by Industry

	Number of Overseas Affiliated Companies		Number of Overseas Affiliated Companies	
	as of 1990	Composition Ratio (%)	as of 1999	Composition Ratio (%)
Agriculture/Forestry	3	0.6	2	0.2
Mining	2	0.4	1	0.1
Construction	48	9.9	60	7.3
Manufacturing				
Food Manufacturing	9	1.8	11	1.3
Textile Products	13	2.7	12	1.5
Wood Products & Paper	14	2.9	26	3.2
Chemical Products	42	8.6	58	7.0
Steel Products	12	2.5	14	1.7
Metal Products	43	8.8	59	7.2
Machinery Manufacturing	9	1.8	27	3.3
Electrical Products	93	19.1	160	19.4
Transport Equipment	8	1.6	11	1.3
Automobiles	15	3.1	34	4.1
Others	55	11.3	101	12.2
Commerce	71	14.6	163	19.8
Finance/Insurance	16	3.3	13	1.6
Real Estate	2	0.4	3	0.4
Transport	14	2.9	33	4.0
Services	15	3.1	37	4.5
Others	3	0.6	20	2.4
Total	487	100	825	100

(Source) Toyo Keizai Inc-Separate Volume, Statistical Abstract of Companies Expanding Overseas version 1991, version 2000.

Table 8. Overview of Four Japanese-affiliated Companies in Kuala Lumpur Metropolitan

	Company A	Company B	Company C	Company D
Kind of Business	Electrical & Electronics Products	Automobiles	Electrical & Electronics Products	Electrical & Electronics Products
Year Founded	1990	1968	1989	1989
Plant Location (Industrial Estate)	Shah Alam	Shah Alam	Nilai	Bangi
Capital (As of 1999)	610 Million RM	75 Million RM	30 Million RM	51.8 Million RM
Investment Ratio				
Japanese Investment	100%	49%	100%	100%
Local Investment	—	51%	—	—
Major Products	CRT (Cathode-ray Tube)	Various Automobiles	VTR TV with Built-in VTR DVD-ROM Drive	TV/VTR Tuner Floppy Disc Various Remote Controllers
Sales Volume (As of 1999)	810 Million RM	271.4 Million RM	54 Million RM	1 Billion RM
Number of Workers	3,123	845	2,034	6,773
Number of Survey Collection	21	29	—	52

(Source) Author's Survey (As of August, 2000).

turers of glass components, while procurement from pure local enterprises runs at less than 10%. 99% of the products are exported: 30% to Taiwan (mainly PC monitors), 25% to Thailand (television sets), nearly 20% to Japan. In short, while leaving the research and development sector of high value-added products solely in Japan, the parent company transferred its labor-intensive production processes to other Asian nations, positioning the locally incorporated company in Malaysia as a re-export base of the finished products.

The major practice of Company B is the assembling of automobiles. As Malaysia's automobile industry is the sector in which strict regulations are left to the National Car Project, the finished vehicles are 100% for domestic market, while the capital ratio of foreign-affiliated enterprises is restricted to no more than 49%. The number of vehicles manufactured by this company reached a record high of 39,000 in 1991, but, affected by the economic crisis, dropped in 1998 to a mere 5,600. 50% of the components are domestically procured in Malaysia from 66 component suppliers: 21 Japanese-affiliated joint ventures, 21 local technical support companies, and 24 purely local enterprises, but, in technical matters, it relies highly on the Japanese-affiliated joint ventures. The remainder of the components are purchased from local corporations or related enterprises within the same group located in Thailand, Indonesia, Taiwan and the Philippines (Japanese-affiliated small- and medium-scale manufacturers that have taken root in the local areas), and the establishment of such a complementary supply system of components is under way on an Asian scale.

Since employment of local labor was relatively easy, Company C settled in the Bangi Industrial Estate in 1989, expanding its production scale during 1993 through 1994. Its core products are television sets with built-in videos, and, because production of these products in Japan was drastically reduced between 1994 until nearly complete closure in early 1999, the company shifted its production lines to Malaysia. 40% of its components are procured locally, mainly, from Japanese-affiliated component manufacturers, of which 10% is purchased from purely local enterprises. The remaining 60% depends on procurement from Japanese-affiliated component makers in Singapore, China and Hong Kong (many of which are primary processed products from raw materials imported from Japan), and direct imports from Japan (17%). 99% of the products are for exporting; in 1999, the export markets were Japan 30%, the U.S. 28%, and Europe 23%. This shows the dual characteristic of these companies: as channels for re-exportation to Japan and as exporting bases to third nations.

In 1996, Company D expanded its production scale upon entering the industrial estate at Jengka in Pahang State along the east coast of the peninsula. This was in addition to its earlier foray, in 1989, into a newly developed industrial complex Nilai Industrial Estate in the capital region. Its Japanese parent company produces components of video, television sets and personal computers in countries overseas, and has been expanding production and sales networks by establishing locally incorporated companies in such Asian countries as Korea, Taiwan, and China (5 sites), apart from Malaysia. The local procurement of raw materials in Malaysia rates approximately 20%, and as most of its business partners are Japanese-affiliated enterprises, trading with

purely local companies is limited to a small quantity of packing material. Raw materials are imported from Japan by 30 to 40%, and from Singapore by 40 to 50%, while it sells 35% of its products to local Japanese-affiliated enterprises; 40% of its exports are conducted through roundabout export to the U.S., Taiwan, Hong Kong, Singapore and others in response to orders from the headquarters in Japan.

Among the four enterprises we have surveyed, we now see that an automobile manufacturer, Company B, adheres to the strict regulations imposed by the Malaysian government's automobile policies and maintains its import-substituting management patterns in accordance with these policies. The other three electric and electronic manufacturers match Malaysia's export-initiated development strategies by acting as bases of reserve exportation to Japan or of roundabout production for third nations (mainly Asian nations). These case studies reveal some of the management strategies that the Japanese-affiliated local enterprises have adopted to establish a network that expands throughout Asia, whereby the same industry procures raw materials and components from Japanese-affiliated corporations in local areas or depends on reciprocal procurement arrangements among Japanese-affiliated companies in Asia, or has developed interdependent production and sales networks of multinational enterprises throughout the Asian subcontinent²⁾.

2. Internal Labor Market

We may now turn to Table 9, Table 10 and Table 11, which, respectively, describe the composition of laborers by their group position, the racial composition of the three domestic ethnic groups, and the composition of the groups in terms of their academic qualifications. The following analysis considers to what extent a correlation of position, race and academic qualifications reflect

²⁾ In corresponding to the government's development policy of small- and medium-sized enterprises (hereafter SMEs), foreign-affiliated enterprises in Malaysia are cooperating in providing managerial and technical guidance of local capital, and not a few Japanese-affiliated companies are therefore fostering SMEs (many are "sub-cons," subcontracting companies) under strict administrative guidance given by the government. In this respect, we provide some information obtained from Company D, which has cooperative ties with two subcontracting companies related to electrics and electronics: one is managed by the Chinese with 350 employees, the other by Malaysians with 650 workers. Both introduced the same machinery equipment as Company D, from which company technical supervisors are constantly dispatched, and, with three-month delivery contracts, they produce the same type of goods as plants belonging to Company D. For all positions, wages are 100 ringgit (RM) lower than those at the Japanese-affiliated enterprise; operators at the subcontracting plants receive 350 RM in contrast to the 450 RM given to operators of the main plant, and the welfare standards are also lower as only allowances like overtime allowance are paid to operators at the subcontracting factories. At the production sites, emphasis is placed on technical guidance, and local supervisors are being educated. Nevertheless, a serious issue is that the managerial class is barely developed, and the future challenge will be how to transfer administrative know-how. Another problem concerning the development of SMEs in Malaysia, said the president of Company D, is that "employers' short-term administrative vision lasts for only a few years, and they show no will for the long-term management of enterprises". Regarding the government's development policy of SMEs, refer to Anazawa [2000].

Table 9 . Compositions by Position in Four Japanese-affiliated Companies in the Kuala Lumpur Metropolitan Area

	Company A					Company B			Company C					Company D		
	Japanese	Malaysians		Bangladeshis		Japanese	Malaysians		Japanese	Malaysians		Indonesians		Japanese	Malaysians	
		Male	Female	Male	Female		Male	Female		Male	Female	Male	Female		Male	Female
Directors	1	1	—	—	—	1	—	—	2	—	—	—	—	3	1	—
Managers	14	12	1	—	—	—	26	2	15	29	2	—	—	—	40	—
Technical Leaders	9	48	4	—	—	4	—	—	—	—	—	—	—	38	—	—
Executives	—	51	1	—	—	—	67	—	—	74	18	—	—	—	326	113
Supervisors	—	122	5	—	—	—	146	3	—	85	13	—	—	—	353	368
Operators	—	1,965	306	584	—	—	420	33	—	158	761	—	468	—	221	5,310
Temporary Employee	—	—	—	—	—	—	123	20	—	113	296	—	—	—	—	100
TOTAL	24	2,199	317	584	—	5	782	58	17	459	1,090	—	468	41	941	5,891

(Source) Author's Survey (As of August, 2000).

Table10. Racial Compositions by Position in Four Japanese-affiliated Companies in the Kuala Lumpur Metropolitan Area

	Company A			Company B			Company C			Company D			TOTAL		
	Malay	Chinese	Indian	Malay	Chinese	Indian	Malay	Chinese	Indian	Malay	Chinese	Indian	Malay	Chinese	Indian
Directors	—	—	1	—	—	—	—	—	—	1	—	—	1	—	1
Managers	6	6	1	14	12	2	10	12	9	22	14	4	52	44	16
Technical Leaders	17	25	10	—	—	—	—	—	—	—	—	—	17	25	10
Executives	38	—	14	36	11	20	39	42	11	337	59	43	450	112	88
Supervisors	99	3	25	120	10	19	72	4	22	679	2	40	970	19	106
Operators	2,217	3	51	385	14	54	750	7	162	5,226	6	199	8,578	30	466
Temporary Employee	—	—	—	136	—	7	368	8	33	100	—	—	604	8	40
TOTAL	2,377	37	102	691	47	102	1,239	73	237	6,365	81	286	10,672	238	727

(Source) Author's Survey (As of August, 2000).

Table11. Compositions of Workers by Academic Achievement in Japanese-affiliated Companies in the Kuala Lumpur Metropolitan Area

	Company A		Company B	Company C		Company D	TOTAL	Composition Ratio
	Malaysian	Bangladeshi	Malaysian	Malaysian	Indonesian	Malaysian		
No School Attendance	—	—	—	—	—	—	—	—
Elementary School Dropouts	—	—	20	—	—	—	20	0.2
Elementary School Graduates	6	—	121	—	—	1,817	1,944	15.4
Junior High School Graduates	675	—	430	480	47	2,179	3,811	30.1
High School Graduates	1,773	584	349	728	421	1,751	5,606	44.3
Junior College/Professional School Graduates	301	—	42	248	—	203	794	6.3
University Graduates	95	—	37	93	—	258	483	3.8
TOTAL	2,850	584	999	1,549	468	6,208	12,658	100.0

(Source) Author's Survey (As of August, 2000).

(Note) The data offered by company D shows the academic achievement of 565 workers are unknown.

on the composition of the internal labor market.

Table 9 shows the ranking by positions within the companies and is a summary of 7 ranks decided on by the author so as to enable him to make a truly accurate comparison between companies of how the positions are minutely subdivided. For instance, the Table shows the actual position structure in the case of Company B as it rises through the ranks: ①temporary employees (contract workers) →②operators →③team leaders →④group leaders →⑤supervisors (clerical employees engaged in marketing, sales and accounting are positioned more or less in the same rank, and we summarize ② to ⑤ as supervisors) →⑥executives (classified into three hierarchies as junior executives →executives →senior executives) →⑦managers (categorized into three classes as assistant managers →assistant general managers →general managers) →⑧coordinators (Table 9 classifies ⑦ and ⑧ as managers) →⑨directors (classified as "technical leaders", as well as personnel in charge of technical guidance in each class of ② to ⑦). In reality, the other three companies have a similar composition of positions, although some of the details are different. In the case of Company B, ① and ② are equivalent to production laborers at plant sites, ③ through ⑥ are lower executives, ⑦ and ⑧ are higher executives, and ⑨ are the directors.

When we analyze the correlation between employment resources and academic background and the scheme of internal promotion (i.e., pay raise) in the order from the lowest position, we find that at Company B, C and D temporary employees, who are called "contract" in the local areas, are external employees entrusted to manpower supply companies. In any case, the working conditions are left to the manpower supply corporations. According to interviews conducted at the plants, temporary workers at Company B are employed on the basis of short-term, 6-month contracts, in contrast to 3-month contracts at Companies C and D (contract renewal is carried out every month after the contract). The employees are junior high school or high school graduates, and are paid only the basic wage, approximately the same as that of regular operators without allowances³⁾. As Table 10 shows, among the Malaysians themselves these short-term workers in unstable employment are mostly Malays (rather than Chinese or Indians), and one personnel manager (Company C) explained such an employment system clearly when he said

³⁾ So far, Malaysia has no fixed minimum wage. Prime Minister Mahathir proposed 900 ringgit (RM), but the business world objected strongly, claiming that the gap between this proposal and the current situation is too large. In the cases of companies A-D, the initial salaries for high school graduates ranged between 400 and 450 RM, while those for college graduates lay between 1,800 and 2,000 RM (in the clerical, technical supervising, and sales sectors). Moreover, the Japanese staff of Companies A and B told us that they had received administrative guidance to distribute the company's own stocks to employees within the limit of 10% of the stocks owned by the corporation, and that this cost needs to be budgeted as virtual salary accounted in addition to wages.

Detailed data on wages were not available, though the average wages (monthly) of Company C for each position are, for example, 650 RM for temporary employees, 780RM for operators, 3,480RM for supervisors, 4,320RM for executives, and 5,760 RM for managers. (The wage for temporary employees includes only base pay, while those for other positions include allowances.)

that “They are hired to adjust the demand and supply of labor”.

On the other hand, employees in the operator class and higher are regular workers, production laborers with junior high school and high school qualifications. Staff at Company D explained that “Malaysian operators with high school qualifications are desirable, but it is inevitable that we have to hire junior high school graduates due to the labor shortage”; Company C told us “Due to the overwhelming labor shortage, workers try to choose local enterprises offering advantageous employment conditions”; Company A commented “The most significant condition in establishing foreign-affiliated enterprises is to what extent local labor can be secured”; Company D added “Factors for selecting an industrial complex includes, most importantly in Malaysia, how to secure young workers who wish to live at home rather than in a dormitory, in addition to general conditions such as infrastructure (expressways, electric power, ports and harbors) and preferential tax system”, and “Since it is becoming more difficult to employ Malaysians who are either high school graduates and junior high school graduates who come from the local area, we recruit across the country through advertisements in newspapers. Yet we are struggling to fill vacant positions”. The hardest task for business management in Malaysia is said to be how to deal with the labor shortage. Since it is the worker’s market, however, each enterprise hires Malaysian applicants almost exclusively, which results in a situation where the academic background of the production laborers cannot be restricted to high school graduates, and it is inevitable that companies hire widely even from among junior high school graduates. Furthermore, since many of the youth wish to commute within the local area and because the market is a worker’s one, we regularly observe the frequent movement of the labor force as it seeks for more advantageous working conditions.

This is why, in the interests of improving the stability of the operators, Malaysians at production fields are in various respects given preferential treatment. For example, promotion of operators is basically up to executives (at foreperson level), but in some cases operators are promoted to the manager class as exceptions (Company B). It is a common personnel policy in each enterprise to create an incentive for long service by paving the way for further promotion to senior executives, although, as a general rule, operators are eligible, through personnel appraisal, for promotion up to junior executives. Moreover, during restructuring at the time of the economic crisis, as we shall mention later, foreign laborers were the first to be dismissed, in concurrence with a policy in all enterprises not to discharge Malaysians. This indicates that a clear priority is placed on ensuring the employment of Malaysians.

The vacant posts of team leaders shown above as ③ and group leaders as ④ are basically filled by the promotion of operators in the lower rank. By contrast, supervisors in the junior executive class ⑤ or higher positions are considered to be different in terms of employment resources; in principle supervisors are usually hired from among those with higher academic background, including junior colleges graduates or vocational schools, while executives in class 6, categorized as the management class, are drawn from university gra-

duates. These highly educated persons in the upper echelons are also natives Malaysians.

We therefore see that, in the cases of companies A-D, the employment pool for the three lower classes, or within the brackets of temporary employees, external employees, operators, and junior executives, differs in kind from that from which the latter two classes are drawn, persons who receive promotion on the basis of personnel appraisal, and we can thus identify the segmentation in the internal labor market. Nevertheless, owing to the inadequate supply of Malaysian labor, the promotion of regular production workers to managerial positions is often accelerated, which leads us to argue that no major hurdle seems to exist between the two groups.

We are now in the position to examine the composition by position in the three domestic ethnic groups in Table 10, above. Malays constitute 94.5% of all operators, with extremely high composition rates of Chinese in the executive category and higher (junior executives of junior college graduates or higher), while Indians also rate highly amongst forepersons and junior executives. An analysis of the composition ratios of managerial workers by race manifests the especial disparity between Malays and Chinese: 14% Malays, 84.0% Chinese, while 30.4% are Indians. We cannot therefore deny the existence of racial disparities corresponding to occupational ranks, and, consequently, we can recognize racial emphases in the allocation of laborers in the upper employment resources. As a Japanese manager in Company C told us, "although the government claims that under Bumiputra policy there has been adjustment and change not only within each enterprise but also in each in-house position, actual administrative guidance has never called for the realization of Bumiputra ratio by position". The total number of laborers shows that more Malays are employed than Bumiputra policy set as a target, and it is clear that racial gaps exist, especially such controversial ones as those between Malays and Chinese, and therefore it cannot be denied that no full-fledged implementation of Bumiputra policies was conducted from a more comprehensive perspective that would include any racial disparities in social status and income.

Another racial issue is the employment status of foreign labor. Table 9 indicates that at the time of the survey, Bangladeshi males were employed by Company A, while Indonesian females were hired by Companies C and D, whose working conditions were much the same. Table 11 reveals that although the Bangladeshis in Company A are classified in the same rank as Malaysian regular operators at the plant, they are all high schools graduates, and, in this respect, a higher composition rate of the highly educated can be found among the foreign laborers. Company A had been hiring foreign laborers since 1996, and at the time of the survey the foreign labor force of 584 comprised 18.7% of total 3,123 employees. Since the production of cathode-ray tubes at this company entails procedures that require heavy physical labor, the plant work force is mainly comprised of young males. Employment of foreign labor is based on two-year contracts, and English proficiency is required in examinations for employment. According to a staff member of Company A, foreign workers on the whole display better English competence than junior-

high Malaysian holders of English qualifications. In 1997, Company B employed 139 male Bangladeshis on three-year contracts, but the economic crisis caused it to downsize production radically, leading to the canceling of contracts before the workers' terms had expired and the sending home of all Bangladeshis. Although, after recovery from the crisis, Company B reapplied in 2000 for permission to employ foreign labor, it had not, at the time of the investigation, received reauthorization, since the government had prioritized the exporting industries in its authorization of the hiring of foreign workers.

In other words, Company B overcame the situation during the tough management period brought about by the economic crisis by dismissing the foreign laborers whose employment was unstable without needing to dismiss any of the Malaysians workers. Company C has been embracing young Indonesian workers as operators since 1994, and at the time of the survey the number was 468. Administrative guidance by the local government is to set a limit to foreign labor of up to 50% of all employees, which the company interprets the other way around as the possibility of expanding the employment of foreign workers to 50% of the work force. Negotiations with the local government have enabled companies to employ Indonesians on three-year contracts, with a renewal of contracts for two more years, and the possibility of a further extension of one more year; at the time of the investigation the maximum length of approved employment was therefore six years. In Company C, approximately 30% of the Indonesian laborers continue working up to the sixth year, and the extension of contracts is determined from two perspectives, the laborer's own wishes and personnel appraisal. The Indonesian laborers are initially commissioned by personnel placement companies in Medan, the state capital of North Sumatra, and 90% of them are high school graduates, a higher ratio of high school graduates than that found among Malaysian operators. In 1996, for the first time, Company D also employed 350 Indonesian females on three-year contracts, but in 1999, because of staff reductions owing to the economic crisis, no contracts was renewed after the three year term came to an end, and all the women returned to Indonesia. This company also consigned recruitment to the agency in Medan, Sumatra, and hired young female high school graduates after members of the personnel affairs section visited Medan and conducted final examinations (examinations on general education and interviews) directly with the candidates.

To summarize so far, we can say that despite foreign workers' being categorized in the same occupational rank as Malaysian regular operators at plants, their employment is on a short-term contract basis for several years, no promotion to higher class through personnel appraisal is available, and because of the short-term employment they receive limited wage hikes and are unable to take advantage of welfare programs. In addition to this unstable employment situation under normal conditions, foreign laborers are at a further disadvantage in that when an economic crisis imposes a reduction in production, they are the first to be discharged, as we have seen in Companies B and D. While stable employment of Malaysians is prioritized in this country riddled with a severe labor shortage, foreign laborers have been utilized as buffers

against fluctuations in demand and supply. We can now claim that segmentation in the internal labor market is clearly identified not only in the hierarchical configuration that is the result of disparities in the academic records of three ethnic groups with Malaysian nationality, but, in terms of stability of labor, even more clearly between Malaysians and foreign workers.

3. Fluidity of Labor Force

Our next concern has to do with the fluidity of the workforce in the labor market, and we carried out a sample survey with a total of 100 workers from Companies A, B and D with respect to their experiences of career change. Since, in the light of the racial composition of occupational positions, the sample survey targeted Malaysian operators who were regular employees, and it therefore mainly reflects Malays' job transfer. Of the answers, 29 replied "no experience of job transfer", 29 said once, 24 twice, 12 three times, 5 four times, 1 five times or more. 71% had some experience of job transfer, while those who had transferred twice or more came to as much as 42%. Since there is a shortage of labor, the labor market of the Malaysian operator-class is, as we have said, a worker's market, and in the surveyed enterprises almost all the native applicants are employed as production workers. As a result, it seems to be recognized that, when workers resign, they mean to transfer to another company in search of more favorable working conditions. As this sample survey only looked at operators and obtained no detailed data on white-collar employees of the clerical, technical and managerial classes, we complement these immediate findings by the following information on the separation rates.

None of the companies we surveyed has been keeping a record of detailed data on job separation rates, but we found the following characteristics for each occupational class. The separation rate of Company A's operators is 4 to 5% per month, and approximately half of the operators resign annually. On the other hand, an excessive number of candidates apply for the managerial sector, more than 100 applicants for one position. Company A told us "In contrast to conditions for operators, the highly educated (university graduates in particular) are continuously having difficulties in job hunting, and the job separation (turnover) rate is not so high in the managerial class". In Company B, the monthly average labor separation rate of the production laborers is 15%; most of the job leavers are youths and many of the turnovers take place within 6 months. The monthly average for truancy in the first half of the year 2000 varied between 10 and 20%. Company B informed us "Nearly 10% continue in service for longer than 6 months, and only a very small number of those who work from 3 to 5 years take root in the company". The monthly average of the labor separation rates of Company C are 7% for the production sector, and 4% per month for the managerial sector. The separation rate of operators at Company D is 5% per month, while that of the managerial class is 1% per month. Many workers resign during the 3-month probationary employment period, and approximately half are replaced within a year, but with those who remained for more than one year, the stability of the workforce is improved. At the time of the survey, five-year service awards were granted to 231 workers

(3.4% of the employees). As we have said, in contrast to the shortage of production laborers leading to high rates of labor separation, the number of workers in the managerial class is relatively excessive, thus making reemployment tough, which tends to stabilize the workforce. This is one of the features of Malaysia's upper labor market, which exhibits trends that distinguishes it completely from labor-abundant nations like Indonesia. (In Indonesia, because of an excess of production workers, job stability is relatively high, while the clerical, technical and managerial occupations show high separation rates, i.e., turnover rates are high owing to an insufficiency of human resources. International comparisons of labor markets will be summarized in the final paper of this research project, but for the moment please refer to Miyamoto [2001].)

4. Stability of Japanese-Style Management and Production System

Each of the enterprises that we investigated had, to different degrees, made some efforts towards the introduction of Japanese-style management and production system, and the corporate managers and executive personnel of Companies B, C and D described for us some of their problems and results. Here, we quote some of their comments.

Personnel of Company B told us, "The problem is that clerical and technical laborers of university graduation level show a low level of understanding of their own duties and skill acquisition, and furthermore lack awareness of how to help their subordinates to mature"; "One to two-year periods of training at our headquarters in Japan provide senior executives and executive candidates with certain skills, but their working environments do not allow them to demonstrate their expertise after they return to Malaysia"; "Quality-control activities and improvement meetings are regularly held, but we find difficulty in making a success of those activities due to high truancy and quick turnover rates." The president of the company added, "The Japanese-style production system of the automobile industry represented by the Toyota system is far from being the case in Malaysia."

Personnel of Company C told us, "The employees' awareness of their service is simply to carry out their predetermined duties, and they consider requests over and above such duties to be an intensification of labor." "It is of importance to compile duties in manuals and distribute these to all our employees." "We are conducting quality-control activities in the field, but we cannot expect so much in the way of results." The president of the company said, "We have initiated an improvement campaign aimed at productivity improvement by the top-down rather than the bottom-up approach."

The president of Company D said, "Because of their work ethic, a seniority-based promotion system would discourage Malaysians, and because of general cultural differences we should inevitably have to introduce a merit system."

As we discussed in our former paper, those Japanese-affiliated enterprises that are advancing into Asia are planning to introduce some aspects of Japanese-style systems. The core measures center on management system based on seniority-based workplace rules, and production systems aiming to introduce more flexibility for job scope, multi-skill competence, and group

decision-making (an improvement campaign such as QC activities). Yet, as we stated earlier, the personnel of the Japanese enterprises we surveyed told us that the introduction of these Japanese-style systems can only be carried out within a limited range, or that such introduction itself is difficult to achieve. The Japanese staff frequently pointed out that, as far as the surveyed enterprises are concerned, the introduction of Japanese-style management and production systems are to be considered to be highly restrictive: at the production sites, workers expect evaluations to be based on a merit system, and it is not easy to induce workers to believe in values where collective skill formation/dissemination is thought to harmonize with their individualistic work ethic. In order to improve productivity, it is therefore of prime significance to clarify the job scope of each laborer and to ask them to practice drills based on manuals, and it is unadvisable to demand a group mentality and flexibility in their services. Although the highly-educated managerial class can be expected to understand Japanese-style management systems and be able to adapt it to their own practices, such systems are incompatible with their personal work ethic and they likely consider them as a form of labor intensification.

5. Supply Sources of Workers

Finally, let us examine the structural characteristics of the supply sources of the workforce, i.e., the supplier of labor.

To learn how employees of Japanese-affiliated corporations found job information at the time of recruitment activities, we obtained samples from a total of 95 workers (Malaysian operators) in Companies A, B and D. The sources of information are listed as being provided by acquaintances, 50 persons (52.6%), by relatives 21 (22.1%), by advertisements in newspapers 18 (18.9%), by private manpower supply companies 3 (3.2%), by employment security offices 1 (1.1%), and by others by 2 (2.1%). Since job information obtained from acquaintances or relatives comprises 74.7%, this reveals the overwhelming dependence on private connections of the regional/blood relationship: that is to say, information gathering depends on human networks of personal contacts. Information gathered from newspapers and placement agencies (either private or employment security offices) shares no more than 23.2% of the total. Malaysia, in this respect, as of other Asian nations, has not yet accomplished public systematization in the labor market.

Table 12 summarizes the composition of all the native workers by home region with data collected from Companies A and B. Although local employees from Selangor, Kuala Lumpur and Negeri Sembilan comprise 42.5%, quite a few workers come from rural areas where commuting is impossible. As we have already pointed out, many Malaysian youths wish to be employed within the local commuting area and at the commencement of recruiting operations the companies we surveyed placed priority on people of local origin. Nonetheless, owing to the severe labor shortage, the companies were not able to depend on procurement of labor solely within the local area, and, as Table 12 shows, recruitment throughout the country became inevitable. From this

Table12. Compositions of Workers by Home Region in Japanese-affiliated Companies in the Kuala Lumpur Metropolitan Area

	Company A	Company B	TOTAL	Composition Ratio
Kuala Lumpur	57	105	162	4.6
Selangor	754	459	1,213	34.4
Perak	476	40	516	14.6
Johore	67	19	86	2.4
Negeri Sembilan	98	25	123	3.5
Malacca	30	22	52	1.5
Kedah	119	36	155	4.4
Pahang	320	149	469	13.3
Kelantan	313	65	378	10.7
Trengganu	304	50	354	10.0
Sabah	—	15	15	0.4
Sarawak	—	6	6	0.2
TOTAL	2,538	991	3,529	100.0

(Source) Author's Survey (As of August, 2000).

perspective, we can recognize a certain openness in the labor market; however, as mentioned above, employment information for laborers is highly dependent on informal personal networks based on human connections, and the public systematization of the market is never in itself sufficient. In short, owing to this dependence on informal human relations, workers cannot carry out job selection in a systematic manner, and have no other choices than reliance on contingency.

Finally, Table 13 summarizes sample data collected from Companies A, B and D on the occupational compositions of workers' households of origin. What has to be noticed is that it heavily reflects trends of Malay households as the sampling of regular workers targeted by the Malaysian operators. Agriculture-related households (farm management households and farm labor households) dominate, with 31.8%, which demonstrates the continuing source of labor supply from primary industries even in Malaysia, where among Asian nations industrial sophistication is being realized most notably. This may be due to the rapid progress of the outflow of Malays (especially the younger generations) from the agricultural industry that historically exhibited high composition ratios of agricultural laborers. Following the agriculture-related sources, the self-employed constitute the second largest composition ratio. This also can be regarded as the entry of the children and brothers of Malayan micro enterprise owners and private management shopkeepers into the labor market of foreign-affiliated companies after acquiring academic qualifications through junior high and high school educations. Although the racial composition of households of origin was not available because of restrictions on the data, as far as Malayan households that dominate the majority of Malaysian operators are concerned, many of them are from agricultural and self-employed households, a fact which manifests that transfer among distinctive industries or occupations remains the main channel of labor movement. To put it another

Table13. Compositions by Occupations of Workers' Family Sources in Japanese-affiliated Companies in the Kuala Lumpur Metropolitan Area

	Company A	Company B	Company D	TOTAL	Composition Ratio
Farm Management	3	5	15	23	25.2
Farm Laborer	2	2	2	6	6.6
Plant Laborer	1	3	4	8	8.8
Office Work	—	—	1	1	1.1
Artisan	—	1	—	1	1.1
Merchant	—	1	—	1	1.1
Self-employed	3	4	16	23	25.2
Government Employee (Administrative)	1	1	—	2	2.2
Soldier	2	—	—	2	2.2
Teacher	1	—	—	1	1.1
Unemployed	5	6	11	22	24.2
Others	—	1	—	1	1.1
TOTAL	18	24	49	91	100.0

(Source) Author's Survey (As of August, 2000).

way, the upper labor market of the urban regions is still the most prominent contributor to the movement of Malay workers', which means that the inflow from other industries or occupations, and full-scale labor supply by means of the reproduction of workers' households has not yet begun. This is probably due to the expanded employment of Malays in the manufacturing sector under Bumiputra policy. In the internal labor market, the segmented occupational structure by race is, as we have said, obvious, and we have to say as well that the advancement of Malays' social status aimed under this policy in the nation's upper labor market remains restrictive.

Conclusion

This paper has explored the characteristics of the Malaysian labor market. Malaysia is a multiethnic society with insufficient labor, and the shift in labor compositions under Bumiputra policy prominently affected, along with other factors, the workforce movement of Malays from agricultural industry to urban manufacturing industries, that is, transfer between different industries. Meanwhile, after some measure of progress was made in the popularization of higher educational qualifications for Malaysians (the three domestic ethnic groups), along with industrial sophistication as Malaysia aimed to become a high-tech-oriented nation, a great number of foreign laborers started to flow into the market of unskilled manual labor, such as farming and the construction-subcontracting industries where the labor shortage is severe.

According to the Japanese-affiliated enterprises we interviewed in the Kuala Lumpur metropolitan area, while the composition ratios of the three Malaysian ethnic groups to the total pool of employees observe Bumiputra policy, the managerial class is dominated by Chinese in the occupational com-

position, which makes clear that the Chinese reign supreme in the internal labor market of the labor force structure. From this perspective, we have to say that disparities in social status and income among the domestic races has not yet been eliminated. In analyzing the features of Malaysian laborers by occupation, we found that, in contrast to the production workers who formed the overwhelming workers' market characterized by conditions of high fluidity, the highly-educated labor force clusters in clerical, technical and managerial positions aspired (perhaps excessively) to stability in secured occupations.

In the meantime, those foreign workers from such countries as Bangladesh and Indonesia hired by Japanese-affiliated enterprises who are given positions in the same occupational bracket as that of Malaysian operators are treated while in service on basically equal terms to Malaysians with regard to wage and welfare programs, but as they are on a short-term basis for a few years they have no chance of promotion or a wage hike, and are forced into conditions of unstable service. As for the foreign laborers like them who are legally employed through application to manpower supply companies in their home countries (which is to say that their employment does not depend on personal connections as it does for Malaysians), we can state with confidence that the market of legal foreign workers bears more systematization and features greater openness. On the other hand, since they are working abroad, their service during their contract terms is controlled by a one-sided approach, and, practically speaking, the liberty to transfer from workplace to workplace is not available to them. This paper has not examined what has already been covered in a former paper (Miyamoto [2001]), the fact that the transfer of illegal employees who comprise the majority of foreign workers rely on a variety of unofficial human networks, that is, illegal "immigration industries," and are consequently employed only in the low-skill labor market of unskilled and manual labors. Furthermore, the significance of the existence of foreign laborers is shown pre-eminently in their treatment as a buffer for labor force adjustment, a role that was imposed on them during the economic crisis: the unstable employment of foreign labor cannot be denied even in the high-skill labor markets of foreign-affiliated enterprises.

So, with regard to the labor market of a multiethnic nation with insufficient labor, it is evident that Malaysia's features are different from those of the labor markets of other Asian nations, especially those labor-abundant countries who benefit from the structure of the internal labor market, the fluidity of the labor force, and similar features (see Miyamoto [2001a] and [2001b]). Cross-national comparisons of labor markets will be summarized in the final paper of this research project. Another point to observe as a feature common to the Japanese-affiliated multinational enterprises in comparison with other Asian nations is that what are referred to as the Japanese-style management and production systems have been introduced into Malaysia to only an extremely limited extent, and that the approach to their introduction is strongly constrained by the Malaysians' markedly individual work ethic. In other words, even when Japanese-affiliated enterprises diversify abroad they must adapt to the local social environments; above all they must adjust to the behavioral pat-

terns of the local people: consequently, the evolution of the labor markets of foreign-affiliated enterprises are strictly governed by the various national characteristics of each local region.

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