

Contract labour in Malaysia: Perspectives of principal employers, contractors and workers

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“One of the major characteristics of contemporary labour markets worldwide is their significant fragmentation. The ... traditional model of the long-term employment relationship between employer and employee is currently being supplemented by a variety of ‘non-standard’ or ‘atypical’ forms of employment” (ILO, 1996, p. 15). A prominent form of atypical employment is contract labour.¹ Although the rise in contract labour is driven by both supply-side and demand-side factors, it is the latter which tend to predominate (ILO, 1996, p.15), hence the concern that contract workers “will not receive the protection intended by labour law ... or that the employer’s obligations under the law will be displaced from the enterprise in the best position to ensure their observance to an intermediary not in such a position” (ILO, 1996, p. 6).

The purpose of this article is twofold. First, it seeks to document the spread of contract labour in a dynamic Asian economy: Malaysia represents an interesting case not only because of the growing incidence of contract labour, but also because Malaysian labour standards cover eight of the nine branches of social security provided for in the ILO’s Social Security (Minimum Standards) Convention, 1952 (No. 102). It is also one of the few major labour-receiving countries to have ratified the Migration for Employment Convention (Revised), 1949 (No. 97), which lays down minimum standards for the protection of foreign migrant labour. Second, the article seeks to provide a better understanding of contract labour from the

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¹ Epstein and Monat define contract workers as semi-skilled and unskilled workers employed “through intermediaries such as contractors, subcontractors, gang leaders, labour bosses, or other agents who stand between the worker and the principal employer who benefits from his labour” (1973, p. 451). For the purpose of this article we adopt a similar definition but include skilled workers and foreign workers supplied by third parties and engaged on a labour-only contract for a legally specified duration. By contrast, workers having a direct employment relationship with their employer are hereinafter referred to as “direct workers”.

perspectives of principal employers, contractors and contract workers. The discussion focuses on the construction, plantation and sawmilling industries and is based on a survey of 40 principal employers, 44 contractors and 258 contract workers conducted in 1993-94.²

Incidence of contract labour

The use of contract labour in Malaysia began with the development of plantations and the tin-mining industry in the early nineteenth century. Until about a decade ago contract labour appeared to be on the decline owing to the growth of regular employment. However, with the tightening of the labour market consequent upon a period of rapid economic growth, contract labour has re-emerged as an important aspect of the labour market in Malaysia.

The Malaysian economy has undergone significant structural change since 1970. While the 1970s were characterized by rapid economic growth with annual real GDP growth averaging 7.7 per cent, the 1980s witnessed a recession during which real GDP growth fell to an average of 5.7 per cent. However, the swing towards greater liberalization of the economy in the late 1980s, coupled with a more favourable external environment, led to strong recovery with real GDP growth averaging 8.9 per cent between 1990 and 1995. This period of economic growth was also characterized by restructuring of the economy. The agricultural sector's share of total employment fell from 50.5 per cent in 1970 to 18.9 per cent in 1995 (see table 1). Over the same period, the manufacturing sector's share grew from 11.4 to 25.5 per cent, and the share of the construction sector from 4 to 8.1 per cent.

Table 1. Sectoral distribution of employment (percentages), 1970-95

Sector	1970	1975	1980	1985	1990	1995
Agriculture	50.5	45.3	39.7	31.3	27.8	18.9
Mining	2.6	2.1	1.7	0.8	0.6	0.5
Manufacturing	11.4	13.5	15.7	15.2	19.5	25.5
Construction	4.0	4.4	5.6	7.6	6.4	8.1
Transport and communications	3.4	3.9	4.3	4.3	4.3	4.9
Finance	0.9	0.9	1.6	3.5	3.5	4.6
Government services	11.7	13.1	13.7	14.6	12.8	11.1
Other services	15.5	16.8	17.7	22.6	25.1	26.4

Source: Department of Statistics of Malaysia: *Economic Report* (Kuala Lumpur), various issues.

Overall, the period of rapid growth and structural change saw Malaysia move from a labour surplus to a tight labour market environment. Unemployment fell from 7.5 per cent in 1970 to 6.4 per cent in 1979, but then

² For details of the survey methodology, see Lee and Sivananthiran, 1995, Annex 1.

rose to a peak of 8.3 per cent in 1986. The subsequent economic recovery, however, saw the unemployment rate fall to 2.8 per cent, well below the natural rate of unemployment estimated at around 6 per cent (Gan, Lam and Robinson, 1993, p. 3, footnote 5). In order to sustain the pace of economic growth, the Government responded to the tightening labour market by opening various sectors of the economy to foreign migrant workers. This move caused an increase in the number of foreign migrant workers – both legal and illegal – who currently account for between 13 and 19 per cent of Malaysia's labour force.³

Rapid economic growth, coupled with the labour crunch and the influx of migrant workers have had a significant impact on the incidence of contract labour in the Malaysian economy. Following a general decline in the 1970s (see table 2), there has been a resurgence of contract labour since the recession of the mid-1980s. By 1990, its incidence had risen to 71 per cent in the construction industry (up from 64 per cent in 1980), to 13 per cent in the rubber plantation industry (up from 10 per cent in 1980) and to 35 per cent in the oil palm plantation industry (up from 33 per cent in 1980). In 1990, rubber and oil palm together accounted for 99 per cent of plantation sector contract labour (Lee and Sivananthiran, 1995, p. 15, table 3.1).

Table 2. Incidence of contract labour in the construction and plantation industries, 1970-90

Industry	1970	1975	1980	1985	1990
Construction	81	77	64	65	71
Rubber	17	13	10	14	13
Oil palm	35	37	33	37	35

Source: Department of Statistics of Malaysia: *Survey of construction industries* (Kuala Lumpur), various issues; *Industrial surveys: Construction, manufacturing, mining and stone quarrying* (Kuala Lumpur), various issues; *Rubber statistics handbook* (Kuala Lumpur), various issues; and *Handbook of oil palm, cocoa, coconut and tea statistics* (Kuala Lumpur), various issues.

The survey of principal employers suggests that the incidence of contract labour has continued to rise. Table 3 shows the mean incidence of contract labour among small, medium and large establishments in the construction, plantation and sawmilling industries in the period 1993-94. In the construction industry, while the large establishments reported a mean incidence of 66 per cent, the small establishments reported a mean of 79 per cent. In the plantation industry, the large estates reported a mean of 27 per cent, the medium-sized estates a mean of 47 per cent and the small estates a mean of 55 per cent. In the sawmilling industry the mean incidence ranges from 74 per cent in small establishments to around 80 per cent in medium and

³ Although this proportion may seem large it is lower than that experienced in other dynamic Asian economies. At one time in Singapore, for example, foreign workers accounted for over one third of total employment (Athukorala, 1993, p. 35).

Table 3. Mean incidence of contract labour by establishment size and industry, 1993-94

Industry	Small	Medium	Large
Construction	78.6	63.1	66.4
Plantation	55.0	47.3	27.1
Sawmilling	73.5	80.9	79.4

Source: Lee and Sivananthiran, 1995, pp. 35-36, tables 5.1, 5.2, and 5.3.

large establishments. Contract labour has thus clearly re-emerged as an important feature of the labour market in Malaysia.

One important factor in this apparent rise in the incidence of contract labour in Malaysia has been the increase in foreign migrant labour. Current estimates put the number of foreign migrant workers at between 1 and 1.5 million, consisting primarily of Indonesians and Bangladeshis (Lee and Sivananthiran, 1995, p. 1). As noted by the ILO, "labour shortages have become . . . a major driving force for labour migration" (1996, p. 16). Indeed, the survey found that, on the average, migrant labour (both legal and illegal) accounted for 63 per cent of male and 33 per cent of female contract workers in the construction industry. In the plantation industry, while female migrant labour remains relatively unimportant, 31 per cent of all male contract workers were migrants. In the sawmilling industry, migrant labour accounted for 59 per cent of male and 11 per cent of female contract workers. Overall, the growing use of contract labour appears to be closely linked to the rise in labour immigration. This raises additional concerns about contract labour practices because migrant workers, particularly illegal migrants, are placed in a position which creates incentives for their exploitation by unscrupulous employers (World Bank, 1995, pp. 67-68).

Principal employers' perspective

The ILO notes that principal employers, or user enterprises, see in contract labour a number of benefits that contribute to increased competitiveness and efficiency (1996, p. 20). First, for industries characterized by cyclical fluctuations in production and demand, contract labour represents an important form of flexibility, which is believed to reduce medium- or long-term wage bills. Second, principal employers also see contract labour as a source of higher productivity and lower management costs.

The survey reveals that principal employers tend to use contract labour mainly because of the difficulty of recruiting direct workers. Indeed the major reasons for using domestic contract workers were the shortage of direct workers (cited by one-third of the principal employers) and ease of management (cited by 13 per cent of the principal employers). Other

reasons, such as higher productivity and lower costs, were cited by less than 10 per cent of the principal employers (Lee and Sivananthiran, 1995, p. 42, table 5.8). The relatively small proportion of principal employers citing the shortage of direct workers as a reason for recourse to domestic contract labour may be explained by the fact that until recently principal employers could employ illegal foreign contract workers with relative ease. Legislation making principal employers liable to imprisonment and/or fines for employing and harbouring illegal migrant workers was passed only in 1994 and enforced more recently still (*The Star* (Kuala Lumpur) 18 Mar. 1996, p. 3). As to the main reasons for recourse to foreign contract workers, 97 per cent of the principal employers cited the shortage of domestic workers, and 94 per cent the high turnover of domestic workers. Other factors include the willingness of foreign contract workers to work longer hours (cited by 44 per cent of the principal employers), lower wage bills (36 per cent) and easier management (28 per cent).

However, the reasons cited for recourse to contract labour generally – i.e. both domestic and foreign – may be somewhat more superficial than the above figures suggest. Indeed, the survey also revealed that principal employers – except those in the plantation industry – view domestic contract labour as a permanent feature of their enterprise. This applies to all the principal employers in the construction industry and to 80 per cent of those in the sawmilling industry. The contrasting position of the plantation industry – where only 14 per cent of the principal employers viewed domestic contract labour as a permanent feature of their enterprise – may be seen as a response to the current difficulty of retaining contract workers, who readily find more lucrative work in the urban sector. As regards foreign contract workers, the survey found a similar response among principal employers. Forty-three per cent of those in the construction industry viewed the use of foreign contract labour as a permanent feature of their enterprise. The corresponding proportions in the sawmilling and plantation industries were 80 and 7 per cent, respectively. Again, the contrasting position of the plantation industry may be attributed to difficulties in retaining contract workers.

The findings of the survey are consistent with the ILO's argument that contract labour plays an important role in industries subject to cyclical fluctuations in production and demand (1996, p. 20). The nature of their work and their need for flexibility thus translate into high demand for contract labour. The shortage of domestic contract workers accounts, to a large extent, for the high demand for foreign contract workers.

On the important issues of labour standards and contract worker welfare, the survey revealed that 85 per cent of the principal employers had entered into written contracts with their contractors (and subcontractors). However, less than 10 per cent ventured to specify the terms and conditions of employment of contract workers engaged by their contractors. Similarly, less than 10 per cent of the principal employers required their contractors to enter into written or oral agreements with their contract workers.

Malaysian legislation makes no distinction between direct and contract workers (Lee and Sivananthiran, 1995, pp. 19-26). Contract workers are therefore entitled to the same benefits and rights as direct workers. Yet, although the vast majority of principal employers provided their direct workers with the benefits they were due under labour laws, about 40 per cent did not know whether their domestic contract workers received such benefits and around 33 per cent had no knowledge of whether their foreign contract workers did. Perhaps more significant is the fact that around 50 per cent of the principal employers knew that their domestic and foreign contract workers enjoyed none of the benefits specified under labour laws.

It appears that, in so far as they are not required by law to ensure that their contract workers receive statutory benefits, principal employers generally seek to absolve themselves of all responsibility in this respect and leave it up to the contractors to determine contract workers' terms and conditions of employment, provided that the principal employers' cyclical demand for labour is met. These findings confirm those reported in an earlier, though less comprehensive, study by Rema Devi (1986).

Contractors' perspective

The interests of contractors are obvious "since labour contracting is their 'core' business providing them with income and profits from the charges paid either by the user enterprise or by the workers engaged, or by both" (ILO, 1996, p. 20). Given that contractors are "peripheral" to the business of principal employers and therefore expendable (Friedman, 1977, pp. 114-118), it is in their interest to employ as few direct workers as possible. It is therefore not surprising to find a high incidence of contract labour among the contractors' personnel. In fact, 45 per cent of the contractors employed only contract workers in their operations. Overall, the mean incidence of contract labour among the contractors in the construction, plantation and sawmilling industries varied between 80 and 84 per cent.

Together, the 44 contractors employed a total of 1,275 workers, including 323 domestic and 471 foreign contract workers. Among the domestic contract workers, 1.5 per cent were employed at the supervisory level, 12.7 per cent at the skilled level, 14.2 per cent at the semi-skilled level and the rest at the unskilled and "general worker" levels (see table 4). By contrast, none of the contractors employed foreign contract workers in a supervisory capacity. Among the foreign contract workers, 8.7 per cent were employed at the skilled level, 40.5 per cent at the semi-skilled level and 49.9 per cent at the unskilled level. It would thus appear that contractors look to foreign migrant workers primarily as a source of semi-skilled and unskilled labour. In the plantation industry, however, contract workers – whether domestic or foreign – were employed only at the unskilled level, primarily as harvesters, tappers and sprayers.

As with the principal employers, the contractors' main reasons for recourse to domestic contract labour were the shortage of workers (cited by

Table 4. Distribution of contract workers by skill, 1993-94 (percentages)

Skill	Contract workers	
	Domestic	Foreign
Supervisory	1.5	0.0
Skilled	12.7	8.7
Semi-skilled	20.7	40.6
Unskilled	61.9	49.9
General worker	3.1	0.8
Total numbers	323	471

51 per cent of them) and ease of management (cited by 38 per cent). Other reasons, such as the avoidance of overtime payments, were cited by less than 10 per cent of the contractors (Lee and Sivananthiran, 1995, p. 57, table 6.4). Again, the first reason is more apparent than real. The survey revealed that 58 per cent of the contractors viewed the use of domestic contract workers as a permanent feature of their enterprise. The rest probably used foreign contract workers.

The survey found that 77 per cent of the contractors used foreign contract workers. Their principal reason for recourse to foreign contract labour (cited by 88 per cent of the contractors) is the high turnover of domestic workers. This is followed by inability to engage domestic workers (85 per cent), the lower wages demanded by foreign contract workers (53 per cent) (see table 7), their willingness to work longer hours (47 per cent),⁴ and ease of management (26 per cent).

On the issue of labour standards and contract worker welfare, table 5 shows that the majority of contractors deny their domestic and foreign contract workers most, if not all, of the benefits provided for under Malaysian labour laws. The most common benefit provided to domestic contract workers was overtime pay (provided by 36 per cent of the contractors), followed by contributions to SOCSO insurance, i.e. the employment injury and invalidity pension schemes (31 per cent), contributions to the Employees Provident Fund (EPF), i.e. the old-age pension scheme (26 per cent), medical benefits (21 per cent), productivity allowance (18 per cent), paid public holidays (15 per cent), and paid sick leave, paid annual leave and annual wage increments (13 per cent each). All other benefits were provided by no more than 10 per cent of the contractors.

Table 5 also shows that foreign contract workers generally enjoy even fewer benefits than do their domestic counterparts. As in the case of domestic contract workers, the most common benefit provided to foreign contract workers was overtime pay (provided by 33 per cent of the

⁴The survey of contract workers showed that domestic contract workers worked an average of 8.45 hours per day, as compared with 8.60 for foreign contract workers.

Table 5. Proportion of contractors providing statutory and other benefits, 1993-94

Benefits	To domestic workers	To foreign workers
Medical benefits	20.5	5.9
Paid sick leave	12.8	11.8
Overtime pay	35.9	32.5
Paid public holidays	15.4	8.8
Paid annual leave	12.8	2.9
EPF contributions ¹	25.6	0.0
SOCISO insurance ²	30.8	8.8
Annual wage increment	12.8	20.6
Annual bonus	10.3	0.0
Cost of living	7.7	0.0
Incentive allowance	7.7	5.9
Productivity allowance	17.9	8.8

¹ EPF refers to the contractor's contribution to the Employees Provident Fund on behalf of the contract worker. ² SOCISO insurance refers to the contractor's contributions made on behalf of the contract worker to the employment injury and invalidity pension schemes of the Social Security Organization.

contractors), but followed by annual wage increments (21 per cent),⁵ and paid sick leave (12 per cent). All other benefits were provided by less than 10 per cent of the contractors. Part of the rationale for denying foreign contract workers the benefits that are due under labour laws may lie in the fact that 80 per cent of the contractors incurred costs in recruiting these workers. Withholding benefits could thus be a method of cost recovery. However, it is likely that such denial of benefits extends beyond cost recovery and is simply seen as an opportunity to secure extra profits (ILO, 1996, p. 20).

Overall, as in the case of principal employers, contractors' recourse to contract labour is dictated by economic interests. Most contractors fail to provide the benefits due under labour laws, and the absence of written contracts affords them greater flexibility, which also works to the contractor's advantage. As shown by Navamukundan (1992), contractors reserve the right to terminate the services of their contract workers with relative ease.

Contract workers' perspective

The survey sample comprised almost equal numbers of domestic and foreign contract workers. Judging by the responses of the principal employers and contractors, this balance appears to be representative of the general situation. Indonesians accounted for 68 per cent of the foreign contract workers, and Bangladeshis for a further 26 per cent. The influx of

⁵ The contractors who paid annual wage increments recruited their foreign contract workers mainly through specialized private agencies, in which case written contracts specifying terms and conditions of employment were required.

foreign contract workers can be explained by income differentials between Malaysia and their home countries, geographic proximity and socio-cultural similarities. Another important factor is, of course, the high demand for contract workers by principal employers and contractors in Malaysia.

Contract workers generally had low levels of educational attainment. Among the domestic contract workers, almost 80 per cent had only primary schooling. Eighteen per cent had secondary schooling and only 2 per cent had tertiary education. Foreign contract workers tended to have marginally higher levels of education: 74 per cent had only primary schooling, while 21 per cent had secondary schooling and 2 per cent had tertiary education. By way of comparison, workers with secondary education accounted for 52 per cent of total employment in the country and those with tertiary education for 11 per cent (Malaysia, 1995).

As regards labour market experience, 80 per cent of the domestic contract workers had worked prior to their current employment. Of these, 60 per cent had had between one and five previous jobs, and 40 per cent more than five. The overall proportion of foreign contract workers having previously worked was higher, at 88 per cent. Of these, 82 per cent had held between one and five previous jobs, and 18 per cent more than five. Interestingly, 75 per cent of the domestic contract workers having previously worked were, in the main, also contract workers in their previous jobs. The prior experience of the foreign contract workers was, unsurprisingly, somewhat different: only 34 per cent of them had previously worked as contract workers, while 33 per cent had been unpaid family workers. Overall, the contract workers had a mean of 11.2 years of actual work experience, with 12.5 years among the domestic contract workers and 9.9 years among the foreign contract workers.

Enjoyment of social protection

The ILO has argued that “the main question arising with regard to contract labour is whether or not the workers concerned enjoy an adequate level of social protection compared to that afforded to directly employed workers” (1996, p. 21). As pointed out above, principal employers regard social protection as a responsibility that falls squarely on the contractors. Contractors, however, tend to deny contract workers the benefits they are due under labour laws. If only for this reason, therefore, it is important to look at the issue from the perspective of the contract workers themselves.

The survey revealed that only 10 per cent of the contract workers had written contracts of employment. Among these, 53 per cent had contracts with the principal employers, and the remainder with the contractors. All these contract workers were foreign migrants engaged through private agents acting as labour-only contractors. The relationship here is somewhat complicated by the fact that both principal employer and labour-only contractor are responsible for the contract workers. However, labour-only contractors tend to keep their distance, leaving it up to the principal

employers to determine contract workers' terms and conditions of employment (Lee and Sivananthiran, 1995, p. 78).

An important finding of the survey is that although 90 per cent of the contract workers had no written contract of employment, only 5 per cent of those in this category had ever tried to obtain a written contract with their principal employers. Excluding the foreign contract workers who had written contracts with their principal employers, only 27 per cent of the contract workers had ever asked for a written contract with their contractors. One plausible explanation may be that the contract workers themselves prefer to maintain flexibility in their employment relationship (see also Rema Devi, 1986).

Even in the absence of a written contract, contract workers may still enjoy some of the benefits provided for under labour laws. Table 6 shows the proportion of domestic and foreign contract workers enjoying statutory and other benefits. Although all employees are entitled to employer contributions to the EPF and SOCSO, almost 60 per cent of the domestic contract workers surveyed were denied these benefits; and 90 per cent of the foreign contract workers did not receive any SOCSO benefits. Similarly, almost 70 per cent of domestic contract workers and 80 per cent of foreign contract workers were denied paid annual leave. Only around 12 per cent of domestic contract workers enjoyed paid public holidays and medical benefits, as against 28 per cent of foreign contract workers enjoying paid public holidays, and 24 per cent enjoying medical benefits, which, according to Rema Devi (1986), consist mainly of the provision of pills for simple

Table 6. Proportion of contract workers receiving statutory and other benefits, 1993-94

Benefits	Contract workers	
	Domestic	Foreign
Medical benefits	12.8	24.1
Paid sick leave	9.6	15.0
Overtime pay	29.6	43.6
Paid public holidays	12.0	27.8
Paid annual leave	32.8	19.5
EPF contributions ¹	40.8	0.0
SOCSO insurance ²	43.2	9.8
Annual wage increment	4.0	24.1
Annual bonus	8.8	7.5
Cost of living	2.4	0.0
Incentive allowance	4.0	3.0
Productivity allowance	4.0	3.0

¹ EPF refers to the contractor's contribution to the Employees Provident Fund on behalf of the contract worker. ² SOCSO insurance refers to the contractor's contributions made on behalf of the contract worker to the employment injury and invalidity pension schemes of the Social Security Organization.

Table 7. Mean monthly earnings of contract workers in RM, 1993-94

Industry	Contract workers		
	Domestic	Foreign	All
Construction	619.32	602.56	611.03
Plantation	522.45	476.25	510.33
Sawmilling	610.24	470.53	535.63
All	585.34	515.96	549.97

US\$ 1 = RM 2.70 in 1993 (RM 2.55 at present).

Source: Lee and Sivananthiran, 1995, p. 83, table 7.19.

medical needs. However, the differential in the reported enjoyment of these benefits as between domestic and foreign contract workers tends to be offset by the lower wages paid to the latter (see table 7). Most of the other benefits, with the exception of overtime pay, were enjoyed by only a very small proportion of contract workers, whether domestic or foreign.

On the whole, contract workers (both domestic and foreign) are denied most of the benefits provided for under labour laws. Yet, 51 per cent of the contract workers indicated that they would continue to work with their contractors. Furthermore, an earlier study reported that 40 per cent of contract workers indicated a preference for contract work over direct employment (Rema Devi, 1986, p. 113). Higher pay was the principal reason cited for this preference.

Remuneration

A look at monthly earnings by skill level gives some insight into why workers might have a preference for contract work. The mean monthly earnings of the skilled contract workers in the sample were RM 773.75; those of semi-skilled contract workers RM 608.86; and those of unskilled contract workers, RM 518.24 (US\$ 1 = 2.70 Malaysian ringgits in 1993). Overall, the mean monthly earnings of the contract workers compare favourably with the nationwide averages of RM 404.74 (hourly rated) and RM 530.96 (monthly rated) for production workers, and with the averages of RM 341.16 (hourly rated) and RM 511.19 (monthly rated) for general workers in the manufacturing sector (see Malaysia, 1993, p. 23). While direct comparisons with average industrial wages are not possible for the construction and plantation industries, the mean monthly earnings of contract workers in the sawmilling industry (see table 7) compare favourably (even allowing for inflation) with nationwide industry averages. In 1992 the average monthly earnings of daily-rated male general sawyers were RM 526.40 (Malaysia, 1993, p. 70, table 9.3). The corresponding averages for male quality checkers/graders, production operators and general workers were RM 436.11, RM 430.92 and RM 365.31, respectively.

Wage advances

Another possible reason why so many contract workers indicated they would continue working with their present contractors is that contract workers are often tied to their contractors through various benefits provided by the latter. One of the most important means by which contract workers are tied to their contractors is through wage advances, often without collateral (Navamukundan, 1992). Indeed, the survey revealed that 62 per cent of the contract workers received wage advances from their contractors. The incidence of indebtedness through wage advances was highest in the plantation industry (83 per cent), followed by construction (57 per cent) and sawmilling (48 per cent). These advances are repaid through deductions from the earnings of the contract workers. The mean deduction amounted to RM 192.80 per month – almost 35 per cent of mean monthly earnings. Such repayments tended to be higher for domestic contract workers (mean of RM 221.77 per month) than for foreign contract workers (RM 150.23).

Apart from wage advances, foreign contract workers are also tied to their contractors through loans for the payment of the government levy on foreign workers and/or fees due to labour-only contractors and private employment agencies. Among the foreign contract workers, 87 per cent reported having their levy payments deducted from their monthly earnings by the contractors. The average monthly deduction for this purpose was RM 36.36, with a range from RM 20.00 to RM 72.00. The fact that such deductions exceed RM 60.00 per year implies that some contractors were deducting more than the legal amount. Nine per cent of the foreign contract workers had an average of RM 148.00 deducted from their monthly earnings to cover private employment agency fees. Foreign contract workers can also find themselves tied to their contractors when the latter provide for their travel to Malaysia and official employment permits. This applied to around 26 per cent of the foreign contract workers surveyed. On average, foreign contract workers had spent a total of RM 1084.67 to secure work in Malaysia.

Earnings differentials

For a better understanding of contract workers' earnings differentials, the results of an estimated log earnings equation are given in table 8.⁶ The natural logarithm of monthly earnings serves as the dependent variable. The independent variables include education (SECED takes unit value for contract workers with at least secondary schooling), experience (with TX representing total experience; PX, experience prior to present job; and CX, experience in the current job), citizenship (where the dummy variable MALAYSIAN takes unit value in the case of domestic contract workers), training (where PTRAIN refers to duration of training received prior to the

⁶ Given the small number of female contract workers in the sample, the analysis is confined to male contract workers.

Table 8. Log earnings equation for contract workers

Variable	Regression equation		
	1	2	3
Constant	5.997 (73.592)	5.590 (41.022)	5.659 (41.248)
SECED	0.010 (0.141)	-0.020 (0.320)	-0.001 (0.023)
TX	0.033 (5.739)		
TX ²	-0.001 (5.109)		
PX		0.015 (2.709)	0.014 (2.546)
PX ²		-0.001 (2.799)	-0.0004 (2.500)
CX		0.231 (5.235)	0.236 (5.369)
CX ²		-0.052 (4.980)	-0.054 (5.222)
MALAYSIAN	0.101 (3.239)	0.056 (1.754)	0.033 (0.945)
PTRAIN		0.258 (6.320)	0.255 (6.270)
CTRAIN		0.218 (2.380)	0.224 (2.385)
HRSWORK		0.001 (2.943)	0.001 (2.804)
UNION		-0.023 (0.383)	0.035 (0.551)
CONST		0.189 (4.613)	0.179 (4.355)
SAWM		0.028 (0.709)	0.024 (0.559)
MEDIUM		0.018 (0.599)	0.013 (0.433)
LARGE		0.028 (0.890)	0.011 (0.343)
MARRIED		0.209 (4.038)	0.212 (4.128)
SPWORK		-0.138 (2.627)	-0.134 (2.558)
ACCOM			-0.060 (1.729)
NOBEN			-0.014 (2.253)
Adjusted R ²	0.174	0.436	0.450
F	12.395	12.481	11.817
Number of cases	241	239	239

For explanation of abbreviations, see text. The numbers in parentheses are t-ratios. Adjusted R² is the coefficient of determination adjusted for degrees of freedom.

Source: Lee and Sivananthiran, 1995, pp. 103-104, table A.

present job, and CTRAIN refers to duration of training received in the current job), hours worked during the month (HRSWORK), union membership (with the dummy variable UNION taking unit value if the contract worker is a union member), establishment characteristics (represented by the dummy variables CONST for contract workers in the construction industry, SAWM for contract workers in the sawmilling industry, MEDIUM taking unit value for contract workers working for medium-sized principal enterprises, and LARGE taking unit value for contract workers working for large principal enterprises), personal characteristics (with the dummy variable MARRIED taking unit value for contract workers who are married, and SPWORK taking unit value if the spouse of the contract worker is gainfully employed), and contractor concessions (represented by ACCOM, which takes unit value if the contract worker is provided with accommodation by the contractor, and NOBEN, referring to the number of other benefits provided by the contractor such as contributions to the EPF and SOCSO).

Table 8 shows that each year of past experience adds about 1.4 per cent to a contract worker's monthly earnings. But the first year of experience in the present job adds as much as 23.6 per cent to monthly earnings, although this rate of increase drops sharply as the number of years of experience increases. Past training under a supervisor or master craftsman contributes as much as 25.5 per cent to monthly earnings, while training in the present job adds (a further) 22.4 per cent. The return to present-job training shows up as lower than that to past training partly because some of the contract workers had yet to complete their training at the time of the survey.

Each additional hour of work increases monthly earnings by only 0.1 per cent. This is not surprising since most contract workers are either on daily rates (61 per cent) or paid a lump sum for a specific job (5 per cent). With regard to work characteristics, contract workers in the construction industry earn 17.9 per cent more on average than do their counterparts in plantations or sawmilling. This premium reflects greater exposure to industrial and occupational risks in the construction industry (Lee and Sivananthiran, 1995, pp. 80-81). Contract workers who are provided with accommodation earn about 6 per cent less than those who are not. Each additional benefit provided by the contractor translates into a cut in monthly earnings. This finding lends support to the argument that contractors tend to offset the provision of accommodation and other benefits to their contract workers by paying them lower wages.

As regards personal characteristics, married contract workers earn 21.2 per cent more than do those who are not. This is consistent with the findings of other studies which argue that married men tend to have stronger work attachment (see, for example, Siebert and Sloane, 1981; and Lee and Nagaraj, 1995). Those whose spouse works, however, earn 13.4 per cent less than do married contract workers whose spouse does not work. Following Becker (1976), it can be argued that the impact of SPWORK depends on

whether it is the income or substitution effect which is stronger. If the former is stronger, then the impact is negative.

An interesting finding concerns the common notion that domestic contract workers earn more than their foreign counterparts. Table 8 shows that once account is taken of work characteristics and benefits provided by the contractors, domestic contract workers do not earn significantly more than their foreign counterparts.

In sum

Overall, the survey reveals that contract workers tend to be less educated than the labour force average. Given the number of years of experience they have had, their work history is characterized by a high rate of job turnover. The vast majority of contract workers have no written contract and are denied most of the benefits provided for under labour laws. However, they generally earn higher monthly pay than do other workers. Their higher earnings may, to some extent, compensate for the loss of statutory and other benefits. Contract workers may be compelled to form stronger attachments to their contractors through the various loans and advances the latter provide. The determinants of contract workers' monthly earnings show that a premium is put on their experience and skills, but that contractors offset the cost of providing any statutory and other benefits to contract workers by paying them less.

Concluding remarks

Industrialization and economic development are commonly assumed to increase the proportion of the labour force in regular employment. Horton, Kanbur and Mazumdar, for instance, observe a trend rise in the proportion of employees in Malaysia's labour force over the period 1970-1989 (1991, p. 539). While this may be true of the economy as a whole, this study shows that rapid economic growth over the past eight years has also been characterized by a rise in the incidence of contract labour in at least three industries. Indeed, in the construction, plantation and sawmilling industries, contract labour has emerged as an important aspect of labour market development. Much of the increase in the incidence of contract labour in these industries is accounted for by the influx of foreign migrant labour. While both principal employers and contractors cite labour shortages as a major reason for their recourse to contract labour, this argument is somewhat spurious. The real, underlying reason for their recourse to contract labour is their perceived need for more flexible employment practices, brought home by the recession of the mid-1980s.

The survey data provide strong evidence of the extent to which contract workers, both domestic and foreign, are denied their statutory rights by principal employers and contractors alike. Principal employers place the onus for social protection of contract workers on the contractors, while the

latter either fail to provide such protection or provide it by shifting the associated costs on to the contract workers themselves. The increasing concern over the vulnerability of contract workers is thus clearly justified.

Existing labour laws and law enforcement appear to be ineffective in providing contract workers with adequate social protection. The survey revealed that only 16 per cent of the contract workers in the plantation industry had ever been informed of their statutory rights by the Ministry of Human Resources. In the sawmilling and construction industries the proportions were even lower, at 14 and 11 per cent respectively. The same goes for collective bargaining. It has been argued that since collective bargaining is difficult where there are many different employers on site, labour law should identify the principal employer as *the employer* (*The Sun* (Kuala Lumpur), 22 Mar. 1996, p. 16). However, collective bargaining is also hampered by the fact that contract workers are largely unorganized. The survey revealed that only 31 per cent of the contract workers knew of the existence of a trade union or in-house union at their workplace. Even then, only 21 per cent of the contract workers were union members.

Overall, it is clear that affirmative action is required to ensure adequate social protection for contract workers (Lee and Sivananthiran, 1995, pp. 89-93). It is, however, important to emphasize that any new measure introduced must take account of the unique relationship that exists between contract workers and their contractors. As the study shows, contractors are a source of credits and loans which may not easily be replaced. Contractors also provide contract workers with flexibility that regular employment does not offer. It is therefore important to ensure that any new legislation or measures adopted to improve the welfare of contract workers do not impede the efficiency of the contract labour system. A tripartite approach is clearly essential.

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