

MALAYSIA

Environment

The economic growth of Malaysia has been robust over the past decade, averaging nearly 9 per cent per annum, and inflation has been maintained at below 4 per cent. Employment growth during the period 1990–95 averaged 3.4 per cent. With the unemployment rate declining to 2.8 per cent in 1995 and to 2.5 per cent in 1996, Malaysia has been experiencing near to full employment since the end of 1990. This has resulted in a tight labour market with labour and skill shortages in all sectors of the economy.

The economic and financial crisis in 1998 set the labour market in reverse as the crisis affected adversely the performance of the Malaysian economy. As a result, in 1998, Malaysia's real Gross Domestic Product (GDP) contracted for the first time since 1985, declining by 6.7 per cent, compared to growth of 7.8 per cent in 1997 and 8.6 per cent in 1996.

The contraction of the real economy affected the pace of job creation and led to an increase in unemployment. Total employment declined by 3 per cent to 8.54 million in 1998 and unemployment increased to about 4 per cent. There was an increase in the number of workers retrenched from 19,000 in 1997 to 83,865 in 1998.

The contraction in output and employment growth would have been more severe if not for the counter cyclical measures taken by the government, which included the implementation of the National Economic Recovery Plan, the easing of monetary policy and the injection of fiscal stimulus.

Policies in Place

The Government not only monitored the labour market situation closely but also implemented various labour market adjustment measures to improve the functioning of the labour market and create employment. The following are some of the key measures implemented.

Employment of Workers

Measures to increase employment opportunities include the encouragement of organised and systematic petty trading, farming (for example, vegetable cultivation and livestock rearing) and setting up of small businesses; instituting and providing training schemes for newcomers in petty trading and agricultural activities; as well as revitalising construction and infrastructure projects with multiplier employment effects.

A Graduate Entrepreneur Scheme has also been set up to provide basic training in entrepreneurship and develop entrepreneurs among graduates, especially unemployed graduates. The Government provided RM2 million to finance this scheme while the Development and Infrastructure Bank and National Corporation Ltd. (*Perbadanan Nasional Berhad*) set up a loan fund of RM10 million and RM5 million, respectively, to provide loans as working capital. Loans ranging between RM20,000 and RM100,000, with an interest rate of 8 per cent per annum, will be given out to graduates interested in setting up businesses. However, these graduates must provide 20 per cent of the cost of the business they intend to start. Besides providing the financial support, this scheme provides basic training in entrepreneurship and

attachment training in large corporations. Graduates who do not require training could start their businesses immediately without training. While the Government will subsidise part of the training cost, the trainee is encouraged to pay for part of the cost. The company in which the trainee is undergoing training will also be encouraged to pay allowances during the attachment period. While the Ministry of Entrepreneur Development is responsible for managing this Scheme, the Development and Infrastructure Bank and the National Corporation will be administering the loans.

Workplace Practices to Enhance Productivity and Promote Greater Stability

Realising the importance of training to increasing labour productivity and as an alternative to retrenchment, measures were implemented to encourage firms to continue training their workers even during the economic slowdown. In 1993 Malaysia set up a levy-grant scheme whereby employers contribute an amount, equivalent to 1 per cent of the total payroll, to a fund the Human Resource Development Fund (HRDF), which reimburses the training expenses of employer contributors. In view of the economic downturn, employers were given a temporary exemption from paying the levy to the HRDF for a six-month period beginning February 1998 and later extended to another 6 months for some industries, while RM66 million was re-credited to the employers' accounts to be utilised in retraining their workers. In addition to this, a Workers Retraining Programme was implemented in March 1998 with an initial allocation of RM5 million. Under this programme, firms are allowed to seek financial assistance for retraining workers. A fund of RM40 million will also be set up in 1999 to provide initial funding to firms which have exhausted their contributions to HRDF, to assist them to defray the costs of training. The public training and education institutes/centres will also be providing facilities for training retrenched workers and new labour market entrants.

The Government, through the Department of Labour, issued *Guidelines of Retrenchment* in August 1998 to guide employers and workers on alternatives to retrenchment, and if retrenchment is unavoidable the procedures to be followed. Employers were encouraged to adopt more flexible management practices such as part-time work, reduction of working hours, work shifts, pay cuts, and temporary or voluntary lay-offs instead of retrenchment. They were also encouraged to provide exit services such as counselling and career guidance to assist those retrenched to find new jobs.