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Economic Development Strategy, Government Labour Policy and Firm-Level Industrial Relations Practices in Malaysia

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Abstract
[Excerpt] Malaysia is one of the fastest-growing economies in the world and is in many ways, a Third World success story. Twenty years of sustained growth and diversification have reduced the economy's reliance on primary products like tin and rubber. Malaysia is still the world's largest exporter of tin, rubber, and palm oil, and a significant producer of oil, natural gas, and timber. More recently it has become one of the largest manufacturers of semiconductors, and a sizeable producer of electronic and electrical products and textiles. Exports account for about 61 per cent of GNP, making the economy very dependent on the external economic climate.

Although recessions in 1982 and 1985-6 caused by falling prices in commodities slowed growth, Malaysia has since sustained an economic recovery via its booming export trade in manufacturing, primarily driven by foreign investment. Industry has supplanted agriculture as the major contributor to Gross Domestic Product (GDP), accounting for 42 per cent of GDP, and low-cost labour-intensive manufacturing accounts for about 48 per cent of export earnings. Since 1988,

Malaysia's GDP growth rate (average annual 8.7 per cent) has been among the highest in the world and manufacturing has grown at about 15 per cent annually. National and per capita income are increasing at the rate of 7 per cent annually, and per capita income of about US$2,000 puts Malaysia well above most Third World economies.

Foreign investment in Malaysia continues to increase, attracted by favourable investment policies, relatively cheap and docile labour and a well-developed infrastructure (the country has 30,000 km of paved roads, reliable and efficient telecommunications, cheap and abundant electricity, and efficient transportation systems). Notably, the structure of foreign investment is still dominated by low-cost labour-intensive industries, although a small shift to higher-technology production is apparent. Japan is the largest investor, closely followed by Taiwan. Taiwan alone accounts for 25 per cent of the total foreign direct investment and the largest number of projects. Industrial relations in Malaysia have been recently characterized as becoming highly repressive, with trade unions being weak, excluded by the government from decision-making at national levels and having very little influence at the workplace (Frenkel 1993).

Keywords
Malaysia, economic development, strategy, labor policy, industrial relations

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Economic development strategy, government labour policy and firm-level industrial relations practices in Malaysia

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INTRODUCTION: THE MALAYSIAN ECONOMY TODAY

Malaysia is one of the fastest-growing economies in the world and is in many ways, a Third World success story. Twenty years of sustained growth and diversification have reduced the economy's reliance on primary products like tin and rubber. Malaysia is still the world's largest exporter of tin, rubber, and palm oil, and a significant producer of oil, natural gas, and timber. More recently it has become one of the largest manufacturers of semiconductors, and a sizeable producer of electronic and electrical products and textiles. Exports account for about 61 per cent of GNP, making the economy very dependent on the external economic climate.

Although recessions in 1982 and 1985-6 caused by falling prices in commodities slowed growth, Malaysia has since sustained an economic recovery via its booming export trade in manufacturing, primarily driven by foreign investment. Industry has supplanted agriculture as the major contributor to Gross Domestic Product (GDP), accounting for 42 per cent of GDP, and low-cost labour-intensive manufacturing accounts for about 48 per cent of export earnings. Since 1988, Malaysia's GDP growth rate (average annual 8.7 per cent) has been among the highest in the world and manufacturing has grown at about 15 per cent annually. National and per capita income are increasing at the rate of 7 per cent annually, and per capita income of about US$2,000 puts Malaysia well above most Third World economies.

Foreign investment in Malaysia continues to increase, attracted by favourable investment policies, relatively cheap and docile labour and a well-developed infrastructure (the country has 30,000 km of paved roads, reliable and efficient telecommunications, cheap and abundant electricity, and efficient transportation systems). Notably, the structure of foreign investment is still dominated by low-cost labour-intensive industries, although a small shift to higher-technology production is apparent. Japan is the largest investor, closely followed by Taiwan. Taiwan alone accounts for 25 per cent of the total foreign direct investment and the largest number of projects. Industrial relations in Malaysia have been recently characterized as becoming highly repressive, with trade unions being weak, excluded by the government from decision making at national levels and having very little influence at the workplace (Frenkel 1993). Table 6.1 provides basic economic statistics.

Table 6.1 The Malaysian economy, 1990

1	Population	16.92 million
2	Per capita income	$2,000
3	Civilian employment:	
	agriculture	30.8%
	industry	23.1%
	services	43.6%
4	Sectoral share of GDP, 1990:	
	manufacturing	41.7%
	agriculture	19.4%
	services	38.9%
5	Unemployment	8.1%
6	Unionization rate	10.1%
7	Exports as percentage of GDP	61%
8	Share of the labour-intensive sector in the production and export of manufactures	
	1980	29%
	1988	51%
9	Contribution of export-processing zones to total exports	
	1988	33%
10	Contribution of transnational corporations to total exports	
	1971	28%
	1980	54%
	1986	58%

Sources: Lim and Fong (1991); Ministry of Finance (1991); Kuruvilla (1994)

INDUSTRIALIZATION STRATEGIES IN MALAYSIA

Malaysia's industrialization strategy must be understood in the context of the ethnic distribution in the society. Malays form 54 per cent of the population, while Chinese and Indians account for 37 per cent and 16 per cent respectively. Bowie (1991) argues that it was the nature of the communal settlement reached between these three ethnic groups that accounted for the nature of the industrialization policies pursued. The following discussion draws heavily on Bowie's analysis.

Preindependence, the economy was dependent on exports of primary commodities, and tin and rubber production accounted for 85 per cent of export earnings and 48 per cent of GDP. Agriculture, mining, banking and external trade were controlled by foreign interests (mostly British),[1] while small-scale industry was controlled by ethnic Chinese and Indians. Ethnic Malays were largely concentrated in the rural agricultural sectors, and owned less than 10 per cent of registered businesses, less than 1.5 per cent of share capital, and paid less than 4 per cent of income tax, despite accounting for 50 per cent of the population. At independence, the industrial strategy was primarily the processing of raw materials for export.

Import substitution industrialization (ISI)

Market-led ISI

The period from 1957 to 1970 witnessed economic policies that focused on the state's involvement in the development of infrastructure and the rural sector (which accounted for 30 per cent of plan expenditures), while industrialization was left to the private sector. The state facilitated the creation of a favourable climate for foreign investment in import substitution industries, with the enactment of the Pioneer Industries Relief from Income Tax Ordinance, 1958, and the creation of the Malaysian Industrial Development Finance Corporation, which was responsible for providing investment capital and for the development of industrial estates. After the 1968 withdrawal of Singapore from the Federation of Malaya, in order to stimulate industrial growth, the Investment Incentives Act was introduced, targeting foreign investment with a plethora of tax concessions, liberalizing pioneer status conditions, and creating free trade zones. For a detailed description of specific policies, see Spinanger (1986).

The decision to leave industrial investment to the private sector was largely a political compromise reached between the parties making up the ruling alliance (Bowie 1991). The UMNO (United Malay National Organization) realized that Chinese and Indian acceptance of its political role was to some extent dependent on the state's not interfering in private commerce and industry (which they dominated) beyond its regulatory role. Therefore, the UMNO accepted (temporarily) the Chinese and Indian dominance of business and commerce in exchange for their acceptance of its political domination and efforts to increase Malay participation in the rural sector, and transportation, mining, construction and timber industries. World Bank recommendations favouring industrialization under the private sector also influenced this policy (Spinanger 1986; Bowie 1991).

This strategy had mixed results. On the one hand, by 1969, the economy was growing at above 5 per cent per annum, manufacturing growth rates were high at 10.2 per cent annually, while private investment increased by 7.3 per cent annually. The fastest-growing industries were textiles, electrical machinery and assembly of motor vehicles. On the other hand, ethnic Malay participation in this economic growth was limited. Malay participation in ownership still remained static at 1.5-2 per cent, while the share of the Chinese and Indians grew somewhat.[2] Malay participation in manufacturing employment had increased only marginally, and was much lower in skilled and managerial jobs. It was clear that the market-led approach succeeded in strengthening the economic position of the Chinese and Indians relative to Malays, and this was responsible for the communal violence after the 1969 elections (Bowie 1991; Lim and Fong 1991). The relative economic stagnation of the Malays resulted in Malaysian politics becoming increasingly polarized on ethnic lines during this period (Bowie 1991).

New Economic Policy (NEP) and state-led ISI

The NEP, promulgated in response to Malay nationalism (Bowie 1991), was designed to increase the ethnic distribution of the workforce in proportion to the ethnic distribution of the population, and to increase *bhumiputra* (sons of the soil, i.e. Malay) share of corporate ownership from 2.4 per cent in 1970 to 30 per cent by 1990. The strategy emphasized redistribution via growth in output and employment. In operational terms, an employment quota of 30 per cent for Malays was a prerequisite to qualify firms for import protection and tax holidays. Government contracts were reserved for Malay-owned firms, and all firms had to keep aside 30 per cent of shares of Malays.

The UMNO was able to convince their Chinese and Indian counterparts in the ruling alliance that empowerment of Malays would not detrimentally affect Chinese and Indian interests, by arguing that economic growth would 'increase the size of the pie'. To ensure the levels of growth required, the state for the first time became a significant actor in ISI investment. State intervention was justified on the grounds that Malays did not currently possess the wealth or the entrepreneurial ability to start new business. Therefore, state investment in the private sector was to be made on behalf of Malay interests and would ultimately pass to Malay hands.

Although these policies resulted in increasing the economic participation of Malays (Malay share of *total* manufacturing employment increased to 32 per cent, while Malays in managerial positions rose to 17 per cent, and Malay share ownership increased to about 8 per cent (Bowie 1991)), they were still short of Malay nationalist expectations. There were not enough qualified Malays to meet the 30 per cent employment target in *each firm,* and the policies did not result in the development of Malay entrepreneurship. Industry continued to be dominated by ethnic Chinese, and Bowie (1991) notes an increase in 'Ali-Baba'-type ventures, with Malay businessmen acting as 'fronts' for Chinese capital.

Citing the failure of the policies to significantly increase Malay participation, and under pressure from Malay nationalists, the state's investment in ISI was intensified by the enactment of the Industrial Coordination Act (ICA), 1976, which gave the Ministry of Trade and Industry the power to issue licences to industry based on compliance with NEP goals. The Bhumiputra Investment Fund was created with state funds for investment in shares on behalf of Malays. The ICA mandated majority Malay share ownership in all joint ventures and foreign projects. This phase also witnessed the enactment of the Petroleum Development Act of 1976, which enabled the government to acquire control over the petroleum and petrochemicals industries without compensation (Bowie 1991; Lim and Fong 1991).

The economic implications of state intervention were far-reaching. For the first time since independence, the Malaysian state exerted increasing control over the private sector via both *regulation* and *direct investment* in furtherance of NEP goals. Government revenues poured into NEP and ICA policies assuming that private sector investment would continue as before. However, private and foreign investment balked at the NEP and ICA policies, and feared nationalization. Consequently, private sector investment fell from the expected levels of 12-14 per cent to about 3 per cent of GDP in 1976. The shortfall in private sector investment, and the utilization of government funds to buy shares (undersubscribed by the Malay business community for which they were reserved) resulted in a major resource crunch that led to increased borrowing from international banks. Foreign debt as a percentage of GNP increased from 8.45 per cent in 1975 to almost 11 per cent by 1976-7.

Transition to export-oriented industrialization (EOI)

The resource crunch drove the government to articulate a mixed policy. On the one hand, the government launched a massive campaign to encourage private and foreign investment during the 1977-80 period. Policies emphasized investment incentives, the development of infrastructural facilities, and numerous tax, labour and other incentives (Spinanger (1986) and Lim and Fong (1991) discuss these in greater detail.) Electronics and textile industries were specifically targeted, where foreign companies manufacturing for export were exempted from the ICA policies on Malay share ownership, and labour laws that might discourage foreign investment were relaxed or went unenforced. Unions were excluded from key industries and the export sector. This new phase saw the beginnings of massive foreign investment in the electronics sector by US and Japanese companies.

On the other hand, the state also increased its involvement in the development of heavy import substitution industries. The continued failure of state-led NEP and ICA policies to achieve for Malays the economic power commensurate with their population (Malays owned only 12.4 per cent of corporate wealth by 1978, and the target of 30 per cent Malay ownership by 1990 appeared out of reach) led to further pressures from Malay nationalists to increase Malay ownership (Bowie 1991).

In response, the Heavy Industries Policy (HIP) announced by the 1980 Industries Minister Dr Mahathir Mohammed was geared to achieve the twin objectives of accelerating industrial growth and improving the economic position of Malays. Through the Heavy Industries Corporation (HIC) the state now had a leading role in establishing large-scale, capital-intensive import-substituting industries to provide industrial goods and consumer durables for the domestic market and provide a foundation of key industries to support a range of private sector and consumer goods industries. HIM invested in a series of large-scale joint ventures such as the Proton (Malaysian small car project), the Iron and Steel works at Trengannu, plants for cement, motorcycles, aluminium and gas, mostly in operation with Japanese private sector firms with about 30 per cent investment from the government.[3]

The outpouring of government revenues to sustain the NEP and ICA policies, combined with the recessions of 1982 and 1985, and the draining of revenues by the heavy industrial programme drove Malaysia's external debt to unprecedented levels (Lim and Fong 1991). By 1986, debt as a percentage of GNP had tripled over 1976 levels, to 30 per cent. Foreign borrowings became the primary source of foreign capital inflow in the first half of the 1980s. The poor performance of the HIM contributed further to the revenue crunch. (By 1987, HIM had reported losses exceeding US$100 million, total state liabilities exceeded US$2.24 billion, and 37 per cent of the public debt was due to government-backed foreign loans.)

Given this second 'resource' crunch, and under pressure from international financial agencies, Malaysia announced a series of austerity measures. Aside from cutbacks in public spending, these included the privatization of various state-owned public sector industries. In addition, Malay managers in the state-owned heavy industrialization programme were replaced by more 'professional' Japanese and private sector managers.

Further, to meet its interest payments on foreign debts, the state reemphasized export-oriented industries, simplifying bureaucratic controls, increasing investment allowances and incentives, and reducing corporate and development taxes. Clearly the economic situation of the 1980s showed that the state could not reconcile its heavy industries programme, its NEP and ICA programmes, with rapid industrial growth, and came to be dependent on foreign investment for the growth of its manufacturing sector and exports. As a result, development priorities once again shifted to export- oriented industrialization from a policy of heavy industrialization for an increasingly protected domestic market. Since 1989, favourable external factors, dramatic increases in foreign investment and rising exports of manufactured goods have stimulated economic growth.

The description above suggests that during 1977 and then during 1988, it was the shortage of revenues brought about by government's involvement in NEP, ICA and HIP, and the consequent increases in international debt, that brought about the shift to EOI policies. The shift from a strategy of import substitution to a more export-oriented economy transformed the Malaysian economy in the following ways:

1. Foreign direct investment in Malaysia has grown dramatically since 1987. In 1989 it exceeded US$1.86 billion, representing a 157 per cent increase over the previous year (investment increased by 127 per cent between 1987 and 1988) and comprising roughly 12 per cent of GDP. In the first half of 1989, foreign enterprises accounted for 80 per cent of the proposed equity investment in the country. Of these investments 85 per cent were in export-oriented industries.
2. The origins of investment have changed substantially over the 1980-90 period. Although the US was the largest investor, its position has been rapidly supplanted by Japan, and then by the newly industrializing countries (NICs) in south-east Asia, which are now the largest investors. The majority of these investors constitute 100 per cent foreign-owned firms.
3. The locus of investment (and particularly investment from the NICs) is primarily in the low-cost, labour-intensive export-oriented manufacturing sector, although recently there has been an increase in the number of small and medium-sized firms from Japan that are oriented towards more high-skills-based manufactures. Nearly 85 per cent of approved manufacturing investments for 1988 were committed to export at least half their production, compared to 25 per cent for the 1982-86 period. The three industries receiving the greatest amount of foreign investments are electronics and electrical products, textiles and chemicals, which export 98 per cent of their production.
4. The total manufacturing sector now accounts for 32 per cent of employment, 42 per cent of GDP and 40 per cent of export earnings. Manufacturing exports have grown by an average of 15 per cent annually since 1988, and account for more than half of export earnings. Within this sector, the contribution of low-cost labour-intensive manufactures to production and export earnings increased from 29 per cent in 1980 to 51 per cent in 1988 (Ariff and Hill 1985; Tyers *et al.* 1987). The contribution of export-processing zones (EPZs, which are characterized by labour-intensive production, thus contributing to employment creation but little to government revenues) to total exports exceeded 33 per cent in 1988 (Ariff and Hill 1985; Tyers *et al.* 1987). And the contribution of transnational corporations has increased from 28 per cent of total exports in 1971 to 58 per cent in 1988.
5. The electronics industry has been the centrepiece of the dramatic export performance. The importance of semiconductors to Malaysia's economy is well known. The semiconductors sector employs 16.7 per cent of the manufacturing workforce (Onn 1989), and exports of semiconductors exceeded M$4 billion or 24.8 per cent of total manufacturing exports in 1989 (Grace 1990). A 1987 United Nations Report (UNCTC 1987) shows that the majority of foreign (mostly US and Japanese) plants in the electronics industry concentrate on low- skilled assembly and testing, although since 1992, two higher-skills wafer fabrication plants have been established.

In sum, although the economic transformation has resulted in impressive growth rates, the EOI strategy has made Malaysia dependent on low- cost labour-intensive foreign-dominated manufacturing for export to meet interest payments, and for continued industrial growth. The dependence on this form of EOI has forced the Malaysian economy to continue to enact policies geared towards attracting and retaining foreign capital in its low-cost export sector. As the next sections will indicate, labour relations policy has been substantially affected by this transformation.

INDUSTRIAL RELATIONS POLICY IN MALAYSIA

Industrial relations policy under Import Substitution Industrialization: restricted pluralism

This section briefly describes industrial relations (IR) policy during the import substitution period from the 1950s to 1977. The central pieces of legislation in the industrial relations sphere included the Employment Act of 1955, the Trade Union Ordinance of 1959, and the Industrial Relations Act of 1967. The principle that the government followed was essentially pluralistic, reflecting both the belief that workers required some degree of fair and humane treatment and the belief that economic development goals should take supremacy over unfettered trade union rights (Bot 1988). Although pluralism operated (collective bargaining was the primary form for resolving industrial problems), unions were controlled through the union registration process.

Although any seven persons could form a union, the Registrar of Trade Unions had wide discretionary powers in recognizing unions, including the ability to accord registration, to cancel registration if there were two or more unions catering to any sector of the workforce, and to determine the nature of the bargaining unit. The Registrar also had the power to exclude individuals from union activity. Although the principle of one union per occupation within an industry should strengthen the power of the union, Arudsothy (1990) suggests that it has been used primarily to weed out more militant unions. Although unions were allowed to affiliate themselves to apex federations, the Registrar had the power to withhold permission to do so. In general, the principle followed was that permission to affiliate would be granted if the Registrar was convinced that the purpose of affiliation was for relations between workers and not for trade union purposes. Apex bodies such as the MTUC (Malaysian Trade Union Congress) are incorporated as societies. This policy was used selectively to ensure that the state exercised control over the growth and character of the labour movement.

Consistent with the supremacy granted to economic development goals, the scope of collective bargaining in terms of the subjects open to negotiation was restricted. Bargaining regarding management decisions in respect of recruitment, promotions, transfers, job assignments or termination of employment by dismissals or retrenchment was not permitted.

In order to encourage foreign investment under the Pioneer Industries Ordinance the state guaranteed that terms and conditions negotiated with unions need not be more favourable than the provisions of the Employment Act of 1955. Strikes were allowed, subject to various restrictions - notice had to be given, a strike ballot had to be taken, the ballot results registered within seven days with the Registrar who had ninety days to check their validity. In addition, strikes were prohibited once the dispute had been referred to arbitration by the Minister of Labour (Industrial Relations Act, 1967).

In terms of dispute settlement, conciliation is invariably the first option available to the parties (Khan 1989). However, on the failure of conciliation, the dispute could be referred for binding arbitration to the Industrial Court by the Minister of Labour, either on the basis of a joint application of both parties or on his/her own initiative. The court, in making its award, is required to 'have regard for the public interest, the financial implications, and the effect of the award on the country, the industry concerned and also to the probable effect on similar industries' (Ayyadurai 1990). Furthermore, all collective bargaining agreements needed to be taken cognizance of by the Industrial Court, implying that it had the power to refuse to register a collective bargaining agreement if it was not deemed to be in the national interest.

Therefore, even under an import substitution industrialization strategy, it can be argued that the Malaysian system of industrial relations in the private sector was closely controlled by the state, the freedom of unions to organize and bargain was severely restricted, and the industrial relations rules and regulations clearly reflected the state's efforts to contain industrial conflict in the interests of economic development. The prohibition on political strikes and the restrictions on the ability of apex bodies to carry out trade union functions also ensured that the unions would not be a significant opposition to the government.

The nature of IR policy reflects a 'controlled pluralism' during this period. Despite the considerable powers given to the state in industrial relations matters (Arudsothy and Littler 1992), in terms of administrative practice the state's intervention was relatively minimal.

IR policy under EOI

As argued below, the shift in industrial relations policies consequent to adoption of EOI reflected the common strategic interests of the state and the foreign investors. First the dependence on low-cost labour-intensive manufacturing for export forced the government to enact policies that kept costs low to preserve Malaysia's competitive advantage of cheap and disciplined labour in order to continue to attract foreign investment.[4] Naturally, the manufacturing and export sectors were the target of these policies. Second, the state also increased its involvement in the industrial relations sphere to a considerable extent, moving from controlled pluralism to greater state control. The motivations for increased government control reflected the need to increase the economic efficiency and productivity of state-owned enterprises and to sustain further the EOI strategy.

The specific mechanisms through which this shift was accomplished are described below.

IR policies in export-oriented industry: cost containment

A number of rules and regulations directly affecting the competitive position of Malaysian exports were introduced. First, the Minister of Labour extended the tax and labour exempt policies in case of Pioneer industries and industries in EPZs. Collective bargaining in this sector is circumscribed to the extent that terms and conditions of employment may not be higher than those defined under Part XII of the Employment Ordinance, 1955. As there is no minimum wage legislation in Malaysia (except for certain classes of employees determined regionally), the Employment Act is mainly concerned with rates of pay for overtime, leave and holidays. Second, the government has repeatedly refused to enact comprehensive minimum wage legislation, despite repeated demands by trade unions.

Third, in 1988, the definition of wages for the calculation of overtime was changed to reduce costs. Previously, wages for overtime included all allowances and bonuses, but now exclude them (Pi'i and Kumaraguru 1989). In addition, the rates of overtime pay for working on days of rest was reduced from 3 times to twice hourly pay, and for working on holidays reduced from 4.5 to 3.5 times hourly pay. While these reductions may appear reasonable, it is worth note that with the shortage of unskilled and semi-skilled labour in Malaysia (Arensman 1990), these reductions have significant cost implications.

Fourth, the government continued its refusal to enact legislation regarding equal pay for equal work (Grace 1990). Although females only form 40 per cent of the manufacturing workforce, they account for more than 78.6 per cent of the workforce in the electronics industry. Arguably, this also explains why the electronics industry has been exempted from the provisions of the Employment Act, 1955 that forbade the employment of women between the hours of 10 p.m. and 5 a.m. Further evidence regarding the need to keep female wages low is the 1988 amendment of the Employment Act, whereby the definition of days for maternity leave was changed to be inclusive of holidays, rather than excluding them (Grace 1990).

Fifth, the state continued its exclusionary policy regarding trade unions in the electronics sector. After intense pressure was brought to bear by the International Labour Organization (ILO), the International Metal Workers Federation and the American Labor Movement (which unsuccessfully petitioned the US government to revoke Malaysia's Generalized System of Preferences (GSP) status for non-compliance with ILO conventions[5]), the general ban was lifted in 1988. However, a partial ban continues in the Registrar's decision that unions in the electronics sector could only operate on an 'in-house' basis. This has considerably circumscribed the power of unions to organize.[6] Grace (1990) finds that this policy of allowing only in-house unions in this sector was implemented to appease US-based electronics manufacturers who threatened to move production outside the country.

Even though in-house unions can now be organized in the electronics sector, recent outcomes in the Harris and Hitachi cases (see Duthie 1990, Arensman 1990, and Barnard 1991 for details) make it abundantly clear that the right to organize unions in electronics exists in theory but not in practice. After the workers in the Harris Solid state subsidiary won official recognition for their union in January 1990, the company shifted most of its operations and workers to a non-union subsidiary. By April 1990, most of the workers had become non-union, and the Malaysia's High Court ruled against the workers' petition that the shift was illegal. Currently, despite the existence of over 140 companies in the electronics sector, only one electronics union exists (the RCAWU).

While there has been evidence cited above that foreign manufacturers demanded a policy of cost containment through union avoidance, it must be remembered that this policy coincides with the government's strategy to maintain the competitive advantage of low-cost exports

Increased government control and involvement in IR

Apart from the various 'cost containment measures' in the export sector, there has been systematic tightening of labour rules and regulations by the government, both generally and in the manufacturing for export sector particularly. Here the changes reflect an increased 'activism' on the part of the government, beginning with the onset of EOI in 1979-80 and continuing after EOI in 1988. Although we place more emphasis on EOI as the primary reason for increased government intervention, another significant factor has been government's increased role as an employer, given its involvement in NEP, ICA and the heavy industrialization programme. It is a plausible argument that the government's desire to promote economic efficiency given the poor performance of state- owned industries contributed to its increased involvement in regulating industrial relations. Support for this argument can be seen in the changes in government policy consequent to the Malaysian Airlines strike of 1979.

Following the Malaysian Airlines System (MAS) strike of 1979, the Industrial Relations Act was amended to give the Minister of Labour wide-ranging powers in respect of industrial relations issues, beyond the extensive ones already available, including most significantly, the power to declare any industry or service to be 'essential' service, implying that unions could be disallowed in such services. Second, the Minister was given the power to suspend for six months a trade union felt to be acting against the national interest. Although the public sector MAS strike was the prime motivation for this change in legislation, it cannot be overlooked that with increasing government intervention in industry as part of the NEP, ICA and HIP, the state itself became a significant shareholder in the private sector, with a direct interest in labour relations beyond its purely regulatory role. 'Essential', therefore, has broad connotations, and could include airlines, food processing, electrical, road transportation or any industry deemed to be in the national interest. The following examples are illustrative of the increased government intervention in the industrial relations sphere.

Trade union recognition claims

Consistent with the more activist stance of the government, the Minister of Labour's involvement in union recognition claims have been increasing. As Table 6.2 indicates, the Minister's rejection of claims for recognition have increased, with the proportion of manufacturing rejection to total rejections increasing substantially. Under normal circumstances, once unions are registered after meeting the stringent requirements of the Registrar of Trade Unions, they request the employer for recognition. If the employer does not voluntarily recognize them (which they very seldom do, as Table 6.2 shows), the claim is sent to the Director General of Industrial Relations, for investigation; the Minister of Labour then makes a final and binding decision on recognition. At least half of the recognition claims have been in the low-cost labour-intensive manufacturing areas in textiles, and light electricals, and this is where the greatest number of recognition claims have been rejected by the Minister. Our data, however, are available only until 1986.

Table 6.2 Union recognition claims, 1980–1986

	1980	1981	1982	1983	1984	1985	1986
All industries							
Total claims	125	149	119	112	169	224	224
Voluntary recognition	54	74	59	38	51	3	7
Recognition accorded by Minister	5	16	8	6	8	2	6
Rejected by Minister	–	29	23	15	39	80	131
(per cent)		(19.4)	(19.3)	(13.3)	(23.0)	(35.7)	(58.4)
Within manufacturing							
Total claims		78	55	66	105	136	172
Voluntary recognition		44	26	25	30	26	20
Accorded by Minister		4	5	5	5	1	2
Rejected by Minister		12	13	7	26	62	98
(per cent)		(15.3)	(23.6)	(10.6)	(16.7)	(45.5)	(56.7)
Manufacturing rejections as a percentage of total rejections		41.3	56.5	46.6	66.6	77.5	74.8

Source: Pehie and Shian (1988)

Government intervention in dispute settlement

The activist stance of the government reflects itself in dispute settlement in two ways. First, the Labour Minister has been far more willing to take the initiative in referring disputes for binding arbitration to the Industrial Court, effectively curtailing the operation of free collective bargaining. The number of instances has increased dramatically, and at a much greater rate than the increase in industrial disputes itself.

Second, as Table 6.3 shows, the Minister has in many cases used the power of office in actually effectuating settlements, in some cases convincing either party to modify their demands in the interest of keeping the peace. Since manufacturing accounts for 41 per cent of all disputes (see Table 6.5), it follows that ministerial interference is much greater in this sector.

Enterprise or 'in-house ' union

Under the Trade Unions Ordinance, 1959, unions could be organized on an occupation within industry basis, and could affiliate themselves to national unions but could not have national unions represent them for trade union purposes. While this was designed to keep unions small and responsive to the particular conditions of their industries, it was also a system by which the labour movement could be kept fragmented so as not to threaten the government politically (Arudsothy and Littler 1992).

Under Dr Mahathir's 'look east' policy,[7] the successful example of Japanese enterprise unions was introduced in Malaysian legislation, although in-house unions were in existence even before by means of the Registrar's decisions. Table 6.4 shows the rapid growth in the number of enterprise unions since the 1980s. In 1985-86, out of twenty-eight

Table 6.3 Labour Minister's involvement in disputes

	1981	*1982*	*1983*	*1984*	*1985*	*1986*
No. of disputes	498	606	836	757	827	956
Settled by conciliation	398	538	741	602	666	675
Referred to Industrial Court (total)	89	60	54	107	113	158
Referred by joint application of the parties	35	32	15	20	34	44
Referred by Minister on own initiative	54	28	39	87	79	114
Settled by Minister	11	8	39	48	48	121
Per cent	(2%)	(1%)	(4.6%)	(6.34%)	(5.80%)	(12.68%)

Source: Compiled by author from Bot (1988)

Table 6.4 In-house unions

	1984	*1985*	*1986*	*1987*	*1988*
Total number of in-house unions	177	189	199	210	224
Percentage of in-house unions	49.3	51.2	52.5	51.3	54.5
Private sector percentage	28.2	32.5	36.1	36.7	38.2
Public sector:					
Statutory authority	94.8	95.1	95.1	95.1	96.6
Government service	45.8	47.2	47.6	47.2	46.7

Source: Arudsothy and Littler (1992)

new unions registered, twenty-seven were enterprise unions. In theory, enterprise unions organized on Japanese lines produce more integrative labour-management relations since the goals of the enterprise and the unions coalesce.

However, it must be remembered that enterprise unions are only one feature of various interrelated policies in Japan that make the system successful. For instance, long-term employment contracts, seniority-based pay systems, firm-specific training systems, and considerable labour-management consultation reinforce the enterprise union system and this interrelationship between various parts of the Japanese industrial relations system accounts for its success. In Malaysia, the concept of enterprise unions alone will not result in the kind of stable and flexible management-labour relationships that the Japanese have and that the Malaysian government seems to want. The other ingredients, notably the acceptance of unions as a partner in the business, are conspicuously absent.

There are other contradictions in promoting enterprise unions: for instance, for an enterprise union to be successful, all employees in the enterprise must become members. However, Malaysian law does not permit various classes of employees such as supervisors, secretaries and security personnel to become members of the union. Unions have considerable restrictions on the subject matter of bargaining, and little or no participation in decision making exists. Given this, the criticism that the legislation requiring enterprise unions was enacted to keep the labour movement fragmented is not entirely without merit.

Policy on labour federations

The latter criticism is supported by the government’s unwillingness to entertain the building of one major labour federation. Attempts in 1985 at unification of the two major federations, the Malaysian Trade Union Congress and CUEPACS, to form a new United Malaysian Labour Movement failed, as the Registrar of Trade Unions requested numerous changes in the constitution that the unions felt were impossible. Although this reflects the government’s desire to discourage the formation of a national union centre, recent restrictions of trade union rights in the public sector have forced some public sector unions to affiliate with MTUC. Increased disillusionment with the traditional leadership has prompted the promotion of a rival national central organization by the National Union of Newspaper Workers, which is still unrecognized by the government.

The government’s interest in keeping the labour movement fragmented is also evidenced by its ‘behind the scenes’ support of a rival labour federation - the Malaysian Labour Organization, sponsored by the Bank Employees Union, which currently has fifteen affiliated unions with 142,000 members (Arudsothy and Littler 1992).

The general tightening of labour relations and the limitations regarding unionization and collective bargaining rights noted in the private sector has had some spillover in the public sector as well. Arudsothy (1990) suggests that there has been a progressive exclusion of all sections of the public sector from the provisions of parts of industrial relations legislation. The right to strike in the public sector is largely illusory, given the inapplicability of Parts II-VI of the Industrial Relations Act, and the elaborate rules that effectively circumscribe the right to strike. In effect, there has been in the public sector labour relations sphere, a shift to a more unitary and paternalistic system of industrial relations (Arudsothy and Littler 1992).

In sum, it is clear from these examples that state’s role as an employer and its dependence on foreign investment for its manufacturing, particularly in its most important electronics industry, has created a labour relations system that is repressive and government-dominated. The shift from ISI to EOI was the primary catalyst for the tightening of labour relations policies, and the specific cost containment policies were determined by the government in response to pressure from foreign companies on which it became dependent. The involvement of government in industrialization also appears to have been important. The federal government is now involved in industrial relations in many different ways: as a sponsor of IR legislation, as an administrator of such legislation, as the third party in dispute settlement, as an employer in the public sector, and as a stake-holder in various private corporations (Ayyadurai 1990).

INDUSTRIAL RELATIONS AND HUMAN RESOURCES PRACTICES IN MALAYSIAN MANUFACTURING

The discussion of IR/HR practices provided below is primarily based on studies of industries in the manufacturing sector, and is intended to highlight the different range of practices in manufacturing. One must keep in mind, however, that it is not based on a comprehensive survey of workplace practices in sectors other than manufacturing or in the public sector. Our discussion here is organized based on five broad categories of workplace issues.

Collective bargaining and governance issues

The restrictions placed on trade unionism via state policy are reflected in employers' anti-union stance. Where the production system is based on low-skill assembly work, employer opposition to unions is widespread. Arudsothy and Littler (1992) note that union busting and other anti-union activities increased during the 1980s relative to the 1970s. Indigenous companies appear far more inclined to be anti-union than foreign-owned concerns, although union avoidance appears to be the dominant strategy in export-oriented manufacturing and electronics. Despite the government announcement that unions could be formed in the electronics industry, only one enterprise union has formed successfully. Grace (1990) suggests three reasons for this: first, that workers view enterprise unions with scepticism and mistrust; second, that they fear employer reprisals if they join; and finally, that workers realize that unionization drives in other companies will result in increases in wages and benefits in their own, i.e. in a union substitution effect.

Employers use both union suppression and union substitution strategies in dealing with workers. Motorola, for example, increased pay and benefits one month after the government's announcement regarding unionization in the industry (Grace 1990). Motorola, Matsushita and many other companies have threatened to move operations to Thailand and China if their workers formed a union. Workers who exhibited pro-union sentiment have been routinely transferred to other plants and otherwise intimidated. In June 1990, Hitachi's Malaysian subsidiary fired 1,003 striking workers after they walked out in protest against the government's refusal to allow representation of their in-house union by a national electrical workers' union. After apologies, most of the workers were reinstated, but not those considered activists. Although Hitachi was within the law in this case their unwillingness to reinstate activists clearly implies unwillingness to deal with a union, an attitude shared by many American and Japanese employers.

The practices in the more import substitution-oriented industries tend to be different. For instance, after the strike of 1979 in the state-owned Malaysian Airline System, collaborative collective bargaining relationships developed (Ping and Kadir 1987). Joint consultative committees comprising union-management representatives decide on grievances and quality issues. Seng and Hashim (1987) note that in medium-size Malaysian manufacturing firms, management meets once a month with the area union committee to resolve issues, and the managing director meets with union representatives on a regular basis. In the banking sector, an interrelations committee comprising both union and management representatives meets periodically to resolve grievances and plan operations (Arul *et al.* 1987). Examples of cooperative labour- management relations are few, however. The primary motivation for collaboration appears to stem from the need to improve productivity, particularly after privatization of state-owned ISI enterprises. Overall, however, it would appear that labour-management relations are conflictual. Although the number of strikes has fallen, the number of disputes (see Table 6.5) shows a steady increase, indicating substantial conflict in the system, mostly in manufacturing (the manufacturing sector accounted for the majority of disputes, comprising 41 per cent of all disputes in 1986). The correlation between the number of strikes and the number of disputes is negative at 0.45 ($p < 0.05$), suggesting that restrictions placed on strikes results in increased conflict via more disputes, controlling for the level of unionism. Less is known about the pattern of labour-management relationships in small and medium-size industry. The density of unionization in Malaysia during the last decade has dropped since 1984, as Table 6.6 indicates.

Table 6.5 Unions, strikes and disputes in Malaysia

	No. of unions	*No. of disputes*	*No. of strikes*
1981	–	498	24
1982	383	606	26
1983	386	834	24
1984	386	757	17
1985	392	827	22
1986	401	1123	23
1987	409	1001	20
1988	398	989	9
1989	322	–	7

	Distribution of disputes by industry			
	1983	*1984*	*1985*	*1986*
Manufacturing	296	270	388	468
(per cent)	(35.8)	(37.3)	(45.0)	(41.67)
Plantation	276	212	191	232
Transport	128	127	147	218
Services	65	66	65	104
Commerce	36	26	40	43
Others	25	21	31	58
Total	826	722	862	1123

Source: Compiled by author from papers published by the ASEAN/ILO/UNDP Programme of Industrial and Labour Studies

Work organization

There are relatively few studies that have examined changes in work organization in Malaysia. The export-oriented semiconductor industry is typical of simple assembly operations, carried out by mostly female operatives. Grace (1990) notes that the production system is largely authoritarian, with operatives allowed little flexibility in deciding on start and stop times, and even requiring permission to use the toilet. The system can be best described as Fordist, with assembly-line workers engaged in repetitive tasks requiring minimal skill and training.

However, there was considerable restructuring of the production processes for greater efficiency production in the electronics industry in the 1980s, consistent with restructuring worldwide. Given that the industry is being rapidly automated, new manufacturing systems based on flexible production have been introduced (Rajah 1988). A few manufacturers such as INTEL, Motorola, Hitachi, Philips and Thompson have moved away from assembly operations to more high-technology-based production, and their production systems are now based on flexible work practices, and include techniques such as total quality control (TQC), just in time (JIT) and materials requisition planning (MRP). The team concept of production has been introduced in many of these plants, giving workers greater input into decisions on the shop floor. Texas Instruments, for example, has reported exemplary success with the introduction of self-managed teams for production and quality control (Arensman 1991). With the new form of production, turnover rates have reduced to 3 per cent, and 85 per cent of employees have been in their jobs for more than five years, a surprisingly high figure given that labour turnover in the electronics sector was about 35 per cent in the mid-1980s (Salih and Yang 1989).

Consequent to the recession in 1985-86, there has been a gradual movement towards experimentation with new forms of work organization for increased productivity in the big ISI industries. These are more apparent in Japanese-owned and managed or joint-venture industries, such as the Proton car factory, and in the Trengannu Iron and Steel Works. Little is known, however, regarding work organization in small and medium-size industries. If the trend in the bellwether electronics industries is indicative of the future, reforms in work organization can be expected to increase in Malaysia.

Table 6.6 Union density

1 Number and Density

Year	Number	Membership	Density as % of total employment	Density as % of non-agricultural workforce
1984	386	593,986	11	17.2
1985	392	608,406	11.12	17.3
1986	401	606,494	10.9	16.6
1987	409	606,532	10.3	15.2
1990	322	572,516	9.4	13.6

2 1986

	Number	Membership	
Private Sector	160	272,788	(44.9%)
Government	261	196,410	(48.2%)
Statutory bodies		96,421	

3 Unionization by Industrial Sector, 1988

	Number of unions	Percentage unionization
Plantation agriculture	29	46
Mining	4	25
Manufacturing	66	11
Construction	4	0.4
Utilities	8	53
Commerce	20	5
Transport/com.	68	26
Services	180	25

Source: Arudsothy (1991) and US Dept of Labor, Foreign Labor Trends, Washington, DC, various years

Employment and staffing

Job security is not well established in Malaysia. The dominant strategy is to reduce the core labour force during economic downturns. For example, in the automobile sector, dominated by Proton (which has 65 per cent of the market share), the recession of the mid-1980s witnessed the retrenchment of over 5,000 workers. In the textile industry, continuous improvement of production technologies has resulted in workforce reductions of over 60 per cent in Pen-Group, a large Japanese-owned textile manufacturer. Salih and Young (1989) suggest that employers use numerous labour-shedding methods such as retrenchment, recontracting and temporary shutdowns, indicating the non-existence of job security provisions.

There has been a noticeable trend towards temporary or casual employment. Standing (1991) notes that in manufacturing industry, the number of firms resorting to temporary workers relative to full-time workers has increased. Even firms expanding total employment do so through the recruitment of casual or temporary workers. A third and increasingly common tactic is to use probationers. The practice of extending probationary periods, sometimes indefinitely without the promise of permanent employment has become an effective method of obtaining external flexibility.

The types of employment contracts also differ. Some temporary workers have the most precarious contractual relationship (Standing 1991), whereby their casual work status is on the basis of an oral contract that can be modified from day to day or week to week. Others have written contracts for a fixed period, such as three months. Since the mid-1980s, such arrangements have been growing. Table 6.7 reports the results of a survey of manufacturing firms in 1988.

In the search for employment flexibility, contracting out has also been increasingly used, notably in the larger companies and most of all in Japanese companies. Although contracting out was initially used extensively in the wood products industry, between 1985 and 1988 it grew in almost every industry, and has become the dominant labour flexibility tactic in the textile industry (Standing 1991).

Labour regulations have not affected these kinds of employment practices. Trade unions have little influence here, given that they are not allowed to bargain over matters connected with employment, lay-offs or retrenchment. However, dismissal cases have become a major source of industrial disputes. At least half of the disputes involve allegations of unfair dismissal of workers in both unionized and non-union sectors (see Table 6.8).

Labour shortages since the 1990s have forced many firms in the export-oriented sector to retain workers for longer periods, particularly in the electronics industries. However, this applies primarily to highly skilled workers. The shortage of unskilled workers is being met by the use of foreign workers, whose working conditions and wages are much lower than for Malaysian workers. There is also no legislation governing the employment conditions of such workers, whose numbers are increasing.

The key question is what will happen to job security in the context of the new forms of work organization listed above.

Table 6.7 Percentage of workers with temporary work arrangements by firm size, 1988

Type of Contracts	*Employment size*					
	5–20	*21–50*	*51–100*	*101–250*	*251–500*	*> 500*
Short-term specific written contracts	10.5	23.5	40.2	66.4	81.0	72.1
Oral	52.6	55.1	29.5	20.3	10.3	13.1
Casual	33.7	19.4	23.2	12.6	8.6	11.5
Other short-term	3.2	2.0	3.6	0.7	–	3.3

Table 6.8 Types of disputes (percentage)

Union sector	*1984*	*1985*	*1986*	*1987*
Dismissal of workers	259	409	492	467
	(35.8)	(48.2)	(43.8)	(46.6)
Pay, working conditions, contract terms	417	251	480	383
	(57.7)	(29.5)	(42.7)	(38.2)
Other	46	188	151	151
	(6.3)	(22.2)	(13.4)	(15.1)
Total	722	848	1123	1001

For new methods of work organization and production that require worker participation in decisions to be successful, job security is an essential ingredient. Employers such as Texas Instruments are beginning to realize this, and the continued labour shortages in the electronics industry will perhaps increase the use of job security in Malaysia.

Compensation

Traditional forms of wage payment dominate the Malaysian business landscape, although little is known about the differences in wage levels and structures. Since 1983, wage and salary costs as a proportion of total costs have increased by 10.6 per cent per annum, compared to the cost of living which increased by only 4.9 per cent per annum. Seng and Hashim (1987) suggest that labour costs per employee are rising much faster than labour productivity. However, the industrial masterplan for Malaysia suggests wage increases of only 3 per cent per year and productivity increases of 10 per cent per year to enable it to join the NICs by 2020. Therefore, there is increased debate regarding compensation at both the government and the firm level.

The biggest problem appears to be the wage system, which exhibits a number of institutional rigidities such as predetermined automatic annual adjustments, non-adjustable contractual bonuses, and wages linked to seniority (Salih and Young 1989). These rigidities tend to affect employer flexibility. The traditional wage system is based on a fixed scale with annual increments. The scale is negotiated with unions, and is in force for the period of the agreement, which is three years. In addition, other payments such as an annual bonus (irrespective of firm performance) have become the norm.

Given these features of compensation system, the search for flexible wage systems, i.e. systems that can be adjusted both upwards and downwards based on the competitiveness of the employer, has become important. At the macro level, the Malaysian Employers Federation is arguing for a ceiling on wage increases, which would be determined in consultation with government and unions. In addition, an ILO study recently suggested that pay be linked to performance.

Two general models of flexible pay arrangements exist in the manufacturing industry. The first model is individual performance-based, i.e. linked to performance appraisal of employees. The second model is group-based, and is manifested most often in a profit-sharing bonus plan or a productivity formula plan. At this stage, there is little evidence regarding the extent to which these practices are introduced in the industry. A 1988 survey of manufacturing industry suggests that only about 3 per cent of firms were operating a profit-sharing pay system, although experts predict a dramatic increase in this trend (Standing 1992).

A third model can be found in the electronics industry, where pay systems are increasingly looking like those in more advanced economies. Under the Fordist production system, workers were paid by a variety of piecerates and production incentives above the daily base rate (Rajah 1988; Grace 1990). New forms of work organization, however, have brought with them new methods of training and wage payment. Increasingly, wages are tied to learning new skills, and Rajah (1988) notes that in many semiconductor companies, a production worker needs to know at least three processes to become a super operator with a salary reaching almost M$750 a month. (The average wage in the electronics industry is about M$350 per month.)

The Malaysian Trade Union Congress has been opposed to flexible wage systems, but given the weakness of trade unions, it is unlikely that they will be able to oppose them successfully. The unions still demand that minimum wage legislation, which currently exists only in certain occupations, be extended to cover the whole economy. There has been considerable international support from the ILO and American unions for the introduction of a minimum wage in Malaysia.

Training

There is little evidence regarding the incidence of training in Malaysian manufacturing. Most of the available evidence is from the electronics sector. In Japanese-owned electronics assembly firms, training focuses on the development of job-related skills, delivered primarily through on-the-job training. After three years of training efforts, 70 per cent of the firms surveyed indicated only slight improvement in employee skills. Significant constraints to skill development (Rani *et al.* 1986) resulted from the language barrier between Japanese management and Malaysian workers, inadequate time devoted to training, and high absenteeism and turnover. This pattern of training was also evident in other Japanese-owned industries outside electronics. An important question here is whether the kind of production system employed really requires highly trained workers, given their low-skill low-cost assembly orientation.

In non-Japanese firms also (i.e. US-, German-, Canadian-, Hong Kong- and Malaysian-owned companies), training for operatives focused primarily on the development of skills for the job and was delivered mostly via on-the-job training. Indeed, in both Japanese- and non-Japanese-owned firms, the bulk of the training effort was directed towards the development of technicians, engineers and managers rather than workers. Here again, the major constraints reported were high absenteeism and turnover of factory workers.

In summary, there is little available evidence regarding the incidence of employee training or the types of training being carried out in firms. However, with the adoption of new forms of work organization in the electronics industries during the latter half of the 1980s, new methods of training are being introduced. The type of training varied widely, but includes job rotation, and an enhanced emphasis on technical training as production methods become more skill-intensive. The impact of these kinds of training programmes on skill development is yet to be seen. Given the labour shortage and the increased demand for skilled labour, there are regional and private sector efforts to upgrade skills. In Penang, which is the locus for higher-skill-oriented production, the local technical university has been granted new funds for giving high-skill training. The multinational companies operating in electronics have also founded the Penang Skills Development Centre. These developments are partly the result of the efforts of Penang’s Chief Minister, Koh Tsu Koon, to attract higher technology investment, efforts which have been largely successful. The higher investment in technology in Penang has been responsible for its higher growth rates (Penang grew at 11 per cent in 1992, compared to 8.5 per cent for the rest of Malaysia). Penang is roughly 20 per cent wealthier in terms of GNP than the rest of Malaysia, and the gap looks likely to grow *(The Economist,* June 1993).

At the macro level, the government of Malaysia has acknowledged the importance of training for the achievement of its 'Vision 20/20' plan (see p. 187). However, the specific instruments by which the skills of the workforce can be upgraded remain under discussion. The government's current bias is towards increasing the effectiveness of existing educational institutions, and expanding the scope for technical training.

The above paragraphs on the major trends in the manufacturing industry clearly indicate that reform is beginning in industrial relations and human resources practice in the manufacturing sector. The dissemination of such practices, however, appears to depend more on the business strategies of firms rather than the policy initiatives of the government.

Implications for the future of IR/HR policies

The impact of two key economic features on the future of Malaysia's international competitiveness needs to be considered in the context of industrial relations and human resource policies. First, Malaysia's competitive advantage of low costs is likely to be eroded, given competition from the Philippines, China and Vietnam. The question is whether Malaysia can make appropriate investments in increasing labour force skills through education, training and labour market policies to bring about further industrial development and to attract more high- technology investment.

Second, there is the effect of rapid technological change on production methods and work organization in the electronics sector, which, in turn, implies changes in the method of labour utilization. Rapid technological change to more high-cost, high-skill capital-intensive methods of production may induce foreign investors to relocate to their own 'high-skill, high-cost' countries or to other competitors (e.g. Singapore) unless Malaysia provides the kind of workforce that they need.

The Malaysian government appears to have taken these issues seriously. The New Malaysia Development Plan 1991-95 (MDP) envisages Malaysia becoming an 'industrialized' society by 2020 (Kin 1990). The National Development Policy (that replaced the NEP) aims at a restructuring of the economy, diversification of its industrial base, privatization and enhancing human resource development to meet plan goals. In more specific terms, the policies, known as 'Vision 20/20', include further industrialization, privatization, upgrading of skills, the development of the service sector, the development of science and technology and education generally, and the creation of a more ethnically integrated population characterized by more equality. This policy would require annual growth rates of about 7 per cent, and is predicted on a successful upgrading of the economy.

This plan has important implications for the future of industrial relations and human resources policies, both at the macro and the micro levels. Given that an industrial relations system oriented towards employment stability and workplace flexibility appears necessary to compete effectively in today's international markets, the government has a considerable regulatory and legislative role to play to facilitate these ends.

Individual firms an enterprises have significant progress to make at the micro level, where elements of new industrial relations and human resources practices can be seen in the bellwether electronics industry. However, much remains to be done to create a stable and flexible industrial relations system that is based on collaborative labour relations and provides employees with job security. Although companies have started investing in broader training and skills upgrading and have introduced team systems and enterprise unions, employee involvement is not likely to increase without job security and good worker representation, both of which are currently absent. These innovations, along with skilled labour shortages, are driving changes in compensation and skill formation practices in their turn. And although joint consultative councils are mandated by legislation to improve labour-management relations, they are ineffective given the restriction placed by legislation on bargaining and the general weakness of trade unions. In areas where unions are stronger, the success of efforts at reform depends crucially on their integration into the decision-making process. The important lesson to be learnt is that such practices will not succeed in isolation: firm-level industrial relations and human resource policies must be mutually reinforcing, i.e. must fit together into a consistent whole. It is this aspect of interrelationships between various IR/HR policies that requires attention.

In the private sector, collective bargaining structures tend to be decentralized, with a variety of different forms (Arudsothy and Littler 1992) and little evidence of any consistent pattern. By and large, bargaining power rests with the employers, given the limitations on unions' right to strike. Collective bargaining agreements are in force for a legally mandated period of three years, thus limiting the ability of firms to respond quickly to changes in the economic environment (Ayyadurai 1990). Government policy must attempt to create the conditions for collective bargaining that provides both worker protection and employer requirements for flexibility.

At the macro level, several areas for policy reform exist. In the context of Malaysia's own vision for its future, skills upgrading and development appear most crucial. In the context of skill development alone, several initiatives seem necessary. These include policies that provide incentives for firms to invest more in training, as well as means of upgrading the quality of the workforce through education. In addition, given that a large part of recent Malaysian development has been financed through foreign investment, the area of technology transfer and developing backward and forward linkages with foreign-owned manufacturing firms is critical to the success of Malaysia.

When one examines the role of multinationals, two features emerge. On the one hand, multinationals have clearly contributed to increased employment. However, there has been relatively little development of local skills and even less transfer of technology (Rani *et al.* 1986). Surveys indicate that foreign investment in electronics has not resulted in any technological spin-offs for local industries. The bulk of raw materials, as well as machinery and equipment, has been brought from the parent company plants overseas. The percentage of input from local subcontracting companies is very small (less than 20 per cent), characterized by very low-skills products. Most of the export-oriented industries also repatriate a large part of their profits and show minimal linkages with local industries.

The most common forms of technology transfer are via assistance from parent companies and training for top management. Non-Japanese firms tend to be more dependent on local equipment suppliers, but this is to a very limited extent. Licensing as a means of technology transfer is very limited, and there are very few cases where research and development are concentrated in Malaysia. Clearly the high cost of research and the need for highly skilled manpower militate against research being based in Malaysia. Nevertheless, it is generally considered that the greatest potential for technology transfer lies in the electronics industry.

The policy implications of technology transfer are several. On the one hand, the government can provide a better environment for multinationals to upgrade the quality of their production through incentives for research, development and promoting technical training and technological infrastructure. Providing a more highly skilled workforce will be vitally necessary to keep multinationals in Malaysia. In addition, given that neighbours like Cambodia, Vietnam and Laos offer lower- cost alternatives, Malaysia will have to sell itself as a location for high-skills-based investment. Alternatively, laws on joint ventures should provide for significant Malaysian involvement in production. Another alternative is domestic content provisions, although this might drive low-cost producers out of Malaysia. Providing incentives for foreign companies to invest in greater training and skill formation is a key aspect of government policy that needs to be addressed. The government's current approach appears to be biased towards providing a higher-skilled workforce.

As regards linkages with these export-oriented foreign-owned firms, the role and ability of the informal sector to be a basis such ties ought to be explored in greater detail. Currently, very little is known about the informal sector. Although 'Vision 20/20' addresses the need to develop small and medium-scale organizations, little attention has been paid to the informal sector.

Apart from these issues, it is important for the government to ensure that various macro-level policies also interact and are mutually reinforcing. Attention must be paid to the interrelationship between industrial relations policies and other national policies such as education, training, skill development, migration, labour market and industrialization. For example, investment in on-the-job training is of limited use unless it is accompanied by national policies with respect to education and training, incentives for companies to train, and labour market policies to redeploy and train surplus workers. These changes are not possible unless state labour policy is substantially reconceptualized. More fundamental changes therefore appear necessary at the macro level.

Finally there is the issue of effective worker representation. The fast pace of development since 1983 has resulted in rising incomes for most Malaysians. However, this was accompanied by significant repression of worker rights in export-oriented industries, and recent restructuring efforts have resulted in an increasing portion of the workforce being dependent on temporary work. In order to achieve a more egalitarian society (one of the key aspects of 'Vision 20/20'), the government needs to articulate policies that effectively address this issue. Increased ability of unions to represent workers effectively may be one step towards the goal of reducing conflict. In addition, union input into major decisions regarding future economic directions may also be relevant, given that they have little or no political influence currently. Introduction of mandated minimum wages may be another step. If the current unequal power relationship continues, it is likely to result in a more polarized society. In this connection, policies that favour one ethnic group over others may also have to be reconceptualized.

A note on government-labour relationships is germane here. A significant development in the mid-1980s has been the 'internationalization' of the Malaysian issues of freedom of association and the right to collective bargaining which have been raised at annual meetings of the ILO. Repeated attempts by the Malaysian Trade Union Congress to force the government delegation to agree to ratify the ILO conventions have failed. The fact that these questions were repeatedly raised at ILO meetings in Geneva has been a source of embarrassment for the government and has led to a further isolation of the labour leadership in national affairs. This trend has been aggravated by several government ministers expressing criticism of the trade unions for being 'anti- government' or 'anti-national' not only for pursuing workers' interests but also because of some union leaders' participation in opposition political parties.[8]

Attempts made by the government to restructure the trade union movement in such a way that enterprise unions will become the basic units were regarded as a significant threat by the labor movement. However, the Ministry of Labour argued that these steps were in conformity with the Prime Minister's attempt to 'Japanize' domestic institutions so as to accelerate economic growth in the East Asian mould. In the ensuing struggle for their respective models of economic development, the MTUC found it expedient to draw international attention to the many restrictions on Malaysian workers' rights. The MTUC was able to highlight the lack of the freedom or organize in Malaysia's electronics sector.

Although the AFL-CIO was able to use this information to petition Congress to withdraw Malaysia's access to GSP status, in the acrimonious debate that ensued between MTUC and the government, labour leaders were forced to demonstrate their patriotism by calling on the US administration not to remove Malaysia from the list of countries enjoying preferential trading terms with the US.

Since 1993 there has been an attempt by the group of Labour ministers from the Association of South-East Asian Nations (ASEAN) to adopt a more proactive labour policy so as to avoid international embarrassment over violation of human rights and labour rights. For example, ASEAN Labour Ministers met in Manila prior to the 80th ILO Conference in June 1993 to develop common strategies to thwart moves by labour delegates who were demanding that labour rights violations be discussed. They also requested the ILO directorate to give newly industrializing countries greater flexibility with regard to the management of labour resources and the consequent applicability of ILO conventions. In addition, the government of Malaysia has since then discreetly sought to encourage the formation of alternative national or apex bodies such as the MLO (Malaysian Labour Organization). The MLO, initially sponsored by the National Union of Bank Employees and Newspaper workers, has tended to adopt a competitive role against the MTUC, both locally and internationally.

CONCLUSIONS

In sum, it would appear that the ISI strategy was associated with an industrial relations policy that was, in some sense, pluralistic. However, with the shift to EOI, government labour policy became more restrictive and focused on cost containment to facilitate the success of the competitive strategy of low-cost exports and the need to attract foreign investment. There is some evidence that foreign manufacturers did exert some pressure on the Malaysian government to contain costs. The mechanisms by which repressive state policies were enacted included various changes in industrial relations rules and increased government involvement in the industrial relations sphere.

Although new trends in industrial relations and human resources practices are apparent, more detailed case studies are necessary to identify the key reasons for these trends. Our general investigation suggests that the motivations for these new practices are several. In the state-owned enterprises, there is a gradual realization that productivity enhancement requires active participation of the workers in some form. In other companies, it is possible that the shift to more employee participation is driven by competition, technological change and the need for increased flexibility. On the other hand, it is also possible that this shift to more human resources management techniques reflects a desire for more sophisticated forms of labour control. All of these reasons might account for this trend. Future research must address these issues more specifically. It is difficult, however, to conclude that these new directions represent the majority of responses by firms, since this chapter does not constitute a comprehensive survey of industrial relations practices.

The remarkable, sustained high growth rates of around 8 per cent achieved by the Malaysian economy since the mid-1980s, and the phenomenal growth of foreign investment since then, have required tremendous labour market adjustments. Most notably, this has led to a rapid expansion of training both for middle-level management staff and for low-cost migrant labour. In fact, the labour shortage has resulted in an increasing influx of foreign workers, exceeding 300,000 according to official estimates. While attempts to achieve ethnic balance in the workforce as part of the NEP have to some extent fallen off in the context of a very tight labour market, the government has yet to work out the distinctive human resources and industrial relations policies needed for the future. These questions have not been addressed in 'Vision 20/20', the government's blueprint for the future.

It appears that Malaysia is at a juncture where it is rethinking its economic policies, and moving towards a more high-skill, high-wage, value-added economy. The key challenge is to harmonize different policies at the macro level in order to achieve these ends. Although there are signs of new industrial relations and human resource practices in Malaysian manufacturing, the trend is not widespread. Government policy needs to address these issues in more detail, at this critical moment of transition for its economy and industrial relations system.

NOTES

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1. European firms owned 83 per cent of the land under agricultural cultivation, British companies owned 60 per cent of mining, 60-70 per cent of external trade and 75 per cent of the banking sector.
2. The foreigners continued to own 61.5 per cent of corporate assets, although the share of the Chinese and Indians increased to 23.7 per cent relative to the share of Malays which remained constant at 1.5 per cent.
3. There were many doubts about the viability of these big projects, with critics arguing that they would serve to increase budget deficits. Clearly there was some truth in these criticisms, as the Proton project had a capacity of only 40 per cent of the 200,000 units a year deemed necessary for economic viability in the car industry (Bowie 1991).
4. Hourly compensation costs (in US dollars) calculated by Salih and Young (1989) suggest the following: USA 8.32, Singapore 1.58, Hong Kong 1.33, South Korea 1.19, Malaysia 0.84, Philippines 0.63, Thailand 0.43 and Indonesia 0.35.
5. The AFL-CIO has made two petitions to the US government to revoke Malaysia's GSP status. The second petition in 1990 was also rejected by the US Trade Department on the grounds that it did not have information that was substantially new over the previous petition. There is basis for the speculation (Grace 1990) that US corporations operating in Malaysia successfully lobbied the government to retain the country's GSP status.
6. In contrast, workers in the electrical and consumer products industries making televisions and stereos are allowed to affiliate themselves with national unions like the Electrical Industry Workers Union (EIWU). Support from the national union, with established and experienced union leaders, is crucial for the growth of unions in the electronics sector, which is characterized by unskilled, mostly female labour with little trade union experience.
7. In conjunction with the Heavy Industries Programme, Dr Mahathir articulated his 'Look East' policy. The essentials of this policy were to emulate the example of industrial success by Japan and Korea. The policy called for the introduction of Japanese institutions (such as enterprise unions) but also, exhorted Malays to be more disciplined and productive like their East Asian counterparts. See Bowie (1991) or Frenkel (1993) for details.
8. The current Minister for Human Resources Development (formerly the Ministry of Labour) Datuk Lim Ah Lek has failed to adapt to the demands of workers and unions that he be seen publicly to be sorting out the problems of the labour market and inter-union rivalry. Instead, he has adopted a highly bureaucratic style and allowed his officers to handle most of the workers' grievances at their own pace rather than actively promote their resolution.

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