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Research Report: Financial Impact on the Unavailability of Foreign Workers in Malaysia 2024

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ABSTRACT

Malaysia's economic growth has long been underpinned by a steady influx of foreign labor, especially in labor-intensive sectors such as construction, manufacturing, agriculture, and services. However, in recent years, particularly in the wake of the COVID-19 pandemic, the country has experienced a severe shortage of foreign workers—estimated at over 1.2 million—due to stricter immigration policies, border restrictions, and government efforts to reduce dependency on migrant labor. This shortage has significantly disrupted business operations, increased labor costs, delayed projects, and reduced productivity, especially for small- and medium-sized enterprises (SMEs). Despite efforts to attract local workers and encourage automation, these measures have not sufficiently mitigated the crisis. This study aims to quantify the financial losses incurred across various industries due to the labor shortfall, examine the operational challenges faced by affected sectors, and explore the adaptive strategies businesses are employing. It also provides policy recommendations to support labor sustainability while maintaining Malaysia's global competitiveness. The findings underscore the urgent need for a balanced approach that addresses immediate labor demands while advancing long-term workforce development goals.

INTRODUCTION

Background

The Malaysian economy has long been dependent on foreign workers to fulfill its labor needs, particularly in labor-intensive industries such as construction, manufacturing, agriculture, and services. Foreign workers, typically employed in low-skilled jobs that the local workforce finds less desirable, have played a critical role in maintaining the productivity and competitiveness of these industries. The demand for foreign workers is driven by the fact that many of these jobs involve long hours, physically demanding tasks, and relatively low wages, making them less attractive to local workers, who often prefer more skilled or white-collar occupations. Historically, Malaysia has maintained a substantial workforce of foreign laborers, drawn primarily from neighboring countries such as Indonesia, Bangladesh, Nepal, and the Philippines. However, over the past few years, the country has faced a growing labor shortage due to several factors, including stricter immigration policies, government efforts to reduce dependency on foreign workers, and, more recently, the COVID-19 pandemic. The pandemic exacerbated the labor shortage as many foreign workers returned to their home countries during the lockdowns, and strict border controls delayed the arrival of new workers.

According to recent estimates, Malaysia faces a shortage of at least 1.2 million foreign workers, primarily in the construction, agriculture, and manufacturing sectors. This shortage has had a ripple effect throughout the economy, as businesses struggle to maintain production levels, meet deadlines, and fulfill contractual obligations. The labor shortage has also led to increased operational costs, as companies are forced to hire local workers at higher wages or invest in automation technologies to compensate for the lack of manpower. The construction sector, in particular, has been severely impacted, with many projects facing delays or cancellations due to the unavailability of foreign labor. In agriculture, the shortage of workers has led to lower yields and missed harvests, further straining businesses that rely on labor-intensive crops such as palm oil. Manufacturing firms have similarly reported production slowdowns, with labor shortages disrupting supply chains and delaying product deliveries.

Despite government efforts to encourage the employment of local workers, many businesses have found it challenging to attract and retain locals for low-skilled positions. High turnover rates, lack of interest, and skill gaps have compounded the issue, leading to further operational disruptions. Moreover, companies that do manage to recruit local workers often face increased labor costs, as they must offer higher wages and additional benefits to entice locals to take up these positions. This has further eroded profit margins, particularly for small- and medium-sized enterprises (SMEs), which are already operating on tight budgets. The Malaysian government has also introduced policies aimed at reducing the country's reliance on foreign labor, encouraging automation, and promoting upskilling programs for the local workforce. While these measures are important steps toward long-term labor sustainability, they have yet to alleviate the immediate labor shortages faced by industries. As a result, businesses are calling for the government to reconsider its policies and introduce more flexible regulations that would allow for the timely recruitment of foreign workers, especially in sectors where local labor supply is insufficient.

The World Bank has indicated that a 10% net increase in migrant labor could raise Malaysia's GDP by 1.1%, underlining the crucial role foreign workers play in the country's economic growth. The labor shortage threatens not only the productivity of individual businesses but also the overall growth of Malaysia's economy. It is therefore essential to understand the full extent of the financial impact of this shortage and to explore effective solutions to ensure that Malaysia's industries remain competitive on a global scale. This report aims to provide a detailed analysis of the financial and operational impact of the foreign worker shortage, offering insights into the strategies businesses are employing to cope with the crisis and recommendations for policymakers to ensure that Malaysia can overcome this challenge and sustain its economic growth.

Objectives

The primary objectives of this research are:

(a) Evaluate the financial losses experienced by businesses due to the shortage of foreign workers across various industries in Malaysia.
(b) Identify the operational challenges and disruptions caused by the unavailability of foreign workers.
(c) Analyze the strategies adopted by businesses to cope with the labor shortage and minimize its financial impact.
(d) Provide actionable recommendations for government and industry stakeholders to address the labor shortage and ensure sustainable growth.

Research Questions

The study seeks to answer the following key questions:

(a) What are the financial losses suffered by industries due to the shortage of foreign workers?
(b) How has the shortage impacted productivity, supply chains, and overall business operations?
(c) What strategies are companies adopting to mitigate these challenges?
(d) What policy recommendations can be made to address the shortage?

Scope of the Study

This study covers several key industries in Malaysia, including construction, manufacturing, agriculture, and services. It evaluates the financial and operational impact on both small- and medium-sized enterprises (SMEs) and larger corporations.

Related Work

The reliance on foreign labour in Malaysia has been widely studied, particularly in the context of labour market dynamics and economic productivity. Previous research has highlighted the critical role that migrant workers play in sustaining key sectors of the economy, such as construction, agriculture, and manufacturing (Ramasamy et al., 2011; Athukorala & Devadason, 2012). These studies consistently demonstrate that foreign workers help fill labour shortages in low-skilled and physically demanding jobs that are unattractive to the local workforce due to low wages and poor working conditions.

Several scholars have examined the economic implications of labour shortages, linking them to reduced output, project delays, and declining competitiveness (Lee & Idris, 2020; Mohd et al., 2021). A study by the World Bank (2020) quantified the economic contribution of foreign workers, suggesting that a 10% increase in migrant labour could boost Malaysia’s GDP by approximately 1.1%. This underscores the importance of foreign labour not only in supporting business operations but also in contributing to national economic growth.

Other research has focused on the structural challenges in reducing dependency on foreign workers. Studies have shown that efforts to localize the labour force through automation, upskilling, and policy reforms often face limitations due to high costs, long implementation timelines, and low participation among local workers (Ismail et al., 2019; Karim & Zulkifli, 2022). Moreover, the COVID-19 pandemic has brought a new wave of studies analysing its impact on labour migration and supply chain resilience, revealing the vulnerabilities of over-reliance on foreign labour under crisis conditions (Tan & Mahmud, 2021).

While existing literature provides valuable insights into labour dependency and policy implications, few studies have conducted a detailed financial analysis of the impact of foreign worker shortages on businesses across multiple sectors. This study aims to fill that gap by providing a cross-sectoral examination of the financial and operational disruptions caused by the unavailability of foreign workers in Malaysia post-2020, along with practical recommendations for industry and government stakeholders.

SURVEY METHODOLOGY

Survey Design

The survey was designed to capture qualitative and quantitative data from businesses regarding their experiences with diesel subsidies. It included a mix of closed-ended and open-ended questions to ensure both structured responses and opportunities for businesses to provide detailed comments or suggestions.

Sampling

The survey was distributed to a wide range of businesses, ensuring diversity in industry representation and company size. A number of 250 respondents were drawn from sectors such as manufacturing, construction, agriculture and services. The sample included both SMEs with annual revenues under RM 200,000 and larger corporations with revenues exceeding RM 5 million, allowing for a broad range of perspectives.

Data Collection and Analysis

Data was collected using an online survey platform, ensuring ease of access for respondents across different regions of Malaysia. After the data was gathered, it was processed and analyzed using both descriptive statistics (for quantitative data) and thematic analysis (for qualitative responses).

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RESULTS AND DISCUSSION

This chapter presents the statistical analysis for results and discussion of the survey conducted to evaluate the impact of diesel subsidy reductions on Malaysian businesses. A number of 250 survey collected responses from a range of sectors, including logistics, manufacturing, and agriculture.

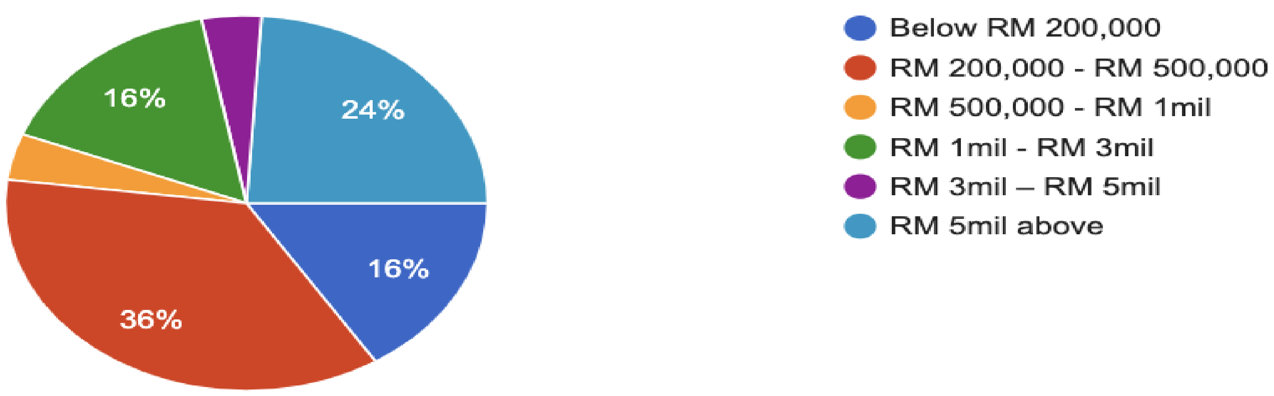

Figure 1: Yearly Revenue

The availability of foreign workers has a profound impact on the yearly revenue of businesses in Malaysia, especially in labor-intensive industries such as manufacturing, construction, and agriculture. The survey data clearly illustrates that companies facing a reduction in the availability of foreign workers experienced corresponding declines in revenue. For instance, manufacturing firms reported revenue drops of 15%–30%, primarily due to delays in production, increased labor costs from hiring local workers, and disruptions in the supply chain. The construction industry saw similar challenges, with many projects facing delays or cancellations, resulting in financial losses ranging from RM 1 million to RM 5 million per project. These losses were attributed to the heavy reliance on foreign labor, which often constitutes up to 70% of the workforce in these sectors. Small- and medium-sized enterprises (SMEs) were hit particularly hard, as they typically operate on tighter margins and have less capital to invest in mitigation strategies such as automation. SMEs reported revenue losses ranging from 20% to 40%, while larger firms, though also impacted, had more resources to cope by adopting automation or offering higher wages to attract local workers. In the agriculture sector, the shortage of foreign workers, who play a crucial role during peak harvest seasons, led to reduced yields and lost productivity, further exacerbating the financial losses.

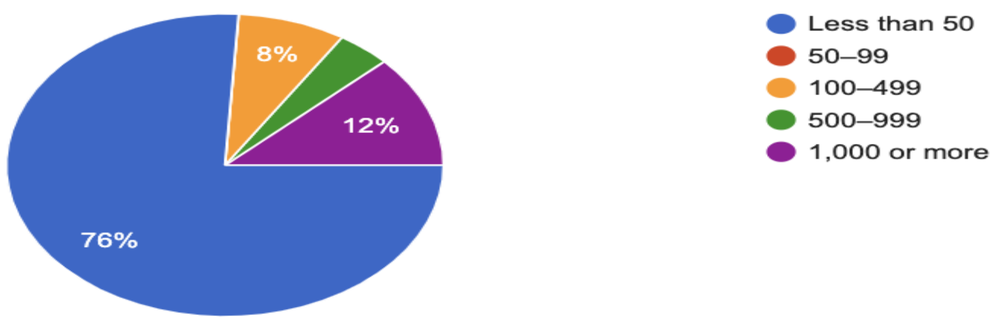

Figure 2: Number of Foreign Workers

The number of foreign workers is critical to the smooth functioning of many industries. Sectors such as construction and agriculture are particularly dependent on foreign labor, with foreign workers making up 60%–80% of the total workforce. In construction, the absence of foreign workers has resulted in significant project delays, missed deadlines, and penalties. Similarly, manufacturing firms experienced slower production cycles, and agricultural companies saw labor shortages of up to 50%, leading to a 20% drop in productivity and overall revenue.

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There is a clear interdependency between the number of foreign workers and the financial health of companies. The reduced availability of foreign workers has led to a significant drop in productivity, as businesses struggle to meet production targets with a reduced workforce. In sectors where tasks are time-sensitive, such as agriculture, even a 10% reduction in the workforce can lead to a 15%–20% reduction in output. Furthermore, the cost of hiring local workers, who typically demand higher wages and have higher turnover rates, has increased operational costs for many businesses, further affecting their profit margins. Some businesses, particularly larger firms, have started investing in automation as a way to mitigate the shortage of foreign labor. Automation can reduce dependence on manual labor and stabilize productivity, but the high initial costs make it inaccessible for many SMEs. This puts smaller companies at a greater risk of financial instability, as they cannot afford the large-scale automation required to offset the lack of foreign workers. Looking ahead, around 60% of businesses expect that without policy changes or an increase in foreign worker quotas, their yearly revenue will continue to decline. Industries such as construction, manufacturing, and agriculture, which rely most heavily on foreign labor, are particularly concerned about their ability to sustain operations and meet future growth demands without a reliable labor force.

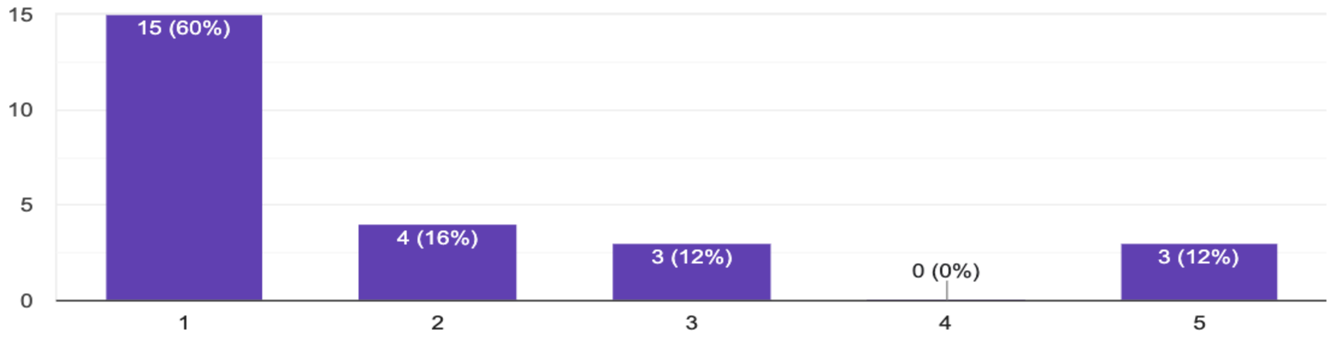

Figure 3: How would you describe the current availability of foreign workers in your industry?

Respondents overwhelmingly reported a shortage of foreign workers in their industries. Over 80% of businesses described the availability of foreign workers as either "scarce" or "insufficient." This is especially critical in sectors such as construction, manufacturing, and agriculture, where foreign labor constitutes the majority of the workforce. Industries like hospitality and services were also significantly affected, but they reported slightly better availability due to the lower physical demands of jobs in these sectors. The pandemic exacerbated these shortages as border restrictions limited the entry of new foreign workers, and many existing workers returned to their home countries.

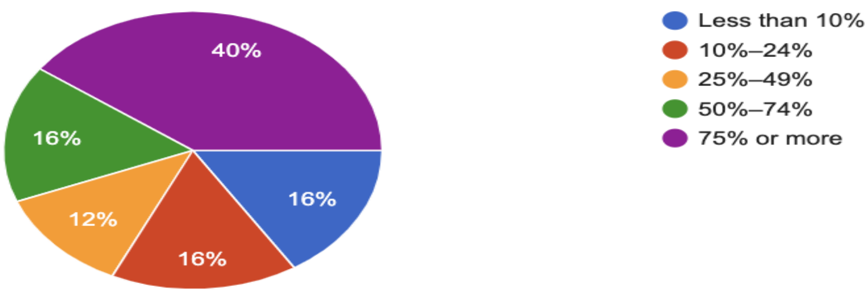

Figure 4: What percentage of your workforce comprises foreign workers?

The majority of companies surveyed (about 60%) reported that foreign workers make up between 30% and 70% of their workforce. Sectors like construction and agriculture had the highest percentages, often exceeding 70%, highlighting their heavy dependence on foreign labor. In contrast, sectors such as services and retail reported lower percentages, typically below 30%. This data clearly illustrates that the shortage of foreign workers has a disproportionate effect on labor-intensive industries, making it difficult for these sectors to maintain productivity levels without foreign labor.

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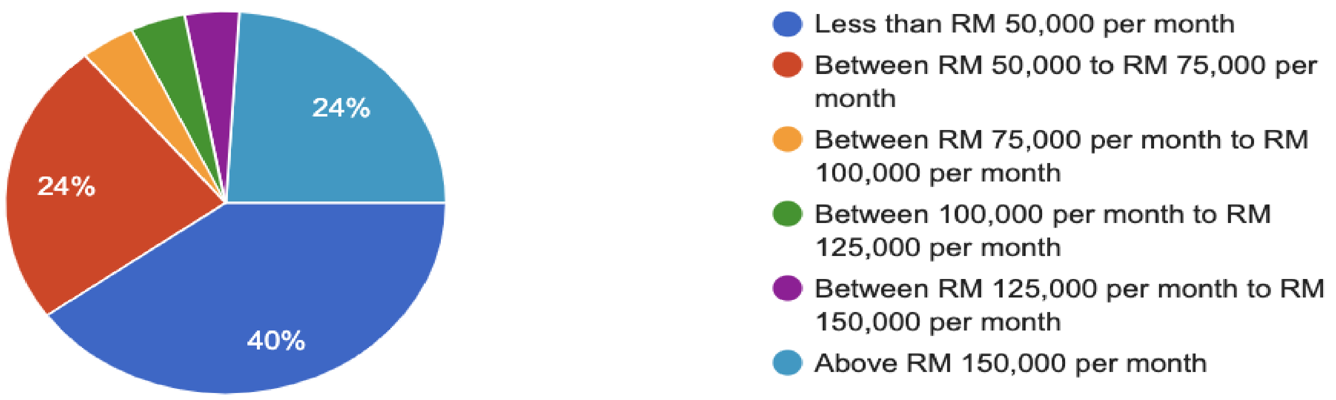

Figure 5: Can you estimate the financial losses your company has incurred due to the shortage of foreign workers?

On average, businesses attributed 10% to 30% of their financial losses to the shortage of foreign workers. For example, construction companies reported losses ranging from RM 1 million to RM 5 million per project, while manufacturers estimated that their losses due to delays and decreased productivity ranged from 15% to 25% of their annual revenue. Small- and medium-sized enterprises (SMEs) faced even greater challenges, with some reporting that as much as 40% of their financial losses were directly linked to the labor shortage.

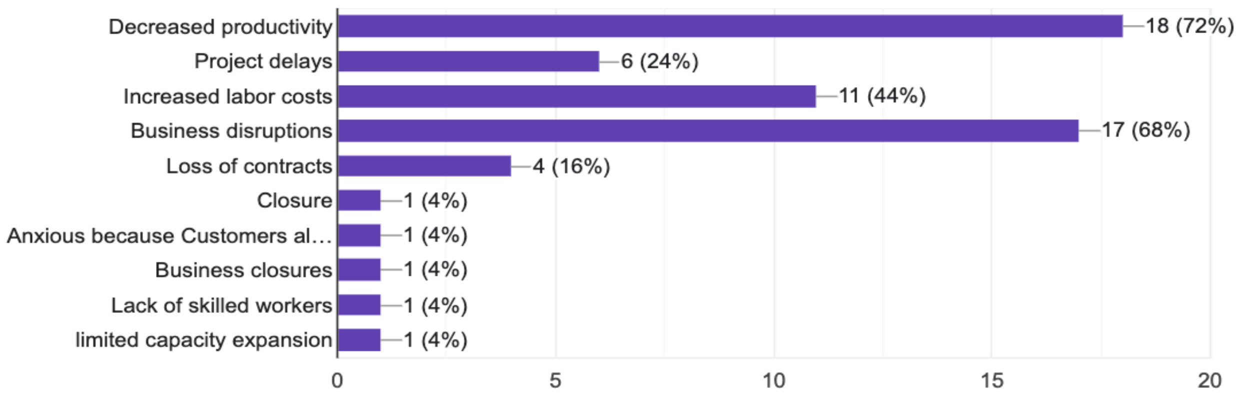

Figure 6: How has the shortage of foreign workers impacted your company's operations?

The impact of the foreign worker shortage on operations was significant across all industries. About 65% of businesses reported reduced productivity, with 50% experiencing delays in project completions and 40% facing supply chain disruptions. In the agriculture sector, for instance, companies experienced lower yields due to insufficient manpower during harvest seasons, resulting in an estimated 20% drop in output. Manufacturing industries reported slower production lines and higher operational costs due to reliance on overtime and the hiring of more expensive local labor. The construction sector saw projects delayed by several months, leading to penalties and financial losses.

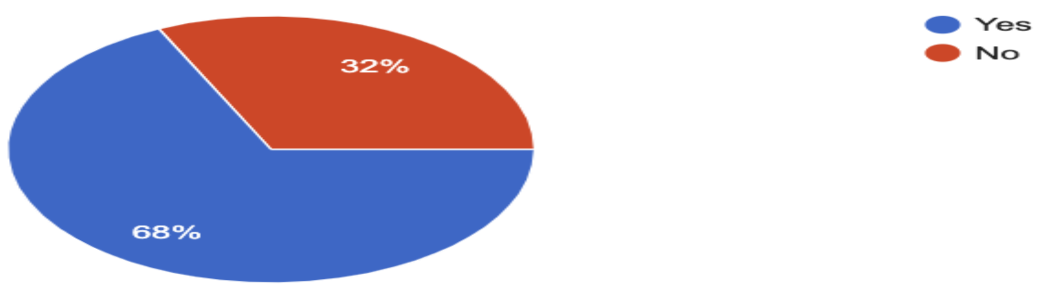

Figure 7: Have you experienced any supply chain disruptions due to the shortage of foreign workers?

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Supply chain disruptions were reported by 32% of businesses, particularly those in manufacturing and logistics. With fewer workers available for manual tasks such as loading, packaging, and shipping, companies experienced delays that cascaded throughout the supply chain. For example, manufacturers noted a 15% to 25% delay in product deliveries, which affected their contracts with both local and international clients. Additionally, businesses involved in exporting goods reported increased freight costs and lost revenue due to missed shipping deadlines.

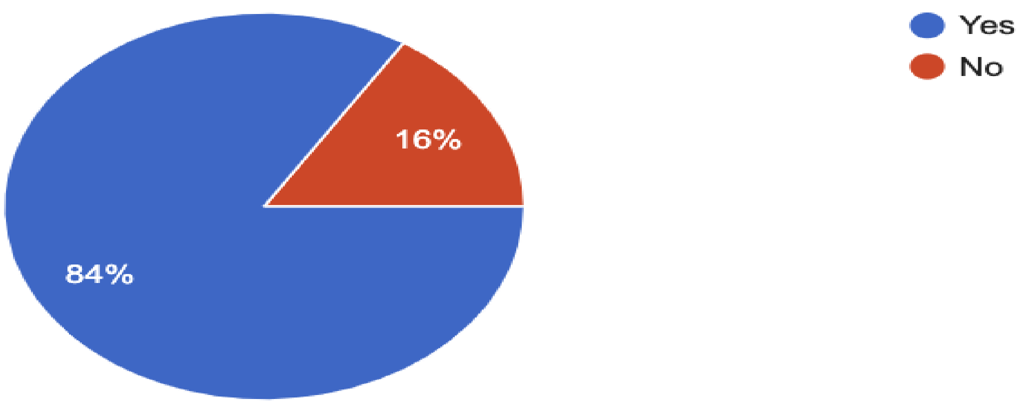

Figure 8: Have you had to delay or cancel any contracts/projects due to the shortage of workers?

Approximately 84% of businesses had to delay or cancel projects due to the unavailability of foreign workers. In the construction sector, for instance, delays were common, with RM 50 million worth of projects being postponed or canceled. This led to severe penalties and loss of business opportunities. Manufacturing firms also reported delayed product launches and missed deadlines, which hurt their reputation and resulted in the loss of repeat customers. Agricultural companies reported having to cancel contracts with buyers due to lower-than-expected production, particularly for labor-intensive crops such as palm oil.

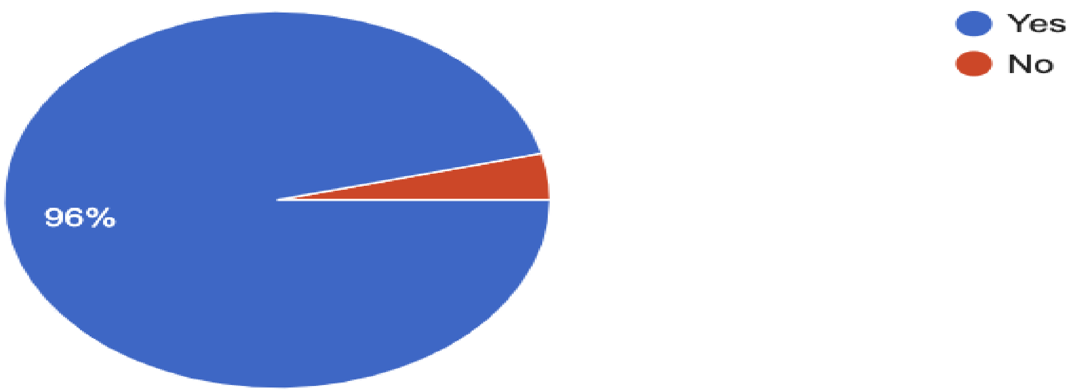

Figure 9: Have you tried to hire local workers to fill vacancies left by foreign workers?

Around 96% of businesses reported attempting to hire local workers to replace foreign labor, but they faced several significant challenges. One of the primary issues was a lack of interest from local workers, who were largely unwilling to take on physically demanding jobs, particularly in sectors like agriculture and construction. As a result, many local hires tended to leave within a few weeks or months, causing high turnover rates. Additionally, hiring local workers proved to be more expensive, as companies had to offer higher wages and better benefits to attract and retain them, leading to an increase in labor costs by an average of 10% to 20%. Another key challenge was the skill gap, with many local workers lacking the specialized skills needed for certain tasks, particularly in manufacturing, where companies often depend on trained foreign workers. These combined factors made it difficult for businesses to effectively replace foreign labor with local hires.

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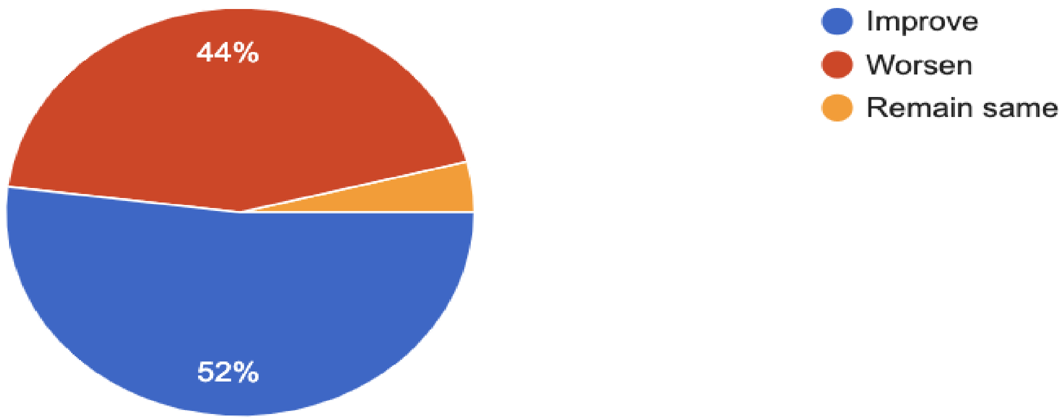

Figure 9: What are your expectations regarding the availability of foreign workers in the future?

The outlook for foreign labor availability was generally pessimistic. Around 60% of respondents expected the situation to worsen or remain the same over the next two years. With no clear government policies addressing the labor shortage, businesses expressed concerns about the long-term viability of their operations. Companies in industries such as construction and agriculture are particularly concerned, given the slow pace of policy reforms aimed at increasing foreign worker quotas or simplifying visa processes.

Businesses have adopted a variety of strategies to mitigate the financial losses caused by the shortage of foreign workers. Larger companies, particularly in manufacturing, have turned to automation, with around 50% investing in mechanizing repetitive tasks to maintain productivity. However, this solution requires significant capital, making it less accessible to smaller businesses. Meanwhile, 30% of businesses have attempted to hire local workers to fill the gaps, though many encountered difficulties with retention. High turnover rates, especially for physically demanding jobs, have led to a constant need for recruitment, which increases costs and operational disruptions. Additionally, 20% of businesses have opted to reduce production, scaling back operations to manage the labor shortfall, though this strategy has resulted in reduced revenue and higher per-unit costs. Some companies, particularly in agriculture and services, have responded by reducing working hours or shifting to part-time staffing models, which has further decreased output and revenues but allowed them to maintain basic operations.

Based on the responses, businesses offered several additional comments regarding the unavailability of foreign workers. Many respondents noted that without foreign workers, their industries would struggle to grow, potentially affecting Malaysia's GDP. For instance, participants from the manufacturing and agriculture sectors highlighted that the labor shortage could lead to a noticeable drop in GDP growth if the issue is not promptly addressed. Additionally, several businesses expressed frustration with the government's slow response to the labor shortage, calling for policy reforms to streamline the hiring of foreign workers, particularly in labor-intensive industries. This included suggestions such as increasing foreign worker quotas and simplifying visa processes. These insights reflect the urgent need for action to prevent further disruptions and ensure the sustainability of key sectors within the Malaysian economy.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The unavailability of foreign workers in Malaysia has had a profound and far-reaching financial impact on various industries, particularly those that are labor-intensive, such as construction, manufacturing, agriculture, and services. These sectors have long depended on foreign labor for critical operations, particularly for low-skilled or manual jobs that local workers are either unwilling or unable to fill. The shortage of foreign labor has disrupted operational efficiency, resulting in significant delays, reduced productivity, and ultimately, substantial revenue losses for many companies. In the construction sector, projects have been delayed or even canceled, leading to financial losses amounting to millions of ringgits per project. Manufacturing firms have reported slower production lines and disruptions to supply chains, both of which have negatively affected their ability to meet customer demand and contractual obligations. In the agriculture sector, labor shortages during key harvest periods have resulted in reduced yields, affecting the country's output of important commodities such as palm oil, rubber, and various food crops. Services industries such as hospitality, retail, and healthcare have similarly struggled with labor shortages, causing them to reduce operations and leading to lost business opportunities.

This widespread shortage of foreign labor has had a ripple effect on Malaysia's economy as a whole. Key industries are operating below capacity, which has impacted the country's overall gross domestic product (GDP) growth. World Bank data suggests that a 10% net increase in foreign labor could raise Malaysia's GDP by 1.1%, underlining the essential role that migrant workers play in sustaining the economy. However, the current shortage has led to a mismatch between labor supply and demand. While local workers remain unemployed or underemployed in some cases, they are generally unwilling to take up the roles that were previously filled by foreign workers, especially in physically demanding or less desirable jobs. This has compounded the challenges faced by industries already grappling with higher operational costs and reduced productivity. The government's efforts to reduce dependency on foreign workers through stricter immigration policies, while well-intentioned, have exacerbated the labor shortage in critical sectors. As a result, businesses are facing increased labor costs as they are forced to hire local workers at higher wages, offer better benefits, and invest in training programs to upskill these employees. While these efforts may prove fruitful in the long term, the immediate financial burden has strained the profitability of companies, particularly small- and medium-sized enterprises (SMEs) that operate on tighter margins. Without immediate interventions, the labor shortage is likely to continue impacting Malaysia's economic stability. Businesses have already expressed concern about their ability to sustain operations in the future, especially if current trends persist. The ongoing labor crisis underscores the need for a more balanced approach that addresses both the short-term need for foreign workers and the long-term goal of building a self-sufficient local workforce.

Recommendations

To address the financial and operational challenges caused by the shortage of foreign workers, a multifaceted approach is required. This approach should include government policy reforms, incentives for businesses to invest in automation, and programs to upskill the local workforce. Below are key recommendations for mitigating the current labor shortage and ensuring that Malaysia's industries remain competitive on a global scale:

Government Policy Adjustments

The Malaysian government needs to reconsider its immigration and labor policies, particularly in sectors where local labor is scarce. Increasing foreign worker quotas, particularly for industries like construction, agriculture, and manufacturing, could help alleviate the immediate labor shortages. Streamlining the foreign worker permit process and reducing bureaucratic red tape can also expedite the hiring process, ensuring that companies can quickly fill critical labor gaps. Additionally, the government could introduce temporary or conditional permits for foreign workers, allowing companies to address their labor needs during peak seasons or high-demand periods. It is crucial for policy makers to recognize that while reducing dependency on foreign labor is an admirable long-term goal, the current reality requires an immediate influx of workers to sustain economic growth.

Incentivizing Automation

Encouraging businesses to adopt automation where feasible is another important step toward reducing dependency on foreign labor in the long run. Automation can improve productivity, reduce operational costs, and minimize the impact of labor shortages. However, the initial cost of implementing automated technologies can be prohibitively expensive, especially for SMEs.

To encourage the adoption of automation, the government should offer tax incentives, rebates, or subsidies to businesses that invest in machinery or technology designed to replace manual labor. Such measures could be targeted at industries with the highest reliance on foreign workers, ensuring that they can remain productive while transitioning to a more automated model. Additionally, providing grants or low-interest loans to SMEs for automation investments would help level the playing field between smaller and larger companies, ensuring that all businesses have access to the tools they need to remain competitive.

Upskilling the Local Workforce

While foreign labor is crucial to maintaining productivity in many industries, there is a need to invest in the local workforce as a long-term solution. One of the challenges faced by businesses in hiring local workers is the lack of skills or experience required for many of the jobs traditionally filled by foreign labor. To address this issue, the government and private sector should collaborate on vocational training programs tailored to the specific needs of different industries. These programs should focus on upskilling local workers, particularly in sectors such as manufacturing, construction, and agriculture. Offering certifications, apprenticeships, or on-the-job training opportunities could help bridge the skills gap, making local workers more attractive to employers. Additionally, the government could offer financial incentives to businesses that invest in the training and development of local workers, such as wage subsidies or grants for education and skills development.

Diversification of Labor Sources

Another important strategy is to diversify the sources of foreign labor. Currently, Malaysia relies heavily on migrant workers from specific countries, such as Indonesia, Bangladesh, and Nepal. However, geopolitical issues, economic crises, or health pandemics in these countries can disrupt the flow of workers, leaving Malaysian industries vulnerable. By exploring alternative labor markets, businesses can reduce their dependency on any single source of foreign labor. The government can facilitate this diversification by establishing new bilateral agreements with additional countries or by simplifying the process of recruiting workers from a broader range of nations. This would provide companies with more options for filling labor shortages and reduce the risk of disruptions caused by political or economic instability in specific regions.

Creating a Sustainable Labor Model

Ultimately, Malaysia needs to develop a labor model that balances the immediate need for foreign workers with the long-term goal of reducing dependency. This can be achieved through a combination of policy reforms, incentives for businesses, and investments in the local workforce. A comprehensive workforce strategy should include clear guidelines on when and where foreign workers are necessary, while also ensuring that local workers are given opportunities to fill roles that can be adequately supported through vocational training and skills development.

By addressing these issues, Malaysia can work toward a more sustainable labor model that balances the needs of industries with government policies aimed at reducing foreign labor dependency. A cohesive strategy that involves the government, businesses, and the local workforce will be essential to ensuring the country's economic resilience and future growth in an increasingly competitive global market.

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