MALAYSIA'S PLAN TO SHIFT WORKER LEVIES TO COMPANIES FACES CRITICISM

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Malaysia relies on foreign laborers, about 4 million including illegal workers, to keep its economy growing.

KUALA LUMPUR: The Malaysian government's recent announcement that employers must absorb the annual levy on foreign laborers has been heavily criticized by the business community.

The move, intended to better regulate the foreign labor market and to increase public coffers, became effective on Jan. 1.

"If you remove the advantage, we may lose to our neighbouring countries," warned Lim Wee Chai, Top Glove's chairman.

The rubber glove-making industry in which Top Glove is a market leader is very sensitive to any increase in production cost as the margin is reflected in the selling price. Though automation is increasingly being adopted in manufacturing lines, the industry, which controls nearly two-thirds of the global market share, is heavily dependent on manual labor, some 42,000 of them foreigners.

CIMB Investment Bank says the levy will be "negative" on the rubber sector due to its high dependence on foreign labor. "However, any negative impact will be short-term as glove makers will eventually pass on these costs," the bank said in a research note published on Jan.2.

Top Glove's Lim says Malaysia has the competitive edge over rubber-producing countries like Thailand and Vietnam due to the use of technology and better infrastructure that keep costs down.

Top Glove estimates the levy would incur about 12 million ringgit ($2.7 million) annually or 3.5% of its total labor cost. The group, the world's largest glove maker, in November increased capacity at its plants in Thailand, adding 1.4 billion pieces on top of the initial 4 billion. The move was a diversification to capitalize on tax incentives offered by Thailand and also to mitigate the lack of foreign workers in its home country.

Business leaders are expected to submit an official protest against the levy to the government, the Malaysian Employers Federation was quoted as saying in local daily The Star on Wednesday.

The Malaysian economy is heavily reliant on low-skilled foreign labor to maintain its competitiveness.

There were 2.1 million foreign workers, mainly from Indonesia, Nepal and Bangladesh as of end 2015, according to latest government data. Menial jobs such as in the construction, plantation and manufacturing sectors are shunned by locals but attract foreign workers. Some estimate that three in every 10 workers are foreigners, including those without work permits.

The levy for each legal foreign worker range between 1,500 ringgit and 2,500 ringgit depending on the industry. This sum is automatically deducted from wages. By passing the buck to the employers, the move appears to be aimed at enlarging the intake of foreign workers, which has not increased since February 2016.

The measure is expected to help address the lack of laborers and also to increase government revenue.

But industry leaders like Top Glove's Lim says asking employers to absorb the levy will only encourage fund outflows, estimated at 4 billion ringgit annually amid the weakening of the ringgit.

Analysts warn that unless Malaysia formulates advanced labor standards and effective enforcement of laws and regulations, it may lose its competitiveness to its neighboring countries.

"Investors, both domestic and foreign, may well shun Malaysia if they see potential trouble when scrutinized for labor practices," said Lee Hwok Aun, a visiting senior fellow at Singapore's Institute of Southeast Asian Studies.

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