

# Indian Skilled Workers and Professional Talent in Southeast Asia

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With the rise of the two emerging giant Asian economies –China and India, Southeast Asian countries face a number of challenges. Riding the wave of export-led industrial growth, the more advanced economies among the Association of South East Asian Nations (ASEAN) have recorded double digit growth from the 1970s to the early 1990s. The rise of China and India however, has eroded the labour cost competitiveness of most of the ASEAN countries. In addition, the competition for foreign direct investment will intensify because foreign investors prefer to invest in large single emerging economies like China and India rather than the ten ASEAN smaller economies. Apart from manufacturing production, where China has become the world's factory, India is producing three million university graduates annually, including 400,000 engineers. While the Indian economy has expanded at a constant seven to nine per cent per year from early 2000, employment creation remains a major concern. In this context, Indian human talent continues to flow out from India to the developed economies and the Middle East but increasingly also to East Asia (including Southeast Asia).

The paper focuses on the flow of Indian professionals and skilled migrants to Southeast Asia, with Malaysia as a case study. It is argued that while there is a shortage of knowledge workers to transform Malaysia into a knowledge-based economy (KBE) and that foreign human capital will continue to be required, it is the Malaysian bureaucracy and inefficient policy structures that are hampering both the recruitment of foreign human capital and the training of local workers.

## Introduction: Malaysia and the Quest for Global Talent

During the ongoing process of transforming itself from a manufacturing economy to a KBE, Malaysia faces a dilemma of homogenisation or differentiation of its society with reference to *Bumiputera* rights. *Bumiputera* means “son of the soil” and is a definition used to encompass ethnic Malays as well as other indigenous groups such as the Orang Asli in Peninsular Malaysia and the natives of Sabah and Sarawak (East Malaysia). Following the 13 May 1969 racial riots in Malaysia, the New Economic Policy (NEP) was introduced to favour the *Bumiputera* in the key areas of education, scholarships, employment opportunities and bank loans. In Malaysia's context, the key assumption is that while the state has introduced several initiatives to boost the supply of knowledge workers, there will continue to be a shortage of these workers that will create an impetus for talented human capital to move to Malaysia (Suryanarayana 2005, 14). This could create ethnic tensions since Malaysia is also home to the largest group of People of Indian Origin (PIO) in Southeast Asia (Suryanarayana, 2005, 14). Malaysia is also one of India's three largest trading partners in the ASEAN region in terms of value and trade volume. There are about 90 to 100 Indian-owned companies in Malaysia and these include sixty-eight companies in the (information technology) IT sector.

Two prominent Indian IT companies in Malaysia are Satyam and Wipro. Additionally, most of the managerial staff and chief executive officers (CEOs) in Indian companies are from India and have resided in Malaysia for a number of years. Some of the larger Indian firms have formed an informal grouping that interacts with the local trade chambers to discuss matters of mutual concern.

This is partly due to the fact that there is no Indian trade federation representing Indian companies in Malaysia. The Confederation of Indian Industries (CII) used to represent Indian companies in Malaysia, but has since relocated to Singapore to cover the whole of the Southeast Asian region.

This study draws on a wide-range of published sources such as books and reports and data gathered from relevant government departments, official speeches and, most importantly, from interviews with professionals in the field. A series of twenty-seven semi-structured interviews were conducted with professionals working in the IT and non-IT sectors. We also interviewed managerial staff from fifteen Malaysian companies and ten Indian-owned companies in Malaysia, and two recruitment agencies. These persons were selected on the basis that these companies are hiring Indian professionals from India and have been doing so for some years. In addition, these companies were selected because they were familiar with the policies and guidelines which govern the recruitment of foreign professionals.

### ***The global demand for human capital***

A number of factors account for the shortage and increasing movement of talent globally. Global economic changes manifested by increasing economic integration and the rise of the “borderless” economy have been accompanied by corporate restructuring which has placed a premium on talent. Most developed countries have ageing populations and the most dramatic demographic shifts are occurring in Europe and Japan. Workers’ loyalty to employers is also declining because commitment no longer equates with job security. The demand for talent comes from various companies and the public sector and is not solely confined to “blue-chip” companies and conglomerates. Companies and governments recruit talent from overseas due to domestic constraints. An obvious way to attract talent is to relax immigration laws and visa requirements. For example, the United States uses the visa system to attract foreign talent. Since the late 1990s too, India has become one of the world’s major human resource pools and, potentially, has the capacity to be a major source of talent for the global economy, especially in the software industry (*Financial Times* 17 May 1990). The skills and competency of Indian IT professionals were “discovered” by Texas Instruments in 1984 when it established its pioneering design centre in Bangalore in the southern Indian state of Karnataka. This venture attracted other multinational companies (MNCs) to relocate or establish their IT operations in India. Texas Instruments continues to operate in Bangalore and has expanded into a 2000- strong staff IT design centre.

### **The Malaysian Case**

In the 1980s export-led industrialisation brought Malaysia economic growth and prosperity. However, with the expansion of services worldwide and the rise of new manufacturing centres, Malaysia stands at the cross roads of either clinging on to a rapidly shrinking manufacturing sector or transforming itself to a KBE. Malaysia’s plans to become a KBE started in 1991 when it implemented its Vision 2020 program. With the launch of Vision 2020, the government unveiled its National Information Technology Agenda (NITA) and the development of the Multimedia Super Corridor (MSC), a 750 square kilometre zone modelled after California’s Silicon Valley. Following the inception of the MSC in 1996, the then Malaysian Prime Minister, Dr Mahathir Mohamad, also made a pitch to Indian IT companies to establish themselves in the MSC. Subsequently, during the visit of then Indian Prime Minister Atal Bihari Vajpayee to Malaysia in May 2001, Mahathir stated that “Malaysia needs more Indian IT content development companies’ participation and ... research in the MSC” (*Star*, 16 May 2001). He also added that there was scope for Malaysian IT companies to work together in high-end technology and also courted Indian states such as Andhra Pradesh to collaborate in the development of the MSC (*Business Times*, 17-18 May 1997). In 2007, the MSC had about 1800 companies comprising both MNCs and local firms. Of these, 100 are leading global companies (*Straits Times*, 19 May 2007).

The Chairman and CEO of HCL Infosystems Limited of India, Ajai Chowdhry, has stated that Malaysia should draw on India’s manpower and design capabilities. With its developed infrastructure

Malaysia has the potential to be the gateway for HCL and other Indian IT companies entering the ASEAN region (*Star*, 16 May 2001). In turn, India has the potential to provide Malaysia with access to its large pool of skilled technical manpower, quality processes and global operations. Othman Yeop Abdullah, who heads the Multimedia Development Corporation (MDC) that oversees the MSC, has said that the MSC would focus on wireless technologies, biotechnology and e-commerce in the near future (*CNN News*, 7 August 2001). The former Chairman of Infosys Systems, Narayanan Murthy, also a member of the MSC International Advisory Panel, remarked that the MSC was going in the right direction and, with its highly competent leadership, could be “a force to be reckoned with” (*New Straits Times*, 26 January 2001).

In 2001 the “IT bubble” burst and its rippling effects were felt the world over including Malaysia. However, critics said that after spending US \$7.4 billion in 2001, a lack of worker knowledge and excessive bureaucracy were causing the MSC to lag behind other competing centres in Asia such as India, Hong Kong and Singapore. The *Asian Wall Street Journal* also commented that the MSC had attracted substantial interest from technology firms and did not have a significant impact on the economy (*CNN News*, 7 August 2001). In response to these criticisms Othman stated that the MDC was taking steps to simplify some of its rules to help attract more companies (*CNN News*, 7 August 2001). Subsequently, a report prepared by McKinsey & Co for the MDC suggested other areas that needed to be re-evaluated for the MSC to succeed. These areas are listed below (Huff 2002, 251-3):

- Excessive bureaucracy in acquiring MSC status;
- Conflicts of interest between the MDC’s economic assets and those of the companies it was supposed to assist;
- The need to allow MSC companies to locate anywhere they desired;
- Establishing more areas and cities as part of the MSC Corridor;
- The need for better and more ICT qualified leaders;
- MSC/Cyberjaya needed more “world class” companies;
- MSC required more ICT/knowledge workers than the Multimedia University (MMU) could produce;
- MSC needed to have a larger impact on economic development by drawing top international and regional talent such as venture capital managers;
- Malaysia Telecom and other ISP providers needed to deliver better infrastructure to support the MSC’s development;
- Greater attention had to be provided to supporting and promoting Malaysian small and medium sized firms (SMEs).

Critics had questioned the need to cluster IT companies in specific locations and have called for better connectivity between the MSC locations and commercial buildings and homes in Kuala Lumpur (*International Herald Tribune*, 30 April 2001). They noted that the MSC could not succeed in isolation and had to be connected to the economy and society at large. The clustering concept was not flawed because it would have been too costly to wire the whole country, especially during the initial phases of transforming Malaysia into a KBE. It would also have very difficult to offer the “Bill of Guarantees” to all foreign companies that wished to locate anywhere in Malaysia. The Guarantee came with special exemptions for ownership rights, capital market access and unlimited knowledge-worker importation (Huff 2002, 253). By 2003, the Malaysian government had invested US \$10 billion in the two high-tech parks of Cyberjaya and Putrajaya as part of the MSC to attract foreign business (*Computer World*, 15 September 2003).

Malaysia also faced a critical shortage of human capital compared to the developed countries and other leading economies in Asia. There is a continuing shortage of trained Malaysians because less than 30 per cent of Malaysians received tertiary education compared to over 50 per cent for industrialised nations. In 2000, the World Competitiveness Survey reported that Malaysia ranked low in terms of educated talent as well as the competence of its managers. In addition, the Swiss based International Institute for Management Development (IMD) in their competitiveness report, polled

managers from forty-seven countries and they were asked if employee training was a high priority for their respective companies. Malaysian managers were ranked twenty-sixth in this regard compared to Singapore (2), Japan (6), China (19) and the Philippines (23). How competent, then, are Malaysian IT workers?

Interviews conducted with a senior professional recruitment official suggest that although economic restructuring is continuing to take place, there is a growing debate on the need to increase the level of competency among knowledge workers. The level of training provided may be adequate for back office operations such as call centres in IT enabled services (ITES) work, but not for leading edge IT work. While it is acknowledged that talented human capital such as that from India is required because it would boost the overall competitiveness of the IT sector, this could have an impact on the level of equity held by the *Bumiputera* stake holders. A certain proportion of *Bumiputera* employees are also required to be employed by companies that bid for government contracts in Malaysia. A Malaysian IT company representative interviewed said that this was not a problem for her company because they did not tend to bid for government contracts.

Shortfalls in domestic talent co-exist with emigration of skilled professionals from Malaysia, thus further draining the limited talent pool. About 90,000 or more professional and technical personnel have emigrated to Singapore, Australia, New Zealand, the United States, Canada and Europe since the 1990s. Approximately 1,000 Malaysians are working in the Silicon Valley in the United States, and over 100,000 Malaysians are studying overseas. A number of these students are likely to be employed overseas before they return to Malaysia at the end of their studies. The global shortage of knowledge workers will increase the brain drain from Malaysia.

A comparison of pay scales and total remunerations of project managers in Malaysia, Singapore and Hong Kong is shown in Table 1 below. While the positions in Hong Kong and Singapore required experience, the positions in Malaysia did not require experience. This could mean the IT position in Malaysia could be relatively junior in rank or starting positions compared those in Hong Kong and Singapore.

**Table 1: Comparison of Project Managers' Salaries in the IT Industries in Malaysia, Singapore and Hong Kong (US\$) in 2006**

Malaysia			Singapore		Hong Kong	
Role	Permanent Base Salary per annum	Total Permanent Compensation per annum	Role	Permanent Salary Per Annum	Role	Permanent Salary Per Annum
Project Manager Infrastructure	24.6K	31.9K	-		Project Manager 1-2 yrs experience	77-89K
Project Manager IT Systems	36.2K	36.2K	Project Manager 3-5 yrs experience	53-79.4K	Project Manager 3-5 yrs experience	96-109K
			Project Manager 5+ years experience	79.4-119K	Project Manager 5+ yrs experience	109k-141K

*Note:* 1 USD = 3.45 MYR, 1USD = 1.51 SGD, 1 USD = 7.81 HKD.

*Source:* Robert Walters, *Country reports on Salaries in Hong Kong, Malaysia and Singapore for accounting & finance – commerce & industry*, 2006.

The growth in the ICT sector in relation to the overall average growth rate In GDP was three times higher in 2005 (Cheah January/February 2007). Nevertheless, despite offering tax breaks and grants for IT companies to be based in the MSC, critics say that a shortage of skilled workers is hampering growth in the zone (*International Herald Tribune*, 11 December 2006). The Ministry of Education has also been taking several initiatives to increase IT literacy in schools. The education system has been reformed and under the MSC 90 smart schools will be established throughout the country. However, problems remain in procuring skilled workers for the IT industry.

The MSC IT hub in Penang has also reported that tertiary institutions tend to offer generic courses in IT that do not cater for the specific skill sets required by the software industry. A major concern is that the tertiary institutions are not interacting enough with the software industry to keep abreast of technological advancement and the changing skills needed in a fast changing industry. Moreover, even if tertiary institutions are aware of the industry needs, they do not have the resources to continually update their hardware, software and teaching resources (*Software Industry in Penang* April 2006). Malaysia cannot attract IT consultants at the salaries offered, as shown in Table 2.

**Table 2: Comparison of Consultants' Salaries in the IT Industries in Malaysia, Singapore and Hong Kong (US\$) in 2006**

Malaysia			Singapore		Hong Kong	
Role	Permanent Base Salary per annum	Total Permanent Compensation per annum	Role	Permanent Salary Per Annum	Role	Permanent Salary Per Annum
Consultants Functional	20.2K	23K	ERP Consultant Functional (5-8 yrs experience)	57-92.7K	ERP Consultant Functional	96-122K
Consultants Technical	17.4K	20.2K	ERP Consultant Technical (3-5 yrs experience)	40-66.2K	ERP Consultant Technical	70.5-96K

*Note:* 1 USD = 3.45 MYR, 1USD = 1.51 SGD, 1 USD = 7.81 HKD.

*Source:* Robert Walters, *Country reports on Salaries in Hong Kong, Malaysia and Singapore for accounting & finance – commerce & industry*, 2006.

As shown above, the salaries offered to Enterprise Resource Planning (ERP) consultants in Singapore and Hong Kong are higher than those available in Malaysia. Moreover, in Singapore and Hong Kong the number of years of experience and concomitant pay scales are also specified. It may also be argued that ERP consultants receive higher salaries than ordinary consultants in IT because ERP work is more complex. ERP is a process of amalgamating a company's information systems by binding more closely a variety of company functions including human resources, inventories and financials while simultaneously linking the company to customers and vendors.

Table 3 below shows comparable pay conditions for Business Analysts personnel in the three countries. The role of the Business Analyst Manager in Malaysia appears to show more seniority compared to Business Analysts in Singapore and Hong Kong. However, in terms of experience, these posts in Hong Kong and Singapore indicate that more experience is required of the personnel. As noted by a senior official from a recruitment agency in Malaysia, IT jobs in Malaysia are also not strategic. While he acknowledges that there is some returning talent, in most cases Malaysians return for social and cultural reasons (such as retirement), and will not play an active part in the economy (*Interview with Recruitment Agency*, KL, 14 July 2007).

**Table 3: Comparison of Business Analysts' Salaries in IT Industry between Malaysia, Singapore and Hong Kong (US\$) in 2006**

Malaysia			Singapore		Hong Kong	
Role	Permanent Base Salary per annum	Total Permanent Compensation per annum	Role	Permanent Salary Per Annum	Role	Permanent Salary Per Annum
Business Analyst Manager	17.4K	23K	Business Analyst (1-3 yrs experience)	33-53k	Business Analyst (1-3 yrs experience)	64-77k
			Business Analyst (4-6 yrs experience)	53-79.5k	Business Analyst (4-6 yrs experience)	102.6-121.8k
			Business Analyst (6+ yrs experience)	79.5-119.2k	Business Analyst (6+ yrs experience)	109k-130k

Note: 1 USD = 3.45 MYR, 1USD = 1.51 SGD, 1 USD = 7.81 HKD

Source: Robert Walters, *Country reports on Salaries in Hong Kong, Malaysia and Singapore for accounting & finance – commerce & industry*, 2006.

This was confirmed in an interview with an Indian IT professional working for a large Indian IT firm who stated that standards were higher in Singapore and that he knew there would be greater professional expectations required in Singapore. Singapore would be his next option in terms of career advancement because it is closer to India compared to the United States. He did not intend to stay in Malaysia for a longer period because it was very “hard” to have a “footing” in Malaysia since it was difficult to obtain permanent residency (PR) status there. In contrast, Singapore was attractive because it readily gave PR, and this entail benefits that could engender higher savings.

The competency level of IT workers in Malaysia has been called into question by several companies that we interviewed. This may be resolved if companies could provide more training. A Malaysian IT company representative interviewed said that they do provide a certain level of training because of “national service”. Would the educational sector be able to correct the dearth of skilled and talented human capital? The government’s push to develop a KBE had seen an increase of private colleges offering IT related courses but most of them are not offering a state of the art education. To improve the situation, the government has established “smart schools” (see above) that have the staff and equipment to train a large IT workforce (*Computer World*, 15 September 2003).

According to Ross McKenzie, the country manager of Robert Walters recruiting agency, Malaysia, it would require a longer time for Malaysia to build a KBE because it is trying to nurture local talent (*Computerworld*, January/February 2007). This nurturing of local talent or “growing your own timber” has its pitfalls. McKenzie opined that “propagating home-grown skills through the education or university system is a slow process” (Cheah, January/February 2007). In this regard, Singapore with its higher middle management salaries would be in a better position to recruit talented foreigners.

Some of the main weaknesses that needed to be addressed in tertiary institutions dealing with IT training are poor communication skills because of lack of English proficiency and an inability to grasp programming logic concepts and to apply theoretical knowledge (Cheah, January/February 2007). In addition, students are passive during classes and reluctant to ask questions when unsure of the content of their lessons. This has resulted in a pool of IT graduates that are poorly trained and are consequently unsuited for employment in the software sector. IT graduates commented that the

problem lies in the manner IT courses are conducted in Malaysia and the limited experience of local lecturers. It has been reported that some lecturers are not able to answer questions that are not in their course textbooks (*New Straits Times*, 6 July 2007).

By 2011, the government expects the high-tech corridor to support a working population of 50,000 and a resident population of 120, 000. A lack of knowledge workers had caused the MSC to lag behind other IT hubs in the region. The MSC response is that it is encouraging tertiary institutions to increase enrolment in IT courses. For example, the Multimedia University was established to meet the human resource demands of the IT industry (*Malaysian News Agency*, 16 February 2001). Companies that have received MSC status would require more than 16,000 knowledge workers by 2008. There is also a need to produce at least 8,000 IT and computer science graduates in Malaysia to nurture creativity and entrepreneurship skills (*Interview with Recruitment Agency*, KL, 14 July 2007).

To increase the supply of competent and employable IT workers, the Malaysian Higher Education Ministry and MDEC have collaborated with Infosys Systems Limited to produce corporate ready IT graduates. In 2005, Infosys established corporate training facilities at its campus in Mysore, India. The Programme has since trained more than 50 000 graduates from countries the world over. In his assessment of the IT graduates that had passed through the four months of Infosys Programme in Mysore, the then Malaysian Minister for Higher Education, Datuk Mustapa Mohamed, said that the Infosys trainees in comparison to other IT students appeared more “mature, aggressive, articulate and confident” than before they left for India (*New Straits Times*, 6 July 2007). Trainees of the Infosys Programme said that they had learnt in three days what it would have taken an entire semester back in Malaysia. Others trainees added that they had learnt more in the four month Infosys Programme than in their entire degree in Malaysia. What made the difference in the Infosys training Programme? At Infosys, the trainees were taught by industry practitioners, which is not the case in Malaysia. The trainers had seven to ten years’ industry experience and know things that are not found in the text book. The Malaysian initiative was spearheaded by the then Deputy Prime Minister, Datuk Seri Najib Razak, and he has requested for two more batches of students to be sent to the Infosys Programme (*New Straits Times*, 6 July 2007).

While the MDEC internship programmes could alleviate the situation it may not be a long term solution. As an immediate alternative, many companies are looking towards hiring expatriate staff but they have been unable to do so until the rollout of the MSC in Penang. The managing director of Motorola’s Malaysia software centre S. Surya said that there is a critical shortage of skilled IT workers. The particular skills required for the software industry have also seen Indian IT training companies establishing themselves in Malaysia. For example, India’s education group, Aptech Ltd, has established an information technology hub in Malaysia to address the shortage of skilled workers in the country (*International Herald Tribune*, 11 December 2006). The Aptech training centre will be located in Kuala Lumpur. Aptech’s Chief Executive Pramod Khera said that the centre will be Aptech’s first high end training hub in Southeast Asia and will offer courses in computer networking, security, programming and content development (*International Herald Tribune*, 11 December 2006). The centre could train up to one thousand workers a year to meet the demands of the MSC. Khera added that “With the MSC emerging as a regional outsourcing hub, Malaysia will require many skilled IT workers. Aptech will provide high-end niche training to IT graduates” (*International Herald Tribune*, 11 December 2006).

The shortage of IT workers will continue if Malaysia expands as a development centre and servicing centre for IT companies. For example, Indian IT outsourcing company, Satyam Computers, intends to have service centres in different countries to address regional markets and leverage local talent. Reportedly, companies such as Satyam Computers are beginning to carve out a niche in Malaysia’s IT sector (Suryanarayana 2005, 14). Satyam has built a software development facility in Malaysia to serve its customers worldwide. According to Satyam’s senior vice president and regional director for Southeast Asia, Virender Aggarwal, the software development centre will be Satyam’s first outside India (*International Herald Tribune*, 7 December 2006). The facility is able to accommodate two thousand employees and is located in Cyberjaya, about 50 kilometres south of

Kuala Lumpur. The decision to establish the facility in Malaysia was meant to offset rising costs in India, as well as the difficulty in retaining talent (*International Herald Tribune*, 7 December 2006). Satyam could pick the best IT talent in Malaysia because few other IT companies have services operations in Malaysia. Despite the higher staff costs in Malaysia compared to India, Satyam's operations will save on capital costs because of Malaysia's better infrastructure. Virender Aggarwal added that "We don't have to invest in captive power generation" (*IDG News Service*, 7 December 2006). The Malaysian government has constructed a state of the art fibre optic network, new roads, new offices and living spaces. The government is also considering new laws to promote e-commerce. Satyam has adequate land space at its Cyberjaya site to expand to a five thousand person staff facility.

With increasing wages and better lifestyles among IT professionals in India, this would also potentially dissuade many IT workers from working overseas. Nonetheless, the research team in its talks with recruitment agencies based in India at the end of 2006 was informed that the talent pool for IT skills in India is "layered", and that there was always a pool of skilled workers willing to work overseas. However, the issue of "layered" competency among IT workers in India also begs the question of whether top tier talent was still flowing overseas and, if so, is Malaysia a preferred destination for them? If the top tier IT talent is not readily flowing overseas, especially to Malaysia, is the overseas market including Malaysia dealing with less competent IT workers from India?

In the creation of new intellectual capital there also needs to be a process of combining knowledge and experience from different parties (Nahapiet & Ghoshal 1998, 249). A lack of top tier talent flowing to Malaysia will have an adverse impact on the quality of new intellectual capital. Another problem is the inability to differentiate professional competencies by the Malaysian authorities. A senior representative of a professional recruitment agency commented that Malaysia was facing difficulties importing highly skilled foreign talent because it could take as long as six months to obtain an employment pass in Malaysia. By comparison, it would normally take a few days to obtain an employment pass in Singapore. Moreover, foreign IT staff tended not to be given strategic roles in their respective companies. There are large Indian IT companies where foreign Indian IT talent was leading software teams as project managers and consultants. In comparison, our interviews conducted in smaller Malaysian IT firms indicated that the level of IT talent recruited from India was of a lower competency, even though they were leading project teams.

The creation of new intellectual capital is also impeded because rules intended to prevent exploitation and abuse also restricted the mobility of foreign human capital between firms. For example, a recruiter could apply for an employment pass for an Indian professional for company A but he could end up working for company B. A Malaysian IT firm informed us that there is a "cooling off" period of six months between jobs in the case of a job transfer between companies in which the foreign worker has to exit Malaysia and re-enter again. Problems could occur in the transfer of the foreign workers between companies and they may have to bear the cost of applying for all the required paper work again. In most cases, the huge opportunity cost of "cooling off" indicated that most Indian IT workers in this situation would rather return to India where the IT sector is booming or look for jobs in the United States or Singapore. The United States still holds an attraction as the "Mecca" for IT professionals while Singapore has better pay packages and seems to be leading the IT sector in the ASEAN region.

Interviews conducted among IT workers from India indicated that some IT workers resorted to using agents or recruiters to obtain employment in Malaysia. These agents are unscrupulous and charge between MYR 4,000 to 5,000 per individual to obtain visas and secure employment in Malaysia. At least three IT workers interviewed said that they encountered problems with recruitment agents. Some agents provided only social visit visas and placed them in jobs where the pay was less than promised while some were cheated and not paid any wages for several months. In this regard, we realised that the personnel recruited appear to have skills that were not relevant to their jobs in the Malaysian IT sector. In two instances, the interviewees were trained in finance and commerce and began learning IT skills on the job and by communicating with friends that had proper training. Why

do they risk coming to Malaysia through agents? The main motivation is more pay and higher potential savings.

An IT interviewee with commerce training said that his salary was about MYR 4,000 per month. In Table 4 below, based on a MYR 4,000 per month salary minus expenses for room rental, groceries, phone calls and other items, monthly expenditure came to about MYR 1,000 per month. This enables savings of MYR 3,000 per month and this interviewee managed to pay his recruitment agent within two months of acquiring an IT job in Malaysia. Moreover, this IT interviewee also commented that he was the only person from his family in India working overseas, and his remittances were gave enormous pride to his parents. In the event he is caught working illegally in Malaysia, he is confident that he could offer a bribe to officials and would not be put in prison. The monthly expenditure of an Indian IT worker in Malaysia is provided in Table 4 below.

**Table 4: Monthly Expenditure of Indian Skilled IT Worker in Malaysia**

Item	Expenses (MYR)
Rental for a room and utilities	300
Transport	100
Food and Groceries	300
Phone Calls	200
Miscellaneous	100

*Source:* Interviews with Foreign Indian IT workers June 2007, Kuala Lumpur, Malaysia.

These workers live simply and are able to remit money to their families in India. In comparison, in India an IT worker's pay would be around Rps 25, 000 per month. This would approximate to MYR 1,650 to 1,700 per month. Therefore, the Indian IT worker has a greater ability to save in Malaysia.

### ***Recruitment strategies***

With the shortage of talented human capital, some companies have used innovative approaches to recruit skilled workers. Malaysia's Genting group of companies, famous for its casino operations, held a competition in 2002 to hire skilled software programmers. The prize for the competition winner included cash and a lucrative job offer with the research and development arm of the Genting Group (*Straits Times*, 30 November 2002). A total of 122 applicants comprising recent graduates and undergraduates entered the competition. Their task was to write software and provide solutions for one or more business problems, ranging from the recovery of old data to communications with company cruise ships, within eight hours. Fifty people left before lunch and only three candidates turned in credible solutions. This result was marginally better than when the company conducted screening tests in previous rounds where no candidate returned any credible solutions (*Straits Times*, 30 November 2002). Why were the results so dismal given that the government had launched Vision 2020 a decade earlier? IT experts working for multinational companies believed that Malaysia's technological push had concentrated overly on entrepreneurship rather than the basic knowledge required to solve daily problems.

If Malaysia is to continue to attract foreign direct investment (FDI) and become a regional hub for services, the recruitment of foreign talent in the immediate term and near future seems the best option to bolster the shortage of human capital in Malaysia. According to Atul Vashistha, the CEO of NeoIT Inc, Malaysian companies are importing a lot of talent from India and China (*Computer World*, 15 September 2003). However, Singapore has taken a lead in the race to recruit human capital and the salary gap between Singapore and Malaysia is widening. Reportedly, Singapore's average salaries are 120 per cent higher than Malaysian salaries. Nonetheless, Ross McKenzie of Robert Walters believes that the salary gap between the two countries could be reduced faster if more foreign talent is allowed into Malaysia to facilitate technology transfer (*Computer World*, 15 September 2003). It is estimated that there are some 40,000 Indian workers in Malaysia and the majority are employed by companies in the MSC. Other highly skilled workers from India included engineers, doctors, academics and entrepreneurs.

In order to develop as an outsourcing hub, Malaysia has to raise the level of competency of foreign IT talent and has to look towards improving its recruitment processes. According to Badlisham Ghazali (the CEO of MDC in Malaysia), the government could improve its processes to attract foreign workers. MDC is also cooperating with the relevant authorities to bring into the country workers with relevant skill sets when they are required (Fingar 2006). Evidence that the government is serious about streamlining the process to recruit skilled foreign workers includes the relocation of the Immigration Office next to the MDC. This should enable the government to have a better understanding of the new types of knowledge workers required by the industry and hasten the approval procedures for work permits. The Malaysian government also announced the opening of new immigration facilities in countries where talent could be recruited directly from overseas, such as in the United States and India. The MDC is collaborating with the government to introduce smart tags for knowledge workers to differentiate them from other migrant workers travelling to Malaysia.

The recruitment of more- skilled labour from India cannot be divorced from the recruitment of less-skilled workers. Problems related to the recruitment of professionals and other workers from India made the headlines when 270 Indian nationals, many of whom were IT professionals, were arrested in March 2003. (*Straits Times*, 13 March 2003). Most of those arrested were staying at the Palm Court Condominium in the Brickfields area of Kuala Lumpur. Many of the Indian IT professionals, who were working for MSC status companies, were released after intervention by the Indian High Commission and after providing proof such as valid visas (*Asia Times*, 13 March 2003). This incident shook the Indian IT community in Kuala Lumpur and shortly afterwards 40 Indian IT professionals returned to India (Kuppuswamy 2003), and about 100 booked tickets to leave the country (*Straits Times*, 14 March 2003). However, the incident did not deter Malaysian companies and the government from acknowledging the importance of skilled IT workers from India. The MDC issued a statement that stated that the police raid did not reflect a policy shift against Indian IT workers. Further, the MDC said that “The MDC welcomes the continued presence of Indian IT professionals in the MSC and is very appreciative of their contributions” (*Straits Times*, 14 March 2003).

#### *Indian IT workers in Malaysia*

Why are Indian IT workers valued in Malaysia? The ostensible reason appears to be the comparatively low cost of Indian nationals. In 2003, a relatively junior IT professional from India with two to three years experience was paid RM 1,500 per month compared to a new Malaysian graduate who gets RM 1,800 a month. A Malaysian IT manager was quoted as saying that “Many Malaysian employers tend to take in Indians rather than Malaysians because they take lower salaries and are very good” (*Straits Times*, 14 March 2003). However, this study has found that even “low-skilled” IT workers from India can command as much as MYR 3,000 to 4,000 per month. This suggests that IT workers from India are more valued because they are disciplined, able to work longer hours to complete projects on a tight deadline and provide more creative solutions to problems.

[An Indian expatriate IT manager working with a Malaysian IT firm said that preference for Indian IT workers rather *Bumiputera* workers was not due to salary differentials. He commented that because his company wished to compete for government contracts, they needed to hire *Bumiputera* IT workers. On the three instances, he had given an IT job to a *Bumiputera* candidate, the candidates had rejected the offers because his company did not have a large number of Malay staff and the work involved long hours. Typically, IT projects are task-oriented, and IT workers are used to working long hours when a project needs to be completed. In general, we have discovered that workers in India as well as in Southeast Asia expect working long hours to complete projects. Several senior Indian expatriate Project Managers also informed us that the Malaysian IT professionals are not keen to upgrade their skills through more certification, or to move to jobs where their skills can command a higher pay. A foreign Indian Project Manager said that his team of Malaysians had signed up together to gain a particular certificate but by the end of the course he was the only one sitting for the examinations. He also said that his junior colleagues were not keen to acquire new expertise from him because it entailed extra work.]

A human resource manager of a Malaysian IT firm said that her company did not hire fresh IT graduates from India because they preferred applicants who had least two to three years working experience. This was because her company had to prove to the immigration authorities that the required foreign IT talent could not be found locally. She added that out of 95 IT workers, her company employed between 10-15 Malays. This firm is also very specific in its procurement of specialised labour from India, such as Oracle programmers and system analysts, due to the limited supply locally. The firm normally hires one worker at a time. In the case of senior posts such as project managers, foreign employment applications submitted by companies are generally accepted because the authorities know that senior IT management skills are scarce in Malaysia.

### **Regulating the more - skilled foreign workers**

On an official trip to India in December 2004, the then Prime Minister of Malaysia, Abdullah Badawi, apologised for the ill treatment of Indian IT in Malaysia. Badawi stated that Malaysia welcomed Indian knowledge workers, gave assurances that conditions were safe in Malaysia, and that his government would provide support for them. He went on further to say that the Prime Minister's Office would be actively involved in ensuring that Indian knowledge workers would not face undue difficulties or hardship in Malaysia (see below). On his visit to Bangalore, India's IT hub, Badawi commented: "Let me give you the assurance that we welcome heartily your knowledge workers. I give you my word that we treat them well. I ask the Indians and Malaysians to inform my office immediately if anything untoward happens. We want everything right. We will put it right" (*Deccan Herald*, 23 December 2004). Badawi added that Indian entrepreneurs had assumed a significant role in Malaysia's MSC with the majority of them involved in software development activities. Malaysia was also looking into areas such as business process outsourcing, biotechnology, pharmaceuticals, film industry and higher education, where India has an advantage.

The March 2003 incident and other stories highlighting the mistreatment of Indian workers clearly compelled the Malaysian government to act on the issue. The cabinet committee on foreign workers chaired by the then Malaysian Deputy Prime Minister Najib Tun Razak decided on 16 March 2006 that all migrant workers from India were required to enter the country through the Construction Labour Exchange Centre Berhad (CLEC). The CLEC is a subsidiary of the Construction Industry Development Board and had been authorised to be the sole agency to recruit workers from India for all sectors in the country. The then Malaysian Works Minister Samy Vellu reiterated that all workers from India across all sectors had to go through the CLEC even if they were not involved in the construction industry. He added, "the local employers can apply to us and let us know their requirements about workers they need and we will advertise in India and recruit workers for them" (Balasubramanian, 22 March 2006). A Memorandum of Understanding between India and Malaysia has been prepared in this context but India's insistence on a minimum wage clause has delayed its signing. The Indian demand would be hard to meet because Malaysia does not have a legislated minimum wage (Balasubramanian, 22 March 2006). The then Indian High Commissioner in Malaysia, R.L. Narayan, welcomed Malaysia's decision to centralise the recruitment of Indian workers through the CLEC. He added that the 140,000 Indians formed the third largest component of the foreign work force in Malaysia (*International Herald Tribune*, 8 January 2008).

### **Retaining professionals and more-skilled workers**

With shortages of talented IT professionals a continuing problem in Malaysia and the concomitant rising wages for IT talent in India, worker retention should be one of the key aims of any company. One way of retaining talented workers could be the use of Employment Value Proposition (EVP). EVP consists of recognition of factors that influence the mobility of talent such as rewards, organisation, opportunity, people and work. One key factor would be to boost workers' long term employability. If job security is a thing of the past, then companies should continually make their workers' skills relevant in the fast changing IT industry through training. A human resource manager with a Malaysian IT firm said that her firm has an internship programme to hire local graduates. The internship programme will enable the company to evaluate the quality of the internees. She added that

her company attempts to have a balance of local and foreign IT workers because there is no guarantee that a foreign IT worker will stay long. India is booming and her company had a labour attrition rate of 8 to 10 per cent of total employees in 2006 because of this phenomenon. Indian IT workers, if they are single, are also likely to return to India for marriage, and are then unlikely to return to Malaysia. She said that one way of enhancing retention would be to provide internal pathways from technical to project management. In some cases, Indian IT workers would be given the opportunity to gain further certification for which the company would pay.

The Malaysian Prime Minister, Abdullah Badawi, has repeatedly said that Malaysia needs to speed up the transformation of the MSC and take the brand, companies, products and solutions to the global market place. He added that “while we are proud of our success thus far, we recognize that the developmental years are now over. We must move forward more surely and more rapidly” (*Straits Times*, 19 May 2007). Malaysia aims to have at least twenty local MSC firms to become globally competitive by 2010 and create about 100,000 high value jobs. Malaysia also aims to nurture a number of technopreneurs through the development of ICT SMEs. Deputy Prime Minister Najib Tun Razak also said that the MSC would continue its efforts to attract foreign companies because “their presence would add to the MSC’s lustre as the host for international shared services and outsourcing facilities” (*Straits Times*, 19 May 2007). Among the one hundred leading companies that have established operations in the MSC are Dell and Satyam Computer Services.

Apart from the MSC, Malaysia has also developed a high-tech park in Kulim, Kedah. The Malaysian government has plans for another high-tech park to be located in Sedenak, within the Iskandar Development Region (IDR) in the southern state of Johor (*Straits Times*, 25 April 2007). The then Malaysian International Trade and Industry Minister Rafidah Aziz said that an area of 283.2 hectares had been set aside for the development of the Sedenak high-tech park and it could be expanded when needed (*Straits Times*, 25 April 2007). About MYR144 million would be allocated for the park’s infrastructure development.

## **Conclusion**

In the transformation towards a KBE, the primacy of human capital must pervade state policies (Courchene 2002, 78). In addition, the structure of bureaucracy should reflect the needs of a KBE, and society should move away from a structure more consistent with resource supremacy (and, in the Malaysian case, the supremacy of the *Bumiputera* policy). Presently, foreign human capital outflows from India to Malaysia do not compensate for the outflow of Malaysian talent overseas. Moreover, Indian foreign talent recruited through employment agencies, is not regarded as top tier talent. Foreign companies that have a local subsidiary or a joint venture firm normally recruit the top tier professionals. Nevertheless, in some cases highly skilled IT workers have been unable to transfer their superior expertise to their Malaysian counterparts because of a general lack of motivation among the latter to upgrade their skill sets. Malaysian IT workers also appeared to be easily content and shunned employment mobility.

Foreign Indian IT professionals described their Malaysian counterparts as “cool”, contented and easily satisfied. In this context, there appears a need for a better system to be put in place to motivate and circulate top tier foreign talent. However, it is difficult for foreign IT professionals to move between companies as they have to undergo a “cooling off” period and exit Malaysia for at least six months between new contracts. Thus to prevent IT skills from being lost overseas, and to increase the circulation of foreign IT talent, a better system of monitoring and regulation must be established to provide for this movement .

The MDEC, Home Ministry, Customs and Immigration Department would need to cooperate with one another in order to retain highly skilled IT talent within Malaysia. There are also systemic “loopholes” that needs to be addressed. For example, the foreign employment pass system utilised in Malaysia does not differentiate between highly skilled IT workers and the rest because they are usually managing unskilled foreign workers from India and other South Asian countries. Moreover,

talented foreign IT workers, especially in Malaysian companies, are not given strategic roles that could ultimately benefit the Malaysian economy. The difficulty of acquiring an employment pass and an inability to obtain permanent residency status have also discouraged skilled IT professionals from settling in Malaysia. Several Indian IT workers said that they would prefer to either work in the United States, Singapore or return to India as their next employment. Clearly Malaysia needs to reform its foreign employment policies to ensure the country's eventual transformation into a KBE.

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