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ANALYSIS OF FOREIGN WORKERS AND CAPITAL STOCK IN MALAYSIA

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Abstract

Economic growth is an increase in an economy's ability, compared to past periods, to produce goods and services. Economic growth is measured by the change in the gross domestic product (GDP) of a country. This paper aims to analyse the impact of foreign workers and capital stock on economic growth in Malaysia. Malaysia has seen a rise in foreign labor inflows due to steady economic expansion and demographic changes. The capital market plays an essential role in the growth of commerce and industry, which ultimately affects the economy of the country to a large extent. The data was gathered through Bank Negara, Department of statistics and Bursa Malaysia from the year 2004 until 2019, been analysed and has employed multiple regression model. The findings show that foreign workers and capital stock have positive significant impact on economic growth. However, employing foreign workers from foreign countries is only a temporary solution to the labour shortage problem in the Malaysian market. Long term solutions require the support and commitment from all parties involved in the Malaysian economics, particularly through intervention by government bodies or agencies that can influence policy.

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Keywords: Foreign workers, capital stock, economic growth, regression

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1. Introduction

Economic growth is the increase in an economy's ability to produce products and services over prior times. Gross domestic product is a measure of economic expansion. Foreign worker means a group of who works in another country where they been employed. It also can be defined as a group of nationality living and working with legal status in the employed country.

Due to Malaysia's consistent economic growth and changing demographics, there has been an increase in the entry of foreign workers. According to the World Bank report (2020), Malaysia had a total of 2.96 million to 3.26 million foreign employees in 2017. Among them, there are believed to be 1.23 million to 1.46 million unregistered foreign workers. Around 15% of the labour force in the nation is made up of foreign workers, who are primarily employed in lower-skilled jobs. By correcting labour market imbalances and filling gaps in low-skilled and labor-intensive industries, foreign labour has made significant contributions to economic growth. According to Ramos, research from 2012 indicates that foreign employees have a statistically significant positive impact on economic growth in both the short-term and long-term.

Christofides et al. (2007) stressed his point on Cyprus has experienced great economic growth during the period time of the result is in a labour shortage. Foreign labour had been relying by the country for sustaining the economic activities. According to Christofides et al. (2007), the degree of education and capabilities of the foreign workers determines if hiring them would have a good impact on using foreign labour. Due to the highly educated and skilled foreign labour, it is positively affecting economic growth, but less educated and unskilled foreign labour negatively affects GDP. According to research by Ismail and Yuliyusman (2014) is conducted research regarding foreign labours and economic growth. The finding showed that there is a significant impact foreign worker on the output growth. Next, Jordaan (2018) investigated the relationship between foreign workers and productivity in an emerging economy and discovered that foreign workers have significant effect with GDP.

The capital market is crucial to the development of business and industry, which in turn has a significant impact on the nation's economy. The findings showed that raising a nation's stock market's size and the market capitalization in an emerging economy like Pakistan can both contribute to economic growth (Mian et al., 2010). Then, from 1970 to 2014, Santiago et al. (2020) demonstrated the relationship between capital stock and GDP for a group of 30 Latin American and Caribbean countries. According to Park and Yang (2021)'s analysis, there is a considerable relationship between capital stock and GDP. According to Park and Yang (2021), the analysis revealed a substantial relationship between capital stock and GDP.

1.1. Problem statement

Over the past few decades, the contribution of foreign labour to a nation's economic progress has gained attention. Finding out how foreign workers affect economic expansion is crucial. This is good news for industries that have struggled to find foreign workers during the two years of the Covid-19 outbreak because of the government's earlier hiring restriction. Employers have also attributed their losses to the labour shortage. Therefore, firms claim that enabling the hiring of foreign labour will aid in hastening the pace of economic recovery.

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An online article written by Esther Lee on February 21, 2022, while businesses have consistently supported the government's call to reduce the over-dependence on foreign labour, Lee Heng Guie, executive director of the Associated Chinese Chambers of Commerce and Industry of Malaysia's Socio-Economic Research Centre (SERC), says the acute labour shortage necessitates a swift resolution and practical prioritisation to support the local economy's recovery. If companies are not given the necessary workers, especially in industries that are still reliant on foreign labour, business recovery efforts will be significantly impeded. Employers are extremely dissatisfied because they cannot find the required workers since locals still avoid jobs done by foreign labour. Foreign labour proponents contend that it makes sense to deal with the current situation given the dangers of labour shortages impeding business growth and economic recovery. If hiring returns to its previous level, one must consider if the nation's goals to advance up the value chain and lessen its reliance on low-skilled foreign labour will be achieved. The problem statement that occurred and exists in this study designed to investigate how foreign workers and capital stock can give effects to the GDP in Malaysia between 2004 until 2019.

1.2. Research objectives

The purpose of a research is to determine how Malaysia's GDP has been affected significantly by foreign workers and capital stock.

2. Research Methods

The yearly FDI, government debts, population growth and GDP data were gathered from Bank Negara, Department of statistics and Bursa Malaysia from the year 2004 until 2019. Regression analysis were tested using SPSS software. Regression test employed to test the significant impact of the variables. Table 1 below shows the variables description in this study.

Table 1. Description of Variables

Independent Variables	Dependent Variable
Foreign Workers	Economic Growth (GDP)
Capital stock	

3. Findings

3.1. Correlation analysis

Table 2 below shows the relationship among the variables. All of them have a strong relationship with GDP. Foreign worker and capital stock found to have positive relationship with GDP., while company size shows a positive correlation. All the independent variables are positively correlated among each other.

Table 2. Pearson Correlation Coefficient Test

	GDP	Foreign worker	Capital stock
GDP	1.0000	0.663**	0. 739**
Foreign worker	0.663**	1.0000	0.705**
Capital stock	0.739**	0.705**	1.0000

**. Correlation is significant at the 0.05 level (2-tailed).

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3.2. Regression analysis

Table 3. Coefficients[a]

Model	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	t	Significance
1 (Constant)	102.944	6.149	1.567	0.000
Foreign worker	1.123	1.506	2.468	0.028
Capital stock	-4.129	2.952	-6.779	0.012
R-Square	0.803			
Adjusted R-Square	0.766			
F-statistic	60.358 (0.000)			

Note: a. Dependent Variable: Economic Growth

Table 3 shows the estimated coefficients of correlation (R-square = 76.6 %), 76.6% of the variation of the level of GDP is explained by the variance of (foreign worker and capital stock). The remaining of 23.4% of the changes in level of GDP could not be explain by the regression model or perhaps can be explain by other variables. The constant value of this coefficient is 102.94, which will remain the same if the independent variables changing to another number. Capital stock is a positive impact withGDP and having significant at 0.012 and it supported by Park and Yang (2021), and Santiago et al. (2020). Foreign worker is positive impact with GDP and having significant at 0.028. This result supported by Ismail and Yuliyusman (2014), Jordaan (2018) and Christofides et al. (2007).

4. Conclusions

This study analyses the impact of foreign workers and capital stock on GDP in Malaysia for 16 years. The result shows that all independent variables which are foreign workers and capital stock have a positive impact towards GDP. In future studies, it is recommended to study the impact of GDP with different variable such as towards inflation, unemployment, interest rate and trade. It may show the different result whenever it is positive or negative result depends on the variables. Besides, future research can be increasing their time frame of period. It may show the different result at the end of the research.

To address the labour shortage issue and maintain economic growth, the government is actively promoting the foreign worker programme by bringing in more foreign employees to their country. Due to the country's stronger economic growth, which could offer more job possibilities and a suitable working environment, more people were able to enter the country in search of employment. Significant efforts have been made by the Ministry of Human Resource and Construction Industrial Development Board (CIDB) to reduce the number of foreign workers and to attract or to increase the involvement of local people in the construction industry. The Immigration Department is responsible for issuing working permits to eligible foreign workers and is responsible for ensuring that all foreign workers are legal workers (Abdul-Rahman et al., 2012).

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