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**Incorporating transnational labour: Migration rent, combined relocation, and offshore production networks in Malaysia**

*Post-Print version*

**Loïs Bastide**

**Abstract**

The article explores the interactions between transnational labour migration, multinational corporations' (MNCs) location strategies, and public policies in the context of contemporary Malaysia. My main hypothesis is that the country's position in global production networks is dependent on the presence of a large pool of foreign workers. To demonstrate this relationship, I develop the concept of 'migration rent' in order to account for the specific characteristics of migrant labour in Malaysia. By showing that this rent allows the optimization of labour, as a production factor, beyond the sole issue of labour costs, the concept allows an explanation for why foreign direct investment does not move to lower-wage countries. By allowing and organizing the recruitment of foreign workers on a large scale, the government has shaped territories where both capital and labour can be relocated to achieve effective production factor combinations. To understand this process, I articulate the concept of 'combined relocation', which describes transnational investment strategies where both capital *and* labour are moved to a third country—here Malaysia—under the former's command. In so doing, the paper thus adds to the literature on MNCs' spatial strategies, on transnational labour migration, and on Malaysia's political economy.

## Introduction

Since the 1970s, labour migrations to Malaysia have increased steadily, notwithstanding short slowdowns during the economic crises of the mid-1980s and late 1990s. This workforce has been distributed in lower labour market segments, mostly informally in the beginning, through economic agents' individual initiatives (Kaur 2012: 246). The state later took an active part in this emerging trade by organizing the sourcing, hiring, and placement of foreign workers, and channelling them towards different economic sectors, following orderly patterns (Kassim 2000, 2017; Kaur 2004, 2010; Wong 2006). Since the 1990s, Malaysia has thus risen to become the biggest labour importer in East Asia. Since the 1990s, Malaysia has risen to become the biggest labour importer in East Asia (Wong 2010). In the country's last national Labour Force Survey (2019), there were 2,183 million registered foreign workers in 2018, for a total labour force of 14.776 million. Actual numbers are probably much higher, considering the volume of unregistered foreign workers in the country (see, for instance: Hugo 1993; Wong 2010; Wong and Anwar 2003). In 2016, Malaysian Minister of Human Resources Richard Riot indicated that the total number of registered foreign workers had reached 2,135,035, and their irregularized<sup>1</sup> counterparts amounted to 1.7 million (*New Straits Times Online*, 29 March 2016), for a total foreign labour force approaching 4 million; best recent estimates combining various data sources set the number of foreign workers in the country between 3.85 and 5.5 million, with some unconventional sources

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<sup>1</sup> The status of these workers in Malaysia, as elsewhere, is the product of a politico-legal process of exclusion. I term the process 'irregularization' in order to insist on the fact that it is not a natural condition, but a socially constructed one. In the same spirit, I prefer to describe workers as being 'irregularized' rather than 'undocumented', thus underscoring the active part taken by public authorities in the process.

(nationality of SIM card holders), suggesting that the number could be as high as 7 million (Lee and Khor, 2018). In other words, foreign workers represent between 20% and 50% of the total Malaysian labour force.

On par with the increasing presence of foreign workers, Malaysia has also consistently attracted a sizeable share of foreign direct investments (FDIs) flocking to Southeast Asia over the past decades, as the region becomes a strategic component of the ‘global factory’ (Buckley 2011, 2014; Grunwald and Flamm 1985). In 2017, the country’s FDI stocks reached US\$139.540 billion; between 2006 and 2010, it received US\$42 billion, with 41% of this being in the manufacturing sector alone. In this context, the contribution of multinational corporations (MNCs) to Malaysian exports went up from 65.2% to 85.5% between 1970 and 2000. In 1996, MNC-driven industrial outputs accounted for over 90% of the total value added in consumer electronics and semiconductors (Athukorala 2007: 55), in a sector that came to represent 44% of Malaysian exports in 2016 (Ministry of Finance 2019). More broadly, foreign capital influx gradually turned offshore production into the most profitable branch of Malaysian industry (Lafaye de Micheaux 2012: 296–300). Today, export production, heavily dominated by MNCs, employs two-thirds of the total foreign workforce in manufacturing (Athukorala and Devadason 2012: 1499).

Empirically, the relationship between MNCs’ activity in Malaysia and foreign labour seems rather clear: Indeed, foreign firms, directly or through their subcontracting networks, employ large contingents of foreign workers, especially in ‘electronics and machinery’ manufacturing. As we shall see, empirical evidence shows that the profits attached to this workforce are integral to MNCs’ location strategies, thus anchoring the country in the contemporary, transnational geography of production spanning East and Southeast Asia. This type of labour has thus become an important fixture of the country’s development policy. In a context where FDI is integral to national

development policy and where MNCs' investments depend on a steady supply of foreign workers, the article aims at exploring the connections and interactions between transnational migrations, the evolving landscape of offshore production in Southeast Asia, and the Malaysian government.

In order to do this, I will develop two heuristic devices, namely, the concepts of 'migration rent' and 'combined relocation'. My main hypothesis is that MNCs' location strategies are partly predicated upon the availability of a specific type of surplus value, tied to foreign labour. Leveraging this rent can be achieved through the displacement of workers (under the form of transnational labour migration); and best optimization of production factors can be sought by moving **both** capital and labour across national borders —combined relocation.

In the first section, I will outline an analytical approach to investigate the relationship between foreign investments and migrant labour, in general and in Malaysia specifically, by digging into the literature on FDI, MNCs, and migration. After having shown that the presence of migrant workers does contribute to attracting investors to the country, I will propose that this attractiveness is associated with specific forms of labour exploitation. Since resulting profits are predicated upon the transnational circulation of workers, I will posit that they result from the capture of a **migration rent** (section 2). In Malaysia, these forms of labour, dependent on immigration, are produced with the active involvement of the state as it tries to capture investments in the context of an evolving geography of production, both in Southeast Asia and beyond. In a third section, I will leverage the notions of 'on-site relocation' and 'inner relocation' to argue that the Malaysian institutional context allows the development of **combined relocation** strategies, whereby capital and labour are both relocated under the former's command. I posit that, by articulating the concepts of migration rent and combined relocation, it is possible to shed new light on important features of contemporary transnational migrations towards Malaysia and, in a broader

perspective, to expand available conceptualizations of MNCs' location strategies in relation to migrant labour.

### **Is capital 'chasing labour' in Malaysia?**

To the best of my knowledge, Hatton and Williamson (1998) were first to address the relationship between international capital flows and migration, from an economic history perspective. Looking at the great European migrations of the 19th and early 20th centuries, they showed that part of international capital flow was 'chasing' after migrants, as capitalists sought to keep stable or improve the capital-to-labour ratio, thus safeguarding or improving return rates on investments, at a time when massive migrations depleted the workforce in home countries and where immigrants 'flooded' labour markets in destination countries (Hatton and Williamson 1998: 223–230). This issue of return rate optimization, through the balancing of wage levels—or labour costs—offers a first point of entry to explore the association between international migration and capital relocation.

If the literature on FDI and MNCs does not tackle the question of migration per se, it deals abundantly with production costs and their role in framing firms' location strategies. In this context, the available works are rather nuanced and tend to downplay the idea that the geography of transnational production could be understood as the outcome of a mere 'race to the bottom' (MacKinnon and Cumbers 2007) involving corporations moving their production operations abroad in order to capture cheap labour (Flores and Aguilera 2007). Rather, it appears that MNCs' location decisions are increasingly complex and multifactorial (Dunning and Lundan 2008). In Malaysia, for instance, a 2010 study by Choong and Lam (2010) found the country's attractiveness

towards FDI to be positively tied to China's market size, to be partly determined by institutional factors, such as tax policies, and to be linked to the country's 'literacy rate'. A more recent study found inflation rate, 'trade openness', and stable governance to be meaningful determinants of manufacturing investment inflows to the country (Kinuthia and Murshed 2015). As a result, it appears necessary to look beyond labour costs to analyse corporations' international relocation strategies. Yet, it is true that there is also a relative consensus that this factor *does* play some role in attracting MNCs' investments, especially so in developing countries (Athukorala and Kohpaiboon 2015: 17; Mucchielli and Mayer 2004: 46; Negi and Bardhan 2018). To sort out these hypotheses in the context of our case study, it is necessary to put Malaysia in its regional context.

In Southeast Asia, MNCs' location strategies unfold on a regional scale (Athukorala 2006, 2016; Athukorala and Kohpaiboon 2015). As an early player in the global factory, the region is now deeply integrated in global production networks. This embedding can be approximated by weighting the national production outputs attributable to MNCs relative to national industrial production. In 2006, MNCs thus generated over 80% of Singapore's manufacturing outputs, and they represented over 40% of Malaysia's, Thailand's, and Vietnam's industrial production (Sjöholm 2013). Southeast Asia thus displays a strong integration in global production patterns, accounting for 9.6% of the world's production network exports<sup>2</sup> in 2013, well above the United States of America (6.8%), Latin America (5.56%), or South Asia (1.58%) (Wignaraja 2016: 7). Malaysia alone was worth 2.7% of the total, thus emerging as a critical contributor at the regional level and beyond. The country should thus be seen a strategic piece within an integrated, regional

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<sup>2</sup> Network exports account for the trade in parts and components, or intermediary goods, *within* transnational production networks. They take place in an intra-firm or inter-firm market. They are integral to the manufacturing process of finalized consumer goods. As such, they must be distinguished from the more classical trade of final goods on consumer markets.

organization of production, controlled by MNCs (Athukorala 2016). To delineate this position, it is necessary to offer a few historical insights.

Singapore was the first to attract MNCs, by engaging in an export-oriented industrialization based on transnational capital. To lure foreign corporations, the newly independent country leveraged its cheap labour, sound infrastructures, and favourable tax policies (Athukorala and Kohpaiboon 2015; Bastide 2011a; Devadason and Subramaniam 2015; Mirza 2011; Perry, Kong, and Yeoh 1997; Rodan 1989). Later on, as industrial real estate and labour costs rose in the city-state, foreign capital started to spill over to neighbouring countries, with investors looking for cheaper production factors (Athukorala and Kohpaiboon 2015). In this regional setting, MNCs' investments have been mainly of the 'efficiency seeking' type (Dunning and Lundan 2008: 34; Negi et Bardhan 2018; Storper 2000: 135); indeed, the regional organization of manufacturing has supported the emergence of what economists term 'vertical integration', meaning the fragmentation and coordination of production and assembly processes between different production units, and in this case across several countries. This distribution aims at leveraging specific, location-based resources (such as wage levels, productivity, infrastructures, geographic location, cultural and linguistic assets, literacy rates, access to capital, legal system, etc.) and optimizing their combination on a transnational scale (Athukorala 2016; Buckley 2014). Within this regional geography of production, each territory thus carved out a position according to specific factor endowments. And as a region Southeast Asia became part of a wider, integrated production network where it serves mainly as a manufacturing base, with a strong focus on electronics and electrical goods, from which parts and components are exported to China for final assembly (Athukorala 2016; Athukorala and Kohpaiboon 2015; Choong and Lam 2010; Sjöholm 2013).



At an early stage in the process, Malaysia's low labour costs were instrumental in capturing foreign capital seeking to relocate from Singapore (Choong and Lam 2010). In fact, current studies show that wage levels continue to play a role in the country's locational advantage (Kinuthia and Murshed 2015). Importantly, if, during Malaysia's first wave of industrialization, the country was tied to endogenous labour market dynamics, manufacturing wages are now 'artificially' kept in check through the continuous, organized influx of migrant workers. Using 2011–2014 data, the World Bank thus shows that foreign 'plant and machine operators' earn 32% less than their Malaysian counterparts (World Bank 2015: 38). By lowering labour costs in the industry, migrant workers thus do contribute to attracting manufacturing FDI to the country. Yet, however important, this aspect does not allow conclusions to be drawn on the determinant of Malaysia's locational advantage with regards to MNCs' investment strategies, as other nearby countries offer much cheaper labour costs.

Therefore, another way to go, in order to assess the relationship between FDI inflows and labour migration, is to bypass altogether the issue of labour costs to look directly at statistical covariation between capital and labour inflows. Accordingly, Devadason and Subramaniam show the volume of foreign labour to be positively linked to foreign manufacturing investments. Thus, for the 1985–2009 time period, foreign investments in manufacturing went up from 17% to 72% of total capital formation in the industry, while *'the share of unskilled migrants in total unskilled employment increased from 2 per cent to 38 per cent over the same period'* (Devadason et Subramaniam 2015). This 'agnostic' approach (to the extent that it does not draw hypotheses on the specific factors that make the migrant workforce attractive to FDI) reinforces the view that foreign labour is a contributing factor to MNCs' manufacturing investments in the country, while

refraining from attributing it to the sole issue of wage levels, or even the broader question of labour costs.

As a provisional conclusion, this discussion allows us to take stock of the idea that migrant workers are a contributing factor to the influx of MNCs' investments in Malaysia, while refraining from attributing this attractiveness to the sole issue of labour costs, although they seem to play some part in the process. On this basis I propose the hypothesis that foreign investments in the country's manufacturing sector aim (at least in part) at leveraging a 'migration rent' (Lautier 1998: 258–266), which encompasses but exceeds labour costs. Let us now turn to this aspect.

### **From 'exploitation rent' to migration rent**

In Malaysia, the expansion of MNCs' production networks induced a growing labour demand, which was largely met by state-organized inflows of foreign workers hired on a large scale in unskilled industrial jobs (Kaur 2004: 197–227). In 1992 the government put the *Comprehensive Policy on the Recruitment of Foreign Workers* in place, which installed and formalized a guest workers programme that allowed for the recruitment of workers on a fixed-term basis—2 years at the time (Aziz Wan Abdullah 1994)—and regulated their employment in the manufacturing sector. In 1992, a total of 41,200 foreign workers were recruited in industrial jobs—3% of total jobs in the sector (Hugo 1993). In 2010, the number of recorded foreign workers in Malaysia had reached 1.8 million. Of these, 37% were working in the manufacturing sector (Narayanan & Lai 2014), thus amounting to about 40% of the manufacturing sector workforce of 1.7 million.

This demographic expansion, highly concentrated in unskilled jobs, is usually seen as a result of the massive movement of Malaysian citizens out of the lower segments of labour markets, a shift due to the politically organized massification of the middle class (Aziz 2012; Castells 1992; Kaur 2004; King 2008: 91–129; Ong 1999). This mechanistic interpretation is partly true, and studies have found a ‘substitution effect’ between foreign and national workers in unskilled industrial jobs (Bachtiar, Fahmy, and Ismail 2015). However, it needs to be refined because not only do foreign workers substitute an equal amount of labour, they also alter its **very nature** (Chin 2008). By modifying the properties and circumstances of labour relations, this transnational workforce allows the production and capture of an exploitation rent which contributes greatly to its attractiveness.

In 1998, Bruno Lautier coined the concept of exploitation rent to account for persistent—and even increasingly diverse—forms of what he calls ‘*salariat bridé*’ (bonded labour in its different guises)<sup>3</sup> in the context of capitalist relations, globally, irrespective of the latter’s supposed tendency towards the homogenization of labour relations in the shape of free wage labour. For Lautier, the proliferation of these types of captive employment patterns, where the employee is stripped from her faculty to terminate the employment relationship, is linked to the production and appropriation of a specific kind of rent that is tied to labour. In his conceptualization, this rent is based on the implementation of mechanisms preventing the tendential homogenization of wages in a free labour market. These mechanisms work along two lines (Longuenesse 2015):

1. They aim at controlling workers’ labour market mobility. As such, they create new forms of bonded labour.

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<sup>3</sup> ‘(...) we call *salariat bridé* any form of dependent labour which results in a monetary remuneration, but which broadens the transaction to the faculty to unilaterally terminate the work contract’ (my translation). Thus, in this labour relationship, the employee is deprived of any control regarding the length of the employment relationship.

2. They aim at taking ownership of the means of reproduction of the workforce, to reduce associated costs to a bare minimum. Workers' means of subsistence are not provided in monetary form through wages to be used freely to purchase goods on consumer markets, but in kind, with employers providing food and lodging, thus controlling associated costs.

Both hypotheses are consistent with the Malaysian case, where the distinction between national and foreign workers translates into highly segregated employment patterns and labour processes, suggesting precisely the economic valuation of situations of labour captivity and of high dependence towards the employer. Indeed, despite Malaysia's ratification of the 1949 United Nations' *Migration for Employment Convention (Revised)*, promoting equal treatment of national and foreign workers, the latter display very specific working and employment conditions: restrictions to their mobility (workers are typically housed and fed by their employer, and their passports are often withheld), indebtedness (as placement costs and fees are charged to workers), mandatory overtime, the forbidding of switching jobs or employers, the non-respect of unionization rights, etc. (for more details, see Bastide 2015; Devadason and Meng 2014; Kaur 2014; Malaysian Employers Federation 2014; Verité 2014).

In line with the exploitation rent hypothesis, these circumstances have profound effects on wage formation and translate into lower incomes. Broadly speaking, Malaysian workers' median hourly wage reached 9 RM in 2015, against 5 RM (around US\$ 2 and US \$1.20, respectively) for migrant workers. National workers earn 10% to 32% more than foreign employees in the same employment sector, with the largest gap concerning plant and machine operators (World Bank

2015), this in spite of the implementation of a minimum wage policy since the early 2010s<sup>4</sup>. In the electronics sector, while wages increased by an annual average of 8.4% between 1990 and 1997, they only increased by an annual rate of 2.6% between 2000 and 2006, while foreign labour was brought in on a large scale for this sector (Rasiah 2009: 125). Moreover, one must bear in mind that these are official figures. Migrant workers' real salaries are often inferior to these theoretical levels of remuneration (Kassim and Zin 2011) due to things like non-paid work and/or overtime. Thus, the existence of a specific type of value-added, based on expenditure savings linked to migrant labour is verified. A natural line of inquiry then consists of deciphering the particular circumstances allowing for the production of employment forms conducive to this rent: If every employment contract supposes the formalization of a subordinate relationship, then what needs to be explained in the Malaysian context is its **radicalization**.

Lautier rightly stresses the importance of the control of mobility in achieving such a regime of exploitation in labour markets dominated by free wage labour. By so doing, he insists on the role of this control in the production of an exploitation rent which '*[...] not only supposes harsh conditions of exploitation and low salaries, but also the impossibility for the workforce to circulate (its captive nature)*' (my translation). If the immobilization of workers—both spatially and in terms of labour market mobility—is so important, this is in part because it inhibits the development of the free interplay between supply and demand, thus impeding the (theoretical) tendential homogenization of wages in a free labour market. Interestingly, in Malaysia, migrant workers are legally prevented from switching jobs or employers during the length of their stay—which is equivalent to the time period of their fixed-term contract—without a written agreement from the

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<sup>4</sup> This might be due to poor policy enforcement : in 2014, Vélite found that 32% of surveyed foreign workers, in the electronics sector, reported being subjected to forced labour (Vélite 2014).

Ministry of Home Affairs (Othman 2015). More broadly, their mobility—both spatial and in labour markets—is tightly controlled, setting them apart from the Malaysian workforce. This process of ‘inferiorisation’ (Moulier Boutang 1998: 99), which draws a clear line between national and foreign workers and creates ‘segregated’ labour market niches (occupational segregation) (Reskin, McBrier, and Kmec 1999) where migrant workers are confined, is predicated upon the transnational nature of labour relations. At the legal level, for instance, different clauses in the 1955 *Employment Act* introduce a criterion of domestic preference for recruitment; non-Malaysian workers more restricted social rights with regard to health care access and compensation (Devadason and Meng 2014).

From a broader perspective, neutralization of their ‘spatial capital’ (Lévy and Lussault 2003) prevents migrant workers from reaching out to spatially dispersed resources—not just legal ones, but social, economic, and symbolic ones as well—to negotiate their work conditions (Bastide 2015). This undermining of personal resources constitutes the formalization of the employment contract as a key moment in terms of shaping the migrant workers’ final work circumstances, even more so considering that the government applies a *laissez-faire* approach to the regulation of contractual clauses.<sup>5</sup> Practically, this situation entails the unilateral imposition of the employers’ conditions, given the lack of workers’ bargaining power. Contracts thus objectify deeply unequal positions relative to the employment relationship.

However, the most impactful disposition framing the actual circumstances of foreign employees in Malaysia relates without a doubt to the legal tying of residence rights to the work

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<sup>5</sup> However, this *laissez-faire* approach is partly countered by the intervention of foreign governments, which put pressure on Malaysia to protect their citizens abroad. For instance, Indonesia has negotiated better salaries and the right to live outside of the employer’s house for Indonesian women working as domestic workers in the country. That said, there remains an important gap between these formal rights and their application on the ground.

contract. Considering that, in juridical terms, the work contract termination leads to the withdrawal of residence rights, and consequently opens the way for immediate deportation, migrant workers' access to all formal rights thus depends on the continuity of the work contract. To understand the ramifications of this legal point, it is useful to add that the contract can be terminated at any time and unilaterally by the employer (Devadason and Meng 2014), which creates a constant state of 'deportability' (De Genova 2002)—the impending threat of deportation. This situation has a deep impact on the relations of employment, as employers are thus able to inflict a 'juridical death' on their employees (Bastide 2014, 2015). The intersection between the work contract and residence rights reveals a powerful tool of control; it opens the door to all different kinds of abuses which are frequently reported, as it forecloses access to the legal system, making labour laws practically inoperant. For instance, an attested practice in the construction sector consists of terminating employment contracts shortly before completion of a given project, thus enjoying the workforce input without having to pay workers their full wages, while at the same time depriving them of any possibility of legal redress (Wawa 2005).

Considering the critical importance of nationality in the production of actual work conditions in Malaysia, I thus propose the existence of a *migration rent*, understood as a specific subtype of exploitation rent which is based on the exploitation of non-citizenship, as a product of border crossing in the context of labour migrations.<sup>6</sup>

### **Migration rent and offshore production**

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<sup>6</sup> Given the scope of the paper, I focus on Malaysia. However, it is important to stress that the production of migration rent is a complex social, political, and legal process, inherently transnational. As I have discussed elsewhere, sending countries thus play a significant role in framing the properties of foreign labour in Malaysia (for an extended discussion, see Bastide 2015).

This argument entails an important consequence: it shows that labour costs only represent a partial dimension of migration rent. These costs are part of a broader combination of features that can be summarized as **the degree of subordination achievable in the context of the employment relationship.**<sup>7</sup>

In a 2014 report, the Malaysian Employers' Federation surveyed 101 companies, including 50% of MNCs, to assess their managerial practices relative to foreign workers. To explain their interest in tapping into this specific workforce, interviewees pointed to the willingness of migrant workers to work harder and perform overtime, their low absenteeism rate, and the fact that they were easier to manage (Malaysian Employers Federation 2014: 23–24). Raj-Reichert's more recent interviews with managers of three foreign-owned contract manufacturers in Malaysia—important players in the electronics sector—identify similar reasons: foreign workers are recruited on a large scale because they work harder and are more reliable (Raj-Reichert 2019).

More broadly, easy termination of contracts, indebtedness, spatial captivity and labour market immobilization, non-unionization, a high dependency on the employer and recruitment agencies, and an employer's capacity to impose (often unpaid or partially paid) overtime, in addition to a quasi-unlimited pool of substitutable workers from different source countries, all concur to smooth out work processes and to improve the ability to keep the workforce supply in close relation to the fluctuations of demand (Kassim and Zin 2011). What the migration rent allows, then, is **a greater overall control over labour as a production factor**. It follows that it does not always take the expected shape of a Marxian superprofit, or at least not immediately: in the broader

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<sup>7</sup> Of course, this degree is ultimately monetized, under different forms. However, much of the related economic benefits do not result directly from foreign workers' low wages. They are derived from savings related to the high flexibility of this workforce—easy dismissal of workers, punctual intensification of production (see also Ietto-Gillies 2005: 158).



Malaysian economy, it simply allows the maintenance of a steady labour supply or, in certain cases, viable profit margins in economic activities where they tend to erode, thus protecting fragile economic sectors (Kanapathy 2001; Lautier 1998). In the latter case, decreasing costs of labour can be used to offset the inflation of other production factors—rising costs of land and property, for instance—or a lack of purchasing power on the demand side, by helping to keep consumer prices in check, such as in lower segments of the food outlets industry. Reasons for resorting to foreign workers should therefore be analysed in terms of the specific constraints weighing on specific economic sectors. To analyse further the intersection between foreign capital and migrant labour, in the context of MNCs' investment strategies, we thus need to look in more detail at the regional organization of offshore production.

As we have seen, Singapore accommodates the most capital-intensive activities in the regional organization of value and supply chains, whereas countries such as Cambodia, Vietnam, Indonesia, and the Philippines attract the most labour-intensive operations (Athukorala 2016; Athukorala and Kohpaiboon 2015; Bastide 2011b; Fau 1999; Grundy-Warr, Peachey, and Perry 1999; Perry 1992). Therefore, in this geography of labour and capital, Malaysia's position is ill-explained by labour costs alone. If wage levels were the only locational factor at play, MNCs' productive operations would have been moved to nearby Indonesia or else farther away. It cannot be explained solely by Malaysia's physical infrastructures, its legal 'ecosystem', its tax policies, or the readily available pool of skilled and highly skilled professionals, otherwise 'footloose' corporations would have moved to Singapore or other, more developed locations, with highly superior 'capital depth'.

Within corporate relocation strategies, Malaysia thus occupies a niche situation: its attractiveness appears to rely on a combination of well-developed material and immaterial

infrastructures—such as quality IT and transportation networks, logistics, tax policies, labour laws, corporate services, free trade zones, etc.—and its labour force, especially (but not exclusively) its less qualified component (Athukorala and Devadason 2012). Regarding this last factor, migrant labour plays a significant role, as I have shown. The key to this issue is that, in terms of its human resources, Malaysia’s competitiveness in relation to its workforce thus relies on a broad range of properties—volume and variety of labour supplies, thus organizing a competition between different source countries; decoupling between wages and supply/demands dynamics, tied to the quasi-infinite volume of potential workers from different nationalities as well as to the workers’ labour market immobilization; decoupling between wages and labour reproduction costs, by means of their internalization by firms; workers’ high compliance and dependability; control over non-working time; etc. Foreign labour thus reveals a complex, composite factor of production, not easily reduced to wage levels. MNCs in Malaysia thus seek to exploit a specific form of labour, which is legally, politically, and socially framed, and, as such, highly idiosyncratic. The importance of this scarce production factor, as a locational advantage, is well reflected in the propensity of foreign corporations to leave the country when stricter conditions are imposed or planned by the government regarding the recruitment of migrant workers (see, for instance, *The Malaysian Reserve*, 1 June 2019, and interviews with MNC managers in Raj-Reichert 2019).

### **Migration rent and combined relocation**

Other indications reinforce the hypothesis that migrant labour plays a critical role in attracting and keeping MNCs in Malaysia. Thus, at a macroeconomic level, several studies looking at the hypothesis of Malaysia having fallen into a ‘middle income trap’ have shown a high substitutability between capital and unskilled labour in the manufacturing sector, thus favouring

labour-intensive production processes over capital accumulation and productivity gains (Bachtiar, Fahmy, and Ismail 2015). In MNC-dominated sectors, the sheer volume of foreign workers also shows their critical importance relative to firms' offshoring strategies, considering that MNCs' production networks absorb two-thirds of the total foreign workforce in manufacturing. In a more qualitative stance, a recent study suggests that MNCs in the electronics sector tend to use Malaysia as a base for labour-intensive operations, in the broader context of their regional location strategies (Raj-Reichert 2019). These locational logics appear highly reliant on the presence of foreign workers in Malaysia, as these workers are estimated to account for 20% to 60% of the total workforce in the Electronics sector, depending on the firm in question. Raj-Reichert conducted a direct investigation of two foreign-owned companies and found that foreign workers made up 40% and 60% of total employment, respectively.

The Malaysian government has well identified this demand and is anticipating the risk associated with curtailing foreign labour – thus limiting the migration rent (Devadason and Meng 2014; Kaur 2015). It has responded with relevant policies, as it has allowed a ratio of three foreign workers to one Malaysian worker in the export-oriented manufacturing sector, against a 1:1 ratio imposed in the domestic industry, thus balancing a domestic demand for stricter migration laws and the safeguarding of migration rent. As I will show, this configuration between global production networks, public authorities, and labour migration (in the form of migration rent) points toward an as-yet unidentified type of locational dynamic in the context of a global production network. Because it involves displacing **both** capital and labour, on a transnational scale, I choose to call it **combined relocation**.

This spatial configuration between labour and capital is somehow reminiscent of the notion of 'on-site relocation' (*délocalisation sur place*) coined by Emmanuel Terray (1999). Terray

developed this idea to describe the use of undocumented workers in the French economy at the end of the 1990s. He proposes that this population tends to work for low wages and to comply with harsh work conditions (non-paid overtime, atypical work schedules, etc.) because of its deportability. This legal and social vulnerability, in turn, proceeds from the workers being undocumented aliens. Public authorities play a major role in shaping this workforce by (1) establishing restrictive immigration policies, laws, and regulations (thus tracing the boundaries between legality and irregularity), and (2) modulating their enforcement, so that many of these workers are de facto allowed to stay on national territory, thus supplying a steady pool of cheap, disposable labour. As a result, national employers can take advantage of a migration rent, attached to this form of labour, without having to relocate their operations. It also follows that this workforce is even more essential to unmovable production operations.

More recently, Math and Spire (2004) broadened the notion by applying it to posted workers in the European Union. In this case, too, instead of employers relocating their operations to developing countries in search of cheap labour, a steady flow of workers supplies productive capital locally, thus suppressing (or diminishing) the incentives to move abroad. Moreover, it suppresses relocation costs associated with (1) the dismantling and re-creation of fixed capital (production infrastructures), and (2) transportation and logistics. In both cases, the spatial relationship between capital and labour is thus reversed compared to classic corporate relocation: instead of production operations relocating near available pools of cheap, disposable, and compliant labour, workers are put into motion and made readily available near existing infrastructures. Andrea Rea calls this process ‘inner relocation’ (Rea 2013). However, if, exemplified by the case of undocumented workers in France, the formation of a migration rent is achieved by these workers’ exclusion from legal provisions, here it is produced under the umbrella

of a *new international legality* which formalizes the right of an employer to place, on a temporary basis, a worker in another country of the union while applying to a certain extent the working regulations in effect in the worker's country of origin (typically payroll taxes and social security contributions). Therefore, it is possible to reinterpret on-site relocation as being driven by a thrust to produce and take advantage of migration rent. Regarding European posted workers, this specific type of labour is shaped through the crafting of a positive legal status rather than through irregularization.

As observed from these two cases, institutional arrangements play a key role in sustaining these social, economic, and spatial dynamics through the strategic establishment of laws and administrative practices aimed at providing an abundant, compliant, and 'discounted' workforce. In both cases, as in Malaysia, public authorities create complex political and legal environments that are conducive to the development of these peculiar spatial relationships between labour and capital. In France and Europe, these dynamics allow the development of 'radicalized' forms of labour exploitation, thus decreasing the incentive for productive capital relocation. To this extent, it is evocative of Xiang Biao's notion of 'labour transplantation' (2008), which captures how labour migrations in East Asia are constructed in ways so as to move workers **and their working conditions** (wages, legal protections, etc.) from their territories of origin to their work location, in order to preserve the economic specificities of a given workforce across space and, more decisively, across political jurisdictions. Moving labour can then be articulated with existing, fixed capital.

Thus, the Malaysian case illustrates that foreign workers do not only allow the importation of labour and working conditions—transplanting labour, in Biao's terms. Instead, the situation involves producing **more precarious** working conditions (ratio of wage to costs of living, coverage by labour and work safety laws, length of working hours, etc.) than those in effect in countries of

origin. Indeed, displacing workers across national borders allows the design and implementation of creative regulatory—laws and regulations targeted at these workers—and administrative—harassment by police forces, deportation, etc.—practices aimed at producing a specific type of labour (Bastide 2014). This type of labour extraction is dependent upon the crossing of national frontiers, since it can hardly be implemented when workers are also citizens, at least in a democratic or semi-democratic regime, for obvious reasons of political legitimacy.

Malaysia thus brings another twist to the notions of on-site and inner relocation: here, capital is able to optimize labour, as a production factor, by moving production abroad and putting to work migrants from a **third** country—or, to be more accurate, from third countries—on a large scale. As in the case of on-site and inner relocation, combined relocation involves the active participation of the state, which works towards creating a fitting legal and administrative environment through the implementation of labour and migration laws, tax policies, and other incentives directed at MNCs. Therefore, on-site, inner, and combined relocation can be conceptualized as three particular outcomes of a broader dynamic which sees capital seek the best spatial arrangements to increase return rates (Harvey 2016), through the exploitation of a migration rent. This can be achieved by moving workers across national borders and/or by moving capital to a third country. In this respect, combined relocation is a way of increasing the control over the migration rent by seeking the best geographic and institutional setting, allowing both to maximize its exploitation and to optimize capital investments, as a production factor. Thus, if the availability of this rent is not, by far, the sole factor explaining the geography of production networks, it does play a part in shaping the attractiveness of given spatial configurations, and it does play a substantial role in attracting FDIs to Malaysia.

Indeed, Malaysia has pushed the production of the migration rent to a high degree of sophistication. As a case study, it best illustrates combined relocation, as it attracts productive capital, originating mainly from East Asian, European, and North American MNCs, in conjunction with the massive recruitment of labour from poorer countries in South and Southeast Asia, with the intermediation of the state. If similar ways of resorting to foreign workers in the manufacturing sector can be found elsewhere in the region, such as in Thailand, South Korea, Taiwan, or Singapore, nowhere has it reached the same scale, and nowhere has the exploitation rent been developing in such proportions, legally and administratively organized, and institutionally embedded in the national political economy than in Malaysia. At the global level, a comparable configuration might be emerging in Central and Eastern Europe, albeit in less sophisticated forms, as Western European MNCs have been relocating segments of their production operations to the subregion since the early 1990s, and considering that the manufacturing sectors in countries such as Poland and the Czech Republic are increasingly resorting to foreign workers, mainly from Ukraine (for an extensive discussion, see Galgoczi, Leschke, and Watt 2009). However, we still lack data on these workers' forms of labour market distribution and incorporation to draw a meaningful comparison.

## **Conclusion**

The concept of migration rent, as a specific form of labour exploitation tied to transborder mobility, allows for the understanding of contemporary forms of labour mobilization, in the context of current production (and, more broadly, economic) geographies. As with on-site and inner relocation, the Malaysian case shows that this rent is not always produced through the mobilization of irregularized workers; it can also be achieved through positive legal provisions, shaping

inferiorization processes aimed at certain populations based on nationality. In so doing, the concept points towards migration policies and citizenship laws as key sites for attracting productive capital, thus opening the field to new research agendas, in places such as Thailand, Central and Eastern Europe, or the Gulf countries. In association with the notion of combined relocation, it sheds light on current, spatial, dynamic and flexible forms of production factors optimization by MNCs. These spatial arrangements are related yet distinct from both on-site and inner relocation, thus broadening our view of the strategic field in which corporations operate and shape their locational decisions.

Returning to the Malaysian case, it is important to stress that, far from being a privilege of foreign capital, the migration rent has in fact diffused across economic domains, thus becoming an important ‘technique of government’ (Lascoumes 2004) beyond the specific case of MNCs. Thus, the nature of demands associated with the migrant workforce, initially tied to labour shortages in the context of fast economic growth from the early 1970s (Jomo 1990; Kanapathy 2001; Lafaye de Micheaux 2012), has become much more complex. Nowadays, foreign labour aggregates various interests which are deeply entrenched within Malaysian society. These interests are not limited to employers, including employers outside of the offshore manufacturing sector. They also concern public authorities and players in the migration industry, all of whom tap into the migration rent, albeit through different channels (for a more developed account, see: Bastide 2015). In this sense, migration rent has played a critical role in the political and economic development options set and followed by the state since the 1970s.

However, as David Harvey (2016) puts it, this analysis only sheds light on one side of a multifaceted social object—the migrant as an economic but also a social and political subject. Indeed, migration rent also has many downsides for the state. Domestically, the presence of foreign workers feeds a widespread feeling of dispossession within the citizenry, which creates one of the



motivations for regular crackdowns on and deportation of irregularized migrants (Bastide 2011, 2014, 2015; Jones 2000; Kassim and Zin 2011; Kaur 2014; Wawa 2005; Wong and Anwar 2003). Moreover, migrant workers are not passive beings; many actively engage in a variety of practices outside of working hours. As an illustration, I have described elsewhere how these practices deeply affect the urban fabric in Kuala Lumpur (Bastide 2014). It also locates Malaysia in broader sets of transnational migration routes and migration networks, where migrant workers deploy their own strategies of spatial, social, and economic mobility. These dynamics are partly out of reach of the government, considering that some of their determinants lay beyond national borders. Similarly, resorting to an exogenous labour force anchors Malaysia in transnational economic and political dynamics, over which the country has less control. Thus, labour sourcing strategies are dependent on policy developments in partner countries. In 2009, for instance, Indonesia put a ban on the ‘maids trade’ (Chang and Groves 2000) with Malaysia (Bastide 2011a, 2015; ), and other countries have put restrictions on their labour exports to the country. Certainly, this dependency on foreign political jurisdictions is partially controlled through the competition between source countries willing to export their workers—another way of increasing the migration rent, by organizing a race to the bottom through competition for access to Malaysia’s labour market. It remains that this trade has profound lasting effects on Malaysia’s bilateral relations with other states across the region. Many diplomatic tensions and conflicts with Indonesia thus have their roots in the trade in transnational labour (Author). Finally, on the international scene, the (mis)treatment of foreign workers—which is integral to the migration rent—places Malaysia among the countries repeatedly pointed out in the US Department of State’s annual report on human trafficking (US Department of State 2015), thus discrediting its development model.

Notwithstanding these difficulties, labour inflows do not show any sign of decreasing. Recently, the government negotiated an agreement with Bangladesh in view of recruiting 1.5 million workers over the course of 5 years. The measure has been suspended following predictable protests on the domestic stage. Confronted with this resistance, public authorities extended the length of work permits for foreign workers already in the country, from 2 years to 5 years, to avoid labour shortages without having to replenish the foreign labour pool. On the side of the authorities, perpetuating the migration rent while managing its negative consequences, domestically and internationally, remains a prime concern on the national agenda. Furthermore, in Malaysia, the autonomy of migration routes leaves an uncertainty regarding the possibility of reducing inward labour migrations as long as surplus labour exists in countries of origin and this labour connects with Malaysia's strong and multidimensional demand through firmly established migration networks, official and/or irregularized. Oscillating between control and dependency, Malaysia thus inherits a deeply institutionalized situation, which has profound roots in colonial migration systems and which aggregates so many overlapping, vested interests on national, international, and transnational levels, that it is hard to foresee how the resorting to transnational labour could dissolve in the short term. For the government, the real issue is not the abolition of this legacy but rather its management in the complicated period of the current political transitions.

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