

**THE RELATIONSHIP BETWEEN
IMMIGRATION AND LABOUR MARKET
PERFORMANCE IN SABAH'S PALM OIL
PLANTATION SECTOR**

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THE DEGREE OF MASTER OF ECONOMICS**

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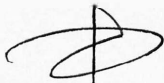
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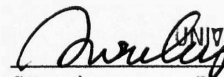


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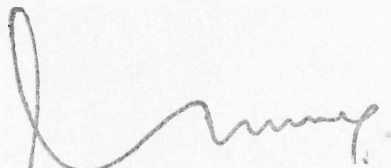
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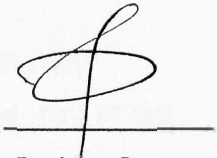


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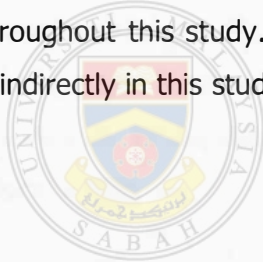
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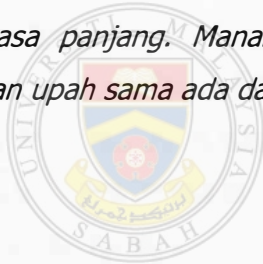
ABSTRACT

THE RELATIONSHIP BETWEEN IMMIGRATION AND LABOUR MARKET PERFORMANCE IN SABAH'S OIL PALM PLANTATION SECTOR

The main objective of this thesis is to analyze the relationship between immigration and labor market performance in Sabah's palm oil plantation industry. The labour market performance refer to the wages and employment of local workers in the palm oil plantation sector. The relationship of these variables can be in short run or/ and in the long run. This study will be using Vector Error Correction Model (VECM) to examine the relationship between the immigration and labour market performance. In conducting this study, Johansen Cointegration test is used to determine the relationship among the variable which is immigration, employment and also wages. The data collected from the Department of Statistics Malaysia, labour department, Farmers' Organization Authority Malaysia, National Archives of Malaysia and Sabah Agricultural Department over the past 31 years. The result shows that there is a relationship between immigration and employment of local workers in long run. While, there is no relationship between immigration and wages either in short or long run.

ABSTRAK

Objektif utama tesis ini adalah untuk menganalisis hubungan diantara imigrasi dan prestasi pasaran buruh dalam industri perladangan kelapa sawit di Sabah. Prestasi pasaran buruh merujuk kepada upah dan jumlah pekerja tempatan yang bekerja dalam sektor perladangan kelapa sawit. Hubungan diantara pembolehubah ini berlaku dalam jangka masa pendek atau/ dan jangka masa panjang. Kajian ini akan menggunakan analisis Model Vektor Pembetulan Ralat (VECM) untuk melihat hubungan diantara imigrasi dan pencapaian pasaran buruh. Dalam menjalankan kajian ini, pengkaji telah menggunakan ujian Kointegrasi Johansen untuk mengetahui hubungan diantara pembolehubah iaitu imigrasi, jumlah pekerja dan upah. Data diperoleh daripada Jabatan Perangkaan Malaysia, Jabatan Tenaga Kerja, Persatuan Peladang Malaysia, Arkib Negeri Sabah, Jabatan Immigresen dan Jabatan Pertanian Sabah untuk data siri masa 31 tahun. Keputusan kajian menunjukkan terdapat hubungan diantara immigrasi dan jumlah pekerja pada jangka masa panjang. Manakala, tidak terdapat sebarang hubungan diantara imigrasi dan upah sama ada dalam jangka masa pendek mahupun panjang.



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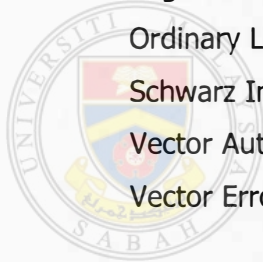
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LIST OF ABBREVIATION

ADF	Augmented Dickey-Fuller
AIC	Akaike Information Criterion
ARCH	Autoregressive Conditional Heteroskedasticity
CUSUM	Cumulative Sum
FELDA	Federal Land Development Authority
FPE	Final Prediction Error
GDP	Gross Domestic Product
HQ	Hannan-Quinn Information Criterion
LM	Lagrange Multiplier
MNLF	Moro National Liberation Front
NEP	New Economic Policy
OECD	Organisation Economic Co-operation and Development
OLS	Ordinary Least Square
SC	Schwarz Information Criterion
VAR	Vector Autoregressive
VECM	Vector Error Correction Model



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CHAPTER 1

INTRODUCTION

1.1 Introduction

The number of foreign workers in Malaysia has been increasing yearly. "Foreign workers" refer to the employee who is non-citizen (K. Rajkumar, 2001). Zehadul Karim, Moha Asri Abdullah and Mohd. Isa Haji Bakar (1999) used the term of "foreign workers" as a group of foreign national who has a legal right to work and has been recruited in any particular industry. In this research foreign workers refer to those who are non-citizen and work as a legal worker in any industry. In Malaysia, generally they are from Indonesia, Philippines, Nepal and Thailand (Azizah Kassim, 2005) They migrate to this country was to find jobs where the demand for them, especially in the manufacturing and farming. Additionally, the private sectors can reduce the cost of production by hiring them with lower wages. For example, based on information obtained from plantation companies in Sabah, foreign workers receive lower wages than Malaysian workers. There are two types of foreign workers – legal and illegal.

In Sabah, the palm oil plantation is one of the main sector which contributes significantly to the gross domestic product (GDP) and the current development of that industry demands more workers. At the same time unemployment of local worker is still high in Sabah which was 5.6 per cent in 2010 (Statistical Department, 2011). Wages in the plantation sector are low compared to other sectors. This situation highlights an important issue: either the immigrants cause all these problems or the immigrants only take jobs that rejected by the local workers.

Borjas (2003) claims that the immigrants affect local workers, especially those with low skills. But there was also a study conducted that showed foreign workers do not have any adverse impact on local workers, but had a positive effect because it increased income and employment opportunities (Borjas, 2006).

Increase in the number of labour will enhance the demand of goods and services, and it will push the price of product to increase. This situation makes the producer intent to produce more products and hire more workers. And at the same time they also will offer high wages to their workers. In other cases, the entry of foreign workers does not affect the labour market (Dustmann, 2005). So there are many assumptions and opinions on the impact of foreign workers.

Based on the Area Analysis Model (AAM), the effects of foreign workers on a country depends on the type of employment. If the foreign workers were exchanged for local workers then the entry of foreign workers would have had a negative impact on Malaysians. But if it is complementary, the influx of foreign workers will have a positive impact. Therefore, it depends on the type of employee because based on Heckscher Ohlin Model (HOM), the entry of foreign workers usually has a negative impact on unskilled workers in the host country.

This study will answer this question, whether the entry of foreign workers will affect the labour market performance or not. Employment and wages are used to represent the labour market performance. In addition, this study conducted in the palm oil plantation sector because it has a larger number of foreign workers than any other industry.

1.2 Background of Migration in Malaysia

Malaysia is a multiracial country. The formation of a multiracial country is a result of migration of people from other countries to Malaysia in the early 1920s. At that time, majority of the immigrants were from China and India. In the beginning, all immigrants who entered this country were primarily looking for jobs (Nagayam, 1992). Chinese and Indian were the communities who made the population in this country increased. It was estimated 47.1 per cent were Malay followed by 24.8 per cent Chinese and 7.04 per cent Indian (Department of Statistics, 1999).

According Nagayam (1992) under the British rule, international migrations in Malaysia already exist. The entire region faced shortage of workers in farming, mining and export. This situation led the British to adopt an open door policy in

bringing foreign workers from South China, the Philippines, India and Indonesia to Malaysia (Nagayam, 1992).

Pillai (1992) claims that, the migration of the Indonesian workers to Malaysia occurred in three phases. In the first phase, starting 1969 until 1979, almost half of Indonesian migrants have made Europe and the Netherlands as their preferred destination (Pillai, 1992). For the second phase, 1979 - 1989, three-fourths of Indonesians have been migrating to Middle East primarily to Saudi Arabia. During the third phase, since 1980s, the Middle East has remained the chief destinations of migrants from Indonesia followed by East Asia, especially Malaysia and Singapore, also became an important destination. These two countries faced economics problems which created a shortage in labour market (Pillai, 1992). At the same time, in 1970, the New Economic Policy (NEP) was introduced, an action which was significant to the migration to Malaysia. This policy focused on the public sector development and export-oriented industries.

The development in the agriculture sector, especially palm oil plantations, provided an opportunity for foreign workers to work in that sector due to lack of local workers (Arif and Tengku, 2001). Since then, the number of foreign workers has increased expediently. In this case of agriculture, more workers were required and admitted particularly from Indonesia and Philippines. However, there were also problems that occurred when many foreign workers entered the country without a valid permit to work (Azizah Kassim, 1998a; Zehadul Karim *et. al*, 1999). In order to fill the gap in labour supply, plantation companies began to aggressively recruit Indonesian workers opening the gates to enter the country illegally, at a time when there were no legal provisions for the influx of unskilled or semi-skilled workers (Syarisa Yanti, 2002).

Hugo (1993) claims that, the number of Indonesian workers who had migrated legally to Malaysia and Singapore increased from 720 persons in 1979-1980 to 7,801 in 1982-1983. At the same time, it is estimated that Indonesians who entered Malaysia without permit were from 200,000 to 700,000 people. These

illegal immigrants were generally overlooked by the Malaysia and Indonesia governments until the world slump that affected Malaysia in the mid-1980s.

The numbers of illegal migrants to Malaysia, Singapore, and Brunei increased from 6,000 people a year to an average of 50,000 people a year in the early 1990's (Spaan, 1992). In fact, migration from Indonesia to Malaysia is not a new phenomenon. As can be seen in the illegal immigration history from Indonesia to Malaysia, there were two main roads for illegal immigrants. However, the two roads which were from East Java to Sumatra, and finally to Peninsular Malaysia, and the second one was from Sulawesi to East Kalimantan and finally to Sabah. Before the 18th century, these two roads were used to carry commercial rice and oil. And only in 1980s the issue of illegal immigrants became public attention (Spaan, 1992).

Syarisa Yanti (2002) claims, there were many foreign workers who were not registered and did not have permits to work in year 1991. Only a small number of workers had a valid permit based on reports from the Malaysian Immigration Department. Consequently there were too many foreign workers coming to Malaysia, because of the government's emphasis on supplying labourers to work in specific sectors. Furthermore, in 1989, the Malaysian government used workers from Thailand, Philippines and Bangladesh to work as domestic servants, farm and construction labour. While the Indonesian employees work primarily in the plantation sector, a practice that continues until today. The government took actions to assign and specific the workers with the type of employment according to country of origin. (Syarisa Yanti, 2002).

To overcome the surplus of foreign workers, there were varieties of further actions taken by the government. From 1991 - 1994, this country gave declared period of amnesty for foreign workers who were not registered, however, the response from workers and the employers alike were not encouraging (Azizah Kassim, 1998b). As reported by Bank Negara Malaysia (1997), the immigrants have been coming to Malaysia since the early 1970s with the number and two decades

there were an estimated 1.7 million people. An increase of about 21.25 per cent compared with 8 million Malaysians.

A study conducted by the Department of Statistics Malaysia (2009), it explains that, in 1992, there were 56,382 immigrants registered in Malaysia whereas in 1997, the number of immigrants in Malaysia had risen to 77,123 and over the next 10 years the number increased to 10,538,100 of the immigrant into Malaysia. This increase was due to the contribution of immigrants in Malaysia's economic growth, especially in agriculture and manufacturing sectors. In addition, the Malaysia government impose a policy on employment of foreign workers. As a result the numbers of immigrant keep increasing yearly (Special Release Migration Survey, Employed Migrants, 2009).

The Malaysian government's policies greatly influenced the increase of foreign workers in this country. In 1992, the percentage of foreign workers to Malaysia and working in agriculture industry was about 13 per cent when compared to the total number of foreign workers in this country (Mohammad Azzam Manan, 2006). But it declined to 7.6 per cent of foreign workers employed in agriculture in 1997. However, in 2002 and 2007, the percentage of foreign workers in Malaysia and in the agricultural sector was 8.9 per cent and increased to 9.2 per cent for both years (Department of Statistics Malaysia, 2009). Based on these circumstances, the entry of foreign workers to the agricultural sector was related to the Malaysian government policy.

Beginning in 2000, Malaysia highlighted the developments in the agricultural sector by providing incentives to all parties to participate in the agricultural sector. In addition, technological development also contributed to that industry's expansion, and the subsequent need for foreign workers to generate the industry (Arif and Tengku, 2001).

In 2001, Malaysia's population was 23.8 million and during that year, the overall number was expected to increase to 33.7 million in 2025. (There were 33% under the age of 15.) However in 2010, the total population in Malaysia was 28.25

million with about 27.2 per cent under 15 years old (Department of Statistics Malaysia, 2010). Meanwhile, Malaysia's foreign workers were about 20 per cent out of the local workers and it's about 1.7 million, and 770,000 were legal foreign workers who had a valid work permit with the remainder being illegal.

The Malaysian government established a policy in 2001 regarding the working period of foreign workers in Malaysia and for the plantation a work permit was for 7 years, while for the others areas it was 6 (Bureau of International Affairs, 2002). Consequently, foreign workers in the plantation sector had a small advantage over those in the other sectors.

The Department of Statistics (2010), records that Sabah's total population was 3,117,405 of which 2,250,215 were Malaysian citizens, with 867,190 non-Malaysian citizens thus showing that the number of foreign citizens in Sabah was almost half of the Malaysian citizens (Yearbook of Statistics, Sabah, 2010).

Tawau recorded the highest population of foreign workers compared to Lahad Datu and Sandakan. For Sandakan it was 396,290 people, Tawau 397,673 and 199,830 people in Lahad Datu. From these three regions, Tawau recorded 164,729 non-Malaysian citizens and the rest were citizens. Sandakan recorded 144,840 and 74,377 for Lahad Datu which were non-Malaysians in 2010 (Yearbook of Statistics, Sabah, 2010).

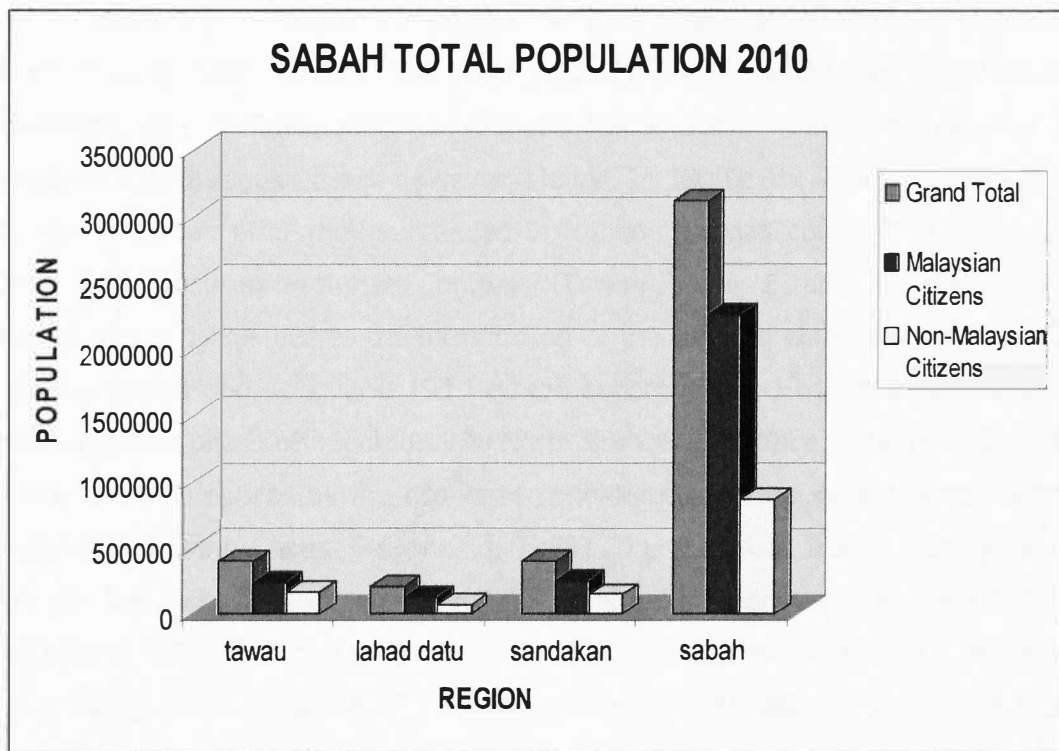


Figure 1.1: Sabah Total Population in 2010

Currently, local workers refuse to work in the plantation sector, manufacturing, mining and construction (Saad; Fatimah and Sofia, 2008). Thus it has led the Malaysian government to adopt a new proactive policy on the recruitment of immigrants, especially from Indonesia (Saad et. al., 2008) to fill in for the local workers who do not want to work in this particular industry.

1.3 Migration History in Sabah

The transition from Sulu to Borneo now Sabah was common in this region. Migration from Philippines to Sabah was intended for trade between these two places. Besides, there were also migrations of people from Persi, China, India and Arabia, to Sabah in the mid of the 19th century. The migration from China, India and Sri Lanka to Southeast Asia was getting greater due to positive changes in the economy of Southeast Asia (Mohammad Azzam Manan, 2006). The economic factor was the major factor of migration during that time as it is today.

According to Tregonning (1958), the early stages of international migration from China to North Borneo took three stages; (1) was the initiated by Sir Walter Medhurst, the Commissioner for Chinese Immigration, which endeavoured to establish it on a regular basis, however it failed. In 1900's, the Japanese were keen to stay in Sabah after they succeeded in forming a small colony in Tawau early 1915, which focused on Kuhara Company (Tawau Rubber Estate). (2) The entry of immigrants in 1900s due to the introduction of the tobacco plant. At that time 196 Chinese from Hong Kong and 193 from Singapore entered the state of Sabah in 1901. (3) This phase of migration into North Borneo took place between 1920s and 1930s and was caused by the economic conditions, including poverty and political instability in South China (Tregonning, 1958). The migration from China to Sabah for the last two decades increased the number of migrants with 60,000 from Singapore, 9,969 from the island of Java, 1000 people from Japan and 1,000 from Hong Kong. In 1921, of the 27,769 immigrants in North Borneo, 8,693 (33.3 per cent) were labourers who came from Java because of the agreement with the Dutch in Batavia allowing three year contracts in Sabah. The number of workers from Java rose to 9,969 in 1932 (Mohammad Raduan, 1996).

Since Sabah became an independent state under the Federation of Malaysia in 1963, the number of immigrants entering the country has increased dramatically which was caused by two things first, the state needed more immigrant for the economic development in various sectors, and second, because the refugees from southern Philippines from 1972 to 1984 that were related to political activities of Pembebasan Bangsa Muslim MORO, also known as the Moro National Liberation Front (MNLF). Meanwhile, the migration into Sabah increased primarily because of people from the Philippines and Indonesia most of who left because of economic factors, and work as fishery workers (Azizah Kassim, 1998). Apart from the economic factors, migration was enabled by the short distance between the Philippines and Sabah thus allowing them to enter the country easily (Kamarulnizam, 2000). It is difficult to estimate the number of Philippine people because many of them have family relationships with the local Sabahans (Mohammad Raduan, 1996).

Bilson (1998) claims in 1991 to 1997 showed a similar tendency with regard to number of immigrants from Indonesia during this time were 234,527, or an average of 33,504 people per year. (Filipino immigrants were 91,078 persons or average 13,011 people per year). He also states that the Federal Task Force (FSTF) found that they estimated the number of immigrants into Sabah in 1997 was higher, to about 585,769 people. This estimation was based on the regularization test which carried out between March and August 1997. Based on census population in 1990/1991, there were 413,832 employees from Indonesia and Philippines and of this number, only 30,769 Indonesian employees had permits and 57,197 refugees. And in Sabah they estimated 80,000 illegal immigrants and only 4,000 legal immigrants from other countries (Mohammad Azzam Manan, 2006).

1.4 Labour Force in Sabah

The Malaysia labour force can be divided into two groups, local and foreigners referring to those who working in Malaysia in any sector or industry. Early 1982, the total labour force recorded by the Department of Statistics was about 354,300. From this amount, the total labour force participation rate for was 59.9 per cent, while, the unemployment rate was at 3.0 per cent.

In 1992, the total amount of labour force in Sabah was 524,300 which increased about 48 per cent in 10 years including the foreign workers. In 1992, the total labour force participation rate was 65.1 per cent out of the total labour force in this state with increases due to the increase in foreign workers. In 2010, the total labour force was 1,370,900, and 13 per cent from this amount were foreign workers who work in plantation sector. The amount of labour participation rate for this year was 74.6 per cent (Department of statistics, Sabah, 2010).

According to the Department of Immigration Malaysia (2011), in Sabah, the number of foreign workers in the plantation sector in 1992 was over 8,460 people which increased to 115,819 people in 2002. The number of foreign workers in the plantation sector in Sabah increased by 13 times in 10 years. The increasing amount of foreign workers in the plantation sector was due to government policy to

develop the plantation sector and to the rapid development in agricultural technology.

In 2005, the total number of foreign workers was the highest between 1990 and 2010. Those who relinquish recorded were 161,513 persons compared to the past 20 years. In 2010, total foreign workers registered and working in the plantation sector was about 139,691 people. This number was based on the number recorded by the Immigration Department (2011). But the actual number of foreign workers in the plantation sector cannot be calculated accurately because there were workers who did not have any permit to work in this sector or also known as illegal workers.

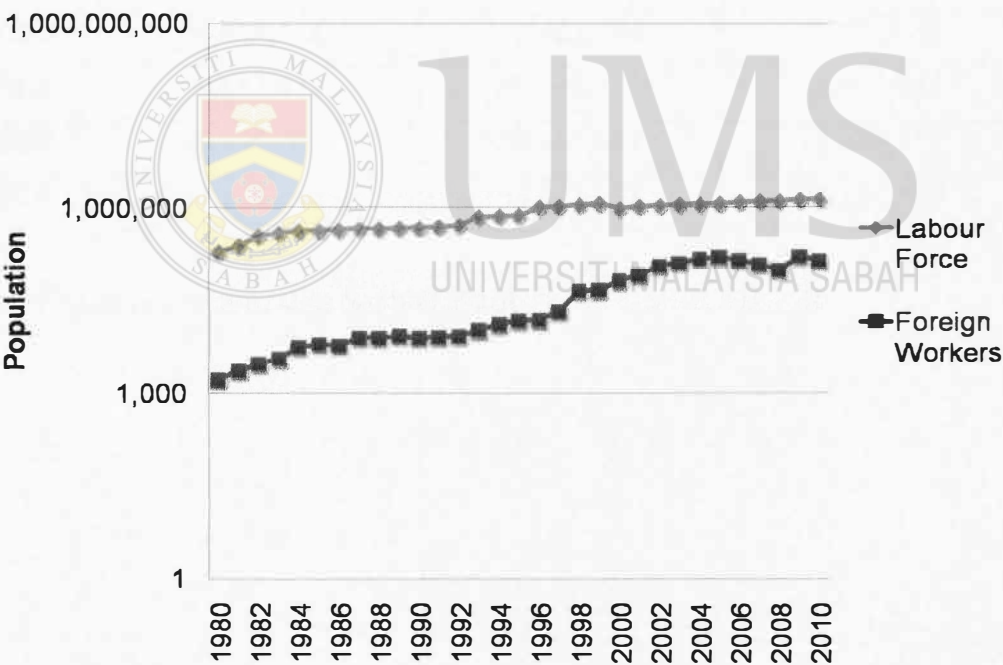


Figure 1.2: Labour Force and Foreign Workers in Sabah Oil Palm Plantation Sector (1990 – 2010).

Sources: Department of Statistics, Sabah (2010); Department of Immigration Malaysia (2011)