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THEMATIC

In this report:

Malaysia – Addressing the elephant in the room

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Malaysia

Addressing the elephant in the room

In today's world of increasing digitalisation and globalisation, it is only appropriate for everyone to believe that every single individual living on this planet must have the right to a life free from slavery. Is this really happening? Unfortunately, the answer is a loud "NO". It is estimated that 40 million children and adults are trapped in modern slavery across different countries, including Malaysia.

In Malaysia, this issue has been well documented in many areas – from domestic work right up to the construction, agriculture, mining, manufacturing, and services sectors. Hence, there is an urgent need to address this matter before it becomes irreparable to our economy. Immediate attention is needed if we are serious about our global commitment towards sustainability.

What does modern slavery look like?

- Slavery is the severe exploitation of other people for personal or commercial gain and modern slavery is no different. Circumstances may have changed but people are still chained to their work, whether it is making our clothes, serving our food, picking our crops, working in factories, or working in homes as cooks, cleaners or nannies. From the outside, these works seem like normal jobs.
- However, a closer look will reveal a frightening reality; one where the people have lost the freedom to control their own lives. They face violence or threats, forced into inescapable debt, or have had their passports taken away and being threatened with deportation. Many fell into this cruel trap as they were desperately trying to improve their lives or support their families amidst extreme poverty and insecurity. Unfortunately, not many are able to do so.
- Slavery today comes in many forms. And the most common ones are:
 - Human trafficking: The use of violence, threats or bullying to transport, recruit or harbour people with the aim of exploiting them for purposes like forced prostitution, labour, criminality, marriage or organ removal.
 - Forced labour: People are forced to do any work or services against their will under threat of punishment.
 - Debt bondage/bonded labour: The most widespread form of slavery where those trapped in poverty borrow money and are forced to work to pay off the debt, losing control over both their employment conditions and the debt.
 - Descent-based slavery: An old-fashioned way where people are treated as property or commodity and their "slave" status is passed down the parental line.
 - Slavery of children: A child is exploited for another person's gain which includes trafficking, soldiers, marriage and domestic slavery.
 - Forced and early marriage: A person is married against their will and is unable to leave.



Coming back home...

- The issue of modern slavery is not new in Malaysia. It has been well documented in many of the economic sectors, ranging from domestic work right up to the construction, agriculture, mining, manufacturing and services sectors.
- For instance, our palm oil industry was recently flagged following allegations of forced labour and other abuses on several big names in the plantation sector. Among the alleged abuses on the workers are physical and sexual violence, restriction of movement, intimidation and threats, debt bondage, withholding of wages and excessive overtime, regular harassment by authorities, and indiscriminate detention in government facilities.
- Some of the problems appear to be systemic, occurring on numerous plantations. And interestingly, palm oil is hidden on labels of numerous products as an ingredient despite being present in more than half of the products on supermarket shelves such as cosmetic brands, paints, plywood, pesticides, pills, animal feed, biofuels and even hand sanitizer. Hence, it can be a challenge to avoid modern slavery.
- And the Covid-19 pandemic may have exacerbated the problem, especially in the glove industry. The pandemic has heightened the pressure on labour standards in this industry due to a sharp surge in demand for gloves and the risk of virus transmission among workers. There was a shift in power to glove manufacturers in relation to distribution, pricing, and payment terms which not only intensified the pressure on existing workers but also opened “opportunities” for unethical procurement.
- But the forced labour issue was there even before the pandemic. The US banned the import of gloves produced by two major manufacturers in Malaysia due to findings of forced labour. The so-called shift in power to the manufacturers due to the pandemic is not permanent. So, it is vital to ensure improvements in labour standards as part of the supply chain resilience strategy. The industry should not be focusing on bottom lines alone.
- The latest sector to be hit is the electronics industry. We are one of the world’s largest exporters and many of the world’s best-selling electronic brands are in one way or another sourced from us. It appears that we have become a “regular” in forced labour. We are seen to have been involved in a system of exploitation that has deepened and expanded over the years. The recent news of high-tech home appliance maker Dyson Ltd cutting ties with ATA IMS Bhd due to allegations of forced labour raises a pertinent question – is this the tip of the iceberg for this industry?

Serious need to address the problem

- With the label modern slavery hanging over our heads, it is time for an urgent and serious need to address this matter before it becomes irreparable to our economy. Immediate attention is needed if we are serious about our global commitment towards sustainability.
- The risk of many global businesses that will exclude our companies that are accused of forced labour practices and modern slavery from the supply chain is high. Investors are increasingly applying these non-financial factors as part of their analysis to identify material risks and growth opportunities. This is where the environmental (E), social (S) and governance (G) assessment comes into play.
- Based on the ESG components, both the “E” and “G” include modern slavery directly. The “S” component involves for polluted or dangerous conditions where people are forced to work in. Hence, ESG reporting provides a guidance on the company’s efforts to be socially conscious and bring about a positive impact in the long-run for a responsible and sustainable business that will eventually benefit the community.



Tuesday, 07 December 2021

- However, in today's environment, what can be seen is that modern slavery is an "underweighted" element within the ESG framework. There are no standardised indicators in this area and this can be a challenge. Companies may not disclose enough information on their labour practices. They tend to be less transparent on this area largely because they want to maximise earnings. Poor disclosure retards the investors' ability to understand how companies manage their risks related to modern slavery.
- Forced labour is more than just an ethical issue. Modern slavery can become as costly and urgent like climate change and the Covid-19 pandemic in the public's eye. Investment risk will escalate with potentially catastrophic outcomes for businesses found to in violations of human rights. The government alone cannot resolve this issue.

Downgraded by US Trafficking in Persons (TIP) report

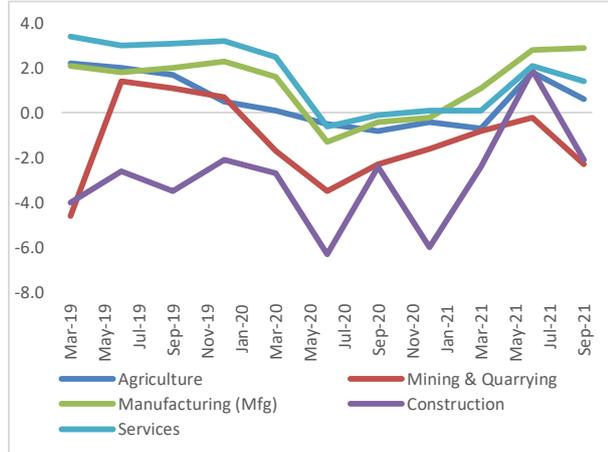
- Malaysia has been downgraded by the *US Trafficking in Persons (TIP)* report. After being on its watch list for three years, Malaysia dropped to "Tier 3", its lowest ranking, which is for countries whose governments have failed to fully meet the minimum anti-trafficking standards and have not made significant efforts to do so.
- The downgrade has put Malaysia in the same category as North Korea, Myanmar, China, Syria and Turkmenistan. It means that Malaysia could lose some US assistance although the US president can choose to issue a waiver. Decisions on whether to impose penalties will not be made until later this year.
- And the downgrade should not come as a surprise. The issue of modern slavery is a long standing one, rearing its ugly head even before the Covid-19 pandemic for our rubber glove manufacturers, palm oil producers and electronics sector. It was already present in domestic work, right up to construction, agriculture, mining, manufacturing, and services sector.

Time for us to embark on real reforms

- It is time for us to embark on real reforms in our labour policies to address matters relating to modern slavery. Our policy must ensure that companies improve their business supply chain ESG. Failing to do so will result in prosecution that could result in "opportunity loss" in the said businesses. Such drastic measures will instil discipline in businesses and drive them towards raising their ESG values instead of focusing on earnings alone.
- Dragging our feet on modern slavery issues will pose serious investment risks. These include reputational and brand damage, and regulatory changes and general business risk. Potential investment flow will take a strong hit.
- The government alone cannot eliminate modern slavery. No number of policies formulated will work effectively and efficiently without developing a strong ecosystem embedded with ESG. Towards this end, we need the cooperation of everyone from the government, businesses and the community.

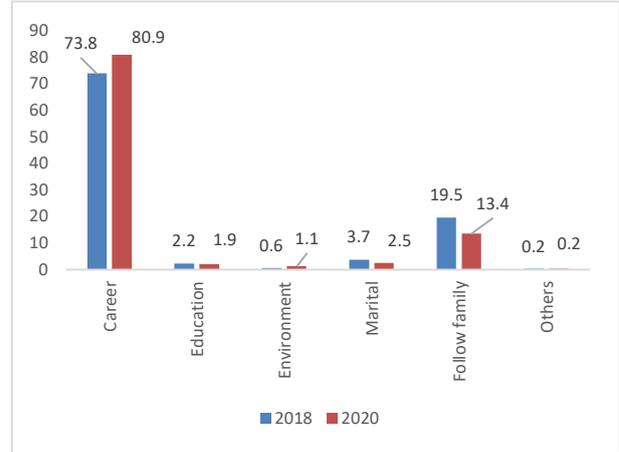


Chart 1: Employment By Industries (y/y %)



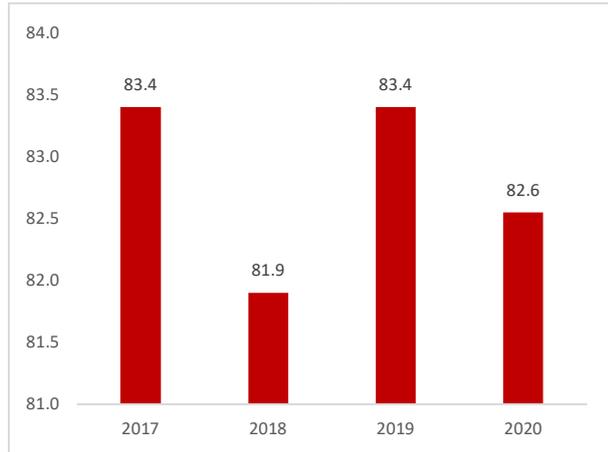
Source: CEIC/AmBank Research

Chart 2: Intl. Migrants into Malaysia by Reasons (%)



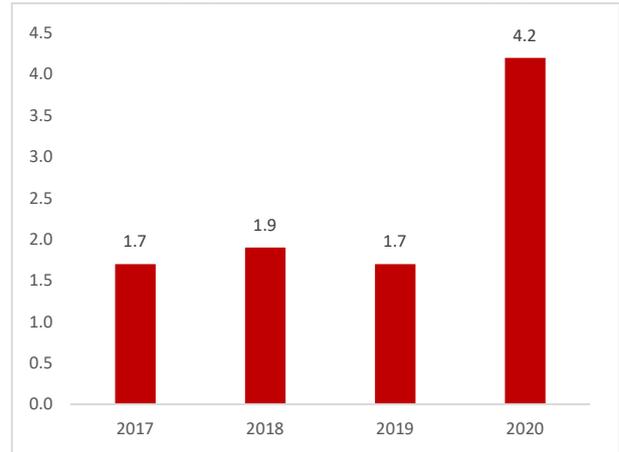
Source: CEIC/AmBank Research

Chart 3: LFPR Non-Citizens (%)



Source: CEIC/AmBank Research

Chart 4: Unemployment Rate Non-Citizens (%)



Source: MIER/CEIC/AmBank Research



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