

***AN EXAMINATION OF THE CONTENDING FACTORS SHAPING  
THE ROLE OF THE STATE IN MALAYSIAN INDUSTRIAL  
RELATIONS***

***By***

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***For my family:***

*My husband; Ismail (Reduan) bin Ramli*

*My parents; Idrus bin Abd Ghani & Selamah bt Othman*

*My children; Aqeelah, Firdaus, Najahd and Muhammad*

*&*

*Kak mbong & Bambong, Banglang & Kaklang(s), Bangteh & Kakteh*

*Bandak & Kakndak, Awie & Ruzie, Akir & Rozie, Adik & Azhar*

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*Kak long & Banglong, Rozi & Am, Zek & Su, Idah & Zali, Umi & Jamil*

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*For those who 'work and sweat';*

***the ordinary workers of Malaysia.***

***'bersatu kita teguh, bercerai kita roboh'***

*('united we stand, divided we fall')*

---

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### *Abstract*

The state has increasingly played a dominant role in the development of Malaysian industrial relations. Earlier researchers have shown that since the beginning of the relationship between employers and employees, economic considerations have been significant, and especially so during the British colonial era. This has therefore been a consistently important factor that has influenced the role of the state. The British policy of bringing in immigrants of the Indian and Chinese origins into Malaya created the plural society that was later further divided according to their economic activities. The Malays, in comparison to the immigrants, partly because of the 'protection' policy of the British, and partly because of their culture, became the least educated and economically unadvanced.

This study looks into how the demarcation between ethnic groups has been used as one factor to determine the national development plans in Malaysia, which ultimately affected the development of industrial relations. The Malay-dominated government tried to ensure the Malays had a better place in the economy by introducing the National Economic Planning (1971-1990), originated after the 13<sup>th</sup> May 1969 race riot, and which legitimised the Malays/*Bumiputeras* 'special position' in the country. This study suggests that the government has given a high priority on economic growth as an instrument to achieve the status of a developed country, with the ultimate objective being 'national unity'.

However, there were other non-economic factors, such as social and political considerations, that influenced the role of the state in the Malaysian economy that later dictated its role in industrial relations. The NEP was an affirmative action taken



to correct the economic imbalance between the ethnic groups in Malaysia, especially between Malays and non-Malays, or later termed as *Bumiputeras* or non-*Bumiputeras* on the ground that they were the indigenous people, protected under the Malaysian Constitution. Other policies adopted by the government, including that of industrial relations, were developed to ensure that the objectives of NEP were met. Therefore, legislation, administration and other policies regarding the industrial relations were developed along this line. Meanwhile, as an employer to the public sector, the government ensured the sector played its role according to the bigger national agenda, the NEP. This continued during the National Development Planning (1991-2000), when it retained some of the NEP's objectives, but with new strategies that suggested Malaysia was ready to move on into another era that was barely based on ethnicity preference. However, the ethnic issue still persisted, and the social and political systems still influenced Malaysia in its quest to a fully developed and industrialised country by the year 2020 at the latest.

This study examined how Malaysia tried to move forward, but at the same time still concerned with issues of the past. As long as this is the case, this study argues that Malaysia will preserve its old industrial relations policies.

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## *Abbreviations*

2MP	Second Malaya Plan
ACCIM	Association of Chinese Chambers of Commerce and Industry of Malaysia
ADC	Annual Delegates Conference
AEU	Airline Employees Union
ARML	Annual Report, Ministry of Labour
ARRTU	Annual Report, Registrar of Trade Unions
ARTU	Annual Report of Trade Unions
ASEAN	Association of Southeast Asian Nations
ASN	<i>Amanah Saham Nasional</i>
AWSJ	Asian Wall Street Journal
AWT	Annual Work Target
BH	<i>Berita Harian</i>
BM	<i>Berita Minggu</i>
BMA	British Military Administration
BT	Business Times
CIAM	Central Indian Association of Malaya
CLC	Communities Liaison Committee
CUEPACS	Congress of Unions of Employees in the Public and Civil Services
DAP	Democratic Action Party
DGIR	Director General of Industrial Relations
DGTU	Director General of Trade Unions
DGTUA	Director General of Trade Union Affairs
DPM	Deputy Prime Minister
EA1955	Employment Act 1955
EIWU	Electrical Industry Workers' Union
EOI	Export Oriented Industrialisation
EPZs	Export Processing Zones
FDI	Foreign Direct Investment
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
FES	Friedrich Ebert Stiftung
FLC	Federal Legislative Council
FMM	Federation of Manufacturers Malaysia
FMP	First Malaya Plan
FMS	Federated Malay States
FTU	Federation of Trade Unions
FTZs	Free Trade Zones
GDP	Gross Domestic Product
GLU	General Labour Union
HATWU	Harris Advanced Technology Workers Union
HIP	Heavy Industries Policies
HPAEs	High Performing Asian Economies
HRD	Human Resource Development
HRM	Human Resource Management
HSS	Harris Solid State
ICA	Industrial Coordination Act
ICFTU	International Confederation of Free Trade Unions

IIL	Indian Independence League
ILO	International Labour Organisation
IMF	International Metalworkers Federation
IMP	Industrial Master Plan
INA	Indian National Army
INTAN	The National Institute of Public Administration
IR Court	Industrial Court
IR	Industrial Relations
IRA1967	Industrial Relations Act 1967
IRD	Industrial Relations Department
ISI	Import Substitutions Industries
ISIS	Institute for Strategic Studies
ITWF	International Transport Workers Federation
KDIU	Klang District Indian Union
KEADILAN	National Just Party
KLSE	Kuala Lumpur Stock Exchange
KMM	<i>Kesatuan Melayu Muda</i>
KMT	Kuomintang (Guomindang)
LAB	Labour Advisory Board
LD	Labour Department
LDAR	Labour Department Annual Report
Malaysian Inc	Malaysian Incorporated
MARA	<i>Majlis Amanah Rakyat</i>
MAS	Malaysian Airlines
MCA	Malaysian Chinese Association
MCP	Malayan Communist Party
MEF	Malaysian Employers Federation
MFOU	Malay Forest Officers Union
MIC	Malaysian Indian Congress
MIDA	Malaysian Industrial Development Authority
MIEU	Metal Industry Employees' Union
MISC	Malaysian International Shipping Corporation
MITI	Ministry of International Trade and Industry
MLO	Malaysian Labour Organization
MNC	Multinational Corporation
MoHR	Ministry of Human Resources
MOSTE	Ministry of Science, Technology and Environment
MP1	First Malaysia Plan
MP2	Second Malaysia Plan
MP3	Third Malaysia Plan
MP4	Fourth Malaysia Plan
MP5	Fifth Malaysia Plan
MP6	Sixth Malaysia Plan
MP7	Seventh Malaysia Plan
MPAJA	Malayan People's Anti-Japanese Army
MSC	Multimedia Super-Corridor
MTUC	Malayan Trades Union Council; Malayan Trades Union Congress; Malaysian Trades Union Congress
MTUCAR	MTUC Annual Report
MTUCGCR	MTUC General Council Report

MUAC	Malayan Union Advisory Council
NDP	National Development Policy
NEAC	National Economic Action Council
NEP	New Economic Policy
NewRS	New Remuneration System
NIC	New Industrialised Countries
NIE	Newly Industrialised Economies
NJC	National Joint Council
NJLAC	National Joint Labour Advisory Council
NOC	National Operations Council
NRS	National Retrenchment Scheme
NST	New Straits Times
NTUC	National Trade Union Congress
NUBE	National Union of Bank Employees
NUEPACS	National Union of Employee in the Public Sector & Civil Services
NUPCW	National Union for Petroleum and Chemical Workers
NUPW	National Union of Plantation Workers
NUTE	National Union of Telecom Employees
OPP1	First Outline Perspective Plan
OPP2	Second Outline Perspective Plan
PAP	People's Action Party
PAS	<i>Parti Islam seMalaysia</i> (Malaysian Islamic Party)
PERNAS	<i>Perbadanan Nasional</i>
PETA	<i>Pembela Tanah Air</i>
PIO	Pioneer Industry Ordinance
PM	Prime Minister
PMFTU	Pan-Malayan Federations of Trade Unions
PMGLU	Pan-Malayan General Labour Union
PNB	<i>Perbadanan Nasional Berhad</i>
PORIM	Palm Oil Research Institute Malaysia
PSD	Public Service Department
PSDAR	Public Service Department Annual Report
PSI	Public Services International
R&D	Research and Development
RCAWU	RCA (Radio Corporation of America) Workers Union
RTU	Registrar of Trade Unions
RUM	Railwaymen's Union of Malaya
S&T	Science and Technology
<i>Sdn Bhd</i>	<i>Sendirian Berhad</i> (Private Limited)
SEDC	State Economic Development Corporation
SIRIM	Standards and Industrial Research Institute for Malaysia
SOCOSO	Social Security Organisation
SS	Sunday Star
SUHAKAM	<i>Suruhan Jaya Hak Asasi Manusia</i> (Human Rights Commission)
Telekom	Telecom Department
TNB	<i>Tenaga Nasional Berhad</i>
TUA	Trade Union Advisers
TUA1959	Trade Union Act1959
TUAD	Trade Union Affairs Department
TUO	Trade Union Ordinance

UM	<i>Utusan Malaysia</i>
UMEWU	United Malayan Estate Workers' Union
UMNO	United Malays National Organization
UMS	Unfederated Malay States
UNDP	United Nation Development Plan
UPAM	United Planting Associations of Malaya
WFTU	World Federation of Trade Unions
WWII	World War Two

## CHAPTER ONE

### INTRODUCTION TO THE STUDY

#### 1.1. Introduction

Aminuddin defined industrial relations (IR) as ‘the relationship between workers and their employers within the work environment’, but argued that such a relationship existed only when employees were unionised (Aminuddin, 1996: 2). Wu (1996: xvii) defined IR as ‘the subject which deals with the manner in which the relationship between an employer or groups of employers and employees is carried on, and the methods which they use in their relationship with each other’. Ayadurai (1998) went a step further:

‘IR refers to the relations created by employment between the parties who are concerned with employment. Depending on how broadly or narrowly it is defined, it can embrace every aspect, or be confined just to some aspects (perhaps only one) of these relations. Similarly, it can also embrace all the parties who are concerned (however marginally) with employment, or be confined only to the principal ones’.

This study refers to IR as relationships centred in workplaces between employee unions, employers’ associations and the state. This is in accord with the definition given by Dunlop (1958), who popularised the ‘systems approach’, with managers, employees and their respective representatives, and specialised government agencies as the three actors. In the Malaysian context, this study argues that the state is the most dominant actor in Malaysian IR, judging by the effects of the various roles that it plays in the system. Ayadurai (1998) claimed that the state plays four roles, as employer, legislator, administrator and participant. As a participant, the government, with the help of the central employer and employee organisations, formulates appropriate IR policies, and promotes ‘sound’ IR practices (Ayadurai, 1998: 231). To understand

Malaysian IR it is therefore necessary to understand how and why the state plays these various roles. The first and foremost understanding that one should have of Malaysia is that the state was always the prime economic actor or initiator, even when privatisation was intensified in the 1990s. 'Nation building' and 'national unity' became the ultimate goals of both the New Economic Policy (NEP) (1971-1990) and the National Development Policy (NDP) (1991-2000).

The areas embodied by IR include the laws and rules concerning employment, terms and conditions of work, rights of employers and employees and the decision-making process where rules and terms and conditions of employment are made and defined, respectively (Aminuddin, 1996: 2). While the definition of IR in Malaysia and the West does not differ, there is a need to formulate or re-construct conceptual frameworks of analyses and understandings of the IR systems of non-Western industrialising countries (Sharma, 1985: 1). Sharma argued that some researchers into Eastern cultures and IR applied their values and convictions in their search for relevant information and the selection of variables for analysis of the IR systems of the more developed Western countries, thus imposing serious limitations on their work (Sharma, 1985: 1). Some views are not valid anymore, even in the West or at least in many Western countries. These include the assumed alliance between political parties and trade unions, or the labour supply as a key determinant in the evolution of the labour movement and IR in newly industrialising countries (Sharma, 1985: 9). He quoted Wipper (1964) who argued that instead of a 'wealthy entrepreneurial class' that provided both capital and know-how in British and American industrialisation, in the developing societies the state was the prime agent of industrialisation. Since the



development of IR tends to be related to industrialisation, when the prime agent of industrialisation is the state, it occupies central stage in IR.

In Malaysia, it is the Federal Government of Malaysia and not the state governments that govern its IR system. This power of jurisdiction falls under the Ninth Schedule in the Federal Constitution that puts it under the 'Legislative Lists' List 1-Federal List, under the grouping of 'labour and social security' which reads:

- '15.Labour and social security, including-
- (a)Trade unions; industrial and labour disputes; welfare of labour including housing of labourers by employers; employer's liability and workmen's compensation;
  - (b)Unemployment insurance' health insurance; widows', orphans' and old age pension; maternity benefits; provident and benevolent funds; superannuation; and
  - (c)Charities and charitable institutions; charitable trusts and trustees excluding *wakafs*; Hindu endowments. '<sup>1</sup>

The preliminary findings show that the most prominent actor in Malaysian IR is the government, and that it was responsible for developing IR according to its ideals, particularly as a system that supports the national agenda, and this was more evident after the 13<sup>th</sup> May 1969 racial riot. It was this realisation combined with other factors that triggered my interest in this segment of the study.

There was also a scarcity of debates on the role of the state in Malaysian IR, despite its significance, as highlighted by previous scholars.<sup>2</sup> At least one, Kuruvilla (1995, 1996 and 1998) highlighted industrialisation as the point of departure for exploring Malaysian IR, although this actually belies the significance of the state as a key force

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<sup>1</sup> See Federal Constitution: Incorporating All Amendments Up to 1March 1997. 1997. Kuala Lumpur. *Percetakan Nasional Berhad*.

<sup>2</sup> See for example Arudsothy (1994); Jomo and Todd (1994); Parasuraman (1999); Kuruvilla (1998); Anantaraman (1997); Aminuddin (1990 & 1996) and Ayadurai (1992 & 1998).

behind the industrialisation strategy itself. Previous researchers have also mentioned certain political, social and historical factors that influence the role of the state, but they have generally failed to elaborate on them, apart from highlighting the economy as the main influential factor.<sup>3</sup> Furthermore, when Malaysia experienced further economic and political turmoil in the last decade of the twentieth century it was time again to examine whether the same factors, which had affected its decisions in the past, were affecting it in the same way now.

This study is also encouraged by the fact that no previous scholars have compared the state's different policies towards private and public sector IR. The 'Public Service' today refers to the public services and the statutory authorities (whether federal or state) and the local authorities. Article 132 in the Federal Constitution defined it as the armed forces; the judicial and legal services; the general public service of the Federation; the police force; the joint public services; the public service of each state; and the education service (Malaysian Federal Constitution). The Chief Secretary to the Government is the Chief Administrator, the head of the Civil Service and the Secretary to the Cabinet. All public employees in the various services above are appointed by the five Services Commissions, namely the Commission for The Judicial and Legal Services; the Commission for the Public Services; The Police Commissions; Education Services Commissions; and the Armed Forces Council. The Constitution does not categorise the Statutory Bodies and Local Authorities as part of the public services because both are appointed by the board of directors of the

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<sup>3</sup> See for example Jomo and Todd (1994), Wu (1995) and Kuruvilla (1998).

respective agencies, formed under the federation or the state's laws. However, in the Malaysian administrative context, both are considered part of the public services since both rely on the government financially, whose salaries and conditions of service are determined in the same manner as with the public sector (PSDAR, 1991/1992).

As Ozaki (1988) observed, the systems of labour relations in the public service of developing countries today are 'extremely diverse'. This makes it difficult to draw any general conclusions from, for example, all developing countries. While there are systems in which public servants are treated on an almost equal footing with private sector workers, there are those who are denied the right to organize, and their pay and conditions of employment are determined unilaterally by the government. In the middle of these there are the 'intermediate system' which provide machinery for joint consultation between public servants and the government, in the absence of the recognition of the worker's right to bargain collectively. This study looks into this realisation in the Malaysian public sector, especially during the ten years under the National Development Planning (NDP) (1991-2000). The contention here is because there were other socio-political reasons behind Malaysia's affirmative development planning, the public sector was developed in ways that enabled the government to achieve those objectives.

The discussion below explores the background to the important issues in Malaysian IR for the period under study, the significance of the study, the research objectives, the scope of the study and an outline of the chapter organisation for the whole thesis.

## 1.2. Background to the Malaysian IR Issues

As discussed below, there are some deficiencies in the existing literature on Malaysian IR that highlighted the need for this study. At the same time, there was limited analysis on the relationship of history, economic plans and politics with the Malaysian IR. The discussion below provides an insight into these two issues, pinpointing the fact that they need to be examined and deserve a central position in Malaysian IR.

Previous researchers have claimed that there are other factors that influenced the role of the state in Malaysian IR. For example, Jomo and Todd (1994) offered insights into the development of the role of the state in the present Malaysian IR, but more from the angle of the history of the trade union movements. Interestingly, they highlighted an ‘antagonistic attitude’ of the government towards labour, with imbalance attention towards ‘the interests of particular fractions of capital’ that brought ‘important consequences for workers’ (Jomo and Todd, 1994: 168). Both hinted at ‘various other factors and the inertia of history itself’, plus ‘political considerations’ that influenced the government’s policies towards the trade union movement (Jomo and Todd, 1994: 168). However, they did not address these ‘various other factors’ that were said to influence the role of the state in Malaysian IR, but focused more on the economic and, in part, the political forces behind the state’s roles. Nevertheless, they agreed that the ‘economic, social and political history of Peninsular Malaysia have also had a significant impact on unionisation’ (Jomo and Todd, 1994: 21).

Kuruville (1995) argued that it was the shifts from one industrial strategy to another that were important for understanding IR system transformation and not simply levels of industrialisation per se, as emphasised by Kerr *et al* (1964), Sharma (1985) and

Deyo (1989). Kuruvilla (1995) argued that economic development strategies and IR policies were intertwined and mutually reinforcing (Kuruvilla, 1995). While these views are true, it is too simple to study Malaysian IR with the industrialisation stage as the starting point because it distorts a comprehensive examination of the Malaysian experience. Malaysian IR have been shaped by the government's broader views of what Malaysia and Malaysians should be in the future, having experienced many changes since colonial times. There are many internal and external forces that have influenced the state, but the contention here is that the underlying influences, such as history and ethnic issues, need to be examined at all the stages of Malaysian IR. The national development policies were consistently based on Malaysian history as well as what politicians assumed its people's economic, political and social needs to be. Therefore it is important to identify these factors and to understand how and why they affect the state's policies, legislation, and administrative actions and behaviour, and *vice-versa*.

Arudsothy (1994) probed part of the development of Malaysian IR, focusing on the 1980s. He explored the role of the Ministry of Human Resources (MoHR), which promoted policies such as in-house unions to help impose government control over labour. However, although he touched on the questions of 'employment restructuring', which he called 'positive discrimination in favour of the majority ethnic group', he did not explore it in detail (Arudsothy, 1994). There are a number of works that have mainly focused on the legal aspects of Malaysian IR, like those of Aminuddin (1996), Ayadurai (1998), Wu (1995) and Anantaraman (1998). Wu (1995) wrote that Malaysian IR was 'characterised by a high level of governmental intervention' and noted that it is 'a product of very Malaysian circumstances', without

offering any explanation for this claim. He briefly referred to the position of Malays and aborigines as the indigenous peoples of Malaysia, a perception that was 'a significant element' in Malaysian politics, and admitted that Malaysia was still 'very much a plural society' (Wu, 1995). While earlier writings on Malayan IR, like those of Gamba (1962) and Josey (1958), largely consisted of descriptive accounts of Malayan trade unionism, Ungku Aziz (1967) explored the various roles of the government, but did not examine the underlying forces that had shaped the role of the state. However, among these works on Malaysian IR, there is general agreement on the significance of the role of the state as compared to the other two actors, employers and employees.

Sharma (1996), in his work on comparative IR in ASEAN countries, discussed how national IR systems are the products of interaction between the main actors and their environments. The main actors are labour, management, and government, while the four environmental sub-systems are economic, legal, political, and socio-cultural. These four environments contribute to the shaping of the emerging patterns of IR, 'but the economic environment plays a predominant role' (Sharma, 1996). The significance of the economic environment, according to Sharma, is due to the nature of IR itself, which is fundamentally a product of economic development, or industrialisation. The researcher argues in this study that in Malaysia, the other environmental sub-systems are just as important in shaping Malaysian IR. In Malaysia, its history, which influenced its political and socio-cultural environment, as well as its economic development, or industrialisation policies, are intertwined, to form what Malaysian IR is today. Thus, to study the development and the role of the

state in Malaysian IR, the researcher argues, one should not study it separately from the factors that shaped it over the years.

As mentioned earlier, the Malaysian national development policy plays a very important part for Malaysian economic growth, especially since Independence. In fact two years before Independence, Malaysia had begun its First Malaya Plan (1956-1960), which was the first of its Five-Year Development Plans (Nik Hashim, 1994). After the formation of Malaysia in 1963, there was the First Malaysia Plan (1966-1970), and today Malaysia is already into its Eighth Malaysia Plan (2001-2005). So far, Malaysia has implemented two major national development plans, the New Economic Policy or NEP (1971-1990) and the National Development Planning or NDP (1991-2000), each a deliberate, comprehensive and time-specific effort made by the central government to create and maintain conditions to accelerate economic growth and social development. However, it is their ultimate objective that needs to be highlighted here. Under the NEP and the NDP, the question of 'national unity' was stressed as the ultimate objective, or the long-term goal. Both the national development plans that spanned thirty years were regarded as the main tools to achieve this objective. In fact, after the racial riot on 13<sup>th</sup> May 1969, the government became more focused on issues of 'national interest', 'national harmony' and 'national unity'.<sup>4</sup>

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<sup>4</sup> See for example Means (1991: 23). When the parliamentary government was restored in February 1971, the National Operations Council (NOC) that took over after the bloody riot between the Malays and Chinese drafted the New Economic Policy (NEP) that became a turning point in Malaysian history. The government also issued a White Paper entitled 'Towards National Harmony' in 1971.

The NEP, which was sparked off by the 13<sup>th</sup> May 1969 racial clash between the Malays and Chinese had two-pronged objectives. The first was to eradicate poverty, the second, which is significant to this study, was the re-structuring of Malaysian society to correct racial economic imbalances (Lin, 1994). In this context, the economic imbalance referred to the *Bumiputeras* and the non-*Bumiputeras*.<sup>5</sup> This national development planning became the foundation of Malaysian economic progress and it encapsulated other policies, such as IR ones. Following 13<sup>th</sup> May 1969, the NEP brought to the fore the position of the Malays, who were later called *Bumiputeras*, so as to include the indigenous people of Sabah and Sarawak into Malaysia in 1963. It was during the British colonial era, as a way of recognising the position of the Malays as the indigenous people, that the policy that was based along racial lines first began. The effect during that particular period was the segregation of the multi-ethnic society in terms of work and demography. After the Japanese occupation, the British tried to impose the Malayan Union, which eroded the Malay rulers' power and the position of the Malays by offering a liberal citizenship to the immigrants. For the first time, the Malays displayed a united nationalism, which saw the birth of UMNO as a party representing them. When the 1948 Federation of Malaya was established, the 'special rights' of the Malays were restored, with functions of the Malay rulers re-instituted (Milne and Mauzy, 1983: 23). In return, the Malays accepted a Federal citizenship offered to those 'who owed undivided loyalty and allegiance to the federation (Comber, 1983: 33-34). This is the famous 'ethnic bargain', which later became the basis of the independent constitution in 1957. The

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<sup>5</sup> *Bumiputeras* are considered 'sons of the soil'. The concept became common after the 13<sup>th</sup> May 1969 incident, referring to Malaysian population as '*Bumiputeras*' or '*non-Bumiputeras*'. The *Bumiputeras* basically comprise the Malays, Malay-related and indigenous or aboriginal groups. *Non-Bumiputeras* refer to Malaysians of Chinese and Indian ethnic origin and other small non-Muslim groups (Hng, 1998: 220).



Malays' special position now is securely protected under Articles 152 and 153 of the Malaysian Constitution.<sup>6</sup> Looking back, this was the most defining moment for the Malays since it marked the legitimisation of their position as the indigenous people and therefore deserving of the 'special position', a clause underlying the NEP and NDP.

This 'social pact' was further enhanced in the recent, independent Malaysian Constitution, where the position of Malays, Malay Sultans, Islam and the Malay language are protected and cannot be questioned.<sup>7</sup> In other words, history was a major factor directing the future of Malaysia. Inhabitants of Malaysia from virtually all their various ethnic backgrounds were to be expected to integrate. The significance of this matter for IR seemed indirect, but as will be explained later in this study, it is highly pertinent. Yet, although Malaysia made a move forward, at the same time it sought to hold on to its historical past, leading to its present dilemma. Malaysian history is laced with ethnic questions, which began with the British colonial policy of the late 19<sup>th</sup> and

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<sup>6</sup> Article 152(1) The national language shall be Malay language and shall be such script as Parliament may by law provide.

Article 153 (1) It shall be the responsibility of the Yang Dipertuan Agong to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities in accordance with the Provisions of this Article.....

Article 153 (2)...necessary to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and to ensure the reservation for Malays and natives of any of the States of Sabah and Sarawak of such proportion as he may deem reasonable of positions in the public service (other than the public service of a State) and of scholarships, exhibitions and other similar educational or training privileges or special facilities given or accorded by the Federal Government and, when any permit or licence for the operation of any trade or business is required by federal law, then, subject to the provisions of that law and this Article, of such permits and licences....

<sup>7</sup> Refer to article 3 of the Malaysia Federal Constitution, which states Islam as the religion of the Federation, while other religions may be practised in peace and harmony in any part of the Federation. Article 32-38 on the rights and powers of Agong or the King as the Supreme Head of the Federation. Article 152 on the position of Malay language as the national language, and article 153 on 'the reservation of quotas in respect of services, permits, etc. for Malays and natives of any of the States on Sabah and Sarawak'.

early 20<sup>th</sup> centuries of bringing in large numbers of labourers from China and India, particularly to work in its tin and rubber industries. After Independence, the 13<sup>th</sup> May 1969 racial riot gave the political leaders legitimacy for drafting the NEP that brought the clauses concerning the position of Malays/*Bumiputeras* in the constitution into effect. The cause of the tragedy was claimed to be the economic imbalance between Malays and non-Malays, although earlier reports of the riot also stressed 'political and psychological factors' as contributing to the conflict (Means, 1991: 23). Thus, accepting the position that the Malays were the 'sons of the soil', the NEP sought to find fast and effective ways to redress the balance. When the NEP did not achieve its target, another national economic plan, the NDP was established to continue the policy, though in a subtler manner. Both these policies had direct and indirect effects on IR, as discussed in Chapter Seven and after.

Malaysia went on investing in various efforts to catch up with developed nations, and to become fully industrialised 'in its own mould', as intended in its Vision 2020 policy (Ahmad Sarji, 1995). It adopted its industrialisation strategy, relied on Foreign Direct Investment (FDI) and Multi-National Corporations (MNC) to help pursue it, and diversified its ventures into manufacturing, rather than into primary commodities (Lin, 1994). The interesting question here is, 'in the quest to become a fully developed nation, did Malaysia develop the kind of IR system adopted in the industrialised nations?' This study explores the paradox of Malaysia's eagerness to become an industrial nation, adopting various strategies that has brought it closer to its economic objectives, while at the same time remaining reluctant to change certain aspects of its IR policies and practices. The independent government was consistent in its beliefs that Malaysia must achieve the developed nation status, by 2020 the latest, but in their

own mould, with their own set of moral and ethical values, even if it meant preserving some laws viewed by the West as undemocratic.

This study traces and explains the role of the state from the colonial era until the end of the NDP era in 2000. The end of British colonial rule actually propelled the Malays into a prominent position in Malaysian politics under the UMNO, a racially based party encouraged by the British. Together with the Malayan Chinese Party (MCA) and the Malaysian Indian Congress (MIC), these racial parties have become the major influence on Malaysian policies until the end of this study. Malaysia's political culture, especially under Mahathir Mohamad, the country's longest serving Prime Minister (from 1981 to the present) who was responsible for both part of the NEP and the whole of the NDP era came to the fore. During his administration, Malaysia has faced and overcome many challenges. During the 1990s, the economic downturn in 1997, and the political turmoil in 1998, with the controversial dismissal of Malaysia's third Deputy Prime Minister, Anwar Ibrahim, saw the Malays divided as never before. Moreover, they withdrew their support of the UMNO during the 1999 general election. In the past, political instability has seen the government reacting negatively towards labour, strengthening its position and weakening the labour movement through legislation and various administrative and other policies. As discussed in Chapters Nine and Ten, for each of the private and the public sectors, the government's roles were analysed to see whether all the forces that influenced it before the NDP influenced it again during this period.

### 1.3. Statement of the Problem

The present literature on Malaysian IR regards economy as the dominant factor that influenced the state in the IR system (Sharma, 1996; Jomo and Todd, 1994; Kuruvilla, 1995). Therefore, an understanding of the state's roles in the economy is vital before analysing its roles in IR. This study uses the framework based on Jomo's (1999) analysis, which divides the economy into four stages.

The first stage is termed 'late colonial priorities' and refers to the period 1950-57. Stage two is called 'alliance laissez faire-ism', and describes 1957-69, the era of the first Prime Minister (PM), Tunku Abdul Rahman (hereinafter known as the Tunku). This was when generally laissez-faire policies with 'mild' import substituting industrialisation (ISI), agricultural diversification, rural development and 'mild' but increasing ethnic affirmative action policies were implemented. The third period, called 'growing state intervention' applies to the second PM, Abdul Razak's era (1969-76), as well as the third, Hussein Onn (1976-81), and fourth, Mahathir Mohamad (1981-85), when there was increasing state intervention and public sector expansion. This was especially when there was inter-ethnic redistribution, export-oriented industrialisation (EOI); the Look East policy, and public expenditure cuts from 1982, but there were government joint ventures with the Japanese to develop heavy industries in the face of declining foreign investment. The stage from 1986 to now, Jomo termed the 'economic liberalisation era, whereby there was massive *ringgit* (Malaysian money, or RM) depreciation, economic liberalisation, privatisation, improved official support for the private sector, increased investment incentives, regressive 'supply side oriented' tax reforms and the Vision 2020 policy.

Each of these eras featured the state as the prime economic actor in the Malaysian economy, therefore stressing the importance of analysing the situation from that angle.

However, the approach used in this study is different. Even though the drive towards economic growth is accepted as the most prominent force that always influenced the state in its roles in the Malaysian IR, the contention is that other factors stated below also influenced the state. These include the history of Malaysian people, the social and political environment, the culture and the ethnic issue as well as the leadership of the political leaders and the trade unions. The degree of the influence might differ from time to time but as discussed further in this study, they were always present. This study also argues that the state adopted different policies towards the private as compared to the public sector, especially during the NDP in the 1990s. Therefore, there is a separate analysis for each sectors in Chapters Nine and Ten. In Chapter Eleven a comparative analysis is made of the two and the similarities and differences of the government approaches are discussed. Apart from exploring the directions taken in both sectors as part of the national development programme, the different government expectations of each are seen.

#### **1.4. Research Objectives**

The main purpose of this study is to analyse the development of the role of the state in Malaysian IR, and to discuss the many factors that influenced it over the years. This study acknowledges Ayadurai's (1998) identification of the state's roles as legislator, administrator, participant and employer in the public sector. However, instead of exploring aspects of Malaysian IR as previous scholars did, this study explores and

highlights the underlying factors that influence the state's roles and tries to explain how and why it has played them.

In more detail, the objectives are:

- a) to analyse the state's roles in the IR system, from the earliest period with the start of wage labour tradition in Malaya until the end of 1990s and to explore its development;
- b) to examine all the factors, such as historical, socio-political, leadership, as well as economic that helped shape the role of the state in Malaysian IR;
- c) to explore whether there are changes in the role of the state under the period studied and to test whether these could be attributed to the historical, socio-political, leadership and economic factors, or whether there are external factors;
- d) to examine the state's policies towards the private as compared to the public sector's IR and relate this to the factors that influence the state;
- e) to determine certain factors that have changed or remained over the years and to discuss their significance in Malaysian IR;
- f) to examine the relationship between the state, capital and labour, determining the balance of power between them, their respective motivations, how these were formed and how any of these may have changed over time.

### **1.5. Significance of the Study**

The significance of the study is, primarily, that it will provide a comprehensive analysis of Malaysia's IR system which covers the most important period/turning point period in Malaysia, namely from the colonial period, ending with Independence in 1957, and the NEP (1971-1990) and NDP (1991-2000) eras. The main themes

emphasised are based on the state's most important roles as legislator, administrator, participant and employer. It contributes to an understanding of the state's roles in Malaysian IR and the underlying factors that influence them. This approach should therefore offer a nearly complete overview how the state functions and of how it influences the Malaysian IR system. An examination of the influences on the state's roles gives some insight into processes of government and IR in general in a fast developing nation.

### **1.6. The Scope of the Study**

This is a partly historical study, using both secondary and primary data, and comprising interviews with people prominent in the Malaysian civil service and trade union leaders as well as employers' representatives. It covers the colonial period from 1874, when Great Britain officially started its advance policy towards inland Malaya, until the end of the NDP in 2000. The time frame is chosen to enable an examination of the development of Malaysian IR from its beginning to the end of the second major period of national development planning, focusing on the turning point periods in Malaysian history. Since the study covers a long period, the discussion is based more on themes and issues than on chronology, although the analysis is roughly in chronological order. Therefore, the whole of Chapter Six focuses on the British colonial period with the intention of explaining the birth of IR in Malaysia. Chapter Seven onwards addresses issues and themes that concern Malaysian IR, based on the state's roles in the four categories noted above. In various subsections of these chapters, topics that have specific effects on the development of IR in Malaysia are explained.

## **1.7. Chapter Organisation**

The chapters are arranged to provide a sense of continuity, which from the Independence period focuses more on themes and issues that most enveloped Malaysian IR.

Chapter Two reviews the relevant literature on the role of the state in the economy and analyses the most general arguments on the topic. Chapters Three and Four explore the role of the state in IR, and the role of the state in IR in Malaysia, respectively. The relevance of each stage of the review is highlighted, with reference to issues and events that are to be more deeply probed in the study. Chapter Five discusses the research methods used. Chapter Six investigates the colonial government and the labour movement in pre-independence Malaya, both of which have influenced the present Malaysian IR. Chapter Seven, on the evolution and the development of IR in independent Malaysia from 1957 to 1970, shows that Malaysian history and internal turmoil affected the state's roles and policies very much. Chapter Eight analyses the twenty years of Malaysian IR under the NEP, which again highlights the significance of internal forces on the state's roles. Chapters Nine and Ten explore the private and the public sector separately since under the NDP each sector was given a specific role in the economy, thus creating a different IR policy for each sector. Chapter Eleven offers a comparative analysis of the private and public sector IR in Malaysia. Chapter Twelve summarises and concludes the main findings and arguments, noting the limitations of the work and indicating directions for future research.



Chapter Two starts with the review of the evidence and arguments surrounding the role of the state in the economy. As noted earlier, understanding this should provide insight into the role of the state in IR.

## CHAPTER TWO

### THE ROLE OF THE STATE IN THE ECONOMY

#### 2.1. Introduction

In discussing the role of the state in the economy, the objective of this chapter is to enable us to relate to its role in IR in Chapter Three. As discussed later, the state's roles in the economy is dominant in Malaysia and it relates closely to its role in IR. Understanding that role is therefore the key to understand Malaysian IR.

This chapter starts with a discussion on the basic understanding of 'the state' as a concept in general, and in the context of this study. It examines the theories of the state before reviewing literature on the role of the state in the economy and other related theories that concern a developing country. As Malaysia was considered one of the Third World nations, debates on the role of the state in the economy in the Third World are also analysed, before being narrowed down to the role of the state in the economic sector in the East Asian countries. The whole discussion aims finally to highlight the role of the state in the economy in general and in the Malaysian context.

#### 2.2. A General Definition of 'State'

Jordan (1985:1) described the state as:

'a system of relationships which defines the territory and membership of a community, regulates its internal affairs, conducts relations with other states... and provides it with identity and cohesion. It consists of institutions and processes which are extremely various and complex, presiding over different spheres of the community which distribute different social goods according to different principles...the state is society's way of controlling itself, and of making sure that others do not control it. From another, it is sort of protection racket, which claims a monopoly over the use of force'.

The state's importance can be seen as a system that determines the boundaries and rules of all other systems of activity in a community (Jordan, 1985: 1). It is where the political authority is used to regulate the community's different spheres of life, and these spheres themselves have production and distribution systems of their own, which are ultimately defined and defended by the state. Jordan notes that:

‘...political authority also has a sphere of its own, whose shape, size and scope varies between societies [it is about] the power of some people to control and regulate the activities of others on behalf of a central authority (Jordan, 1985:1)’.

He argued that the state seeks its own legitimation in terms of the common interests of the community and should be able to define a common culture and a common goal. The state, therefore, is a normative, regulative as well as self-preserving system, setting standards of what society ought to be like, and procedures on how to achieve it. To some extent, Jordan's view could be used to explain the situation in Malaysia, where the state promotes its own system of rules and legislation, culture and beliefs and tries to preserve these from outside influences. This is especially true after the 1969 racial riot, just twelve years after Malaysia achieved its Independence from the British.<sup>8</sup> Means (1991: 4-16) highlighted the significance of this on the future of Malaysia quite clearly. The government, after losing a two-thirds majority in the 1969 general election, sought new legitimacy through expanding the Alliance Party to *Barisan Nasional* (National Front), to include of more parties into its coalition.

However, the political authority was still the most powerful central authority of the state as it controlled the rules and regulations of the system through various avenues.

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<sup>8</sup> Comber (1985) gives a comprehensive picture of the 13<sup>th</sup> May 1969 racial riot.

Jordan's view though may simply reflect that the ideal model of a state still has its basis. Even though the ruling government is not free from other influences that have challenged its strength, it is still able to seek legitimacy through the democratic system every five years. As is discussed further in this study the government used all available avenues to ensure the continuation of its political authority.

Jordan's view on a state that is able to define a common culture or a common goal also needs a re-analysis. The state itself is not static, as over time it changes its actions and specific goals. There are internal and external forces that continuously influence the state in its quest for authority over its community. As Wu (1995: xxii) hinted about the plural society in Malaysia, there are many barriers to 'racial integration'. Therefore, Malaysian culture is a diverse one, with each ethnic group maintaining its own. The majority of Malaysian people come from at least three different ethnic background with different cultures, religions, and languages. This comprise the Malays, who are now categorised politically as the *Bumiputeras*, the Chinese and Indians.<sup>9</sup> Milne and Mauzy (1978 and 1999) and Means (1991) best explained the development of Malaysian politics and its relations to the ethnic issues from its early period until the 1990s. The current ruling coalition party, *Barisan Nasional*, is not a single party as argued by Jordan, as it comprises many others. The dominant three (UMNO, MCA and MIC) each presents one ethnic group in Malaysia. However, it is true that *Barisan Nasional* has been the dominant force in Malaysia since independence, serving what it thought to be the mutual needs of the plural society. Organised activities that conflicted with the interest of the state are not encouraged but

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<sup>9</sup> Abraham (1997) explains the complexities brought by the British colonialism towards race relations in Malaysia.

are, to a certain extent, prohibited, particularly when the government perceives those activities as upsetting the *status quo* and bring in destruction to the stability of the plural society. However, though discouraged, they are certainly not absent. Jordan also says:

‘...the political authority of a single party can alone provide reliable knowledge of the common good, and therefore of the real needs of individuals and groups who would otherwise be blinded to these by the pursuit of their selfish interests. Hence, the central authority prohibits any definition of social needs which might conflict or compete with its own, and allows no organised activity through which such alternative definitions could be formed and expressed (Jordan, 1985:2)’.<sup>10</sup>

This argument has some basis if applied to Malaysia. As discussed in this study, either as a single affiliating party in the *Barisan Nasional*, or as a concerted effort under the identity of the *Barisan Nasional*, the government promotes policies and administers the country, moulding it into their own desired nation.

Miliband (1969:49) defines the state as a number of particular institutions, which only then constitute reality and which then interact as parts of the state system. On its own, ‘the state’ does not exist. One of the institutions in a state is the government, over which, according to Miliband there has always been confusion. There is the difference between the government and the state, though both often appear synonymous. The government usually speaks as the representative of the state. It is the state that can claim the monopoly of the legitimate use of physical force within a given territory. But ‘the state’ in this context could not claim anything, while the government of the day can. People may give their allegiance to the state, but it is to the government of

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<sup>10</sup> Jordan (1985:1-15) also explains the system of modern nation states and the characteristic of the modern system of inter-state relationships. His analysis on the relationship between political power and economic power is discussed in the later part of this chapter.

the day that people are actually obedient. It seems that the government alone can speak as the representative of the state, but it does not necessarily control the state power, particularly if it is a weak government (Miliband, 1969: 49).

In Malaysia, the state is in fact synonymous with the government and vice versa, at least according to Malaysian people and Malaysian politics. However, there are few incidences that demonstrate any weakness in the Malaysian government in the way that Miliband argues. There were a few times during or after elections when the Malaysian government was challenged, but never to a degree where it was to be changed. Means (1991) described the period from 1969 until 1974 when the weak government worked to seek new legitimacy from the Malaysian people by bringing in more political parties into the Alliance Party after the racial riot in 1969, and changed its name to *Barisan Nasional* in June 1974.<sup>11</sup> In fact, only recently has the government shown signs of being threatened, especially when both economic and political problems appeared at the same time, as in the late 1990s (see Chapters Nine and Ten). However, it is true that the state in the Malaysian case represents established particular institutions that constitute a reality and interact as parts of the state system.

The second element of the state system, as argued by Miliband, is the administrative body. This encompasses a large variety of ministerial departments, which sometimes enjoy a greater or lesser degree of autonomy, and are concerned with the management of the economic, social, cultural and other activities in which the state is involved.

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<sup>11</sup> See Means (1991: 30). The *Barisan Nasional* opted for *dacing*, a traditional beam scale, as its election symbol, replacing the Alliance former one, the sailboat. The *dacing* was definitely a political gimmick to win over Malaysians, showing the government's enthusiasm towards equal opportunities for all.

According to Miliband (1969: 49), the relationship between the government and the administrative body has a certain impact in determining the role of the state. Though formally the administrative body has to obey the government of the day, it actually contributes a significant role in the political process as well. Whether a regime is weak or powerful, top administrators are capable of playing a key role in the government, especially in critical areas of policies, which government usually find hard to ignore (Miliband, 1969). Miliband's interpretation of part of the state system might not necessarily explain the Malaysian case, especially in the later years. As discussed later, the top administrators in Malaysia's bureaucratic system are actually the backbone of the government. They have unfailingly supported the government's agendas since Independence, partly due to the training of Malaysians towards their role as administrators, which was inherited from the British system, and because the job demands their total loyalty. This loyalty is expected through the General Order, a document of regulations for government servants. However, this study contends that lurking in the background is again the racial issue. As the Malays are more politically dominant (UMNO being the dominant party in the *Barisan Nasional* government, its President, though not prescribed by the Constitution always becomes the Malaysian Prime Minister), and as the majority of the public service employees are Malays, their loyalty was expected.

Miliband (1969) claims the same applies for the relationship between the government and the third elements: the military, security and police forces. In most democratic countries, the fourth element is the judicial system, which is supposed to be independent of the political executive and is there to protect the citizen against the latter and its agents. The fact is, however, the judiciary is an integral part of the state

system. The fifth element is the sub-central government, which is an extension of the central government and administration. This is clearly seen in federal governments as in the United States and, in this research context, Malaysia itself. Miliband's views partly reflect Malaysia, a country that has a strong executive, though there exists by theory the practice of the 'separation of power' between the three entities. Debates that highlight the imbalance of power in Malaysia have been numerous, some highlighting the helplessness of the judiciary, especially during the present Prime Minister's reign.<sup>12</sup>

Salamon (1987: 219) stresses that the state could be defined as 'the politically based and controlled institutions of government and regulation within an organised society'. In Britain, this includes the monarchy, Parliament, the government, the civil service, the judiciary, the police and the armed services. It should be emphasised that the elected government of the day is the most active and important element within the state because it determines the direction, policies and actions of the state machinery (Salamon, 1987: 219). In Malaysia, it is a federal state, that emulates the 'Westminster model' (Hickling, 1997: 19). Three primary components of Malaysia's government systems are the Legislative, the Executive and the Judiciary (*Malaysia Kita*, 1991: 543). The Legislative contains three elements; the *Yang diPertuan Agong* (the elected head among the Malay Rulers); *Dewan Negara* (the Senate) and *Dewan Rakyat* (the House of Representatives). The Executive is the governing body that includes the *Yang di Pertuan Agong*, Cabinet Ministers, Ministries, departments and government

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<sup>12</sup> See for example Rais (1995), Hickling (1997) and Lee (1995). Rais and Lee highlight the constitutional conflicts faced by Malaysia during Mahathir Mohamad's administration, altering the equilibrium in the balance of powers, eroding the influence of Rulers and the judiciary, and strengthening the executive arm of government.



bodies (including the armed forces and police). The Judiciary consists of the Federal Court, Court of Appeal, The High Courts of Malaya, Sabah and Sarawak, Sessions Courts, Magistrates Courts (1st, and 2<sup>nd</sup> class), Juvenile Courts and *Penghulu's* Courts (Malaysia 1997 Yearbook, 1997: 433). Crouch (1982: 146) argues that the state's importance derives from the fact that it is the only actor that can change the rules of the system by virtue of its law-making role. Lewis (1983: 361), however, argues that the pluralistic nature of the state and the potential transient existence of any government will allow organs of the state to pursue individual strategies. In the context of Malaysia, Lewis's view is debatable. Scholars like Crouch (1996) and Khoo (1995) have argued that since 1981, Malaysia has become more and more authoritarian.

Thus, the term 'state' is purposely used in the topic of the research, and not 'government'. 'State' cannot be identified totally with 'government', as structured changes and the removal of governments may happen but they might not change the social order that constitutes the state. If the government were totally identified with the state, then the removal of governments would entail a crisis in the state. When a government is in power, it carries the authority of the state, and this authority is continuous, above both ruler and ruled, 'which provides continuity and coherence' to the political organisation (Vincent, 1987:31).

To a certain extent, the terms above apply to Malaysia. However, the differences might depend on how much political power exists in Malaysia that enables the state to control or regulate the activities of members of its society. Internal or external factors and roles played out by other actors might influence the nature of the state, and

Malaysia's history and experience. The separation of power between the Executive, Legislative and Judiciary in Malaysia is implemented according to Malaysia's own interpretations. For example, one may doubt from the beginning that Malaysia is a pluralistic state that allows different elements/organs of state to pursue specific strategies for particular spheres in the society.

### **2.3.Theories of the State**

The next discussion below examines theories of the state, as debated by a number of scholars.<sup>13</sup> Contemporary views are numerous, but the prominent ones are discussed below. Sometimes these theories overlap with the types of state, as mentioned earlier.

Vincent (1987: 218), in discussing the theories of the state, argues that it is 'a public power above both ruler and ruled which provides order and continuity to the polity'. He suggests several theories of the state that each has a certain interesting characteristic relating to the current study. In 'absolutist theory', the public power is the absolute sovereign person (whether fictional or real) embodying divine right and owning the realm. The sovereign's interests are the state's interests, while 'constitutional theory' means the public power is the complex institutional structure. Through historical, legal, moral and philosophical claims, it embodies self-limitation and the diversification of authority and power and a complex hierarchy of rules and norms, which act to institutionalise power and regulate the relations between citizens, laws and political institutions. 'Ethical theory' means the public power is the *modus operandi* of the citizens, groups and institutions of a constitutional monarchy, directed

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<sup>13</sup> For example, see Avineri (1972), Jessop (1982), Miliband (1969), Vincent (1987) and King (1986).

to the maximal ethical self-development and freedom of the citizen body. It is the unity of the cognitive disposition of the individual with the purposes of institutional structures and rules. Meanwhile, 'class theory' refers to the public power as the institutional form of the condensation of dominant class interests, which is ultimately directed at the accumulation of capital and the defence of private property. While 'pluralist theory' is when public power is, in general terms, the synthesis of living semi-independent groups (understood as real legal persons). Groups are integrated not absorbed. Narrowly focused public power implies a government that acts for the common good of groups (Vincent, 1987: 222-223).

Other scholars have identified different types of state.<sup>14</sup> In this respect, the type of state is partly determined by their chosen practices in both the economy and the politics. The discussion below is the extension of the debate above, and again explores all the existing major types of states. The purpose is to highlight the main characteristics of these types of states and relate them to the research topic. One of the major types of states is the capitalist state. In this regard, Miliband (1969) contributes to an understanding of the role of the state in the capitalist society. Advanced capitalist states have certain similarities, especially in economic terms; the societies have:

'...a large, complex, highly integrated and technologically advanced economic base, with industrial production accounting for the largest part by far of their gross national product, and with agriculture constituting a relatively small area of economic activity, and they are also societies in which the main part of economic activity is conducted on the basis of the private ownership and control of the means to such activity' (Miliband, 1969: 8).

There is then 'the public sector', where the state owns and administers a wide range of industries and services, mainly to the infrastructure, and which are of vast importance to its economic life. The state in capitalist economies plays an ever-greater economic role in regulating, controlling, co-ordinating, 'planning', and so on. It is also the largest customer of the 'private sector'. Moreover, certain major industries would not survive without its help. It is to be stressed that both state intervention and the role of the public sector are nothing new in capitalist societies, until it was claimed that 'capitalism' is a misnomer (Miliband, 1969: 9; King, 1986: 75-76).

Work by Gramsci (1971) offers a more satisfactory approach in understanding the role of the state in a capitalist society. To Gramsci:

'the complex relations among a plurality of social forces, rather than the pure mode of production, determined the state power. Economic effects were regarded as always mediated by political and ideological factors which were relatively independent of productive forces. Economic crises may politically debilitate states but do not by themselves create revolutions.....the state secures the consent of the dominated in parliamentary democracies' (King, 1986: 74).

Gramsci identified two basic strategies, force and hegemony. The latter refers to the successful mobilisation and reproduction of 'the active consent' of dominated groups by the ruling class through their exercise of intellectual, moral and political leadership. It later involves the bourgeoisie claiming popular sentiments for its 'national' goals. Hegemony operates through the ideological practices of institutions and groups in civil society, such as schools, media, the churches, or political parties. However, Gramsci's analysis is criticised for his tendency to assume that the state

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<sup>14</sup> For example, see chapter two of King (1986), pg. 31- 58, who gave details about the development of the modern nation-state, starting from the Standestaat, and the Absolutist State, to the development of capitalism and parliamentarism.

includes all agencies involved in hegemonic mediation, and thereby blurring the necessary distinction between state institutions and civil society (King, 1986: 75).

Another analysis, by Poulantzas (1978), views the state as the basic source of ruling class cohesion, and like Gramsci, regards hegemony as a strategy for unifying the ruling class as a means of mobilising popular support for it. The state should be regarded as a neutral system serving the national community. To Poulantzas, though the liberal state may be the best structure for consolidating the political power of capital in its competitive phase, a more interventionist state is required for the more organised state of monopoly capitalism. Poulantzas further argued that 'authoritarian statism' best characterises a recent form of normal capitalist state, with a drift from legislative to executive power, a growing indistinctiveness in the separation of legislative, administrative and judicial agencies, and an increase in functional corporatism at the expense of parliamentarism.

Other theories of state as the 'corporatist state' are discussed here. Cawson argues that still there is confusion over corporatism as a concept (Cawson, 1986: 22). Three meanings of corporatism can be discussed here, first as a novel system of political economy, different from capitalism and socialism, an idea by Winkler (1976); second, as a form of state within capitalist society, where corporatism is seen as emerging alongside, and then dominating, a parliamentary state form, (Jessop, 1979); and third, a distinctive way in which interests are organised and interact with the state (Schmitter, 1974).

The most significant change from capitalism, according to Winkler (1976), is the shift in the role of the state, which became more directive over economic-productive units. According to Lembruch (1982), under capitalism, production takes place within a market system, although one with increasing state interventionism. Under corporatism, the freedom of private capital to operate is replaced by a state direction, not unlike Lenin's concept of state capitalism. The state develops a considerable degree of independence from economic interests, and is able to impose its will upon producers. To Winkler, 'the state is no longer capitalist because rights over private capital have been ended by the state, and the market mechanism has been superseded by oligopolistic power' (Cawson, 1986: 23). According to Jessop, corporatism is:

'a form of state in which representation and intervention are institutionally fused in the form of 'corporations' constituted on the basis of their member's economic functions. Thus corporations both represent the interests of their members and act as a means of implementing government policies' (cited in Cawson, 1986: 24).

While to Schmitter, corporatism is:

'...a system of interest representation in which the constituent units are organised into a limited number of singular, compulsory, non-competitive, hierarchically ordered and functionally differentiated categories, recognised or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports' (Schmitter, 1974:93-94).

Corporatism is thus to Schmitter a way of understanding the relationship between society and state in capitalist democracies, rather than a way of portraying a whole system which is in some sense 'post-capitalist' as proposed by Winkler. With regard to Vincent's views on the pluralist state as described earlier, Schmitter conceives it as:

'A system of interest representation in which the constituent units are organised into an unspecified number of multiple, voluntary, competitive, non-hierarchically ordered and self-determined (as to type or scope of interest)

categories which are not specially licensed, recognised, subsidised, created or otherwise controlled in leadership selection or interest articulation by the state and which do not exercise a monopoly of representational activity within their respective categories' (Schmitter, 1974: 96).

The discussion above reveals that it is not simple matter to determine what type of state each country practices. In fact, it is difficult at this stage to categorise Malaysia under a state 'label'. It is however, arguable for Malaysia to be categorised as capitalist, as proposed by Miliband, or pluralist, as argued by Vincent and Schmitter. As will be discussed Malaysia is still a developing country that lacked 'the highly integrated and technologically advanced economy' as argued by Miliband or, the 'non-hierarchically ordered and self determined' system that was free of the control of the state. Instead at this stage, Malaysia resembles more of a corporatist state, that saw corporations that were constituted to represent both the interests of members of society and at the same time act as a means of implementing government policies, as proposed by Jessop. There are however, many factors affecting the practices of social, political and economic aspects of a country. It is possible that one country is in fact a combination of a few theories/types of states, based on their social, cultural, political and economic history/realities. These are among the issues that this study intends to investigate.

#### **2.4. The Role of the State in the Economy: An Introduction**

The discussion below examines the role of the state in the economy in general. According to Jordan (1985: 2), the relationship between the state and the economy in a modern society is 'quite obvious' since money is used as the measure of equivalence between the exchange of good and services. To quote his understanding on the relationship:

‘The state is seen as the only system of relationship powerful and pervasive enough to control the dominance of commercial interests; the commercial system is seen as the only one powerful and pervasive enough to limit the dominance of the state’ (Jordan, 1985: 3).

While the first half of the sentence is considered true of Malaysia, the second half is still debatable. There is the influence of the commercial system towards the Malaysian state, but whether it is powerful enough to limit the dominance of the state is another question that will be addressed in this study.

Two classical views may facilitate the understanding of this relationship between the state and the economy. The views of Adam Smith and Karl Marx dominated theories of economic thought from the mid-late nineteenth century to the early twentieth century. Smith warned of the political and economic dangers, of government interference. He says it is the system of natural liberty that permits change and development, while government intervention would handicap the positive forces of growth. Individuals should be left free to pursue their self-interest, and competition, and market forces would act as an ‘invisible hand’ to bring self-interest into harmony with public interest (Meier, 1994: 21). Smith sought the establishment of appropriate institutions that would increase both the motivation and the capacity of the human agent. He opposed apprenticeship laws that diminished the incentive to industry and hard work. He advocated certain systems of land tenure, argued that the ideal unit of agricultural organisation is the small proprietorship, and opposed the joint-stock company. Individuals should be freed from governmental policy that had the distortionary effects of limiting capital formation, using capital unproductively, conferring monopoly privileges, and sapping the vitality of competitive forces. To Smith, public spending should be kept to a minimum, and production in the public



sector should be limited to the small share that can not be supplied by private enterprise. Smith narrowed down the role of the state to defence, administration of justice, and the maintenance of certain public institutions and certain public works (Meier, 1994: 22).

The central issue of political economy during this period relates to the role of uncontrolled 'market' forces versus 'political' or government intervention (Alt and Chrystal, 1983). The questions to ask are to what extent should individuals be allowed to pursue their own self-interest, and to what extent should the political authorities of the state direct areas of economic behaviour? According to Smith, the proper role of governments is when there exists an economy that is made up of individuals who can each pursue his or her own self-interest. In this *laissez faire* economy, economic transactions will be *voluntary* for both the buyer and seller of any good or service. Voluntarism means no exchange should take place which does not benefit both parties. Since transactions are presumed to affect only those directly participating, a trade which is good for the parties involved and harms no one else can only be socially beneficial. The more such trades there can be, the better off more people must become. Central direction is unnecessary since the distribution of available resources is achieved by a vast number of decentralised exchanges between mutually benefiting individuals.

Smith insists the free market economy led to an 'optimal' or 'efficient' allocation of resources. The status of this result and the interpretation of 'optimal' in this context are, of course, at the heart of the controversy. There was no direct role for the government in private economic relations, but that did not mean that there was no

need for central government. Again, he stressed that the government has three functions, defence, law and order, and public works and public institutions. But Smith's restrictive definition of the job of governments still leaves considerable scope for justifiable expansion. The recent arguments are 'what is the appropriate level of public works' and 'what is the proper role of public institutions?' (Alt and Chrystal, 1983: 14-16). Karl Marx insisted on the importance of the 'dominant mode of production' in determining broader social, political, and economic relations (Alt and Chrystal, 1983: 16). He stressed the role of modern government in increasing effective demand for production to ensure private accumulation of profits or to ensure profitability of the capitalist sector. The important point is that not everyone benefits in the free market system. Even if trade is voluntary for both parties, economic outcomes are not 'fair' because people do not start with equal endowments. He divided society into two classes, 'capitalists' and 'labour'. For Marx, the nature of the capitalist system was that the employers would inevitably exploit labour. A dominant idea was that labour should, by force if necessary, take over the means of production and run them in the interests of labour. Capital would thus become the property of society at large and all could share in the profits.

There were also other debates, for example by Von Mises, Lange and Hayek, on what kind of economic system is 'the best'. For Von Mises (1920), a socialist system was impossible, for 'where there is no free market, there is no economic calculation.' In contrast, Lange (in Lange and Taylor: 1938) argued that the socialist solution was feasible, practical, and desirable. His hypothetical world contains four groups of actors: households, firms, socialist industrial managers, and central planners. Each has its own different responsibilities that complement the others. Critics attacked Lange's

scheme on several issues. For example, the planners might not act efficiently and the measurement of efficiency is unclear. Schumpeter (1966) argued that socially responsible planners would lack the ability to profit exploitatively from new inventions, stifling innovation. Hayek (1940) contended that Lange's scheme would be slower than a market economy to adjust to the ever-changing equilibrium of a constantly changing world. Moreover, Lange was aware that his socialism requires a large bureaucracy, and that there will be a problem of excessive power of the central planner. In Hayek's *The Road to Serfdom* (1944), he argues that a socialist system restricts the freedoms of individuals (Alt and Chrystal, 1983: 21).

From the arguments above, it is clear that proponents of intervention stress the ability of government to produce net social benefits in terms of an equitable distribution of incomes and elimination of inefficiencies in production. Opponents argue that the bureaucratic cost of intervention would outweigh any benefits provided. Even in the context of the so called 'mixed economy', that is where there is government intervention, there continues to be serious disagreements about the appropriate extent of national ownership of industry, government regulation of monopoly, protection from foreign competition, and public expenditure on social services and welfare. A.C. Pigou with his 'welfare economics' called for intervention to offset the effects of specific cases of 'market failure' (Alt and Chrystal, 1983: 23-24).

Intervention to redistribute incomes does not cure market failures but achieve something that markets can not (Alt and Chrystal, 1983). All governments in Western industrial economies have intervened to a certain extent, and since the end of the World War Two (WWII), intervention has led to a steady and substantial increase in

state activity. But there are those who think that government intervention has gone too far. Milton Friedman in *Capitalism and Freedom* (1962) said that the choice is between an imperfect but flexible market and an imperfect and rigid government agency. In his other book *Freedom to Choose* (Friedman and Friedman, 1980) he emphasised the value of freedom under the market by investigating cases of government inefficiency and points to the damaging cumulative effect of apparently well-meant interventions.

According to Thomas (1992: 5-9), the part played by government in the economic system has been a major source of both political and economic controversy. At one extreme is what he called a 'command economy' where the allocation of resources is determined primarily or almost exclusively by the state. This was true in the communist countries of former USSR in Eastern Europe before 1989 and currently in Cuba, China, North Korea and Vietnam; at the other end of the spectrum is what has been described as a 'market' system. A 'free market' economy is one in which 'market forces' or the 'laws' of supply and demand determine who gets what and under what conditions. In this capitalist system, private individuals own means of production, intent on achieving profits and the allocation of resources via the price system.

This controversy has led to a school of both economic and political thought that is 'laissez-faire', proponents of which believe that interference in the running of the economy by government is harmful except where it is necessary to ensure the efficient operation of the system. It is accepted that the state has a vital role in ensuring law and order, thus providing those social conditions of a peaceful life without which any kind

of economic transaction becomes virtually impossible, and a framework of contract and commercial law which is a necessary foundation of the market economy. In many respects, the maintenance of law and order is the most fundamental function performed by government in the economic sphere. 'Laissez faire' economists also accepted some additional roles for government, such as maintaining the value of money. Apart from these basic provisions, the role of government is negative.

To summarise, the discussion above demonstrates that the state plays a major role, either directly or indirectly, in almost all societies, as it is the most powerful player, even though commercial interests can limit it. It is always about the balance between the market forces and government intervention, which will lead us to understand the Malaysian case, when the significance of the role of the government in the economy is analysed later.

## **2.5. The Role of the State in the Economy: Some Development Theories**

The next discussion analyses some theories that relate to the role of the state in the economy in the developing world. The discussion aims to highlight characteristics of the development process in a developing nation, such as Malaysia.

Hettne (1995: 21) called such theories and models 'Eurocentric development thinking', since they originated from the West and were structured by its experience. While he admitted it is not advisable 'to read into the history of Europe into the future of the Third World', understanding these theories enables us to comprehend the reality of the region. The fact is the Third World has tried, and in fact is still trying to learn from the experience of the developed world. It is also useful to remember that

until now, 'development' as a mainstream model still means as what was said by Hettne (1995: 22):

'Development' has normally meant a strengthening of the material base of the state, mainly through industrialisation, adhering to a pattern that has been remarkably similar from one country to another'.

The keyword here is 'industrialisation' as the tool to achieve 'development', one that has been consistently used by Malaysia, especially under its fourth and current PM.

### **2.5.1 Modernisation Theory**

Hoogvelt (1997: 35) argued that modernisation theories are problem-solving and policy-oriented theories of social change and economic development. This became the policy of the US in 1949 when President Truman called for the Point Four Programme of Development Aid, which was intended to aid the efforts of the people in economically undeveloped areas to develop their resources and improve their living conditions. Modernisation theories accepted the structure of the relationship between the rich and the poor countries that had evolved during the preceding epochs of capitalist expansion.

Such theories were criticised by the dependency theorists as masking the continuing imperialist nature of those relationships. To the US it was in their interest to keep the Third World from communist influence by means of economic and technological aid. However, it was realised that the transplantation of capital and technology alone would not succeed unless accompanied by wider and consistent social, cultural and political changes. Early theories of the modernisation school were often advanced by economists who had been hired by the US as practical advisers; people on aid

missions. They observed how cultural diffusion and the introduction of technology from the outside were frustrated by the negative role that traditional culture played in 'blocking' development, and thus called for 'comprehensive social and economic change' (Hoogvelt, 1997: 35). F. Hoselitz in 1957 (cited in Hoogvelt, 1997) became an early developer of a comprehensive all-encompassing theory of all the processes and structural changes required to transform non-industrial into industrial societies (Hoogvelt, 1997: 35-36).

These modernisation theories were in turn embedded in abstracted, formal theories of societal evolution. Though these models had themselves been scripted from the historical experience of the West, they soon became normative and prescriptive to the rest of the world. As examples, modernisation studies have examined the processes of secularisation consequent upon the introduction of cash crops into traditional peasant communities, or the effect of industrialisation on the nuclearisation of family systems, or the need for multi-party democracy to support the division of labour. When these traditional institutions or values did not fit, they were considered 'dysfunctional' to the process of development and regarded as 'problems' which comprehensive socio-economic planning could be designed to correct (Hoogvelt, 1997: 36). By highlighting the complementary aspects between compatible institutions and values, modernisation theorists came to advocate the convergence of less-developed societies to the Western world (Hoogvelt, 1997: 37).

### **2.5.2. Dependency and Underdevelopment Theory**

Dependency theory, on the other hand, argues Hoogvelt (1997: 38), concentrated on locating the cause of backwardness of Third World countries (initially Latin America)

within the dynamic and contradictory growth of the world capitalist system. The original version of the dependency and underdevelopment theory was outlined first by Paul Baran, and next more popularly by Andre Gunder Frank, then by T. dos Santos and others and akin to Trotsky's line of thought.<sup>15</sup> Underdevelopment as distinct from *undevelopment* is not due to some state of affairs, as modernisation theory had argued, but rather the result of the same world historical process in which the now developed capitalist countries achieved their status.

Thus, from the very beginning, the dependency theory has been a world system approach, explicitly rejecting the concept of the unified state as actor and the notion of the global system as a collection of nation-states (Hoogvelt, 1997: 38). The essence of this theory argues that as a result of penetration by colonial capital, a distorted structure of economy and society has been created in the colonial countries. This reproduces overall economic stagnation and extreme pauperisation of the masses for all time. A distorted structure of economy implies the *subordination* of the economy to the structure of advanced capitalist countries; and *external orientation*, which meant an extreme dependency on overseas markets, both for capital and technology sourcing and for production outlets. At the time of Frank's writings, import-substitutive industrialisation had begun on a large scale in Latin-America, but it lasted for a short while in the late 1950s and early 1960s. It is criticised as a form of industrialisation that was 'externally dependent' and constricted to produce luxury goods. This theory is said to cause the continued underdevelopment in the legacy of a

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<sup>15</sup> Leon Trotsky had already in the 1920s formulated the unicity of the world system in his Law of Combined and Uneven Development. He argued that with the development of capitalism as a world system due to the internationalisation of capital, world history becomes a contradictory but concrete totality (Hoogvelt, 1997: 37).



distorted structure of economy and society; and it is this distorted structure that is referred to as peripheral economy or society.

The peripheral nature of the economy and the society was said to create its own underdeveloping dynamics because it denied 'autocentric' development as has been achieved in the 'core' economies. The dependency theorists further argued the interaction between the centre countries of the capitalist system and the peripheral countries involved a transfer of value. It involved an expropriation of economic surplus by the centre countries from the poor countries, resulting in capital accumulation in the advanced countries, and in stagnation and impoverishment in the poor countries (Hoogvelt, 1997: 40). Frank argues that development and underdevelopment a two-way affair- just as development in one part of the world went hand in hand with underdevelopment in another, so underdevelopment in the periphery contributed to further development in the advanced, core, countries (Frank, 1984: 297-322).

The key mechanism for this dual outcome was unequal terms of exchange that relate to the deterioration of the prices for primary products in relation to those of manufactures. Labour emancipation in the advanced countries pushes up the price of their commodities in relation to those of the poor countries where no such emancipation had taken place. Since, in terms of historical social development, the periphery lags behind the advanced countries by at least 100 years, and there is no way one can bridge that gap (Hoogvelt, 1997: 41).

### 2.5.3. World System Theory

Wallerstein (Hopkins and Wallerstein, 1980: 167) argued that a capitalist world economy has existed since the sixteenth century, that is, since the beginning of European overseas expansion. According to Hoogvelt, the world system is:

‘... a single division of labour, comprising multiple cultural systems, multiple political entities and even different modes of surplus appropriation’ (that is feudal, slave mode and wage labour)’ (Hoogvelt, 1997: 59).

The essential feature of the capitalist world economy is production for sale in a market in which the object is to realise the maximum profit. Due to different wage levels in different regions and nations, exchange has become unequal. Political interference of the stronger states over the weaker ones has reinforced the situation.

Wallerstein (Hopkins and Wallerstein, 1980: 167) stratified the world economy into three layers: core, periphery and semi-periphery. Semi-peripheral nations or states have emerged as ‘go-between nations’ which perform the same function as the middle classes within national stratification system. They form a necessary buffer in a system that is based on unequal rewards and that would lead to rebellion. It is within this world system the go-between nations assume an economic role as well: they seek trade with both core and periphery, exchanging different kinds of products and achieving intermediate wage levels and profit margins. In the world system theory, the dynamic quality is it allows for the upward and downward mobility of nations. Not all states develop simultaneously; some rise at the expense of others. Successful strategies include ‘promotion by invitation’, self-reliance’ and ‘seizing the chance’. The successful strategy is said, however, to be ‘unsuccessful from the point of view of the achieving of national economic independence, and the participation of the masses: marginalisation of the masses is a necessary condition for a country’s upward

mobility' (Hoogvelt, 1997: 61). Wallerstein's theory on the semi-periphery nations may explain the experience that has been faced by East Asian countries in the last decade. The upward movement may be enhanced by the dynamic quality of the world system, that is Wallerstein's 'seizing the chance' strategy, but it may also reflect the dominant role of the state in the economy in these particular nations.

The discussion above shows us that modernisation theory is an explanation for the less-developed world. Both cultural diffusion and the use of technology are the instruments of change for the late developers. The so-called backwardness of the Third World was explained by the dependency theory. While the core economies have been blamed for taking the economic surplus from the periphery economy for their own benefit and thus stagnating and impoverishing the poor countries.

## **2.6. The Role of the State in the Economy: 'the Third World' Experience**

The discussion below attempts to analyse the situation in the Third World regarding the role of the state in the economy. The sub-discussions are made on the relationship between the state and economic development and on the so-called 'East Asia economic miracle'. The purpose of this discussion is to focus on the realities that have occurred in this area of the world and to assess the extent of the role of the state. Where appropriate, a reference is made to the theories that have been previously discussed.

The term 'Third World' in this analysis refers to Asia, Latin America and Africa, or 'the developing world' though the use of these terms is widely debated (Frank, 1981: 234-240, Hoogvelt, 1982: 26). Frank notes that there was substantial political-

economic repression in the so called 'the Third World'. In describing the 1970s situation, he wrote:

'...in one country after another during the 1970s martial law, states of emergency, and military governments have suppressed labour movements and union organisations and repressed large sectors of the population through systematic violations of their political, civil, and human rights...' (Frank, 1981: 188).

### **2.6.1. The State and Economic Development**

Here, the relationship between the state's roles, both in the public and private sector, and economic development, is discussed. It aims to highlight the nature and significance of its roles by several scholars and relate to experiences in several regions/countries.

Tanzi (1987) focused his work on the 'positive' roles of the state instead of the negative ones normally described by other researchers. More attention must be directed toward the positive role of the public sector, recognising that it is run by individuals who have biases and who make their own mistakes. Whether the performance of these economies is assessed by the rate of growth, by the rate of inflation, by the growth of their exports, or by the fact that by and large most of these economies have managed to avoid the economic crises that have afflicted other regions, the basic conclusion must be that the performance of these countries, taken as a group, has been quite good. He highlighted the role of the public sector, indicating that it must have been an important and positive one; or, at least, that it must not have been an obstacle to economic development (Tanzi, 1987: 31-32). Tanzi suggested that it is important for governments to provide stable laws and institutions where the 'rules of the game' are clear to all citizens, lessening scope for corruption and arbitrary

application to benefit particular groups or individuals. As economies develop, there is progressively less need for intervention in, and regulation of, economic activities. Excessive intervention increases the costs of doing business and generates parallel or underground markets for, among other things, goods, credits and imports. Thus, a progressive and orderly dismantling of the many regulations that apply, for example, to investments' imports and credits should take place. The governments of the countries have been particularly active in regulating the allocation of credit. For example, net government lending reached almost 5 per cent of GDP in the Republic of Korea in 1981 while it reached almost 7 per cent of GDP in Malaysia in 1982, and was 2.1 per cent of GDP in Sri Lanka in 1984 (Tanzi, 1987).

Ali (1990) agreed that the public sector in many Asian developing countries was given a key role in the development process. In discussing national policies in these areas, Ali noted that the adoption of a development strategy would determine the volume and allocation of investment among sectors. National and sectoral policies would be used to implement the strategies in terms of influencing the volume and allocation of investment. The countries need prudent macro-economic management that would ensure a sustainable current account position, a reduced rate of inflation and a manageable level of foreign debt. Overall, Ali also agreed that the Asian development experience has been characterised by strong state intervention caused by the belief of market failure. However, in the 1990s, he suggested that the role of the state should be designed with a view to integrating the lessons of the 1970s and 1980s in terms of the efficient use of resources, but with a renewed concern for social justice, poverty alleviation and protection of the environment (Ali, 1990: 23).

Rosen (1992) argues that government management and control of manufacturing enterprises, in which entrepreneurial, risk-taking behaviour is essential for rapid and flexible growth, is unlikely to be successful beyond the initiating phase (Rosen, 1992: 44). He refers to China and India and three of the 'Four Little Tigers' of Asia (Singapore, Korea and Taipei). Rosen commented that there are major areas of infrastructure activity in which technology is not rapidly changing, which call for very large investments, and which tend to be natural monopolies where government investment and control may be desirable. However, in those areas it is important that the government adheres to economic pricing policies, and private entry may be desirable to curb excesses of government monopoly. The government has major roles too in the provision of adequate social infrastructure in the areas where external benefits are high. These include education at high levels, especially in universities and research institutions, and health facilities. Industry-related policy, by establishing appropriate macro-economic institutions and policies, will set the framework for a smooth-working market and price system. Rosen quoted both Singapore and Sweden, where there are major roles for government in the economy with far less direct and hands-on government intervention.

Meanwhile Cukor (1974), arguing on the close relationship between government and economic development in developing countries, says such countries, particularly Africa and Asia, prioritise fast economic growth with special emphasise on *fast* development. Economic planning became a necessity and related to circumstances whereby:

'...in the economy of the developing countries the state plays a greater role than it did in the now developed capitalist countries at the start of their economic growth. From the political point of view it is a determinant

circumstance that economic growth is considered in the developing countries not only a condition of growing public welfare but as one of political-national independence as well. Therefore, it is the task of government to take the initiative and to control economic growth, which is also expected by public opinion' (Cukor, 1974: 111-112).

Apart from political impetus for a government's controlling role in the economy, there were economic reasons as well. Cukor gave reasons such as low domestic capital formation and weak business community that make government participation and initiative unavoidable. Foreign trade, which has gained particular importance in the economy of the developing countries, has given considerable income to the economies and as such needs proper handling by the government.

In comparing the planning of the two groups of economies between the developed and the developing countries, Cukor remarked that in the advanced capitalist countries, planning is the *result* of economic growth, in the developing countries it is the *precondition* of development (Cukor, 1974: 124). The spread of economic planning is related in both groups of countries to the economic role of the government. In the developing countries, the 'traditional' methods of industrial capitalism - when the influence of the economy is restricted to creating some general rules and to taking over such social tasks as, for example, education or road building - are not suited to modernisation and growth of the economy. Thus, the government necessarily plays an important role in the economy, and this role is bound to grow in the future owing to political, technological and economic factors.

In the developing countries, there is no such tradition whereby free-competition capitalism would have brought economic growth; in fact their lagging behind is strongly linked with the period when this concept was dominant in the developed

world. There is no capitalist class strong enough to counter government action; indeed there is no influential capitalist stratum whose interest would be to reduce the economic role of the state. Obviously, government interference hinders the activity of capitalists. Also, Cukor commented on the difficulty faced by new enterprises as compared to old and larger ones, or those with good (mainly political) connections (Cukor, 1974: 25-26). He identified the lack of savings, foreign exchange and properly trained experts as problems faced by developing countries. The starting of some new productive activity or the introduction of a new technology may cause radical structural changes in the economy. Demands for materials or energy may create bottlenecks, making central planning necessary. The role of foreign enterprises in developing countries, though important, poses certain problems. First, their profits or part of them are transferred abroad, which reduces savings, and it always represents economic power, which may easily support political and economic tendencies contrary to the interests of the country. This can be dangerous because the foreign capital is backed by its own state, which can put political and economic pressure (through foreign trade, aid, etc.) on the government of the developing country. In order to attract foreign capital, the conditions suitable for this type of investment must be created. Such conditions, however, are not necessarily favourable for the economic growth of the developing economies and it is well known that foreign capital dislikes stronger and more determinate government control and any measures that accompany it (Cukor, 1974: 140).

Dependency theory highlights the fact that the developing economies need foreign capital. The volume of savings (investment) in the developing countries is insufficient by comparison to their development requirements and needs. Foreign capital offers



expanding investment possibilities, it can expand imports that makes possible the importation of products, machinery and equipment which could not otherwise be purchased by the developing countries at all. Foreign enterprise also helps to procure the know-how necessary for technical progress. Finally, such enterprises are needed in many cases because they have the marketing organisation necessary for developing exports, and the necessary experience. This is why there is a clear tendency in most developing countries to stimulate foreign investment (Cukor, 1974: 140). To solve this contradiction, developing economies apply principles of *nationalisation*. However, in order not to lose all the advantages of foreign investment to other developing countries, and at the expense of its own people, only partial nationalisation is applied. Industrial enterprises, especially manufacturing ones, are integrated into the economies of the developing countries and produce for the domestic market. The government may control their activities with indirect measures such as import licences, customs duties, etc. Thus the strategy is diversification, partly in the sense that a single enterprise should not monopolise the domestic market, and partly that there should not be present capital from only one foreign country. In addition, 'joint ventures' come more and more to the fore, where foreign capital co-operates with private or domestic capital.

The role of the state in developing the economy and industry also lies in developing the infrastructure. Such development has traditionally been, and is increasingly a government task, even in the now-developed countries. The development of infrastructure is indispensable for the growth of the whole economy, and thus for industry. In developing countries, infrastructural investment is almost exclusively financed from public funds, while in the advanced countries, private capital played a

great role at the start of industrialisation (as in the case of the United Kingdom, USA and Germany). At that time, however, the role of the state in the now-developed nations was unimportant in productive investment, while in the developing countries, public funds have a major share in productive investment either directly or through official credits. Cukor highlighted the difficulty in measuring efficiency of, for example, infrastructural investment. However, it cannot be directly measured or compared with the efficiency of productive projects. The 'efficiency' or result of the infrastructural investment shows in its indirect effect on growth of national income, welfare, etc, according to the formula used for project evaluation. But there is always a certain usefulness in infrastructural investment, since education, road building, and so forth, are generally useful, though the best use is not necessarily made of the given funds. In addition, the developed capitalist countries, at least when granting official credits, and the international organisations which are strongly under their influence, like the World Bank, have shown a marked preference for infrastructural investment at the expense of productive industrial projects. A special problem is the indivisibility of a great part of infrastructural investment. Initially, the capacity of a road, a bridge or a railway line cannot be fully exploited, and this only happens in the course of economic development with the growth of this type of demand. Because of these difficulties we can often meet with an overemphasis on infrastructural investment, or its neglect.

There are several arguments that arise from the discussion above. It highlights that the state's role in the economy, more so in the developing countries is important, and its intervention is more prominent for reasons argued by Cukor (1974). Some scholars like Rosen argue that the involvement should only be at the initiating stage. If they

still interfere, they argued that they should do so in a far less direct and hands-on manner, as practised in Singapore and Sweden. National and development strategies will influence the volume and the allocation of investment among sectors. Other scholars, like Ali, suggest a mixture of instruments that need to be used by the state/government in making sure there is growth. The fast development theory, or the 'catching up' with the developed nations by the developing nations, makes economic planning a necessity in the developing world and the government is put to the task of making sure the economy of the country is sound. Among the setbacks are that monopolistic situations may arise and the concentration of economic power among small group of people may occur. Too much dependency on foreign capital or foreign investments could also cause other problems. Sometimes these countries, in order to solve current problems, resort to nationalisation, albeit often a limited one.

### **2.6.2. East Asia 'Economic Miracle'**

The next discussion directly concerns Malaysia as geographically it belongs to East Asia. The World Bank's Policy Research Report entitled *The East Asian Miracle: Economic Growth and Public Policy* (1993) analysed the eight high-performing economies (HPAEs) in East Asia that have contributed to the 'miraculous' growth of the region between 1965 and 1990. These are Hong Kong, Indonesia, Japan, The Republic of Korea, Malaysia, Singapore, Thailand and Taiwan. It is interesting to note that these countries are not homogeneous, but highly diverse in natural resources, population, culture and economic policy.

Their rapid growth, according to the report, had two complementary elements, the first being the correct establishment of the fundamentals. There were high levels of

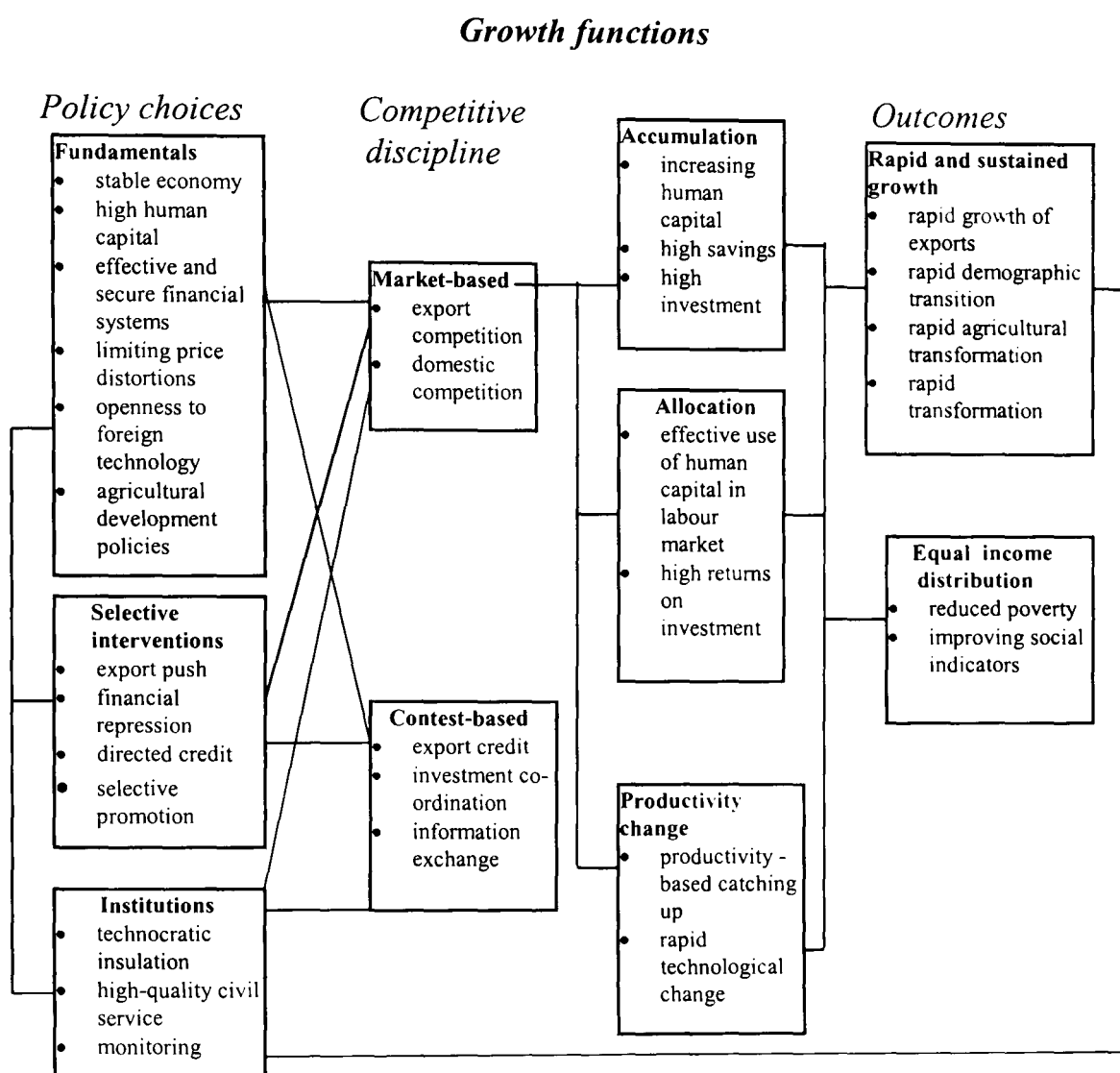
domestic savings, broadly-based human capital, good macro-economic management, and limited price distortions. Central policies to assist the financial sector capture non-financial savings and increase household and corporate savings. Acquisition of technology through openness to direct foreign investment and licensing was crucial to rapid productivity growth. Public investment complemented private investment and increased its orientation to exports. Education policies stressed universal primary schooling and improvements in quality at primary and secondary levels.

Second, and perhaps more significant in this context, is the very rapid growth of the type experienced by Japan, the Four Tigers (Hong Kong, the Republic of Korea, Singapore, and Taiwan), and more recently, the East Asian new industrialised economies (NIEs). These at times have benefited from careful policy intervention. However, all intervention carries costs, either in the direct fiscal costs of subsidies or forgone revenues, or the implicit taxation of households and firms, for example, through tariffs or interest rate controls. Unlike many governments that attempted such intervention, HPAE governments generally held costs within well-defined limits. Thus, price distortions were mild, interest rate controls used international rates as a benchmark, and explicit subsidies were kept within fiscally manageable boundaries. Given the overriding importance ascribed to macro-economic stability, interventions that became too costly or otherwise threatened stability were quickly modified or abandoned.

Figure 2.1 illustrates 'the functional approach' to understanding growth in the HPAEs. The figure shows the interaction among two sets of policy choices (fundamentals and

selective interventions); two methods of competitive discipline (market and contest based); the three central functions of economic management; and the outcomes of

**Figure 2.1: A Functional Approach to Growth**



Source: *World Bank*, 1993: 88

growth and equity. Institutions are also shown as critical to the successful definition and implementation of policies and to supporting high levels of competitive discipline. The solid lines show how policy choices contributed to outcomes via attainment of the three functions. Policies contributed simultaneously to two or three functions, for example, stable macro-economic management contributed to vigorous accumulation, through higher rates of investment, and to improved allocation by reducing instability in relative prices. The arrows indicate that the system has

numerous self-reinforcing feedback. For instance, rapid growth and relatively equal income distributions contributed to the HPAEs superior accumulation by increasing savings rates and generating larger and more effective investments in human capital.

Attempts to identify the policies that have created the 'East Asian economic miracle' fall into several broad categories. Within the neo-classical view, the market takes centre stage in economic life and governments play a minor role. Wolf (1988: 27) described it as a striking fact that the few relatively successful developing economies, such as Hong Kong, Malaysia, Singapore, the Republic of Korea and Taiwan, have greatly benefited from decisions and policies that limit the government's role in economic decision making. Instead he said these countries have allowed markets to exercise a decisive role in determining resource allocation. Similarly, Chen (1979: 183-84) argued that in Japan and the Four Tigers, state intervention was largely absent. To him, the state has provided a suitable environment for the entrepreneurs to perform their functions. The neo-classical interpretation of the experience of the HPAEs, and especially of Korea and Taiwan, presents a coherent and powerful view of one path to successful industrialisation. In this view, governments in all of the HPAEs have provided a relatively stable macro-economic environment characterised by limited inflation (except at times in Korea). Real effective exchange rates are rarely appreciated, and such episodes have quickly been corrected. Interludes of intensive import-substituting industrialisation in Korea, Taiwan, China, have been brief. Manufacturers have thus been able to concentrate on improving productivity performance rather than coping with rapidly changing relative prices of inputs and outputs (World Bank, 1993: 82).

In the past six years, this interpretation of the sources of rapid growth has been criticised for its lack of factual validity. This revisionist view systematically documented that governments in three economies, that is Japan, Korea and Taiwan, extensively and selectively promoted individual sectors. They have convincingly shown levels of protection and the variation of protection across sectors has been greater than recognised in the neo-classical view. According to this World Bank report, the governments in each of these economies at times forcefully intervened in markets. Korea, for example, strongly encouraged heavy and chemical industries by setting targets and offering a variety of financial incentives. Japan promoted the development of several weak industries in the first fifteen years after World War II (WWII), offering protective tariffs and financial incentives to encourage the introduction of advanced technology and to establish rationalisation cartels to facilitate the exit of inefficient firms. Taiwan used public investment in large-scale manufacturing enterprises to ensure input for predominantly small and medium-scale exporting industries.

Capital markets have not been free in these three economies. Intervention may have declined in the 1960s particularly, as has been stressed by the neo-classical viewpoint, but it continued. All three economies have repressed interest rates and directed credit in order to guide investments. The revisionists see market failures as pervasive and a justification to lead the market in critical ways. Thus, the experience of these three economies provides evidence that governments can foster growth by 'governing markets' and 'getting prices wrong' and by systematically distorting incentives in order to accelerate catching up. To Amsden (1989), for example, all economic expansion depends on state intervention to create price distortions that direct

economic activity towards better investment. The World Report (1993: 84) argues that state intervention is necessary, even in the most plausible cases of comparative advantage, because the chief asset of backwardness, low wages, is counterbalanced by heavy liabilities.

The World Development Report 1991 (World Bank, 1991), however, attempted to describe the policies needed for rapid growth, and falls in the middle ground between the neo-classical and revisionist views. It concludes that rapid growth is associated with effective but delimited government activism. In what is called the 'market friendly' strategy, it articulates that not only do governments 'need to do less in those areas where market works', namely the production sector, they also 'need to do more in those areas where market cannot be relied upon' (World Bank, 1991). The appropriate role of government in a market-friendly strategy is to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macro-economic management. Beyond these roles, governments are likely to do more harm than good (World Bank, 1991).

The report concluded that, in general, governments have been unsuccessful in improving economic performance through attempts to guide resource allocations other than by market mechanisms. Attempts to guide resource allocation in international trade, financial markets and labour markets have reduced competitive discipline, guided resources into low-productivity and internationally uncompetitive sectors, and resulted in widespread rent-seeking. In short, the report states that though market-failure is an important impediment to rapid growth, so is government failure, - and this can incur high costs. The report further argued that sustained growth results from



the positive interaction of four critical aspects of economic policy: macro-economic stability, human capital formation, openness to international trade, and an environment that encourages private investment and competition. Effective policy in one dimension (such as human capital formation) improves the results from effective policies in others (such as openness or macro-economic stability). In this view, the success of many economies in East Asia has been a result of reinforcing policy feedback. No single policy has ensured success; strong and effective policies in all four critical areas, and over a sustained period, have been the key reasons (World Bank, 1991).

The 'market-friendly' approach captures important aspects of East Asia's success. These economies are macro-economically stable, have high levels of human capital, are thoroughly integrated into the world economy, and are highly competitive among firms. Moreover, East Asian economic success sometimes occurred *in spite of* rather than *because of* market interventions. Korea's heavy and chemical industries' drive and Japan's computer chip push did not live up to expectations. Even so, other interventions combined with export targets apparently *were* consistent with rapid growth: quota-based protection of domestic industries in Japan and Korea; targeted industrial policies including directed-credit in Japan, Korea and Taiwan; heavy reliance on large state enterprises in Japan, Korea and Taiwan; and so on. Furthermore, the successes of these three north-eastern economies compares favourably with the successes of Hong Kong, Malaysia, and more recently, Indonesia and Thailand, where policy choices have been less interventionist. All three views show the diversity of policies adopted by the HPAEs. One of the hallmarks of economic policy-making in these countries was the pragmatic flexibility with which

governments tried policy instruments in pursuit of economic objectives (World Bank, 1994: 86).

The World Bank (1993) also evaluates six key policy fundamentals adopted by the HPAEs. Getting the fundamentals right means ensuring low inflation and competitive exchange rates, building human capital, creating effective and secure financial systems, limiting price distortions, absorbing foreign technology, and limiting the bias against agriculture. Institutions were created to promote growth in almost all the eight HPAEs. Moreover, there were formal deliberation councils established in Hong Kong, Japan, Korea, Malaysia, and Singapore to include government officials, journalists, labour representatives, and academics. The economic and political benefits of these councils, and of the more informal mechanisms in other HPAEs, are impossible to measure systematically, but it is likely that they have improved co-ordination among firms and enhanced the flow of information between business and government. Politically, they have helped establish a commitment to shared growth and reduced rent-seeking. Information-sharing made it more difficult for firms to curry special favours from the government and for government officials to grant special concessions (World Bank, 1993: 347-353).

Most of the HPAEs, especially those in Northeast Asia, have intervened in markets in an effort to hasten growth. Understandably, this incurs costs, but interventions in the HPAEs have been carried out within well-defined bounds limiting the implicit or explicit costs. Thus, the presence of price distortions has not been excessive; interest rate controls generally have had as a benchmark international interest rates, and were binding at positive real levels. Given the overriding importance that each of the

HPAEs has ascribed to macro-economic stability, interventions that threatened to undermine that policy fundamentally, have been modified or abandoned, - such as the heavy and chemical industries drive in Korea or the heavy industrialisation push in Malaysia. These limits to intervention stand in sharp contrast to many other developing economies, where interventions have not been consistent with macro-economic discipline. It is suggested that it has been the HPAEs' limited costs and duration of inappropriately chosen interventions that accelerated growth. Three sets of policy interventions have been evaluated:- the promotion of specific industries or industrial sub-sectors, directed credit, and the export-push strategy. The conclusion is that the promotion of specific industries generally has not worked, directed credit has worked in certain situations but carries high risks, and only the export-push strategy has been by far the most successful policy intervention and holds the most promise for other developing economies (World Bank, 1993: 354).

In comparison to the World Bank's report, Todaro's (1989) work argues that there are seven critical components that show the structural diversity of the developing nations. These are: the size of the country; its historical and colonial background; its physical and human resource endowments; the relative importance of its public and private sectors; the nature of its industrial structure; its degree of dependence on external economic and political forces; and the distribution of power and the institutional and political structure within the nation (Todaro, 1989: 18). In addition, there are six common economic features that group these nations together. These are low levels of living, low levels of productivity, high rates of population growth and dependency burdens, high and rising levels of unemployment and underemployment, significant dependence on agricultural production and primary product exports, and dominance,

dependence, and vulnerability in international relations (Todaro, 1989: 27). Although development planning is the most visible aspect of public economic policy in Third World nations, the actual day-to-day policy decisions of these governments are typically unplanned and often bring ad hoc responses to emerging and unforeseen economic crises. Todaro claims that political leaders and decision-makers are 'human beings with all human idiosyncrasies, foibles, and weaknesses' (Todaro, 1989). They sometimes 'tend to take a parochial view, instead of a national one' (Todaro, 1989). In democracies, politicians will respond first to their political constituencies and the vested interest groups within their home areas (Todaro, 1989). However, Todaro's views are still debatable. Although political leaders are human, their decisions are influenced by the various factors that surround them. The researcher agrees with Todaro that even in more autocratic forms of government, whether military dictatorship or strict one-party rule, political leaders will still have a natural tendency to respond to those groups to whom they owe their power or on whom their continued power depends. Economic policies are ultimately made not by economists or planners but by politicians, who may well be more interested in 'muddling through' each emerging crisis and staying in power than in instituting major social and economic reforms. Todaro insists it is more appropriate that discussion on the role and limitations of the state of the Third World governments is based on their conflicting forces, some elitist, others egalitarian. Their economic policies, therefore, are largely a reflection of the relative strength of these competing forces. Todaro suggests that governments in developing countries should not do less, but they should do what they are doing now more effectively than in the past. Although there are too many weaknesses, Third World governments seem not to have a choice: they have to assume a more active responsibility for the future wellbeing of their countries than the

governments of the more developed nations. Third World governments, Todaro argues, have to forge a new role that requires innovation and change, and institutional and structural reform (Todaro, 1989: 571-572). By comparison, Todaro's work started almost two decades before the World Bank Report discussed earlier, which explains the difference in their emphasis. Nevertheless, Todaro's work is more thorough and gives a somewhat holistic and realistic view on the economic realities of the developing countries, and could be used to analyse Malaysian's case later in the study.

Cho Soon (1994) provides us with a different angle in his article, 'Government and Market in Economic Development' in which he stresses that rapid growth in Asia is not a miracle but the result of appropriate policies and hard work. His conclusion is more incisive than the World Bank's *The East Asian Miracle*, which seems to argue that government intervention is desirable if it works. He argues that the experiences of most developing countries show that the initial stage of development has to be engineered by the government. These governments are likely to adopt 'mercantilistic' growth promotion policies, which tend to be effective during the initial phases of extensive growth. Cho Soon (1994: 144) argues that it is important, even at initial stage, to adopt market-conforming type of growth promotion policies. The policy of industrial 'targeting' can achieve success in promoting the targeted sectors but, in the long term, it tends to create industrial imbalance and overall inefficiency in the economy. Cho Soon contends that the more interventionist a government is with respect to the real sector (real sector is all sectors as opposed to the financial sector, e.g. banking, manufacturing, agriculture) the more expansionary it is with money policy, and the more repressive with its financial policy. He maintains that this manifests in chronic inflation, distorts industrial structure, discourages financial

saving and retards the development of financial entrepreneurship. Therefore, it calls for a set of policies aimed at macro-economic stability with macro-economic reform. Though extremely difficult to implement these policies, the developing countries are urged to conform as much as possible to the basic direction of economic policies in market principle (Cho Soon, 1994: 144).

The diverse discussion above offers the view of the World Bank that agrees to 'market friendly' strategy, that is, allowing the government intervention in certain areas, but letting the market work itself where the government fails. Todaro also suggests other factors that affect the developing nations' achievements in their economy. Their historical and colonial backgrounds, physical and human resource endowments and several other factors contribute to the success or failure of their policies. Choo Soon, for example, suggests that as the private sector becomes more sophisticated and wealthy, the government should gradually withdraw from managing the economy. These views are to be analysed again in the Malaysian context. As already noted in Chapter One, this study aims to examine the historical and colonial background of Malaysia, in relations to the development of its IR, which as contended, much related to the role of the state in the economy. Interestingly too, all the views above in one way or another do not challenge the significance of the role of the state in the economy.

### **2.6.3. The Malaysian Experience**

In highlighting the role of the state in the Malaysian economy, Ghosh and Salleh (1999: 16) argue that in the context of political economy, the state's roles is 'highly potent, powerful and effective'. He contends that Malaysian development has been

made possible by co-operation, competition and co-ordination between business and government. The Malaysian philosophy of development is based on marketism and where there was no market, one was created, as with the bonds and equity markets. Despite adopting the neo-classical market philosophy approach, the market has been modified (Ghosh and Salleh, 1999: 15). The state has co-ordinated the laws of market and removed market failure problems by introducing competition through multinational capitalism, giving guidance and fiscal-monetary directions. Ghosh and Salleh claim that Malaysia has remained a dependent economy. By this he refers to dependence on others, such as the multinational capitalism for technology, foreign direct investment (FDI), capital, market and also foreign labour. The growth of the capitalist system in Malaysia can be traced to the 1970s when extended capital accumulation process started. The movement of the labour force from the rural to the urban sector reduced the wage rate, thereby enabling the capitalist class to generate gains from labour. They describe the labour force as:

‘...docile, disciplined and fully committed to the emerging IR system...was a great help to the capitalist in having absolute control over the working class’ (Ghosh and Salleh, 1999: 16).

They also argue that this was a strong factor in the growth of capitalist system in Malaysia in subsequent years. On top of that, he claims that the public sector itself became capitalist and advocated profitability as a criterion of running the state enterprises.

As stated in Chapter One, Jomo (1999: 85) outlines four different regimes that Malaysia has experienced, with disparate visions of developmental priorities, from the late colonial era to the 1990s. Under Mahathir Mohamad, there was a shift in policy when in 1996, the government adopted ‘economic liberalisation’ policies, but the state

undoubtedly still played the prominent role in the economy. Jomo argues that the political and economic interests of those with state power have influenced the nature of development strategy and these interests, coupled with the nature of the economy, shaped the nature of the economic planning and policy-making which post-colonial Malaysian governments have undertaken (Jomo, 1999: 86-87). The changing nature of the state has influenced economic planning but there are certain common features to all phases of planning in Malaysia, especially after independence.

First is the development philosophy of 'the modernisation of peasant agriculture, through the diffusion of capital, modern technology, values and institutions' (Jomo, 1999). Jomo did not name the intended community but analyses of Malaysian history can confirm it as Malay.<sup>16</sup> At the same time, the state kept the national economy open to international trade and capital, thus reinforcing the dependent nature of the Malaysian economy (Khor, 1983 cited in Jomo, 1999). Malaysian development planning, according to Jomo, involves 'a limited sectoral programmed for public sector allocation with corresponding indicative projection for private sector investment and growth' (Jomo, 1999: 87). While under the British, authority over plan-formation and implementation rested with senior British officials. Following independence, planning became gradually more sophisticated. The post-colonial state has an enlarged role, and involves greater political and bureaucratic control over planning. In the seventies, the period under NEP saw greater state intervention and a considerably enlarged public sector, 'particularly to promote the growth of the Malay capitalist and middle classes' (Jomo, 1999: 87). However, this did not mean that the

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<sup>16</sup> See for example Crouch (1996), Ratnam (1965) and Roff (1967).



state was immune to external factors. Jomo argues that since 1982, and especially since the mid-eighties, under pressure from international agencies and the influence of the conservative ideologies of privatisation, deregulation and 'state failure', efforts have been made to limit and even reduce the role of the public sector and state intervention (Jomo, 1999: 87). Under the present leadership of Mahathir Mohamad, the government has become more explicit in emphasising growth, modernisation and industrialisation as economic priorities. Jomo argues that because of the Malay political elite's pre-occupation with 'constraining Chinese wealth accumulation and the limited entrepreneurial abilities of the nascent Malay rentiers who emerged under NEP, Malaysia's industrialisation strategy imitates Singapore more than, for example, Taiwan or South Korea. This means relying more on foreign rather than domestic-led growth, with the private sector given leeway for privatisation and other economic liberalisation, at the expense of the public sector (Jomo, 1999: 95).

Jomo's view is vital in giving us the initial understanding of how the role of the state works in Malaysia. His view highlights the central issue of Malaysia's development planning, especially after NEP in 1971. It evolves around creating a Malay/*Bumiputera* entrepreneurial community with state intervention and, from the mid-eighties, changing the privatisation policy to a more economic liberalisation. Thus, this shows that the state is not static or immune to external or internal pressures. It also demonstrates, as will be discussed further in the study, how political leadership plays a role in the role of the state in the Malaysian economy. In understanding the role of the state in Malaysian economy from another perspective it is necessary to examine the impact of party politics on the formulation and implementation of policy, or on economic development. Though there were earlier studies, like Tan (1982),

Khor (1983) and Jomo (1988), Gomez and Jomo (1999) offer a thorough examination of the Malaysian situation, using the concepts of rent and rent-seeking, and they explore how political patronage influences the accumulation and concentration of wealth. This departure from the mainstream of exploration of Malaysian economy highlights how the government earned legitimacy and support, through the allocation of rents in various forms to 'promote social objectives' (Gomez and Jomo, 1999: x). The government also created rents to encourage industrialisation and to bolster investments. However, the dissipation of some resource rents has weakened potential accumulation. Political patronage caused inefficient allocation of rents. Moreover, Gomez and Jomo contend that governments can achieve many political and economic goals through deliberate creation, allocation and deployment of rents. They propose the minimising of abuse of rent creation and distribution, keeping processes transparent and accountable.

## **2.7. Conclusion**

There are several key points discussed in the chapter. The state is a system with boundaries, rules and political authority that seeks its legitimation from the community. Its political authority, as the most central authority, hopes to define a common culture and common goal, but since the state is not static, this is impossible. This is particularly true of a plural society, such as in Malaysia. However, in Malaysia the state is synonymous with the government as it always speaks as mutually representative. Although, as argued by Miliband (1969), the relationship between government and administrative body has a certain impact in determining the role of the state, in the Malaysian situation, as will be shown in this study, if there are conflicts, they are not open ones. So far, conflicts between government and other

institutions of the state, as argued by Miliband (1969), seldom put the Malaysian government in a threatened position. Though practising the separation of powers, there are already scholars identifying an imbalance of power at least between the judiciary and the executive arm of the government.

At this early stage, it is difficult to define the Malaysian state as a type. However, understanding the different types and theories of states has given glimpses of the situation in Malaysia. As an example, though Malaysia resembles a capitalist state it also practices corporatism. This was especially true when the state became more directive over economic productive units. This is on top of views held by other scholars that termed Malaysia as authoritarian (Gomez and Jomo, 1999; Khoo, 1995), semi-authoritarian (Crouch, 1992 and 1993), semi-democratic (Case, 1993) and quasi-democratic (Zakaria, 1989).

There is no denying the significant role of the state in the economy. Though scholars have warned of the danger of interference from the government, as discussed above, the questions were more related to how far to pursue one's interest as compared to the extent to which the political authority should direct economic behaviour. At this early stage, the role of the state in the Malaysian economy was never really a *laissez faire* one, more so after the NEP in the seventies. Looking at the Third World, it shows that they evolved around the modernisation, dependency and the world system theories. However, while the modernisation and the dependency theories highlighted the helplessness of the Third World countries that adopted them, the world system theory gives hope that there is an 'upward and downward mobility' of nations.

The state particularly has a role in the economic development as it provides stable laws, and institutions, management and control of manufacturing enterprises as well as social infrastructure. The public sector also has an important role in this process. In the case of Asian countries, its economic growth has been characterised by strong state intervention. Since developing countries focused on fast development, the state's role became more important. Since developing countries also lack in free-competition capitalism, and demands for materials or energy may create problems, central planning by the state becomes inevitable. There are inevitably implications, but at the same time developing economies need foreign capital. To balance this with the dislike of foreign capital, the developing economies have adopted nationalisation, even if it is only partial.

The World Bank, in commending the high economic growth of countries in East Asia, where Malaysia is one of them, attributed its success to having its fundamentals right and practising careful policy intervention. Scholars argued over the extent of the state's intervention in the economy, but agreed that these countries have allowed for market to exercise a decisive role in determining resource allocation. However, Todaro (1989) provides arguments based on the diversity of the nations, which actually is more applicable. These refer to the different nature of the country, with its different background, human resources endowments and the relative importance of its public and private sector, among others. This study emphasises Todaro's view because it best describes the situation faced by Malaysia, as will later be explored in this study. Todaro contends that the discussion surrounding the role and limitations of the state of the Third World governments is more appropriate if based on their conflicting forces, since economic policies are the reflection of the relative strength of

such forces. His view is pertinent when we look at the experience faced by Malaysia, as argued by Ghosh (1999), Jomo (1999) and Gomez and Todd (1999). Ghosh and Jomo highlight the significant role of the state in the economy, which Ghosh referred to as the dependent nature of Malaysia. Jomo looks deeper into the need for Malaysia through modernisation of a 'peasant agriculture' while maintaining its relationship with international trade and capital. Here, the paradox that has emerged since the racial riot 1969 becomes evident. This event triggered the implementation of the NEP in 1971, whereby the state tried to balance the influences of both internal and external factors. In other words, the state attempted to achieve fast development just like other developing nations, but at the same time tried to maintain its internal forces. This is further enhanced by the exploration made by Gomez and Jomo (1999) over racial issues, especially in creating the *Bumiputeras* commercial community, the rent and rent-seeking and the political patronage that clearly exists in Malaysia. This study therefore examines whether the internal and external factors that influence the role of the state in the Malaysian economy also influence the role of the state in its IR policies and practices. Thus, the next discussion in Chapter Three focuses on debates that have emerged so far on the role of the state in IR.

## CHAPTER THREE

### THE ROLE OF THE STATE IN INDUSTRIAL RELATIONS

#### 3.1. Introduction

The discussion in Chapter Two has highlighted that in the developing nations, the state plays a dominant role in the economy. Moreover, it has provided insight into how, for example, a corporatist state intervenes in a capitalist economy, and importantly, how in almost all societies the state plays a major role, albeit in different forms or levels.

The current chapter discusses in more depth the role of the state in the IR system *per se*, both in industrialised and developing nations. Theories surrounding this are explored, and a comparative analysis of the state's role is made to determine differences and similarities in the state's approach to its role in industrialised and developing countries.

#### 3.2. The Role of the State in IR

This discussion attempts to highlight the significance of the role of the state in IR in general, and determines what roles the state plays in the IR system, why and how. Since it explores the IR system as practised in many countries, a reminder of the definition of IR is useful. Poole (1986: 4) in a study on origins and patterns of national diversity defines IR as:

‘... a discipline concerned with the systematic study of all aspects of the employment relationship’.

He argues that it is diversity rather than uniformity that characterise the IR experiences of nations. Assuming that there the three main actors are present in every 'industrial and industrialising' country, a degree of conflict is inevitable. However, he identifies three mechanisms to ensure it is accommodated, these being 'individual resolution', 'unilateral determination' and 'plural modes of regulation' (Poole 1986: 4). 'Individual resolution' means freedom of contract and the absence of any substantial restrictions to the operation of the labour market. 'Unilateral determination' refers to employers, managers, the state, trade unions or workers; while the third one refers to situations under collective bargaining. This is where differences are 'expressed, articulated and defended' through independent associations of employers and working people and in which joint determination and responsibility for terms and conditions of employment have been instituted (Poole, 1986: 4).

Many authors have written about the significance of the role of the state in IR.<sup>17</sup> Poole (1986: 99), for example, claims that 'the state is indisputably the "third force" in the IR system'. If previously it was more about legal regulation of hours and conditions of work, and the behaviour of trade unions, now the activities of the state have expanded to assume an overall responsibility for the economy. He argued that the two most powerful political movements of the twentieth century, socialism and corporatism have emphasised the influence of the state. Moreover, we can say that of late, the Third World or developing nations which embarked on 'late-development' campaigns

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<sup>17</sup> See for example discussions on the significance of the role of the state in Poole (1986); Bean (1994); Carriere, Haworth and Rodick (1989); Crouch (1978 and 1979); Damachi (1976); Elvander (1974); Fulcher (1991); Giles (1989); Keller (1991); Kraus (1979); Miliband (1969); Muir and Brown (1978); Omaji (1993); Panford (1988); Poole and Jenkins (1990); Rimlinger (1977); Rosa (1990); Sharma (1985); Siddique (1989) and Strinati (1979) among others.

have pushed the state further to play a greater role in the overall economy of the concerned nations.

In analysing the nature of the role of the state in IR, it is important to highlight Dunlop's work (1958) because it was a first attempt to develop a comprehensive theory of IR. According to Jackson (1994: 3), Dunlop's theory on IR became a basis for analysis by authors and commentators alike. An economist, Dunlop modified the work of sociologists such as Parsons and Smelser (1956), and viewed the IR system as a sub-system of the wider society or the total social system (Jackson, 1994: 3). Dunlop (1958: 7) suggested three different actors in an IR system; the first being the hierarchy of managers and their representatives in supervision; the second, the hierarchy of workers (non-managerial) and their spokesmen; and third, specialised government agencies (and specialised private agencies created by the first two actors) concerned with workers, enterprises and their relationships. Though Dunlop used the term 'specialised government agencies', there was no doubt it described the role of the state as meant in this study.

On the role of these 'specialised government agencies', Dunlop noted that as actors they may have a function in some IR systems 'so broad and decisive as to override the hierarchies of managers and workers on almost all matters' (Dunlop, 1958: 8). Dunlop (1958: 121) then defined these roles in determining 'substantive rules directly or through determining the rules of the interaction between workers and managers'. He lays out three rules where one or more of them, or the full complex, take the form of a legislative enactment, an award of a tribunal, or a decision of an administrative agency. These determinations usually apply to all managers and workers or to those in



specified sectors, industries or other groupings. Occasionally, such a determination may apply solely to a particular dispute. In such instances, governmental action may be used to settle it in an ad hoc fashion. A form of a rule may be specified as permissive by government and then included in appropriate collective agreements or actual rules of employment when adopted by workers and managers. The rules may be formulated by managers and workers, and then may require the approval of governmental agencies before they are put into effect.

The three types of governmental rule-fixing reflect a descending order in the directness of governmental prescription. However, behind these differences in the form of governmental rule-making lies the substance or the reality of the power of government in determining decisions. The extent to which governmentally prescribed rules are, in fact, determined by managers and workers organisation and then adopted by the governmental agency is debatable. Even when no agreement is reached between managers and workers, governmental rules may arise from extended consultation and approach a consensus, or the government may not have accepted the precise agreement (Dunlop, 1958: 123). This argument just proves that government in fact has a bigger role in decision-making.

As another example, disputes can be settled by government through procedure that may be formally incorporated in government enactment, awards or tribunals, decreed for incorporation in agreements, or submitted for governmental approval. Dunlop argues that the distinction between the formal status of such rules of procedures and the subtleties of their possible relations to managers and workers must be recognised

(Dunlop, 1958: 124). In other words, who made the procedure incorporated in government enactment, and who has the authority to approve and disapprove?

In stressing the same issue, Bean (1994: 102) pointedly highlighted the specific role of the government. He notes the other components of the state, but argues that:

‘Although the state also includes parliament and the judiciary, as well as the police and military, it is government, which is now the most significant element in determining the legal environment within which IR operate. The government can be regarded as an actor within IR, performing a number of distinct roles’.

Bean outlines four major roles of the state/government in the IR system. The primary purpose is to act as a third-party regulator that promotes a legal framework which establishes general ground rules for union-management interaction. Second, is as a means of supporting and underpinning collective bargaining. Governments in this regard make statutory provisions relating to minimum conditions of employment, including health and safety and, in some countries, wages and working hours. The third function is to provide services for conciliation, mediation and arbitration in settling trade disputes, while the fourth aspect is as an employer within the public sector. In that respect, Bean proposes:

‘The greater the importance of government as an employer, the more pervasive is its influence likely to be on bargaining developments and the content of agreements, since it may then influence the pattern of IR by its own behaviour and example’ (Bean, 1995: 103).

In another argument, Salamon (1987: 219), who defines state as ‘ the politically based and controlled institutions of government and regulation within an organised society’, also insists on the importance of the role of the state. According to him, the ultimate political governing body, as in the case of some countries, could be Parliament, but ‘it

is the elected government of the day which is the most active and important element within the state: it determines the direction, policies and actions of the state machinery' (Salamon, 1987: 219). Salamon proposed that the government not only has to consider the economic objectives but also the nature of society it is in. The government has what he called the 'representative position', which became the basis for its policies and legislation. In one, the government is regarded as the expression of an 'inherently distinct national interest', and in that position, it occupies a neutral position between the conflicting interests of employers and management on the one hand, and employees and trade unions on the other.

In this regard, Farnham and Pimlott (1983: 185) argue that their intervention of government in IR is justified 'either to protect the interests of individuals in their employment when no other means are available, or to uphold the interests of the nation as a whole when these appear to be threatened by particular industrial pressure groups'. However, 'national interest' is an abstract concept which could be anything the government, mass media or anyone else perceives it as. It may be used as an apparently self-evident and acceptable justification for what in reality could be ideologically-based policies and decisions. The 'national interest' issue is discussed in this study, based on the frequent use of the term by the Malaysian government in justifying its actions and IR policies.

Second, the government's representative position could be viewed as the expression of a sectional interest within society, which coalesces and expresses itself in a political party. In this regard Lewis (1983: 361) argues that 'legal policy cannot be divorced from the interests and ideology of the law-makers and from the wider political and

industrial conflict'. It is indeed the ideological base of the political party which provides the foundation for a government's legislation and other policies.

Third, the government could be just the 'democratic icing' on top of a political system, and irrespective of the political party in power, the government supports the 'maintenance of the capitalist interest'. Hyman (1975: 125) argues that the possibility of any radical government initiative in economic policy or IR is restricted by 'policy constraints, which stem necessarily from the capitalist context of political life'. That would lead to the government's preoccupation with the need to maintain 'economic stability', 'the confidence of industry' and to 'curb excessive wage increases'. Debates on policy options are mostly constrained by a 'notion of national interest' which is closely bound up with the interests of employers. On the other hand, labour organisation, objectives and action, if they conflict with the employers' interests are called sectional, selfish, irresponsible, disruptive and subversive (Hyman, 1975: 145).

Crouch (1982: 125) argues that it is a crucial institution 'which can change the rules of the system'. The trade unions to him are primarily defensive organisations, while employers are fragmented and competing with one another. Modern government's prime overall objective is economic in character, and therefore must fulfil four compatible goals of economic policy, namely 'full employment, price stability, a favourable balance of payments and protection of the exchange rates of the currency' (Crouch, 1982: 126).

A study of the IR system in Bangladesh by Siddiq (1985) from a macro-based analysis of the past and present social, political and economic environment highlighted the

distinct features of the Third World IR system. He rejected the idea of 'convergence' between the IR system of the west and the Third World based on both the 'logic of industrialism' and the 'organisational-oriented late-development' theses. He found out that the IR system in most Third World countries during the colonial period was state-dominated. He argued that even after independence, due to the limited change in the socio-economic-political situation in the majority of Third World countries, the basic structure of their system remained almost the same. He proposed that to evaluate the IR of the Third World, one needs to look into the dominant role of the state, not as a contemporary phenomenon, but from a historical perspective.

Phipps (1989) examines the functioning of Nicaraguan trade unionism following the Sandinista Revolution in 1979. By using comparative analytical approaches he studies the internal functioning, perspectives and practice of the Sandinista federations, which 'disclose a range of important secondary contradictions between state and trade unions, despite ideological affinities and shared strategic objectives'. He explores the interaction between the government and trade union, with the most important areas assessed are the legally inscribed rights of trade unions; the position of the government as an arbitrator in individual conflict; the input into a national wages policy and worker participation exercises by state and trade union; and the government's role as public sector employer.

Lai (1993) examines how the role of a strong state shaped the development of labour politics in Taiwan during the period 1949-1989, with the authoritarian Kuomintang's (KMT) state that was never challenged by any social force until the second half of the 1980s. The two interesting questions that Lai tried to answer were first; why was there

no labour unrest during the process of rapid industrialisation from the 1960s to 1987? Second; what were the causes and the dynamics of the large-scale labour movement taking place in 1987-89 and why did it fail to persist? The phenomenon of an extremely acquiescent work force contradicted the experiences of early industrialisation in Western countries in Latin America, and South Korea, where it showed that some form of labour unrest is a necessary by-product of industrial development. The labour movement of Taiwan finally emerged to challenge the strong state and capital in 1987-89. Meanwhile, Barya (1990) describes and interprets the historical development of the legal regulation of the Ugandan trade union movement and assesses the relative importance of law in the determination of the character of trade union organisation in the post-colonial period 1962-1987. Though his research is based on the legal changes that shaped the IR in Uganda and the economic parameters within which trade unions exist and operate, Barya admits that it is the character of the state that has proved to be the most crucial element in Ugandan IR.

As a conclusion to the discussion above, a few key points can be gathered. First is the state plays as important a role in IR as in the economy. Dunlop's view justifies this notion in that even though government may not act directly through rules or determining the rules, they in fact have the final say in the IR system. What Bean says about the role of the state emphasises how powerful a state can be. It can be a regulator, make statutory provisions, provide services for parties in disputes and also become, in certain countries, the biggest employer. Or as Salamon argues, the government can be a neutral body which settles disputes between employers and employees. The government, since it is founded on certain political beliefs, could be a reflection of the beliefs of the political party in power. Or it may act in the interest of

the capitalist in the economy. While citation from four studies on Bangladesh, Nicaragua, Taiwan and Uganda all highlighted the significance of the role of the state in the IR system. The difference that emerged is how, in Taiwan, there was a dynamic process and development in the state-labour relations, which responded to changing social, economic and political circumstances. This is another area that will be explored in this study: whether or not there was a dynamic relationship between the state and labour in the Malaysian case.

### **3.3. Theories on the Role of the State in IR**

The discussion below explores some relevant theories on the role of the state in IR. Kerr *et al* (1960) generally divide phases of the state's role into three stages of industrialisation process, an analysis shared by Bellace (1994). In the early stages of industrial revolution, the state is said to be hostile to the workers and the emerging labour movement. The working class that was created prior to World War I disrupted the settled social order of pre-industrial society, which was based on property. The state at this stage protected the interests of the upper and middle class in capitalist countries. The state also protected the property interests of the employers by creating new doctrines. Workers who were joining together in an association were regarded as an unlawful conspiracy, while the state became a 'legally sanctioned suppressor' (Bellace, 1994: 22 ; Bamber and Landsbury, 1993: 40).

After WWII, there were some changes in form rather than substance, in the way the independent state reacted in newly industrialising countries. Bellace (1994: 22) notes that:

‘During the drive for independence, the political parties that would subsequently govern were often aligned with nascent unions. Once independence was attained, these same persons faced the problem of creating an independent economy, a process that coincided with industrialisation. At this point strong, independent unions became the liability to the state’s economic plan’.

Therefore the state became hostile to labour, though there were differences in the degree of hostility based on different experience. In many newly industrialising countries, the state expected certain policies to be followed for economic growth. The groups in the society, which include workers, could not be allowed to interfere with the implementation of such policies (Bellace, 1994: 23). The welfare of the workers then became the responsibility of the state, with the unions as its adjuncts.

In the middle phases of industrialisation, there is a ‘paradigm break’ in that the parties consciously change the system that is generally viewed as inadequate or unworkable in the new social realities. The state shifts from antagonistic employer-union relations to one of tolerance. This change of attitude usually happens after the involvement of militant labour unrest, including general strikes, or shutdown of parts of the economy. The working class is then regarded as important and valuable to the society, and unions have a useful role to play in the economic life (Bellace, 1994: 23). In the late stages of industrial societies, the role of the state varies greatly. The state tolerates unions, although the level of toleration might be quite low:

‘In all, the state seeks to protect myriad individual rights, through either legislation or administrative regulation. In some, however, the state can be said to encourage employee representation by erecting structures that require labour participation inside the firm. In others, very substantial managerial control of labour prevails, with workers compelled to seek individual redress through legal means outside the workplace’ (Bellace, 1994: 24).

These arguments by Bellace are worth examining in the case of Malaysia.



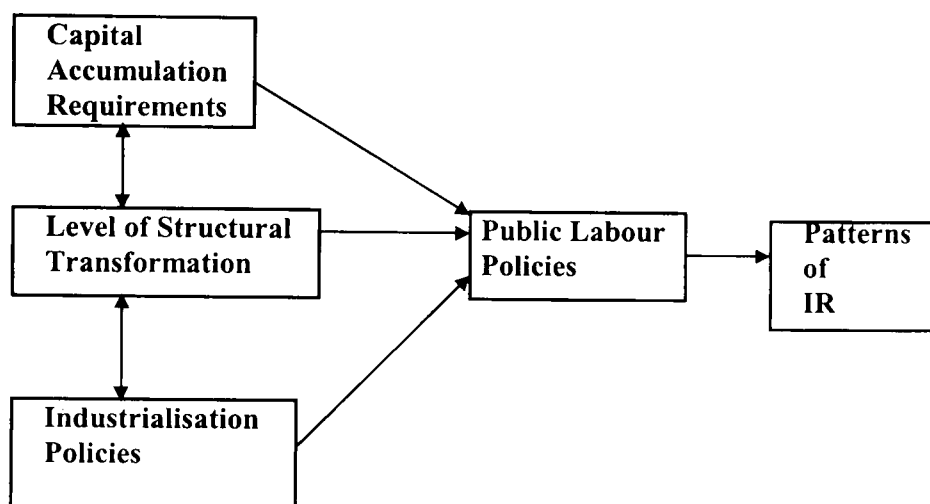
On the other hand, Sharma's (1996: 20-22) analysis on the same issue also merits discussion, though entirely bases his analysis on 'stages of industrialisation' in developing/industrialising countries or, as he prefers to call them, less industrialised countries. He divides these less industrialised countries into three major groups of least-industrialised, semi-industrialised, and newly industrialised countries and claims that the least-industrialised countries adopt a 'political-paternalistic pattern' of IR. Labour organisation in these countries functions as 'organs or collaborators' of the existing political parties, and the movement conforms to the classical pattern of political unionism. The close relationship between the political parties and the trade union has been built during the course of the country's independence. When they achieved independence without much struggle, the labour movement became less political. The paternalistic pattern implies dominance of workers and their unions by employers and/or the government. But this situation may change as a result of some factors, for example the industrialisation process may transform the political-paternalistic pattern into a 'repressive-confrontative pattern'. This second pattern, as argued by Sharma, applies in semi-industrialised countries. In order to ensure national growth, policies for capital accumulation are implemented. This not-so-smooth transition involves structural adjustment by, for example, resorting to foreign direct investment (FDI). To attract foreign investors sometimes developing countries have to fight one another. One of the strategies is to repress wage growth and workers' rights. If, in the least-industrialised countries, supply of unskilled labour is abundant, in the semi-industrialised countries there are also the semi-skilled and the skilled labour. Being in demand enables them to ask for higher wages and a better involvement in 'new collective bargaining regimes' (Sharma, 1996: 21). To avoid this dilemma from

disrupting the industrialisation process, the government usually dissuades unions from making such demands.

The transition from a semi-industrialised country to a newly-industrialised one again involved the reliance on foreign capital. After that process, multinational corporations (MNCs) settle themselves in the economic system. Domestic savings grow with national income, economic development hastens an upgrading in technology, and skills of workers improve. With this new development, the problems in maintaining high worker morale can appear. Yet, labour organisations are not considered (or not expected) to be 'negative' forces working against economic development. At this stage, the government may relax any repressive labour policies and define new roles for labour movement. This will actually allow the labour movement to continue in their welfare maximising roles but 'within the framework of state plans for national development' (Sharma, 1996: 21). However, one setback arises if the dependence on market forces makes the economy vulnerable. In that case, the government may tighten its hold on the labour movement and again, the labour organisation and employer's association 'will have no choice but to accommodate' (Sharma, 1996: 21) to the demands of the governing elite. Accommodation may become the dominant mode in such IR strategies, but the distinction between effective cooperation and defective cooperation needs to be looked into. Sometimes cooperation is genuine based on consensus building but frequently it is cooptation that is being imposed by the state. Sharma explained the main elements of the basic framework and the interrelationships between them in Figure 3.1. Sharma concludes that countries at different stages of structural transformation generate different requirements for capital accumulation, and it is these patterns of capital accumulation that affect labour

orientation and thus evolve IR strategies. Three separate patterns have emerged based on the stages of structural transformation and the capital accumulation. These are political-paternalistic, repressive-confrontative, and accommodative-cooperative, which will emerge in least, semi-, and newly-industrialised countries, respectively. Sharma's conceptual framework has been used to examine the extent of the structural transformation in ASEAN and will be discussed later in this chapter.

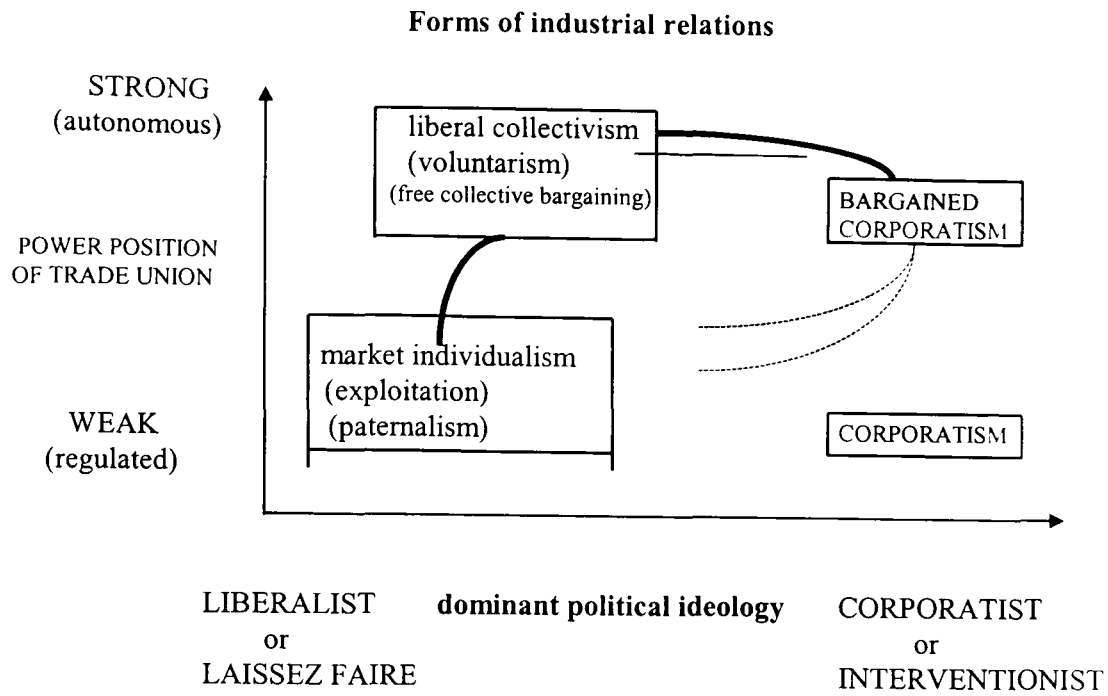
**Figure 3.I: The Evolution of Patterns of IR in Industrialising Countries**



Source: Sharma (1996: 23).

Poole (1986: 99) suggested two theories on the role of the state in IR, but he pointedly referred to them as the types of state intervention in the West. These are pluralism and two types of corporatism, that is 'societal corporatism' and 'state corporatism'. Crouch (1977, 1982) and Strinati (1982) suggested an analytical framework of governmental relationship to IR which identifies four alternative forms of IR. These are dependent on the interrelationship between the nature of the dominant political ideology and the relative power and autonomy of trade unions.

**Figure 3.2: Government Approaches to IR**



Source: Salamon (1987: 222).

Moreover, as illustrated in Figure 3.2, they actually describe the development of British IR. From ‘market individualism’ in the nineteenth century, based on a dominant liberalist ideology and weak trade unions, it moved to ‘liberal collectivism’ or ‘voluntarism’, encompassing the increasing power and autonomy of trade unionism. It then moved to ‘bargained corporatism’, particularly in the 1960s and 1970s, by adopting a more corporatist dominant ideology to accommodate trade union power. Since 1979, the dominant political ideology has shifted towards a neo-liberalist/laissez faire basis and trade union power has been weakened through economic factors. It is interesting to note that some scholars think that the basis of IR is returning towards either ‘collective liberalism’ or ‘market individualism’ (Salamon, 1987: 222; Crouch, 1982: 28; Strinati, 1982: 41).

In 'market individualism', the market system balances competitive interests and legitimises the notion of property rights and an objective basis to income inequalities. Labour thus becomes a commodity that can be bought or sold. The role of government in market individualism is 'largely passive' but also 'highly coercive in so far as the law firmly upholds property rights against the countervailing power of subordinates' (Crouch, 1982: 28). This imperfect model makes labour weak, unorganised and subordinate to the employer. Because of the indirect control of the market system, the relationship between labour and employer is, at best, paternalistic, or at worst, exploitative. These imperfections bring in 'liberal collectivism', which saw the binding up of the concepts 'pluralism' and 'voluntarism' in the British IR system. Crouch (1982: 30) argues further:

'The identity of dominant and subordinate interests remain distinct, and a separation of political, economic and ideological dimensions continues to exist, but authority usually comes to accept a strategy of indulgence as a means of absorbing subordinate pressure'.

There is then the acceptance of autonomous trade unions, which represent and reconcile conflicting interests with management through the collective bargaining process. The same process, however, protects the dominant interest of managers through the delineation of agreed rights and the maintenance of a boundary between issues for collective bargaining and issues for determination by managerial prerogative. The government's role is to aid the reconciliation of dominant and subordinate interests. Crouch (1982: 30) argues again that 'action to enhance subordinates' rights will exist alongside the limited coercive measures which ensure the perpetuation of domination'. Through a legislative role, the government supports the extension of both individual and collective employee rights whilst at the same time constraining collective employee power (i.e. as expressed through the activities

of trade unions). This is under the guise of maintaining a 'balance of power' between the parties in their operation of the IR system and reinforces the image of the government acting in the 'national interest'.

Then there is the increasing need for more governmental 'management' of the economy if the twin objectives of economic policy (full employment and price stability) are to be achieved. This is what has prompted the move towards a more 'bargained corporatism' form of IR, whereby trade unions agree to restrain their pursuit of their members' sectional interests as part of a strategy to further the 'national interest'. In return, however, the trade unions movement expects concessions from the government. Crouch (1982: 149) emphasised:

'The government interposes itself between the unions and their bargaining partner; and the government is able to offer several things which cannot be achieved in bargaining...such as social policy reforms, workers' rights, changes in economic and fiscal policy'.

Crouch argues that after 'bargained corporatism', the British IR system shifted away from corporatism, and moved towards neo-liberalism/laissez faire ideology. The return to 'market individualism' suggested the removal of or significant reduction in direct governmental economic planning, and more of a reliance of 'free market forces'.

According to the unitarist view, the state is the neutral guardian of the superordinate national interest (Gospel and Palmer, 1983: 169). Society is or should be hierarchically organised with 'leaders' directing affairs and the populace accepting state leadership. The state can or must be trusted to act in the best long-term interests of the people. Historically, this reflected medieval and early modern notions of the

organic state and government by rulers, enlightened or otherwise. In modern times, extreme unitarist states have existed in Fascist and Communist societies.

Pluralism is described as a 'circumscribed state influence in a largely fragmented and decentralised political economy' (Poole, 1986 :100). However, pluralist IR institutions are only available in a 'wider culture' where 'freedom of association and moral duty' are present. There must also be 'broad ideologies', an economic structure which has evolved from a pronounced laissez-faire stage, a democratic political structure which has two or multi-party systems, 'countervailing' powers among other actors and a durable collective bargaining system. Berger (cited in Poole, 1986: 105) states that it is about ' a system of representation that supported political legitimacy and stability by fragmenting conflicts into specific, pragmatic, hence negotiable differences of interest'. Historically, pluralism evolved within countries which once experienced a pronounced laissez-faire stage, such as USA, Ireland, and the UK (Poole, 1986: 107).

Poole divided corporatism into 'societal corporatism' and 'state corporatism' (Poole, 1986: 100). By 'societal corporatism' he meant centralised or moderately centralised governments who reach agreements with strongly organised and usually centralised interest groups 'State corporatism', on the other hand, is when strongly interventionist governments are unchecked by independent organisations of labour (Poole, 1986: 100). He describes the difference between societal corporatism and state corporatism in this research context as follows:

'Societal' corporatism is the logical outcome of powerful, centrally organised interest groups and of open, competitive political systems. By contrast, state corporatism is facilitated by the concentration of powers in government, monopoly forms of capital, the absence of independent associations of labour, and political systems with a single party' (Poole, 1986: 100).

Poole argues that there are variations in the state's role in IR in the East or developing countries, which have encapsulated in the divergent experiences of 'command' and 'market' systems. In all cases, the patterns of IR are affected by single-party government and by the public ownership of the means of production, ensuring the absence of an independent body of employers and a largely integrative function for trade unions. The role of the state in IR here is almost invariably substantial, suggesting that divergencies amongst nations stem in part from the timing of industrialism. Thus, in the predominantly corporatist societies countries of the Third World, laissez-faire policies in the economy and in IR are 'seldom considered and pluralism lacks a bedrock' (Poole, 1986: 101).

Gospel and Palmer (1983: 169) argue that liberal collectivists, with their preference for a passive state, tend not to give the relationship between the state and other parties too close attention, merely assuming that, under systems of collective bargaining, the state can 'hold the ring' or establish some rules. They suggest that the state should act as a good employer and should intervene to help disadvantaged groups and to provide a supportive economic context. Liberal individualists promote less state intervention and advocate leaving employment relations to market forces and individual contracts of employment. However, in IR, they have been quite prepared to see the state intervene to enforce individual against collective rights. Also, despite their belief in market forces, they have been prepared to accommodate state intervention to remove impediments to market forces (Gospel and Palmer, 1983: 170).



### **3.4. Interrelationship between Economic Development and IR**

Many scholars have argued that there exists a strong inter-relationship between economic development and IR, as explained in discussions below.

Kuruvilla and Venkataratnam (1996) claim that that economic development in South and Southeast Asia has been linked with the improving IR environment in these regions. Besides attributing this development to clearly defined industrialisation programmes, they highlight the role played by the government in their implementation. The industrialisation strategies include the successful integration of macro-economic policies with IR policies. Kuruvilla and Venkataratnam claim that though there is a certain uniformity in Asian development, the region is very diverse economically. Moreover, they argue that there are two competing explanations for the dramatic growth of Southeast Asia, one neoclassical, in that there is low inflation, a stable legal and political framework, open economic systems, and undistorted prices. The other, the revisionist explanation, is where deliberate state intervention occurs through protection and price distortions. However, the World Bank Report in 1993 and other scholars claimed, as discussed in Chapter Two, which the success of these economies was due to IR and human resource policies of governments. Thus, Kuruvilla and Venkaratnam examined the interrelationship between economic development and IR in Asia.

In their view, two aspects of Asian economic development formed the basis for the discussion on IR and labour policy in the region. First, there is the strong role played by the state in the economic sphere (Kuruvilla and Venkaratnam, 1996). Contrary to Western European and US economic development, which have been led by private

enterprise, development in this region has been managed by the state. There are of course variations between these countries in the role played by the state, for example between Japan and Korea. In Japan, the state influenced the nature of investment, chose industries, and influenced the number of firms that could enter the economic sector. In Korea, the state financed private sector investment. In Southeast Asia, he claims, the state's role 'has been more facilitative, creating the conditions necessary for the attraction of foreign investment for economic development'. In South Asia, especially in India and Pakistan, the state took the responsibility for economic development through large public sector industries (Kuruvilla and Venkaratnam, 1996).

The second feature of the region is the existence of a 'clearly conceptualised industrialisation strategy', based on the Import Substitution Industrialisation strategy (ISI) and the Export Oriented Industrialisation strategy (EOI). Each of these strategies comprises two different levels. The simple stage of ISI is based on the development of low technology consumer and industrial goods for local consumption, while the second stage of ISI focuses on the development of heavy industries to create a diversified industrial base that fuels future growth. The first stage of EOI focuses on the low cost production of light manufacturing goods for exports financed by foreign investment. The second stage of EOI concentrated on the technological upgradation of the first stage, moving to higher value added products, and innovations. These strategies were adopted at different levels by various countries based on the individual stages of their development.

In another work, Kuruvilla (1995) argues that there is a close association between industrialisation strategies and IR policies in Southeast Asia. Certain kinds of industrialisation strategies and certain kinds of labour policies go hand in hand. For example, under ISI, the focus of labour policy is largely pluralistic and voluntarist. Most Asian governments did not attempt to significantly regulate IR. However, under the first stage of EOI, the primary focus of IR policy at the national level was on cost containment. In all other countries, except Korea and Japan, export orientation has been based on the competitive advantage of low cost labour financed by foreign investment. Both Malaysia and Philippines enacted rules that restricted the amount of overtime, refused to legislate equal pay for equal work in export oriented industries where most of the labour was female, and exempted foreign investors from much labour and employment legislation.

Gall (1998), on the other hand, argues that Kuruvilla and Venkaratnam's analysis failed to place enough emphasis on the contingencies of political economy and he made references to experiences of labour movements in Indonesia, Malaysia, the Philippines, South Korea, Taiwan and Thailand. Gall disagreed that industrialisation strategies and IR are always or necessarily 'mutually reinforcing' as claimed by Kuruvilla and Venkaratnam. His view was that there needs to be further and balanced analysis on the relationship between labour movement and 'wider petty bourgeois democratic forces' to explain the limited extent of industrial reforms in these countries. Gall's view coincided with Deyo's (1989), who suggested that Asian industrialism has been based on some amount of labour subordination. Banning unionism, or restricting the ability of workers to form unions, happened at a certain stage in Malaysia, South Korea, Taiwan, Philippines or Indonesia. In another analysis,

Gall stressed that the dominant feature of IR in all these countries is the 'relatively high level of state intervention in regulating the context of the wage-effort bargain (compared to many west European countries) as a result of the deployment of state-directed capital accumulation strategies' (Gall, 1998: 360).

Kuruvilla and Venkaratnam (1996: 6) further argued that in the first stage of EOI, strategy investors were provided with cheap, flexible and highly compliant labour. In more advanced stages of EOI, based on higher technology, the focus of labour policy shifts to the development of highly-skilled, flexible and productive labour. Reforms in the education system and efforts to develop skills were made, for example in Malaysia and Singapore, through the existence of the Skills Development Funds. Employers pay a certain percentage of the payroll costs into the fund, and have to invest in training if they are to reclaim a part of their contributions. In Korea and Taiwan, vocational training centres played a part in this skill development. In India, there is a tremendous pressure on the IR system to change, because of the shift to an export-oriented economy. However, in regards to Malaysia, this study will analyse Kuruvilla and Venkaratnam's claims that the government's moves into training and skills development through, for example, various vocational training centres, have succeeded in producing a 'qualitative shift in the focus of labour and IR and human resources policy'.

Cho Soon (1994: 147) also argues that the economic development of most of the Asian countries has been engineered by paternalistic governments, whereby the government played a catalytic role for development. During the initial phase of

development, the effective policies are the 'mercantilistic approach'<sup>18</sup> even though the governments still have to be market conforming. In the long run, the policy has to be changed, for if not, there will be an industrial imbalance and overall inefficiency in the economy. Thus, Cho Soon suggested that the developing countries conform as much as possible to the basic direction of economic policies to market principle, and improve the quality of human resources.

Several lessons can be drawn from discussions above. While there is a strong relationship between economic development and IR, the state is again the significant force that determines this relationship. Industrial strategy is important and it is agreeable that certain kinds of industrialisation strategies and certain kinds of labour policies go hand in hand. However, to generalise that industrialisation strategies and IR are always or necessarily mutually reinforcing, as claimed by Kuruvilla and Venkaratnam, is misleading. As argued by Gall, the political dynamics factor in developing countries, such as those in South-east Asia, could not be ignored. It is the interest of this study to explore and highlight the argument that even though Malaysia does not experience changes in political regimes in the same way that Thailand does, the political influence, to quote Kuruvilla and Venkaratnam, has more 'explanatory power' than the variable related to industrialisation, as they claimed.

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<sup>18</sup> Mercantilistic approach, originated from Adam Smith's thought. The 'mercantile system' or 'system of commerce' emphasised industrial development as much as commerce development. In today's context it means the governments tend to promote industries with a variety of industrial policies, intervene extensively in operations of financial institutions, promote exports and restrict imports; and hold down wage rates to help promote business (Cho Soon, 1994: 148).

### **3.5. The Role of the State in IR in Some Industrialised Nations**

The discussion below gives an overview of the role of the state in the IR systems in some industrialised countries, particularly Britain. A contention of this study is Britain's colonialism left a certain impact on Malaysian IR. By analysing the experience of these developed/industrialised nations, we hope to see the differences and if any, similarities, of IR practices as compared to the ones discussed under the developing nations. The brief discussions below highlight the experiences of Britain, France, Germany, Sweden, Spain, Italy and the US.

Many writers have argued about what has been perceived as a minimal role of the state in IR in Britain, at least until the 1960s, on the act of 'voluntarism' that was said to be the trademark of British IR.<sup>19</sup> However, voluntarism, as argued by Flanders, (cited in Jackson, 1994) has never existed in the British voluntary system since the state, as Jackson contends, always intervened on certain issues (Jackson, 1994: 296). Jackson stressed that 'it does not imply that the state did not take an interest in or intervene in IR in Britain; rather it implies that the state played a restricted role and, crucially, tried to keep IR and trade unions away from the courts' (Jackson, 1994: 299). Blyton and Turnbull (1994: 141) analysed the role of the state in Britain from three aspects; as economic manager, legislator and employer. Through each of these, the different political projects, specifically voluntarism, corporatism and Thatcherism could be the centre of evaluation.

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<sup>19</sup> See, for example, discussions on the role of the state in IR by Jackson (1994: 296-328), Bamber and Landsbury (1993: 27-54), Farnham (1993: 227-261), Salamon (1987: 219-242), Blyton and Turnbull (1994: 131-165), Beardwell (1996: 37-65), Gospel and Palmer (1993: 154-173), Bean (1994: 102-129), among others.

Two political parties since 1945, Labour and Conservative (Bamber and Lansbury, 1993: 28) have dominated Britain. The voluntary period started with the post-war era, under the Labour government (1945-1950) where it played a relatively limited role in the affairs of the British industry. Rising unemployment later forced the move towards a system of free collective bargaining, but this later led to rising wage demands and wage drift (Blyton and Turnbull, 1994: 143). Income policies initially were ad hoc. The formal restraint under Labour governments of 1964-70 marked a significant change, when government's role became a direct intervention. In the 1970s it was manifested as 'bargained corporatism', when again the trade union leadership promised wage restraint in exchange for a 'share' in the economic policy-making. It is interesting to examine the Malaysian case in this light, especially with the understanding of 'bargained corporatism'. Crouch (1979: 189) defines this as follows:

'the acceptance of unions of several strategies, which compared with liberal collectivism (free collective bargaining), constitute a setback for (workers') interests. But it also holds out the chance of advances. Unions are tempted-and frightened- by corporatist developments to sacrifice some of their entrenched but narrow and unambitious achievements in exchange for the possibility of greater political influence and more and broader power for their members in the workplace, but at the same time to accept more restraint, a more obvious role for the unions in restraining their members, more state interference and fuller acceptance of the industrial order and its priorities'.

According to Ruysseveldt and Visser (1996: 42), the past decade, however, saw Britain making 'the most radical break with corporatist tendencies'.<sup>20</sup> The power of organised interest groups, and in particular of the unions, has been driven back; the democratic influence on economic policy neutralised, and the role of the government in the economy reduced. The 'paradoxical' role of the state, argue Ruysseveldt and

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<sup>20</sup> In the 1980s, 'the power of organised interest groups have been driven back, democratic influence on economic policy neutralised, and the role of the government in the economy reduced' (Ruysseveldt and Visser, 1996: 43).

Visser (1996, 42-43) is that even though when the relationship between the employer and employee was so 'free of state interference', the government policies made such a mark on IR and have caused a turnaround. From 1974 to 1979, under the Labour government, the move was towards corporatism, through the 1980s and the 1990s, under Thatcher, there was a contradictory tendency towards either more or less state intervention (Blyton and Turnbull, 1994: 140). The role of the state in British IR thus was very much related to which party holds the political power. In this context, it is interesting, though still early, to note that since Independence, Malaysia has been administered by the same political party, and though the member parties might change, the government that rules Malaysia has always been the same.

In France, the state's intervention is very important, in the sense that it reflects the traditional reluctance of unions and employers to use voluntary collective agreements (Ruyssseveldt and Visser, 1996: 82; Goetschy and Jobert, 1993). The French government is also a major employer, with about a quarter of civilian employees working in the public sector, which French public embraces a wider range of nationalised industries than is usual in most Western countries. As an employer, the state exerts considerable influence on pay settlements in the private sector too (Ruyssseveldt and Visser, 1996: 86; Goetschy and Jobert, 1993: 155). In the early 1980s, the government intervened to fight growing unemployment, and succeeded through social policy rather than economic action or job creation (Goetschy and Jobert, 1993: 156). The government also initiated a variety of economic and fiscal measures to encourage employers to create jobs opportunities. A major feature of French IR in the 1980s was an active role played by the successive socialist governments in employment matters. As in Australia and most European countries,



there has also been a trend towards the decentralisation of bargaining and the advent of more practices to promote greater labour market flexibility (Goetschy and Jobert, 1993: 172).

Unlike Britain, the factory system in Germany developed within a society which retained a legacy of paternalism (Fuerstenberg, 1993: 177). The country has an extensive framework of labour law, in which the Federal Constitution (1940) grants the freedom of association and the right to organise. Employer-employee relations are generally regulated by statutory law. Moreover, there is a division of labour between local courts, regional appeal courts and a Federal labour court (Fuerstenberg, 1993: 181). Governmental interference in collective bargaining is rare. In addition, the IR has a dual structure. At workplace and plant levels there is no direct bargaining between unions and employers, instead, works councils and employers negotiate on a statutory basis. It is at industry-wide and regional levels that unions and the employers' federations enter into negotiations, which usually result in collective agreements (Fuerstenberg, 1993: 183). There is a long tradition of attempts to introduce industrial democracy in Germany. Work councils were first established by law in 1916, in industries which were important for the economy in the First World War. Since the WWII, the union's influence at the enterprise level has been enhanced by the various laws on co-determination (Fuerstenberg, 1993: 185). It should be noted that the relations between works councils and the unions are usually close, since co-determination fosters a strategy of 'cooperative unionism'. In the 1980s, the German economy was faced with structural changes based on developing technology. Demands for government action usually focused on employment stabilisation, the improvement of job security, and the maintenance skills and qualifications. Employers

and their associations also assumed some social responsibility for technological change. Additionally, government strategies to improve IR in view of technological change primarily focused upon adjusting the legal framework (Fuerstenberg, 1993: 191). It is at present facing major challenges due to both internal and external structural changes.

As regards the Swedish IR system, it was popular for its 'employment principle' or 'Swedish model' (Dell'Aringa and Lodovici, 1994: 400; Martin, 1995: 263). Being a large employer, the state ensures a structure of union-management relations and a pattern of economic and social policy. It evolved in the context of almost continuous control of the government by the Social Democratic Party (SAP), from 1932 until now, while the blue-collar unions affiliated to the largest confederation (LO) supported this extraordinary political dominance. The state has a responsibility for maintaining full employment by managing demand, providing collective services by channelling resources to them, and assuring economic security and equity by redistributing income through taxes and transfers (Martin, 1995: 264). At the same time, it largely excluded the state from the domain of production for the market, over which private capital retained control, and from regulation of the labour market. It is the agreement between the two principal peak organisations of unions and employers, the LO and the SAF that defined the Swedish model. According to Dell'Aringa and Lodovici (1994: 394-397), Austria, Norway, Sweden, and recently Finland, represent the more truly neo-corporatist countries. The two advantages of this corporatist model are that firstly the higher level of likelihood that the negative social effects of their own behaviour are internalised by the large interest coalitions. Thus, trade unions and employers are sensitive to macro-economic constraints stemming from wage

increases; secondly, centralised bargaining, which allows for simultaneous negotiation, thereby reducing the risk of upward wage spirals. It is because the main employees and employers of these countries collaborate with the government in defining income and labour policies, that there is generally a consensus on the objectives of maintaining the lowest possible level of unemployment and pursuing solidaristic policies.

In Spain, since 1975, there has been a new pattern of IR being built up. The most representative Spanish unions have achieved institutional recognition, social progress and political power in spite of low union density rates. It seems that the unions, in view of the flexibilisation of labour legislation and the economic decline in Spain, today possess a strong voice at the political level. Moreover, the government acts as a policy maker, and plays an important role in the ongoing processes of institutionalisation and institution building. Meanwhile, in Italy, the role of the state has been conditioned by the fact that the government has been weak but the parties strong. The public sector is extensive, and the public administration has been inefficient, and not up to its task and increasingly has come to serve party political interests. IR in post-war Italy have evolved in a voluntaristic fashion, with market and political forces dictating outcomes. There is no regulatory framework which drastically limits or sets formal legal requirements for collective bargaining, consultation, or strike action. On the whole, Italian labour law focuses on individual workers' rights, rather than defining the rights and duties of collective interest associations and their mutual relationship. The Italian courts rarely intervene in the case of strikes, but the cabinet nearly always takes up the role of mediator and brokers deals between union and employers. Finally, the role of the state in Italian IR is also

shaped through the state sector, by which we mean not just the public sector per se, but also the nationalised industries and public holdings (Ruyseveldt: 1996).

According to Dell'Aringa and Lodovici (1994: 396), the US labour market is characterised by competitive markets, low employment protection, weak interest groups, and fragmented wage negotiation, occurring mainly at the firm level. Bamber and Lansbury (1993) note the three roles that the US government plays as firstly directing the regulation of terms and conditions of employment; secondly, the regulation of the manner in which organised labour and management relate to each other; and finally as an employer. Historically, the government regulates the terms and conditions of employment; in areas that relate to discrimination, worker safety, unemployment compensation, minimum wages and maximum hours, and retirement. In 1964, the US government prohibited discrimination in employment on the grounds of race, colour, sex, religion, national origin or age. Since 1992, there has been an act to prohibit discrimination against disabled workers. The law has been made markedly influential in shaping the IR, and particularly in regulating the tactics of bargaining.

One of the most glaring conclusions that could be drawn from the experience of an industrialised country above is the case of Britain, where the unions had a sort of independent relationship from the state and employer. Britain sets a distinct example in the development of IR and the role of the state that could later be compared to Malaysia; its colony for more than a decade. It is also an interesting point that, despite its independent relationship, the state still plays a significant role in Britain and in almost all the developed nations discussed. However, the new pattern, such as experienced by Spain, where unions possess a strong voice, or in Italy, where, the

government was considered weak, differs with Malaysia's experience. Here, the similarity might be the fact that the state generally remains the most significant player, with a difference in the form and the extent of its roles in IR.

### **3.6.The Role of the State in IR in Developing Countries**

In stark contrast, the experience of developing countries differs from those of the developed ones. Therefore, to quote Hyman (1979), it is often difficult to attempt to translate the perspectives of Westernised IR to the developing countries. Apart from other differences, one disparity is, as argued by Siddique (1989), the dualistic economic feature where a pre-capitalist economic system predominates alongside a small industrial sector, together with a segmented labour market where a sharp dualism exists both between modern and traditional manufacturing sectors and between modern and large firms. However, one of the most distinctive features of developing countries is the centrality of the role of the state, whereby, as argued by Bean (1994: 218) in IR matters the government has increasingly sought (varying degrees of control) over trade union movement and its activities. This is to protect the interests of foreign capital, which is regarded of utmost importance.

#### **3.6.1. Experience of More Developed Asian Countries**

Two more developed Asian countries, Korea and Japan, have been chosen for discussion here. Since these are the two countries that Malaysia tried to emulate through its 'Look East Policy', implemented in 1983 by the Prime Minister Mahathir Mohamad, they therefore deserved a separate analysis. These two countries have also moved on from the 'developing countries' label.

Japan has experienced dynamic developments and transformations, as noted by Sugeno (1994: 94), from confrontational to cooperative labour-management relations, the decline of labour disputes and strikes, the establishment of industrial autonomy and partnership, and changes in both external and internal labour markets. The state, influences IR through a wide range of policies, including economic, fiscal, industrial, and social policies, as well as those that specifically focus on labour. The distinctive feature of post-war IR in Japan is its dynamism, characterised by drastic social changes and industrial transformations. The state has a leading role in its socio-economic development, guiding it in effect. Nevertheless, Kazuo insisted that the state's role is indirect. It has been characterised by inducing the parties' voluntary action through administrative guidance or 'endeavour obligation', or the technique of achieving de facto consensus through government-sponsored consultation machinery. Though the state have been involved in a wide range of issues in labour relations, the dual or multi-tier structure of industries and the labour market has basically been left intact (Sugeno, 1994: 110). There is a significant resemblance to corporatism in the mechanisms of Japanese IR, which some experts term 'loose neo-corporatism'.

In the Republic of Korea, the government claimed to be the primary architect of nation building and the mover of economic development. Korean IR reflects a system in which the philosophy of the power elite and their strategy has determined the basic nature of the country's IR structure. There are four stages of the development of this country's IR namely: market-driven repression (1963-1971); authoritarian corporative repression (1972-mid-1987); immature pluralism (mid-1987 to mid-1989); and transition towards maturity (mid-1989). Its future success largely depends on whether unions, management and the government can successfully develop a social contract in

a joint effort to restructure the whole economy, and at the same time modernising the IR (Se-II Park, 1994).

### **3.6.2. The Experience of Some ASEAN Countries**

There are both similarities and variation in IR practices in some of the ASEAN countries, as discussed below. Sharma (1996: 107) concludes that there are three different patterns of IR in ASEAN states. Indonesia and the Philippines represent a political pattern, Singapore an accommodative pattern, whereas Thailand and Malaysia show a conflictual one. He argues that the different patterns closely correspond to different stages of industrialisation. The political pattern is at a less industrialised stage, a repressive-confrontative pattern (conflictual) at a semi-industrialised stage, and an accommodative pattern at a newly-industrialised stage. Fallows (1995: 445) argues that among the three major institutional forces of workers, employers, and government, the third force always plays a central role in the ASEAN IR system. It is because the so-called Asian model of industrialisation is based upon the interaction between government guidance and market competition where companies are said to competing vigorously to meet the goal set by the governments.

The dominant approach to IR in ASEAN is collective bargaining complemented by compulsory arbitration. However, there is the comprehensive legal framework, which supports this practice. According to ASEAN laws, a trade union must be registered in order to have legal status (Sharma, 1996: 98). Sharma claimed that the government intervenes whenever employers resist the recognition of trade unions as the sole bargaining agent of workers. This claim will be probed using the Malaysian case. However, in general there are variations in the expectations of governments as to the

role of the trade unions, in so far as the ASEAN governments have demonstrated their commitments to a certain extent to protect trade unions as social institutions.

Sharma also argues that in recent years, there is a tendency to attempt to transform the mode of IR from traditional confrontational to consensual, usually by an extensive practice of tripartism, the adoption of a voluntary codes conduct for industrial harmony, and an emphasis on indigenous values and national development needs. Though the main concern over the years has been to maintain a stable and harmonious IR system, the search for a viable mechanism remains. It is notable that in this regard, ASEAN countries have attempted to emulate the Japanese experience by adopting measures such as joint labour-management consultation and quality circles (Sharma, 1996), another area examined in this study.

There are differences in the pattern of the relationship between the government and the labour movement in these countries. In Indonesia, Sharma claimed that labour and government collaborate almost as an organ of the government. In fact, the government has become more repressive whenever threats to its ability to control have appeared. The case of Marsinah and the role of the local police in 1993 showed the existence of repression (Sharma, 1996: 99; Interview: Muchtar Pakpahan, 18 June 2001). In Thailand, while the Free Labour Congress and the Internal Security Operations Command (ISOC) have a close contact with the government, the rest maintain their distance. In the Philippines, this situation is intensified. In Malaysia, the Malaysian Trade Union Congress (MTUC) has a conflictual relationship with the government whereby the government has seen fit to promote in-house unionism in the private sector to promote Japanese-style labour-management relations. In Singapore, there is



full cooperation between the labour movement and the government, evidenced by the fact that a number of leaders of the National Trade Union Congress (NTUC) have become Members of Parliament, ministers, and even the President of the country.

The structure of the trade union movements are also fragmented, such as those in Thailand and Philippines, while others are more unified. In Malaysia, and this is discussed in detail further in this study, the movement has become fragmented due to the conflict between trade unions. Singapore, however, is said to enjoy a truly unified trade union movement. According to Sharma, Indonesia has also enjoyed a unified labour movement in the aftermath of the *Pancasila* labour philosophy, but has become more fragmented in recent years. However, Gall (1998a: 369) notes the emergence of the Indonesian independent labour movement in a period of 'increased confidence and combativeness'.

The five ASEAN members also have differences with respect to the degree of legitimization of industrial action on the part of the industrial workers. In Indonesia strikes are legal, but not tolerated, while in Thailand they were once banned them, and similarly, Philippines banned them in 1981. Malaysia allows strikes, but those motivated by sympathy or politics are illegal. In Singapore they are legal, but the referral of an industrial dispute to the Arbitration Court can always bring out their early demise. In the midst of these, it is also important to analyse the role of employers associations in ASEAN, and especially in Malaysia and Singapore.

### **3.7. Comparative Analysis between the Developed and the Developing Nations**

Though it is difficult to compare, there are stark differences that have helped us understand the situation faced by these two classes. For example, the differences in the number of population engaged in wage-earning employment, as well as the difference in the focus of economic sector (agriculture or industry) are among some of the prominent factors. Most of the developing world's IR are of a dualistic economic structure, where a pre-capitalist economic system predominates alongside a small industrial sector. However, the most distinctive feature of the developing world is again the centrality of the state's role. Among both the more and the lesser developed nations, the government has increasingly sought a varying degree of control over the trade union movement and its activities. Such governments play a more active and interventionist role compared to the state's role in the European developed nations and the USA.

The reasons for this, among others, are the beliefs that IR have a direct bearing upon the development process. Some unions in Asian countries can be considered simply as 'administrative arms of the state' (Bean, 1994: 219). It thus becomes acceptable to assume that a certain duality of trade unions exist in the developing worlds, that is, on the one hand, defending and promoting the interests of their own members, yet at the same time being required to contribute to the national development effort.

### **3.8. Conclusion**

The debate over the state's role in IR has recently centred on a general agreement that it acts in the economic sphere. In a democratic society, the state is expected to satisfy its people by providing reasonable standard of living (Niland, 1994: 38). When we

discuss the role of the state in IR in the modern world, what we actually mean is the standpoint of the approach and involvement of the government. As the most significant element in determining the legal environment within which IR operate, its role as an actor actually can be seen in several aspects. It acts as a third party regulator in promoting a legal framework, which establishes general ground rules for union-management interaction, particularly in the procedures for collective bargaining. Second, it acts as a means of supporting and underpinning collective bargaining, whereby governments make statutory provisions relating to minimum conditions of employment. The third, and well-established function in many countries, is the provision of state services for conciliation, mediation and arbitration. In Britain and the USA there is a wide range of public peace-making machinery, whereas in France and Germany, the institutional provision of government assistance in dispute resolution has been minimal. A fourth aspect of the role of the state has become increasingly important and this is as a direct and primary participant. As a major employer within the public sector, the greater the importance of government as an employer the more influential it is likely to be on a particular country's IR system.

Industrial countries differ, however, in the extent to which they rely on government legislation to determine the procedures of collective bargaining, to fix the substantive terms of employment and to settle disputes. In the developed nations, the state has initiated policies towards the deregulation of parts of the existing IR system, opening more to market forces, as shown in Britain, Belgium, Spain and to a certain extent Germany and Italy. In the developing world, the opposite has happened, and this study on Malaysian IR intends to examine the various factors behind this different approach.

Chapter Four explores the background of significant issues and themes in Malaysian IR, which gives a basic understanding to this study.

## **CHAPTER FOUR**

### **THE BACKGROUND TO THE MALAYSIAN INDUSTRIAL RELATIONS SYSTEM**

#### **4.1. Introduction**

Chapters Two and Three explored the role of the state in the economy and in IR, respectively. There was shown to be strong link between the two, which revolves around the role of the state in the former heavily influencing the role of the state in the latter.

This chapter outlines issues and central themes that are of importance to Malaysia for the whole period under study. It provides us with a background understanding as to what motivates and influences the state's role in the Malaysian economy and relate this to its effect on IR policies. This chapter also highlights the emergence of a plural society in Malaysia and the related racial issues, which, as argued in this study, at times complicate the Malaysian scenario and influence the way the state functions. The plural society indicates that each major ethnic group in Malaysia, the Malays, Chinese and Indians, has distinct cultural values that may be contributory to the way IR relationship is practised in the country.

Malaysia today is a relatively small Southeast Asian country, with a total land area of about 330,000 square kilometres. Since the formation of 'Malaysia' in 1963, the region has included Sabah and Sarawak on the Borneo island. Malaysia consists of thirteen states with two federal territories, Kuala Lumpur and Labuan. By 2000, there was a population of 21.2 million people, comprising a mixture of Malays, Chinese and

Indians as its major ethnic groups. It has a young population, with 42% of the country's population falling within the 15 to 39 age group.<sup>21</sup> The country's total labour force was estimated at 8.6 million in 1997, with services sector being the biggest employer by providing 48% of total employment. The other major sectors are manufacturing (28%), agriculture (15%) and construction (9.1%).<sup>22</sup> Malaysia has long been a leading producer and exporter of commodities such as natural rubber, palm oil, cocoa, timber, pepper and tin, and is a net exporter of petroleum and natural gas. Today, Malaysia is recognised as one of the world's leading exporters of electronic semi-conductors, air-conditioners and audio-visual equipment. Moreover, it exports products derived from the country's natural resources, such as rubber products (like soap, margarine, oleo-chemicals) and timber products (plywood, mouldings, furniture). Over the last 8 years, Malaysia's GDP growth rate has been an impressive 8% per annum.<sup>23</sup>

#### **4.2. An Historical Overview of Malaysia**

To understand contemporary Malaysia, it is crucial to look into its socio-cultural, political as well as economic background. The analysis below focuses in brief on themes and issues that surround Malaysia, from pre-colonial times to the period when Malaya was under British and Japan, two colonial rulers that left the greatest impact on the country. Even though there were other influences beforehand, like the Dutch

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<sup>21</sup> Refer to Malaysia Your Profit Centre In Asia- The People [www document]. URL <http://202.185.160.3/profit/people1.html>

<sup>22</sup> Refer also to Malaysia Your Profit Centre In Asia- The People [www document]. URL. <http://202.185.160.3/profit/people1.html>

<sup>23</sup> Refer Malaysia Your Profit Centre In Asia- The Economy [www document]. URL. <http://202.185.160.3/profit/economy.html>

and Portuguese,<sup>24</sup> the British were the longest colonial power to rule Malaya, and most important of all to this study, it represented the beginning of the plural society, dual economy and an employment system based on wage labour. The traditional Malay administrative system was then replaced by a Western-type bureaucratic system, which provided the basic foundation for the development of a capitalist economy (Khoo, 1972: 226).

#### **4.2.1. The Colonial Rule: Structural Changes**

The British, apart from introducing a westernised bureaucratic system that became permanent, brought about the plural society, the concept of wage labour, dual economy and a 'divide and rule' policy that leave such an impact on future multi-racial Malaysia.

##### **4.2.1.1. The Pre-Colonial Malay and the Birth of a Plural Society**

The significance of understanding the pre-colonial Malay society in the context of this study is to understand the origins of the continued 'political supremacy' of the Malays. Thus, the brief discussion below describes the pre-colonial Malay socio-political and economic practices that contributed to their lagging behind, as opposed to seizing a new economic opportunity to better themselves under the British capitalist system, as did the immigrant Chinese. These knowledge help us understand how even present day the Malays still struggle to better themselves and their communities

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<sup>24</sup> To see how step by step the British overtook Malayan states under their administration and control from the Dutch, or the Dutch influence over the Portuguese, read for example Li (1982) who gave an economic analysis on the subject. For a more recent reading, see Abraham (1997) who analysed the roots of race relations in Malaysia, which originated from the 'divide and rule' policy of the British.

economically, and some still believe it can only be achieved through political supremacy in a coalition government.

Primary sources that described their early socio-political system, however, are limited to accounts of colonial officials with their bias on vested interests.<sup>25</sup> The Malays of the nineteenth century gained much of their laws and custom from the Malacca Muslim sultanate, at its peak during the 14<sup>th</sup> and 15<sup>th</sup> centuries (Jomo, 1988: 4). This patrilineal system inherited by the Malays (apart from the matrilineal one in Negeri Sembilan<sup>26</sup>) became the basis for all colonial powers, especially the British, to acknowledge the ‘special rights’ of the Malays as the indigenous people. The issue became more apparent after the British immigration policy brought in floods of immigrants, particularly the Chinese and Indians from their respective countries.

The British in the mid-nineteenth century found the Malays as peasant farmers with a subsistence economy in scattered villages, especially along the banks of the main rivers (Roff, 1967: 1). They were initially involved in tin-mining and, prior to the nineteenth century, it was claimed that although mining was a Malay industry, it was rather a part-time occupation due to their commitment to agriculture (Abraham, 1997: 79). The political system also complicated matters as the Malay chiefs, who were in general more powerful than the sultans, had control over land and there was rarely, if

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<sup>25</sup> Both Lim (1976) and David Wong (1975) illustrated debates between colonial officers over the pre-colonial Malay land-tenure system, each arguing from their perspectives, but of course bringing such an impact to the Malay states.

<sup>26</sup> See Durrishah (1990) which explains the matrilineal system of Negeri Sembilan Malays for a long time practiced the *adat perpatih*. She also discusses how the Malays were sometimes confused over the difference between culture (*adat*) and Islam.



any, upward movement between the ordinary and the ruling class.<sup>27</sup> The British interests in Malaya were also limited to securing raw materials for industry, as well as developing markets for exports, and Malaya fitted well into serving this need.<sup>28</sup> Chamhuri and Surtahman (1985) noted that pre-colonial Malay produced only on a subsistent basis and the British administration introduced the mass production of tin and rubber which led to the arrival of thousands of Chinese and Indians to the country. This partly explained how the Malays were left behind in both commercial agriculture and other modern industries.<sup>29</sup>

Li (1982: 109) argues that after the British control was established, the composition of the population drastically changed; a change that was so rapid that at the end of his analysis of 1938, the aliens clearly outnumbered the Malays. In fact, in the 1931 census, the first official realisation of the situation hit the Malays hardest. The census shows that the Malays in the Federated Malay States (FMS), that is the more developed states among all the Peninsular states, were outnumbered by Chinese and Indians between 34.7% and 63.7%. The Malays were only the majority in the Unfederated Malay States (UMS) of Johor, Kedah, Perlis, Kelantan and Trengganu, which apart from Johor, were the less developed areas of the peninsular (Comber, 1983: 17). The Chinese migration only fell in 1932 after the Great Depression (Comber, 1983: 18) when the government imposed the Aliens Ordinance, which stipulated a quota of 1,000 per month on male Chinese.

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<sup>27</sup> Gullick (1958) best described the situation faced by ordinary Malays in the socio-political system at the brink of British forward movement in 1874.

<sup>28</sup> See Jomo (1988) and Chamhuri and Surtahman (1985), each giving a comprehensive account of the economy of pre- and colonial periods.

<sup>29</sup> Jomo (1988), Gullick (1958) and Khoo (1991 and 1972) all offer analyses on the socio-Malay political system and economic practices before the arrival of British administration.

There was a negative perception that worsened the Malays' plight in their involvement in the commercial economic sector in pre-Independent Malaya. Though the British colonialists regarded them as 'the owners of the Malay country', since their existence in Malaya thousands of years before the coming of the migrants, they were at times outnumbered by the migrants (see Table 4.1). Li (1982) remarked that the Malays 'were not active participants in modern enterprises' and 'were satisfied with being left alone'. It was to the alien immigrants that 'the economic development of Malaya is chiefly to be credited to' (Li, 1982: 109). However, there were the deliberate policies of the British that brought in large numbers of immigrants to Malaya, and it was their pre-conceived judgement of the Malays that altered the history of Malaya. The British also had a certain fixation that the Indians as labourers were 'more easily manageable, obedient, dependent, and accustomed to British rule' (Jomo, 1994: 2). That also might have ascertained their place mostly as workers on rubber plantations and railways, the less commercial side of the modern economic undertaking in Malaya.

**Table 4.1: Population Census, 1931, by race**

Nationalities	Population	Percentage
Europeans	17,768	0.4
Eurasians	16,043	0.4
Malays	1,644,173	37.5
Other Malaysians	317,848	7.2
Chinese	1,709,392	39.0
Indians	624,009	14.2
Others	56,113	1.3
Total	4,385,346	100.0

Source: Vlieland, 1932.

Therefore, it is not surprising that from a very early stage in colonial Malaya there was already a demarcation line between ethnic groups, which later affected the labour movement. The demarcation in economic activities further encouraged this situation. The British, who generally opposed any disruption such as labour movement to their

economic agendas, naturally let this happen as the more disunited and disorganised the movement was, the better it was for them.

Natural differences coupled with British 'divide and rule' policies heightened the friction between the Malays and Chinese. The economic plight of the former had already become a debate among the minority of educated Malays as early as the turn of the century when, in 1906, *al-Imam* (The Leader), a Malay periodical, was first published in Singapore. Though initially just concerned with religious issues, by the 1920s it had begun to support a Malay nationalism movement with the emergence of a Malay intelligentsia. This saw the *Kaum Tua- Kaum Muda* debate,<sup>30</sup> which was concerned with Malay issues, such as economic backwardness as compared to immigrants (Roff, 1967; Abraham, 1997: 187). By the 1920s and 1930s, an English-educated Malay elite also joined ranks in promoting Malay rights and their economic plight, but more in favour of the British protection policy towards the Malays. There were also the Malay-educated nationalist, joining ranks with some Cairo-educated Malays who were anti-colonial, anti-Chinese and anti-aristocracy (Abraham, 1997: 188).

The matter was made worse by the fact that no efforts were made by the British to integrate the plural society. Politically, the early twentieth century saw the Chinese very much influenced by mainland China politics,<sup>31</sup> while its education system, which was not monitored by the British until 1920, was founded and financed by the Chinese

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<sup>30</sup> *Kaum Tua* and *Kaum Muda* reflected debates between the more aggressive group of Malay intelligentsias *Kaum Muda* (the Young Ones) as compared to the more conservative ones, *Kaum Tua* (the Old Ones). Roff (1967) offers detailed analysis of the situation.

<sup>31</sup> For more details, see Blythe (1969) who analysed, apart from the Chinese secret societies, the history and important periods in early and after World War II Malaya.

community themselves (Comber, 1982: 21). Therefore, the education system also permitted and encouraged significant nationalism towards mainland China.

Over time, the Malays were treated differently following the British policy of 'protectionism' over their 'special right'. Milne and Mauzy (1986: 20) called the policy 'destructively paternalistic'. It made the Malays the 'favoured indigenous race', by protecting them from 'economic competition, ugly commercialism, and the deleterious effects that modern urban life was considered to pose for their culture' (Milne and Mauzy, 1986: 20). The Malay peasants were encouraged to maintain their old, outdated way of life in rural areas, and had if lucky, a basic education that did not prepare them for the modern, fast-changing world that was enveloping Malaya. All the while, the Malay aristocracy approved this policy since it helped preserve the feudal royal establishment and maintain Malay deference to rank (Milne and Mauzy, 1986: 21). Out of 'moral obligation' the British employed more Malays into the government service, though for many years only in lower rank posts, but this left a Malay majority in the public sector today (discussed further in especially Chapter 10). There was the English-medium elitist Malay College of Kuala Kangsar (MCKK), established to produce English-educated Malays to the appointment of Malay Administrative Service (MAS), a junior branch of Malayan Civil Service (MCS-dominated by 'natural born British subjects of European descent' (Comber, 1983: 21). However only the sons of Malay 'aristocrats' attended the best schools like MCKK or had further education as far as England.

This 'divide and rule' policy made the non-Malays believed the British policy was in accordance with pro-Malay policy of 'Malaya for Malays'. From early twentieth

century therefore, there were already a general animosity between the Malays and the Chinese, apart from their already existing natural differences of language, culture and beliefs. There was a period of political upheaval in the affairs of immigrant populations between 1929-1934, that made the Chinese more wary of British intentions towards them and the pro-Malay policies. This started with the Immigration Restriction Ordinance of 1928, intended to 'prevent unemployment or economic distress or to promote the public interests', and later in 1933, the Aliens Ordinance intended to regulate the immigration of aliens 'not quantitatively, but also qualitatively, and to control their residence in the Colony' (Abraham, 1997: 200).

If all these factors were not enough to contribute to the ill-feeling between the two ethnic groups, their economic practices, discussed below, drove them further apart as labour demarcation emerged, where races were to be more glaringly identified with certain economic activities.

#### **4.2.1.2. The Emergence of Wage Labour and Dual Economy**

The tin and rubber industries prompted the British to bring in great numbers of Chinese and Indians to work in mining and rubber plantations respectively.<sup>32</sup> A number of contradictory reasons have been suggested to explain the lack of indigenous Malay workers and why the British and the other earlier mining employers appeared to prefer immigrant labour.<sup>33</sup> Most of the rice-peasant Malays were economically self-sufficient in their communal village setting and were said to be

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<sup>32</sup> For a comprehensive study on the early tin industry read Wong (1965), for both analyses on tin and rubber read Li (1982).

<sup>33</sup> Li (1982: 135) argues that as 'nature's gentlemen', the Malays were not interested in becoming wage earners either in the plantations or tin mines.

reluctant to work under the strenuous working conditions and strict disciplinary regulations of wage employment. It was also in the interest of the mining and plantation owners to rely on a cheap and plentiful supply of immigrant workers who laboured solely for money, whereas the Malays were regarded as an unstable source of labour supply, since they could always return to their *kampungs*<sup>34</sup> whenever wage work became unpalatable. Thus, there was clearly a lack of understanding by the colonial government over the nature and importance of agriculture and *padi*-planting<sup>35</sup> to Malays, and that created the vast difference in their attitude towards Malays and their later employment policy. As Wilkinson observed:

‘Agriculture is the soul of Malay life. He is essentially a planter; his festivals are seasonal; his joys and sorrows depend on the crops; and his whole life is regulated by the great rice-planting industry’ (Wilkinson, 1957: 66).

In fact, it was also part of the British policy to encourage the Malays to continue with their rice production activities, as more of this staple food was required to feed the growing immigrant workers (Durrishah, 1995). The Malays in the early twentieth century actually showed an interest in applying for land for rubber cultivation, which showed their interest in commercial crop, even though the area applied a lot smaller than applied by the Malay rulers and the Chinese planters. This interest alarmed the British.<sup>36</sup> The encouragement towards the planting of rice then became almost a forceful policy, with the British unfailingly compelling the Malay chiefs to get their *anak buah*<sup>37</sup> to work in the paddy fields (Durrishah, 1995). When the land was under total control of the British under the Resident System, the Malays were again side-

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<sup>34</sup> ‘*Kampung*’ means village.

<sup>35</sup> ‘*Padi*’ means paddy or rice.

<sup>36</sup> Durrishah (1995) explains in detail the introduction of the British Torrens land system into Malaya in early twentieth century that replaced the Malay traditional land system.

<sup>37</sup> ‘*Anak buah*’ literally means niece or nephew, but in the Malay traditional system it meant the people under the authority of Malay chiefs-usually related and live in his ‘area’.

tracked. Since they were not involved in rubber plantations, except as smallholders of generally less than 10 acres of land, their position was again at a disadvantage. As Lim (1976: 147) noted, the Malay political elite who sat in the State Council had no authority over any decisions made by British administrators. If a choice had to be made between a Malay cultivator or aliens, especially European planters to acquire land, it would be made against the Malays (Lim, 1976: 161). It did not help that the Malay elite did not understand the nature of colonial land law. Out of the nature of their social system and lack of any modern knowledge, the ordinary Malays were ignorant. It was also true that the Malays who lived in *kampungs* were not too keen to leave behind their traditional life and join the wage labours in plantations, as this might take them away from their close-knit family. In effect, this led to the 'dual economy' where the peasants preserved their non-commercial traditional economic practices, further separating them from the modern sectors. Only the Malay elite was taken care of by the British sufficiently to quieten them. All of this suggests that it became economically and politically cheaper and less problematic for the colonial administration and the investors to rely on immigrant labour, instead of encouraging the available Malay communities.

Up until 1914, the immigrant labourers were forced to pay their employers for their passage and advances and this situation favoured the employers. By 1911, the indenture system of the Indian labourers was formally terminated by the British, and in 1914, the Chinese indenture system officially ended too. The Indian labourers were later brought using the 'kangany' system, where the 'kangany' (workers on estates themselves) received commissions from employers to return to India to recruit more labourers to be brought into Malaya. Only after 1910, when rubber became an

industry, did the Indians begin to immigrate in substantial numbers. The majority of the Chinese labourers recruited in the early period worked in the tin mines. During the first two decades of the 20<sup>th</sup> century, the Chinese working in the tin mines were estimated to number about 200,000 in the FMS alone. In 1913, the Chinese provided 216,231 of a total of 225,405 tin mine workers. Just as the bulk of the labour force in the rubber plantations was made up of Indians, the overwhelming majority of the mine workers were Chinese. These attitude of the British shows that at this stage, Indians and Chinese were merely considered as 'workers' who were thought to stay temporarily in Malaya.

However, in 1922 there was an act to enable the Indian government to impose some of its terms on the Malayan governments in connection with the treatment of Indian labour in Malaya. A standard wage, compulsory education for Indian labourers' children, the strict regulation of kangany recruiting, and the abolition of penal sanctions for breaches of labour contracts were among the new terms. The conditions under which emigration to Malaya for service as an unskilled labourer was to be permitted were clearly defined. The overwhelming majority of the recruited Indian labourers worked on the rubber plantations. In 1908, the Tamils provided 43,515 rubber estate labourers out of the total of 57,070 in the FMS. In 1918, Indian labourers constituted 139,480 of a total of 201,964 estate labourers in the FMS. During the Depression of 1930-1933, when the price of rubber dropped, a large number of Indian labourers were repatriated. By May 1934, when the position of rubber industry had improved, the Indian government assisted in the emigration of non-recruited workers, marking the by-passing of the services of kangany. On the payment of wages, before the intervention of the Indian government towards Indian labourers in Malaya, it was



considered a matter to be negotiated purely between individual employers and employees. From 1923 onwards, the Indian Immigration Committee had the power to prescribe standard wages for Indian workers, based upon a standard budget that took into account the cost of foodstuffs, clothing, festival preparations, household equipment, return passage to India, savings, and maintenance of dependents. Indian nationalists insisted that these standard wages be applied throughout Malaya, but there was no general rule. The wages for Malay labourers were lower than the wages enjoyed by the Indians. Moreover, the higher wages enjoyed by labourers in Singapore or the differences enjoyed among ethnic groups had already started at this early stage and originated from the different views held by the British or investors towards them (Li, 1982).

It is interesting to note the involvement of nationalists or representatives of the Indian labourers from India itself, such as in 1936, when a representative arrived in Malaya to investigate the conditions of the Indian labourers there when he suggested the re-establishment of the standard wages of 1928. The workers had complained that while they had shared the hardship of the depression with their employers with a cut in their salary, they were being denied the right to share the benefits of renewed prosperity. In early 1938, the old standard wage of \$.50 a day for men was temporarily restored but reduced again on May 1, 1938 to \$.45. This marked the influence of the British government in controlling the conditions of work and the welfare of the Indians compared, for example, to the Chinese labourers who were more independent, often more costly, and in fact prone to organise and strike at the instigation of political agitators (Li, 1982).

As for the Chinese labourers, though there was a lack of concern from the Chinese government towards their citizens working in Malaya, their wages were higher, even on the same plantation. There were several reasons why the employers paid the Chinese more than their Indians or Malays counterparts. They were mostly engaged in piecework rather than on a daily basis, and were willing to work longer hours, therefore earning more by producing more. Almost all skilled-workers were Chinese, and thus paid more. They were also regarded as more efficient, hardier, and stronger than the Indians. If there was a suggestion for them to be paid equally, then the Indians would lose other advantages enjoyed by them. Many employers thus preferred Indian workers rather than the Chinese labours, for the reasons stated above (Li, 1982: 144). The Indians they argued, in the meantime received better treatment in other aspects which were denied to the Chinese.

In this early period, ordinances concerning the welfare of labourers were rudimentary. The first systematic welfare code for the FMS came into existence in 1912, and for the Straits Settlements, in 1920. In 1923, as a result of negotiations between the Malayan governments and the government of India, both these codes were revised. The conditions of Indians labourers were closely inspected by the Indian government through its representatives in Malaya. While the Labour department was occupied with Indian labour affairs, the Chinese labourers were left to fend for themselves, though officials of the Chinese Protectorate (later the Secretariat) acted as assistant labour controllers responsible for their welfare. The labour code stipulated that no labourers should be bound to work for more than six days a week, or for more than six consecutive hours or nine non-consecutive hours a day of actual labour. Any labourer working more than those hours was to receive overtime. Children were not eligible for

contractual employment, and could not be employed in any form of labour except in accordance with rules which subjected such employment to medical supervision. Nevertheless these regulations were rarely enforced, except partly in the plantation sector (Li, 1982: 146). In 1929, the Workmen's Compensation Law was passed by the Federal Council of the FMS, while an identical one was passed by the legislature of the Straits Settlements. According to this law, workers who earned more than \$200.00 a month and who received injuries resulting in death or disablement for a period exceeding seven days or who contracted occupational diseases were entitled to receive various prescribed payments from their employers. Other social legislation, such as the provision of old-age pensions, retirement plans and the like, did not exist in Malaya. Then there were measures directed towards the advancement of the welfare of the labour class, which came from the above law, with some pressure from the British government itself. Li (1982: 147) stressed that there was in fact no labour movement in Malaya in the period from 1895 to 1938. He perceived it as a time of unorganised riots, when the cost of living rose and earnings could not sustain even a starvation-level existence (Discussed in Chapter 6). This was easy for the employers to put down, especially when what the employers did was regarded as a favour rather than an obligation. As such there were no terms of equality where negotiations might apply.

**Table 4.2: Rubber Plantation Area (in acre) According to Ownership by Nationalities, 1920**

Races	Area	Percentage
European	510349	70.8
Chinese	153476	21.3
Indians	4950	6.0
Others	13513	1.9
Total	720288	100.0

Source: Kamaruddin, 1992: 18.

Table 4.2. illustrates the Europeans, Chinese and Indians ownership of rubber plantations in Malaya in 1920. It shows that no Malays held a rubber plantation, of more than 100 acres each.

Again Table 4.3. and Table 4.4. show the same tendency of the extent of ownership of European, Chinese and Indians as compared to others in Malaya in 1938. The significance of this fact is the realisation that the Malays lacked ownership and wealth during this time, encouraging them to fight more enthusiastically for their 'special rights', which were later granted in the constitution.

**Table 4.3: The Distribution of Rubber Estates Among Different Nationalities in Malaya, 1938(acres)**

	European (essentially British)	Chinese	Indian	Others	Total
FMS	853,841	118,076	47,104	13,405	1,032,426
SS	132,165	61,011	12,036	1,646	206,858
UMS	544,414	143,554	28,665	76,062	792,685
Total MALAYA	1,530,420	322,641	87,795	91,113	2,031,969

Source: Li, 1982: 86.

**Table 4.4: Nationality of Ownership, Estates, 1938  
(by size of estates)**

nationality of ownership	Number of estates				Total
	5,000acres and over	1000-4999 acres	500-999 acres	100-499 acres	
European	47	467	237	245	996
Chinese	1	47	94	911	1,053
Indian		5	21	343	369
Others	5	13	10	63	91

Source: Li, 1982: 86.

Table 4.5. illustrates the increase in immigrant labours, especially Chinese and Indians, and to a lesser extent, Javanese. The significance of this table is that it shows a much greater total in the number of Chinese and Indians as compared to 'others' in this category. This fact contributed to the birth of the permanent plural society in Malaya, which became more apparent after WWII when the three major communities - the Malays, Chinese and Indians - fought for their respective rights.

**Table 4.5: Numbers of Estate Labours According to Races In FMS, 1907-1920**

Years	Indians	Chinese	Javanese	Others	Total
1907	43824	4348	6029	2872	58073
1908	43515	6595	4999	1961	57070
1909	55732	12402	6170	2778	77524
1910	n.a.	n.a.	n.a.	n.a.	128446
1911	109633	31460	12795	12127	166015
1912	n.a.	n.a.	n.a.	n.a.	188050
1913	142476	25081	12197	8496	188050
1914	120144	24000	10115	7120	161379
1915	126347	27446	8356	8592	170741
1916	138295	42831	7485	7496	196123
1917	148834	55240	7746	8902	220758
1918	139480	46372	8249	7821	201964
1919	160658	61089	7861	7492	237134
1920	160966	40866	8918	5808	216588

Source: Kamaruddin, 1992: 26.

#### **4.2.1.3. The Ethnic Bargain**

According to Shamsul Amri (1994: 8), the decade immediately after WWII (August 1945-July 1955) was a critical period in Malaysia's modern history. The British had to deal with at least four major challenges - racial strife, labour unrest (Discussed further in Chapter Six), communist insurgency and widespread opposition to the new system it had introduced: the Malayan Union. This led to a situation of near anarchy as a result of war-torn conditions and other negative consequences that developed in turn. On the other hand, the colonial state tried to rebuild the economy and society through various means. This period also saw the setting up of the present-day administrative structures, political arrangements and public policy institutions in Malaysia.

During two weeks of political vacuum before the arrival of the British Military Administration (BMA), the Malayan People's Anti-Japanese Army (MPAJA - largely Chinese), the precursor of Malayan Communist Party (MCP) overtook Malaya. Widespread ethnic 'score-settling' ensued, targeting those they thought were pro-Japanese and needless to say, attacking the almost entirely Malay police force, who worked for the Japanese (Milne and Mauzy, 1986: 21-22). Thus, the British produced the 'Malayan Union' idea which would unite the FMS, UMS, Penang and Malacca as a single crown colony (Singapore was not included because of its large Chinese population and also its strategic value). For the first time, the Malay nationalists united to oppose the program, even though some Malay rulers were threatened to sign the treaty which would strip them of their sovereignty and eliminate the 'special position of the Malays' (Milne and Mauzy, 1986: 22). This period also saw the birth of the UMNO in May 1946, led by an aristocratic Johor family, Onn Jaafar. This was followed by mass Malay demonstrations, boycotts, and protests that shocked the

British. Faced with all these, the British announced in July 1946 that the 'Malayan Union' would be replaced by a federal scheme, with details to be worked out by UMNO, the rulers and the British. There was no provision for the representation of the non-Malays. This further enhances the claim made in this study that the British perceived the Malays as the indigenous people of Malaya, and the immigrants as 'guest-workers'.

The Federation of Malaya 1948 was established in February, re-instituting the rulers' functions, restoring Malay 'special rights' and most important of all, strict citizenship provisions were made as opposed to the 'jus-soli'<sup>38</sup> concept under the Malayan Union that was greatly opposed by the Malays. The UMNO became the dominant Malay political force from then on, for the Malays, and as proven later, in the government as well. As for the Chinese and Indians, their slow reaction was said to be caused by the greater attentions paid towards events in their respective home countries. If the Malayan Union became a reality, the non-Malays had the most to gain. However, the positive outcome was that after the implementation of the 1948 Federation, Chinese and Indian nationalism became more Malaya-centred (Milne and Mauzy, 1986: 24). This was apparent after the birth of the Malayan Indian Congress (MIC) and the Malayan Chinese Association in (MCA) in 1946 and 1949, respectively.

About the same time, there was labour unrest due to dissatisfaction over labour issues and labour laws (discussed in Chapter 6), and the MCP, also influenced by resolutions made at a meeting of young Communists at Calcutta in February 1948, resorted to

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<sup>38</sup> 'Jus soli' means the right of citizenship by virtue of birth in a country.

guerrilla warfare (Milne and Mauzy, 1986: 24). The British declared a nationwide state of emergency that lasted until 1960. During the Emergency, the British made an extra effort to suppress communism by introducing the Briggs Plan, thereby relocating more than 500,000 Chinese to 'New Villages' where they could not be threatened by or tempted into assisting the MCP. In a way, this relocation caused further bitterness towards the government. However, the process towards independence was under way, and the British let it be known that Malaya would not be run by one single ethnic group. This led to attempts at ethnic co-operation, such as the Communities Liaison Committee (CLC), comprised of top leaders of ethnic communities. An attempt by UMNO President, Dato' Onn to open UMNO membership to all ethnic groups was flatly rejected by UMNO members, and this made him resign, and form the Independence of Malaya Party, a multi-ethnic party much encouraged by the British. Tunku Abdul Rahman (nephew of the Sultan of Kedah, a member of royalty) who took over the UMNO presidency, warned that the Independence of Malaya Party would undermine Malay interests. However, most Malays did not join the party, therefore diminishing its multi-ethnic credibility.

What this discussion has shown so far is how the Malayan communities developed their political preferences along ethnic lines, just as they did in aspects of their economic life. The belief is that by choosing racial-based parties such as the UMNO, MCA and MIC, their interests would be protected by their leaders. The British, however, then changed their mind and supported the UMNO and MCA alliance after victories in the municipal elections in Kuala Lumpur in February 1952. In 1954, the MIC joined the alliance, now completing the representative for three major ethnic groups in Malaya. The UMNO viewed itself as the major party of the coalition based



on the Malays as the largest ethnic group, as the indigenous race, and also the biggest electorate - about 87% at the time (Milne and Mauzy: 1986: 27). In the 1955 Legislative Council's first general election, The Alliance quietened their critics and sceptics and won 51 of the 52 seats.

With this impressive win, the British now acknowledged that the way forward for Malaya was through co-operation between ethnic groups, represented by their respective parties. The next hurdle was to create a constitution that would be accepted by all communities. This is where 'the bargain' amongst the ethnic groups came in; 'an agreement' among community leaders on how best to solve future racial issues in Malaya. The essence of the bargain was the 'acceptance by the non-Malay leaders that the Malays, as indigenous race, were entitled to political dominance, while in return the Malay leaders recognised that socio-economic pursuits of the non-Malays should not be infringed upon' (Milne and Mauzy, 1986: 28). The constitution also incorporated the principle of *jus soli*, an issue that was strongly opposed by Malays in the 1946 Malayan Union concept. Moreover, Islam became the state religion (with freedom of religion guaranteed), the powers of Malay rulers were maintained, Malay land reservations continued and a clause introduced so that Malay 'special rights' were protected under Article 153 in the 1957 independent Malaya constitution. This was to include rights such as reservations or quotas for Malays in the federal public service and armed forces, business permits or licences, and educational scholarships. There were segments of each community that rejected the terms, but the majority appeared to accept the bargain and therefore the progress towards independence proceeded. As seen later, this 'bargain' or 'ethnic agreement' was forever 'fought for'

by the Malays and 'challenged' by the non-Malays. As also discussed these issues affected other national policies in Malaysia, including IR.

### **4.3. The Main Issues after Independence**

The main and inter-related issues as discussed below, centred on the on-going conflict between the Malay and Chinese communities that brought about a turning point in the new independent nation. This discussion is followed by an account of the efforts made towards national unity, the establishment of the NEP that extended for twenty years and a long era under the present Prime Minister, Mahathir Mohamad. All these factors have had their own impact on IR policies and practices, as discussed further from Chapter Seven onwards.

#### **4.3.1. Sino-Malay Relations and the 13<sup>th</sup> May 1969**

Twelve years after Independence, on the 13<sup>th</sup> May 1969, the worst racial riot in Malaysian history broke.<sup>39</sup> Two questions that are raised here are - what caused it and what impact did it have on IR?

With regard to the first, Comber (1983: 73) noted the Tunku's claim that it was instigated by the communists coupled with Chinese secret societies. The Minister of Home Affairs blamed the opposition parties, and 'anti-national and subversive elements'. However, the National Operations Council (NOC) which took over the running of the country after the riot, offered other hypotheses. There were differences in the interpretation of the constitution by Malays and non-Malays, and resentment by

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<sup>39</sup> See Comber (1983) who analyses the period before and after the 13<sup>th</sup> May racial riot.

Chinese over the provisions relating to the establishment of Malay as the official language, and the Yang Dipertuan Agong's (*Agong*, or the King) responsibility to safeguard the special position of the Malays, clauses found in Articles 152 and 153 in the Malaysian Constitution. However, the weeks of campaigning leading up to the 1969 general elections were what prompted the riot. Both the Alliance and opposition parties, especially the Partai Islam seMalaysia (PAS), an Islamic party dominated by Malays, and Democratic Action Party (DAP)<sup>40</sup>, contributed to the heightened animosity between the two communities. The Alliance emphasised maintaining 'Malay special rights', with the Tunku saying:

'The Malays have gained for themselves political power. The Chinese and Indians have won for themselves economic power. The blending of the two with complete goodwill and understanding has brought about peace and harmony, coupled with prosperity to the country' (cited in Comber, 1983: 64).

The PAS countered this with a promise of an Islamic state, in order to amend the constitution to give it a more Malay rather than Malaysian slant. The DAP attacked the MCA for 'surrendering Chinese rights to UMNO' and claimed to fight for 'Malaysian Malaysia' - a concept first popularised by People Action Party (PAP) under Lee Kuan Yew.<sup>41</sup> The outcome of the election was devastating for the Alliance since it lost 25.84% of the seats that it formerly held. Worst of all, it lost Penang to Gerakan, with the PAS having a firmer grip on Kelantan. The Gerakan and DAP - two Chinese dominated parties - had considerable success in Selangor. On the 11<sup>th</sup> and 12<sup>th</sup> May, these two parties held 'victory procession' parades in Kuala Lumpur - which saw provocative acts and insults directed at Malays. On the evening of 13<sup>th</sup> May, a group of UMNO supporters assembled outside the house of the Selangor

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<sup>40</sup> DAP was and still is a Chinese dominated party though claiming to be non-communal. It was the Malaysian version of PAP after Singapore was sacked from Malaysia in 1965.

<sup>41</sup> Singapore joined Malaysia with Sabah and Sarawak in 1963. However, the PAP stand on several issues, most importantly on racial issues, drove the Tunku to dismiss it from the Federation in 1965.

*Mentri Besar* (Chief Minister of Selangor) and during the ensuing action Malays and Chinese indulged in killing, arson, looting and burning. Even with police and army reinforcements the riot went on until 15<sup>th</sup> May, with the *Agong* proclaiming a state of Emergency to secure public order.

Relating to the second question, how the government dealt with the aftermath of the riot became a watershed period in Malaysian history. Apart from declaring a state of Emergency, the NOC composed of politicians, civil servants and members of the police and military was set up, slowly taking power from the retiring Prime Minister, and finding ways to solve the problem behind the 13<sup>th</sup> May. A national ideology called *Rukun Negara* was established (discussed below), and new restrictions on free speech were imposed. Milne and Mauzy (1999: 23) note that this even included words used by Members of Parliament, that were likely to promote feelings of ill will between races. The definition of sedition was enlarged under the amended Sedition Ordinance, so that it was an offence 'to question any matter, right, status, position, privilege, sovereignty or prerogative established or protected by the provisions of Part III of the Federal Constitution' (cited in Means, 1991: 14). These are rights of citizenship; Malay special rights; the status and powers of the Malay rulers; the status of Islam; and the status of Malay as the national language. The most important long-term outcome was, of course, the introduction and implementation of the national economic plan, the NEP (discussed below).

#### **4.3.2. *Rukun Negara* as National Ideology**

Means (1991) argued that prior to 1969, Malaysian leaders responded to shifts in public opinion from the detached perspective of the 'benevolent' patron. Public

opinions was important, but the country's elite believed in the understandings and agreements that could be reached among major communities. But after the 1969 riot, the reshaping of public opinion and political culture became a major objective of government policy. The campaign involved the national ideology the *Rukun Negara*, introduced in 1970 to gain public acceptance for the basic political agreements worked out by the first generation of the Alliance. 'Rukun' as contended by Milne and Mauzy (1986) and Means (1976) has two meanings: the first is 'fundamental doctrine and essential part of a religion', but in the context of interracial relations it also means 'quiet and peaceful', 'like the ideal relationship of friendship' or 'united in purpose while mutually helping each other', while 'Negara' means nation. In short *Rukun Negara* promoted five principles: Belief in God; Loyalty to King and Country; Upholding the Constitution; Rule of Law; Good Behaviour; and Morality. Unlike the NEP, the *Rukun Negara* went unopposed. However, whether or not the *Rukun Negara* lasted as a philosophy to lead the nation is another matter and involves research beyond the scope of this study. Suffice to say, in the aftermath of the 13<sup>th</sup> May, the national ideology was supported by leaders in both the government and in the opposition. This shows the wariness after the riot and the mutual desire to move ahead.

#### **4.3.3. NEP as an 'Instrument' to National Unity**

It is interesting to note what Shamsul Amri (1994) argued about the implications of 13<sup>th</sup> May on the future of Malaysia. For Malaysia's self reliance he suggested 'national unity' as a major objective that should always be the priority of the nation and its people in order to achieve their vision. In describing the stability that has been enjoyed by Malaysia since the riot in 1969, Shamsul Amri outlines three crucial elements

which were historically responsible for the creation of what he called ‘ a state of stable tension’ in Malaysia, which in turn provided the condition for the country to evolve into its present state. These are the ‘military’ factor, the ‘ethnic bargain’ factor and thirdly, the ‘development planning’ factor, which refers to the NEP.

Before the restoration of Parliament the government issued a White Paper entitled ‘Towards National Harmony’, outlining the conditions for the end of the emergency. By the time the parliamentary government was restored in February 1971, the NEP was almost ready to be implemented. NEP, as argued by Means (1991:23) became more important than the *Rukun Negara*, because ‘it became the foundation of and the yardstick for all economic and social policy as projected at least until 1990’.

The basic objectives and goals of the NEP were set out in the Second Malaysia Plan (MP2). The first aim was:

‘to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race. The second was to accelerate the process of restructuring the Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function’ (MP2, 1971).

Apart from the modernisation of rural lives, this policy also planned a rapid and balanced growth of urban activities and the creation of a Malay commercial and industrial community in all categories and at all levels of operation. Ultimately, it was hoped the Malays and indigenous people would become ‘full partners’ in all aspects of the economic life of the nation. However, the government promised that no particular group would experience any loss or feel any sense of deprivation. The launching of the NEP was accompanied by impressive statistics of how far behind the Malays were as compared to non-Malays in various sectors of the economy. The NEP

goal in 1990 was that the Malay ownership of and participation in all industrial and commercial activities should achieve 30 per cent. As we will see, it is the second prong of the NEP, the intention to re-structure the society that again created the controversial aspect of the NEP in years to come.

#### **4.4. Mahathir's Era: Industrialisation as the Catalyst to a Developed Economy**

Mahathir made his first impressive mark in Malaysian politics immediately after the 13<sup>th</sup> May riot when he wrote a scathing letter to the Tunku, accusing him of being pro-Chinese, and demanding his resignation as Prime Minister. As a result, he was expelled from UMNO (Comber, 1983). In his political wilderness he wrote 'The Malay Dilemma' which was soon banned in Malaysia but published in Singapore. In it, Mahathir made known his frustrations over the Malays backwardness in the economy and suggested changes in the Malay value system (Mahathir, 1970). In 1999, Mahathir still outlined the importance of a 'united nation of Malaysians', praising 'just and equitable policies' that Malaysia had adopted in politics, education, poverty eradication and economic development. Mahathir admitted that these policies 'have their onerous costs as well as their profound benefits, and have helped Malaysia to achieve significant progress in building a united nation since the racial riots of May 1969' (Mahathir, 1999: 14).

In the last three decades, the transformation of the Malaysian economy has been spearheaded by the industrial sector as a result of a more diversified production structure. Anuwar (1994: 217) argued that policies on industrial investments since Malaysia gained Independence are broadly divided into four periods. The first is the years immediately after Independence (when the Pioneer Industries Ordinance of 1958

was introduced) up to 1969 during which import-substitution industries were encouraged. The second is the period after 1968 (when the Investment Incentives Act was introduced) up to 1980 during which export-related incentives were introduced. This period also saw the introduction of the Industrial Coordination Act of 1975 as an instrument to achieve New Economic Policy objectives. The third is the period after 1980, which coincides with the implementation of the Fourth Malaysia Plan (MP4), and it was also during this period that emphasis was given to second-round import-substitution industries (ISI), including the heavy industries. The last one is the post 1985-86 recession period, which saw the introduction of the Industrial Master Plan (IMP) and liberalisation measures to attract more investments into the manufacturing sector.

During the 1960s, the development planning thrust was chiefly aimed at agricultural diversification and modernisation with more emphasis being given to productivity improvements in commercial crops, large-scale land development schemes, and infrastructure building for agricultural projects. By the end of that decade, the country witnessed its first phase of structural transformation, primarily achieved through agricultural diversification and an expansion of the industrial base. The next decade saw the introduction of the NEP, which coincided with the launching of the MP2 (1971-75) and the First Outline Perspective Plan (OPP1; 1971-1990). The latter became the cornerstone of the government's development thrust for the next two decades, during which both agricultural and industrial growth strategies were perceived within the context of the overall NEP objectives, giving emphasis towards a more balanced growth strategy with more attention given to poverty eradication and



the restructuring of society to rectify ethnic economic imbalances (Anuwar, 1994: 707).

By the beginning of the 1980s, the economy had undergone rapid growth, and more importantly, a structural transformation during which growth in real GDP accelerated from an average of 5.25 per cent per annum during the 1960s to an average of 8.3 per cent during the 1970s. During the 1980s, the economic transformation become more apparent because economic growth related to efforts at industrial expansion. The launching of the MP4 (1981-1985) called for greater efforts towards export-oriented industrialisation (EOI), as well as the promotion of heavy industries. The economy expanded by 7.8.per cent in 1984, but slowed down with a negative growth of -1.0 per cent in 1985. During this period, Malaysia witnessed the negative impact of being an open-economy that is too dependent on the economic well-being of its main trading partners.

What Sharma (1996) argued in his analysis could be used to explain Malaysian state's role in its economy. Eager to 'catch up' with the industrialised world, Third World nations that have just achieved independence embraced what he claims to be 'economic nationalism' and planned industrialisation. The above discussion confirmed this view. The World Bank Report (1993) too, in trying to explain the economic success of Southeast Asia, acknowledged the 'deliberate state intervention' via protection and price distortions. This report admits the neo-classical explanation, which highlights several factors such as low inflation, a stable legal and political framework, open economic systems, and undistorted prices. However, IR and the

human resource policies of governments have been the critical factors in the success story of these economies, as will be discussed from Chapter 7 onwards.

#### **4.4.1. The Industrial Master Plan, 1986-1995**

The formulation of the IMP mirrors the government's efforts to shift its industrial planning approach from a largely market-oriented approach to a distinctly planned or target-oriented one within a free enterprise economy. Thus, the manufacturing sector was called upon by the government to play an increasingly important role in this sphere.

The principal objectives of IMP were first to accelerate the growth of the manufacturing sector to ensure a continued rapid expansion of the economy and to provide a basis for meeting the social objectives consistent with the NEP. Next, it hoped to promote opportunities for the maximum and efficient utilisation of the nation's abundantly endowed natural resources. Thirdly, it aspired to build up the foundation for leap-frogging towards an advanced industrial country in the information age, by increasing its indigenous technological capability and competitiveness (Anuwar, 1994: 715). It is accepted and expected in Malaysia, and perhaps among most developing countries that the state must play a leading role in all the areas connected with technological development. The argument in these developing worlds is that the technology base is still 'embryonic' and lacks the capabilities required for industrial development (Anuwar, 1992: 98). The failure of the market mechanisms to activate any concerted effort towards positive change makes it all the more important for the state to intervene.

The initiative of the Malaysian government started in earnest with the launching of the Fifth Malaysian Plan (MP5; 1986-1990) and the IMP (1986-1995), both in 1986. Before that period, the efforts were ad hoc in nature, though there existed, for example, in the colonial period the Forest Research Institute (1879), followed by Institute of Medical Research in 1901, and the Rubber Research Institute (RRI) in 1925. During the post-independence period there were research efforts towards increasing farm activities, developing new technologies in farming, and intensifying research in food processing. Thus the Malaysian Agricultural Research and Development Institute (MARDI) was established in 1969 and Palm Oil Research Institute of Malaysia (PORIM) was established in 1979. The agricultural emphasis was on searching for new clones and high-yielding seed varieties of rice, rubber and palm oil. As the government began to acknowledge the importance of science and technology (S&T), the Ministry of Science, Technology and the Environment (MOSTE) was established in 1976, complemented by the role of the National Council for Scientific Research and Development (NCSRD) from 1975 onwards. In the same year, the merging of the Standards Institute of Malaysia and the National Institute of Scientific and Industrial Research to become the Standards and Industrial Research Institute of Malaysia (SIRIM) marked another significant development in terms of industrial Research and Development (R&D) in the country. Placed under MOSTE, SIRIM undertook and promoted the task of industrial research and assisted industries in efficiency and development. The Coordinating Council for Industrial Technology Transfer was then formed under the MOSTE in 1977 to coordinate the activities of various agencies dealing with technology transfer so as to accelerate the industrialisation process in Malaysia.

#### **4.4.2. Other Supporting National Policies**

Mahathir will be remembered as the PM who initiated a number of policies that he believed would support the NEP objectives (discussed in Chapter Seven onwards). The first was to leave a direct impact on IR, the Look East Policy (LEP), when Malaysians were urged to look towards and emulate Japan and South Korea for their 'diligence, discipline, loyalty, the promotion of group rather than individual interest, high quality and good management systems in business' (Milne and Mauzy, 1999: 55). In line with this was the Malaysia Incorporated concept, encouraging business owners and workers in the public and the private sectors to work together, and enabling Malaysian firms to create companies a la the Japanese *sogo soshas* (the large trading companies). One controversial suggestion that will be discussed in this study was the encouragement towards 'in-house' unions - another idea that stemmed from the LEP.

In 1983 came the announcement of the Privatisation Policy, where Mahathir believed the 'profit-seeking' private sector could 'deliver the goods' that were lacking in the government sector (Milne and Mauzy, 1999: 56). This was an ideal vehicle for achieving the NEP aims, *Bumiputeras* could be employed in business, particularly as entrepreneurs, thus adding to the assets held by them. Even though this policy faced criticisms and had flaws, as discussed further in this study, Mahathir adhered to it until the 1990s.

#### **4.5. The National Development Plan - a Continuation or a Breakaway?**

In 1990, the NDP was introduced to replace the NEP. The NDP re-stated some of the NEP's aims, such as promoting balanced development and optimising growth, as well

as eliminating social and economic inequalities (MP6, 1991). However, there was an emphasis on shifts to rapid industrialisation (Kok, 1994: 98). Poverty eradication was now directed at hard core poverty and restructuring the society with the aim of actively promoting a 'viable and resilient' *Bumiputera* into the commercial and industrial community. There was also a focus on the human resource development (HRD) as a fundamental requirement for achieving the objectives of growth and distribution. In 1992, Mahathir produced his 'Vision 2020' idea - for Malaysia to attain the status of a highly-developed nation in its own mould, that is developed not just economically, but also politically and socially. Until 1997, Malaysia had enjoyed a period of continued economic prosperity, and it was helped by a more accommodating policy to non-*Bumiputeras* that assisted in moderating ethnic tension. It is along the lines of this main picture of Malaysia that we are going to analyse the development of a sub-system; less talked about and seemingly less important, the relations of the state with the employers and employees in Malaysia. The early contention here is that the issues revealed and discussed above directly and indirectly influenced the role of the state in IR. It is just a matter of how and to what extent. However, again the main interest is to analyse why the state was able to determine its roles in the way it did and what factors enabled this role to be performed. This analysis therefore includes analyses on the trade union movement, the law, the administration and process that Malaysia experienced from its earliest period until the end of the NDP in 2000.

#### 4.6. Conclusion

The discussion above highlights the main issues and themes in Malaysian history until the end of the NDP. It contends that much of what happened in the past influenced the development of future Malaysia.

The first glaring factor that frequently looms large in Malaysian history is the racial issue involving, in particular the relationship between the Malays and the Chinese. The implication is that the events following the British colonial era, the Japanese Occupation, and then in 1948 the Federation of Malaya Agreement as well as the outcome of 13<sup>th</sup> May 1969, brought heavy consequences to current Malaysia. The beliefs in the special rights of the sultans and their Malay subjects, embedded in the 1948 constitution, and later in the 1957 independent Malaya constitution (which has lasted to date), became the legal basis for the insertion of *Bumiputera* rights in the NEP, and later again in the NDP.

The 13<sup>th</sup> of May 1969 taught the Malaysian leaders that 'open conflict' should not be allowed in a fragile multi-racial country, such as Malaysia, that still faced many unsolved problems. The NEP was the direct result of this relationship of insecurity within and between each ethnic group, until it was spelled out in the form of a twenty year national development policy. The Malays, unhappy with their economic backwardness, won the struggle for their 'rightful position' to be recognised, this time in a more structured and systematic policy. This national policy then enabled the state to develop others that have the ultimate considerations for the Malays, or as later termed politically, the *Bumiputeras*. The NDP is then a continuation, even though, as will be discussed, it managed to break away from some of the old issues, and advance

Malaysia and Malaysians towards a better future, at least economically. However, the most important fact emerging from the Malaysian past is that the political leaders of the coalition government believed that to achieve national unity in Malaysia, a subtle 'consensus' approach is the best. This fact will be illustrated again in the relationship between unions and the government, as discussed further in Chapter 6.

Meanwhile, the following chapter discusses the research methods.

## **CHAPTER FIVE**

### **RESEARCH METHODS AND PROCEDURES**

#### **5.1. Introduction**

As discussed in the introduction to this thesis, the main objective of the current study is to examine the contending factors that shaped the role of the state in Malaysian IR. As argued in the review of the literature, there is a close relationship between the role of the state in the economy and the role of the state in IR. In Chapter Three, the discussion highlights the state as the most prominent player in the IR in developing countries, while Chapter Four has given an overview of the scenarios in Malaysia from the colonial period until the 1990s. All the issues and themes that influenced the state or became the turning points in Malaysian history have been laid out with the intention of providing a background understanding on the process experienced by Malaysia in its IR system. The contention is that what influenced the state in those turning points of its history also influenced the state's roles in its IR policies. However, this does not eliminate other new factors from being analysed.

This chapter therefore describes the research design that has been used to achieve the objectives of the study. It discusses why and how certain methods are used to generate data to examine the research questions. It also explains how these methods are carried out, how the data are analysed, the assumptions made and the limitations that are faced.



## 5.2. The Research Design

A researcher must be justified in adopting either a qualitative or a quantitative method or both in their study. For the same reason, the discussion below explains why a qualitative method has been chosen. Locke, Spirduso, and Silverman (1993) argue that every graduate student must give an honest answer as to why he/she has chosen a qualitative approach in his/her study, and that answer must show compatibility with answering the research questions, and the requirements for carrying out a qualitative study. It is in that capacity that I wish to clarify certain points in this chapter.

First, why have qualitative methods been chosen as the means to answer the research questions, with a view to formulate a thesis of this study? This research is about the role of the state in IR in Malaysia. It analyses the development of IR practices in the country, by scrutinising the roles played by its key players - the state, the employers and the trade unions, as representatives of the employees. In this context, the arguments are given from the state's point of view: what the state has done, how, and most importantly, why it has done it. It focuses more on the development at policy level, as enacted by the present government, and comparison are drawn with previous ones. A qualitative approach is also the best means to achieve a broader view, one that captures not just the present but also the past of the IR system in Malaysia. What this research needs in order to answer its research questions are what Patton (1990: 39-41) calls 'themes of qualitative inquiry'. He lists ten such themes, out of which six best fit this research interest.

On *naturalistic inquiry*, Patton stresses that this is research about real-world situations, as they unfold naturally. The researcher must therefore be non-

manipulative, unobtrusive, and non-controlling. He or she must be open to whatever emerges from the study, and must not put constraints on the outcomes. Such criteria apply to this research, which looks at the development of the role of the Malaysian state in IR. Even though there are many theories related to this, few assumptions can be made unless a thorough analysis has been done on the topic. Moreover, the researcher must look at the phenomena of interest from a *holistic perspective*, that is, by trying to understand the whole focus of study as a complex system. As Patton (1990: 40) argued, a *holistic perspective* will allow ‘a focus on complex interdependencies not meaningfully reduced to a few discrete variables and linear, cause-effect relationships’. This has been carried out in Chapters Two to Four, where a comprehensive picture has been given first on the nature of the role of the state, then its role in IR, and lastly on themes and issues surrounding Malaysian history. The reason for this approach is to clarify beforehand the important background themes and issues that have influenced the state especially in its national policies since, as argued in this study, that has impacted on its IR policies too.

An *inductive analysis* will immerse the researcher ‘in the details and the specifics of the data to discover important categories, dimensions, and interrelationships; begin by exploring genuinely open questions rather than testing theoretically derived (deductive) hypotheses’ (Patton, 1990: 40). This research needs to do just that, before either conforming to or rejecting any theory. Categorisation, dimensions and interrelationships within the roles of the state have to be explored, first using a triangulation of sources and methods, before conclusions could be derived.

*Qualitative data* comprise ‘detailed, thick description; inquiry in depth; direct quotations capturing people’s personal perspectives and experiences’ (Patton, 1990: 40). This research derives its data from first; the written documents and existing statistics (primary or secondary); and second, interviews with key informants. Both are specifically chosen to complement and be compared to each other. Key informants have been carefully selected for their knowledge and experience, and the information they give is cross-checked with existing sources. This research believes in *dynamic systems* (Patton, 1990: 40) which ‘give attention to process, which also assumes that change is a constant and ongoing process, and this is either on an individual or at a bigger scale, an entire culture’. This research also relies on what Patton called (1990: 40) *personal contact and insight* where the researcher has direct contact with and can access people, situations and phenomena under study. As Patton argues, the researcher’s personal experiences and insights are an important part of the inquiry and critical to the understanding of the phenomenon. Patton also suggests that the researcher assume each case to be special and unique, in what he termed as *unique case orientation*.

What can be perceived as more interesting is what Patton (1990: 40) calls *emphatic neutrality*; that is, while admitting that complete objectivity is impossible, and pure subjectivity undermines credibility, the researcher should try to understand the world in all its complexity: ‘not proving something, not advocating, not advancing personal agendas, but understanding’. He or she may include personal experiences and emphatic insight, but must be non-judgemental toward whatever content may emerge. In this context, the researcher admits her familiarity and the extent of knowledge on Malaysia and its system of administration but stays objective to the methods and

findings of this study. In addition, the researcher agrees with Patton, who argues that there must be *design flexibility*, where the openness of the researcher to adapt inquiry as understanding deepens and/or situations change. Avoiding getting locked into rigid designs that eliminates responsiveness therefore becomes essential. In this case, the interview questions, even though they are from prepared sets, vary from person to person regardless of whether they may represent the same institutions. At times too, the questions asked were expanded and became open-ended explorations, based on the knowledge of the interviewee, and the extent to which the person was willing to talk. Nevertheless, the most important factor of all as far as this study is concerned, is that one must have *context sensitivity*. This is where findings in qualitative research are placed in a social, historical and temporal context. Such context sensitivity should make a researcher dubious of the 'possibility or meaningfulness of generalisations across time and space' (Patton, 1990: 40).

Based on the above argument, the qualitative method is the most appropriate approach for this study, because of its suitability to be used to answer the research questions.

### **5.3. The Research Relationship**

For the purpose of this study, a relationship has been established with the research participants. In this context, the relationship is not only about 'gaining entry' to the setting or 'establishing rapport' with the participants but more about establishing the kind of cooperation that is needed in this study in order to answer the research questions.

Basically this thesis analyses the development of the role of the state in Malaysian IR. There are at least five main parties involved in this research. First there is the government, and in particular, the Human Resource Ministry (MoHR) with all the departments under its jurisdiction, including those that take particular care of the private sector IR. Second is the Public Services Department (PSD), which manages the public sector IR only. Then there are two main bodies of trade unions, which are actually divided into two: MTUC for the private sector unions and; the CUEPACS for the public sector and the employer associations which are mainly federated under the MEF. These institutions have given a positive response to using their facilities, getting access to information needed for the research, and about their officials giving interviews. The researcher made prior contact with and interviewed some of them about a year before embarking on this research. Thus, key informants include the Director Of Industrial Relations Department of Malaysia (from the MoHR), the Secretary General of CUEPACS, and the Industrial Relations Officer and the Research Officer of MTUC. These people are significant since they are directly involved with the IR process. Moreover, all have agreed to offer their knowledge on the situation and nature of the practices and the development of IR system in the country. Since these are the key people who are actually involved in the IR process, their opinions are essential to this research.

There are also other parties who influence the Malaysian IR system. In particular, there are some regional trade unions, and international bodies such as the International Labour Organisation (ILO). From these institutions, all the relevant published materials are analysed and compared with the available data from Malaysia. Other than that, views and data from local non-governmental organisations (NGOs),

politicians and academicians are also included in this research as they are the parties that are either directly or indirectly involved. Their input is tested against the rest of the data gathered from the obvious main sources, the government and the trade unions.

The existing/available data are gathered from the National Archive where appropriate, and from various Malaysian libraries. Libraries that were used for this study include the Malaysian National Library, the MoHR Library, the PSD Library, the INTAN Library, the University of Malaya libraries, and those of the MTUC, MEF and CUEPACS.

#### **5.4. Sampling**

The discussion below describes and justifies the decisions made regarding sources of data, as well as the sites, persons, places and times for the fieldwork. The sampling in qualitative research includes even *thinking* in a ‘sampling-frame terms’ (Miles and Huberman, 1984: 41). For example, while interviewing an informant, one needs to consider why this informant is important, and who, from there, should be interviewed next, in order to avoid bias.

In the quantitative research design, two types of sampling are generally considered: *probability sampling* and *convenience sampling*. In probability sampling, each member of a society has a known, non-zero probability of being chosen, which allows for a generalisation of statistics from the sample to the population of interest. Light *et al* (1990: 56) argue that this produces the best, high-quality research, with the rest considered as convenience sampling, which is strongly discouraged in a quantitative

research. In this qualitative research, however, the third category, called *purposeful sampling* (Patton, 1990: 169) or *criterion-based selection* (LeCompte and Preissle, 1993: 69) is adopted. According to Maxwell (1996: 70):

‘This is a strategy in which particular settings, persons, or events are selected deliberately in order to provide important information that can’t be gotten as well from other choices’.

Weiss (1994: 17) argues that a great deal of qualitative research do not use sample at all, but uses *panels*, people who are considered unique and able to be informative since they are experts in an area or were privileged to witness events. Selecting times, settings, and individuals that can provide us with the information we need in order to answer our research questions is the most important consideration in qualitative sampling decisions (Maxwell, 1996: 70). Maxwell (1996: 72) lists four goals for *purposeful sampling*, namely, first; achieving representativeness or typicality of the settings, individuals, or activities selected. Second; to adequately capture the heterogeneity in the population, and to ensure the conclusions represent the entire range of variation, in this context the parties involved in the study. Third; to select the sample to deliberately examine cases that are critical for the theories with which we began the study finally. The fourth goal is to establish particular comparisons to highlight the reasons for differences between settings or individuals. Based on the arguments above, let us look at the sampling process of this study.

The first issue discussed here concerns the available/existing data, either primary or secondary sources. The materials cover the period from the early labour movement, which marked the start of IR system in Malaysia, as discussed in Chapter Six. However, for this period, the materials used are mostly derived from secondary

sources. The data/source depend much on the available work already published by the previous researchers, which fortunately, were considerable. The researcher use primary materials, interviews, and newspapers to support data and arguments, especially starting from 1957, as it marked the return to the indigenous people of their political power, with the co-operation of the other two main ethnic groups. It was also still possible to find people (veteran trade unionists) who were involved in the IR process and able to offer insights into the system in the past.

Prior meetings had been made a year before the start of this research, and once this study started, contact was made in writing with the government institutions in charge of the IR system in Malaysia. Prior appointments were also made with trade union bodies, particularly CUEPACS, MTUC and MEF. Agreements were reached and permissions given to use the resource bases (libraries and computer facilities) of the respective departments. Moreover, written requests were made and granted to conduct interviews with the officials from the government departments and the trade union leaders and employers' federation.

Previous explorations into the insights of, firstly; the academics, and in particular the ones who have carried research on trade unionism or the government's role in the politics, economics or social aspects of Malaysia. This knowledge was derived chiefly from their research into the government's role on the political, economic and social aspect of Malaysia. Second, sources from the NGOs were also given due consideration since there is a growing interest shown by them in Malaysia in affairs that concern the people. Recently, there have also been a growing number of NGOs in Malaysia, whether as independent or dependent members of an international body.



Third, views of the Malaysian politicians, who either still are, or have been directly or indirectly involved in the IR system in Malaysia were taken into consideration.

As far as the research is concerned, the views of all the parties chosen are based on their significance in the IR system in Malaysia. In other words, even though they may be a component party of the ruling government, or a member of the opposition, if they do not play a prominent role in the making of policies, or in the development of the IR system, they were purposely left out from the discussion. Representativeness in this sense is based on the role played rather than numerically.

## **5.5. Data Collection**

The discussions below describes the methods used in this research, such as what data were collected, how they were collected and how much of these data are needed. For the purpose of this research, several ways of collecting the data are discussed.

### **5.5.1. Primary and Secondary Data**

Interviews, questionnaires, observation and experiments are all important sources of data in social research, but they do not comprise all the information gathering. Existing sources, whether in writing, figures or electronic form, are also important bases for research (Sapsford and Jupp, 1996: 138). There are three factors that mark the importance of existing sources. First, even though this type of source is often played down, social researchers have, in fact, built extensively on the existence of such sources as government reports, official and unofficial records, private papers, and statistical collections. Just like the rest of the information gathering, these sources have advantages and limitations, and could be used either well or badly. Second,

existing sources could be exploited at various stages of the research process, as in the literature review, and again in the later development of the research. The third point, is that these sources are not neutral 'asocial data' which are 'necessarily self-evident' (Sapsford and Jupp, 1996: 138).

This research relies greatly on existing sources, including the primary and the secondary sources about the IR system in Malaysia. Sapsford and Jupp (1996: 141) best explain what is meant by primary and secondary data:

'Historians and others conventionally regard as primary sources those that were written (or otherwise came into being) by the people directly involved and at a time contemporary or near contemporary with the period being investigated. Primary sources, in other words, form the basic and original material for providing the researcher's raw evidence. Secondary sources, by contrast, are those that discuss the period studied but are brought into being at some time after it, or otherwise somewhat removed from the actual events. Secondary sources copy, interpret or judge material to be found in primary sources'.

In this research, the primary data are the unpublished data or the original copies of important materials. They are to be found in the respective offices, or if older, in the National Archive of Malaysia, and take the form of statistics, memos, minutes, annual reports, gazettes, files, government records or documents, or trade unions or political parties' documents. The secondary data, however, are the published materials, in the form of books, journals and articles on the Internet or in printed form, such as newspapers. These have been gathered from libraries, the National Archive, the government or trade union offices and libraries, or the Internet. Where the Internet is used, the researcher has ensured that the data source has a reliable base. Newspapers are considered an important source for this research as news, policies or government's

decisions can easily be gathered from them, rather than from the respective government offices.

Much of the important data, including primary, unpublished raw data, were from the MoHR, and the PSD. Mostly, the data from the MoHR are from the Industrial Relations Department (IRD), the Labour Department (LD), and the Trade Union Affairs Department (TUAD) of the same ministry. These include yearly official statistics consisting of, for example, details of memberships of trade unions, the number of strikes, information on collective bargaining processes and files (where possible) consisting of minutes that usually explained the policies made. The gathering of these unpublished data was only made possible by establishing a good rapport with the respective government and unions' offices.

### **5.5.2. Interviews**

The interview method, which is used in most qualitative research, is considered as highly important in this research. Interviews have been made with key informants from all the relevant sources including officials from the government sector, especially from the MoHR, who take charge of the administration of the private sector IR. There are, in fact, seven departments in the MoHR, which are responsible for administering and overseeing the IR system in the country. These are the LD, Peninsular Malaysia, the LD, Sabah, the LD, Sarawak, the IRD, the TUAD, the Department of Occupational Safety and Health, and the Manpower Department. Of these, the three most important are the IRD, the TUAD and the LD, Peninsular, which is the headquarters for Malaysia. Apart from that, there are several other departments/organisations that either report to the MoHR or are independent, but still

deal with labour matters in Malaysia. These are the Social Security Organisation (SOCSO); Employees Provident Fund (EPF); Human Resource Development Fund (HRDF); and the Industrial Court. Even though no interviews were conducted with the officers in charge of the rest of the departments, (apart from the three most important departments mentioned), primary and secondary data were gathered and used if matters implicated them in the analysis. Since the focus of this research is the role of the state in IR system in Malaysia, it is only logical that each of the above departments and the role of the related institutions are scrutinised. Their functions in the 1990s, as stated in their objectives, are analysed based on the facts gathered through library works/existing sources, and have been counter-checked in interviews with representatives of the unions and the officials.

It is interesting to note that the MoHR officials interviewed were quite co-operative, despite their positions as government servants tied to the General Order. Only one official 'warned' the researcher to not being 'too critical' of government policies in this study. In general, however, the officers at MoHR, particularly from the three departments, were helpful in giving their insights. One could not help but wonder if it could be due to their interactions with unions and employees in the private sector, and also the MEF. These represent individuals and bodies of the private sector who are known for being less bureaucratic. This is not to say the MoHR officials have been 'too willing' to impart 'inside information', as they needed extra time and more visits before the conversations became less official and more relaxed. That explained the three fieldtrips made during the completion of this study.

The second group of government officials interviewed was from the PSD, which takes charge of the public sector IR. There is a difference in the attitude shown here towards the interview. The officers were more conservative in their approach to answering the questions, with one insisting that the researcher write down exactly what was said. The difference, as compared to officers in MoHR, could be due to the nature of their job whereby they are dealing with matters that concern government policies affect government servants, and thus from time to time relate to government public employees' unions. As a result, they tried harder to clarify their views, and it was hard not to notice their reserve in saying things 'off the record'. This is not to deny that they were co-operative to the best of their abilities, within the constraints of the job description.

The next group interviewed were officials from the two main trade union bodies that represent employees from the private and the public sector: the MTUC and CUEPACS. The individuals chosen for interview were the ones involved at the policy-making level. This was purposely done to give a comparative weight to the status of officers interviewed from among the government sector. Almost all the MTUC leaders and officials were found to be more frank and open in their accounts on the roles of the state and the role of the unions in Malaysia. However, there are exceptions, such as the MTUC President himself. As discussed in Chapter Nine, his appointment by the government as a senator in the House of Senate in the Malaysian Parliament, was questioned by even his colleagues. There were concerns that he might be influenced by the government and therefore shied away from being blunt on government policies on IR. He was evidently more in line with the President of

CUEPACS, who had also just recently gained his *Datuk*<sup>42</sup> from one of the state's government. Both were seen to be more restrained in their interviews. Leaders from CUEPACS were generally more restrained in their analysis or comments and this related very much to the argument in this study that the public sector employees as represented by CUEPACS has a 'political' relationship with the government, therefore more restrained in their approaches as compared to trade unionists in the private sector (as discussed further in Chapters Ten to Twelve). However, overall, the trade unionists offered invaluable insight to the nature of Malaysian IR in both sectors.

In addition, there were mixed responses from those who have 'retired'. Retired unionists were more 'straight to the point', and this especially applied to those from the MTUC or those who have served both in MTUC and CUEPACS. Even though retired, all unionists interviewed were very much interested in what went on in the IR issues, and some are actively involved at union matters at international level. Needless to say, they offered valuable insights that have been lacking in all the previous research conducted on Malaysian IR thus far.

Only two officials from the MEF were available, even though, admittedly, more would have been more appropriate. Those who represented the MEF, however were ones that apparently could offer the most information, and since they were not constrained by government rules and regulations, they were more 'open' in their views. There were also two interviews conducted with representatives from the employer's side, and their participation was valuable. The same, and more could be

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<sup>42</sup> 'Datuk' is an honorary title, given away by the government, usually through the Sultans who head the states in Malaysia.

said of interviews made with a very prominent Singaporean trade unionist and cabinet minister, an NTUC Deputy Secretary General, and a regional trade union representative from the ICFTU-APRO. There was also one interview conducted with a very prominent trade union leader (the SBSI) from Indonesia. The lists of names, their position, place and dates of those interviewed are found in Appendix I.

## **5.6. Data Analysis**

In data analysis, a matrix was first used to show the logical connections between research questions and research methods: that is sampling, data collection, and data analysis decisions. This matrix is based on the one used by LeCompte and Preissle (1993). However, due to the complexities of the arguments and the incomplete nature of the available data, this method was used more as a guideline. The data gathered were generally sorted, based on the themes and issues identified, and used accordingly.

Maxwell (1996: 77) argues that the best way to deal with qualitative data is to start analysing as soon as the first data collection process ends. He suggested that:

‘..the experienced qualitative researcher begins data analysis immediately after finishing the first interview or observation and continues to analyse the data as long as he or she is working on the research, stopping briefly to write reports and papers’ (Maxwell, 1996: 77).

Therefore, the first step that the researcher made was to analyse the fieldnotes, interview transcripts and documents collected, by reading and making notes on them. Based on that, there are three choices of analytic options (Maxwell, 1996: 78). The data can be written in memos, categorised (by coding or thematic analysis) or

contextualised. Miles and Huberman (1994: 72-75) suggested writing memos as we perform data analysis, so that it captures our analytic thinking about the data.

Categorising strategies that are used in this research are through coding, and sorting the data into broader terms and issues. Coding in the qualitative research is different from coding in the quantitative research. In qualitative research, the goal of coding is to ‘fracture’ the data and rearrange it into categories that facilitate the comparison of data within and between these categories (Strauss, 1987: 29; Maxwell, 1996: 78). Or by using another form of categorising analysis, the data is sorted into broader themes and issues. Glaser and Strauss (1967) argue that the key feature of most qualitative coding is that it is grounded in the data. While some coding categories may be drawn from existing theory, others are developed inductively by the researcher during the analysis, or taken from the conceptual structure of the people studied. In order not to lose the original context from which they developed, codes and memos are linked, either physically or by cross-referencing, to the data that gave rise to the categories.

The third method, contextualising strategies, is an attempt to understand the data in context, using various methods to identify the relationships among the different elements of the text (Atkinson, 1992; Mishler, 1986). What these strategies have in common is that they do not focus primarily on relationships of similarity that can be used to sort data into categories independently of context. Instead they look for relationships that connect statements and events into a coherent whole (Maxwell, 1996: 79). But in this research context, the second contextual strategy is used which involves identifying connections between categories and themes. This is a broader



type of contextualising step, with results that can construct the theory for the research, and this, in fact, is the primary goal for qualitative research (Dey: 1993).

### **5.7. Assumptions / Limitations**

Two aspects of assumptions or limitations of this research have to be admitted. The researcher made the assumption that the data collection is workable with no serious obstacles. This assumption is based, first, on the research relationship established between the researcher and the research participants. It is also due to the prior arrangements made before the actual fieldwork, the understanding that the researcher will not face the problem with getting the available data, or doing the interviews with the respective research participants. As far as this study is concerned, the research participants for interview sessions are representative to the area of study and are able to offer answers to the research questions. The validity of the findings through interviews is going to be cross-checked with the available data which are gathered from all the parties involved in the industrial relations system in Malaysia, not only from the government.

Another the constraint was the period for data collection, which took longer than anticipated. What happened was that during the fieldwork, the researcher faced unexpected problems that disrupted the arranged meetings or work, and also while on the fieldwork, it is discovered that further interviews or library work were needed. This meant the researcher had to spend more time on data collection, and in the case of interviews, the following interviews sometimes were performed in the next year. This incurred unexpected costs, though the outcome was satisfying. The follow-ups did help to provide insights and establish better relationships with the sources, thus

providing more valuable input that were impossible without such a close and relaxed working relationship.

However, one particular problem relates to the sampling being based on key informants. Maxwell (1996: 73) calls it *key-informant bias* and argues that since the researcher has relied on a small number of informants for a major part of their data, even if these informants are purposely selected and the data themselves seem valid, there is no guarantee that these informants' views are representative of the group as a whole. Heider (1972) and Sankoff (1971) suggest the researcher do a systematic sampling. To achieve that, the researcher has tried to be as systematic as possible in selecting the key informants, and making sure they represent the policy-making process of the organisations chosen in this study. Moreover, the researcher needs to use triangulation, that is, using more than one method in collecting data. For example, to counter-check the information given by key informants in an interview, other sources are also used. A government officer may only give positive information regarding the government's role in Malaysian IR, but the researcher then always counter-check the same information based on primary and secondary data. Interviews with other officials from the trade unions, the MEF or views from politicians (from the government and opposition parties), or the NGOs also provide a more balanced view. By doing that, it is hoped that the validity threat is minimised. In the context of this research, that is exactly what the researcher has done.

## **5.8. Conclusion**

This chapter has explained in considerable detail, first the research design of the study, the research relationship that has been established, the sampling, the data

collection process and the data analysis. In doing so, the researcher has explained what has been done prior to the research, what is to be done next, as well as why and how and admits the assumptions made and the limitations that she has had to face during the fieldwork. Nevertheless, efforts have also been made to ensure that these obstacles are reduced using all the means available in qualitative research.

In justifying why qualitative methods have been used, the researcher has pointed out that the reasons are purely academic in the sense that these methods answer the research questions best. The rest is a step-by-step account of how the procedure of the research has been undertaken. All three main parties of IR actors in Malaysia were analysed, through using the existing sources, interviews and in part, observation. Mostly, the use of secondary sources applies to for the early period of analysis of IR in Malaysia. Primary sources for this early analysis are only counter-checked where conflicts in information occurred. Regarding contemporary Malaysian IR, primary sources are the major contributor, and secondary sources are relied upon only when there are no primary sources available. To complete this, interviews are arranged with the various institutions involved in the system. Notes/memos, interview transcripts, and existing sources are coded, based on the categories/themes of the research. After taking all the precautions of the validity threat, it is hoped that this research will contribute some new findings to the body of knowledge regarding IR.

From Chapter Six onwards the analysis focuses on themes and issues of Malaysian IR. It starts with the impact of the colonial government on the labour movement in pre-independent Malaya.

## CHAPTER SIX

### THE BIRTH OF THE LABOUR MOVEMENT AND TRADE UNIONISM

#### 6.1. Introduction

Chapter Four gave an overview of the significant issues and themes that form the background of this study on the role of the state in Malaysian IR, and also shed light onto important events, issues and policies that surround and affect Malaysian plural society during the whole period being examined. Moreover, it highlighted the significant social, economic and political experiences of Malaysia, challenging Sharma's view (1985) of 'stages of industrialisation'<sup>43</sup>, and Kuruvilla's (1996) 'economic development' theory. It was suggested that all aspects of Malaysian history, as well as current factors have helped shaped the development of Malaysian IR.

This chapter analyses the birth of Malaysian IR, which started with the inception of wage labour and commercial agriculture in Malaya until its independence in 1957. In exploring the colonial state's roles and how it shaped Malayan IR, in both the private and public sector, it is suggested that the British colonial state dominated both the political and the economic sectors and consequently the IR system.<sup>44</sup> This chapter also notes the significant stages of ethnic relations that developed during the colonial rule and influenced the nature of Malaysian IR in later years. The contention here is

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<sup>43</sup> Sharma (1985:17) suggested that the different stages of development in countries reflect their positions internationally, and less industrialised countries could be classed as least industrialised, semi-industrialised and newly industrialised. These groups, he argued, have their own pattern of IR (refer Chapter Three).

<sup>44</sup> There were the Portuguese (since 1511) and the Dutch in Malacca (1641) before the British. In between British colonialism there was the Japanese Occupation in Malaya during World War Two. The history of British intervention in parts of Malaya and then the whole of the Peninsular can be found in various works, such as Li (1982); Emerson (1937); Furnivall (1948); Chin (1946); Purcell (1946); Swettenham (1948); Sadka (1968) and Winstedt (1958), among others.

that this early stage contributed to the development and shape of Malaysian IR in the post 1957 era. This especially refers to the birth of moderate unions and unionism, the separate treatment for the public sector and the significance of ethnic issues as contributing factors shaping IR policies.

This chapter starts with an analysis of the Malayan labour movement before WWII, which marked the beginning of IR in Malaya, especially amongst immigrant Chinese and Indian labourers. Next, the short Japanese Occupation is explored, analysing worsening race relations especially between Chinese and Malays due to the different treatment they received and the Malays' reluctance to support communism. The period after WWII is then discussed as this was the turning point in the development of the Malayan labour movement, which saw the British return to Malaya, imposing laws and making efforts to 'liquidate' the militant labour movement, thus emphasising the state's intervention in IR. This period also covers the taming of the labour movement, especially of the MTUC in the private sector. An analysis is then made of the public sector unionism.

## **6.2. The Malayan Labour Movement before the World War Two**

While Li (1982: 147) argued that there was no labour movement in the early days of industrial economy in Malaya, that is from 1895 to 1938, evidence has shown otherwise. The origins of trade unions had already started among the small Malay working class as early as 1894 (Morgan, 1977; Purcell, 1948; and Roberts, 1964 as cited in Jomo and Todd, 1994: 55). However, the Malayan labour movement at this stage was dominated first by the Chinese, and later by the Indians. The Chinese, who brought their traditions from China, encouraged Chinese labourers to be members of

secret societies, guilds or Mutual Help Societies as this tradition had had been established in Singapore and main towns in Malaya over a century before that (Blythe, 1969; Gamba, 1962a). The secret societies and guilds were composed of both employers and employees and therefore could not be termed as trade unions. However, they managed, controlled and settled labour issues between them, marking the emergence of a labour movement in Malaya, and therefore the birth of Malayan IR as well as awareness of the plight of workers in the country.

The Chinese labour movement from 1920 onwards should be viewed against the background of Chinese politics and nationalism, which saw the emergence of leftists, communism and militant movements among Chinese workers (Gamba, 1962a: 4; Kamaruddin, 1992). The Chinese labour organisations from the 1920s to 1940s were then influenced by broader Chinese, anti-Japanese, anti-colonial or other ‘international’ pan-Chinese concerns (Jomo and Todd, 1994: 57). The *Profintern* (the communist trade union international) influenced the amalgamation of several trade unions all over Malaya in 1926, forming the Nanyang General Labour Union (Stenson, 1970:9). By 1930, Chinese secret societies which were originally viewed as harmless were ‘entirely lawless and were providing the Malayan Communist Party (MCP) with the bulk of its strike pickets and strong-arm forces’ (Gamba, 1962a: 3). By this stage, the MCP, which was formed in the late 1920s, had also been actively involved in all labour activities (Stenson, 1970).

As intimated in Chapter Four, the labour unrest was caused by dissatisfaction over a fair share in the lavish returns of the rich country. Table 6.1 shows the contribution by the richer FMS to the British government. The balance of trade of the FMS for forty

years (1895-1938) was always 'favourable' (Li, 1982: 41). The chief exports were dominated by tin (1895-1914), then replaced by rubber in the later years (Li, 1982: 41). However, wages for each ethnic group were different, with the Chinese paid higher than the Indians or Malays (Gamba, 1962a; Li, 1982: 142).

**Table 6.1. FMS revenue, 1895-1938**

Year	Revenue (\$)
1895	8,481,007
1900	15,609,807
1905	23,964,593
1910	26,553,018
1915	40,774,984
1920	72,277,146
1925	86,564,279
1930	65,560,870
1935	62,364,264
1938	63,053,114

Source: Li, 1982: 14.

During the Great Depression (1929-32), the Malayan economy suffered from the depreciation of rubber and tin prices with workers facing wage reductions, dismissals, and repatriation (Jomo and Todd, 1994). The post-depression period convinced labour that they could not depend on paternalism alone to solve their problems and so they started using strikes as a means to achieve their purposes. The most affected were the Chinese and Indians, who dominated the tin and rubber industries (Comber, 1983: 19). Between 1933 and 1936, when rubber and tin prices soared again, the cost of living also went up but not the wages. The workers demanded a pay rise, in some instances up to a 30 percent increase, as reported in 1939 (LDAR, 1939: 3). Other demands included the call for the employers not to violate conditions and terms agreed in the work agreement letter and to better the conditions of the workplace and living quarters (Kamaruddin, 1992: 49). In September 1936, skilled and unskilled Chinese workers launched a series of strikes. A multi-ethnic strike was later organised by Traction Company workers, but the majority was still Chinese (Kamaruddin, 1992:

48). When the Singapore Municipal workers went on strike at the end of 1936, it involved 13,000 Chinese and Indian workers, and in fact marked the first strike by government employees. In January and February 1937, strikes were reported at coal mines in Batu Arang and Hong Fatt tin mines in Sungei Besi, both districts in Selangor (Gamba, 1962a: 7; Kamaruddin, 1992: 48). At the same time, strikes by skilled labourers and mechanics occurred in several places in Malaya. In March 1937, further strikes by Chinese estate workers in Selangor, Negeri Sembilan, Melaka, Johor and Pahang involving 10,000 employees took place (Kamaruddin, 1992: 49). Most of these industrial disputes were instigated by the MCP (Gamba, 1962a; Kamaruddin, 1992; Jomo and Todd, 1994; Stenson, 1970).

As for the Indian workers, labour organisation came a little later than the Chinese, and when it did, they were further segregated from each other.<sup>45</sup> It was only after some knowledge was acquired on political and trade union struggles in India, and some contact was made with Chinese workers, followed by the rise of more educated generation of workers that there was a greater union consciousness among them. This led to some industrial action both in the private and the public sectors led by several Indian organisations, including the Central Indian Association of Malaya (CIAM), formed in 1936 and the Klang District Indian Union (KDIU). In early 1941, there were strikes by the KDIU, demanding a rise in wages and a general improvement in work conditions. They also protested against the poor treatment of the workers and their families by management and the lack of social amenities on the estates. The strikes spread to many other estates in Selangor and Negeri Sembilan, prompting the British to send in troop reinforcements, arrest the Indian leaders under Emergency

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<sup>45</sup> Arasaratnam (1970) and Stenson (1980) both analyse the Indian workers and their labour movement.



Regulations, and dissolve the KDIU (Jomo and Todd, 1994) and, on 16<sup>th</sup> May 1941 declare a state of emergency in Selangor to crush them. These incidences should not go unnoticed, as after this period, the vibrant nature of the Malayan labour movement would end, and the new independent government followed the precedence set by the colonial government on how to suppress growing unrest.

The Indian movement flourished when the Chinese one became inactive in 1940 due to the change in MCP policy. What this suggests is that the growth of independent organisations among estate workers in the pre-war period occurred when they were not suppressed by the British. Their focus was naturally economic at first, but later became political when their basic right to organise was denied by employers/planters. Supported by Indians nationalists, they fought for wage increases and wage parity with Chinese labours and against brutal treatment by estate staffs (Stenson, 1970: 28). By 1938, the authority stopped altogether the migration of Indians to Malaya. Employers started to cut down the estate workers' pay by 20 percent, while 30 percent of them were made redundant. Again, from 1937 to August 1938, rubber and tin prices fell and as such the demand for labour also dropped. But this time the employers were not keen to send the labourers back home. Instead, through co-operation between the government and United Planting Association of Malaya (UPAM), it was suggested that there should be a pay cut and a shortened working hours. Thus, employers reduced their pay by 10 cents per day for Indian workers and 20 to 25 cents for Chinese workers, while labourers in the mining sector were given a pay-cut of 40 per cent. There were no spontaneous protests to these actions apart from one strike by mining workers in Sungei Besi and some attempts by Indian estate workers in several places in Perak. What this discussion suggests is that, even though

it was far from a perfect system, there was a vibrant relationship between the three parties at this stage, where each party did contribute to the outcome of their negotiations.

Compared to the Chinese and Indians, the Malays lagged behind in their labour movement because of their late involvement in the commercial activities. They only became involved in small numbers in union activities seen in the Batu Arang collieries in Selangor and the Singapore Traction Company. Apart from the smaller numbers of Malay labourers engaged as wage workers, there were suspicions over the nature of labour movement that was dominated by Chinese and then the Indians (Kamaruddin, 1992: 28). Their late entrance into union activities contributed further to the dominance of the Chinese and Indians workers in the earlier part of the trade union movement in Malaya. However, it is important to note that there was gradual increase in Malay self-consciousness and self-assertiveness over events that surrounded them. Between 1934-1941, there emerged three 'contending' new elite groups among the Malays: Arabic educated religious reformists; the largely Malay-educated radical intelligentsia; and English-educated administrators recruited mainly from the traditional Malay ruling class. They attempted to create a 'large-scale, pan-Malayan organisation capable of equipping the Malay people, as a people, to run their own affairs in the modern world' (Roff, 1967: 211). This awareness, though at first economic in nature, later turned political as they urged the British and the Malay establishments (the Malay ruling class) to give due attention to the welfare of Malays in general, especially their economic backwardness as compared to the immigrants.

The British were concerned about labour unrest in its colonies <sup>46</sup> and as such, events in the 1930s led the authorities to consider regulating the unions in the hope of making them more accessible to the state. Thus, in late 1939 the Trade Unions Bill and the Industrial Courts Bill were introduced in the FMS for the first time and enacted in 1940, while the Trade Disputes Ordinance (TUO) was passed in late 1941. Both the ordinances were restrictive on the right to unionise and to pursue industrial action, reflecting British legislation and conservative opinion at the time (Jomo and Todd, 1994: 64). The TUO required registration of all trade unions, granted extensive powers to the registrar, who now could refuse registration of unions 'likely to be used for unlawful purposes' (Jomo and Todd, 1994). However even though not a single union was registered, since the Japanese invaded Malaya by December 1941, the introduction of the laws marked the start of a phase in Malayan IR. Before the implementation of the TUO, the authority dealt with the movement in a number of ways. Workers involved in strikes faced either dismissal and/or imprisonment under the Labour Code, and/or deportation under the Banishment Ordinance (Jomo and Todd, 1994: 58). The government also retaliated by blocking the migration of Chinese and Indians from their respective countries. Moreover, Chinese and Indians labourers who were made redundant were also sent home. The new laws clearly solved the problems without having to tackle militant unionism in the old ways.

The above account shows that up until WWII, the Chinese and the Indians formed the bulk of the industrial work force with the Malays considered as unimportant contributors. It was evident that the immigrants, in comparison to the Malays, were more involved in the commercial economic life (Comber, 1983: 19), thus their more

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<sup>46</sup> Gamba (1962a: 100) noted that the British were particularly anxious about strikes in copper mines in Northern Rhodesia.

active participation in the early movement. The Chinese were more aggressive in the early labour movement, not just because they were influenced by Chinese politics and nationalism, but also because they inherited the culture of defending their interests, such as shown by the presence of secret societies and guilds, which the Indians and Malays lacked. This is an important fact that influenced the development of trade unionism in Malaysia in later years, since the vibrant labour movement stopped after WWII by the government who were intimidated by even their presence. In fact, slowly Indians replaced the Chinese, and when the Malays were a part of the modern economic life, especially during the NEP, they were the more active unions' members. To some farsighted Malays, even during this early period, the Chinese were already challenging their political supremacy, even with a 'pro-Malay' British policy (Roff, 1967; Comber, 1983: 24). In addition, the political activities of the Chinese which were connected to events in China further increased Malay doubts over their sincerity or protestations of loyalty to Malaya. Racial divisions, especially between Malays and Chinese, worsened in later years, complicating the social, economic and political scenes in Malaya. Furthermore, the laws became a foundation that even independent Malaya later adopted, demonstrating the British influence not just in the Malaysian political system but also in its IR. As discussed below, the Japanese occupation of Malaya emphasised and worsened the already divided working communities.

### **6.3. The Japanese Occupation and Ethnic Relations**

Japanese military rule in Malaya, which lasted for less than four years, from 1942 to 1945, was said to have made little impact on the labour movement (Kamaruddin, 1992). However, the long term devastating impact caused by the differential treatment

meted out to the three ethnic groups that increased the animosity among especially the Chinese and Malays, needs special attention.

Politically, the Japanese rule highlighted the fact that the British and their allies ungraciously fell to an Asian power. Apart from severe economic hardship created within communities, they showed some tolerance to the Malays and Indians but treated the Chinese harshly. Initially, Malay and Indian nationalism was encouraged. Also, there was a Japanese-sponsored Malay army, the *Pembela Tanah Ayer* (PETA) or The Nations Defender, an anti-British Malay organisation believed to have been the offshoot of the first radical Malay political organisation, the *Kesatuan Melayu Muda* (KMM) or the Young Malay Union (Roff, 1967: 173). The KMM, suppressed during British administration, was allowed to operate under the Japanese, with its jailed leader released by the Japanese and appointed within PETA (Roff, 1967:255; Comber, 1983:26). The Japanese supported and encouraged the Indian Independent League (IIL) and the Indian National Army (INA) whose primary struggle was for the independence of India from the British (Jomo and Todd, 1994: 69). Moreover, the Indians took the IIL and INA as a salvation to their problems and misery, which uplifted their morale, sense of dignity and national pride. They identified and participated in this movement, and the contact with well-organised Chinese workers boosted their confidence for union organisation after WWII. On the other hand, the Chinese that had supported anti-Japanese campaign even before their invasion of Malaya, organised themselves under the MCP-led Malayan People's Anti Japanese Army (MPAJA), which spearheaded most of active resistance to the Japanese (Jomo and Todd, 1994: 68). The MCP became a very significant force, whereby the British were compelled to accept its offer of co-operation in defeating the Japanese. and

granted legitimacy to its status and its associated organisations, such as the GLU (Ramasamy, 1994: 58). However, the important point is that the MCP failed to impress the majority Malays, except the radicals, but made some contact with Indian workers (Jomo and Todd, 1994: 69).

Generally the hardship caused by military rule directly affected Malayan people. It brought chaos to the economy, shortages of food and a scarcity of jobs, which led to unemployment. Men feared being forced into labour and being assigned to various places in and out of the country, such as to the Siam Death Railway (Ramasamy, 1994: 59). There were tens of thousands of workers, especially Indians, transported to Thailand and Burma to work on the railway project. However the long-term effect seemed to be the Japanese discriminating racial policy, softer towards the Malays while brutal towards the Chinese, thereby worsening the already sour relationship between these two ethnic groups. The Chinese were being singled out due to their mutual animosity among them since the Sino-Japanese War in China, and also because of their associations with MPAJA, which marked a military challenge to the Japanese. When the Japanese surrendered, there was for almost a month of political vacuum in Malaya before the BMA took over and in which the MCP-led MPAJA instigated a bloody racial riot (Comber, 1983).

#### **6.4. The Taming of the Labour Movement**

The period after the WWII was a turning point for the Malayan labour movement in more ways than one. The discussion below highlights the impact of Japanese occupation, which led to enforced suppression on a vibrant but militant labour

movement with the support of the employers from 1945-1948, thus creating a new moderate labour movement in Malaya.

As already discussed, British rule encouraged communal divisions, an issue exploited during the Japanese occupation, leading to the Sino-Malay riots immediately after the war ended (Comber, 1983: 28). From April 1946 to March 1947, a number of militant trade unions led by MCP-linked GLUs emerged, especially in Singapore with the Singapore GLU incorporating 65 unions (Jomo and Todd, 1994). The GLUs then formed the Pan-Malayan General Labour Union (PMGLU) in 1946 and became the front organisation of the MCP, which organised the workers' movements. The PMGLU was later reconstituted as the Pan-Malayan Federation of Trade Unions (PMFTU). These organisations gained significant organisational as well as political experience, especially resulting from the role played by its earlier front organisations such as MPAJA and MPAJU during the Japanese occupation. By late 1945, there was already a dramatic rise in the district-based GLUs in various parts of the country. Moreover, there were strikes and demonstrations demanding improvements in wages, conditions of work, social amenities in urban industries, transport services, ports, rubber plantations and mines. The GLU-led workers were successful in their requests, especially when demands in rubber and tin rose and employers were desperate to increase production. Thus, the GLU became prominent in the immediate post war period, working towards the short and long-term solidarity and awareness of workers, both in the economic and the political spheres.

Though the GLU went beyond economic and communal boundaries by bringing together multi-racial workers, it did not necessarily solve the communal issues that

arose, when the minority of wage-earner Malays were not too enthusiastic to join forces with their Chinese and Indian counterparts. This reluctance on the part of the Malays was not hard to understand. They were the minority in the wage earners' group, and they saw how the MPAJA (mainly Chinese and influenced by communists - never a strong influence in Malay communities) overtook Malaya in the bloody aftermath following the Japanese surrender. The employers viewed this as a positive sign, whereby they could become the ready supply of non-unionised labour which would make up for the labour shortage. Moreover, they could be used as a balance to the threats from the organised Chinese and Indians workers. However, since the Chinese and Indians were the bulk of the industrial workforce, their activities as a general, multi-racial and political union ultimately worried and threatened both the colonial government and the employers. The British noticed the changed attitude of workers due to their exposure to the Japanese occupation. The BMA now realised that though they no more in need of the help of MCP, the party had gained prominence amongst Malayan people, and had become very organised as well as posing a political threat to the British colonial comeback. The GLUs now gained support from Chinese labourers, who were impressed by its ability to improve workers' wages and conditions after the war. The GLUs effectively enabled them to move within their geographical area rather than occupation or industry. In 1946, the GLUs went a step further by managing to bring all Indian labour unions except one (Negeri Sembilan Labour Union) under their influence. This further strengthened their position, and in the same year, when Jawaharlal Nehru of India came to visit Malaya, he attended one of GLU branch meetings (Jomo and Todd, 1994: 74). The British then realised the need to change policy. The BMA, which had been instituted as an interim measure, not having a long-term labour policy, dealt with workers on an ad-hoc basis. Always



in line with Colonial Office directives, the BMA adopted a more liberal approach and recognised the establishment of trade unions. However, not all BMA officials agreed since they were more allied to British employers, and some refused to recognise the political, economic and labour changes created after Japanese occupation (Gamba, 1962a). The employers were also pressuring the administration to take some action to check these trends. So the employers and the government embarked on a series of measures to curb the labour movement, in particular by arresting the union leaders and activists. However, a few actions by the BMA made them unpopular with the workforce, such as inflated prices of essential supplies and supplies of food, coupled with corruption and mismanagement (Ramasamy, 1994: 60-61). When the 1939 wage level for government employees was retained, and only a limited increase was given to labourers in the private sector, the workforce were disillusioned. The Japanese currency was not recognised and Japanese collaborators were persecuted in an arbitrary manner (Ramasamy, 1994:61). Following this, war prisoners who amounted to 30,000 in Singapore were used to carry out the work of the strikers (Gamba, 1962a), a factor that did not endear the BMA to Malaysians as it was accused of staving off wage increases (Ramasamy, 1994: 61). The conflict with the MCP mounted when military measures were introduced to break up left-wing strikes and demonstrations in late 1945. More arrests were made of those suspected of collaborating with the MCP and the MPAJA was disbanded, infuriating the left (Stenson, 1970: 76). The turning point in the relationship between the MCP and the British came in February 1946, when the BMA responded with military force to a celebration arranged to inaugurate PMGLU, an event not permitted by the British. 17 people were killed in Malaya, 2 in Singapore and many were injured and arrested (Morgan, 1977: 167). The MCP took a drastic stand, abandoned its 'moderate policy' and adopted a policy of labour

organisation and agitation. In addition, the PMGLU was forced to the forefront, laying organisational groundwork with working class with grievances and aspirations. In 1946, the British tried implementing the Malayan Union, which was then opposed by the left as it represented a continuation of old colonial policy and no attempt towards self government (Ramasamy, 1994: 61). The Malays, now represented by conservative Malays, mounted a strong challenge, forcing the British to replace it with the Federation of Malaya 1948 thereby restoring the Malays' special rights (refer to Chapter Four). This is the period that also saw the rise of the UMNO as the main political party for the Malays, marking another era of moderate and alternative organisations encouraged by the British.

The British government welcomed the development of democracy through the trade union movement modelled after the British type. It was also considered that the trade unionism know-how and the 'proper' trade unionism should be encouraged, thus the new Labour government in Britain dispatched Trade Union Advisers (TUA) to the colonies for this purpose. A model Trade Union Ordinance (TUO) was also issued to be implemented throughout the empire. This was actually part of a broader colonial strategy to ensure that the development of trade unions in the colonies did not challenge British hegemony. The major pre-war legislation, the Trade Unions Ordinance 1940, with certain amendments based on the recommendation from London, was finally implemented on 1<sup>st</sup> July 1946, and a post of TUA was created to take charge of a Trade Union Adviser Department.<sup>47</sup> In addition, two more separate departments concerned with labour matters were established: the Department of Labour and the Registrar of Trade Unions. From then onwards, the role of the TUA

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<sup>47</sup> See Gamba (1962a: 100) on the arrival of John Alfred Brazier (the TUA) in Singapore in December 1945.

was to ensure there was growth and development of 'sound', 'responsible' or 'independent' (independent from the communist and the GLUs) trade unions, and in fact, he was asked to 'liquidate the GLU' on his arrival in Malaya. He managed to organise white-collar unions and some dominantly Indian unions with little bargaining power. This effort provided the government with an alternative labour group to the militant PMGLU, an impact that brought the end of militant unionism in Malaya.

Here we see the importance of the implementation of the 1940 TUO after the War, turning a new leaf in the country's trade unionism. It made possible the whole idea of bringing the unions under state control, and curbed the growth and development of the PMGLU-led militant unionism. In fact, the year 1947 marked a shift in initiative in the handling of labour situation, from the PMFTU to the employers and the government (Jomo and Todd, 1994: 78). The PMFTU, while having some internal struggle, was seeking a legitimate stand in the government's eye (Stenson, 1970: 205). However, in early 1948 the PMFTU realised that they had to confront the government in order to be taken seriously or else they would risk losing the labourers' support. This delayed action gave the government an advantage, when they had sufficient time to weaken the PMFTUs power by using the TUO (Jomo and Todd, 1994), thus strike actions in 1947 did not receive support as in 1945 and 1946. Both government and employers joined forces with the former using all resources to the extent of bringing in police to intimidate workers, acting as employer, legislator, administrator and also enforcer (Jomo and Todd, 1994: 82). To sever the ties of PMFTU from its affiliates, the government encouraged the registration of all its member unions. For this reason, GLUs all over Malaya and Singapore reorganised themselves into PMFTU and SFTU in the hope that they may not be required to

register. It should be noted that the Registrar of Trade Unions (RTU) had great discretionary powers to grant or reject application to registration, and in this case, the RTU refused an application by the PMFTU while granting those made by the SFTU and other affiliates. This led the PMFTU to resort to what led to the first Emergency rule in Malaya, in June 1948. There was a sudden increase of industrial action in the second quarter of 1948, beginning in April of that year in Singapore and spreading to mainland Malaya in May and June (Jomo and Todd, 1994; Gamba, 1962a; Kamaruddin, 1992).

Here, economic as well as political considerations prompted the colonial government to take an aggressive stance. Three amendments to the TUO were made through the Federal Legislative Council (FLC) on 31<sup>st</sup> May 1948. The first allowed only persons with at least three years' employment in an industry to hold official trade union posts in that industry, an amendment aimed at professional trade unionists. The second prevented anyone who had been criminally convicted from holding a post in a trade union, while the final amendment was to prohibit federations of trade unions other than those based on similar trade, occupation or industry. All three amendments had a direct effect on the trade union movement, while the last amendment effectively made the PMFTU and the federation of trade unions illegal (Gamba, 1962a; Jomo and Todd, 1994: 84; Leong, nd). The MCP and the PMFTU were therefore banned, and those alleged to be involved with the violence were arrested and deported. A state of Emergency was declared in central Perak and central Johor on 16<sup>th</sup> June, and later on 12<sup>th</sup> July, before being extended to the rest of the country. Such Emergency Regulations gave the government the legal means to restore order, thus rules deemed necessary could be implemented. The police now had the right to disperse any

meeting or assembly of five or more workers. Moreover, strikes were considered illegal if employers were not given two weeks' written notice signed by seven people representing the group concerned. With the employers resorting to various forms of intimidation of the work force and reprisals against the unions, workers were in disarray, fear and confusion (Jomo and Todd, 1994).

The state of Emergency thus marked the end of militant unionism in Malaya, a repression that could not be fought off by the left-wing unions because of its extensiveness. Police raided premises, arrested some 600 people, either deported or repatriated large numbers of people, especially to China. The scale of repression could be seen by the sharp fall in the total of workdays lost due to strikes, as well as the numbers of unions and their membership after the Emergency was declared. Workdays lost in 1949 were 5,390 compared to 370,464 in 1948 while the number of strikes in 1949 was only 29 compared to 181 in 1948 and finally workers involved in strikes in 1949 numbered 2,292 compared with 34,037 in 1948 (LDAR, Federation of Malaya, 1948-1957).

The Emergency rule did not affect the 'responsible' and 'independent' unions, which the government had been encouraging since 1946. These new unions continued to grow in number, though some faced heavy constraints from the government who suspected them of collaborating with the previous PMFTU militant style unionism. The early development of these new unions comprised the white-collar and Indian workers; the railway workers, government unions and clerical employees (Gamba, 1962a). Efforts were made as well to win over the plantation workers from the PMFTU's influence. The government not only encouraged and supported these new

unions, but also tried to incorporate them in the government system by appointing them to some important state bodies. As such, they had to play a supportive role in furthering the government's scheme. Such examples included English-speaking labour leaders of non-PMFTU unions, like V.M.N.Menon (Estate Staff Union) and M.P.Rajagopal (Pan-Malayan Railway Worker's Union or PMRWU), who were appointed to the Malayan Union Advisory Council (MUAC). Some like P.P. Narayanan (Negeri Sembilan Indian Labour Union), Osman Siru (Penang Postal Uniformed Staff's Union), Kong Soo Chin (Selangor Clerical and Administrative Staff Union), and again M.P.Rajagopal were appointed to the Labour Advisory Board (LAB) in as early as 1947. There were also those who were appointed to more glamorous positions such as to the Federal Legislative Council (FLC) (Morais, 1975). The government used the TUA of Malaya to build up and encourage new unions, concentrating on rubber plantation workers as well as the public sector employees. The former sector was a crucially important one in the economy, and putting it under sound and responsible unions benefited the state as a whole. Needless to say, the new unions were small, fragmented and weak to bargain with their employers. The few relatively large ones, like the plantation and railway unions, had their leadership weakened by the Emergency circumstances and state patronage. Their subservience to the state became more evident when they needed the TUA's support to carry out their trade union work, submitting themselves further to the government's influence (Jomo and Todd, 1994). The government's move demonstrated its support towards the recognition of 'clean, responsible and independent' unions, that is, independent from the influence of the militant PMFTU. In return of their sudden rise to prominence, and with certain prestige and glamour, it was only natural that these labour leaders became more grateful to the government and felt obliged to support it. The other two

significant facts emerged here: one, the increasing role of the public sector unions as representing the new moderate unions; second, the multiracial outlook of union leaders. Both traits can be found in the development of future unionism in Malaysia.

At this stage, the unions were without a proper union structure, but the new unions received limited support from workers, a factor that worried the government. Moreover, there was a constant threat that the influence of the communist movement as well as the more militant PMFTU might return. It was with this in mind that the government started thinking that there needed to be another, more organised, more structured and recognised union, one that would be accepted by workers, but at the same time become 'the eyes and ears' of the state. This led to the formation of the Malayan Trade Union Council (MTUC) in 1948.

#### **6.5. The MTUC and 'New Unionism'**

Particularly from 1950 onwards, various efforts were made by the colonial government to win support from the masses in order to counter left-wing unionism. To ensure support from all three ethnic groups, the government initiated a number of social reform policies especially geared to attract Malay and Chinese endorsement of the government's agenda. Among the Malay masses, the focus was on the Malay elite and middle class in one corner and the peasants in another. The Malay upper class was adopted into the governing body, while rural reforms were passed for the Malay peasants, who actually dominated the peasant group in Malaya. Among the Chinese communities, the Briggs Plan was designed to isolate the insurgents from the rural Chinese. Trade union leaders at this stage were dominated by Indians (Leong, n.d.), a

significant feature that, as discussed below, permanently replaced the left-wing unionists amongst the Chinese labourers.

'New unionism', as an alternative to a communist or militant union movement, was encouraged and sponsored by the colonial government (Azizan, 1989: 56) in the belief that it was assisting the development of 'sound' and 'responsible' unions. The role of this new union would be to help provide workers with a channel to express their grievances, and for the government to establish links with and monitor labour. Initially, the government took early steps by promoting a number of 'moderate' labour leaders to places of prominence, such as the MUAC, the FLC, and the LAB. However, the government had to accept the fact that the existing unions were unorganised and national labour leadership was absent. The worry concerning communist influence encouraged them to bridge the relationship with the new type of unions, but they also saw that the formation of a national labour centre was inevitable (Azizan, 1989: 59).

The colonial government sent abroad labour leaders as observers to the International Confederation of Free Trade Unions (ICFTU) inaugural conference in London in late 1949, which was seen as an important step to socialise trade unionists with new roles in the MTUC. In the eyes of the British, a 'responsible' labour centre would be a buffer to counter the influence of the left-inclined World Federation of Trade Unions (WFTU) (Gamba, 1962a: 399-402). The labour leaders were, in fact, sent to London at the time when the MTUC had not yet been inaugurated. One of the representatives, P.P. Narayanan, a government-nominated member of the FLC, was soon to head the MTUC (Morais, 1975). In this regard, Azizan (1989: 62) rejects Zaidi's idea (1975: 15-19) that trade unionists during this time were prime movers. To Azizan, they were



merely 'labour leaders that played a subsidiary, or rather, a collaborative role to that of the government' (Azizan, 1989: 62). The unions and the union leaders themselves were in fact dependent upon the government as it was not possible for union leaders to establish a national union centre without the help of the colonial government. Despite some colonial officials and employers being reserved and sceptical towards the idea of a Pan-Malayan based trade union movement, the colonial administration adopted it as a strategy to counter communism.

From the start, the colonial government made sure that the MTUC lived up to their expectations. At the first conference to discuss the formation of the MTUC, held on the 27<sup>th</sup> and 28<sup>th</sup> February 1949, speeches were given by pro-British leaders, each representing the three ethnic communities, Onn Jaafar, Tan Cheng Lock, and R. Ramani. In a way, trade unionism was now being treated the way the British had treated Malayan politics after the War, that is, it needed to be represented by the three main ethnic groups. More than 150 delegates, representing 165 registered unions, set up a Working Committee which was to ascertain further steps in establishing closer inter-union liaison, the machinery, and the organisation that would allow regular consultation and discussion between the trade union movement and labour representatives from various government bodies and committees.

It was only a year later, on the 25<sup>th</sup> and 26<sup>th</sup> March 1950, that the inaugural conference took place in Kuala Lumpur attended by 174 delegates representing 111 unions out of 165 unions registered (Raza, 1969: 357). Again, speeches were made by the same three community leaders. M.P. Rajagopal of PMRWU, the appointed member of FLC, chaired the conference and was asked to adopt the report and recommendations of the 1949 Working Committee. A resolution to form the MTUC was made followed by an

election of members of the Central Committee (Azizan, 1989: 64). Despite the government's repeated statements that the growth of 'responsible and sound' trade unionism was encouraged, the Chinese remained aloof and sceptical (Raza, 1969). The nine members from the Central Committee were elected by delegates in the conference (each union had a maximum of two delegates), while the representatives for the five groups were elected by the delegates belonging to the respective groups. However, what is interesting to note is that from the beginning, the TUA, Mr Brazier, played a leading role on behalf of the government and involved himself and ten others from the department in all stages of the conference. Brazier got the full support of his top superiors, particularly from the High Commissioner General himself (Gamba, 1962a: 397-98). To most 'moderate' labour leaders, Brazier seemed the sincere party, helping them building a 'bona-fide' trade union movement. He had trade union background but still experienced some difficulties convincing certain colonial officials of the virtues of 'responsible' trade unionism in post-war Malaya. The labour leaders at this stage also owed Brazier and the government all the benefits and advantages of their 'state sinecures' (Azizan, 1989: 68). Their image and influence in society were suddenly raised, and they were given a sense of confidence and importance. When some of them were elected in the MTUC conference, their position, if somewhat questioned by other unionists who were not picked by the government, was legitimised.

A few important facts have already emerged regarding MTUC in this early stage. The structure of the MTUC was that it was an advisory and co-ordinating body for the unions as well as a link between unions and the labour representatives on the

government bodies. The supreme authority lay in its Annual Delegates Conference (ADC) with each delegate (two delegates for 500 members or less, and one delegate for every additional 500 members) entitled to a vote. MTUC, registered in 1951, was not as a trade union, but a society under the Societies Act, 1949. As such, the MTUC could actually be barred from engaging in a trade dispute or entering into negotiation with employers. As discussed further in Chapter Nine, the government has not used this against the MTUC, and it has to a considerable extent until today acted as the national labour centre for its affiliating unions. The MTUC was not permitted to affiliate or take an active part in political movement and had no executive authority over its affiliates. Most delegates attending the inaugural conference seemed well aware of the limits of MTUC effectiveness at this stage. They agreed it would not permit racial, occupational, or industrial domination, and that it would not be a 'super-union', or a federation of trade unions, or an organisation with power to actively participate in individual trade union disputes, or in any way exercise executive authority over affiliated unions (Josey, 1958: 49). This limitation of the MTUC highlights the fact that the colonial government was against another powerful national labour centre that might resemble the PMFTU. The arguments that the significance of MTUC was waning in the eyes of its affiliating unions still persisted, but at least to some, the MTUC was a central body that provided a platform from which to take up various labour issues. For example, questions such as labour policy, trade union education, organisation of workers in new industries, union amalgamation and mergers, international labour relations, could only be dealt with by the MTUC at national level. Following this, the year 1956 served as a tentative dividing line between government-nurtured unionism and independent unions and saw the

weakening of communist insurgency as well as successful London talks regarding an independent Malaya.

### **6.6. The Environment leading to Independence**

The period 1950-57 saw Malayan IR trapped between the support for independence and independent unionism. Prompted by the Malayan people, though the political parties were actually supported and encouraged by the British, there was a move towards granting independence to Malaya in the early 1950s. The first general election in 1955 was succeeded by the formation of a new constitution, and the appointments of local ministers. The Alliance Party, which represented the three main ethnic groups, UMNO, MCA and MIC, became prominent with the support of the British and then won the 1955 general election with a landslide victory, which hastened the move towards full independence. This victory fulfilled the colonial government's dream to separate militant or 'left-wing' trade unionism from politics, which with an agreed constitution, was achieved on 31 August 1957.

The Labour Party of Malaya, which succeeded in bringing in more educated Chinese to join in their movement, lost very badly to the British-backed Alliance Party. However, it was encouraged by the development of the labour movement in Singapore, and the landslide win by Peoples Action Party (PAP)<sup>48</sup> as well as by the government's relaxed attitude towards the setting up of political funds by trade unions. The Malayan Labour Party blamed its failure to win seats in the election on the lack of commitment by members and Indian leaders in MTUC. P.P. Narayanan,

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<sup>48</sup> To understand more about how the PAP of Singapore won the Singapore General Election 1955, see Leong, '*Perkembangan Kesatuan Sekerja dan Dasar Kolonial di Malaya, 1945-1957*', which outlines the labour movement in Singapore, which had a big impact on the resurgence of Chinese workers' participation in Malayan trade unionism and their desire to become involved in constitutional politics.

the MTUC President in 1955, said that trade unions and politics should be separated, or else it would bring negative influence to workers (Leong, n.d.: 34). This view reflected the attitude of labour leaders (mostly Indians) at the brink of independence. There was also unhealthy competition between the Chinese and Indians leaders in MTUC as the main trade union centre in Malaya. This could be seen between Ooi Thiam Siew from Malayan Mining Union, who aspired to be the secretary general of the MTUC during the Delegates' Conference in April 1955, but was defeated by the Indian dominated National Teachers' Union's leader, K.V. Thaver. Ooi took his loss badly and criticised MTUC for being a racial union monopolised by Indians and meant for Indian welfare, especially those working in the plantations sector.

The Chinese labour leaders tried to increase the status of Chinese workers as union members to be on a par with Indian workers, and especially when the National Union of Plantation Workers Union (NUPW), formed in 1954, saw a consolidation of plantation workers' unions. At this stage, there was a tendency for labour leaders to be directly involved in politics, an influence of the success of Singapore's Labour Party and later the PAP. However, their failure in election, and dependency on the government and foreign institutions, such as the ICFTU, again weakened the independent union movement in Malaya.

### **6.7. Public Sector Unionism**

No thorough study on the origins of Malaysian public sector IR in the past has been made. Gamba (1962: 22) reported 'powerful clerical, professional and administrative officers' associations' established before 1940, but did not elaborate. Even on these he said the members were 'expatriates and a few Asians in the higher divisions or in the

Malay section of the Service'. A study by Jomo and Todd (1994) also failed to explore the early period of pre and post-war public sector unionism.

However, Gamba (1962a) gave an interesting account of how, even in the early period, public servants were treated differently from private sector employees, and also from their European counterparts by the colonial government or, right after the war, the BMA. The discrimination became obvious when the cost of living rose and the rates of salaries was low, making life difficult for Asian civil servants and the clerical staff in private firms. The Malayan public, especially its civil servants, were already wary of the BMA's empty promises for example, when they returned after the Japanese occupation, they promised food supplies:

Rice by the hundreds of tons, flour and other consumer goods were said to be on the way. Rice was to be distributed free and in abundance (Gamba, 1962a: 79).

Nevertheless, this was not to be. The locals blamed the British for the Japanese invasion of Malaya and were also disgusted with their failure to protect Malaya, and for failing to be responsible for the post war consequences. This was made worse when the British promised European internee officials (those captured and jailed by the Japanese during the war) much bigger sums of compensation, while local staff received only three months' pay on the 1941 scale (Gamba, 1962a: 76). However, when the European leaders of the Malayan tin-mining industry warned the administration and criticised it over its poor handling of the matter, making references to 'Malay Rulers and the people' as the victims, the administration settled their claims in full. This discrimination is obvious; the leaders who made the allegations were Europeans, had they been locals they would have been categorised as subversives.

At the same time, there was already strike fever among industrial labour (estate staffs and labourers, the mercantile and business employees) but the civil servants had not adopted disruptive practices. In fact, when approached by strikers in early 1946, the civil servants at administrative levels refused to join. During the Malayan Union administration, the salaries were determined by The Wages and Cost of Living Committee appointed by the Governor of Malayan Union. This situation is best described by Gamba (1962: 79):

The Japanese face-slapping had ceased but the pre-war servility of junior to senior, of Asian to European, even to a lesser degree, was re-introduced together with the difficulties raised against the promotions to higher appointments.

Here, it is interesting to note that since the labourers were not confined to a tradition of service as faced by those in the government service, they obtained through strikes, benefits which were denied to the government's clerk. What the civil servants wanted from the BMA and later the civil administration was three and a half years' back-pay for the period of Japanese occupation, as enjoyed by the European government servants. However, the Financial Secretary in Singapore announced only ex-gratia payments for non-interned government servants. In fact, the government wished to compensate according to the twenty, forty, and sixty per cent deductions made by the Japanese. On 4<sup>th</sup> March 1947, the Junior Civil Service Association (JCSA) rejected this, and on March 24<sup>th</sup>, 1947, all Asian government employees in Singapore attended a 'Back-Pay Protest', marking 'the first time in the history of Malaya and Singapore that Asian government employees had dared protest against their employer' (Gamba, 1962a: 86). A partial revision of salaries and wages for Asian civil servants did not take place until 1948, when 'piecemeal' increases were granted, until the general revision in 1953 (Gamba, 1962a: 92). In fact, 1951 saw the Report of the Joint

Committee on Cost of Living Allowances, appointed by the Federal and Colony Legislative Councils under the Chairmanship of Dr F.C. Benham (Gamba, 1962a: 99).

Information regarding Benham Report could not be found in Gamba's or other scholars' work. Fortunately, some primary materials were gathered at the CUEPACS Headquarters that shed some light. The Federal Secretariat Circular No 28, dated 16<sup>th</sup> October 1950, though intended to raise other issues, provides us with some information on the Benham Committee Report.<sup>49</sup> The Circular stressed the Colonial government's commitment towards collective bargaining in the public sector. In it, it says:

The government has therefore decided in accordance with its declared view that rates of remuneration are properly a matter for collective bargaining between employer and employee that an opportunity should be afforded to any service to give formal notification of its desire to negotiate its own salary scales in preference to accepting whatever decisions may be arrived at by the Legislative Council...(Circular no 28, 1950).

In the circular, five main conditions for any negotiations between employer and employee in the public sectors were made. The first said that while negotiation is taking place, the officers will remain on their existing salary scales. Second, the negotiations will only be conducted with representative bodies, such as unions or associations. Third, the government must also be satisfied the unions or associations are sufficiently representative of the staff comprising the service on whose behalf they purports to act. However, the outcome of negotiation would be deemed to be made for all, even though they are not members of the unions or associations. Fourth, there will be no negotiation on the date of implementation of any agreement reached. Fifth, if a number of services elect to negotiate, it will not be possible to set up the necessary

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<sup>49</sup> See Appendix III on F.S. Circular No 28 of 1950.



machinery for all such services at the same time. The present Emergency might also delay the government. Based on the five conditions, any union or association representing a particular service needs to first notify the Chief Secretary by filling in and forwarding the attached form. Unions were given until 15<sup>th</sup> November 1950 to ballot their members before submitting applications for negotiations. The offer, however did not extend to 'staff on the Malayan Establishment who are not employed solely by the Federation Government whose terms or service are a matter of wider concern nor does it apply to the Malay Regiment or the Police' (Circular No 28, 1950).

It was obvious that after a year, the democratic effort of the British government had caught up with them. In the Federal Secretariat Circular No 6 of 1951, the Acting Financial Secretary of the Federal Secretariat observed a large number of applications for negotiation on salary scales received from different services.<sup>50</sup> He remarked how much work would be involved as compared to the small staff, and that it would result in the delay of the negotiation process if revision were to be based on the conclusion of each negotiation. Thus, the government decided:

...that new salary scales in accordance with the recommendations of the Special Committee on Salaries, as accepted by resolution of Legislative Council 23<sup>rd</sup> November 1950 shall be introduced.....The introduction of the Benham scales will be without prejudice to any further amendments that may result in consequence of any agreements reached by negotiation (Circular No 6, 1951).

It is when the colonial government felt burdened by the applications for negotiations that in 1953, after a few years of attempts, the Whitley system, the same that had been introduced in the United Kingdom in 1919, was incorporated in the Federation of

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<sup>50</sup> See Appendix IV on Federal Secretariat Circular No 6 of 1951.

Malaya (Interview: Jamaluddin Md Isa: 30/1/ 2001). Whitley Councils comprised two councils; the National Joint Council (For Division I-IV) and National Joint Council for IMG ( Industrial and Manual Group), while at departmental level there was the Departmental Joint Council (DJC) (Jomo and Todd, 1994). The impact of the National Whitley Councils was quite obvious: the government was trying to find ways to settle disputes through discussion and agreement.

The essence of establishing the Whitley Councils for the civil service was to ‘find means for the improvement in relationships between employers and work-people so that labour disputes could be avoided by discussion and agreement, and to provide for a systematic review in the industrial field with a view to improving conditions in industry generally’(Jomo and Todd, 1994: 92). Ideally, the Whitley Council would compose of an equal number of representatives from the employers’ and employees’ sides operating at national, departmental and local levels. If negotiations broke down, there was the Arbitration Tribunal, consisting of a panel of independent persons. These chosen people were from the nominees of both the Official and Staff sides of the National Whitley Council, with an acceptable chair appointed by the King.

On the part of the workers, this made them consider forming unions that would unite all of them under a national union, hence the origin of the CUEPACs (Interview, Jamaluddin Md Isa: 30/1/ 2001).

## **6.8. An Analysis on the Early IR Issues in Colonial Malaya**

The discussion below centres on issues that concern the early labour movement.

In the 1940s, trade unions attracted mainly Chinese and Indians for reasons discussed above. The colonial employment policy saw the Indians mainly recruited into the government and British owned private sectors, and particularly the plantation sector. The Chinese, apart from the traditional undertakings, worked in generally smaller Chinese firms. In the 1950s, the higher proportion of English-educated Indians, less militant and more docile, dominated the moderate and British-sponsored 'new unions'. Leong (nd) noted that leadership of the new trade unions until 1955 was dominated by Indians. Chinese union leaders only emerged in 1955 when the Labour Party produced political leaders who used the unions for personal advantage.

The period also saw the dramatic growth of unions from 1948 to 1957 as illustrated in Table 6.2. The growth in union membership from 1950 to 1956 was particularly remarkable, increasing from 54,579 to 232,174. Meanwhile, the greatest increase in union membership, both in the public as well as in the private sectors, happened during the same years; 1951 and 1955-56. Factors that might have contributed to these increases include the success of wage negotiations, as in the plantation sector, and the introduction of a wage negotiating machinery in the public sector (Jomo and Todd, 1994: 89). The government also reduced the minimum age for union membership to 16 years, which could also serve as a contributing factor to the increase in union membership. The period of self government, though limited, for a few years before independence encouraged the increasing numbers of unionism both in the public as well as in the private sector. This was also the period when employers were still opposing unionisation.

The government, still wary of the situation caused by communist influence in the country, encouraged trade unions that were considered responsible; ones that could maintain the needs of labour without challenging the political and economic systems. The employers, on the other hand, were still opposing unionisation, especially of bigger, independent, national unions, but supported in-house or company unions in the hope of pre-empting the emergence of stronger or more independent unions (Jomo and Todd, 1994: 89). The case of the management of Lever Brothers and Fung Keong Rubber Manufactory, which both refused to recognise the National Union of Factory and General Workers, should be noted. This refusal brought about the protracted strikes in 1954 and 1955 respectively. After the strikes were broken, the management of Lever Brothers expedited the formation of a company union, and in fact advanced \$500 to assist in the printing costs (Jomo and Todd, 1994: 89). There is no evidence however to support views that the incidence of strikes might have encouraged people to join the unions.

**Table 6.2: Number of Unions and Membership in The Public and Private Sectors, 1948-1957**

<i>Year</i>	<i>Public Unions</i>	<i>Sector Members</i>	<i>Private Unions</i>	<i>Sector Members</i>	<i>Total Unions</i>	<i>Total Members</i>
1948	52	25,692	104	43,442	156	69,134
1949	70	20,142	93	21,163	163	41,305
1950	84	25,451	84	29,128	168	54,579
1951	100	38,685	91	68,486	191	107,171
1952	123	43,579	91	84,370	214	127,949
1953	138	41,450	93	68,107	231	109,557
1954	136	42,256	96	71,214	232	113,470
1955	137	52,061	98	93,688	235	145,749
1956	135	67,301	100	164,873	235	232,174
1957	151	n.a.	n.a.	n.a.	250	222,073

Sources: Federation of Malaya, Annual Report of The Trade Unions Registry, 1948-1957

Table 6.3 illustrates that though there was a bigger number of unions in the public sector compared to the private sector from 1950 to 1956, the membership numbers in

the private sector unions were more encouraging. As a specific example, in 1956 there were 135 trade unions registered in the public sector with 67,301 members, while in the private sector there were only 100 unions registered but with a membership of 164,873. Table 6.3. showed that the level of strike activity in 1956 was far greater compared with the previous seven years. This is in tandem with the increase of union membership in 1956 (refer again to Table 6.2). In fact, the changes in union membership between 1951 and 1956 were largely due to unionisation level in rubber plantations. This sector was the most significant player in the fluctuating union membership. For example, between March 1952 and March 1953, the membership of the Plantation Workers Union, Malaya (PWUM) grew from 36,000 to 485,962 (Gamba, 1962a). In 1953, the drop in rubber prices might have contributed to the decrease in union memberships, but in 1954 and 1955, the numbers rose again.

**Table 6.3: Number of Strikes, Workers Involved, and Workdays Lost, 1948-1957**

<b>Year</b>	<b>Number of Strikes</b>	<b>Workers Involved</b>	<b>Workdays Lost</b>
1948	181	34,037	370,464
1949	29	2,292	5,390
1950	48	4,925	37,067
1951	58	7,454	41,365
1952	98	12,801	44,489
1953	47	7,524	38,957
1954	78	10,011	50,831
1955	72	15,386	79,931
1956	213	48,677	562,125
1957	113	14,067	218,962

Sources: Federation Of Malaya, Annual Report Of the Labour Department, 1948-1957.

Table 6.4. illustrated that there was a large number of unions registered and de-registered in the same year. For example although it seems like there was no change in the number of unions between 1955 and 1956, the fact was there were 26 new unions registered in 1956, with almost the same numbers de-registered for various

reasons. At this stage, the cause can be attributed to hostile employers, competition among unions for members, less-educated members and inadequate finances. It is important to note these traits as they could be found again in later years in relation to the efforts made by unions to stabilise themselves and also the government's role in either encouraging or discouraging them. The life spans of unions at this stage were in fact decided on by the trade unionists.

The other issue is the consistent British anti-communist stance, a trait found later in independent Malaysia. Since the crushing of the influence of communists on Malayan trade unions by the government, the movement became more and more dependent on it. Thus, when they became affiliated with the ICFTU, the liaison was not free from government's dictation. The ICFTU, once established in Southeast Asia, was expected to 'keep in touch with government and other British agencies (Gamba, 1962a: 402). When for example, these unions appealed to the state to assist them in matters of administration, legal problems, difficult employers, and membership recruitment, they became dependent on the state, and particularly to the TUA. This was the case when the TUA, Brazier, actually planned with detailed preparation the first conference that gave birth to the formation of the MTUC. In fact, he went down to ensure the first presidency of the labour centre was filled by someone 'acceptable to the colonial government, to the employers and to the bulk of labour' (Gamba, 1962a: 406). In other words, the leaders of the MTUC were government nominees. The paternalistic role of Malayan TUA's Department ensured details of each union's organisation and encouraged a consultative relationship between itself and the union, a relationship that tied unions to dependence on and subservience to government.

The issue on whether the unions should be involved in politics was also discussed as the colonial government intended them to be 'non-political', but as was found out, it was the government itself who could not separate the unions from politics. For example, it supported leaders and unions who displayed strong anti-communist convictions, and harassed left-wingers. When a left-wing WFTU wanted to establish links in Malaya, the government encouraged 'a binding and an exclusive relationship' between the Malayan union movement and ICFTU.

**Table 6.4: Number of Unions Registered and De-registered, 1948-1957\***

Year	Newly Registered	Voluntarily Dissolved	Cancelled**/ Ceased to exist	Failure to comply with statutory Requirements***
1948	42	44	49	18
1949	38	11	15	5
1950	19	1	11	1
1951	33	5	5	2
1952	37	5	4	1
1953	29	7	4	1
1954	18	5	13	1
1955	29	19	6	1
1956	26	8	13	6
1957	37	13	4	2

Source: Federation Of Malaya, Annual Report of the Trade Unions Registry, 1948-1957.

\*these figures include both employers' and labour unions.

\*\*many of these unions were cancelled because they no longer existed, but had not completed the administrative requirements to dissolve themselves.

\*\*\*includes failure to file annual returns and unlawful constitution of the trade union's executive.

In 1951, when the MTUC's leader raised the issue whether it should support the formation of the Labour Party of Malaya or the Independence of Malaya Party, members supported the former, claiming that the Labour Party would represent working class interests. On the other hand, there were views that the formation of the Labour Party would further divide the movement towards independence from the

British. As no decision was reached in a meeting on the 10<sup>th</sup> July 1951 and again in the MTUC second ADC in August, individual unions were left to choose their own political preferences. At this stage, the colonial government was still fearing that the labour movement would be drawn to the left-wing groups which had been driven underground (Jomo and Todd, 1994: 101). By mid-1954, under new leaders, the MTUC adopted a more radical policy, demanding self-government, asked for a revision to the Emergency Regulations, and requested a planned economy as well as reforms to improve the position of waged labour and peasants. So far, there had been no express commitments by the unions to the party, or vice versa, and the MTUC time and again stressed its independence from any political party.

There was also an objection from the unionists to the establishment of political funds, proposed in 1953, in the fear that such a fund would divide the labour movement communally. In the 1950s the unionists continually debated on whether trade unions should get involved in politics or not (Raza, 1969). For example, the NUPW decided that it would not take the opportunity to gain political influence, despite their numerical strength. Though the proposal was carried by 63 votes to 27, no union set up such a fund, though it was granted in the 1955 Trade Unions Amendment Bill. There were two reasons why that happened, one was due to the lack of agreement surrounding the question of union involvement in politics, while the other due to the poor financial situations faced by most unions. This scenario enabled the government to abolish the right in 1971, after several unionists who had won the May 1969 elections on opposition tickets were elected to Parliament (Jomo and Todd, 1994: 101).



Prior to independence, the MTUC joined the debate on the proposed federal constitution for independent Malaya, marking the labour movement's contribution. In a memorandum to the Reid Constitutional Commission, the MTUC rejected the proposed special position of Malays and recommended the abolition of Sultanates in independent Malaya. This stand met with a negative reaction by several affiliated unions. Immediately prior to Independence, the MTUC felt it had to reaffirm its stance of political neutrality to the Alliance Party, who were still suspicious of the union movement. During this period, the administrative arm of the government, especially the RTU (who was also the TUA), had started to exert extensive power over the unions, since at anytime it could de-register those suspected at being a threat: another issue that is debated in the current Malaysian IR. During the 1950s, the RTU was more influential in shaping the union movement in Malaya compared to during the influence of GLU or PMFTU. The use of police should also be noted, as they were always employed and available to enforce government policy, through arresting, detaining, or controlling the demonstrators during pickets. Equally important was the service of the Special Branch (police intelligence), the ISA and Emergency Rule, each used either to gain information or to repress dissent: another issue that will appear again in future Malaysian IR. The state at this stage, slowly but surely set the precedent for the independent Malaysia.

## **6.9. Conclusion**

There are several key points to be remembered from the discussions above. Kerr, *et.al* (1960) argue that there is a central logic to industrialisation that can be seen in every society, 'although different societies take separate paths on the way to industrialisation'. Variations only occur in approaches adopted by the elite of the

states who organised the industrialisation process. The central problem of IR around the world was not 'capital versus labour' but 'the structuring of the labour force, how it gets recruited, developed, and maintained (Kerr *et al.*, 1960: 280). Another scholar, Simitis, a believer in the convergence theory, agreed with this view and suggested the 'juridification' of the state as the inevitable consequence of industrialisation in all democratic societies. To him, juridification is not a peculiar feature of certain cultures or national characters. Rather, it is an activity whereby the state steers labour relations in certain prescribed directions (Bellace, 1994: 25). If we are to believe that, in the case of early labour and the trade union movement in Malaya, the colonial power had managed to do just that. In the early stage of pre-industrialisation, the state was hostile and reactive to workers and the emerging labour movement. The reasons for this varied, as in the case of Malaya, where the colonial government was desperately trying to protect its investment and welfare. However, the reason is not purely economic, as there were also political considerations. These factors were interrelated and did not stand on their own. The colonial government had to take measures politically (through legislation, rules, and administration) to protect, ostensibly in the Malayan case, the indigenous interests, while pursuing their economic goals.

Bellace (1994) rightly pointed this out when he remarked that in many countries, the state itself was newly formed, followed by the independence movement. During the move towards independence, political parties aligned with nascent unions. Once independent was attained, the same new leaders faced the problems of creating an independent economy, 'a process that necessarily coincided with industrialisation' (Bellace, 1994: 22). It is at this point too that a strong, independent union was not welcome, conversely, it would be considered a threat and a liability to the state's

economic plan. As a consequence, the state became hostile, as proved in Malaya during this same period. Though it looked as though a change, in that the trade unions were recognised after the war, this is in form rather than substance.

The other point in Malaya is how, due to their bigger role in commercial economy, the Chinese and Indians immigrants naturally played a more significant role in the labour movement prior to WWII. The twist came afterwards when new unionism was encouraged by the British who, for economic and political reasons, saw the Indians as trade union leaders. The Japanese Occupation worsened ethnic relations, and economic demarcation persisted until after independence. The Malays demonstrated an encouraging role only after they were more involved in modern employment, particularly because of the British protective policy towards them, as seen first with the 1948 Federation of Malaya, and later in 1957 independent Constitution, discussed in Chapter Seven. Regarding legislation, amendments made to the TUO after the war legitimated the state's control over labour matters and trade unionism. This fact is highly important as the same ordinance has been used until the present time, with the same amendments applying to counter the labour movement. The Japanese sparked new animosity among ethnic groups. However, they also contributed to the Malayan people's renewed interests in their position in the country after WWII. The most important issues that stayed until after independence are the Malay sultans' status and privileges; the status of the Malay language; and the Islamic religion; and the status of the Malays as the *Bumiputeras* or 'sons of the soil'. This awareness grew amidst the increasing number of educated Malays and their greater involvement in public services, as discussed further in Chapter Seven. In short, the British set the precedent as to how the state should act as a legislator, administrator and employer in situations

when there is a possible future rise of the labour movement. In Chapter Seven, the discussion centres on the paradoxical nature of Malaysian IR in its efforts to break away, but at the same time, for various reasons, preserve British influence.

**CHAPTER SEVEN**  
**THE DEVELOPMENT OF INDUSTRIAL RELATIONS IN INDEPENDENT**  
**MALAYSIA, 1957-70**

**7.1. Introduction**

Chapter Six has examined how the colonial state dominated Malayan IR for political and economic reasons, leaving behind labour legislation and the bureaucratic and socio-political system that was not free of its influence. This chapter looks into the next phase in Malaysian history that covers the first period of independence until a year after the 13<sup>th</sup> May racial riot that become a watershed in Malaysian history.

This chapter focuses on how the state performed its roles in Malaysian IR, in both the public and private sectors, and factors that influenced these roles. It highlights the efforts of the new nation towards self-government before it took a dramatic turn by introducing the NEP in 1971. In the IR context, despite promises of a free and democratic trade union movement, this period saw the government resort to various IR legislation to repress left-wing challenge or labour militancy, a stand inherited from the colonial era. Challenged by old and new issues, the government felt it necessary to safeguard the socio-political stability of the country to enable them to pursue economic development especially through foreign investment. Moreover, this twelve-year period saw three emergency rules: the one that already existed and lasted until 1960 fuelled by MCP threat; the second, in 1964, triggered by Indonesian Confrontation (or *Konfrontasi*); and the last one a direct outcome of a more internal conflict, the racial riot of 13<sup>th</sup> May 1969. These emergency rules also affected the IR

system in general, as the moderate unions were trapped between striving for workers' issues and responding positively to government pressure or face extinction.

## **7.2. The Alliance Policy on the Economy and IR**

The discussion below focuses on the role of the Alliance government, first in the economy and later in the major legislation that influenced or determined the direction of IR in this period.

The new independent government promised a policy of a strong, free and democratic trade union movement and, in fact, initially this movement was involved in the process towards an independent Malaya. The MTUC sent in proposals to the Reid Constitutional Commission - the commission responsible for drafting the independent constitution, where their requests regarding labour, labour legislation, fundamental rights, the independence of Public Services Commission from political or communal bias, and an independent judiciary were 'adequately met' (MTUCAR, 1956/57). Three MTUC leaders were already elected by secret ballot in July 1955 to sit on the FLC. As early as 1957, visits from trade union personalities from Britain itself persuaded the government to form 'national unions' and to 'set up Industrial Relations' machinery (ARRTU, 1957). Another legislation, the Employment Ordinance, 1955, was also enforced in 1957, much to the satisfaction of the MTUC (MTUCAR, 1956/57).<sup>51</sup> At the end of 1956, the Minister of Labour heaped praises on the MTUC for their support towards 'resisting the spread of communist influence in trade unions' (MTUCAR, 1956/57). Clearly, what the government meant by a 'free and independent trade union movement' was one free from becoming 'the tools of

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<sup>51</sup> Employment Ordinance 1955 that provides regulations more for individual workers is only discussed when issues that concerned IR and related to it arise.

any group of entrenched individuals or partymen' and free from interference by 'outside agencies wherever these may be from' (MTUCAR, 1956/57). Obviously, the government did not count interference from itself as a factor that might hinder trade unions from becoming free and independent.

Generally, the government seemed to show a genuine aspiration towards change in this early optimistic period. The minister stressed his ministry's current commitment to build up a 'proper industrial relations machinery' and to give assistance to the establishment of 'self government' in industry. The tripartite Federal Labour Advisory Board ceased in December 1956, and in 1957 was replaced by the enlarged tripartite body called the National Joint Labour Advisory Council (NJLAC). It would be a 'purely voluntary and advisory body', where representatives should be able to 'advise Minister for Labour on all questions affecting labour and the promotion of industrial peace, and to advise ... on matters in which employers and workers have a common interest' (MTUCAR, 1956/57). In fact, the government made sure that there were equal numbers of union and employer representatives on the council (ARRTU, 1959). The government was also aware of 'a desire on both sides of industry to provide for and operate an effective system of voluntarily agreed joint machinery for negotiations and consultation' (Minister of Labour's speech as cited in Josey, 1958: 2). At this stage, the government believed this machinery was 'a stronger guarantee of industrial peace and of smooth functioning of employer-employee relations than any legislators or courts or enforcement officers...' (Minister of Labour, as cited in Josey, 1958:2).

However, the first PM of independent Malaya, the Tunku, said there would be no change in the government's overall attitude towards the trade union movement and that it would encourage the growth of 'healthy trade unionism' besides continuing to provide bargaining power to union members for the ultimate purpose of safeguarding their interest and wellbeing (Josey, 1958:1). This implies its intention to continue the British labour policy that it inherited before the granting of independence, which was further compounded when the Minister of Labour and Social Welfare also talked of the same commitment, that the government encouraged 'responsible and genuine trade movement'. Stability in IR was emphasised and, counted as necessary for the industrial peace and prosperity of any country. In its Election Manifesto as early as 1955 the Alliance, besides promising to promote 'healthy and strong Trade Unions in order that workers can protect and promote their vital interests', also promised to 're-deploy labour in the event of an economic recession' (MTUCAR, 1956/57).

In another speech, the PM highlighted that it was the duty of everyone 'who owes allegiance to this country to work towards the stability of the government'. Even though it was not made explicit, he was most certainly referring to the new citizens of Malaya, the non-Malays, an outcome of the 'political bargain' in the independent constitution. As early as 1957, the Tunku was also talking about the need to bring in investors to Malaya, since the British were not offering any financial assistance to its national development planning:

We have to earn sufficient income to pay for our various services, social and economic development of this country, but if trouble is created by the workers, nobody would think of investing money in these industries.....Unions can do a lot to bring about good understanding between employers and employees, and it is with this understanding that the well being of the workers and everybody concerned will be assured (Josey, 1958: 3).



The Tunku stated that unions must be free from politics or political influence (Josey, 1958: 3). However, in the same speech, his call for unions to support the government contradicted his earlier view. Appeals to government officers who were trade unionists not to participate in discussions of political topics had already been made by the Federal Establishment Office (FEO) as early as 1954. An FEO Circular No 1 of 1957 reads:

It is desired to clarify the position of Government servants in Group B who are active in the trade union movement and who are nominated as delegates of their union to a trade union congress or to a party political organisation. Such officers are not prohibited from being delegates at conferences where political matters are to be discussed, but will be bound by the provisions of FEO Circular No 4 of 1954 not to participate on political topics.<sup>52</sup>

Officially at first, the government did encourage the trade union movement with 'particular emphasis on a national rather than on a state basis unions' (ARRTU, 1957). By the end of 1957, there were 250 employees' unions and ten employers' unions, with eight of the employees' unions being federations of trade unions. One hundred and fifty one of the 250 employees' unions or 60 percent comprised the government servants. By the end of 1957 too, 68 of the 260 unions were of a national basis, 50 were unions of government servants, and 18 were from the private sector. Seventy-one unions with a total membership of 159,235 were affiliated to the MTUC, a drop from 111 trade unions and 185,195 members in 1956 (ARRTU, 1957). There were 19 unions removed from the register for various reasons. Although there was no major change in legislation, there was the Trade Unions (Appeal) Rules 1957 that prescribed the procedure for appeal into the Supreme Court to those aggrieved with the decision of the Minister of Labour in upholding the decision of the Registrar. This

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<sup>52</sup> FEO Circular No 1 of 1957

was for cases where an application for registration or withdrawal or cancellation of registration was refused to a trade union (ARRTU, 1957).

Up to a certain extent, the government's proclamation of supporting a 'strong, free and democratic trade union' was, in the few years after independence, believable. With the communist influence still a threat, though there were hesitations and protestations, the MTUC still gave it a benefit of the doubt, by endorsing most of government's policies towards a better economic development. However, this was not lasting, as without financial help from its former colonial master, the government felt that to achieve economic objectives it needed to ensure socio-political stability, and this was shown by its decision to amend the TUO 1948 in 1959 and later, other laws and regulations (see 7.2.2).

### **7.2.1. The Five-Year Development Plans and Industrialisation Process**

The main contention of this study is that the economy has always been the prominent reason for the state's influence in IR issues. The discussion here aims to highlight the fact that the government was committed to use the economy as the main mechanism towards a more developed Malaysia through its five-year development plans and industrialisation.

By 1956, a year before independence, the First Malaya Plan (FMP), that is the first five-year development plan, actually started. This was in tandem with self-government by the Alliance Party after winning the 1955 general election. As already discussed in Chapter Six, the state tried to replace militant unionism with right-wing unionism, endorsed by the new government. The period 1957-1970 covers three

national development plans, starting with the FMP (1956-1960), the Second Malaya Plan (2MP) (1961-1965) and the third, the First Malaysia Plan (MP1) (1966-1970).<sup>53</sup>

Jomo (1999: 85) called the Tunku's era the 'Alliance Laissez-fairism' period where there were 'generally laissez faire policies with 'mild' ISI, agricultural diversification, rural development and 'mild', but increasing ethnic affirmative action policies'. Kuruvilla (1995) called the period 1957-70 'market-led'. The economic policy focused on the state's involvement in the development of the infrastructure and rural sector, with the industrialisation process left to the private sector. This led the state to create a favourable climate to attract foreign investment in important ISI. This was further confirmed with the enactment of the Pioneer Industries Ordinance 1958 (Anuar, 1992) and the creation of Malaysian Industrial Finance Corporation (Kuruvilla, 1995).

In fact, the FMP explicitly gave priority to rubber plantations (the estates), mining industries, building ports, modernising agriculture and provide basic needs for industrial development (Kamaruddin, 1992: 61). The objective was to encourage investments in the public and the private sectors to create jobs for the growing labour force. In other words, the economic system and the structure remained the same. The FMP was not financed by the British, even though the new government asked for help (Kamaruddin, 1992: 62). This further explained the need for the new government to curb left-wing unionism as it would hinder foreign investments, a factor that had become increasingly important. The British, however were more keen to help enlarge defence and their own incomplete projects (Kamaruddin, 1992). As discussed in

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<sup>53</sup> *Malaysia Kita* (1991), pp 723-731.

Chapter Six, before granting independence the British spent years on ensuring the leftist forces which threatened their economic interests were curbed. At this stage, too the multi-ethnic elite that they supported with the Alliance gained prominence in Malaysian politics, each representing the three main ethnic groups, and committed to protect their own ethnic interests.

The state interference in the economy at this stage was minimal. The government, which was still new, depended on just two primary commodities and therefore foreign investment was considered crucial. British interests were defended and the predominantly Chinese local businesses were able to strengthen their position in the economy (Jomo, 1999: 90). The strategy to promote the interests of Malay business community was 'feeble', whereby more attention was given to rural development to win the majority rural Malays (Jomo, 1999: 91). However, this in a way already showed the intention of the independent government to give special attention to the Malays. The MTUC at this stage was also supportive towards the government's efforts in FMP. Almost the same scenario applied to when the 2MP and MP1 were implemented (Kamaruddin, 1992: 63).

At this point, the relationship between the three actors was that of inter-dependency, and this need for each other, coupled with the enthusiasm of a new independent country, shaped the early relationship between the government and unions. In the context of IR, as discussed below, up until 1964 the voluntary system where the state's minimal role in the actual running of IR ended, as a change in legislation was triggered by old and new issues.

### **7.2.2. Trade Union Ordinance, 1959 and Other Laws and Legislation**

The discussion below highlights the TUO 1959 and other laws and legislation introduced in 1964/65, the reasons behind their implementation and its impact on IR.

In 1959, just two years after achieving independence, the government consolidated the existing laws and regulations for trade unions. The TUO1959 retained the amendments made in 1948 to the 1940 TUE (ARRTU, 1959:2). The three important rules that stayed were (1) outlawing federations of a general character and confining them to unions catering for workers in similar trades, occupations or industries; (2) reducing the influence of outsiders by requiring trade unions officials other than the secretary to have three years' experience in the industry of their union; and (3) introducing certain changes among which the new definition of a trade union was significant. 'Trade union' is now defined as 'any association or combination of workmen...within any particular trade, occupations or industries', thus limiting its scope. This actually was the government's policy of preventing the formation of larger unions and checking into leadership among workers, clearly a worry that was inherited from the communist-influenced era. In the long run, these limitations also afforded the RTU (that replaces the TUA), and the Minister of Labour wide discretionary powers to ascertain or determine the nature of trade unionism in Malaysia, in line with the government's aspirations. In fact, the practice of secret ballots, as used by unions before taking strike action, was never before specified. However, the RTU was then given the honour to prepare a model, that two thirds of union members must agree to a strike action, and this model then became the reference of the unions.

The government admitted that the restriction 'to workmen or employers in any one particular trade, occupation or industry or in similar trades, occupations or industries' was to ensure 'the refusal of registration of 'omnibus' unions which in the past wrought much harm to industrial peace' (ARRTU, 1959). Also, officers and employees of trade unions were required to be Federal Citizens to prevent aliens from interfering in the running of trade unions in Malaya. Newly established unions were prohibited from collecting funds and property unless registered. The Registrar was now empowered to summon and examine on oath anyone he thought able to give out information on any unions (ARRTU, 1959). With this new Ordinance, all existing trade unions were to seek re-registration, where out of 249 unions, 26 failed to apply for registration in due time (ARRTU, 1959).

The MTUC attacked the TUO 1959 as 'severely restrictive' as regards the organisation of workers into unions due to the prescribed definition of a 'trade union'. While in the old TUE 1948, federations of trade unions were restricted to those whose members were employed in similar trades, occupations or industries, single unions were able to enrol persons from different industries. Although the MTUC called for suitable amendments, the government turned their proposal down (MTUCGCR, 1966/67). On the other hand, there was support from unions towards the TUO 1959, when some felt it was 'to ensure the protection of workers' interests' (David, 1984). The RTU reported that there was a 'smooth passage' through the Legislative Council over TUO1959 as evidence that the workers did not object to it (ARRTU, 1958).

In 1965, the law was amended again when the government supplemented TUO, 1959 with the Trade Unions Act 1965 (ARRTU, 1959; MTUCAR, 1966/67). The RTU was

given wider powers to de-register or refuse to register a union. This was the case when a union representing the same trade, occupation, or industry already existed, on the grounds that 'it is not in the interest of the workmen in that particular trade, occupation or industry that there be another trade union in respect thereof'. This amendment also gave the government the right to structure unions.

Again in 1965, the government introduced two sets of Regulations, the Essential (Arbitration in Essential Services) Regulations, 1965 and the Essential (Prohibition of Strikes and Proscribed Industrial Actions) Regulations, 1965. Both were introduced under the Emergency (Essential Powers) Act 1964. While the first set of legislation restricted the right of private sector employees in 'essential services' to take strike action, the second set prohibited government servants from taking part in strikes and prescribe industrial action during Emergency (Jomo and Todd, 1994). Even though these Regulations were subsequently withdrawn, in their place the Essential (Trade Disputes in the Essential Services) Regulations 1965 was promulgated. These regulations retained the restrictions and ended for good the IR system that was based primarily on the British voluntary system, whereby parties were given maximum encouragement to settle their problems through methods and procedures previously agreed between themselves 'with a minimum of outside intervention' (ARML, 1965). What prompted the move towards introducing the system of compulsory arbitration was the government's growing worry about the 'increasing expansion of the trade union movement and the intensification of its activities' (ARML, 1965) (This is further discussed under 7.4.). The government was also worried about trade unions in the public sector, where it was thought that in early 1965, a mass action was being planned 'which could have seriously affected the stability and economy of the country

and jeopardised the nation's efforts to face the "confrontation" (ARML, 1965) (Discussed under 7.4). With these revised regulations, the Minister of Labour was given special powers to intervene and, if necessary, to refer disputes to the Industrial Arbitration Tribunal. When the minister felt fit to intervene, 'no strike or lock-out or any proscribed industrial action' should take place (ARML, 1965).

At the end of 1967 there were 277 registered unions but with just 3 federations and with a total membership of 359,534. There were 40 unions with fewer than 50 members, some even under 10, reflecting the ineffectiveness and helplessness of unions (MTUC GCR 1966/67). However, the MTUC accepted these restrictions on 'general unions' on the understanding that they were 'purely temporary measures subject to revision as soon as more stable conditions prevail' (MTUC ADC 1966/67). This referred to the government's plight with the communists and the second Emergency rule caused by *Konfrontasi*. In 1964, the MTUC and the Malayan Council of Employers' Organisations signed a Code of Conduct, both agreeing to do 'their utmost to maintain industrial peace, at least during the period of national emergency brought about by the Indonesian Confrontation' (AR, Ministry of Labour 1965). Even with this co-operative attitude of MTUC, the government in their reports condemned the trend showed by militant trade unions in early 1960s, where they 'stick uncompromisingly to their so-called rights and prerogatives and rely excessively on the use of their own position and strength to achieve their aims and objectives, to the disregard of the serious effect of their action on the economy of the country or the paramount interests of the public at large' (ARML, 1965). (The activities of these 'militant unions are discussed in 7.4.).



So with TUO1959 and the other regulations, there was no avenue for trade unions to be the 'strong, free and democratic unions' that the government initially promised. As discussed under subsections below, the government put forward the two reasons of economic and political stability to retain and in fact intensify restrictions through legislation on labour movement, thus turning it (the government) into the most dominant determinant factor in Malaysian IR.

### **7.2.3. The Industrial Relations Act, 1967**

The *Konfrontasi* ended in August 1966, after the Bangkok Peace Pact was signed in Jakarta (Raza, 1969). Trade union leaders expected the compulsory arbitration law of the Essential Regulations Act 1965 to be a temporary measure and to be repealed with the end of this Confrontation. However, the government indicated that the law was to be made permanent. In June 1967, a comprehensive Industrial Act was passed. IRA 1967 consolidated all previous laws concerning industrial disputes. This Act also imposed further restrictions on the right to take effective industrial action. The definition of 'strikes' now included even refusal to work overtime as it defined a strike as:

any act or omission by a body of workmen employed in any industry acting in combination or under a common understanding which is intended to or does result in any limitation or restriction or cessation of or dilatoriness in the performance or execution of the whole or any part of the duties connected with their employment (MTUC GCR, 1966/67).

IRA1967 also gave the Minister of Labour wider power 'to intervene in any trade dispute in the private sector and refer it to the Court on his own motion if he deems it to be in the public interest to do so' (ARRTU1967). The Minister was also empowered to add, vary or alter the schedule of public utility services which to MTUC should be left as a matter for the legislature rather than government (MTUC

GCR1966/67). The IRA1967 also excluded public employees from the chief provisions of the law, namely, those concerning recognition, organisation, conciliation and arbitration, as well as the right to strike (MTUC GCR, 1966/67). The *Agong's* consent that was required for the referral of public service disputes to the Industrial Arbitration Tribunal was now extended to employees in statutory authorities. Strikes or lock-outs were prohibited (a) during the pendency of proceedings of a Board of Inquiry or (b) after a trade disputes has been referred to the Industrial Court or (c) in respect of any matter covered by a collective agreement taken cognizance of by the Court or covered by an award of the Court or (d) on a claim for union recognition (ARRTU 1967). Strikes were now also broadened to include the 'go slow' (ARRTU 1967).

When the draft was introduced at the tripartite NJLAC, the MTUC commented on all restrictions of the fundamental rights of workers and the discrimination between the private and public sectors. New industries like 'Banking' and 'Petroleum' were put under 'public utility services'. The MTUC condemned IRA 1967 for giving 'the minister extensive and unlimited powers to interfere with, regulate and control a trade dispute, even when the national interests may not really be involved or threatened' (MTUC GCR 1966/67). However, all comments, memorandum, and even writing to ICFTU and 'other world agencies' did not bring any changes to the provisions in the Act. This showed how even at this stage the NJLAC as a tripartite body failed to function effectively for trade unions. In 1967 the then General Secretary of MTUC, SJH Zaidi wrote:

The officials of the trade unions have long felt the tenuous but carefully planned moves of the government of the day to reduce Workers' Organisations to a state of complete impotency. The IRA 1967 has just about finished the process which commenced with the introduction of the TUO

1959. The Ordinance broke most of the unions into tiny little units and the Act has deprived even these small, ineffective and widely scattered unions whatever virility or strength they might have still possessed (MTUC GCR 1966/67).

From the government's point of view, it had reason to believe there was resistance within the trade union movement itself towards changes proposed by MTUC to strengthen the movement. The MTUC, in its 1966 Conference, proposed that the unions be organised into ten groupings according to their industries in order to consolidate them. However, the majority of union leaders were reluctant to surrender their positions of power, and bona fide members were also doubtful of the re-organisation of the unions. In addition, there were complaints from the smaller unions about 'abuses' of outside influences that might encourage 'uncontrolled political influence' in local trade unions (ARRTU 1967). The government was wary of such trends among trade unions during these years 'especially where they affect the public and national interest' (ARRTU 1967). It felt that the voluntary system could no more resolve problems governing employee-employer relations, therefore straining relationships and, in a number of cases, leading to serious strikes and lock-outs. Extreme left-wing elements taking the IR into 'their crusade of street fights and sabotage had to be swiftly and firmly countered in order to avoid a retreat to the chaotic early days of First Emergency' (ARRTU 1967). Therefore, the government took action to cancel the registration of some trade unions that it thought were being manipulated by 'subversive elements'.

There were however several protective measures for unions as initiated after the U.S. Wagner Act of 1935 and Taft-Hartley Act of 1947, where a number of unfair practices that might originate from employers were prohibited. Employers, for example, could not interfere with or coerce employees in their right to organise and

they could not discriminate, dismiss, or intimidate workers because of their union activities. Neither could they support management-dominated unions. The IRA 1967 is defined as:

An Act to provide for the regulation of the relations between employers and workmen and their trade unions and the prevention and settlement of any differences or disputes arising from their relationship and generally to deal with trade disputes and matters arising therefrom.

In a way, the implementation of the EA 1955, the TUA 1959 and the IRA 1967 coordinated the IR system in Malaysia and completed the government's overall policy towards trade unionism and IR. While the IRA 1967 takes care of matters discussed above, the EA 1955 states important definitions regarding employment relations such as 'service', 'days', 'employers', 'employees' and 'wages'. The TUA 1959 meanwhile endorses the rights of employers and employees to be organised within the context of the law. As discussed in 7.4. below, these rules and regulations, which are still major IR laws today became the cornerstone of Malaysian IR, setting the nature of IR that controls the relationship between individual employers and employees or between their unions. The IR system could only be operated within the context of these laws, even though, as seen in later chapters, there are attempts at change by the trade unions and the government, if not the employers. The employers did not have any desire to as these laws ensured their favourable position.

### **7.3. The Political Scene, 1957-70**

The discussion below looks into how the political factor influenced the state's roles, and also how even trade unions were influenced by patriotism and 'national interests'.

### 7.3.1. The Tunku's Leadership and Challenge

The Tunku's style of leadership played a part in determining the role of the state in that period. He was respected among the coalition partners, having successfully negotiated the terms of Independence in 1957. He was also the one to promote the 'elite accommodation system' that was based on 'the goodwill and the understanding' of ethnic sensitivities in Malaya (Means, 1991: 5). However, the Tunku was also the first PM to inherit British legacy, one of them the plural society, as shown by the racial composition of the Federation of Malaya as seen in Table 7.1.

**Table 7.1:  
Racial Composition of Federation of Malaya 1921-57**

Race	Population in 000s by census year				Percentages by census year			
	1921	1931	1947	1957	1921	1931	1947	1957
Malays*	1569	1864	2428	3125	54.0	49.2	49.5	49.8
Chinese	856	1285	1885	2334	29.4	33.9	38.4	37.2
Indian**	439	571	531	707	15.1	15.1	10.8	11.2
Others	43	68	65	112	1.5	1.8	1.3	1.8
<b>Total</b>	<b>2907</b>	<b>3788</b>	<b>4909</b>	<b>6278</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*including aborigines (*orang asli*)

\*\*including Pakistanis

Source: Wu, 1995, xxvi.

The Malays were still the bigger majority with 49.8% of the population, but the Chinese had shot up to 37.2%. This was a significant switch from the 1921 figure, whereby the Malays were 54% and the Chinese were a lower 29.4% and shows that the majority of the Malays had gone down. The Indians, nevertheless, stayed the

smaller majority with 1.8% in 1957, though this percentage increased as compared to 1.5% in 1921.

Judging by the occupations of ethnic groups that had developed by 1957, it is easy to conclude that the three major ethnic groups had been further divided into distinct occupations thus widening the gap between them. Table 7.2 illustrates this situation clearly. While there were more Malays in agricultural activities and the public sector, the Chinese were dominant in mining, commerce and market gardening. The Indians remained in commercial agriculture (mainly in the rubber plantations), railways and public works (Wu, 1995: xxvii). As discussed in Chapter Four, there were fragile situations apart from natural barriers between the three societies, as well as generalisations and stereotypes about races by the British. As labourers the Malays were perceived as 'docile, rural and unsuited for commercial enterprises' while the Indians were seen as 'quarrelsome at times' and 'well suited for plantation and public works as they could endure the heat and labouring'. The Chinese on the other hand were thought to be 'difficult to control or discipline' but were 'hard-working and enterprising' (Wu, 1995: xxvii).

The paid-up membership of all registered trade unions on 31<sup>st</sup> December 1957 was 222,865, with 222,073 from employees' unions. The breakdown by gender and race is seen in Table 7.3, which also shows that the Indians still formed the majority of union members, with the Chinese and Malays contributing almost equal numbers. Males contributed 76 per cent of the total employees' union membership. Finally, the majority of Indian labour who were unionised were from the rubber plantations.

**Table 7.2: Occupation by Ethnic Group in 1957  
(in thousands)**

Industry	Malays	Chinese	Indians
Agriculture, fishing, forestry	749	310	174
Rice	381	9	0.5
Market gardening	23	54	1
Rubber	260	200	150
Mining, manufacturing	36	136	16
Commerce	32	127	32
Other industries and services	180	174	80
Government	17	5	8
Police, home guard	43	4	2
Armed Forces	15	2	3

Source: Wu, 1995: xxvii.

**Table 7.3: Members of Employees' Unions (Sex and Race)**

	Males	Females	Total	Percentage
Indians	89,595	39,080	128,675	58.0
Chinese	38,703	7,794	46,497	21.0
Malays	40,545	5,306	45,851	20.5
Others	828	222	1050	.5
Total	169,671	52,402	222,073	100.0

Source: ARRTU, 1957.

The Tunku also inherited the Emergency Rule 1948, and in later years saw Malaysia marked by several new incidents. In the 1959 general election, the Alliance won another victory but not as impressive as in the 1955 election, since there emerged increasing challenges from opposition parties (Vasil, 1972). The conflict between the Alliance and the PAP of Singapore in 1964-65, the Indonesian *Konfrontasi* policy, the

Language Act controversy of 1967, the Labour-Party-led hartal in 1967 and the electoral campaigns of the 1969 general election all contributed to the increasing ethnic confrontation that culminated in the 13<sup>th</sup> May race riots. After this date, the Tunku was attacked by the 'ultra- Malays', with none other than Mahathir Mohamad writing an accusing letter, accusing the PM of being pro-Chinese, and calling for his resignation (Khoo, 1995: 21). Even though Mahathir, who at the time had just lost his Kota Star seat in the election to a PAS candidate, and a few others were later expelled from UMNO and the letter was banned, his call for a 'pro-Malays' government represented the feelings of the Malay majority. The resentment centred on their community's economic backwardness and the desire to use political dominance to win their formerly lost causes. The Tunku's resignation and the NEP were two most direct outcomes of these events.

### **7.3.2. The Formation of Malaysia and the Second Emergency**

The discussion below shows how patriotism won over the relationship between MTUC and the government in response to outside challenge. In 1963, the 'Federation of Malaysia' was formed with Malaya, Singapore, Sabah and Sarawak as members (Comber, 1983). There was substantial reservation about bringing in Singapore into Malaysia since about 75 percent of the island's population was Chinese, but with the inclusion of British Borneo with their majority of 'indigenous' people who were thought of as Malays, the Chinese were hoped to be outnumbered (Comber, 1983). Sabah and Sarawak, the two new members of Malaysia, all the while remained separate in their labour movement from each other and also from the mainland Peninsular Malaysia. It should be pointed that the TUA restricted membership of a union to workers in the Peninsular Malaysia, Sabah and Sarawak. Furthermore, Sabah



and Sarawak were considered rural states, with relatively few waged employees, and in fact were geographically and historically isolated from the Peninsular (Jomo and Todd, 1994: 106).

The MTUC at first saw the opportunity to form a national trade union centre for Malaysia with Singapore National Trades Union Congress (NTUC) and had already arranged talks (MTUCAR, 1964-65: 55). This was not to materialise, as Singapore was expelled from Malaysia in 1965. Lee Kuan Yew's call for 'Malaysian Malaysia' where it challenged the Malays' special rights was too much for UMNO and the Malays. For the two years Singapore was in fact treated differently with concession to retain control of its education, labour and other matters (Comber, 1983). The last straw was when there was an open conflict and race riots in Singapore between the Chinese and Malays in 1964, which saw many people dead and injured. It coincided with the Indonesian *Konfrontasi*, a policy launched by Sukarno the Indonesian President, who opposed 'Malaysia', calling it a 'British ploy' to control territories and suppress anti-colonial forces (Azizan, 1989; Milne and Mauzy, 1986). In fact, there was evidence that the idea to include Sabah and Sarawak by the Tunku was originated by the British who said to Kuala Lumpur 'you can't have Borneo without Singapore' (Comber, 1983). The *Konfrontasi* included troop clashes on Indonesia's border with Sabah and Sarawak, and on the Peninsular Malaysia west-coast, besides restrictions on Malaysia's trade and higher military expenditures (Milne and Mauzy, 1986). All these coincided with increasing labour unrest, giving the government another reason to declare a second state of Emergency in September 1964 (Anantaraman, 1997: 6). That voluntary system, flawed as it was, came to an abrupt end during the *Konfrontasi*. Though the *Konfrontasi* did not have any direct implication on the IR

system per se, when the Emergency Rule was implemented, the trade unions reacted to it accordingly. The MTUC advised its affiliating unions to avoid from conducting industrial actions but to settle disputes through negotiation. This shows the MTUC patriotic attitude towards Malaysia when the nation was attacked by outside forces and again, it demonstrated how the government had succeeded turning 'national interest' into an issue that the MTUC accepted as deserving the support of workers as responsible citizens.

**Table 7.4: Number of Unions Registered and De-registered, 1957-1969**

Year	New Union Registered	Unions De-registered		
		Voluntarily Dissolved	Ceased to exist	Failure to comply with statutory requirements
1957	37	13	4	2
1958	35	5	17	9
1959	20	18	5	12
1960	48	17	13	6
1961	38	14	2	6
1962	38	14	2	1
1963	26	28	2	10
1964	24	12	-	5
1965	23	6	4	4
1966	10	9	4	4
1967	3	18	1	4
1968	9	13	6	5
1969	7	6	3	3

Source: Malaysia. Annual Report of Trade Unions Registry, 1957-1969.

The *Konfrontasi* dragged on from 1963 to 1966, giving the government a strong reason to use the Emergency rule to its advantage in curtailing the labour movement. It was on the pretext of the Emergency conditions still prevailing that the 1959 TUO (discussed above) was amended, empowering the RTU to de-register or refuse a union. If we look back at Table 7.4, we can see that the number of de-registrations, for various reasons, exceeded new registrations in 1959, 1963, and during 1966-1969. By

comparison, the number of strikes, workers involved and man-days lost decreased in 1964, the year the *Konfrontasi* was officially declared, as compared to the percentages in the previous year.

The year before Malaysia was officially declared, in 1963, saw the increasing labour unrest in the country, while the MTUC as the main labour centre failed to prevent the trade unions from engaging in industrial action. There was increasing labour unrest which actually started from 1962 up until 1964 (discussed under 7.4). This again contributed to another reason for the Alliance to declare a state of emergency. A Code of Conduct for Industrial Peace was signed by the government, employers and unions in November 1964, but did not result in the weakening of the industrial unrest, since only the moderate unions (MTUC) signed the pact. Again, this became a good pretext for the government to make the transition from a voluntary system to a compulsory one.

The MTUC called the implementation of the regulations in 1965 'The Blackest Day for the Trade Union Movement' (MTUC 45 Years). It felt it had been 'stabbed in the back' by the government it helped elect and given loyal support to during the Confrontation. But the Minister of Labour stated:

It is inevitable that when we are faced with a deteriorating situation not only in the government sector but also in the private sector, Government must act, and in doing so, it is equally inevitable that certain courses of action hitherto available would have to be curtailed...(MTUC 45 Years).

The fact was that the government did not only confine this prohibition to its employees. It promulgated regulations relating to Arbitration in the Essential Services in the private sector so that the degree of industrial action that could be taken by the

unions in the various industries was also curtailed. The MTUC took it as a betrayal of 'trust and goodwill' and thereby issued a statement on 14<sup>th</sup> May saying:

The government's decree brought about in a most undemocratic manner the parallel for which can only be found in countries with Police and Dictatorial regimes, has brought disgrace to the very concept and ideals which Malaysia has so far stood for. MTUC is profoundly shocked that the central government, inspite of its continuous declarations both nationally and internationally to defend the democratic way of life of Malaysians citizens should have taken such a drastic step.

MTUC said the government had taken the last constitutional weapon of unions in mainland Malaysia. Accusing the government of becoming anti-labour, the MTUC told the government that they were calling for an extra-ordinary delegates conference to consider, among other things, withdrawing workers' representatives from the NJLAC and various boards and organisations where they were representing workers' interests, and to campaign for international support and solidarity. The NJLAC meeting which was scheduled for 18<sup>th</sup> May 1965 was cancelled because of MTUC's absence. On the 23<sup>rd</sup> May the MTUC Secretariat issued a paper entitled 'What ails the workers in the States of Malaya'. However, all these protestations did not bring the desired effect.

Meanwhile, the government boasted the effectiveness of the new compulsory system. There was roughly a 310 percent decrease in the number of man-days lost due to strikes during the period of the Emergency, 1964-67. Realising how the compulsory arbitration system benefited the industrial policy, the government then replaced the Emergency Regulations and the Industrial Court Ordinance 1948 with the IRA 1967 (this Act is discussed above). With this implementation, the government perpetuated the compulsory IR system with the present day Industrial Court, which was

established under this Act, making it play a pivotal role in ensuring industrial peace in Malaysia.

### **7.3.3. The Third Emergency and its Impact on IR**

As has been discussed, the race riot on 13<sup>th</sup> May 1969 had dramatic ramifications for Malaysian history as a whole. As for IR, the impact was enormous. The riot triggered the declaration of the third Emergency Rule in Malaysia, just twelve years after independence. It questioned Malay backwardness in the economy and Malay rights, as the *Bumiputeras* again became centre-stage, thereby demanding the government's fast and effective attention, as it appeared. This triggered the Alliance's drafting of the NEP, prior to which it saw the implementation of various amendments to labour laws to supplement the coming dramatic change.

Two new IR legislations were passed in 1969, apart from the Emergency Regulations already enforced. These were the Essential (Modification of Trade Unions (Exemption of Public Officers) Order 1967) Regulations, 1969 and the Essential (Trade Unions) Regulations 1969 (ARRTU 1969). Such legislation further restricted the role of unions and their ability to unite. Under the Essential (Modification of the Trade Unions (Exemption of Public Officers) Order, 1967) Regulations 1969, unions of public officers cannot affiliate with any organisation whose membership is not confined exclusively to public officers (ARRTU 1969). The Essential (Trade Unions) Regulations, 1969, amended the Trade Unions, 1959, with six features. It removed the provision for the issue of temporary certificates of registration; it gave the Registrar powers to take action against any branch of a union as and when necessary; trade unions officers must be employed in the industry with which the union is connected;

there was a safeguard against 'wild-cat' strikes; a prevention against persons employed by a statutory authority from joining or being members of any trade unions unless the membership of that trade union is confined exclusively to persons employed by that particular statutory authority; and lastly, there was the abolition of political fund (ARRTU 1969). This is apart from the already enforced TUO 1959 and TUA1965, as discussed in 7.2.2.

The 1969 regulations left MTUC stunned as seen in a period of inactivity that is discussed in Chapter Eight. The government promised again that these 'new laws were enacted specifically for the duration of the Emergency' (ARRTU 1970). These new restrictions meant the unions were no longer allowed to negotiate certain conditions of service, such as redundancy, promotion, transfer and allocation of work duties. The trade unions' tendency to be active in politics was curbed with the abolition of political funds, and the fact that now officials of political parties were not allowed anymore to hold office in trade unions. Public service unions now were forbidden to affiliate with any organisations whose membership was not confined exclusively to public sector employees, forcing 56 public service unions to withdraw from the MTUC. The RTU powers were much more strengthened, in fact, on any trade union affairs.

The government argued that its policy in 1969 and the change of economic policy that was about to be implemented (the NEP) was for 'social justice' in general and for 'national unity' (ARRTU1969). It contended that it 'became incumbent on the government to introduce remedial measures in various forms including restraints and modifications to laws including labour laws as embodied in the amendments of

October 1969' (ARRTU 1969). It claimed to be in the larger interests of workers, and frankly stated that it would 'rationalise employee-employer relationship, help about manageable labour force, attract new investments, create employment opportunities and enable a more rapid tempo of industrialisation and development' (ARRTU1969).

#### **7.4. The State, The Public and Private Sector IR, 1957-70**

This discussion below looks into some of the turning points in public and private sector IR during this period. On 23<sup>rd</sup> October 1957, the CUEPACS, after some negotiation with the government, was formed. Before that, there was the Government Services Staff Council (GSSC), which became a forum for co-operation among public sector unions. Now, the CUEPACS represented the Staff Side of the Whitley Council (refer Chapter Six). That the government did grant the registration of CUEPACS as a trade union, though hesitantly, was quite extraordinary. With this formation, CUEPACS were able to represent the public sector unions on the Staff Side of the Whitley Council, and negotiated and heard grievances of public sector employees. As early as 1957, the public sector raised issues such as equal pay for women and a housing scheme for public sector employees. There were also claims made by individual unions in the public sector for improved wages and conditions.

However, the government kept on delaying the settlement of long-standing claims. Either encouraged by the private sector unionism militancy or solidarity or leadership, some public sector unions were quite aggressive themselves, threatening industrial action whenever they felt the government denied them their rights. This was in tandem with the claim made by a veteran trade unionist that trade unionism in those days, in comparison to the present day, and even in the public sector had much more

freedom, and a committed leadership. Realising that the Alliance government was always pro-capitalist and free enterprise, the union movement was more united.

This was shown by the 22 December 1962 strike of the Railwaymen's Union of Malaya (RUM), which stretched for 22 days (Interview: K.George, 7/2/2001; Azizan,1989; Jomo and Todd, 1994). The strike was meant to force the government to abolish the daily wage system and to grant them government servant status so that they would become entitled to public service conditions of employment. They managed to persuade the government to accept their claims, and they gained their monthly rates and, a few years later, their public service status (Interview: K.George, 7/2/2001). In fact, the government extended the reforms to other daily rated workers in the public sector shortly after that. This success was not achieved without some pain and some degree of solidarity among trade unionists, with help from the rest of the labour unions. They brought the Malayan Railway services to a halt, gained the support of both MTUC and CUEPACS, with other unions like the Port Swettenham Harbour Trade Union and the NUPW also staging sympathy strikes. Other unions either conducted sympathy strike ballots or gave moral and material support (RUM Biennial Report, 1962/64). What this spectacular strike by the RUM showed is that with the proper support from trade unions both in the public and private sector, as well as some organisational skills and solidarity, strike could bring about the desired result, a factor which in later years was denied to the unions in modern Malaysia. It further confirmed what the veteran trade unionist claimed ' a strong leadership, very unlike today's leadership in both sectors, who have no conscience whatsoever' (Interview: K.George, 7/2/2001).



There were other strikes and work-to-rules used during 1963-65, (Jomo and Todd, 1994: 116) such as the one and a half work-to-rule by the Laboratory Assistants' Union and in May 1964, the Union of Post Office Workers strike, both for long-standing claims. Following the government's refusal to implement the Arbitration Tribunal Award after the union submitted its claim for arbitration, the workers resorted to a work-to-rule in January 1965. In June 1964, the members of the Federation X-Ray Staff Union commenced a work-to-rule, and in January 1965, the National Union of Hospital Assistants threatened the government with strike action. One of the other memorable strikes by the public sector unions was the one staged by the Malay Forest Employees' Union (MFEU), which stretched for 36 days, over long outstanding claims for better wages. Remembering the strike, a veteran trade unionist who was the General Secretary of the MFEU recalled that it was the longest strike by any public sector union (Interview: Jamaluddin Mohd Isa, 30/1/2001). He remembered meeting the PM and was asked by the Tunku to wait for the Suffian Commission. Out of solidarity among them, they went on strike, and this was despite the Tunku's doubt over their seriousness since this was and still is a hundred per cent Malay members' union. Five thousand people, including a thousand members and their families, went on a full strike, and the matter was made worse they were supplied food by the Chinese and Malay contractors who logged as they wished in the forests. The government was furious, as the forest industry was being ruined and there were not many foresters left to man this situation. At long last the government succumbed to the union's demand and they were granted a 10 to 15 per cent increase (Interview: Jamaluddin Mohd Isa, 30/1/2001).

At this stage the National Whitley Council still offered the public sector collective bargaining as a means to settle wages and negotiations. However, as early as 1958, there was already an intervention when the government imposed a wage freeze on public sector employees, giving recession as the reason. Later, after agreeing to consider the wage claim, for not the first and the last time the government warned that it would not negotiate unless it was in the 'national interest' (CUEPACS AR 1959/60). The word 'national interest' from then on would be found in later decisions or policies made by the government until the 1990s (Refer discussions in Chapter Eight, Nine and Ten respectively).

The plight of collective bargaining in the government sector was therefore short-lived. With the appointment of the first Commission, the Suffian Royal Commission, wage negotiations were gradually lost by public sector unions. It is important to note that these were also the years when the government curbed trade unionism in general, with the 1965 regulations already discussed above.

The Commission, which actually began its work in 1965, completed a report in July 1967 (National Joint Council, Staff Side: 1975). Then the government chose to implement some of the commission's recommendations, saying that it did not have enough money to implement it as a whole. CUEPACS was adamant that at least the government implemented the increase for the lower division (Division IV); the Industrial and Manual Group (IMG). Somehow, the CUEPACS was able to meet the PM and obtained a promise from the government to implement the Suffian Commission for the lower group (Interview: Jamaluddin, 30/1/2001). However the implementation was suspended because of the 13<sup>th</sup> May 1969 race riot. As in the

private sector, a fragile situation triggered by the race riot again became a scapegoat. In fact, May 13<sup>th</sup> 1969 has been used as a ground for a dramatic change of policy.

From 1963, CUEPACS and its affiliating unions tried without success to form a national union, the National Union of Employees in the Public and Civil Services (NUEPACS). CUEPACS officials thought that re-organising CUEPACS into NUEPACS would 'consolidate and stabilise the bargaining position of the entire Civil Servants by organising them in a single national union' (CUEPACS AR 1965/66, 39). CUEPACS at that early period realised its inability to be an effective organisation with its present structure. With that in mind, a draft constitution was circulated to all its affiliates by 29<sup>th</sup> May 1967. Copies were forwarded to the Registrar of Trade Unions on 15<sup>th</sup> May 1967. He did not give any reply for months, forcing CUEPACS to ask for intervention from the MTUC, Public Services International (PSI) and ICFTU. A resolution was made at a CUEPACS Special Congress Convention on 18<sup>th</sup> June 1967 and a copy was sent to the Minister of Labour on 21<sup>st</sup> June 1967. The Minister, instead of giving a reply, invited CUEPACS leaders to a meeting and told them informally that the government had decided to invoke section 27(2) of the Trade Unions Ordinance 1959 and regulate how 'public officers' (employees of government) should be organised in trade unions. He was true to his word when, by 28<sup>th</sup> September 1967, a Gazette Notification was issued regulating that public officers may 'form or be members of only such trade unions which confined their membership to employees within a particular occupation, Government Department or industry'. The Registrar then followed with a letter, drawing attention to the Gazette Notification and ruled that NUEPACS could not be registered. The CUEPACS vowed to fight back against the ruling, but to no avail. This failure saw CUEPACS and other

trade unions in the public sector remained divided and therefore not as strong as it had hoped.

On the part of the government, it was just what they wanted. A united trade union of the public sector under one united national union would probably make the negotiation process a lot easier but would surely mean a bigger and stronger union. Even as divided unions, public sector ones could still pose a threat, and as a national union the threat could be fatal to the government. With the implementation of the IRA 1967, the future of public sector unions as compared to the private sector unions was further marginalised. It could never be argued again that after the implementation of IRA 1967, the objectives of public sector unions were more streamlined according to the government wishes, with very limited, if any, union rights.

As a comparison, it has been shown that the MTUC was more active in this twelve-year period. Even though the government repressed labour militarism, during the 1960s there emerged several new trade unions which were more militant, for example the Pineapple Industry Workers' Union, the Shoe Industry Workers' Union, the National Union of Employees in the Printing Industries, and the United Malayan Estate Workers' Union (UMEWU) (ARRTU 1958). They were ready to face the government and employers with a direct confrontation rather than using the moderate and responsible approach already embraced by the MTUC. In 1967, the militant UMEWU, the Overseas Commonwealth Force Employees' Union and the Victoria Estate Labour Union were all de-registered, ostensibly to limit the formation of splinter unions (Jomo and Todd, 1994: 112). Again, the barrier to mass development was the fact that there were already unions favoured and preferred by the government.

and in particular the non-militant ones like those affiliated under MTUC and co-operative with the government. In other cases, the RTU just registered a splinter union, as seen with the National Union of Employees in the Printing Industry in 1967, which clearly definitely undermined it. The MTUC, needless to say, distanced themselves from all these militant unions (MTUC GCR, 1966/67).

**Table 7.5: Strikes, workers involved and man-days lost, 1957-70**

Year	Strikes	Workers Involved	Man-days lost
1957	113	14067	218562
1958	69	9467	59211
1959	39	6946	38523
1960	37	4596	41947
1961	58	9045	59730
1962	95	232912	449856
1963	72	17232	305168
1964	85	226427	508439
1965	46	14684	152666
1966	60	16673	109915
1967	45	9452	157894
1968	103	31062	280417
1969	49	8750	76779
1970	17	1216	1867

Source: Adapted from ARML, 1957-1970.

The government learnt that by employing legislation, strikes - the index to industrial unrest for this period were effectively curtailed. As illustrated by Table 7.5., in 1957 there were 113 strikes with 14,677 workers involved and 218,562 man-days lost. From 1959 to 1961 the numbers were considerably lower, and this was the time when the TUO 1948 was amended in 1959. In 1965, again the numbers were lowered to 46 strikes, with 14,684 workers involved and 152,666 man-days lost as compared to before the 1965 regulations were amended and implemented. A much higher number of strikes (85), workers involved (226,427) and man-days lost (508,439) occurred in 1964. Again, 1968 showed an increase to 103 strikes, with 31062 workers involved

and 280,417 man-days lost, while in 1969 with the amendments and implementation of new laws the numbers went down considerably. The strikes numbered only 49, workers involved 8,750 and man-days lost 76,779. All these statistics served as proof to the government that with restrictive laws, the IR system would forever be in their control, thereby ensuring a stable economic environment.

By 1970 the government reported the forming of 'a number of new unions' as evidence that the laws 'were not entirely restrictive' (ARRTU1970). It claimed that amongst trade unionists, the concept of trade unions as bargaining institutions was fast becoming 'out of date' (ARRTU1970). It agreed totally with the new tendency of unions towards 'interest in the education, social and cultural activities'. However, this could not beat the fact that in 1970, out of 251 unions, there were only 2 unions with more than 10,000 members as compared to 78 with fewer than 100 members. Thus, there was only one federation of trade unions left (ARRTU 1970).

### **7.5. Conclusion**

The argument in this chapter shows the government representing the 'state' gradually winning its argument that for the sake of 'national interests', the Malaysian labour movement needed to support the government's policies, even though they did not agree with any of them. As early as 1955, with the start of the five-year development planning and industrialisation process, the government started this campaign. One after another, regulations was promulgated until the unions had no other choice but to conform in order to survive. The political scene, as discussed, did not help the trade unions struggle, and more and more they were dragged to support the government or branded traitors to the nation and faced extinction. As the unions were replaced by

moderate ones, this transition was inevitable. By 1970, the fate of private and public sector IR was sealed.

This period is one of the most dramatic eras since it encapsulated the three Emergency Rules and established all the important acts regarding IR that apply to this day (EA1955, TUA 1959 and then IRA 1967). At most times, the government was driven by the need to ensure economic stability, though now and again, the words 'national interest' appeared. It was true that communists were a threat to socio-political and economic stability and the initial reason behind the promulgation of the laws and regulations. Laws, like the emergency regulations, were not necessarily meant to restrict labour movement, but showed that the labour movement had become a target, especially with its tendency to become involved in communism or left-wing militant labour movement and politics. However, after the emergency rule was lifted, signifying the end of the communist threat, the regulations and restriction in TUA 1959 were not. In fact, the government promulgated other regulations, depending on new issues that arose. This saw the implementation of Essential Regulations 1965, which were not lifted after the Indonesian Confrontation and, in fact validated in IRA1967. When the labour movement showed signs of threatening the status quo, amendments were made, in most cases without the consent of or in consultations with MTUC and CUEPACS - two national labour centres representing private and public sector employees - or even the NJLAC, the tripartite body. National development planning became the final objective set by the government and law was the means to ensure its success.

This twelve-year period also saw the state becoming more dominant, determined and in control of IR issues. Executive powers started to overshadow the union movement at all levels of their decisions, except in early 1962, with the rise of strikes, in the public as well as private sectors. Employers at this stage were almost always on the winning side, since the government, in its eagerness to achieve economic development for the nation, ensured that employers' laws and regulations befitted them. The factors that influenced the state's roles were almost always economic, though ostensibly, often it was made out to be socio-political. In the fragile period during the communist agitation, the *Konfrontasi*, and after 13<sup>th</sup> May 1969, social and political stability were made out to be the priorities to be achieved at all cost, even if it meant repressing the labour movement. At this stage, much evidence on the part of the labour movement showed that they had contributed towards it by always endorsing government larger national objectives. But then, with the restrictive laws and regulations already prescribed to them, they did not really have a choice. With the 13<sup>th</sup> May race riot, the government seemed to have found greater evidence that militant movements should, for the sake of national interest and national unity, be forever suppressed. The end of this period not only saw the end of Tunku's leadership, but also the end of another era, a period known to be more 'democratic' and 'sympathetic' towards the Chinese, which was one of the reasons why he was vilified by the ultra- Malays and forced to resign after the 13<sup>th</sup> May 1969. The end of his leadership also highlighted the increased need to emphasise Malay issues and interests, as discussed further in Chapter Eight.



## **CHAPTER EIGHT**

### **THE ERA OF THE NEW ECONOMIC POLICY: MALAYSIA'S OWN INDUSTRIAL RELATIONS SYSTEM**

#### **8.1. Introduction**

Chapter Seven has shown how for economic and socio-political reasons, the government changed the voluntary IR system to a compulsory one that marked the empowerment of the state. The 1957-70 era firmly established through legislation and administration, the framework in which IR were to be played in the future.

This chapter examines factors that influenced the state's roles in IR in the era of the NEP (1971-1990). It shows how a fixation on achieving the objectives of NEP turned other policies including IR into complementary policies. This chapter shows how yet again legislation and administration ensured the enhanced role of the state. It highlights how the same reasons (real and imagined) were used to ensure the state's dominance over IR, and especially the labour movement. This chapter also explores the possibility of the political leadership factor as one of the important reasons that led to the state's dominance. To test these views, analyses on important IR issues for the twenty years in question are made. To help with the analysis there is an exploration of the roles played by MTUC, CUEPACS and MEF, apart from the federal government itself as the employer for the public sector.

#### **8.2. The Development of the Role of the State under NEP**

As discussed in Chapter Two, the world system theory as proposed by Wallerstein (1980) and Hoogvelt (1997) suggests there is a dynamic upward or downward

mobility of the role of the state in the economy. Malaysia experienced this global phenomenon following independence, with the federal government attempting moves to bring Malaysia out of its 'periphery' nation state by adopting the 'seizing the chance' strategy through its five-year plans.

The NEP was a continual but more explicit major plan that outlined a long-term target to achieve socio-economic goals. The state, represented by the federal government and its machinery, took drastic and calculated steps to distance Malaysia from the 'dependency' phenomena, and changed its industrialisation policy from ISI to EOI. The FDI became the means to bring Malaysia to another economic level. Meanwhile, the NEP was a direct result of a racial riot. A mixture of the two saw Malaysia as a corporatist state, authoritarian, as well as flirting with economic liberalisation. In the 1970s, the government encouraged active participation from workers in the economy, while at the same time adopting restrictive legislation, and turning to privatisation and a higher industrialisation. In IR, the state remained dominant, putting achievement of NEP objectives as the highest priority. This approach nonetheless caused an imbalance of power between the state, capital and labour. Through legislation, administration, and its direct participation in policies in both the private as well as the public sector, the state adopted strategies that enabled the country to achieve 'national objectives' which it hoped would solve domestic problems that were more economically, politically and ethnically intertwined.

### **8.3. The NEP and the 'Malay Agenda'**

The NEP worked within the framework of the First Outline Perspective Plan (OPP1), the long-term goal of Malaysia, which in this case ran concurrently with the NEP,

from 1971-1990. Prior to this there was the First Malaya Plan (FMP) (1956-1960), the 2MP (1961-1965) and then First Malaysia Plan (MP1) (1966-1970). Under the NEP there were four five-year plans, namely the Second Malaysia Plan (MP2), the Third Malaysia Plan (MP3), the Fourth Malaysia Plan (MP4) and Fifth Malaysia Plan (MP5). The NEP was introduced and incorporated concurrently with the implementation of the MP2 (1971-1975). Under the administration of the second and third PM, the NEP was very much the central and dominant policy. However, during Mahathir's era, the government adopted many other 'complementary policies' such as Look East Policy with preference to in-house unions, Industrialisation, Privatisation and Malaysia Incorporated. All these policies have impacted on IR. However, first it is necessary to understand the essence of NEP, which the researcher wishes to term as period of a calculated 'Malay Agenda'.

After the riot, the Deputy PM, Tun Razak took several steps to re-establish stability in the country. The parliamentary government was restored in February 1971 and a new policy was already laid. A government White Paper entitled *Towards National Unity* explains the government's intention to address the problems that were believed to be the cause of the 13<sup>th</sup> May 1969. Once introduced, the NEP became more important than the national ideology, the *Rukunegara*. It offered a comprehensive programme to achieve specific and quantifiable goals. Two pronged objectives, one; to eradicate poverty irrespective of race, and second; to restructure society so as to eliminate the identification of race with economic function were laid out.<sup>54</sup>

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<sup>54</sup> *Malaysia: Second Malaysia Plan, 1971-1975* (1971) outlines both the MP2 and the NEP. MTUC, CUEPACS and the Labour Minister's annual reports also gave extensive coverage on the policy. However, in the annual reports the Malay issues were not pronounced.

However, the most significant issue in the context of this study is that the NEP also became a period of planned 'Malay agenda'. The second prong of NEP clearly referred to the betterment of Malays, with the argument that they are indigenous people who deserved special right, and therefore special attention. The 13<sup>th</sup> May gave a valid reason for the government to change course and legitimised the Malays position within the new national policy. By stating that the NEP was to achieve 'national unity' it gave the nation a new direction to move in and implied that 'national unity' was not there before the 13<sup>th</sup> May, and would not be attainable if the Malays were not happy with their economic position as compared to other ethnic groups, especially the Chinese. It was a history-based argument that the Malays as the *Bumiputeras* (sons of the soil) deserved help to achieve their rightful place in the economy. The 13<sup>th</sup> May was said to be proof that as a result of a place denied to the Malays, a fact overlooked by the Tunku, the event turned out to be racial. This is despite other claims that stressed politics and psychological factors as also contributing to the conflict (Means, 1991:23). Nonetheless, starting with Tun Razak's administration, the government enhanced their efforts towards the betterment of the Malays' economic position.

The NEP facilitated greater *Bumiputera* participation in commercial enterprises with various measures taken to create the *Bumiputera* Industrial and Commercial Community (BCIC). This includes revitalising existing trust agencies like the *Majlis Amanah Rakyat* (MARA), the *Perbadanan Nasional* (PERNAS) and all the state agencies including the State Economic Development Corporations (SEDCs). Moreover, there were programmes to mobilise *Bumiputera* savings through schemes such as the *Amanah Saham Nasional* (ASN) and the *Permodalan Nasional Berhad*

(PNB). Rural incomes and living standards, among issues raised as the causes of the 13<sup>th</sup> May riot, were also given due attention with the plan to modernise the agricultural sector. These were agencies like Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA), and the Regional Authorities (Lin, 1994: 575).

Much has been written on its success, just as there are a few who regarded NEP as a failure.<sup>55</sup> In the context of IR, the NEP was designed to increase the ethnic distribution of the workforce in proportion to the ethnic distribution of the population, and to increase the *Bumiputera* share of corporate ownership from 2.4 percent in 1970 to 30 percent in 1990 (Kuruvilla and Arudsothy, 1995:161; Means, 1991:24). This strategy was to be achieved through re-distribution via growth in output and employment. In implementing the NEP, government leaders stressed the deprivation of the Malays in comparison with the non-Malays as being the underlying cause of the 13<sup>th</sup> May crisis (Means, 1991:23). To redress that, for the *Bumiputera* an allocation of 30 per cent employment quota became a pre-requisite to qualify firms for import protection and tax holidays. Under the NEP too, government contracts were reserved for Malay-owned firms, while all firms had to keep aside 30 percent shares for Malays.

The 1970s saw the expanding role of the government in the Malaysian economy as it increased state intervention, public sector expenditure and based economic growth on

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<sup>55</sup> Mehmet (1987) was quite critical of the government intervention in the economy under the NEP and claimed that the policy failed to benefit the majority of Malays, instead was mismanaged and only enriched a minority of Malays whom he called the 'Malaysian elite'. Gomez and Jomo (1999) also explored Malaysia's political economy and focused on the relationship between politics, patronage and profits under the NEP, and relate how rent and rent-seeking influences the accumulation and concentration of wealth in Malaysia. All three authors do not believe in the government proclamation that the policy helped the Malays.

EOI (Gomez and Jomo, 1999: 24). Such government intervention arose from the realisation that while the 'invisible hand' of market forces had enabled Malaysia to enjoy rapid economic growth,<sup>56</sup> it could not be relied upon to achieve social and equity objectives, both of which were considered extremely important in the context of a delicately balanced multi-racial Malaysian society (Lin, 1994: 564). Moves were made to ensure the Malays' privileged access into education, better paid jobs, professional bodies, top management positions and investments in 'more profitable' commercial and industrial enterprises in order to create a viable BCIC (Lin, 1994:560). In theory, 'ethnic monopolies in functional economic compartments would be ended and replaced by ethnically balanced and proportionately allocated advantages' (Means, 1991:24). In other words, behind the government's move to intervene more in the economy was an agenda to correct an economic imbalance between Malays/*Bumiputeras* with the non-Malays/*non-Bumiputeras* and the hope of achieving 'national unity'. In that process the government persuaded and sometimes coerced the labour class, into accepting and adapting to changes that they brought in and enforced in the name of 'national interest'.

In 1975, Parliament passed the Industrial Co-ordination Act (ICA), which extended the NEP racial employment quota system to the private sector. The Act ensured that industry and commerce would employ 30 percent Malays and promote them in an appropriate sequence to supervisory and management positions. The Chinese, fearing that these new requirements made Chinese business operations, and especially the family-based small business enterprises difficult, sought amendments to the Act.

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<sup>56</sup> Lin (1994) explores on the Malaysian economy from 1957 to 1991 and saw that despite some setbacks, Malaysian economy achieved impressive growth, with the structure of the economy changed to manufacture and services.

Though the government was being pressured by the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCIM), it remained unwavering, though some minor concessions and promises were made (Means, 1991: 59).

How the government gained the support of the non-Malays is seen through a very fragile period in regards to the relationship between the Malays and Chinese. UMNO, the dominant party in the Alliance had managed to convince the non-Malays that the empowerment of Malays would not detrimentally affect their interests (Kuruvilla and Arudsothy, 1995: 161-162). The argument was that economic growth under the NEP would 'increase the size of the pie'. According to Gomez and Jomo (1999: 24), the attention given by the government on eradicating poverty ensured minimal political opposition. In fact, the NEP seemed to respond to problems of inter-ethnic economic imbalances and therefore it was received favourably. It was the emphasis on wealth-restructuring, and the actual implementation of the NEP that later became grounds for criticisms.

On the verge of the NEP the country was still dependent upon two primary commodities, namely tin and rubber (See Table 8.1), where there were still income inequalities and poverty, the two biggest problems faced by the government after a decade of Independence. In 1970, 58% of the rural population who mostly comprised Malays, were poor, as compared to 21.3% of the urban population. Moreover, 68.3% of those who were in the agricultural sector were poor. Most of the Malays' economic activities were in the traditional sectors, working as rubber tappers, once a year rice-planting, rearing livestock and other non-productive activities (Chamhuri and Surtahman, 1994: 243).

**Table 8.1: Peninsular Malaysia: Major Exports, 1951-1969(percentages)**

Item	1951-1955	1956-1960	1961-1965	1966-1969
Rubber	64	63	50	44
Tin	21	17	25	25
Iron ore	1	4	6	4
Timber	1	2	2	5
Palm oil	2	2	3	4
Other	11	12	14	18

Source: Lim. 1973. *Economic Growth and Development in West Malaysia*. Kuala Lumpur. Oxford University Press.

The western states were more advanced than the northern and the eastern states. Thus, the poverty percentage was still very high, as much as 76.1%, 68.9% and 64.5%, in the eastern and northern states of Kelantan, Terengganu and Kedah/Perlis respectively, as compared to Selangor which had a much lower 29.2%. Income inequalities also showed more amongst the western states as compared to the northern and eastern states of Malaysia. Reasons for this were unbalanced developmental projects established by the government itself or by the private sector. In 1971, only 0.3% of industrial projects were granted in Trengganu, as compared to 32.9% invested in Selangor (Chamhuri and Surtahman, 1994: 244). The other factor was that the western states were given priority by the colonial British, where they were grouped as FMS and Straits Settlements (see Chapters Four and Six).

More importantly, most of the rural area population were *Bumiputeras* who were involved in traditional agriculture, and this explained their economic backwardness. In 1970, 65% of the Malays were poor compared to 26% of the Chinese and 39% of the Indians (Chamhuri and Surtahman, 1994:246). The Malays' average income from 1957 to 1958 was RM144 as compared to RM272 and RM217 for the Chinese and



Indians, respectively. It was with this background that the government felt the need to act. The strategy was based on the assumption that the overall economic growth would remain sufficiently high for all sectors to be able to benefit from it. At the same time, the government would redistribute the wealth of the country according to the national program. Fortunately for the government, the economy was buoyant from 1970 to 1974, making it possible to manage political demands and ethnic rivalries. The economy did change in 1975 due to a world-wide recession, but it quickly made a recovery in 1976, allowing the government to make a few adjustments (Means, 1991: 46).

Within the scope of the NEP, with the labour-intensive EOI and the related growth of services, an increased number of *Bumiputeras* did become engaged in wage labour themselves, opening up opportunities for them to be involved in trade. The fact that after the NEP there was an increased involvement of Malays in trade unionism, and other aspects of the modern economic sphere in Malaysia for that matter, in itself supported some views that the NEP was a success in helping them. They became more involved in the modern economy because there was a policy enabling and encouraging them to do so.

Statistically, between 1969 and 1973, 98% of all persons recruited into the public service were Malays. Prior to the NEP, the quota for the elite Malayan Civil Service was 4:1, but that did not apply to the professional and technical services. After the NEP the quota system continued in the new and unified Malaysian Administrative and Diplomatic Service, in fact exceeding the formal quota of 4:1. The Malays were now given more chances to hold important policy-making superscale posts in the civil

services and the military. From the educational aspect, the Malays were given higher quotas to enter universities or higher learning local and abroad, plus government stipends. The conversion of the Malay language as the sole medium of instruction helped more Malays to advance their higher education. As an example, between 1970 and 1979, the number of Malay students at the University of Malaya rose from 49.7% to 66.4%, respectively. After 1970 too, the quotas for admission were extended to specific fields and courses of study in which Malay representation had been low (Means, 1991:26). After five years, much helped by a real GDP growth rate of 7.1, which exceeded the target of 6.8% per annum, the NEP already showed some achievement on the overall incidence of poverty.

After 20 years, the unemployment rate, which was 7.5% in 1970, went down to 5.1%, and this is below expectations of 3.6%. The average monthly income per household in Peninsular Malaysia rose to RM1163 in 1990 from RM264 in 1970. The *Bumiputeras'* average income also rose to RM931 in 1990 from RM172. However, by comparison this was still below the average income of the other ethnic groups, the Chinese and the Indians. The incidence of poverty in the Peninsular dropped from 49.3% in 1970 to 15% in 1990 (Means, 1991:46), a rate that exceeded the expectations of 16.7%. The incidence of poverty in rural areas also decreased to 19.3% in 1990 compared to 58.7% in 1970. The expected rate was 23%. Among the less developed areas of the eastern and northern states where the majority population was Malays, there was an increase in the people's average monthly income. In Kelantan, for example, there was a rise from RM269 in 1976 to RM726 in 1990. Another poor state, Trengganu, increased from RM339 to RM905. The poverty rate also decreased. The incidence in Kelantan dropped from 67.1% in 1976 to 29.9% in

1990. Kedah, a northern state in the Peninsular, dropped from 61% to 30% during the same period. The GDP per capita rate improved, rising from RM993 in 1970 to RM4392 in 1990 (Chamhuri and Surtahman, 1994: 253).

The discussion shows that the NEP did bring the desired result, if not totally. The main intention of bringing more Malays into the mainstream economy succeeded and, politically, it gave the government a reason to continue and stick to the view that ethnic parity in the economy is one important way to achieve national unity. For twenty years there were no recorded racial clash, even though NEP received some criticisms. Overall, the Chinese and Indians also prospered economically, another reason that made the NEP bearable to them. It shows to the government that the policies that it implemented, including IR, brought the result that it had hoped, and saw no reason to jeopardise this. In fact, the NEP gave a reason to uphold all the legislative framework and policies.

### **8.3.1. IR policy under NEP**

With the introduction of NEP, the role of trade unions was re-phrased clearly:

The role of trade unions would have to be related as closely as possible to these national objectives (ARRTU, 1971: 22).

Trade unions were urged to change, discard the 'bread and butter issues' or 'workers' versus management' role only. They were asked to enlarge their role to a workers' education programme and social and cultural projects.

What is important in the national context of economic development is identification of the trade unions with the national aims and objectives and a declaration on their part that they are partners in national development (ARRTU, 1971:22).

With that expectation from the government there were three sets of Regulations, namely the Essential (Trade Unions) Regulations 1969, the Essential (Trade Unions) Regulations 1970 and the Essential (Trade Unions) Regulations 1971, making certain amendments to the Trade Unions Ordinance 1959 (ARRTU, 1971: 23). In 1971, there was the enactment of Trade Unions (Amendment) Act 1971 with several features concerning the removal of a temporary certificate of registration, power to the RTU to take action against branch of unions that indulged in illegal activities, rules against wild-cat strikes, disqualifying officers/employees of political parties and removal of provision to political funds (ARRTU, 1971: 24). Amendments made to the IRA 1967 in 1969 also guaranteed that several new rules followed to 'ensure economic and social advancement, national unity and solidarity' (ARRTU, 1969: 28). The essence of these provisions was to facilitate the smooth running of the NEP without unions creating problems, and also to keep unions apolitical. In 1971, the MTUC had 73 unions affiliated to it with a membership of 175,261, that is more than 65% of the total organised workers. CUEPACS, registered as the Federation of trade unions, had 60 affiliating unions but only 50,762 members, a little less than 19% (ARRTU, 1971:30). The Whitley Council was still suspended because of the 13<sup>th</sup> May 1969 and only *ad hoc* meetings to maintain liaisons between government employees' side (Staff Side) and the government (Officer Side) were held.

Ministers of Labour, Manickavasagam in 1971 and Richard Ho later, outlined the government's policy very clearly. They stressed that the government wanted mutual respect, harmonious relations and fruitful co-operation between employers and workers to ensure the economic success of the NEP. The government was still wary of communist-led trade unionism before the NEP era and adopted an attitude whereby

it acknowledged trade unions as 'important institutions in modern society' but would not tolerate if they were abused. Malaysia was regarded as a young country with the majority of workers not fully understanding the principles of trade unionism and easily manipulated. Therefore, trade unions 'cannot be given unlimited power'. While they regarded the power of the RTU with contempt, the government regarded him as 'an impartial authority' who provides a guarantee to workers that their rights and privileges as members of trade unions are safeguarded (Manickavasagam, 1971). In simple words, the government showed its willingness to tolerate trade unionism but on their terms.

At this stage, the minister still agreed that the free collective bargaining and voluntary joint agreements arrived at freely between employers and workers were a 'more successful method' of ensuring industrial peace and stability in IR than compulsory measures enforced by legislation. But he reminded them of the need for the parties concerned to see themselves as part of the community, who would be affected by any industrial dispute (Manickavasagam, 1971).

This view reflected the government's dislike of open conflict. Looking back, this is very much related to way the political co-operation among the parties in the coalition government was practised. It used discreet discussion, rather than open discussion over policies, and especially what was considered a 'sensitive issue' (for example the Malays special position, was, and still is, regarded as 'sensitive issue') must not be discussed in the open. Discussing 'sensitive issues' was an offence even until today. People who were thought to incite hatred or disunity among racial groups could be subjected to detention under ISA, where they could face at least two years of

detention without being charged in open court, for inciting instability to the national security. Therefore, 'sensitive issues' were discussed among political leaders, then released to the public after decisions were arrived at. In a way, this resembles a top-down management system and is in fact, in line with the 'elite accommodation system' that had started during Tunku's era and has been practised until today. Generally, it has shown to be working for Malaysia.<sup>57</sup> Because the community is multi-racial, and the 13<sup>th</sup> May 1969 has shown that it could turn into a bloody riot that would upset economic, social and political stability, the government believed it was best to deal with 'sensitive issues' amongst the leaders first. After all these were elected leaders through democratic means. The opinion was that they should be given the authority to discuss 'sensitive issues' and make decisions for the people.

This way of resolving disputes among the multi-racial communities in Malaysia actually influenced other aspects of life in Malaysia too. It clearly explained how open industrial disputes like strikes or pickets were consistently despised by the government to whom there was no need to have open conflict, when people can sit together and discuss differences or disputes. This view is shared by bureaucrats and trade unionists alike (Interviews: Ismail Rahim, 25 January 1999; Izhar Harun; Wahab Salleh; Zainal Rampak, 28/11/2000; Abdul Rahman Manan, 9/1/1999). When interviewed, all prominent government officers from TUAD, IRD or the LD, viewed strikes and pickets as not the best ways, which should only be regarded as the last resort, after all else has failed and, in fact, were looked upon as unnecessary. During

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<sup>57</sup> The practice was only broken a few times: for example, during Mahathir's campaigns in the constitutional crisis in the 1980s, then much later after the sacking of Anwar Ibrahim the Deputy PM in 1998 that led to the 'reformation movement'. From then on, open conflicts were harder to curb, since with the help of the Internet the government was put on the defensive, and a lot more of the ISA (detention without trial in open courts) was used.

the implementation of NEP, the experience of 13<sup>th</sup> May was still new and fresh in people's minds and the majority of Malaysians were still wary towards open conflicts. Interviews with veteran and prominent trade unionists who were active in that era also revealed how the 13<sup>th</sup> May persuaded unions leaders to become more accommodative and co-operative towards government's policies, especially when it was stressed time and again that the ultimate goal is 'national unity' (Interviews: Jamaluddin Mohd Isa, 30/1/2001; Mohd Jamil Ismail, 6/1/1999, K. George, 7/2/2001; Zainal Rampak, 7/1/1999).

On the part of the government the campaign was consistent. In 1978, Richard Ho highlighted how workers should not expect 'good wages' alone (Richard Ho, 1978). On September 17<sup>th</sup>, while opening the 6<sup>th</sup> Annual General Meeting of the Penang and Prai Textile and Garment Workers' Union, Richard Ho stated:

'In the process of our nation's development, it is of utmost importance that every single group of our people, especially workers, jealously guard industrial peace and stability, so that the New Economic Policy will not suffer obstruction.... Any undue belligerent attitude or irresponsible act, will not only endanger the interests of workers as a whole, but also disrupt the orderly system of our society, frustrating efforts to achieve our National objectives. Government will continue to encourage the growth of democratic, healthy Trade Unionism, for the protection of our workers' interests and for the maintenance of our harmonious industrial climate'.

The speech revealed the government's total commitment towards the NEP, just six years in operation. It also shows how much the government regarded the significance of support from workers towards the achievement of NEP as well as the attitude that demand total loyalty from workers. In other words, the workers would be held responsible if 'any irresponsible act' caused a disruption in achieving the NEP's objectives. While at a Conference of Officers of the Registry of Trade Unions on 26<sup>th</sup> October 1978, Ho reminded government officers of their tasks:

It bears repeating that the government takes a very serious view of the public being held ransom in the course of disputes between employers and workers. It is your bounded duty to take swift action against the offending party, irrespective of its status or position, in accordance with our laws.... This you should do, as much as to protect the public interest, as to maintain the dignity of the law, to deter all who might from time to time forget the larger interests of the public they serve, in the pursuit of narrower self-interest.... You have the onerous continuing task to remind both employers and workers that they should come to terms to enhance our positive labour environment, so that investors actual and potential, will continue to accept labour here as a responsible complement to our industrial development. The fact that the destiny of our Nation as a whole and that of employers and workers are intertwined, must be made clear and beyond any doubt (Richard Ho, 1978).

This speech to the civil servants, such as the RTUs' officers, again demanded total obedience in carrying out the government's policies, even though, from another perspective, it defeated the purpose that they should first serve the interests of the public. This call also reflects the general understanding of Malaysians and the government that the latter was regarded as the state, and therefore deserving of total loyalty. This relationship between Malaysian public service officers and the government is another important factor that ensured government's success in the implementation of their policies for the whole period under study. The public servants, on the other hand, considered the government as an employer that needed to be obeyed. Interviews with prominent government officers in the MoHR and the PSD, each catering for the private and the public sector IR, revealed that each took responsibility for administering government policies very seriously.<sup>58</sup> Apart from IRA1967 and TUA1959, there was the General Order (GO) for the public sector that outlines the 'dos and don'ts'. The government officers regarded themselves as working for a democratic government elected by the people. Therefore, they did not differentiate between duties as civil servants or political demands made by the leaders

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<sup>58</sup> Interviews: Zainal Rahim, 28/11/2000; Bagh Singh, 11/2/2000; Ismail Rahim, 17/1/2001; Zainor Rashid, 5/3/1999; Azlan, 27/2/1999; Mohd Zubir, 16/1/2001; Izhar Harun, 16/1/2001; Mohsin Mohd Khir, 4/2/1999.



in the government. They believed that if they supported the government, the ultimate goal, that is peace and prosperity for the people at large, would be achieved. So in a way, obeying the government was a manner of showing they cared for the public interests. If they went against the government's wishes by going on strike, they were acting against the public, and therefore could be termed selfish and uncaring. The government on no uncertain terms called these acts irresponsible and a betrayal and since then has taken great pride in reporting years of declining strike activity as the proof of industrial harmony.

The process that developed the Malaysians' general attitude towards disputes and open conflict was a consistent one, and mostly inspired by the government. Workers were urged to conduct their affairs in an orderly fashion, in compliance with the constitution and laws of the country and within the confines of the 1975 Code and Conduct for Industrial Harmony. The government's effort in bringing in foreign investors was to be regarded as creating employment opportunities for the people. Admittedly, it needed support from Malaysians, without which the whole development programme would have come to naught. It was not easy for a young country to succeed, as at the same time it also had to face competition from other developing countries. Without strikes or open conflicts, the government was more focused to providing facilities such as free trade zones (FTZs), suitable factory sites and an efficient immigration service. Therefore, it could not afford to accommodate independent and free trade unions.

Among the Malays, the reluctance towards strikes or open conflict is related to culture. The Malays' traditional and pre-colonial society, as discussed in Chapter Four, reflected a class-based society; the *rakyat* (the ordinary people - the ruled) and

the *pemerintah* (the rulers). Generally, to the ordinary *rakyat*, the rulers should be obeyed, not opposed (this does not mean there were no incidents to prove otherwise). The consequences were proven when the Malays got involved more in commercial economy, dominated the public service and the trade unions movement, and the open conflict subsequently declined and almost ceased in relevance. It also explained the preference of the Alliance Party, and later the *Barisan Nasional* (with the dominant player, UMNO- a Malay party), to consultations and discussions, rather than open confrontation. Of course this was much helped by the legal framework. Ho says:

‘Differences there will always be in a democratic country like ours; but a legal framework exists within our industrial relations system to settle such differences without resorting to industrial action (Ho, 1978).

Again, employers and employees were reminded to develop along ‘responsible and constructive lines’. At the MTUC 24<sup>th</sup> Biennial Delegates Conference in 1978, Ho warned the MTUC about several matters. While acknowledging that the number of registered trade unions and their members were increasing, Ho says;

‘Mere size however, uncoordinated by organisational discipline, untempered with moderation and unguided by dedicated and thinking men and women, will only translate at some point of time, as loss of direction and the generation of forces which are more likely to be destructive than constructive’.

Specifically, he wanted the MTUC to control its affiliates from resorting to industrial action that ‘caused hardship to the innocent public’ (Ho, 1978).

In 1980, spurred on by the MAS-AEU dispute (discussed in 8.5.5.), the government’s stand was put into action. Despite opposition from the MTUC and the ILO, the government again amended both the TUA1959 and the IRA1967. The impact was instantaneous. Now the public officers and any person employed by a statutory authority holding any post in the managerial or professional group or who was

engaged in confidential or security capacity could not join or be a member of any trade union (MTUCAR, 1981/82:98). The definition of 'strike' was widened, to include the word 'reduction'. The Registrar, if satisfied that a strike or a lock-out would contravene the TUA or any other law, could direct the trade union or employer not to commence the proposed strike or lock-out.

In the amendments to the IRA1967 in 1980, there was a prohibition of strikes in essential services, to include private sector industries, such as banking. The Minister of Labour now has the power to suspend any trade union for a period of not exceeding six months if, in his opinion, the union is being used for:

'purposes prejudicial to or incompatible with interests of Malaysia security or public order. During suspension, the certificates of registration of the union shall cease to have effect, it shall be prohibited from carrying out its normal activities and its fund shall be frozen' (MTUCAR1981/82:98).

There will be no appeal and non-compliance will be punished. The Registrar now at its discretion can disqualify a member of a trade union or federation executive from holding office, and he can also enter trade union premises if he has ground to believe that an offence under TUO has been committed. Section 2A of IRA1967 states that the *Agong* (the King) shall appoint a Director General of Industrial Relations (DGIR), 'who shall have the general direction, control, and supervision of all matters relating to IR' (MTUCAR, 1981/82; IRA1967). The MTUC already condemned this as 'a political appointment rather than a career civil service one' (MTUCAR, 1981/82). The amendment also stated that an employer may convey directly to his workmen in such manner as he may deem appropriate any information pertaining to any collective bargaining or trade disputes concerning them. Also, there was a restriction on workers not directly involved in the trade dispute and elected union officers from participating directly in picketing. Section 52 of IRA1967 denied workmen in the statutory

authority the provisions of the Act relating to the protection of the rights of workmen and employers and their trade unions (Part II); recognition and scope of representation (Part III); collective bargaining (IV); conciliation (V) and representation on dismissal (VI). On top of that, the government sent a draft of these amendments to the MTUC on 29<sup>th</sup> January 1980, for discussion at the tripartite body NJLAC on 4<sup>th</sup> February. The government then rejected all 183 counterproposals from the MTUC. What this implied was a top-down management and unilateral decisions with the government having the final decisions. It totally defeated the purpose of the tripartite body, the NJLAC.

Mahathir, then the deputy PM, had already made his stand very clear. He was adamant that the amendments were necessary so that leaders and outside forces could not 'masquerade' as workers' 'protectors' (Mahathir, 1980). Later on, this argument was consistent with the official line taken by the government, that Malaysia should be aware of outside forces, or sometimes termed as 'neo-colonialists'. However, a more subtly note was issued by Richard Ho (1980) over the amendments:

The philosophy behind the amendments is;  
-to safeguard the national security and public order for the well-being of everyone;  
-to ensure the growth of healthy trade unions;  
to safeguard the workers' interests.

Again, the question of national security, public order and workers' interests came to the fore. It stressed the government's general view that the majority's needs would always come as a priority in the government's decision. To the government, the majority meant ordinary people at large, and not the workers. Using that argument, the public was again reminded of the tribulations of the communist era, the racial riot and the emergency rule that followed. It was not difficult to understand how then the

unions, such as MTUC, although opposing the amendments, did not resort to the extreme ways used by the 'left'.

The government insisted the system was tripartite and in 1972, the government encouraged a tripartite relationship, warning employers not to exploit labour and declared May 1<sup>st</sup> as Workers' Day (ARRTU,1972: 24). The government amended the TUO to allow unions to venture into business, an opportunity that came with the NEP. In his speech to ILO's 59<sup>th</sup> Conference in Geneva, the MTUC Secretary General spoke of a 'very satisfactory' relationship with the government and he was optimistic of economic ventures of NUPW, NUTP, among others, under the MTUC. In fact, the government helped labour established *Bank Buruh* (The Workers' Bank), which was to cater for workers' needs in business (MTUCAR, 1973/74: 240-241). In the 1984/85 report the government said the trade unions were sought in preparing the Mid-Term Review of the MP4, and invited to contribute views and ideas to the formulation of the MP5 (MLAR, 1984/85:180). Even though it showed the government's effort to incorporate the unions into mainstream economic activities, from the MTUC point of view, however, it was a total failure (MTUCAR, 1983/84: 1). Despite the calls for good work ethics, higher industrial productivity and the recognition of the common interests of the three important parties; the employees, employers and the government, the MTUC claimed there was apathy on the government's side and belligerency from the employers towards the workers' organisations. In 1990, the MTUC reported the failure and losses of labour movement in its venture into the economic sphere, including the *Bank Buruh* (MTUCAR, 1989/1990: 33). MTUC now strongly advocated that the labour movement must

refrain from economic ventures, except co-operative societies, and pay more attention to the workers' cause (MTUCAR, 1989/1990).

The discussion shows how the government has systematically managed to put across their argument of the need for industrial peace to achieve national unity in Malaysia. Its contention was that Malaysia was a young country which depended on foreign investment and it needed to take all possible factors into consideration to create an economic success, even if called 'suppressive'. This consistency on the part of the government, coupled with a supportive administration, were strong enough factors to see them succeed in 'winning over' people, especially the trade unionists.

### **8.3.2. Foreign Direct Investment at All Costs**

According to Kuruvilla and Arudsothy (1995: 164) FDI grew dramatically when Malaysia changed strategy from ISI to EOI policies. That change in policy was caused by the shortage of revenues brought about by the government's heavy involvement in the NEP, Industrial Coordination Act (ICA) and heavy industries policy (HIP). The growth in dependency on FDI saw the government's consistent repressive policy in IR.

Between 1975 and 1985, FDI in Malaysia was large compared to other countries (look at Table 8.2). So, while relatively dominant foreign investors were in Malaysia during the colonial period, they were even more welcomed after independence. This was especially true as Malaysia embarked on ISI when FDI was very much needed, thus causing the ISI sector to be dominated by foreign investment. Jesudason (1989: 114) argued that capital-intensive ISI did not do much to overcome the income

disparities of the Malays against the Chinese. The NEP became a hope for a change in direction after the racial riot of 1969, especially the ownership pattern was hoped to be restructured and to meet the 30% target for Malay ownership. In the Second Malaysia Plan (MP2), the government stated its intention quite clearly:

...at least 30% of the total commercial and industrial activities in all categories and scales of operation should have participation by Malays and indigenous people in terms of ownership and management. The objective is to create over a period of time, a viable and thriving Malay industrial and commercial community which will operate on a par and in effective partnership with non-Malays in the modern sector (MP2, Malaysia, 1971: 158).

**Table 8.2: The Stock of FDI as a percentage of GDP in 1975 and 1985 and External Debt as a Percentage of GDP in 1985**

	Percentage of GDP		
	FDI	External Debt	
	1975	1985	1985
Malaysia	25	29	60
All less Developed Countries of Which;	6	9	45
-Africa	15	13	63
-Asia(including Malaysia)	5	6	30
-Latin America(and Caribbean)	9	14	62

Source: Edwards. 1994. 'The Role of Foreign Direct Investment'. 678.

By the 1970s too, the government felt the need to inject a new dynamism in the industrial sector, thus encouraging FDI Tax concessions in the 1950s, followed by Investment Incentives Act 1968 and the Free Trade Zone Act of 1971 (Edwards, 1994: 689). The Act promoted a rapid development of Export Processing Zones (EPZs), which were almost entirely dominated by FDI. The ICA 1975 gave the Minister of Trade and Industry enormous discretionary power over the manufacturing sector whereby investments were subject to the obtaining of licences and putting aside 30% equity for the Malays. The Chinese business sector opposed it, forcing the

government to amend the ICA by exempting small companies (with less than RM250,000 in shareholder funds) from the Act (Jesudason, 1989: 141).

By 1976, the state had a share of at least 40% in each of the three largest domestic banks in Malaysia. By 1981, the Malays, through state enterprises, controlled 60% of the corporate shares in the mining and the plantations sector (Jesudason, 1989: 91). By the 1980s, the public sector's trust agencies had completed the domination of primary (plantations and mining) sectors. This was about the same time when the government thought of changing its industrial strategy as well as adopting the Look East Policy (LEP) (both discussed below). However, during the recession in the mid 1980s, the net inflow of foreign investment dropped from RM3.0 billion 1981-83, to an average of RM 1.5 billion over the four years between 1984-87 (Edwards, 1994: 691). It picked up again in 1988 to a total of RM1.9 billion, and from 1989 to 1990 the annual average FDI rose to over RM6.0 billion.

There were two obvious factors that encouraged the revival of the FDI. One was the real devaluation of the exchange rate of more than 30% in the second half of 1980s as the *Bank Negara* (the National Bank) ceased to support the *ringgit* and repaid much of the external debt (Edwards, 1994: 691). The second factor was the relaxation of restrictions on foreign equity holdings, whereby the highly export-oriented companies could be wholly foreign-owned. In December 1985, the ICA was amended to exempt companies with shareholders' funds of up to RM2.5 million. The licensing conditions were also relaxed, and in 1986, the PM announced further concessions to foreign investors. Companies could now be wholly foreign-owned if they exported more than half of their production or even if they sold their production in the domestic market,



provided they met certain employment conditions (Jesudason, 1989: 188). In short, the Malaysian government regarded FDI as very important in the Malaysian economy. If between 1981 and 1985 FDI made up 24% of the total investments approved by the Malaysian Industrial Authority (MIDA), between 1986 and 1989 it accounted for more than half (Edwards, 1994: 692). MIDA has worked as a one-stop investment centre to cut red-tape, to promote, coordinate and monitor FDI (Chia, 1993: 68; Zainal Abidin, 1990: 61).

The discussion here emphasised the government's commitment towards encouraging FDI to invest in Malaysia, and also to stay, and therefore, as further discussed in this chapter, explained its resistance towards any obstructions to its efforts, least of all from trade unions. In terms of IR, the shift in IR policies consequent to the adoption of EOI showed the state's interest in catering for the needs of FDI. The commitment to keep Malaysia as a low-cost, labour-intensive country where manufacturing was primarily for exports, made the government enact policies to give Malaysia a competitive edge. The state increased its involvement in the IR arena, moving to a greater state control and enacted a policy of discouraging unions in important sectors, especially the electronics sector (discussed under 8.5.4).

#### **8.4. Social and Political Factors**

This study contends that Malaysia's social and political factors were also important issues that have influenced the direction of IR, but have not been fully probed by previous researchers. Socio-political factors refer to both political leadership and the political scene which were intertwined with social issues in influencing the development of Malaysian IR. No matter how different the personalities of the

Malaysian leaders, they were united over national policies, especially during the implementation of the NEP. The Malaysian PM has always been the UMNO President (even though not stated in the Malaysian constitution) and the UMNO represents Malays. Therefore, even though these political leaders were representing Malaysians as a whole, individually they were the Malays' representatives, and the NEP, with pro-Malay policy, was also a political issue. Over time, the PM's authority has grown, especially during Mahathir's era, thus the PM has long replaced the position of Malay rulers, who have now become only symbols of unity. The UMNO President is chosen through a UMNO general election and he thereby became the President of the coalition *Barisan Nasional*. When the *Barisan Nasional* wins in the Malaysian general election, the President becomes the PM. Malaysians vote in general elections, at least every five years, and this democratic system has been in practice since 1955.

#### **8.4.1. Tun Razak and Hussein Onn's Era**

While the Tunku was known as the Father of Independence, and was substantially responsible for the formation of the larger Malaysian Federation, whereby he introduced and cultivated the 'elite accommodation system', the younger generation of Malay elites were not too keen on his 'too accommodative' and 'compromising' policies towards non-Malay political demands. After the 13<sup>th</sup> May, while calling for his retirement, the government was urged to take a 'non-negotiable' stand and adopt a 'one-party, one-race' system (Means, 1991: 9; Firdaus, 1994). Even though this call was unheeded, the impact could be seen later, when the government's policy became more 'pro-Malay' during the NEP. Hence, the argument that both social and political factors influenced the state's role, first in the economy, then in IR.

Tun Abdul Razak's era (1970-76) marked a 'second generation' of Malaysian political elite. There was no immediate break in leadership and no succession crisis, but it was a rapid transition of power from elites who had fought for independence and the formation of Malaysia with new elites who were more interested in new agendas of public policy and styles of leadership (Means, 1991:19). Looking back at the racial riot, the attempts made by Tun Razak to break away from the Tunku's style of leadership, which was based on an 'elite accommodation system' was understandable, if not totally acceptable. He was also under pressure from several 'ultra-Malays' or Malaysian 'Young Turks', one of them being the present PM Mahathir Mohamad (Means, 1991: 19). Tun Razak's era saw the launch of the NEP, and the extension of the Alliance Party to become a bigger *Barisan Nasional* in 1974 (Milne and Mauzy, 1999). Before becoming PM, as a Minister of Education, Razak produced a report for creating a national system of education with a common syllabus, in 1956. As the Minister of National and Rural Development 1959-69, he adopted some techniques used to fight the communists by setting up operation rooms which recorded agricultural projects, determining which were proceeding as planned or lagging behind. He re-shaped the FLDA , later known as FELDA (the Federal Land Development Authority), which helped people, especially Malays, to become new settlers on land and trained and equipped them. In short, Tun Razak had the Malays' priorities in mind.

Like Tun Razak, Hussein Onn's era was also short (1976-1981). However, it was during his period in office that the amendments of the labour laws happened in 1980. Even though he was regarded as not leaving a strong impact on Malaysian politics (Means, 1991) he held strongly to the national objectives set by the NEP. Hussein

Onn's period was one of continuity in finding ways to reverse the Malays' backwardness in the economy, an agenda that was continued and looked set to be pondered on at an increased speed under the controversial present PM, Mahathir Mohamad.

#### **8.4.2. Mahathir's View on the Malays and Labour**

Mahathir, the longest serving PM of Malaysia, has been described as authoritarian, but cannot actually be categorised in simple words as he has been full of paradoxes.<sup>59</sup>

In his controversial book 'The Malay Dilemma', written after the 13<sup>th</sup> May and banned, Mahathir showed his controversial tendencies and accepted that some of his ideas and thoughts might create 'despondency' or 'severe resentment' (Mahathir, 1970: 3). On trade unionism, he wrote in 1970 (Mahathir, 1970:108):

Trade unionism has come to stay in Malaya. It is generally regarded as good for the workers. It prevents exploitation of labour and enables workers to have a fair share of the prosperity which is the product of their labour. Unfortunately some workers, glorifying in their new-found strength, see in trade unions not only the opportunity to use collective bargaining for better wages but for making other demands. No disciplinary action can be taken without costly industrial action. Under such conditions diligence is not encouraged and the desire for self-improvement is inhibited.

In 'Malay Dilemma', Mahathir was specifically referring to schemes to 'force Malay labour into the competitive field of skilled and semi-skilled work'. He goes on:

Absolute security and good working conditions are not the aims of this scheme. Trade unions are therefore superfluous. To ensure that workers may get a fair deal, and nepotism and other forms of favouritism are avoided, an impartial body should be set up to look after the welfare of workers.

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<sup>59</sup> Refer to Khoo (1995), who claimed that Mahathir is full of paradoxes. For example, as anxious as he was to secure the survival of the Malays, Mahathir seemed prepared to see the end of 'Malayness'. As a rebel in 1969, he asked for loyalty in 1988. He believes in history but is terrified by it. Other books by Zainuddin (1994), Rajendran (1993) and H'ng (1998) was full of praise for the man.

Mahathir was dedicated to pursue the NEP but with a difference in approach. The administration 'would be improved to achieve the policy goals with greater haste and less waste' (Means, 1991: 85). Since Mahathir himself was a critic of the government, the general view was that he would pursue more liberal policies towards its critics and towards a more open political process on sensitive issues. However, in March 1981, the Parliament passed the Societies Act (Amendment) Bill 1981, giving the Registrar of Societies the power to de-register any group challenging 1) the government, 2) Islam or other religions, 3) the National Language, 4) the special position of the *Bumiputeras*, or 5) the legitimate interests of the country's other interests.

Mahathir wanted to break away from the image of the previous three Prime Ministers. After nine months in office, he called for a national election, and adopted a slogan of 'Clean, Efficient, and Trustworthy' for the *Barisan Nasional* (Means, 1991: 88). After obtaining the new mandate, Mahathir was free to set new policies if he wanted to. He instead insisted on the continuation of the earlier policies, particularly the NEP. However, it was clear that after a year, Mahathir was set on policy adjustments. While fully supporting the NEP, Mahathir criticised its implementation and strategies. He brought in changes in style in the forms of the many policies that mirrored his insights on a number of national issues. As a start, as tensions mounted over certain issues that relate to both the Malaysian and British governments, Malaysia pursued a 'Buy British Last' policy (Means, 1991: 92). Such issues between Mahathir and Britain actually started when Mahathir rejected an invitation to attend the Commonwealth Heads of Governments Meeting in Australia, accusing the Commonwealth of being ineffective, and complaining about Australian public comments over Malaysian racial issues (Means, 1991: 92). This happened at the same time as a dispute over landing

rights in London of the Malaysian Airlines System (MAS). The British government was seen as retaliating when it ended preferential trade benefits for Malaysia and increased students' fees for all Malaysians studying in that country. The Malaysian Government reacted by announcing the 'Buy British Last' policy. By the end of 1981, British goods were boycotted, requiring British firms to find ways to solve the issues. They pledged RM15 million to help Malaysian students studying in the country, but the boycott was only officially lifted in 1983. This was after talks between Mahathir and British Foreign Secretary where some concessions were given in the form of RM161 million by the British Government to help Malaysian students, and the transfer of Carcosa, the residence of British High Commissioner during colonial times, back to the Malaysian government (Means, 1991: 92). In short Mahathir endeared himself towards Malaysians at this stage by being a firm leader; somebody who 'delivered'.

Regarding amendments to labour laws, in 1980, Mahathir, the then Deputy PM (Mahathir, 1980) said the government did not take away workers' rights but instead:

...only enshrined them in a manner in which they cannot be even inadvertently exploited by their own leaders or international trade unionists masquerading as their protectors.... We have thus strengthened 'worker democracy' in all possible places.

As Deputy PM, Mahathir has shown his firm stand over labour matters, especially his resentment over interference from international labour bodies, such as the ITWF at the MAS-AEU dispute (refer discussion at 8.4.2. and 8.5.5. below). After he became a PM in 1981, his policies became more dominant, and each policy was issued as 'national policy', as discussed below.

### 8.4.3. The Social and Political Scene

In 1974, the *Barisan Nasional* opened up to more political parties, in addition to the original three; the Malaysian Islamic Party (PAS), the People's Progressive Party (PPP) and the Gerakan Rakyat Malaysia (Gerakan). Politics in Malaysia had never been homogenous or static. It was always about compromising between elite leaders in the coalition government, with most parties representing certain ethnic groups, even though it declared itself a non-racial party. It was also about firm counter-attacks on the opposition. However, opposition has played a part in Malaysian politics, different from for example its nearest neighbour, Singapore<sup>60</sup> which makes it a more interesting study. The contention is that while the political scenario affects many aspects of governance and policies, it certainly affects IR.

Mahathir's era was known to be a period of assertion of executive power (Milne and Mauzy, 1999). The period 1981-1990 saw Mahathir tackle and win three 'contests for power'; crises with the *Agong* and Malay rulers in 1983; his opponents in UMNO in 1987; and the judiciary in 1987-88. Even though it did not have a direct implication for IR, it shows Mahathir's dominant and aggressive role in Malaysian politics and his firm stand in countering dissent. In the first crisis, Mahathir succeeded in amending part of the Constitution - and changes to emergency powers now gave the PM alone the right to declare emergency. Mahathir used the line that change was needed to make sure 'the rights of people were not violated' (Milne and Mauzy, 1999:33). This action was in line with his letter to the Tunku in 1969, and his writing in *Malay Dilemma* in 1971. In 1986, the deputy PM, Musa Hitam resigned out of a political

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<sup>60</sup> Lingle (1996:92-95) in explaining the Singapore's government total control of its community listed a muzzled media, a compliant judiciary, a fiercely loyal group of civil servants and 'a mute political opposition'.

disagreement with Mahathir. In 1987, Musa teamed up with Razaleigh Hamzah to challenge Mahathir in what was called Team 'A' versus 'Team 'B' in the UMNO general assembly. Mahathir won the Presidency with a small 43 majority votes out of 1,500 UMNO representatives. Midway through the crisis, UMNO was de-registered on the grounds that some of its branches who voted in the UMNO General Assembly were not properly registered, making their votes invalid. The Team 'B' later formed *Semangat 46*, a party opposed to the new UMNO (New) under Mahathir. However, by 1990, Mahathir managed to win a clear victory in the general election.

In 1987, Mahathir was involved in another crisis with the judiciary, where he criticised its meddling in politics. This was following several cases lost by the government in the courts (Milne and Mauzy, 1999: 47). Since Mahathir believed that his position was mandated through elections, the courts' decisions were regarded as 'unwarranted infringements of executive power that thwarted the will of the majority' (Milne and Mauzy, 1999: 47). It was during this crisis that amendments were made to the Constitution, where powers of judiciary now would be conferred by Parliament through statutes, and no longer embedded in the Constitution. The High Courts were stripped of their power of judicial review, previously granted in the Constitution. The Attorney General now assumed responsibility for judicial assignments and transfers, and has had control over what case to hear and what courts to use (Milne and Mauzy, 1999: 47).

These three crises demonstrate Mahathir's shrewdness in Malaysian politics, a trait that again emerged when dealing with other policies. It meant the end of separation of power and the growing executive authority, a point that at the same time explained



the growing weakness of trade unionism in Malaysia and the direction of IR under his administration. The discussion on some significant issues below is evidence of this.

### **8.5. The State and Some Significant Issues**

The discussion below shows how the state became more dominant in Malaysian IR, especially during Mahathir's tenure as PM. Under Mahathir, Malaysia continued the NEP until the end, but supported it with the LEP, the Industrialisation Policy, Privatisation, Malaysia Incorporated, and later in 1992, the *Wawasan 2020* or Vision 2020 (discussed in Chapters Nine and Ten).

#### **8.5.1. Look East Policy: Encouraging In-house Unions**

The LEP, introduced in 1981, could be viewed either as Mahathir's political agenda or part policy of NEP. In our context, the LEP should be able to explain an agenda that has become one of the nation's major policies, and in the context of IR, encouraged the formation of in-house unions.

Mahathir wanted Malaysians to look to the East instead of the West; towards Japanese and South Korean work ethics, diligence and discipline in work, as well as loyalty to the nation and to the place of employment. It should also be seen as an effort to put priority of group over individual interests, with an emphasis on productivity and high quality, upgrading efficiency, narrowing differentials and gaps between executives and workers, and on management systems which concentrate on long term achievement (Mahathir, 1983: 276). Mahathir's interest in the South Korean development strategies and the Japanese and South Korean work ethics were apparent even before he became PM (Means, 1991: 92-93). He expressed admiration for the

Korean success in industrialisation and inspired by the close co-operation of large Japanese corporations with the government using the *sogo soshas* concept. Mahathir's need to redress Malaysian economic approaches might be related to his dreams for the Malays of Malaysia. In *The Malay Dilemma*, he criticised Malay backwardness and argued that it was the Malays' code of ethics and value systems that brought them down, making them unable to compete with the non-Malays. The need to change the value system and ethical code 'therefore determines the success or failure of corrective measures' (Mahathir, 1970: 172). He says:

If the value system is wrong, corrective measures will not be productive or will be only slightly productive. When the value system motivates, very little corrective measures are needed. This analysis of the value system of the Malays clearly shows that it hinders the progress and competitive abilities of the Malays in a multiracial society (Mahathir, 1970:172-173).

It was then Mahathir's hope that the Japanese and Koreans would be role models for the Malays, while at the same time be the source of business skills and technological transfers. However, the policy was not as simple as it was made to sound. Various components of Malaysian economic and trade policies were justified to make room for the Look East slogan, as discussed below.

Some viewed the LEP with cynicism, that it was merely an attempt to find an alternative to the West (Rajendran, 1993: 91; Kua, 1983: 276), or another manifestation of anti-British and anti-Western bias (Means, 1991: 92). Others found the idea of portraying Japan as the perfect model nation, where there were selfless workers and selfless bosses, almost unacceptable, more so because of the belief that the phenomenal growth of Japanese economy cannot be attributed to the Japanese work ethic alone (Kua, 1983: 279). There were other factors, such as the help the Japanese received from the USA and The World Bank after Japan's defeat in WWII,

that helped contributed to the Japanese success. Furthermore, there were flaws to the 'Japanese Miracle'. Some analysts pointed out the Japanese paternalistic system and 'quality control circles' applied only to a few big companies, not to the average sized or small companies (Kua, 1983: 281). To some initially, the policy was viewed as changing Malaysia's foreign orientation in a variety of economic matters (Jomo, 1994: 150).

Mahathir insisted the policy was not an anti-Western move, even though it was announced after a dispute between Malaysia and Britain over several issues. Apart from the 'Buy British Last' policy, there was the take over of British firms in Malaysia and the raised fees of Malaysian students studying in Britain (Saravamuttu, 1983: 283; Milne and Mauzy, 1999: 55; Means, 1991: 92). Saravamuttu (1983: 283) explained the two levels of implementation of the LEP. One was that of an external economic policy whereby Japanese-cum-Korean governmental and private sector aid, technical assistance and training were being sought and contracted for in Malaysia. As an extension of this policy, students were sent in increasing number to both these countries for vocational and tertiary education. Second, there was the level of domestic policy wherein the Malaysian government itself sought to inculcate a supposed Japanese work ethic through various propaganda devices and through concrete promotion and implementation of the policy in the private and the public sectors.

According to Milne and Mauzy (1999: 55), Mahathir proposed two features which Malaysia needed to adopt in the LEP. First, was the concept of Malaysia Incorporated; encouraging business owners and employees in the public and private

sector to work together. The second was to create companies based on the Japanese *sogo soshas* (the large trading companies)<sup>61</sup>. However, there was in fact a third feature which the government of Malaysia did not press hard for acceptance. This was the idea of 'in-house unions' or 'enterprise unions' or 'company unions' as described by some scholars, which was a prevalent phenomenon in Japan. Officially, it was not forcibly to be implemented and that was understandable.

From the government's point of view, and this was confirmed by the Director General of Trade Unions Affairs (DGTUA), it is entirely up to the workers themselves to get themselves organised (Interview: Izhar Harun, 16/1/2001). Therefore, the preference of in-house unions did not mean the government was encouraging the formation of unions. If it were made compulsory it would be giving out a confusing signal to workers, and employers and the government never encouraged trade unionism to that extent. In the light of achieving economic objectives, such as the NEP, in-house unions or the existence of unions at all, could be detrimental to investors, especially the FDI. In fact, 'in-house unions' was not a new concept in Malaysia but had been there long before LEP. Moreover, employees of statutory authorities<sup>62</sup>, have long practised in-house unions, as seen in a clause in the TUA, section 27(3)(a) which says:

no person employed by a statutory authority shall join or be a member of, or be accepted as a member by any trade union unless the membership of that trade union is confined exclusively to persons employed by that particular statutory authority.

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<sup>61</sup> To understand more about *sogo soshas*, read Chee and Gomez (1994) in Jomo, K.S.(eds). 1994. *Japan and Malaysian Development: In the Shadow of the Rising Sun*. London and New York. Routledge.

<sup>62</sup> "Statutory authority" means any authority or body established, appointed or constituted by any written law, and includes any local authority. See Trade Unions Act, Part I (2).

The difference of the restriction on statutory authority with what was implemented under the Look East Policy was that, under the provision in the TUA, the restriction to 'in-house unions' was compulsory (Wu, 1995: 15), and under the LEP it was not. This again differentiates the government attitude as employer, since statutory authority is considered part of the public service.

With the implementation of the LEP, the heavy investment of Japanese companies and their business practices would impede the self-sustaining development of countries like Malaysia. On the whole, Japanese firms were unlikely to provide the impetus for creating the kind of IR to sustain the work ethics attitudes that the policy sought to promote (Kua, 1983: 305). Others perceived cultural problems, such as long office hours, in transferring some Japanese practices to Malaysia (Milne and Mauzy, 1999: 55). Mahathir asked that efforts be made to increase work productivity through propaganda campaigns, company welfarism, in-house unions, harder work and greater loyalty to the company and management. Jomo argued that the Japanese achieved success in those areas because they had evolved along complex, culturally and historically rooted systems of material incentives (including guaranteed lifelong employment and seniority wage systems, which are not implemented in Malaysia). He warned that since Malaysia's LEP seemed cost free, with no extra expense to the company, it was only normal for it to bring no extra benefits to workers, in terms of work ethics, quality control circles and in-house unions.

The encouragement of in-house unions was in opposition to the creation of stronger, larger national unions, which clearly meant independence from employers. So the creation of in-house unions was the answer to the government's wariness, especially

in the light of their dependence on FDI. As it was, national unions in Malaysia did not cover workers from the Eastern states of Sabah and Sarawak. Even though, by comparison, an in-house union could consist of members of different occupations, it also meant smaller, ineffective and weak unions that were unable to challenge employers in particular, and the government in general.

The government argued that in-house unions would protect the interests of labour whereby it would develop more harmonious employer-employee relations. However, Chandra (1983: 317) for example, stressed the flaws in the Japanese industrial practices that had negative implications for the workers. First, the practice of life-time employment in Japanese firms was confined to only 25% of the labour force, and they were in the larger firms. Second, even in large firms there was a lot of dismissal of workers who did not please management, for example female employees who got married and had children. Third, women workers were discriminated against and paid less. Fourth, in the small firms that employed the majority of Japanese workers, there were unsatisfactory elements in terms of wages and working conditions. The difference in the wages of large firms to those of the small ones was at least 100%. Other benefits such as company housing, and pensions were minimal. The last flaw was in health and safety measures, which were not given much attention.

Even though there were some commendable features of some Japanese big companies, such as consultations, it was made possible because the capital-labour relations in Japan grew out of its 'autonomous industrialisation programme', which is very different from Malaysia's 'dependent type industrialisation' (Chandra, 1983: 318). In-house unions would only undermine an already weak labour movement.

First, workers from the same industry would not have the power that comes from collective strength since they would only be organised on the basis of individual firms or factories. Second, it was conceivable that employers would exploit the situation to stagnate or even depress wages. Third, since union leaders in in-house unions would have to negotiate wages on their own with their respective management, they were more dependent upon the goodwill of their bosses. Thus, that left a union leader under the power of their bosses, and this influenced their effectiveness as union leaders, dependent on them for resources (office, time off etc) and even legitimacy.

The government insisted that the encouragement of in-house unions would produce leaders who would be much more aware of their companies' needs, thus facilitating improved productivity programmes. In actual fact, in-house unions would also be less able to compare the company's wages and other benefits with other employers (Jomo and Todd, 1994: 214). In simple words, in-house unions would put the management in a better and higher position than workers. Mahathir defended this by saying:

Some of our companies...have just been set up and are coming up, but if forced to pay the same benefits as the more successful ones, will definitely succeed. Hence....it would be meaningful for these firms, especially the new ones, to have in-house unions which have proved to be a big success in Japan... (NST, 6/3/1983).

Mahathir believed that in-house unions were the underlying key factor behind the 'Japanese miracle'. However, this belief is unfounded as research has revealed that its practicality even in Japan was 'a myth rather than reality' (Levine and Ohtsu, 1991: 102). In fact, in Japan, the Japanese model consisted of the combination of three features; 'lifetime employment'; 'length-of-service wage and promotion'; and the 'enterprise union' (in-house). The Malaysian private sector has never practiced 'seniority system' or 'lifetime employment', which allow employees to be permanent

employees, never in fear of layoff or dismissal. This shows that Mahathir's idea was selective and veneered towards benefiting further the management side.

When criticised, Mahathir stressed the 'national interest' factor, and therefore justified the in-house union concept, which he claimed had been used successfully by the Japanese. In fact to him, so successful was the in-house union concept that the Japanese have 'easily beaten the West who practices the old system of trade unionism'. In short, in-house unions were an answer to a need for 'a successful system suited for Malaysia in its development efforts' (Wad and Jomo, 1994 :216). In a way, it was a significant move when Mahathir encouraged at least in-house unions as compared to his earlier stand on trade unionism, when he perceived them as 'superfluous' (Mahathir, 1971:108). However, this policy was never made compulsory, in line with the government's stand that it is up to the workers to organise themselves (Interview: Izhar Harun, 16/1/2001). This shift of opinion (encouraging in-house unions) did not even come out of his free will as when it was announced, the government was under pressure by the AFL-CIO (see 8.5.4.). The organisation urged the US government to withdraw the GSP if Malaysia kept on resisting the unions in the electronics sector, an economic consequence that Mahathir as a leader could not afford. Nonetheless, it shows that unions in Malaysia could benefit from affiliation to larger international bodies. The other factor was that Malaysia prided itself on being a democratic nation since its independence, which explained the comprehensive IR system available, even if restrictive. As the economy varied and grew, Malaysia ventured out of agriculture, and thus a good relationship with other countries, even Western countries that had become targets of Mahathir's grudges, was in fact important, prominent and needed. Furthermore, the permission



for in-house unions did not mean independent unions, and therefore they were never a threat to the government.

The management benefited from the implementation of in-house unions over national or larger unions (see 8.5.4.). The Malaysian Employers Federation (MEF) foresaw as early as 1982, a year after LEP, that in-house union leaders would be amenable during collective bargaining sessions (Aminuddin, 1996: 83). The argument was that the bargaining process would be quicker, smoother and less contentious. The people involved would be those who had *a truer* feeling for the well-being and expectations of both the company and its employees. Of course it also meant the union was working on its own as a smaller body against its own employer, instead of being represented by stronger national unions. However, one cannot generalise this as there were cases when some companies found that the process of collective bargaining was in fact more difficult when dealing with inexperienced and poor negotiating skills of in-house union leaders (Aminuddin, 1996: 83). In a way, that was the negative impact of in-house unions for employers. However, in general, in-house unions helped keep unions small and responsive to the particular conditions of their industries, as well as become a system that kept labour movement fragmented and therefore did not threaten the government.

Even without in-house unions, trade unionism in Malaysia was already weakened by several factors. Although the MTUC attacked the idea in the later period of its implementation, at the beginning it still held some hope that Japanisation would bring life-long employment and a seniority wage system, which were both absent in the private sector employment in Malaysia. However, there were already criticisms that

Japanese workers in Japan did not enjoy security of tenure, housing facilities, and other welfare benefits, besides the fact that women workers were discriminated against. The implementation of in-house unions further eroded confidence since even at unionisation level, there was still some government on workers in the electronics industry.

Some examples revealed the government's preference towards in-house unions over national ones. In October 1983, a claim for recognition of the National Union for Petroleum And Chemical Workers (NUPCW) was rejected by the RTU on the grounds that there was already an in-house union in place (Wad and Jomo, 1994: 219). This decision was not challenged because of the wide discretionary power of the RTU as inscribed in the TUA 1959. Another case arose when workers of Tanaka Sdn Bhd, a subsidiary of the Dragon and Phoenix garment factory in Penang failed in their bid to get their union re-registered. The Penang Textile Workers' Union (PTWU), who organised the Tanaka workers, tried to enlist the help of MTUC and two international bodies but still failed. Plans to later amalgamate five regional textile unions in Peninsular Malaysia into a single union were abandoned, though a national federation was at last formed in the late 1980s (Wad and Jomo, 1994:220). There were, however, hesitations on the part of the government to totally suppress national unions that had already existed. This suggests a less confrontational strategy by the government. It could be due to external forces, like condemnation from ILO or other international bodies, that might led to embarrassment and put Malaysia under economic constraints. Thus, there were cases when national unions succeeded in resisting attempts to displace them. A determined struggle by the Electrical Industry Workers' Unions (EIWU) to organise the largely female workforce saw the RTU

rejecting an application by workers of ITT Transelectronics, a factory in the Penang FTZ, to register an in-house union (Wad and Jomo, 1994: 220).

So, as seen in Table 8.3, there was the undeniable increase of in-house unions since their implementation. However, the figures also show that it is the public sector which now included the statutory authority that contributed the bigger number of in-house unions.

**Table 8.3: In-house unions in Malaysia, 1984-88**

	1984	1985	1986	1987	1988
Total	177	189	199	210	224
Percentage of total unions	49.3	51.2	52.5	51.3	54.5
Percentage of private sector unions	28.2	32.5	36.1	36.7	38.2
Percentage of statutory authority unions	94.8	95.1	95.1	95.1	96.6
Percentage of government service unions	45.8	47.2	47.6	47.2	46.7

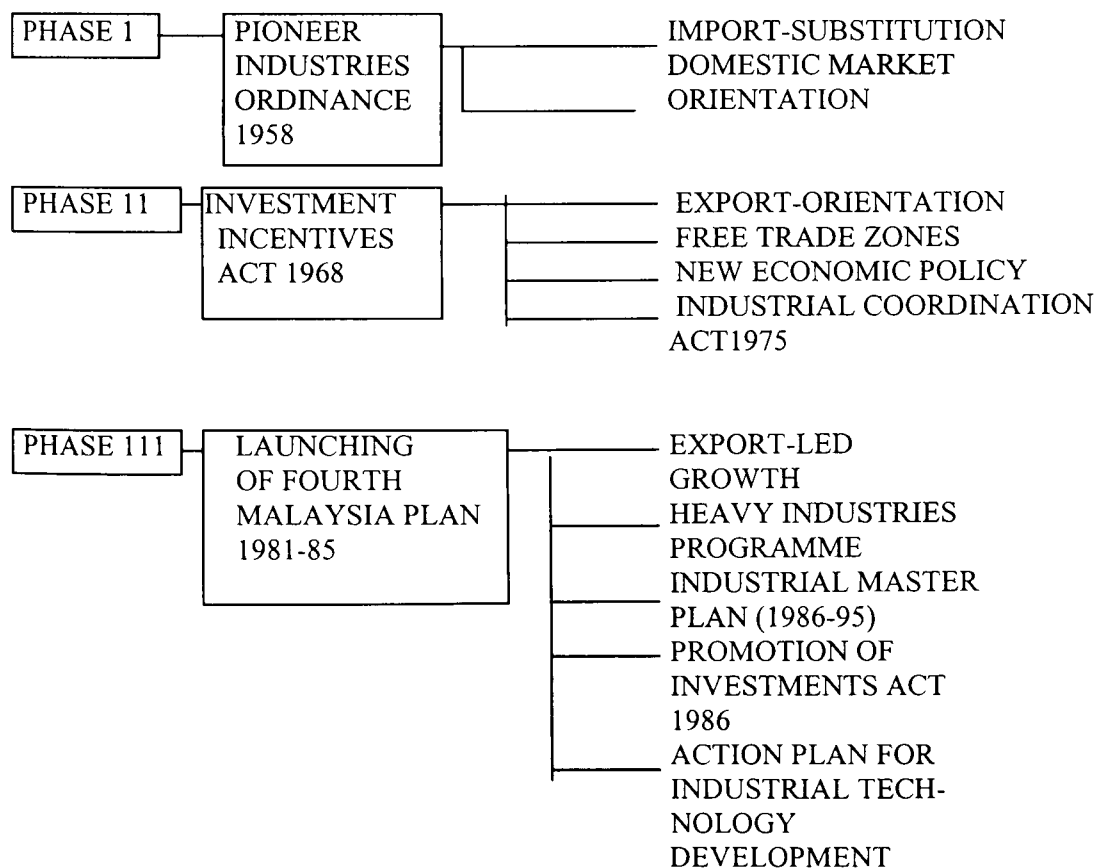
Source: Arudsothy and Littler, 1993.

In weighing up the government insistence on in-house unions, it should be recalled that this policy was part of the programme of the NEP, which saw the move from an ISI to an EOI strategy. That move, (discussed in 8.5.2) made the government more dependent on foreign investments and thus emphasised the need for 'industrial peace' or fewer industrial disputes. In-house unions which are only attached to their companies were hoped to be answer to a more direct management-employee relationship.

### 8.5.2. Industrialisation and IR

The linkages between industrialisation strategies and IR policy have been a subject of interest of several scholars, either earlier, in general (such as Kerr *et al.*, 1960) or more current on Southeast Asia (Kuruvilla & Venkaratnam 1996; Kuruvilla 1995; Kuruvilla & Arudsothy; Gall, 1998; and Sharma, 1996). Kuruvilla in particular rejected the logic put forward by Kerr *et.al* (1964), that industrialism would lead to a convergence of the IR system. However, industrialisation is still regarded as a central variable, besides political regimes and market forces, in explaining IR policies and the transformation in IR systems. In general, the industrialisation strategy is central importance in the development agenda of economies that pursued economic growth such as Malaysia. The changes and adjustments of industrialisation process in Malaysia could be divided into three major phases as illustrated in Figure 8.1.

**Figure 8.1: Industrial Development and Major Policy Initiatives, 1958-90**



Source: Anuwar Ali. 1992. *Malaysia's Industrialisation: The Quest for Technology*.

Figure 8.1 illustrates the phases taken by Malaysia to change the direction of economic development and Malaysia, which later affected the direction of IR as well.

<sup>63</sup> Phase I refers to the years immediately after Independence (when the Pioneer Ordinance of 1958 was introduced) up to 1968, during which the emphasis was on ISI that were mainly established to cater for the domestic market. The dominant feature of the ISI policy was the emphasis given towards industrial development in the private sector, and especially in encouraging foreign investments (Anuwar, 1991: 7). Phase II refers to the period after 1968, when the Investment Incentives Act was introduced, up to 1980, when the EOI process was emphasised. There was the introduction of export-related incentives and the establishment of FTZs in a number of locations. The introduction of the ICA in 1975, became another instrument to achieve the NEP objectives with regard to *Bumiputera* equity participation and employment in the manufacturing sector. This phase saw the production of consumer durable, intermediate input, and capital goods (Anuwar, 1991: 9). These products were produced in large quantities, thereby using more capital-intensive methods of production and needing an adequate supply of highly skilled manpower. There was a shift from labour-intensive manufacturing to more-capital and technology-intensive products, which included machinery, motor-vehicles, petrochemicals, and other resource-based industries.

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<sup>63</sup> The economic policy in 1957-70 focused on the state's involvement in the development of an infrastructure and the rural sector while industrialisation was left to the private sector. This phase of market-led ISI brought about mixed results. By 1969, Malaysia's economy had grown by more than 5% per year, while the manufacturing growth rate was high at 10.2% annually, and private investment increased by 7.3% annually. On the other hand, the participation of ethnic Malays was limited and ownership remained static at 1.5% to 2%, while the share among Chinese and Indians grew relatively. The result of this difference in output was claimed to be one of the reasons behind the 13<sup>th</sup> May riot, which saw the implementation of the NEP and state-led ISI (Kuruvilla, 1995).

Meanwhile, Phase III, which was the period after 1980 coincided with the implementation of the MP4 (1981-5), the formulation of the Industrial Master Plan (IMP) in 1986, and the introduction of the Promotion of Investments Act of 1986. This Act was seen as an important policy instrument to attract more FDI into the manufacturing sector. It was during Phase III that there was a change of leadership whereby Mahathir took over as the PM in 1981. Moreover, it was a period where more action-oriented and varied policies were embraced highlighting Mahathir's aggressive leadership style. In the context of the labour laws, 1980 had already shown amendments to TUA1959 and IRA1967 that empowered the state.

As already discussed (see 8.3.), the NEP aimed to acquire the *Bumiputera* share of corporate ownership from 2.4% to 30% by 1990. The outcome in 1975 showed that although there was an increased economic participation by Malays, it was still below the Malay nationalists' expectations. While their total share of manufacturing employment rose to 32%, and their managerial positions to 17%, their ownership share was only 8% (Kuruvilla, 1995: 43). Neither was there a positive development of entrepreneurship among Malays and the industry was still dominated by Chinese. This failure put the state under pressure whereby it intensified its investment in ISI by enacting the ICA 1976. Now, the Ministry of Trade and Industry (MITI) had the complete power to direct and control the development of industry, including the issuing of licences to industries based on NEP objectives. The government pursued further by creating the *Bumiputera* Investment Fund with shares for the Malays to invest, apart from making sure that the Malays shared ownership in all joint ventures and foreign policies (Kuruvilla, 1995: 43). The impact of state intervention at this level was quite serious. With the government revenues pouring into NEP and ICA

policies, private and foreign investment balked, in the fear of nationalisation by the state. Increased borrowing from international banks burdened Malaysia with foreign debt, which as a percentage of GDP, rose from 8.45% in 1975 to 11 percent by 1976-77.

This forced the government to change course and launch a massive campaign to encourage private and foreign investment during the 1977-80 period. The policies adopted encouraged investment incentives, infra-structural facilities and other benefits. This was the period when electronics and textile industries were specifically targeted, and the period when labour laws that might have discouraged foreign investment were relaxed or unenforced by the state to create a conducive environment for investors (Kuruvilla, 1995: 44). Key industries and the export sector were protected against union activities, again for economic reasons. This time of transition from ISI to EOI marked the beginnings of massive foreign investment in the electronics sector by both the US and the Japanese. It also coincided with the implementation of LEP, as discussed above. In sum, this confirmed the contention in this chapter that NEP was ensured success by the implementation all the other complementary policies.

In 1980, Mahathir Mohamad, while still a deputy PM and an Industries Minister, launched a major heavy industries policy with the objective of accelerating industrial growth as well as increasing the Malay ownership under the NEP. The state's role now was directly involved in establishing large-scale, capital intensive ISI to provide industrial goods and consumer durables for the domestic market. It was also to support a range of private sector and consumer goods industries. In 1982 and 1985

there were two recessions that saw the draining of revenues caused by the heavy industries programmes. Malaysian external debt rose to unprecedented levels with foreign borrowing and poor performance from heavy industries investments. Losses in the venture exceeded US\$2.24 billion, and 37% of the public debt was the result of government-backed foreign loans. Because of this the government took some firm measures to counter the problems. Thus, promoting privatisation or many state-owned public sector industries cut public spending. At the same time, the government prioritised over economic objectives by replacing Malay managers in the declining state-owned heavy industries either with Japanese or private sector managers who were thought to be more professional. In a way it was an admission by the government that there was a limit in the pursuit of a 'Malay Agenda' in this period. If the economy was at stake, even the ethnic-based pro-Malay policy had to be stopped.

Where IR are concerned, some scholars classified the period from the 1950s until 1977 as 'restricted' or 'controlled pluralism'. Workers required some degree of fair and humane treatment but economic development goals ruled supreme over unfettered trade union rights. The three major labour laws; the EA1955, the TUO 1959 and the IRA1967 made sure that there was proper system in which IR should be run. The EA1955 legislated in detail fair conditions of work; there were restrictions on union registration process; and collective bargaining was restricted even though it became the primary form of resolving industrial problems. The MTUC, the central union body, was registered as a society not a trade union, to ensure the state had control of the growth and character of unions. This period saw the state continually protecting the FDI by making sure terms and conditions negotiated by unions were not more favourable than the provisions in the EA1955. Even though strikes were allowed,



there were many restrictions on the process, making it difficult in order to discourage unions from doing so. Under the IRA1967, once the minister of labour had referred any disputes to an arbitration process, strikes were no longer permitted.

It was from the above background that Malaysia made its way from an agricultural-based economic to an industry based one, and especially in the manufacturing sector. It was a move from labour-intensive to capital intensive production that was full of barriers, and which saw the responsibility for change being taken over by the state. It also took charge of labour legislation, and restricted the freedom of unions to organise and to bargain. This was to ensure that their move towards an industrialised country became a reality. A compliant labour force is a necessity for this drastic change, thus the state resort to a number of measures to ensure its economic objectives (under NEP) were met. Despite this, Kuruvilla claimed IR policy at this stage to be 'controlled pluralism', referring to the minimal state intervention in the administrative matters (Kuruvilla, 1995: 48). However, even though it looked like the government intervened minimally by letting the IR system run on its own, the already repressive labour laws had been enforced. Thus, this study disputes Kuruvilla's view. Despite the government's insistence that the restrictions were in the 'national interest', the imbalance of power based on the laws and too many prerogatives for employers put workers at a loss. Therefore, the contention of this study is that during ISI, and more so during EOI, the Malaysian state did not practise pluralism, but more a repressive policy. This was especially true since as Malaysia adopted EOI, FDI became more prominent. Encouraging FDI meant keeping costs low so as to keep Malaysia's competitive edge and to sustain a cheap, and 'disciplined' labour force. If anything, the researcher prefers to categorise Malaysia under 'authoritarian corporatism',

especially during the NEP era. To quote Park (1994: 80), the term refers to the state's corporatist function, supported by a political monism that does not tolerate interest group democracy. It is a situation whereby the government assumes full authority to represent the collective interests of the parties, and usually suppresses independent representation of organised interests, particularly those of labour. 'The state seeks to create a system that will integrate the defeated working class, discipline it, and provide it with a sense of participation, despite its mostly symbolic value' (Park, 1994: 80). It is best to explain the Malaysian case during NEP, since almost all the necessary tools and machinery of democratic practices were present, but curbed.

The preference towards the economy over labour was very apparent, even to the extent of amending the laws. There were exemptions made specifically to fit the demands of foreign electronics companies (discussed under 8.5.4). For example, the EA1955 forbade the employment of women between the hours of 10 P.M. and 5A.M. but this restriction was lifted in 1969 (Rasiah, 1995: 77) to suit women who formed 78.6 percent of the workforce in the electronics industry.<sup>64</sup>

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<sup>64</sup> Today, Part VIII on the 'employment of women' (EA1955) reads:

34(1) Except in accordance with regulations made under this Act or any exemption granted under the proviso to this sub-section no employer shall require any female employee to work in any industrial or agricultural undertaking between the hours of ten o'clock in the evening and five o'clock in the morning nor commence work for the day without having had the period of eleven consecutive hours free from such work: Provided that the Director General may, on application made to him in any particular case, exempt in writing any female employee or class of female employees from any restriction in this sub-section, subject to any conditions he may impose.

(2) Any person-(a) who is affected by any decision made or condition imposed under the proviso to sub-section (1); and (b) who is dissatisfied with such decision or condition, may within thirty days of such decision or condition being communicated to him appeal in writing therefrom to the Minister.

(3) In deciding any appeal made to him under subsection (2), the Minister may make such decision or order thereon, including the alteration or removal of any condition imposed of any condition, as appears just and such decision or order shall be final.

An example of foreign company exemption from labour laws was in 1981, when INTEL Corporation was allowed to work its employees continuously for sixteen hours, against the EA1955. In 1988, an amendment was made to the EA1955 giving the DGIR power to allow employers to work their employees more than the hours permitted by the Act. We can see that here it is clearly a case of giving a priority to a certain category of work, and giving the workers' rights least consideration.<sup>65</sup>

In the case stated above, it was clear that in special circumstances, in this respect, the dependence on foreign industries that still prevailed, the government was ready to be flexible, therefore preferring employers over employees. It also shows that the government took a pragmatic approach towards the implementation of its IR policies to suit the situation at any one time, a clear emphasis on economic development. Again, it shows the wide discretionary power given to the DGIR in deciding matters that are actually better left clear of any grey areas. This disputed the claim made by the DGIR that he had 'no power' over IR matters in Malaysia (Interview: Ismail Rahim, 25/1/1999).

Apart from the EOI as the prime reason for increased government intervention, the fact that the government was so deeply involved in heavy industries itself contributed to the move. As it was so immersed in the NEP in general, the government had a

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<sup>65</sup> Sub-section 60A (1A) on 'hours of work' of the EA1955 clearly gives very wide powers to the DGIR:

'The Director General may, on the written application of an employer, grant permission to the employer to enter into a contract of service with any or more of his employees, or with any class, category or description of his employees, requiring the employee or employees, or the class, category or description of employees, as the case may be, to work in excess of the limit of hours prescribed under sub-sections (1) (a), (b) and (c) but subject to sub-section (1) (d) and to such conditions, if any, as the Director General may deem proper to impose, if he is satisfied that there are special circumstances pertaining to the business or undertaking of the employer which renders it necessary or expedient to grant such permission:  
Provided that the Director General may at any time revoke the approval given under this subsection if he has reason to believe that it is expedient to do so.

bigger role as a direct employer. To promote economic efficiency, the government took to increasing regulations for unions. After the Malaysian Airlines (MAS) strike, the government amended the IRA 1967, giving the Minister Of Labour greater powers than he had already enjoyed. Now he could declare any industry or service 'essential', and when that was the case, no unions were allowed. From that point on, 'Essential services' included banking, electricity, fire, port and airport as well as postal and prison services. Also the Minister could suspend a trade union for six months if he thought that the union was 'acting against national interest'.

On the administration side, the government ensured the smooth running of industrialisation process. The Minister of Labour, for example, was involved in trade union recognition claims (see Table 8.4). From 1980 to 1986, his rate of rejection of claims for recognition increased as was the proportion of rejections to total rejections in manufacturing that had increased dramatically. Moreover, from 1980 to 1986, the minister rejected the greatest number of recognition claims in the labour-intensive, low-cost manufacturing areas of textiles and light electrical (Kuruvilla, 1995: 52).

When a minister referred cases of trade disputes to the Industrial Court, that was the end of collective bargaining in the private sector. According to Kuruvilla (1995: 52), the government was 'far more willing to refer disputes on his own initiatives for binding arbitration to the Industrial Court'.

**Table 8.4: Union Recognition Claims in Malaysia, 1980-86**

	1980	1981	1982	1983	1984	1985	1986
<b>all industries</b>							
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
recognition rejected by minister	-	29	23	15	39	80	131
(percent)	-	(19.4)	(19.3)	(13.3)	(23.0)	(35.7)	(58.4)
<b>manufacturing</b>							
Total claims	78	55	66	105	136	172	
Voluntary recognition	44	26	25	30	26	20	
recognition accorded by minister	4	5	5	5	1	2	
recognition rejected by minister	12	13	7	26	62	98	
(percent)	(15.3)	(23.6)	(10.6)	(16.7)	(45.5)	(56.7)	
rejections in manufacturing as percentage of total rejections	41.3	56.5	46.6	66.6	77.5	74.8	

Source: Kuruvilla, 1995: 52.

However, an interview with the Deputy Executive Director of the MEF, whose views represents mostly private sector employers unions in Malaysia, revealed that even the MEF did not like to be referred to the Industrial Court, claiming that even at the IRD level, the result would be 'leaning towards employees' (Interview: Shamsuddin Bardan, 11 December 1998 and 14 December 1998). Asked what he thought of the way the government managed the conflicts among parties involved in IR in Malaysia, he claimed that the 'arms twisting' methods used by the IRD would put fear into parties involved, thus '85% of cases were settled for this reason'. MEF felt that the government department was not objective enough to settle disputes and that included the Industrial Court, again citing that 85% of cases settled in the court were in favour of employees. While acknowledging that industrialisation generated employment, the above discussion shows that the government used legislation and administration through the MoHR and its many departments to ensure its success.

### 8.5.3. Privatisation in 'Malaysia Incorporated'

In the early 1980s, Mahathir proposed the 'Malaysia Incorporated' (Malaysia Inc) concept at the same time that he encouraged privatisation. 'Malaysia Inc' means:

Malaysia should be viewed as a company where the government and the private sector are both owners and workers together in this company. In a company, all owners/workers are expected to cooperate to ensure the company's success. Only through the success of the company, will the owners' and workers' well being be safeguarded and improved...(Mahathir, 1983: 305).

In short, 'Malaysia Inc' called for the co-operation between business and government. The implementation was primarily through trade promotion schemes and efforts made to stabilise the price of commodity (Means, 1991:98). Just like the FDI and Industrialisation policies, privatisation and the concept of 'Malaysia Inc' should be analysed in the context of NEP. In Malaysia, privatisation started in the early and mid-1980s, where there has been a 'significant redirection of economic policies in the Asian-Pacific region towards exposing the public sector to competition' (Ng and Toh, 1992: 42). Just like Indonesia, Philippines and Thailand, and the newly industrialised countries (NICs) at the time, namely South Korea, Taiwan and Singapore, more attention were given towards privatisation as well as deregulation and liberation.

The greater role of the private sector in the economy was emphasised in the MP5 (1986-1990) and there were guidelines on privatisation in 1985.<sup>66</sup> As discussed in Chapter Two, the dominant role of the state in the economy brought ideas like 'privatisation', which was an important step to be taken by the state in their choice to develop, and develop fast. Ng and Wagner (1989:211) argues that there was a conviction among development economists, development agencies and governments of industrial as well as developing countries in the fifties, sixties and even seventies

that only governments can undertake the necessary steps to promote and guide the development process. Not only that, it was thought that natural resources also belong to the state who would distribute them among citizens rather than individuals (Ng and Wagner, 1989: 211). In the Malaysian case, ethnic consideration again mattered. The growth of public enterprises to purchase or to create corporate assets on behalf of the Malays and other *bumiputeras* groups was encouraged. As already explained under the NEP above, that meant providing more employment opportunities in favour of the Malays, who were in a less advantageous economic position. In Malaysia, however, privatisation might mean just ‘corporatisation’. Like ‘commercialisation’, corporatisation did become an issue in Malaysia, since it confused the public and unionists. ‘Corporatisation’ refers to legislation that changes the legal status of a public enterprise to that of a limited liability company whose shares, however, are still fully owned by the government (Ng and Toh, 1992: 46). In other words, there was a great deal of confusion in the early days among Malaysians, since privatisation did not actually mean the government letting go of any public enterprise. As one veteran trade unionist claimed, even government officials were not really clear on the difference between ‘privatisation’ and ‘corporatisation’ (Interview: Mohd Jamil Ismail, 29/12/1998). To him, and this was proven right in the 1990s (discussed in Chapter Ten), it was just a process whereby government agencies were transformed in the style of private enterprises but kept government’s interests intact. However, there was genuine privatisation, like the Klang Container Terminal in Port Klang (The Star, 30/8/1989).

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<sup>66</sup> See Malaysia. 1985. ‘Guidelines on privatisation’. Economic Planning Unit. Prime Minister’s Department.

Nevertheless, in the 1980s, Malaysia's record in privatisation was reported as 'very impressive', by one international consultant and as 'among the world leaders in the realm of privatisation' (NST, 13/10/1989). It was indeed a calculated plan by the government as privatisation was encouraged more when the Malaysian economy was suffering from the effects of world depression, and especially when the prices of Malaysia's export commodities such as rubber, tin, palm oil and timber fell (Means, 1991: 97). However, it was at the same time as when the government saw that its investments in *Bumiputera* corporations and trust agencies had risen (Rajendran, 1993:110; Means, 1991:97). By 1983, government investments which were mostly designed to promote *Bumiputera* participation in the economy had been channelled through 57 institutions, 115 statutory boards, and corporations that controlled or had joint-venture shares in 500 subsidiary companies (Means, 1991: 97). Nevertheless, in 1982, the government's budget deficit had risen to RM10 billion, with a trade balance deficit of RM2.5billion, as compared to RM5 billion surplus just two years before. That was one of the reasons that called for the government's drastic move into privatisation.

The techniques used by the Malaysian government were divestiture and non-divestiture, with the latter including traditional contracting-out, leasing, management buy-out and deregulation as well as an early retirement scheme for civil servants (refer to Chapter Ten). The government took charge of stimulating the private sector construction industry, and promoted the exports of Malaysian commodities through Japanese style trading houses, called *sogosha*. In the 1980s, there were at least six Malaysian-style *sogoshas*, that is, incorporated international trading companies.<sup>67</sup>

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<sup>67</sup> For a detailed discussion on the impact of this policy, see Chee Peng Lim, 'Malaysia Sogo Soshas- No Go So Far', in Jomo K. S.(eds). 1983. *The Sun Also Sets*. Petaling Jaya. Insan.



As examples of divestiture programmes, which in most cases were only partial, the government floated the equity of major state-owned enterprises such as MAS; the Malaysian International Shipping Corporation (MISC); cement companies, *Syarikat Telekom Malaysia Berhad* (national telecommunication company); the distributor of the national car, EON and its manufacturing company Proton; besides *Tenaga Nasional Berhad (TNB)*, the country's electricity generating enterprise (Ng and Toh, 1992: 50). Under the ICA, in line with the NEP, the state allocated at least 30% of the floated shares in the Kuala Lumpur Stock Exchange (KLSE) to the *Bumiputeras*. What that meant was that a reserve was made for *Bumiputera* individuals and institutions approved by the state to hold shares in trust for the indigenous population.

A study by Gouri (1991) revealed that one of the major challenges for privatisation in the Asian-Pacific economies was a politically acceptable balance between efficiency and equity (Gouri, 1991: 89). Labour tends to stress equity, while emerging beneficiaries (consumers and would-be owners) tend to stress the efficiency aspect of privatisation. For labour, privatisation brought fears that related to loss of jobs (since privatisation also meant cost-effectiveness). It could also have meant loss of benefits already won, scope for re-hiring, loss of a hard-won union power and scope for unionisation. It was in this context that Malaysian unions representing workers in state enterprises earmarked for privatisation voiced their objections. The Malaysian government handled these issues using two key elements. The first was by giving public assurances that there would be job security and protection of current benefits. There was also the promise of opportunities to own shares in the newly privatised companies.

CUEPACS naturally made privatisation its top agenda in its 1983 convention (BT, 6/7/1983). As substantial numbers of its members would be affected, CUEPACS at this stage opposed privatisation (BT, 26/8/1983). It was worried about 'job insecurity, unfavourable wages and conditions of service'. It also opposed any form of privatisation 'of public services which have been traditionally the responsibility of government' (BT, 26/8/1983). This, they argued, would be at the expense of the lower income group, who could not afford the increase in prices as the private sector made profits their main objectives. Therefore, CUEPACS wanted the government to study its effect first, especially when workers were denied of the benefits of pensions as now enjoyed by government servants (The Malay Mail, 5/8/1983). MTUC, on the other hand, took a more conciliatory stance. When Ahmad Nor, the CUEPACS President voiced the union's concern, MTUC President PP Narayanan said it welcomed privatisation, as long as 'Malaysians were made to understand the relevance of it and the ways in which it could improve the overall welfare of the people (BT, 12/4/1983). CUEPACS urged the government to be responsible for the 'privatised' governments' workers, then with the privatisation of the Telecommunications Department (Telekom). The PM, Mahathir Mohamad, ensured that employees would be taken care, with each given one or two years to choose either the government or the private scheme (NST, 20/12/1983). He insisted it was for mutual benefit of the employees, the private sector and the government, as 'the interests of the three parties are the interest of the nation' (NST, 20/12/1983). The argument was that privatisation brought efficiency, and companies were motivated by profits, widening market that led to mass production, making prices cheaper. The National Union of the Telecoms Employees (NUTE) raised concerns over EPF, housing loans (only 4 % interest under government scheme), and the pension scheme (NST, 11/5/1984). Telekom, together

with MAS and *Petronas* (the national oil-company), were among the first few that went into privatisation. By 1989, the move was into full gear with 22 government-owned concerns already privatised (ASWJ, 9/8/1989). The intention was that two years later there would be 246 government-owned enterprises privatised under the Privatisation Master Plan. There were already 81 companies established by the government to assist the *Bumiputeras*, divested to *Permodalan Nasional Berhad*, the national equity corporation charged with amassing corporate holdings on behalf of the designated citizens, or sold directly to *Bumiputera* individuals and concerns (ASWJ, 9/8/1989). In 1989, several earlier privatisation deals had already sparked widespread criticism, triggered by 'secret negotiations', the paucity of government disclosure and the granting of lucrative contracts to individuals and companies 'with close links to officials in the Mahathir's administration' and to UMNO (AWSJ, 9/8/1989). In other words, privatisation turned out to be another extension of the 'Malay Agenda' as contended earlier in this chapter. As for workers, as a result of consistent assurances by the government over right of unions activities, promises of better schemes and job security, the opposition was slowly drowned (NST, 18/1/1989; BT, 20/11/1989; NST 15/9/1989, The Star, 2/9/1989). The government on top of that ensured that it was 'still in control of privatised companies' (BT 20/11/10989) which seemed a firm enough assurance.

#### **8.5.4. Electronic Industry and the Case of HATWU**

Since promoting EOI in the late 1960s and 1970s, and especially in the period 1987-92, Malaysia showed economic growth with an annual GDP exceeding 8 percent (IMF, 1994/95). However, the electronics industry, a significant contributor, was made a 'pioneer industry' and therefore, from the first arrival of foreign MNCs, the

government denied trade unions' efforts to organise workers (IMF, 1994/95). The Pioneer Industry Ordinance (PIO) 1958, and later amendments to labour laws in 1967 and 1969 legalized the shift for female workers and further reduced workers' rights. This was part of the lucrative deal for MNCs in the opening of FTZs in 1972. American MNCs were the first to set up electronics factories in Malaysia. There was anti-union stand in US electronics, computers and component firms in companies such as Motorola, Seagate, Texas Instrument, Harris and Hewlett Packard in the US itself. The same stand was made by Malaysian companies, and the government, so much dependent on FDI, supported this move. The setback was that other Japanese and German electronics companies too, even though their parent nations recognised and permitted unions, rallied and sheltered behind the US-imposed non-union policy. Therefore, while electrical, textile and garment industries, for example, allowed unionisation in 1971 and 1978 respectively, the electronics workers in Malaysia were denied this right (IMF, 1994/95). This is one classic example of the abuse power by private sector employers, which encouraged by the government's own lenient policy towards them out of its dependence to FDI or MNCs. The discussion below emphasis this argument further.

The EIWU and other IMF-affiliated unions tried to unionise the electronics workers from the early 1970s (Interview: Arunasalam, 22/11/ 2000). In 1973, the RTU warned the EIWU not to unionise them, claiming that they were categorically different from 'electrical' firms. This decision was made despite the government bunching both industries together in most of its data classifications (e.g. exports, employment and output). From 1976 onwards, the International Metalworkers' Federation (IMF)

championed the issue, together with the ILO, who began putting pressure on the Malaysian government. They failed to make any effective impact.

So it was surprising when the government announced in September 1988 that it would allow 85,000 electronics workers to form/or join unions, an unexpected but a much-awaited decision. It was, in fact, believed that efforts by AFL-CIO to get the US government to withdraw its GSP status from Malaysia that did the trick (IMF, 1994/95). The threat looked real to the government since the GSP was removed from the Asian NICs in February 1988. This shows that an outside/external factor has forced the government to backtrack in its decision. The reason this time was purely economic.

When the Labour Minister asked the MTUC to help set up the unions, the labour centre was more than happy to oblige, but a happiness that was short-lived. The American transnationals, especially the Malaysian American Electronics Industry (MAEI) members, opposed the government's move (IMF, 1994/95). The US government rejected AFL-CIO efforts, which was thought to be due to the American transnational companies' lobbying power in the then Bush government (IMF, 1994/95). Suddenly the government backtracked, and announced that it would permit the organisation only to in-house unions. Even this proved difficult, as seen by one particular case of Radio-Company of America (RCA) *Sdn Bhd* in 1988.

This was the first US electronics firm to experience a worker-led attempt to start in-house unions. As the union was being formed, the company changed its name to Harris Solid-State (HSS) *Sdn Bhd* without telling the employees, prompting the

TUAD to tell unionists to change the name accordingly. To the trade union activists this was just an effort to kill the union (Interview: Bruno Pereira, 26/1/2001). The first President of RCA Union, Bruno Pereira, did not receive any notice from the employer at all and was only alerted by the DGTUA (before RTU, now DGTUA) to change name. After going through the tedious procedure, the company refused to recognise this, forcing the TUAD to conduct a 'membership check', and even after it was confirmed that the membership represented 57% (it must be 50% + 1 according to TUA1959), the company still refused. The Minister used his power under the IRA1967 to give notice of recognition to the company. However, on the last day (the 14<sup>th</sup> day) on 23<sup>rd</sup> January 1990 the company 'offered workers' of both employees from HSS and another of its branches, Harris Semiconductor to transfer to Harris Advanced Technology (M) *Sdn Bhd* (HAT). The workers were threatened to be dismissed if they refused to sign transfer forms, which were given to all except half of exco-members of the (forming) union and six union activists. While the rest of workers were transferred to HAT, 24 were put in a bogus operating production line without any work but getting their normal wages. This 'cold-storage' treatment went on for 6 months (Interview: Bruno Pereira, 26<sup>th</sup> January 2001; 10<sup>th</sup> General Meeting Report, HATWU). Meanwhile, on the 16<sup>th</sup> January 1990, the ministry approved the HSS Workers Union (HSSWU), and stated that the company had approved the union, effective from the 23<sup>rd</sup> June 1989 (the workers had actually already been transferred to HAT in 23<sup>rd</sup> January 1990). The HSSWU still sent a collective agreement proposal to the company (HAT) on 14<sup>th</sup> May 1990. Thus, starting 22<sup>nd</sup> June 1990, there were four collective bargainings between the two sides. In August, the HAT advertised for posts that belonged to the union activists, prompting the union to report to the IRD. A week before the conciliation process started at the IRD, the company sacked all the 21

union activists (1 worker had already resigned, 2 had been absorbed to HAT). The company did not turn up to the IRD and the collective agreement has not been agreed upon until today. The MoHR referred the case to the Industrial Court in October 1990 after the HAT workers picketed in front of the factory for 21 days (Interview: Bruno 26<sup>th</sup> January 2001; 10<sup>th</sup> General Meeting Report, HATWU).

The case was only settled in 1997 after several court battles at the Industrial Court, High Court and Appeal Court. On the 12<sup>th</sup> August the Appeal Court rejected the company's appeal and ordered all 21 workers to be reinstated at HAT and all costs paid to them (10<sup>th</sup> General Meeting Report; Interview: Bruno, 26/1/2001). Their plight is not yet over, as in 1997, even after the TUAD approved the application for change of name from HSSWU to HATWU, the company applied to the High Court to revoke the DGTUA's decision, which it did with costs in 1998, and the union filed an appeal to the High Court's decision. The case is still pending.

However, this case showed the 'helplessness' of the government against an MNC, out of a weakness in the system and the tedious legislation process. While a company could find it easy to change its name through the Registrar of Companies (another department), the union still have to go through the process of satisfying the TUAD and IRD, which takes time, and is always under the pressure of the government general policy on the economy. In this particular case, it showed that the government policy of discouraging unions, even in-house unions in the electronics company, cost the workers unnecessary misery. When asked, the DGTUA admitted that the battle is now between the union and the High Court (Interview: Izhar Harun, 16/1/2001). The DGTUA remarked that if the union did not go to the court, the TUAD could de-

register the present union and they might apply for a new union based on the present company. The company has since changed its name twice to Intersil, and then Chip-Pac. The union is still registered under HATWU and so far not even one collective agreement has materialised (Interviews: Bruno Pereira, 26/1/2001; Izhar Harun, 16/1/2001; Mohd Zubir, 16/1/2001).

#### **8.5.5. The MAS-AEU Dispute and its Impact on Labour Laws**

This dispute is very significant to Malaysian IR following the 1960s period, as it denotes a new wave of labour repression that led to the 1980 amendment to the TUA 1959 and the IRA 1967. It showed how serious the government was towards suppressing dissent, again to protect economic interests. Also, it stressed the government's wariness towards outside influences that contradict its decision or policy. In fact, the dispute between the MAS employees who were represented by Airline Employees' Unions (AEU) was a landmark case during the NEP period. It confirmed the earlier argument that there existed an imbalance of power between the employer (in this case the government itself) and employees. The dispute also showed the weakness of the MTUC as a labour centre as against the government and the RTU, who acted on its behalf.

The dispute started with the AEU asking for a higher starting pay for a lower income group of employees in a new collective agreement which the MAS rejected. The MAS management referred the deadlock to the Minister of Labour, who called for conciliatory meetings. Before the second round of the session, the RTU, based on information by the MAS management, directed the AEU to strike off the membership of 874 members who were said to be involved in 'illegal industrial action'



(MTUCAR,1979/80). 213 workers were then suspended for allegedly boycotting 'overtime' and commencing 'go slow'. A total of 119 workers were dismissed. The RTU held the AEU responsible for 'go slow' and 'boycott of overtime' and on the 27<sup>th</sup> January 1979, served a show cause letter on the AEU as to why its registration should not be withdrawn or cancelled. The union's fund was frozen and the Minister ordered a restriction on the function of the AEU until it explained itself, as ordered by the RTU. 23 union activists were then arrested under the ISA1960, including one local representative from the International Transport Workers' Federation (ITWF), David Uren (MTUCAR,1979/80). ITWF helped organise retaliatory action, both locally and abroad. There was a stranded MAS airplane at Sydney Airport and a boycott by transport workers in London, all condemning the ISA arrests. The MTUC leader, Narayanan, ironically wrote to Bob Hawke at the Australian Council of Trade Unions, and implied that if there were no specific charges, the ISA detainees would be released soon (Jomo and Todd, 1994: 143).

The MTUC in fact only knew of the dispute through the press, and with AEU did not pay its fees for two years nor did it seek MTUC's help. It was only later that the MTUC volunteered to assist and tried to intervene by requesting an appointment with the PM, Hussein Onn, seeking professional legal aid for detained unionists. Meanwhile, the MTUC's requests to represent the AEU were not favoured by the AEU itself. However, the MTUC President met the Minister, and asked him to overturn the decisions made by the MAS regarding the workers. The MTUC also asked for functions of AEU to be rescinded to make it possible to return to the negotiating table to resume collective bargaining. With regards to the use of ISA, the government was urged to bring to public trial detained members and officials. The

MTUC president also met the PM, who, however, in a Parliament session on 20<sup>th</sup> March 1979, moved a special motion. Expressing deep concern over the dispute, it condemned the 'interference by foreign trade unions and international confederations of Trade Unions (MTUCAR, 1979/80). It supported the actions taken by government in its efforts 'to safeguard and develop MAS as the national airline, including its attempts to create a resumption of the collective bargaining negotiation between the management and employees of MAS' (MTUCAR, 1979/80). This condemnation was baseless as the 'interference' actually occurred after the dispute was already out of hand. The MTUC accused the government of 'mishandling and mismanagement' of the affair (MTUCAR, 1979/0). The *Barisan Nasional* government, two thirds in the parliament, carried out the motion. In fact, this was the first time the ISA was used to arrest trade unionists and workers, despite the government's promises that it would not be used against trade unionists (MTUCAR, 1979/80).<sup>68</sup> The point here is why did the government not invoke the discretionary power under IRA1967 and refer the dispute to Industrial Court for adjudication? If it had been done, the dispute would not have gone out of proportion, and there would have been no need for ISA. The AEU submitted a formal reply to the RTU and asked for the union not to be de-registered as it was not a 'public utility service', and the MAS workers could refuse to work overtime. It argued that the AEU actually had not been on strike. It also gave reasons that the extent and period of overtime work demanded by MAS was unreasonable, and in fact was requested in an arbitrary and vindictive manner (MTUCAR,1979/80).

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<sup>68</sup> Internal Security Act or ISA1960 gave absolute power and authority to arrest and detain any person without trial. Section 8(1) says 'If the minister is satisfied that the detention of any person is necessary with the view to preventing him from acting in any manner prejudicial to the security of Malaysia or any part thereof or to the maintenance of essential services therein or to the economic life thereof, he may make an order (hereinafter referred to as a detention order) directing that person be detained for any period not exceeding two years'. The Minister has the right to extend the period for another two years at any one time.

The RTU rejected the reply, so the union was de-registered and simultaneously the government offered a package deal to the 4600 MAS workers, with a revised salary scale that the workers had to accept. The workers were released but now there was an in-house Malaysian Airline System Employees' union as well as the Foreign Airlines Employees' Union. The long-term impact resulted in amendments to labour laws 1980.

It is important to note that the conflict happened while the government industrialisation programme moved from ISI to EOI and while it was becoming more dependent foreign investments. In line with the NEP and with the emphasis on improving the economy of the *Bumiputera*, labour had to remain cheap and docile.

#### **8.6. The State and Public Sector IR**

The period 1971-1990 saw the state's increasingly dominant role in the public sector IR. To ensure the smooth running of the NEP, it was necessary for the government to implement legislation and unilateral decisions, with policies that ensured the public sector became its 'executive arm'. The one-way decision-making was evident in how 'negotiations' and wage and conditions of service were determined through various circulars, as well as the Salaries Commissions and Report, as seen in Table 8.5.

For many years the commissions did not cover the whole public sector, as the wages and conditions of service were based on the groupings made by the government. In 1967 (implemented only in 1970), there was the Suffian Commission for public service. The government chose to implement only some of the Suffian Royal

Commission, saying it was facing a financial crisis (Interview: Jamaluddin Md Isa, 30/1/2001).

**Table 8.5. Salaries Commissions and Salaries Committees**

<b>Date</b>	<b>Name</b>	<b>Coverage</b>
1967	<b>Suffian Report</b>	<b>Public Service</b>
1971	<b>Tun Aziz Report</b>	<b>Judges/judiciary</b>
1971	<b>Abdul Aziz Report</b>	<b>Education Services</b>
1971	<b>Sheikh Abdullah Report</b>	<b>Armed Forces</b>
1973	<b>Ibrahim Ali Report</b>	<b>Public Service</b>
1977	<b>Cabinet Committee Report To examine the Ibrahim Ali Report (CCR)</b>	<b>Public Service</b>

Source: Report of the Royal Salaries Commission, 1975; Report of the Cabinet Committee Appointed By Cabinet to Examine the revised report of the Royal Salaries Commission 1975, Vol. I and II, 1977.

With persistent and firm beliefs, and the backing of the Congress council members, as well as the threat of strike, the government then decided to implement new scale for Division IV and the IMG group, and later for Division I, II and III when the government had the 'financial capability' (Interview: Jamaluddin Md Isa, 30/1/2001). It again demonstrated the absence of proper collective bargaining machinery for public sector employees, and how the 'negotiations' with the government had turned very political. It also depended very much on the leadership factor, in this case among CUEPACS leaders as representatives for public sector unions. Veteran public sector trade unionists admitted this factor as being very important to succeed in any 'negotiations' with the government (Interviews: Jamaluddin Md Isa, 16/1/2001; Ahmad Nor, 6/2/2001; AH Ponniah, 22/1/2001; Mohd Jamil Ismail, 6/1/1999). This was especially so after the 'negotiating right' of the Whitley Council was taken away by the government, first after the 13<sup>th</sup> May with the suspension of the Council, then eroded further with the three NJCs in Circular 2/1973, and then permanently with five NJCs in Circular 5/1979. With the implementation of the Cabinet Committee Report

(CCR) in 1979, replacing the Ibrahim Ali Report, all remaining dreams held by public sector trade unionists to restore their negotiating rights disappeared. In 1980, the government awarded the public sector with generous salary increases, putting the CUEPACS in an even more complacent mood. However, due to several economic downturns, the government did not entertain demands for salary increases, except modest allowance increases, even though the salary revision exercise was due in the mid-1980s. Only a few months before the general election in 1990, the public sector employees received further salary increases. This was clearly not through 'negotiations', but confirmed the political relationship between the public sector employees and the government.

It must be said that from the 1970s up until the early 1980s there was an increased participation of ethnic Malays in the public sector. In 1970, the formal provisions that let CUEPACS play even a small role in collective bargaining over wages and conditions of service was diminished with Circular 4/70. The National Operation Council that took over the Malayan administration after the 13<sup>th</sup> May riot put the Whitley Council under suspension from 1969 until 1973 (ARRTU1969; Interview: Jamaluddin Md Isa, 30/1/2001). CUEPACS managed to muster a strong opposition to Circular 4/70, with strikes, until the government replaced it with Circular 5/73 on the 2<sup>nd</sup> February 1973. In Circular No 5 of 1973, the Whitley Council was permanently replaced by the National Joint Council (NJC)(Circular 5/1973). However, the negotiating element was still there. Under the new NJC, three separate negotiating machineries were established, for employees in the Civil Service and Education Service; employees in the Statutory Bodies and Local Authorities; and one for the Police Services (Circular 5/1973). The objective of these NJCs were to advise the

government on pay and condition for Public services, including education; to negotiate directly with unions and staff associations in all their claims; and to decide and if necessary to obtain the government's approval on all matters concerning conditions of service in the public sector (Circular5/1973). The Circular, however, outlined that individual unions or staff associations had to negotiate with the Council of Pay and Conditions of Service for cases that concerned salaries and other conditions that affect only a group of categories. However, these unions or staff associations first had to be recognised as representatives of the employees involved. The Staff side of the NJC opposed the idea of unions negotiating with the Council of Pay and Conditions of Service as it created confusion and impeded the progress of any claims made either by single or groups of unions (Rajaguru, 1979). This was because the unions were organised on grade as well as departmental basis. As there were several departmental unions catering for similar grades there would substantial difficulty in getting a favourable negotiated settlement (Rajaguru, 1979). The Staffs side wanted the NJC to also become the machinery for negotiation. In other words, the NJC was not playing an effective role as the consultative body on all matters affecting terms and conditions of service of the public sector IR. Since the NJC determined the principle governing methods of fixing wages, it should also negotiate on terms and conditions of service which it regulated itself. The other weakness of the NJC was that in the event of any dispute being unsettled during negotiations at the Council of Pay and Condition of Service, the disputes were to be referred to the Industrial Court in accordance with the IRA1967, where the right to arbitrate was subject to the discretion of the Minister of Labour, and further under the proviso 23(2) subject to the consent of the *Agong* or the State Authority as the case may be (Rajaguru, 1979). This was contrary to the principles normally followed in finding

recourse to a settlement of disputes between employer and employees. The Staff side demanded the provisions of the Arbitration Tribunal, as existed under the Whitley system. On top of that, the government was making unilateral decisions, without discussion or consultation at NJC level, thereby making the NJC machinery ineffective.

The Staff Side of the NJC was satisfied with its involvement in the Ibrahim Ali Commission in 1975, but when it demanded its implementation in 1977, CUEPACS was in for a disappointment. The government said it did not have the financial capability to cater for the Ibrahim Ali wage increases. In August 1975, there was the 'Revised Report of the Royal Salaries Commission 1975' chaired by Ibrahim Ali (Revised Report 1975). In 1976, the government appointed a Cabinet Committee under the Chairmanship of Mahathir Mohamad (the Deputy PM) 'to examine the revised report of the Royal Salaries Commission 1975'. With the implementation of CCR, CUEPACS was made to look helpless in negotiating wages and conditions on behalf of its affiliating unions. CUEPACS did try to threaten the government with a strike, but it did not take the opportunity to do so, in spite of the support given by its affiliates. Both Houses of Parliament then rejected the Ibrahim Ali Commission Report and set out revised wage scales and conditions for public sector employees through the CCR. The CCR was not discussed with unions, and here CUEPACS let the individual unions make their stand on the Report. This is where CUEPACS again showed its weakness as the main congress for public sector unions. The CUEPACS President called it a 'democratic system' (NST, 31/1/1977), but the fact was it had provided an avenue for the government to repeat the action in the future. The reluctance of CUEPACS to resort to industrial action, an open conflict, as discussed

above, is not hard to understand. Government servants see themselves as first 'serving' the government of the day, who in turn pay them wages. On the part of the government, the campaign was that as public sector employees they were working for the people, to achieve a grand design of the NEP - which explicitly spelt out its intention to help the Malays, with the ultimate objective of national unity. The majority of the public sector was and still is Malay, and the dominant party in the government is UMNO (for the Malays). For the Malays to go against the government's wishes was like going against their own people, and this was and still is, until recently, something to be scorned.

As for the Public Services Tribunal (PST), which was specially established in 1977 to cater for anomaly cases (PST Bulletin, 1977-1999), it had a limited and temporary role. It was to solve cases regarding benefits and conditions of service that revolve around the Suffian and the Harun Report. The MTUC called for the PST to be amended so as to enable it to arbitrate trade disputes in the public sector, instead of only anomaly cases (MTUC BDCAR 1988/90). A prominent CUEPACS trade union veteran condemned the PST as 'inadequate' since it would be terminated once all the anomaly cases were solved (Interview: Mohd Jamil Ismail, 29/12/1998). His worry was confirmed when in 1999, the PST was dissolved, after the Ministry claimed all the anomaly cases 'were already solved' (PST Tribunal Bulletin, 1977-99). The bulletin said that more than 600 cases from 1977-1999 were solved, including those under the New Remuneration System, the present wage system for the public sector.

Circular 2/1979 changed the entire structure of the NJC and marked the end of the 'collective bargaining machinery' for the public sector. It has never been regained



(Interviews: K. George, 7/2/2001; Jamaluddin Md Isa, 30/1/2001; MTUC BDCAR 1988/90: 7). The most significant impact is that this Circular officially terminated the right of public sector unions to negotiate or discuss wages. Even though the period before that showed CUEPACS and other individual unions struggling to get their demands heard but not necessarily met, at least formally the right was there. Five NJCs were now formed; each for the General Public Service (other than the employees in the Subordinate and Manual Group); the Education Service; the Statutory Bodies; the Local Authorities; and the Industrial and Manual Group (IMG). The five councils only 'gave views' on and discussed principles affecting remuneration, allowances and facilities for employees in the public sector. No discussions on the subject of the existing structure of Salary Scales of the Cabinet Committee were allowed. It was also to discuss general terms and conditions of service for employees, confined again to giving views 'so as to enable the government to decide on the question at issue' (Circular 2/1979). From this period onwards, a prominent veteran trade unionist categorically called the process for wage increases in the public sector as 'collective begging' (Interview: K. George, 7/2/2001).

The government did what it thought best to achieve the NEP objectives. In 1981, it granted CUEPACS formal recognition as a national trade union centre for Malaysia, much to the disappointment of MTUC. CUEPACS was also invited to join the tripartite body, the NLAC, the EPF Board, the National Manpower Development Board, the National Electricity Board, and the Wages Councils (ARRTU, 1983:2). The most bitter dispute between CUEPACS and MTUC was when the government delayed and later turned down the candidacy of V. David, MTUC Secretary General to the ILO Convention in Geneva. The government's animosity towards MTUC in

early 1980s was very much evident, since several MTUC leaders were actively involved in the opposition parties. Therefore, the government took retaliating measures by according CUEPACS equal standing with MTUC, and by sending representatives to the ILO Convention, even though the ILO itself criticised the move. What the MTUC and CUEPACS leaders did not see at the time was their rivalry further weakened the trade union movement in Malaysia, and made the government stronger and more dominant. CUEPACS did not actually succeed in any of its fundamental struggles, like negotiating rights, minimum wages or having an effective voice in all the tripartite bodies.

There was, however, a brief period under the leadership of Ahmad Nor when CUEPACS tried to use the aggressive tactic to win over 'negotiations' with the government. His small but distinctive victory over T. Rangunathan as CUEPACS President in 1983 saw what might be termed a resentment of the dominant Malay members in CUEPACS over the long Indian dominance in the union. The outgoing President, T. Narendran, publicly gave support to both T. Rangunathan and Jamaluddin Md Isa, citing their 'extensive experience' (The Star 27/7/1983). The fact was the old belief was so inculcated in CUEPACS that an aggressive person like Ahmad Nor was not welcomed. Ahmad Nor, on the other hand, expected that he would, being the first Malay to head CUEPACS, and he thought the communication with the government would be 'easy' (Interview: Ahmad Nor, 6/2/2001). In June 1985, the government announced a small increase of pay in response to the claim submitted by the Staff Side of the NJC. The NJC (Staff Side) for statutory bodies rejected the increase, and a series of picketing ensued. Encouraged by the stand taken by the statutory bodies, other unions which had taken the governments' offer also picketed. The PM agreed to

meet the five NJCs before they went on strike. He declared that he had met both the President (Ahmad Nor) and Secretary General (Jamaluddin Md Isa), and that both had agreed to the pay increase. However, nothing happened, and Ahmad Nor embarked on a series of attacks on the government. Publicly, he threatened to withhold the predominantly Malay public sector employees' support from the government. The government responded that it could not afford salary increases, and used all the available media to its advantage. It even accused Ahmad Nor of being 'used by foreigners'. When the government made only small increases, and attacked CUEPACS in the UMNO Convention, Ahmad Nor gave a 24-hour notice of resignation in April 1986 (Interview: Ahmad Nor, 6/2/2001). His disapproval of Mahathir turning the event into something political saw him later venture into opposition parties. His departure was not entirely missed as there were some leaders, like his own secretary general, Jamaluddin Md Isa, who thought him 'aggressive'. The next President, Rangunathan went back to the old ways of non-confrontation and therefore put back CUEPACS to where it was once was; docile and dependent on the sympathy of the government.

To conclude, it seems ironic in this case that the government was more reluctant to grant several CUEPACS demands, as the majority of public sector employees were Malays. Despite the NEP itself, with all its complementary policies inclined towards favouring Malays, the government's stance on unions were quite non-ethnic based, a contention shared by Malaysian trade unionists and scholars.<sup>69</sup> Therefore, the state's role in the public sector IR was more to ensure that a bigger objective under the NEP

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<sup>69</sup> Interviews conducted with multi-ethnic trade unionists revealed that they did not believe that the government's policy and decisions regarding trade unionism in the country had anything to do with ethnicity.

was met, than to fulfil demands from Malay-dominated public sector employees. In a way, it showed the government's preference of achieving the long-term goal of betterment of Malays in their economic sphere, therefore restricting union rights in the public sector. The restrictions made the public sector unions more compliant to the government, and therefore enabled the government to go ahead with the NEP more easily.

### **8.7. An Analysis of the Role of the State and Malaysian IR, 1971-1990**

Generally 1971-1990 was a period of dominance by government over IR. It shows the state had managed yet again to influence the direction of IR in line with the nation's interests, that is securing economic stability. Again the government used terms like 'national interests' and 'national unity'. During the NEP period, the underlying Malay agenda was one of the reasons for this. By 1981, Mahathir's era had begun, and he enhanced national policies with other complementary policies that would never permit free and strong unionism. Coupled with the Malaysian culture of anti-left wing movements in general, and based on wariness of communism and the fragile racial relations, it was easier for the government to implement its policies in IR. However, this is not to forget the weaknesses of the trade unions themselves - in particular CUEPACS and MTUC, and the strong position of employers, much ensured by government pro-management legislation and policies.

During the Tunku and Tun Razak's era there were government's efforts to portray itself as a neutral arbiter standing above and mediating between management and employees. In the mid 70s, during Hussein's administration, trade unions leaders were reminded of their responsibility towards maintaining industrial peace in order to

provide a good investment climate for manufacturers from overseas, and urged to obey the laws. The trade union movement at this stage was caught between the need to fight for the workers' interests and the need to please and adapt to the government's expectations. The fragile situation, made worse after the riot experience, and the more repressive laws, all led to further weakening among workers. Moreover, the MTUC as the main labour centre was criticised. In fact, between 1969 and 1981, the numbers of trade union members fluctuated substantially, decreasing by 5 percent in 1970 and increasing by 17 percent in 1974. These changes were due to alterations in the political environment itself, where the aftermath of the May 1969 racial riot highlighted the repressive side of the government again. The NOC in fact made it clear that it only tolerated the docile unions that co-operated with the government.

The restoration of parliamentary rule in 1971 did not lessen many restrictions on trade unions which were made during Emergency Rule. In fact, the Parliament amended the labour laws to include most of the important regulations, together with new ones. For example, although public service unions were allowed to join the MTUC, they were not permitted to organise strikes over recognition claims, nor to bargain on issues designated as 'managerial prerogatives', including dismissal, retrenchment, hiring, promotion, transfer, and work allocation. In the 1970s, too, the government succeeded in reducing strikes. Such action was now considered insignificant in Malaysian IR, in sharp contrast to earlier decades, as can be seen in Table 8.6. The figures show that from 1970 to 1974, 1976, and 1977 the number of workdays lost due to strikes exceeded 50,000. From 1976 onwards, however, strike activity decreased.

Although technically some unions were still legally allowed to organise strikes, the state would go all out to fight against them. The restrictive process of strikes in Malaysia is stated in the IRA1967, Part IX, under the sub-heading of 'Trade disputes, strikes and lock-outs and matters arising therefrom'. For example, section 43 specifies restriction on strikes and lock-outs in 'essential services'. No workman in any essential services shall go on strike without giving to the employer notice of strike, within forty-two days before striking; within twenty-one days of giving such notice; or before the expiry of the date of strike specified in any notice aforesaid. Thus, union leaders chose not to contemplate confrontation and opted for less effective forms of industrial action. This move made them unable to counter any government suppression through strike.

There was also the GSP controversy when the government accused MTUC of anti-government. The government was put under the pressure of AFL-CIO and IBEW who urged the US government to withdraw the GSP status from Malaysia as a threat for Malaysia allowing unionism in the electronics industry. Mahathir condemned the MTUC and the opposition party, especially trade union leaders like V. David, who was in the opposition. V. David, being a DAP man, defended himself and pledged support for the retention of the GSP status. However, Mahathir was not impressed and the relationship between MTUC and the government during this period was severed. The fact that there were a number of MTUC leaders in the opposition parties, and actively involved, to the extent that they fought in the election just strained the relationship. It gave the impression that the real reason for the bitterness was because they were in the opposition, and not in any of the *Barisan Nasional* coalition parties. This view is confirmed in Chapters Nine and Ten, when the government has no

problems with MTUC and CUEPACS leaders who were clearly supporting the governing party.

**Table 8. 6: Number of Strikes, Workers Involved, Workdays Lost, Total Union Membership, and Percentage Involved, 1970-1990**

<i>Year</i>	<i>Number of Strikes</i>	<i>Number of Workers Involved</i>	<i>Number of Workdays Lost</i>	<i>Total Union membership</i>	<i>Percentage of Membership involved</i>
1970	17	1,216	1,867	275,238	1
1971	45	5,311	20,265	283,594	2
1972	66	9,701	33,455	296,782	3
1973	66	14,003	40,866	318,459	4
1974	85	21,830	103,884	373,572	6
1975	64	12,124	45,749	477,565	3
1976	70	20,040	108,562	481,736	4
1977	40	7,783	73,729	503,267	2
1978	36	6,792	35,032	523,620	1
1979	28	5,629	24,868	520,024	1
1980	28	3,402	19,554	531,740	1
1981	24	4,832	11,850	548,434	1
1982	26	3,330	9,621	564,674	1
1983	24	2,458	7,880	569,229	1
1984	17	2,437	9,269	547,266	1
1985	22	8,710	34,773	560,339	2
1986	23	3,957	14,333	560,531	1
1987	13	3,178	11,035	560,725	1
1988	9	2,912	5,784	568,408	1
1989	17	4,761	22,877	638,004	1
1990	17	98,510	301,978	667,388	15

Source: Adopted from ARML, various years; Ministry of Human Resources (1990).

The end of 1990 saw the government's increased uneasiness over the MTUC and slowly promoting CUEPACS as the national labour centre. It further weakened the labour movement, and distracted union leaders away from their more important causes. At the end of 1990, CUEPACS' resolutions had not been achieved. If anything, the union centres, both MTUC and CUEPACS, managed to survive in name, and to secure the old way of settling disputes with lots of political manoeuvre.

## 8.8. Conclusion

The years 1971-1990 confirmed further 'executive dominance' in Malaysia, in both the private and the public sector IR. By 1990, the government had used all the labour laws, its administrative arm with MoHR and its departments, various national policies and its own position as the greatest employer in the country to ensure the IR served the purpose of the NEP. With the extensive resources of a large and effective civil service, a powerful and well-discipline military, and an extensive party system that could mobilise sufficient public support to sustain a parliamentary government, the federal government succeeded in maintaining the *status quo* and keeping the labour movement and IR under control. This enormous power conferred to the executive, and supported totally by the civil and public service, has given the state decisive and prominent position to implement what they think best for the country. Even if the NEP was criticised, it has shown some success statistically to deliver its objectives, including the Malays' economic interests.

The keyword most prominently found during these twenty-year period was 'in the nation's interest'. The underlying factor was the 'Malay agenda', triggered much by the 13<sup>th</sup> May 1969. The additional factor was the political one, either the political leadership or the political scenario itself. Mahathir proved to be the active aggressive leader in promoting various national policies, apart from, and in complementary to the NEP. Despite criticisms over the ostentatious nature of these policies by scholars such as Jomo and Todd (1994), Gomez and Jomo (1999) and Mehmet (1987), just to name a few, the fact was the NEP has achieved, if not all then part of its intended objective, even if at the expense of IR. That success and the fact that the success was only partly achieved made the government again resort to another national development planning:



the National Development Policy (1991-2000), discussed in Chapters Nine and Ten. However, under this policy the government tried to make some changes, especially in HRM, and tried not to emphasise the question of the Malay Agenda, resorting instead to a more balanced objective.

Under the NEP, IR policy, administration and legislation have been maintained and were developed to meet its objectives. The role and size of the public sector in the 1970s expanded with the public enterprises, but by the mid-eighties, privatisation was intensified to help boost the economy and helped create the BCIC. Economy, leadership and culture all influenced the role of the state in IR but the Malay question was a central issue. The government ensured a weak trade union movement both in the private and the public sectors by using the legislation, administration and general policies that encouraged all actors towards maintaining industrial peace. At the end of 1990, the government was still not satisfied with the targets achieved on re-structuring employment, equity re-structuring and the creation of BCIC, all of which were related to the Malay issue. The next two discussions in Chapters Nine and Ten, each for the private and the public sector respectively, explore the NDP period, which were treated differently by the government, and as such, need a separate analysis.

## CHAPTER NINE

### LOOKING AHEAD? THE PRIVATE SECTOR INDUSTRIAL RELATIONS UNDER THE NATIONAL DEVELOPMENT POLICY

#### 9.1. Introduction

The foregoing discussion has shown that for twenty years the government developed its IR policy, administration and legislation to achieve the objectives of the NEP. The NEP encapsulated Malaysian development plans where the emphasis was given towards strong economic growth, stable politics and equitable wealth sharing by various ethnic communities. With that, strong leadership and Malaysian political culture also influenced the role of the state in the Malaysian IR with the Malay question a central issue. Although many of the NEP's goals were achieved, the Malay/*Bumiputeras* or ethnic issue was considered not fully solved, therefore still prevailed under the NDP. However, new strategies were adopted in line with the government's aim to raise Malaysia's level of economic development. The argument is that although the new development planning was aimed at Malaysia's future, during the next ten years the country's outlook was still retrospective. This prevented the government from modifying its approach accordingly in order to balance the relationship between the actors in Malaysian IR.

This chapter and Chapter Ten, which deals with the public sector, analyse the state's roles in IR during the next ten years under the NDP (1991-2000). Under the NDP, two five-year development plans were implemented that is the Sixth Malaysia Plan (MP6) (1991-1995), and the Seventh Malaysia Plan (MP7) (1996-2000). These analyses are separated into two different chapters in accordance with the different roles played by

the private and public sectors, respectively, in the 1990s. Under the NDP, the private sector was to become the backbone of the Malaysian economy (OPP2, 1991:57). In other words, in the 1990s there were two different IR policies, one for each sector. This analysis starts with a focus on the roles of the state as legislator, administrator and participant during the implementation of the NDP. This specifically looks into issues that relate to the labour laws, the role of the MoHR and the implementation of several supplementary policies by the federal government in the private sector. Then an examination of all the contending factors, as already identified in Chapter One, is made. These are internal forces such as economic development, political stability, socio-cultural and ethnic issues, trade unions and the employers, and external factors, such as the influence of globalisation process and international bodies. The chapter hopes to explore how the state has affected the private sector IR under the NDP, the forces that influenced its decisions and the motives behind them.

## **9.2. The NDP, the Strong State and the Private Sector IR**

The discussion below explores the position of the state at the start of the NDP and the high expectation of the private sector in the Malaysian economy. The NDP, in line with the Second Outline Perspective Plan (OPP2) (1991-2000), built upon the achievement of OPP1, but with a wider framework to accelerate the process of eradicating poverty and re-structuring society again to correct social and economic imbalances:

‘National unity remains the ultimate goal of socio-economic development because a united society is fundamental to the promotion of social and political stability and sustained development...NDP take cognisance of the diversities of Malaysians- ethnic, linguistic, cultural and religious as well as regional-so that a harmonious, tolerant and dynamic society could be progressively created’ (OPP2, 1991:3).

Again just like the NEP, its ultimate objective was ‘national unity’, which in the government’s view would be achieved when the diverse communities live ‘harmoniously’ and ‘fully developed economically, socially and politically.’<sup>70</sup> Just like the NEP, the economy again became the catalyst and main instrument towards achieving this goal.

While maintaining the basic strategies of the NEP, there were four new dimensions under the NDP. First was the shift in focus of the anti-poverty strategy towards the eradication of ‘hardcore poverty’ as well as ‘relative poverty’. Second, there was a focus on employment and the rapid development of an active BCIC with a ‘meaningful *Bumiputra* participation in the modern sectors of the economy’ (OPP2, 1991:4). The emphasis now was to provide a more stringent selection of participants when training them for important business positions (Milne and Mauzy, 1999:73). If under the NEP the strategy was to associate equity with wealth, under the NDP it was to strengthen the capacities of *Bumiputeras* in business. Therefore, the efforts to increase *Bumiputeras* ownership continued, with no specific timeframe, except to review its achievement in 2000 (OPP2, 1991:4). In other words, eliminating the economic inequalities between ethnic *Bumiputeras* and non-*Bumiputeras* was still a prominent issue.

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<sup>70</sup> In OPP2, the government explained that Malaysia ‘has to be fully developed in terms of national unity and social cohesion, in terms of its economy, in terms of social justice, political stability, system of government, quality of life, social and spiritual values, national pride and confidence’. In 2020, the government envisions Malaysia as ‘a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust, resilient and socially just’ (OPP2, 1991: 3-4).

Third, and more importantly, the NDP was to rely more on the private sector to be involved in the re-structuring of the Malaysian society, by creating greater opportunities for economic growth. This highlight the argument presented in this chapter that now the government exercised a different approach to private sector IR compared to that of public sector IR. Fourth, the NDP focused on HRD as a fundamental requirement for achieving the objectives of growth and distribution (OPP2, 1991:4). The official policy, to place a larger responsibility on the private sector as the catalyst for the economy, drove the government to create at all times a favourable climate for greater capital investments. In the context of IR, it meant maintaining the present legislation, intensifying effective administration under the MoHR, and full participation in the form of supplementary policies to support the implementation of laws and the administration.

**Table 9.1. The World Competitiveness Report 1997.**

<b>Survey</b>	<b>Score (out of seven)</b>
Labour-employer relations are generally co-operative	5.529
Work days lost to labour disputes per 1,000 employees	0.740
Female and elderly labour participation is widespread	4.500
Child labour in your country is strictly prohibited	6.059
Workers in your country are highly productive compared to workers in other countries	4.412
Unemployment insurance has a good trade-off between social protection and preserving working incentive	4.760

Source: *Buletin KSM*, 1997: 1.

Although as discussed under subsections 9.3.1 and 9.3.2, Malaysia faced economic and political challenges during the latter half of the 1990s, statistically, labour unrest and industrial disputes in the private sector IR were being contained. A 1997 Geneva-

based report ranked Malaysia as having the 7<sup>th</sup> best IR system in the world (*Buletin KSM*, 1 August 1997; Interview: Zainorashid, 5/3/1999). Table 9.1. shows the World Competitiveness Report, which highlights improvements in the workplace, higher wages and attractive labour regulations as contributing to the ranking. The Malaysian IR system was ranked 4<sup>th</sup> in Asia, after Singapore, Hong Kong and Japan. In terms of hiring and firing practices, Malaysia was highly rated for 'flexibility determined by employers'. The report stated that employers were prohibited from such practices unless permitted under the employment law which guaranteed protection to workers from any employer's malpractice. Malaysia was recognised as a 'no-strike' country, and scored high for its competency in resolving labour disputes with minimum economic losses. Relatively, Malaysia also scored the lowest points for work-days lost to labour disputes, the fifth lowest in the world after Singapore, Brazil, Hong Kong and the Czech Republic. Malaysia's unemployment rate was 2.59 per cent, also one of the lowest in the world. It claimed that Malaysian labour-employer relations were 'generally co-operative' and, at 5.529 points out of seven, 'among the most harmonious in the world'. The collective bargaining power of workers of Malaysia was also rated highly. In 2000, the same World Competitive Report ranked Malaysia at a lower but still a good 13<sup>th</sup> place (BT, 24/4/2000).

However, these praises should be analysed in a critical light. Views of employees, trade unionists as well as employers should be taken into consideration before believing something that might be an imbalance picture of the whole situation in Malaysia. It is easy to understand the readiness of the Malaysian government to accept this very business-orientated indicator, that Malaysia has an outstanding IR system, because a good report indeed helped any developing nation such as Malaysia to bring

in or keep investors.<sup>71</sup> However, the indicator did not offer any real insights into issues that envelop Malaysian IR today. What it achieved was quite naïve, reporting the situation from raw statistics that served the need from the economic point of view. For example, it did not probe into what it termed labour-employer relations' cooperativeness. Nor did it explore the reasons behind the low percentage of labour disputes in Malaysia at any given time. This chapter, therefore, explores all the aspects that ensured the claimed 'harmonious IR system' in Malaysia in the 1990s.

Arguably, the presence of 'industrial harmony' in Malaysia was achieved through restrictive rules and regulations that discouraged industrial disputes. It was achieved with the support of the MoHR whose civil servants were known for loyalty since the British colonial time. The government also invested in several supplementary policies that further ensured the economic environment was conducive. In other words, the low occurrence of strikes and industrial disputes was an outcome of a system that made only the results as reported by the World Competitive Report possible. The contention here is the whole Malaysian IR system was indeed pursued by the government to bring out such results, especially because it is good for investors. On the other hand, the employees as discussed below, for various reasons apart from the restrictive legislation, but including fear of further suppression, were unable to break away from the traditional way of interaction with the government. The third actor, the employers, while benefiting from the pro-development approach of the government, also lobbied for several pro-employers' policies. On top of that, the Malay Agenda was still an important issue under the NDP, and support from the Malays was

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<sup>71</sup> FDI was a very important element for economic development not just to Malaysia but all ASEAN countries, along with political, social and economic stability. See Chia (1993:61).

expected. The government used statistics to support its view that they still needed such specific help under the NDP.

This policy naturally received the support of the majority Malays, who, in the 1990s, still dominated the public sector after the NEP had succeeded in propelling them into mainstream economics. By the 1990s, they were already the dominant group in Malaysian trade unionism. The Malays' support either in the political arena or the public sector was a very important issue to the government, but seldom discussed by scholars. In fact, their support secured the government and its continuous policies. The government's aversion towards the Malays' political dissent resulted in its widespread campaign to warn them and the public sector, which was reminded that it was their duty to be loyal to the government of the day. Meanwhile, the Malays were reminded that only the *Barisan Nasional* could guarantee protection of their bright future and special position. The *Barisan Nasional* has ruled since 1957 with UMNO, the party for the Malays, still a dominant member. An UMNO president automatically became the *Barisan Nasional* president, thus in turn became the Malaysian PM. This practice was not stated in the constitution but was a tradition that was adhered to and never challenged. The government still preferred the same old 'elite accommodation system', except when some issues were too critical, like the constitutional crisis between the government and the Malay sultans.<sup>72</sup> In 1992, Mahathir and his cabinet ministers went on a nation-wide tour to 'explain' these issues to the Malaysian people.

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<sup>72</sup> As discussed in Chapter Eight, there were crises with the *Agong* in 1983 and the judiciary in 1988. The former saw the office of the *Agong* and his prerogatives to delay assent to a Bill enacted by Parliament curbed. The later saw the removal from office the Lord President of the Supreme Court of Malaysia and interference in the tenure and independence of Malaysian judiciary. See further arguments in Lee (1995).



A strong contender for the Asian ways, the PM introduced many policies and projects and saw them personally implemented. Political reasons therefore were just as important as economic reasons for Malaysia to hold on to its restrictive rules, including labour laws.

The next discussion looks into the mechanism that has helped secure the state's strong position in the private sector IR during the NDP. The legislative framework, the MoHR, and other supplementary policies completed the government's dominance in the sector that ensured the official outcome of Malaysian IR was 'harmonious'. It does, however, interpret Malaysian IR in a rather different light from the World Competitive Report.

### **9.2.1. The Legislative Framework**

The state ensured that the laws became an integral part of Malaysian 'harmonious IR system'. The argument here is that Malaysian IR was much determined by labour laws, apart from other mechanism and supportive policies implemented by the government. During the NDP, the restrictions under the TUA and IRA were retained to ensure the state's dominant position. One of the major issues that remained contradictory was the discouragement of unionisation amongst electronics workers, even the formation of in-house unions, while the IRA under section 4(1) clearly stated that it is the right of workers to form and join a trade union.<sup>73</sup> In 2001, the government's ban on national unions for electronics workers was still in force

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<sup>73</sup> Section 4(1) of IRA1967 states that 'no person shall interfere with, restrain or coerce a workman or an employer in the exercise of his rights to form and assist in the formation of and join a trade union and to participate in its lawful activities'.

(Malaysiakini, 20/8/2001). The issue that spanned more than thirty years saw there were only eight in-house unions for electronics workers, representing 4,400 employees, eight years after the government lifted the ban on unionisation in 1988 (Malaysiakini, 20/8/2001). The total number of electronics employees was estimated at 140,000 in 1994.<sup>74</sup> Meanwhile, the tedious process of the registration of trade unions, the restrictions on strikes and other industrial disputes, and the vast power of the DGTUA remained.<sup>75</sup> One trade unionist commented:

‘One civil servant can determine which union workers can join or cannot join’ (Interview: Rajagopal, 23/1/2001).

Under Section 26(1) IRA1967, reference to the IR Court was provided only to solve disputes that had failed to be resolved by any other means. This provision succeeded in further discouraging industrial disputes. Once a dispute was referred to the court, either by the parties themselves or the Minister, strikes became illegal. This referral to court, however, was denied to any government service or those in the service of any statutory authority, unless he or she had the consent of the *Yang Dipertuan Agong* or state authority. This exemption meant that the private and the public sectors were treated differently. In fact, Parts II, III, IV, V and VI of IRA1967 do not apply to any government or statutory authority.<sup>76</sup>

Apart from that, the ISA, the Official Secrets Act (OSA), the Printing Press and Publications Act, the Sedition Act and the Penal Code were also there, capable of

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<sup>74</sup> International Herald Tribune (18/5/1994) estimated 200,000 electronics workers in Malaysia but IMF (1995:3) estimated around 140,000.

<sup>75</sup> TUA section 3 states that the Director General has the ‘general supervision, direction and control of all matters relating to trade unions throughout Malaysia’.

<sup>76</sup> See Part X Section 52, IRA1967. This issue is discussed further in Chapter Ten.

invoking any restriction on the exercise of trade unions' rights or requiring police permission for public meetings (IFCTUAS, 1998). The fact was that the government would not tolerate any 'militant' movement, including that of trade unions, and this was admitted by a government official (Interview: Md Marzuki, 2/3/1999). One trade unionist summarised the government's reluctance to grant more freedom to trade unions:

'Trade unions can form governments. If the trade unions were not controlled, they can become powerful and have political impact, therefore the law must remain restrictive' (Interview: Sivananthan, 2/2/1001).

This view has its basis. During the NEP period, the relationship with the government worsened when trade unionists supported or sympathised with the opposition. After the MAS strike, the government resorted to ISA (See Chapter Eight). During the NDP, the unions never formed a real threat, and were far from being militant, but the government still kept all the restrictive legislation because it served the purpose, as a reminder that it was there in case needed. The negative effect of the laws on Malaysian society was reflected in the way it succumbed to the various restrictions. From past experience, the Malaysian people knew the government would not hesitate to use these laws in the name of 'national interests and security'. This was further proven when arrests were made under ISA during the 'reformation movement' that emerged after Anwar's sacking, and subsequently more arrests after Anwar was imprisoned.<sup>77</sup> In line with the 'elite accommodation system', as discussed in Chapter Seven, Malaysians were accepting the fact that many issues were considered 'sensitive' and therefore a crime to discuss in public. When the government claimed

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<sup>77</sup> See Malaysiakini Online, which reported of these arrests. The report in this online web-page was more open and gave insights into the political side of the arrests than other national newspapers that reported the arrests as being 'for national security reasons' and claimed that the people who were arrested were militant. In fact, they accused them of being involved with the Mujahideen of Afghanistan. See also MTU'CAR, 1997/98.

that these arrests were made for security reasons, the conviction became legitimate. Recently, Malaysia formed the Human Rights Commission (SUHAKAM), and the families of the people arrested under the ISA at least now had a place to turn to.<sup>78</sup> Unions and international bodies condemned the use of ISA as barbaric and against basic human rights. Introduced to curb communism in the 1960s, and used to protect the colonial government then, although now in the name of 'national interests', the government used the law to protect its own. Therefore, the whole ten years of NDP saw that nothing changed regarding the use of laws and the restrictions in labour laws. Wide-ranging interference in trade union affairs, and especially the powers of the Minister and the DGTUA, was retained.<sup>79</sup>

The above discussion proves that through legislation, the government had ensured the trade union movement would not be a threat to its national planning programmes, especially to ensure the success of the NDP. However, as already mentioned, the system was also developed with the help of another means, the MoHR.

### **9.2.2. The Ministry of Human Resources as Administrator**

The MoHR remained the ministry that was responsible for administering the above labour laws for private sector IR. As discussed below, as the most important ministry to oversee the smooth running of Malaysian IR system, through various departments,

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<sup>78</sup> While this study was being undertaken, the SUHAKAM was under attack from the government for coming out with a report condemning the police over an illegal demonstration by Anwar supporters (Malaysiakini, 20/8/2001). For further reading on SUHAKAM, see Rachagan and Tikamdas, 1999.

<sup>79</sup> All the trade unionists interviewed agreed that these restrictions became one of the factors that turned away those who were interested in forming unions because employees had to face both employers and the government (Interviews: Syed Shahir; Rajasekaran; AJ Patrick; Rajagopal; Sivananthan and Arunasalam)

it ensured that the administration of the EA1955, IRA1967 and TUA1959 were in line with the objectives of the NDP.

The encouragement on in-house unions adopted in the early 1980s instead of national or larger unions, continued during the NDP. The TUA1959 did not state that only such unions should be registered but the policy that was in line with the LEP was continued by the TUAD, under the MoHR. By 1995 there were 364 in-house unions, making more than half of the total number of unions in Malaysia, with a membership of 299,618 (See Table 9.2). In 1985, there were only 52 in-house unions with a combined membership of 25,000 (Aminuddin, 1996: 81). In other words, the pro in-house union policy adopted by the government succeeded with the help of the TUAD. The total numbers of unions in 1995 show an increase to 502, as compared to 369 in 1985 (Aminuddin, 1990:23). The union density was only 8.86%, with a total employment of more than 7 million people.

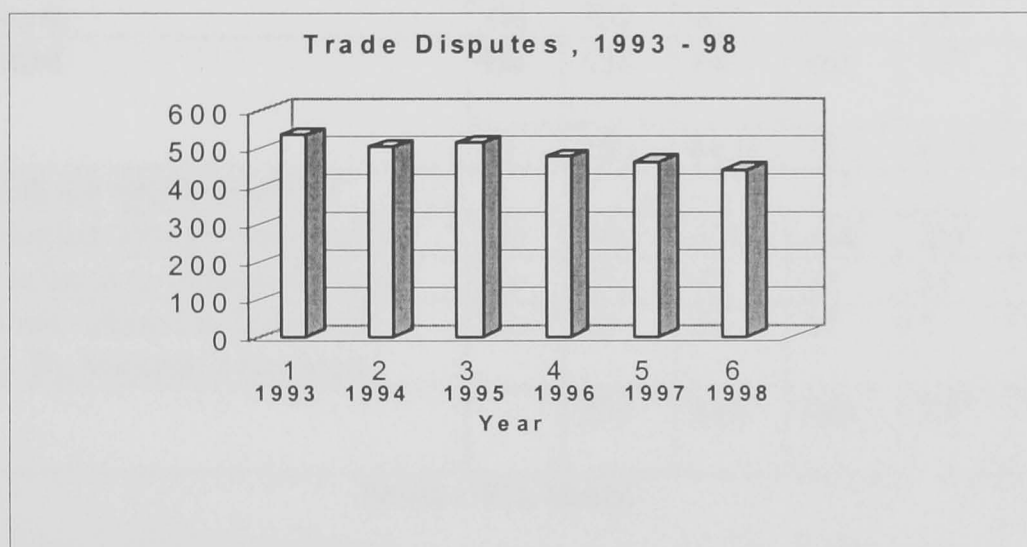
Meanwhile, the IRD, the most important department under the MoHR responsible for 'industrial harmony', made sure disputes were settled through conciliation. As far as the government was concerned, conciliation was much more preferred, and strikes or any industrial disputes should be a last resort (Interview: Ismail Rahim, 17/1/2001). As discussed above, it has been shown that conciliation was used more than Industrial Court (IR Court) decisions or the minister's decisions and the IRD had officers trained to ensure this route was taken. They claimed that the system worked satisfactorily, based on a decreasing trend in trade disputes as seen in Figure 9.1.

**Table 9.2: Trade unions in Malaysia (as of 30<sup>th</sup> September 1995)**

	In-house	Members	National	Members	Total	Members
Private Sector	186	135,634	94	256,828	280	392,462
Statutory Bodies and Local Government	84	62,625	3	20,975	87	83,600
Federal Government	94	101,359	41	123,341	135	224,700
Total	364	299,618	138	401,144	502	701,334
Total employment						7,915,400
Union density						8.86%

Source: Trade Union Affairs Department, MoHR.

**Figure 9.1 Trade Disputes, 1993-98**



Source: Industrial Relations Department.

Figure 9.2. shows that 81% of the cases referred to the IRD for 1997 were settled through the conciliation method, and only 2% needed the Minister's interference. Table 9.3 shows the number of industrial dispute cases in Malaysia for 1993-97, and the methods used to settle them. Most of the responsibility for settling disputes relied on the effectiveness of the operation of the IRD. Here we would see a contradiction of views from the government, as opposed to the union's side, regarding the IRD's role in the process. The IRD perceived their roles and objectives in the whole system in Malaysia today as ensuring harmonious IR in support of the government's overall

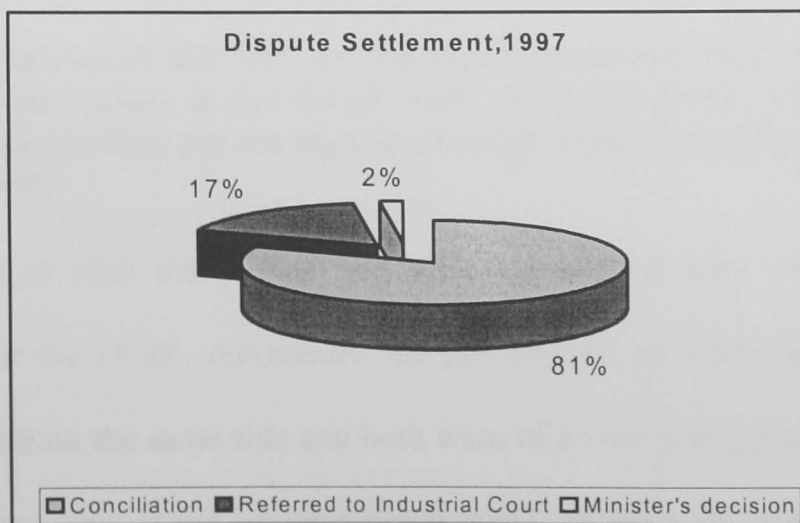
NDP. Figure 9.2 meanwhile supports the government's claim that the minister's interference in disputes was minimal. In 1997, for example, the conciliation process solved 81% of the total cases reported to IRD, while 17% was solved by the IR Court and only 2% decisions were made by the Minister. The DGIR claimed that through the conciliation process, the government was more sympathetic towards the weaker party,

**Table 9.3: Industrial Disputes: Cases and Settlement, 1993 – 1997**

		1993	1994	1995	1996	1997
Cases brought from last year	No	169	170	128	171	250
Cases reported	No	534	503	511	476	463
Cases seen to	No	703	673	639	647	
Cases settled	No	533	545	468	397	440
	%	75.8	81.0	73.2	61.4	61.7
<b>METHODS OF SETTLEMENT</b>						
i. Cases settled through conciliation	No	440	478	404	361	355
ii. Cases referred to Industrial Court	No	67	43	47	31	76
iii. Cases not referred to Industrial Court By Minister's Decision	No	26	24	17	5	9
Total		533	545	468	397	440

Source: IRD, MoHR

**Figure 9.2. Methods of Disputes Settlement, 1997**



Source: IRD, MoHR

the workers (Interview: Ismail Rahim, 25/1/1999). According to him, the role of a DGIR is not to decide, but to foster the relationship between workers and employers, and IRD officers must always be seen as neutral. Moreover, its role was to enable both parties to conciliate, with the law there for guidance. The process involved the disputed parties referring their case to the IRD. The IRD officers would try to help them reach an agreement. If that failed, the case would be referred to the Minister, who decided on the case or referred it to the IR Court. Compared to the LD, the DGIR claimed that the IRD is more human, since it always investigated into the reasons behind any dispute. Even in the IR Court, inquiries were made before any arbitration. Therefore, he also insisted that IR Court decisions favoured the workers.

The DGIR's views were supported by the MEF, the most dominant employers association in Malaysia. Its Deputy Executive Director claimed that employers preferred disputes settled in the IRD rather than the IR Court (Interview: Shamsuddin Bardan, 14/12/1998). Apart from playing the 'policing role', which he claimed was played by the LD, he stressed that the IRD played the 'moderator's role'. To the MEF, both IRD and IR Court leaned more towards employees.

'...MEF perceived that they are leaning more towards employees, including the IR Court system. In fact the IR Court...85% is in favour of the employees. MEF feels that they are not objective enough' (Interview: Shamsudin Bardan, 14/12/1998).

It is interesting to note that it was the MEF top official who was representing employers, while the DGIR, represented the government, as when analysing the IR system, both were on the same side and both were of a view that the system was pro-workers. However, this is not an uncommon stand, as from this study it has been found that the employers were not as disappointed as the employees.



Statistical figures seem to support the MEF's views. There were a much bigger number of cases settled in the IRD rather than in the IR Court from 1993-1997. The percentage of the settling of disputes at the IRD was always above 80%, while the cases settled at the IR Court was always less than 20% (refer Table 9.3.). It seems that the government could make a claim that the conciliation system of IR, based on a harmonious relationship between employers and employees, was achieved based on these figures. More conciliation meant more settling of disputes through discussion, rather than through the 'court of law', if that is what the IR Court could be called. Looking at figures from 1993 to 1997, it also reflects the lower percentage of interference from the Minister, since cases settled by him (and not brought to IR Court) were always fewer than cases settled by the IRD and even by the IR Court. In fact, the minister's decision in the settling of trade disputes was never more than 5%, judging by the figures of 1993-1997. In a way, the government could claim that its direct interference (through the minister's meddling in the trade disputes cases) is low as compared to the cases being settled by the system on its own (through conciliation).

The IRD did not encourage the employees to go to High Court 'for their own interests' (Interview: Ismail Rahim, 25/1/1999). It also claimed that it was protecting workers' interests when it discouraged employees to refer any of their trade disputes to the IR Court. Towards the tendencies in the 1990s of workers preferring reference to High Court, the DGIR blamed the lawyers 'who only want to make money' (Interview: Ismail Rahim, 25/1/1999). He claimed 90% of the cases brought to the High Court were thrown out. While the sympathy towards rejection by the High Court could be genuine, the argument in this study is that the department, in line with the government's 'industrial harmony' policy, did not like to see disputes go to any of the

courts at all. Conversely, it prided itself on reporting lesser strikes or any industrial disputes and cases settled at the IRD level.

This could be traced back to the dislike of open conflicts by Malaysians in general and the various laws that could be used against any actions that could be perceived as being against 'the national interests', a view supported by a trade unionist (Interview: Arunasalam, 21/11/2000). The government always viewed demonstrations as negative publicity for Malaysia and therefore damaging to its reputation to potential investors. However, the analysis so far has shown that the government preferred and succeeded in settling disputes in ways that did not create havoc, economically, politically or socially. The cultural factor that influenced the Malaysian people in general, further complicated matters, but helped the government's policy. Malaysian society still responded to non-confrontational ways and the government provided the conciliatory mechanism at IRD level to enable it to do so. Therefore, in this context, the IRD succeeded in playing its intended role in line with the Malaysian NDP.

As set under the NDP, the HRD became an important instrument to create and promote a productive and disciplined labour force (OPP2, 1991:5). So, under the MoHR, an HRD Fund was set up, providing employees with opportunities to improve skills. The upgrading of technical training contributed to higher productivity output, especially in the manufacturing sector. Flexible regulation was also named as the cause for a better understanding between employers and their workers. The HRD Council, under the provision of HRD Act 1992, promoted programmes that helped employers to train or re-train their workers. Moreover, the HRDF showed some positive development with employers giving co-operation, as seen in Table 9.4.

However, in 1999, the HRDF was already having difficulties in operating because employers were not keen to contribute to the fund, thus the government threatened to withdraw its assistance. The MoHR was given an additional responsibility in co-ordinating manpower planning to ensure that Malaysia had a supply of multi-skilled, disciplined and efficient labour, an effort that started in 1986. If the effort succeeded, it would contribute to a better employee-employer relationship, and might replace the traditional role of the labour movement, which the government preferred.

Another department in the MoHR, the LD, claimed it promoted several programmes for good relationship between employees and employers, encouraging 'self-government in industry'. The department's direct Hot Lines saw customers provided with 'fast, easy and cheap communication' (Interview: Mohd Abdul Wahab, 2/3/1999).

**Table 9.4**

**Human Resource Development Fund, 1993-1997  
Numbers of Employers Registered with HRDC by Sector, and Levy Collected and  
Financial Assistance by HRDC**

Year	Manufacturing	services	Levy Collected (RM million)	Financial Assistance (RM million)	Percentage Utilisation Of financial assistance
1993	3,254	-	55.5	3.1	5.5
1994	3,669	-	73.3	47.8	64.9
1995	3,966	778	100.9	89.6	88.8
1996	4,393	1,027	126.7	158.9	125.4
1997	4,702	1,181	145	159.5	110

Source: Human Resources Development Council, Ministry of Human Resources.

There was the Special Squad preventing the outbreak of conflicts and labour inspections to ensure compliance of laws where minimum standards and benefits were

followed. The Labour Education Services and Promotional Visits were some of the programmes claimed to be working well. LDs all over Malaysia also tried to supervise the provisions of workers' housing, nurseries and other amenities, issuing labour permits, offering advice and counselling. They enforced several related laws other than EA1955.<sup>80</sup> A senior official claimed that the department became 'partners' to employers and employees, where emphasis was more on development, and less on penalty (Interview: Mohd Abdul Wahab, 2/3/1999). The department dealt directly with workers, employers and members of the public and worked closely with other related departments, including the IRD and TUAD. For example, through statutory inspections, cases of labour laws violation were referred to the Manpower Department while illegal workers were referred to Immigration Department. It also claimed to work closely with CUEPACS and MTUC in almost all events concerning IR. For example, its 'Sexual Harassment' workshop in 1999 was attended by 400 human resource managers, workers and representatives from MTUC and CUEPACS (Interview: Mohd Abdul Wahab, 2/3/1999). Other than that, it claimed impartiality towards the handling of related affairs of labour with equal attention to employers and employees.

All the officials interviewed at the MoHR agreed that the government did not have to ratify all the ILO Conventions or give in to international pressures.<sup>81</sup> They stressed the need for Malaysia to always choose its own course, one that suited the nation. The senior Director of Labour would not like to see foreigners 'intervene' again in

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<sup>80</sup> Other than EA1955, the Labour Department oversee the implementation of Wages Council Act 1947, Workers Minimum Standard of Housing and Amenities Act 1990, Children and Young Persons Act 1966, Workmen's Compensation Act 1952, Employment Restriction Act 1968, Employment Information Act 1953 and the South Indian Labour Fund Ordinance 1958.

<sup>81</sup> Based on interviews with officials at the IRD, TUAD and Labour Department.

Malaysian affairs, like the MAS-AEU strike in 1980. To him, the NLAC was a good enough tripartite system that worked for the country.

There were about 80,000 workers retrenched in 1998 alone, but there were almost no strikes in the private sector (Interviews: Mohd Abdul Wahab, 2/3/1999; Ismail Rahim, 25/1/1999). Industrial disputes increased during the seven months of 1998, with seven strikes involving just 933 workers, compared to four strikes involving 746 workers in 1997 (Economic Report 1998/99: 154). A total of 1,479 man-days were lost as a result of these strikes, but this was lower than the 2,198 man-days lost during the same period in 1997 (Economic Report 1998/99: 154). The LD issued the guidelines for retrenching workers to be used by the employers as a reference. It was claimed to be a show of co-operation by employers to ease problems arisen from the difficult situation (Interview: Mohd Abdul Wahab, 2/3/1999). That would mean making less use of the EA1955, but more of the guidelines. From 1 August 1999, it became mandatory for employers to report to LDs before retrenching workers. Apart from the guideline, the government encouraged employers not to retrench workers, but instead re-train them, using the HRDF as one option.

However, the MTUC was not satisfied at all with these measures and came out with a proposal called the National Retrenchment Scheme (NRS), that was opposed by both employers and the government itself (See 9.3.4.2). This issue showed the government siding with the employers at the expense of workers. Even though it claimed to be pro-active, and in a way succeeded, the government departments, such as the Labour Department provided only ad-hoc solutions. The fact was, without the enforcement of the law, employers had more freedom to treat workers unfairly, as shown in cases of

retrenchment during the economic crisis. As long as the reasons given by employers were taken as a final and binding factor, workers were left in the lurch, with nobody and no laws to protect them. This was the case when factories had to be shut down, or claimed bankruptcy and the workers just had to accept this decision especially if made by the Labour Court (Interview: Rajasekaran, 11/12/1998).

The argument above shows that even though the government had provided a 'comprehensive system' as they claimed, the employees side, as represented by trade unionists' views, were dissatisfied. The MoHR, through its various departments, especially the IRD, TUAD, and LDs, ensured that outwardly the IR system seemed harmonious, as it was very important for the government to portray as such, for the benefit of investors. They had the backing of annual statistics to support their views. Overall, the employees' side, which was already served with the restrictive labour legislation, did not have much choice but to comply with the system. Therefore, the IRD conciliation system seemed to have worked, with the officials seemed to have played their neutral part, as seen by the number of cases settled by them and their claims that was supported by the MEF, that the IR Court also sided with employees. However, the system also revealed the other option denied to employees, that is direct negotiations with employers when faced with disputes. Here, it shows the government's interference with the IR system in Malaysia. Instead of leaving the daily affairs to be resolved between the disputing parties (which might have shortened the time that has to be spent on the dispute), the system enabled the government to ensure most disputes were solved on their terms. However, the most important thing was that it ensured disputing parties did not resort to actions that would smear the good image that the government protected, such as strikes. As will be discussed under 9.3.1, the

economic crisis unearthed the flaws in the Malaysian IR system, and again put the employees at the receiving end.

### **9.2.3. The State with Supplementary Policies**

The discussion below looks into the state's supplementary policies that completed the Malaysian comprehensive IR system. While the MoHR already ensured the administering of the government's labour laws, various policies to support the already strong position were introduced. The Vision 2020, the tripartite bodies, as well as the 1975 Code of Conduct for Industrial Harmony, apart from old policies from the 1980s, have ensured that the Malaysian IR was maintained.

The government claimed to have a good tripartite system, where co-operation among the workers, management and the government was encouraged (Interview: Ismail Rahim, 25/1/1999). The NLAC continued its role as the forum to ensure the Federal Government received input and feedback from employees and employers. The tripartite system was also extended to a number of bodies, such as the Wages Council, the Industrial Court, the Employees' Provident Fund (EPF), the Social Security Organisation (SOCSO) and the National Productivity Council (NPC). The Code for Conduct of Industrial Harmony of 1975 remained the underlying force in promoting 'a strategic alliance' with employers' and employees' organisations, both admitted by the employers' side and the government (Interviews: Ismail Rahim, 17/1/2001; Shamsuddin Bardan, 11/12/1998). In other words, the government claimed the presence of a tripartite system where employees' views were considered. However, this was not what the employees' side portrayed (Interviews: Rajasekaran, 11/12/1998, 23/2/2000). Even though the system was tripartite in that there were

representatives of workers in the tripartite bodies, their actual contribution was questioned by unionists themselves (Interviews: Syed Shahir, 9/1/2001; Rajasekaran, 11/12/1998). All questioned the extent of the government's readiness to accept their views as 'true partners in development', and involving them in joint decisions as being claimed (Interviews: Rajasekaran, 1/2/2001; Rajagopal, 23/1/2001; Syed Shahir, 9/1/2001).

The MoHR did hold more dialogue sessions and worked closely with industrial organisations and employers' associations. It also made attempts to encourage greater private sector participation and interest in skills development and upgrading, especially during the economic crisis (Economic Report, 1998/99:152-153). There was co-operation on the placement of job-seekers, employment of part-time labour, increasing women's participation in the labour market, and helping school-leavers at SPM level (Malaysian Certificate of Education level) to be absorbed under apprenticeship scheme. The MoHR expanded the capacity and improved the quality of training programmes at industrial training institutes by adopting innovative and aggressive strategies to market customised courses. The staff of the Ministry were trained with managerial and organisational skills, including in-house training programmes which instilled greater team spirit, togetherness and co-operation. The Ministry aimed 'to encourage and co-ordinate the development of tripartite co-operation between workers, employers and Government and to create a harmonious IR climate towards achieving the goals of Vision 2020'(HRM booklet). Again, in all the nine departments under this ministry, the underlying objectives were to attain industrial harmony through the human factor (Interviews: Ismail Rahim, 17/1/2001; Mohd Abdul Wahab, 2/3/1999; Izhar Harun, 16/1/2001). Another tripartite council,



the National Occupational Safety and Health Council (NOSHC), discussed studies, and investigated matters regarding the safety, health and welfare of workers at the workplace and advised the minister. Meanwhile, the Wages Council (WC) covered regulations on minimum remuneration and conditions of employment on only certain categories of workers. The toughest job was given to the IRD in ensuring 'the existence of a positive and harmonious relationship between employers and employees and between their respective trade unions'.<sup>82</sup> The government has also produced the Guidelines on Wage Reform System, adopted by the NLAC on 1 August 1996. The guidelines proposed to establish a closer link between wages and productivity so as to enhance competitiveness and employment. It also hoped to enable employers to develop a wider and more systematic approach towards improving productivity and wages, based on the active involvement and co-operation of their employees. The government claimed that this offered employees a fair share of the gains and contributed towards job satisfaction, but actually it acted out of awareness of a tight labour market situation faced by Malaysia due to full employment. It was also concerned about the rising of wages, which might make Malaysia less competitive to FDI.

Unsurprisingly, unionists were not impressed with the steps taken by the government to better its relations with employers and employees in the private sector, claiming the efforts as 'not enough'. The idea of 'productivity-linked-wage-system' was also regarded as an effort to stop workers from enjoying pay rises under the collective bargaining system as practised now (Interview: Mustafa Johan, 24/12/1998). The

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<sup>82</sup> See <http://www5.jaring.my/jpm/objective.htm>.

MTUC argued that if the present system was to be changed, then at least there should be a minimum wage regulation first (Interview: Rajasekaran, 1/2/2001). However, while the unions disagreed, the idea was well received by employers, as represented by the MEF (Interview: Shamsuddin Bardan, 11/12/1998). The disagreement on issues such as these highlights the presence of conflicts between the government, employers and employees, with the employers clearly siding with the government. It shows that study on the Malaysian IR system cannot be based on the official statistic produced by the government.

The NDP was introduced in line with the introduction of Vision 2020,<sup>83</sup> which incorporated not only an economic goal to turn Malaysia into a fully developed, industrialised nation, but also a political goal, to become a master of its own economy. This referred to its aims for Malaysia to be united, peaceful, integrated and harmonious, where the society was secure, confident, respected and robust and committed to excellence. The country should by then be a mature, consensual and exemplary democracy of 'fully moral' citizens strongly imbued with spiritual values and the highest ethical standards, 'economically just, society with inter-ethnic economic parity' (Mohd Sheriff, 1993:67; Gomez and Jomo, 1999: 169). These objectives concurred well with the NDP, which was to attain 'a balanced development in order to establish a more united and just society' (OPP2, 1991:5). Both policies strengthened the government's overall position to create a more conducive and

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<sup>83</sup> Apart from the NDP, there already were the National Education Policy, National Culture Policy, National Agriculture Policy, Look East Policy, National Industrial Policy, National Population Policy, National Women Policy and National Labour Policy. This is besides other policies such as New Approach In Village and Rural Development, Leadership By Example, Clean Efficient and Trustworthy, Assimilation of Islamic Values In The Administration, Policy To Reduce Public Sector Expenditure, Malaysia Incorporated and Privatisation (Government Policies, 1991 and *Dasar-Dasar Pembangunan Malaysia*. 1992. INTAN).

harmonious environment for the economy as well as the IR system. Both initially won substantial praise, even from the opposition. In fact, according to Gomez and Jomo (1999:170) there was some enthusiasm, especially among non-*Bumiputeras* for Vision 2020. The policy seemed to forge a *Bangsa Malaysia* (Malaysian nation), transcending ethnic identities and loyalties that appealed to the Chinese and Indians. The NEP, by comparison, made them feel second-class citizens with special privileges given to the Malays and *Bumiputeras*. In a way, Vision 2020 and the NDP worked together to bring a certain degree of meritocracy in Malaysia, and thereby ensured another ten-year period of smooth running of the country and its IR. It was seen as a change in Mahathir's earlier ideas, especially from his 'Malay Dilemma' days. This was especially true in regards to his economic liberalisation encouraging the private sector with privatisation and deregulation (Jomo, 1999:85).

However, his change did not include the shift concerning labour issues. The electronics industries, still considered the biggest contributor to Malaysian economy, were still denied the right to form national unions. As in 2000, there were only 8 in-house unions in the electronics sector, representing only 5,509 members (MoHR unpublished data, 2000). This was despite claims that there were more than 120,000 workers in that industry (IMF1994/95 Report). However, the government's fear that investors would run away from Malaysia was quite genuine, as there were threats of pulling out of Malaysia from American companies in the 1980s, when the government voiced its permission to form national unions in the sector (discussed in Chapter 8).

There were also other developing countries that could become more interesting, offering advantageous such as low labour costs.<sup>84</sup>

The above discussion shows that the government took a meticulously detailed approach in ensuring the private sector was protected from various forces that challenged it in the 1990s through a number of supporting policies, administered through the various 'tripartite' bodies. However, it was clear that the government expected all parties, especially trade unions, to understand that 'industrial harmony' was important above all else, in particular to ensure the smooth-running of the private sector as the catalyst for economic growth, which as it is was facing other challenges as well, such as from neighbouring countries. As discussed below, there were also other old and new forces that challenged the government's authority over IR, but not strongly enough to change its hold, and especially in the legislative areas.

### **9.3. The Contending Factors and the IR Issues in the Private Sector**

There were several internal and external issues prevalent during the 1990s that influenced the role of the state in IR. Some were old issues that concerned economic, political and socio-cultural factors. Under the NDP, the government was more committed to sustain high economic growth, more dependent to the FDIs, and diversify its economic ventures.<sup>85</sup> To retain Malaysia as one attractive country for

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<sup>84</sup> Malaysia was aware of the competitive edge of the neighbouring economies like ASEAN, or even other developing countries in Asia, and Latin America. See Anuwar Ali (1994:718) and Ismail Mohd Salleh (1994: 657) who analysed that Malaysia may lose its 'competitive nature' and 'comparative advantage' respectively, to these countries.

<sup>85</sup> In 1991, Malaysia was already gearing towards a manufacturing economy instead of agricultural-based. Therefore, its dependence on private and foreign investments grew. Its objective under the NDP was to increase manufacturing exports to 81% by the year 2000, therefore in comparison let agricultural export decline to just 6% (OPP2, 1991: 21).

investors, the government believed that political and social stability was vital as well. Therefore it was committed to retain the restrictive legislation, the administrative mechanism, the pro-IR harmony policies, and the lopsided relationship with the trade unions, that would ensure this stability. However, Malaysia also experienced several challenges during this period, as it faced the process of globalisation, seen in the external forces that became prominent during this NDP period. For example, Malaysia was forced to join the growing number of states that had established special institutions dedicated to promote and protect human rights, by adopting the Human Rights Commission of Malaysia in 1999 (Rachagan and Tikamdas, 1999:173). However, apart from that, the government was reluctant to change in many other areas that would have made a difference to its IR system. Mostly, this was because it still regarded high economic growth as the most important factor to ensure Malaysia achieves the status of a developed country, latest by 2020. Therefore, economic-related factors were always a dominant force that influenced the state's role in IR.

From this point of view, the 1990s could clearly be divided into two parts; the first half of the decade, and the second half of it. The former could be summed up by looking at the report of the MP6, while the latter by trying to examine the economic downturn faced by the Southeast Asia region that also hit Malaysia, especially from 1997. As for political stability, the *Barisan Nasional* won the 1995 by a landslide majority and in the 1999 general election by two-third majority, ensuring their place as the only coalition government ever to govern Malaysia thus far. However, the political drama of 1998 saw the grip of the Malays' dominant party, UMNO, in the 1999 general election, loosening on the ethnic Malays. By 1999, the government was already reporting that the Malaysian economy had recovered from 'the severe

deflationary impact of the regional financial crisis, which had resulted in a 7.5% contraction of the economy in 1998' (Economic Report, 1999/2000: 17). The discussion below highlights these contending factors that influenced the state's roles during the NDP.

### **9.3.1. Economic Growth as the Prime Factor to the State's Role**

The Malaysian economic scenario in the first half of 1990s, which is also the first half of the OPP2 and marked the period of implementation of MP6 (1991-95), was reported as 'a momentous period of rapid progress' (MP7, 1996: 3). In fact, according to official reports, Malaysia enjoyed a robust economy from 1988 to mid-1990s, with an average growth rate of over 8% per annum (Malaysia Human Rights Report, 1998: 45). As early as 1993, the World Bank praised Malaysia as among the eight High-Performing Asian Economies (HPAEs). They attributed this to 'careful policy intervention' (World Bank Report, 1993). The last year of the MP6 represents the eighth consecutive year of rapid growth, 'making the period the most buoyant and the longest sustained growth achieved' by Malaysia so far (MP7, 1996: 3). It was with the confidence that the strong fundamentals underlying the rapid expansion in the economy were already in place, together with a sound social and political environment, that Malaysia hoped to approach the second phase of its OPP2 with greater strength (MP7, 1996: 3).

However, the second phase of 1990s was not such an optimistic picture. In 1995, while presenting the 1995 *Bank Negara* (National Bank) Report, the *Bank Negara* Governor said the Malaysian economy grew at 9.5% as compared to 8.7% in 1994 (The Star, 28/3/1996). The high growth marked the eighth consecutive year of growth,

making it the longest period of sustained economic growth. He claimed that the prospects for 1996 looked favourable but expected the economy to grow by a lower 8.3% in 1996 (BT, 28/3/1997). The Malaysian current account deficit in 1995 was RM 17.8 billion (8.8% of GNP) as compared to RM11 billion only or 6.2% in 1994. The services sector was expected to be new engine of growth in the overall plan to transform the Malaysian economy towards achieving an industrialised nation status (The Sun, 28/3/1996). In 1995, the government services sub-sector was the second largest employer, absorbing about 24% of the labour force in the services sector (11.1% of total employment). From *Bank Negara* 1995 Report the FDI still showed strong inflow but already it was offset by the increase in outflows for overseas investment, mainly to Singapore, followed by Hong Kong, the US and Australia (The Sun, 28/3/1996). By June 1996 there were already worries over the downturn in the global electronics market. An automobile plant announced it was cutting its 3,323 workforce by 30% as many positions in the company were said to be 'redundant' (The Star, 24/7/1996). A large manufacturing plant in Johor released 560 employees in the same month. There were other increasing signals that the economy was heading downwards. Oblivious to many, between 1991-1994, the region's share in FDI had already dropped. The MITI commented that the region's rising labour costs had prompted foreign companies to look elsewhere for investment opportunities. Bank interest rates soared when the three major commercial banks in Malaysia raised their BLR from 8.8 to 9%. Malaysia, who did not intend to be labour-intensive manufacturer, had to improve its technology base to attract high-tech and value-added industries. By July 1997, Malaysia, like some of its East Asian neighbours, was hit hard by one of the worst economic crises, in particular the attack on its currency. Suddenly, Malaysia who had been described as the second-tier NIC, along with its

Southeast Asian neighbours Thailand and Indonesia suffered from it very badly, and drastic measures were taken by the government to counter the effects.<sup>86</sup> In its 1998/99 Economic Report, the government admitted that the employment situation had deteriorated, the unemployment rate had increased to 4.9% as compared to 2.6% in 1997, and companies resorted to rationalising costs through downsizing (Economic Report 1998/99: 148-149). A post cabinet meeting announced a special fund for certain selected Malaysians whose ventures in business were the hardest hit (Jomo, 1998:186-187). While certain quarters blamed Malaysia's mismanagement of the economy (Gomez and Jomo, 1999), the PM blamed Western currency speculators, in particular George Soros. Analysts started referring to 'Asia's Miracle' as 'The Myth of Asia's Miracle' with a sharp decline in FDI (Ngeow, 1998). With this scenario, it was almost inevitable that the government would be defensive and stand its ground over stale IR policies, even though the unions still tried to mount some pressure over certain issues thought to be their struggle for many years, as well as various new ones. Three examples given below, concerning the issue of minimum wage regulation, the foreign workers and the EPF, show that for economic reasons, the government was reluctant to change its decision, even though under pressure from unions.

#### **9.3.1.1. Minimum Wage Regulation**

The issue of minimum wage regulation has been unsuccessfully fought for by the MTUC since fifty years ago. Trade union leaders have claimed the government has been reluctant in the fear of losing investors (Interview: G. Rajasekaran, 23/2/2000).

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<sup>86</sup> See for example, Jomo K.S (eds), 1998. By 3 September 1997, a special fund of RM60 billion were set up, and this help from the government faced strong criticism from observers, who saw it as a move to save 'cronies'. Cronyism and nepotism then became a central issue brought forward by even the Youth Wing of UMNO, supported strongly by the then Deputy Prime Minister. Both the Youth Wing Leader and the deputy then lost their respective positions in UMNO.



This was despite the country enjoying full employment and having no problems in attracting FDI prior to the economic crisis.

The MTUC leaders claimed that in 1998 the PM agreed personally that a minimum wage for Malaysian workers should be RM1200. In January 2000, the PM said he had never promised as such, but had however 'dreamed' of such for workers one day (Interview: Rajasekaran, 23/2/2000; MTUCAR, 1997/1998:3). MTUC leaders argued the government should back the suggestion of a proper minimum wage, which would show how much Malaysia had developed, and leave the economy to the nature of the market forces.<sup>87</sup> The private sector employers, as expected, were not in favour of this demand. The Executive Director of MEF argued that the Malaysian workers would be better off without a minimum wage. He asserted that 'MTUC has been overly silent regarding the level of minimum wage it feels appropriate for Malaysia'.<sup>88</sup> Denying this, the MTUC claimed they had on numerous occasions called for a minimum wage of at least RM600. This figure was calculated in 1996 and was based on a worker's basic needs of food, accommodation, education, clothing, medical care, transport, social security coverage, recreation and social and cultural requirements. In fact, the MTUC IR Officer admitted that the 1996 figure was 'a pittance' compared to the daily increases in goods and accommodation. Earning RM600 per month would not qualify a worker for a low-cost housing loan of RM25,000 at the time (Interview: Premesh Chandran, 23/2/2000; MTUC Labour News, June 1999).

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<sup>87</sup> This view was based on interviews with G.Rajasegaran, 23/2/2000; Premesh Chandran, 23/2 2000; Mustafa Johan, 24/12/1998; Rajagopal, 23/1/2001 and Vejaragavan, 3/3/1999).

<sup>88</sup> See [Http://www.mtuc.org.my/Issues/minimum\\_wage\\_necessary\\_for\\_socia.htm](http://www.mtuc.org.my/Issues/minimum_wage_necessary_for_socia.htm).

Malaysia's next door neighbour, Singapore, in a number of ways had influenced its policies. The country had no minimum wage regulation (Interview: Matthias Yeoh, 29/1/2001), but wages for production workers in Singapore started at S\$950.00. Higher wages would push an economy beyond the labour intensive phase of industrialisation. An economy that relied on labour intensiveness would be challenged by economies with lower labour costs, like China, Indonesia and Vietnam, and this had already happened in the late 1990s. Industries inevitably had to evolve and adopt more capital and technological modes of production in order to produce a higher value of goods. Though a smaller skilled labour force might be needed, each worker would be able to enjoy higher returns for their jobs, and industry would remain globally competitive. Singapore and South Korea had taken this action, and Malaysian political leaders insisted this was the competitive edge Malaysia must retain. The PM was adamant that Malaysia would move into higher level industries, and capital intensive production but did not have to have a minimum wage regulation. Until today, the issue has not been resolved as desired by unions.

#### **9.3.1.2. Foreign Workers**

Due to the economic boom in early 1990s, the issue of foreign workers in Malaysia became more serious, creating unexpected problems that affected them and the unions. By October 1996, reportedly there were a total of 449,565 legal or documented foreign workers in Malaysia (NST, 25 October 1996). It was the manufacturing sector that absorbed the bigger number of the foreign workers, a number that did not include the presence of illegal or undocumented workers in Malaysia. Jomo and Kanapathy (1996:13) argued that the actual number of

documented and undocumented workers in Malaysia amounted to one to two million, and this made up between 12.5% and 25% of official labour figures.

The problem became severe because in many cases employers still preferred them to local workers (BH, 26/5/1998) mainly because they could be paid lower wages. There were cases where such workers were contracted by irresponsible agents to work either for non-existent companies or other than those mentioned in their travel documents. Since this practice was against Malaysian immigration law, the workers were subject to arrests, imprisonment or deportation. Either that or they found out that their contracts had different terms and conditions of service than those promised. Workers who were tied by debt to agents had no choice but to continue to work with less satisfactory contracts (Malaysia Human Right Report, 1998: 78). Employers or agents were also found to hold passports with consented papers signed by the workers. From January 1992 to July 1995, in one of the largest detention camp in Semenyih, south of Malaysian Peninsular, about 47,000 detainees were imprisoned or released, about half of whom showed that they were properly documented workers (Malaysian Human Rights Report, 1998: 79).

Foreign workers who claimed of poor working conditions or unpaid wages found they were unable to seek help from Labour Courts if their documents were not with them as labour authorities could not intervene without seeing legal travel and work documents. When this happened, the available statutory grievance mechanism could not be used, and even when it was used, it was only in a small number of cases compared to the number of workers as can be seen in Table 9.5. The small number of cases could mean that there were difficulties faced by the workers in accessing

Malaysian labour authorities, even though there were 34 such labour offices all over Peninsular Malaysia alone (Interview: Mohd Abdul Wahab, 2/3/1999; Labour Office Report, 1999; Pamphlet, Labour Department). If we look at Table 9.5, from 1992 to 1996 altogether there were 213 cases reported for various complaints, a number that was considered small if compared to the total of 449,565 legal or documented foreign workers. If this was really the case, then the percentage was only 0.047%. It therefore gave an impression that complaints from foreign workers were not an important enough agenda for the government to take action or amend labour laws, as demanded by the MTUC. From another angle, it shows the ineffectiveness of MTUC and NGOs in discussing this issue. The statistic gave grounds for officials to play down problems surrounding foreign workers as being a less important issue faced by Malaysia (Interview: Mohd Abdul Wahab, 2/3/1999). One claimed that since Malaysia put a heavier levy on employers, RM1500 per worker, things have changed. He claimed that this new regulation has bettered workers' issue as a whole, giving locals a better chance in job opportunities (Interview: Mohd Abdul Wahab, 2/3/1999).

However, the MTUC contested that the present labour law did not cover foreign labourers' rights effectively and urged the government to let them join the unions. Trade union leaders claimed that following the economic downturn in 1997, irresponsible employers brought down Malaysia's image internationally by 'shameful behaviour' (Interview: Rajasekaran, 11/12/1999). By August 29 1999, MTUC called for the government to set up a special fund to pay retrenchment benefits, repatriation costs and unpaid wages to foreign workers in the country.<sup>89</sup>

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<sup>89</sup> See [http://members.xoom.com/NOOM\\_harakah2\\_semasa/1111b3e06.html](http://members.xoom.com/NOOM_harakah2_semasa/1111b3e06.html).

**Table 9.5: Complaints involving Wages and Working Conditions of Foreign Workers****(1992-June 1996)**

Issues	Indonesia	Bangladesh	Philippines	Thailand	India	Pakistan	Nepal	Total
Unpaid wages	30	17	3	-	2	-	-	52
Wage discrimination	2	9	-	-	1	-	-	12
Discriminating wage contracts	3	9	4	1	-	2	-	19
Workers' treatment towards foreign workers	4	13	-	-	-	-	1	18
Unsatisfactory housing	2	11	-	-	-	-	-	13
No accommodation provided	-	4	-	-	-	-	-	4
Exploitation by employer	6	3	-	-	1	-	1	11
Illegal work hours	1	1	-	-	-	-	-	2
No medical facilities	2	3	-	-	-	-	-	5
Dismissal	28	12	1	-	2	-	-	43
Illegal Deduction	-	23	11	-	-	-	-	34
Passports/ Documents retained by employer	-	14	10	-	5	-	-	29

Source: Mohd Abdul Wahab bin Mohd Salleh (1996)

This need, according to MTUC leaders was urgent since there were increasing instances where employers ran away from their legal and moral obligations, encouraging foreign workers into crime to make ends meet (Interview: Rajasekaran, 1/2/2001). He referred to an incident where 18 Bangladeshis had to leave the country without receiving their wages. In August 1999 only, the Labour Court ordered a sum of RM89,590 to be paid to the workers, but since the company was under

receivership, nothing could be done. In another case, a Technical Manager from Iraq was awarded a sum of RM90,000 from his employer, Kulim Enterprises *Sdn Bhd*. But since the company was in liquidation, it refused to comply with the court order.

The government resorted to ad-hoc policies, depending on the situation. From early 1998, the repatriation of foreign workers was exercised (Economic Report 1998/99: 148) while the last freeze on the hiring of foreign labour was lifted in April 1999 (The Sun, 7/4/1999). The government permitted the recruitment of foreigners in key industries such as plantation, manufacturing and construction sectors. Foreign workers were allowed into specific sub-sectors of the services industry where there were 'difficulties hiring Malaysians who are not interested in the low wages offered' (Abdullah Badawi, cited in The Sun, 7/4/1999). Again, here we see the government prioritise economics over local workers who were asking for higher wages and perks by again encouraging foreign workers who did not mind the low wage. In fact, the DPM said:

'To ensure there is no disruption in operations after the duration of service has ended, the government will allow one-third of these foreign workers (whose contracts are ending) to extend their permits for another year' (The Sun, 7/4/1999).

He also announced other moves to ease the recruitment process, such as new hiring procedures and identity cards for foreigners, issued by the Immigration Department. Employers no longer had to pay, except for passages, when hiring Indonesians. 'As far as the salary is concerned, it will also be up to employers to decide'. Moreover, they could keep the passports of the foreign workers which should be handed to the respective embassies should the workers abscond. Government departments were urged to find out the extent of the country's dependence on foreign workers, citing

that a reduction policy must be implemented from time to time. The number of legal foreign workers in April 1999 was said to be 713,821, down from 1,033,497 in January 1998. Hiring was allowed now in restaurants in Klang Valley, Ipoh, Penang, Malacca, Johor Bahru and Seremban, as well as for sanitary and cleaning services, cargo cleaning at ports and airports, golf-caddying and other sub-sectors, such as assistants in welfare and old folk homes (BH, 7/4/1999). However, the DPM insisted that companies still had to specify the types of jobs and positions before the Government would consider the applications (The Star, 7/4/1999). This was against the blanket approvals in the past whereby government-approved applications were based on the number of workers needed by a certain factory. This, he said, was to ensure certain jobs are reserved for Malaysians. As assurance that did not calm the unions, who thought the government should really prioritise local workers by making the jobs interesting and by providing minimum wage. Of course, that was something the government, until the end of the NDP, was reluctant to do. Therefore, foreign workers swarmed into Malaysia, and since the government was unwilling to amend the labour laws that included them, their problems and plights in Malaysia continued, with that the local workers also suffered. With the government applying flexible regulation for foreign workers to work in Malaysia, and their readiness to work with lower wages, unions found it harder to fight for basic causes, such as minimum wage, as the government can always turn to foreign workers when labour market was too tight.

#### **9.3.1.3. The EPF Issue**

Another issue that affected both the private and the public sector employees in Malaysia in the latter half of the 1990s concerned the EPF. The EPF issue emphasised

the failure of the tripartite system in Malaysia that concerned one of the most important aspects of employees' security after retirement. It again highlights the powerful position of the government over unions in general, when even on an important issue such as this one, they failed to put up a strong and effective fight. The government's interference over the EPF issue also confirmed its readiness to ensure economic interests were protected, even though provoking unions.

The EPF, the largest financial institution in Malaysia covered all employees, regardless of their salary, both in the private sector and those in the public sector who were not placed in the pensionable establishment. In 1997, its funds were around RM107 billion, with more than eight million members (NST, 12/2/1997). Another source said the EPF had 8.1 contributors with savings that amounted to RM117.6 billion or an average of RM14,500 savings per person (UM, 3/7/1997). In the second half of the 1990s, especially from 1996 to the end of 2000, there were many issues raised regarding the 'mismanagement and ineffectiveness' of EPF that concerned workers and their security after retirement.<sup>90</sup> Issues related to the EPF concerned the Annuity Scheme, the withdrawal of disablement benefit under the EPF from maximum RM30,000 to a flat rate of only RM2,000 (Interview: Rajasekaran, 6/2/2001) and mismanagement of the fund. The Annuity Scheme issues revealed a deep split between the MTUC President with its Secretary General, G. Rajasekaran

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<sup>90</sup> Another side other issue was the failure of employers to furnish full and complete information about their employees (The Star, 11/1/1996). There was also the EPF Investment Scheme at the end of 1996, a 'low risk' investment scheme, but it failed to interest eligible EPF contributors (The Star, 11/1/1997). In 1997, cases of errant employers failing to contribute to the EPF were reported in many states all over Malaysia (The Star, 31/5/1997; UM, 15/8/1997, The Sun, 24/1/1997; BH, 22/3/1997). In the same year, issues regarding the withdrawals of the EPF were reported. Contributors were urging the EPF Board to consider higher withdrawals for housing, like the one adopted by Central Provident Fund (CPF) in Singapore (The Star, 19/1/1997).



(Interview: G. Rajasekaran, 1/2/2001). The scheme saw the EPF permitting six insurance companies to manage the fund, a totally different system to the present one. The MTUC claimed the system did not benefit workers, while the MTUC President, Zainal Rampak urged members to accept it, causing a rift between him and other MTUC leaders (Interview: Abdul Halim, 23/2/2000).

Meanwhile, the other issue was related to an amendment made to the EPF Act in 1995, placing contributors' savings into three accounts; Account 1, where 60% of savings could be withdrawn upon retirement, with the contributor having option to take in a lump sum or make periodic withdrawals; Account 2 allowed 30% to be taken out for buying a house; and Account 3 was the 10% balance that could be used for the medical purposes of the contributor or his/her family members (SS, 16/02/1997; NST, 16/2/1997). On 12<sup>th</sup> February 1997, news broke that the EPF was carrying out a study, under the auspices of the United Nation Development Programme (UNDP), that proposed monthly pensions instead of lump sum after retirement, under the Social Insurance Scheme (NST, 12/2/1997). Under the scheme, contributors would receive about half the amount of their balance in their retirement fund (Account1 which is 60% of total savings), while the other half would be kept in a Central Fund. Retirees would receive monthly pensions for the rest of their lives. Trade unions and consumer organisations came out strongly against the 'part-pension' scheme (The Star, 13/2/1997). Federation of Consumers Associations President, Hamdan Adnan claimed that this was a plan by the EPF Board to try and retain the people's money for a longer period. The MTUC Secretary General, G. Rajasekaran, claimed that the MTUC had performed a study on the idea seven years ago, and the majority of unions had opposed it. Instead of the social security scheme proposed by EPF, Rajasekaran

wanted the EPF to pay a higher dividend. CUEPACS Secretary General, Siva Subramaniam, said such a move would be a violation of a contributor's basic right of choice. The MTUC President, Zainal Rampak, said the MTUC wanted the EPF to conduct an opinion poll of its 8 million contributors to see whether they agreed to the proposed monthly scheme (BT, 13/2/1997; NST, 13/2/1997). As a whole, union leaders wanted the Social Insurance Scheme studied and made public so that contributors could decide (SS, 16/2/1997). Even though urged by unions, academicians and consumerists to ensure the EPF dividend in 1995 was nothing less than 8%, it was announced as 7.50%: the lowest in 15 years ( BT, 22/2/1996; The Star, 27/1/1996). Despite objections from MTUC, CUEPACS and FOMCA there was nothing done to stop the situation (The Star, 27/1/1996; The Star 29/1/1996). In fact, the Deputy Finance Minister said contributors should not take it for granted that they were entitled to 8% per cent, as enjoyed during high economic growth (The Star, 7/2/1996). He referred to the EPF Act which stated that the minimum dividend was actually 2.5%. In 1996, it was marginally higher at 7.70, but in 1997 touched the lowest in 25 years, down to 6.70 (see Table 9.6).

The PM defended the situation, arguing that EPF paid dividends and not interest, based on returns on its investments, and therefore it could not be fixed, even though there was high economic growth (The Sun, 8/2/1996). The MTUC threatened a nation wide picket against the EPF (The Star, 8/2/1996). It urged the government to review its investment management of EPF and requested that the dividend be given a higher

**Table 9.6. EPF dividends since 1952(%)**

1952-1959	2.50
1960-1962	4.00
1963	5.00
1964	5.25
1965-1967	5.50
1965-1970	5.75
1971	5.80
1972-1973	5.85
1974-1975	6.60
1976-1978	7.00
1979	7.25
1980-1982	8.00
1983-1987	8.50
1988-1994	8.00
1995	7.50
1996	7.70
1997	6.70

Source: adapted from BT 21/02/1997 ; BM 2/3/1997; Labour Trends.

percentage - at least 10%, so that it was consistent with the rapid economic progress of the nation (NST, 8/2/1996). The MTUC criticised the EPF's spendthrift attitude which saw the purchase of 12 new Volvo 940GL cars worth RM1.8million for its senior managers without first obtaining the Treasury approval (The Star, 12/2/1996).<sup>91</sup> The exposure prompted the Deputy Prime Minister (DPM), Anwar Ibrahim, to demand an explanation from the EPF Board. On 17/2/1996 the EPF Executive Chairman announced a dividend pay-out of 7.5% for 1995 (The Sun, 18/2/1996). The DPM urged the MTUC not to picket (UM, 22/2/1996). They in turn welcomed the invitation by the DPM to discuss matters, especially when the DPM promised that the government would not allow the EPF to be involved in high-risk investment activities, adding that nearly half of its investments were in government securities (NST, 22/2/1996). As expected, the MTUC postponed the picket (UM, 23/2/1996).

Demanding the attendance of the DPM's in its meeting with the EPF, the MTUC urged the government to introduce a minimum wage for workers in the private sector (NST, 28/2/1996; The Sun, 28/2/1996). In this case, actually public sector employees fared much better when the government set the minimum wage at RM512 (The Sun, 28/2/1996). By 29/2/1996 the meeting was called off since Anwar was unable to attend (BT, 29/2/1996). This 'politicised' relationship, when it was based more on the personal relationship of union leaders with top political leaders, such as the PM and DPM, again highlighted the weak position that the MTUC was in. The union leaders admitted at the time they enjoyed a somewhat cordial relationship with Anwar Ibrahim (Interviews: Rajasekaran, 6/2/2001; Zainal Rampak, 3/3/1999), hoping that the union might gain from this personal relationship, which in turn did not materialise, since Anwar was dismissed from the government soon after. Moreover, it showed that it brought more setbacks than benefits for workers to rely on a relationship with the government forged on a political basis.

Again, the EPF issue was put on hold, at the disposal of the government when it saw fit. Government officials, in commenting on the lower dividend received in recent years, gave a contradictory picture. Affifuddin Omar, the then Deputy Finance Minister said:

'The EPF is not an investment fund...it provides security (for the workers). So, don't expect the EPF to be a fund that operates like the *Perbadanan Nasional Berhad* (PNB). PNB is an investment fund...' (BT, 21/2/1997).

However, The Sun on 7/3/1997 reported the Finance Minister, who was also the DPM, Anwar Ibrahim, as saying the EPF was in 'the final stage of drawing up a

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<sup>91</sup> The EPF Board was condemned for approving purchases for officers not entitled to official cars (The Star, 12 2/1996).

programme to invest overseas' (The Sun, 7/3/1997). It was expected to choose foreign fund management companies established in Malaysia to manage its international investment, in order to boost the fund management industry. In fact, in March 1996, the government gave approval to the EPF to invest RM1 billion in bonds and equities abroad to underline its commitment to develop the fund management industry in making Kuala Lumpur a regional capital market. EPF officials blamed the lower dividends on poor returns. The EPF Executive Chairman, Sallehuddin Mohamed, commenting on the 1996 dividend said the fund needed to invest almost RM1 million just to pay a 1% dividend (The Sun, 7/3/1997). The EPF puts its fund mainly in Malaysian government securities and money market instruments (64%), loans (21%) and equities (13.8%). The Finance Minister said the government was moving to invigorate the fund management industry as the entire Malaysian capital market hinged on the efficient mobilisation and the intermediation of both domestic and foreign funds. The MTUC wanted a representative of workers on the panel of the EPF Investment Board (UM, 30/6/1997). The Deputy Finance Minister, in reacting to the demand, said it would study the possibilities and insisted that the EPF have already had panel members who were experts in investment.

The above discussion revealed that the tripartite system, where there were trade unionists on the EPF Board, failed to benefit workers. Many of the EPF issues were argued in the newspapers, when in fact the MTUC and CUEPACS presidents were traditionally on the Board. One trade unionist claimed that the EPF issue was caused mainly by the government trying to bail out their cronies (Interview: Syed Shahir, 9/1/2001). The accusation was a very sensitive one and denied vehemently by the PM (NST, 23/6/1998). Trade unionists claimed that since the economy was down, the

government used whatever means available even though it involved workers' rights and their future, such as the EPF (Interviews: Rajasekaran, 1/2/2001; Syed Shahir, 9/1/2001). The EPF was used without first consulting the unions. In 1998, the EPF entered into an agreement with Kuala Lumpur International Airport *Berhad* (KLIA) to grant a loan facility of up to RM1.56billion. It was reported that this amount was in addition to two-term loans facilities worth RM3.5billion already extended to KLIA (MTUCAR 1997/98:12). The MTUC submitted a memorandum to the Finance Minister seeking a revamp of the EPF management structure, and expressed dissatisfaction over its failure to recognise the role of the MTUC in the appointment of workers' representatives to the EPF Board (MTUCAR, 1997/98:12). The PM, on the other hand, defended the government's policies, and condemned those who accused it of 'nepotism, cronyism and capitalism' (NST, 23/6/1998). Faced with those claims by none other than UMNO's own Youth Wing, and also his deputy, Anwar Ibrahim, in 1998, Mahathir said government policies had benefited everybody, especially the Malays and *Bumiputeras*.

### **9.3.2. The Malaysian Politics in the 1990s**

Political leadership has had a role in determining Malaysian IR under the NEP, and again as discussed below, it became more prominent during the NDP era, which saw Mahathir Mohamad already into his tenth year in office. When the NDP was introduced, he produced another policy, Vision 2020, which ran concurrently with the NDP. The discussion below highlights how Malaysian political leadership, political culture and political scenario affected the government's decisions.

When Vision 2020 became part of the national development policies, it received a lot of attention and accelerated certain actions. In Malaysia, especially during Mahathir's leadership, the government was still the biggest initiator of big 'national' projects, and the PM always seemed to be where the ideas originated. Even though the private sector was said to be the catalyst of economy, the state was still heavily involved in the running of every major policy. This was seen in almost all policies like privatisation, industrialisation, LEP and FDI. Instead of letting the market develop itself, the state monitored it, and took charge when things went wrong or when privatisation failed. This provoked a lot of criticism of the government. For example, its privatisation efforts were seen by some not to have benefited the majority of Malays, as it intended, but some small groups of people who were close to the politicians or those in power. Mahathir still regarded the old policies under the NEP as still important, and in fact, emphasised on them during his second decade in office. The argument is that since Mahathir came into the political Malaysian scene, the leadership factor needs to be analysed more since his political leadership superseded all the other level of leadership. Having said that it is easier to understand what is discussed below.

As could be seen, Malaysia has been under the same administrative of *Barisan Nasional* since 1957. Since taking office, Mahathir has consistently offered the country new policies. Faced with an economic downturn that deprived Malaysia of a smooth development plan and continuous growth from the mid-1980s, Mahathir rose above it, as he did when faced with similar problems in the past, in particular the recession of 1985. A year after the 1997 crisis, Mahathir called for the people to unite. Leading newspapers reported the PM as saying that the people's support of

government's efforts in handling economic uncertainties was vital (The Star, 15/7/1998; BH,15/7/1998). Specifically, he hoped the workers would not spark civil unrest, riot, strikes or take other drastic measures in the midst of the current economic turmoil.

Again in Malaysia, other political leaders quickly echoed the PM's view. The Malaysian culture of 'respecting' the elders or leaders, as discussed in Chapter Four, again appeared to favour the government in times of need, such as in the 1997 economic turmoil. The DPM, (before he was sacked two months later) Anwar Ibrahim, in his welcoming speech to the Women and Youth Wing of UMNO during the UMNO annual convention, stressed the need to 'unite and sacrifice' in facing the economic downturn (BH, 19/6/1998). However, the difference in essence of what the PM said to that of his deputy was that the latter named all parties as responsible in sacrificing their interests in order to achieve collective goals. Sacrifice to him was not a one-party affair, it had to come from every sector, including consumers, traders, workers, the corporate people, leaders and the ordinary people. He reminded the UMNO members of 'our agendas: Malay Agenda, economic agenda, social, religious and cultural agenda'(BH, 19/6/1998). Apart from that, he stressed the goals of Vision 2020 and the 'caring society'. This was clearly a call to remind Malays especially of a common cause (UMNO members now are either Malays or *Bumiputeras*) and this call for unity has happened every time Malaysia has faced political, economic or social difficulties. Since 1969, this approach has almost always worked. After the 1969 racial riot, people were asked to be more sensitive towards issues that might create disunity among multi-racial Malaysians. Since then there has been no serious racial dispute in Malaysia (except in 1999 when there was a reported racial clash at the



Kampung Medan, which was quickly played down by the authorities). However, the other factor is again the law. As discussed in Chapter Eight, those who breached this could find themselves detained under the ISA.

The DPM also called for unity, 'not only among the people but also among ministers' (The Star, 14/6/1998), amid rumours of disagreements between him and the PM while facing the 1997 economic downturn. To him, if a minister was dissatisfied over an issue, he should voice his opinion during a Cabinet meeting. Any decisions made by the Cabinet had to be respected because it was a collective responsibility. In Mahathir's opening speech at the UMNO National Convention, he claimed that the 'new capitalist' and 'foreign evil powers' were out to re-colonise Malaysia and this was the reason for the economic downturn (BM, 20/6/1998). On a bolder note, Mahathir also blamed George Soros, the US international financier, for the currency attack. His views were echoed by almost every leader in Malaysia, except a few including his deputy, Anwar Ibrahim, who together with some of his 'followers' called for transparency in all economic bodies and markets (Asiaweek, 9/8/1998). He was of course sacked a month later, showing the extent to which Mahathir has been willing to go in suppressing dissent in Malaysia. Anwar was charged with misuse of power and sodomy and is now serving sixteen years in jail.

During the economic crisis, the MTUC called to employers to heed the PM's advice to unite. In fact, as expected, both the MTUC and CUEPACS pledged support for the government as the crisis mounted, and both vowed to channel aid through several steps to overcome the present problems. The President of CUEPACS promised not to make any claims while the country was going through economic difficulties and wait

for the economic recovery. The MTUC President, meanwhile, asked the members of affiliated unions to maintain industrial harmony. However, at the same time the MTUC persuaded corporate leaders to be concerned not only about the country but also problems faced by workers. The MTUC promised the government that it would endeavour to increase productivity and improve the quality of goods as well as encouraging people to buy locally-produced ones (NST, 1/1998). The MTUC pro-government stance was caused by its dependence to the government, a trait inherited from the 1980s.

Mahathir has not changed totally his views on workers' rights from his way of thinking in the earlier days (see Chapter 8, 8.4.2). In his own words, lower wages in Malaysia does not mean exploitation of workers. He claimed the cost of living is about one third of that of most developed countries. Also, the expectation of workers in the country was lower (this contradicts what trade unionists had said in interviews). Mahathir claimed that Malaysian wages were higher than many other developing countries, one reason why there were at least one million foreign workers in Malaysia, both legal and illegal (Mahathir, 1995: 59). To Mahathir, wages and working conditions could improve without resorting to industrial action. 'Merely by making conditions attractive to investments, it is possible to create a labour shortage which in turn will force employers to offer better wages and working conditions' (Mahathir, 1995: 59). In his speech while tabling MP7 at the *Dewan Rakyat*, Mahathir talked about the 'significant progress' made under MP6 and the intention of the government to continue implementing the same strategies under the NDP. Claiming that a huge middle income had emerged while the lower income group had a higher spending power as a result of 'an impressive growth of the economy' during the MP6, Mahathir

urged trade unions to 'shift away from solely fighting for higher wages, irrespective of productivity increases' (BT, 7/5/1995). His consistent view on workers and the role of unions could again be seen when he stressed:

'premature demands and agitations by the workers will merely lead to the failure of our industrialisation programme.....it is the success of the industrialisation programme which has created labour shortage and improvements in wages earned. Failure of the industrialisation programme will have just the opposite effect, i.e. unemployment, inflation and declining purchasing power. The government's policy is to increase the earnings of workers so that they will enjoy a better standard of living. This can be done through the establishment of large-scale industries which employ a lesser number of more highly paid workers. Naturally these workers will need better skills in order to manage and supervise more sophisticated machines. Retraining is essential for this, as well as a greater sense of responsibility and discipline, as they will be looking after extremely expensive machinery and equipment. In order to get their members to earn more, unions should assist with training and instilling good work ethics. This is going to be more difficult than merely urging industrial action for more pay. Leadership quality of the highest order must be developed among union leaders' (BT, 7/5/1996).

This speech clearly reflected Mahathir's view on IR as a whole. For the country to succeed, workers should give their full co-operation towards intensifying industrialisation, which, according to the government, benefited the workers themselves. Mahathir said that Malaysia Inc is the embodiment of 'Smart Partnership', which has enabled Malaysia to execute a number of successful projects (BT, 30/7/1997). The trilateral co-operation among civil servants, the private sector and the political masters to him has yielded results. He insisted that labour should not regard employers as 'the enemy' (BH, 30/7/1996).

Following this, Malaysian politics saw a change of leadership at the second level. By 1993, Mahathir had placed Anwar Ibrahim as his third deputy after his second deputy, Ghafar Baba, an UMNO veteran, declined an open challenge by Anwar in the UMNO election for the post of Deputy UMNO President (The first DPM, Musa Hitam

resigned following disagreements with Mahathir). A Deputy UMNO President would traditionally and automatically become the Malaysian DPM, qualifying himself as the next Prime Minister.<sup>92</sup> The first half of the decade (under MP6; 1991-96) showed a positive economic outlook, while the second (under MP7; 1996-2000), and 1997 in particular was marred by one of the worst economic crises faced by Malaysia since Independence. On top of that, a political crisis erupted in 1998, which saw the sacking of Anwar, marking a 'reformation movement' led in particular by educated Malays and other ethnic-Malaysians against what was termed cronyism, corruption and mismanagement. By 1998, Anwar was already in jail and Ahmad Badawi had become the fourth DPM under Mahathir. So both economics and politics seemed important internal forces that need analysis. The contention here is that economic and political crisis should, as in the past, have left certain impacts on the state's roles in the Malaysian IR system.

Meanwhile, the NDP still drew its policy based on ethnic lines. Firstly, as in the NEP, the reduction of poverty was to be achieved through increased wage employment for the poor, who were mainly in the rural areas. Most were in fact in the agricultural sector and were indeed pre-dominantly Malays. The NDP foresaw that by the year 2000, the labour force would comprise of 58% Malays, 33% Chinese and 9% Indians (Khoo, 1994). Therefore, two features are noted: one is that, the sectors identified as absorbing a higher proportion of Malays are the manufacturing and transport, storage

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<sup>92</sup> Anwar Ibrahim was a chosen candidate, groomed by none other than Mahathir to be a member of UMNO. He was in fact an outspoken critic of the government, a founder of Angkatan Belia Islam Malaysia (ABIM), an Islamic youth movement. Anwar's acceleration in UMNO and the national level politics was rapid, causing rifts among more senior UMNO leader, and was in fact what caused the veteran Ghafar Baba to resign from his post. Until open conflict in 1998, Anwar's factor endeared UMNO to more Islamic conscious and educated Malays.

and communication sectors, which hopefully will take up 66% employment for Malays. Two, in the year 2000, the administrative, managerial and, to a lesser extent, sales categories would still be dominated by Chinese. In the OPP2, employment by sector and ethnic group was still important. Even though now the creation of the BCIC now gave emphasis on quality of the *Bumiputeras*, it was still an important agenda under the NDP. If in the NEP the target for Malay wealth ownership was set at 30%, under the NDP the specific numerical target for any racial group was absent. However, in the case of *Bumiputera*, efforts were promised to be continued to ensure at least the 30% target. The NDP promised that the BCIC created under the NDP was viable and resilient, relying on skills for which the government promised to offer help in the training of *Bumiputeras*. The message was that the government recognised the necessity of strong economic growth, but at the same time the monitoring of the distribution of privileges to *Bumiputeras* would now be more vigilant, offered to ‘...only *Bumiputeras* with potential, commitment and good track records...’(OPP2, 1991). The argument is that, even under the NDP, Malaysia still could not afford to turn their backs on *Bumiputeras* issues and preferences.

In November 1999, Malaysia had its tenth general election, and again, as it has been since Independence, the *Barisan Nasional* won the two-third majority to enable it to administer Malaysia for another five years. That also made Mahathir the longest serving PM of Malaysia. As it is now, after almost twenty years, Mahathir has raised numerous issues and topics of discussions, which as it relate to IR, become our next analysis. Social and political stability are the two basic factors the state tries to preserve. It believes that without these two, its policies will not succeed. The government also believes that these two are the most fragile factors and thus should be

preserved with laws. This is why any attempt to unbalance the *status quo* would be quickly related to attempts to destabilise both social and political equilibrium in the multi-racial country. In fact, these two factors have been used as an excuse for government moves to suppress any labour's struggles which are considered a threat. This trait again is seen in the 1990s, and especially in 1997. The relationship between this incident with IR per se is not that apparent, but the inclinations were clear. Once the economy is disrupted everything else fails. However, if people back the government, together the nation will heal itself and become stronger again, while the economy, social and political stability will complement each other. It is a very simple solution believed by many bureaucrats interviewed.

On the 2<sup>nd</sup> September 1998, when the PM sacked Anwar Ibrahim, the move saw the worst personality clash between the long serving premier with his deputies, marking another political conflict in Malaysia. Mahathir cited reasons for the dismissal as Anwar being 'morally unfit', while Anwar and his supporters accused Mahathir of 'the highest political conspiracy' to end his political career, which was seen as a threat to Mahathir's. Analysts also argued that the main reason for Anwar's sacking stemmed from the conflict in approaches between the premier and his deputy over many economic decisions. While this study has been in progress, the country is still politically divided with almost all the opposition parties behind Anwar. It was the first time in Malaysian history that a DPM was sacked from his post in the government and UMNO, motivating the people's movement against the government, giving birth to the '*gerakan reformasi*' (reformation movement). Some analysts saw this as similar to the Indonesian 'reformation movement' when Soeharto was forced to resign. However, compared to the Indonesian one the Malaysian movement seemed more

controlled. Nevertheless, for the first time since 13<sup>th</sup> May 1969, the nation saw a movement that both alarmed and threatened the government, but was more inter-ethnic in nature, calling for reforms and fighting against cronyism, corruption and mismanagement. There were mass demonstrations staged by Anwar and his supporters before his arrest. By Malaysian standards, the *gerakan reformasi* was very strong though the government at first tried to play it down. The mainstream newspaper only reported a small number of Anwar's supporters when, on the contrary, the KeAdilan (Just Party) recently formed by Wan Azizah, Anwar's wife managed to get 11% of the votes in the 1999 November election. The strength could be seen in the extent of dissent towards the government, the consistency of the movement in airing their dissatisfaction and the rise of the Internet as an alternative medium communication among educated Malaysians. The supposedly high numbers of reformation movement supporters among public servants who were always portrayed as the government's backbone is also another threat taken seriously by the government.

However, compared to Indonesia, whom Muslim Malaysians in the past usually considered as their 'brothers', the movement was still 'mild'. Violence similar to that Indonesian movement to topple Soeharto, was not apparent in Malaysia. The Malaysian *gerakan reformasi* was careful to give an impression of law-abiding citizens, although sometimes riots did breakout in demonstrations. The movement claimed that riots were caused by the police. In fact, demonstrations were not widespread as in Indonesia, and confined mostly to Kuala Lumpur, especially during the period of Anwar's trials at the Court. Anwar's issue caused the government to adopt a defensive stance, especially when it divided the Malays. The reference made

by the PM in his UMNO speeches and also at international level showed just how much the political turmoil affected Malaysia. What made it seem worse was the international condemnation of the Malaysian judiciary system over Anwar's case. This incident brought Malaysia to a turning point and a period of political uncertainty. However, the government was under pressure to curb the negative image, or else face economic uncertainties as in Indonesia. So the Anwar issue was used to portray how bad open conflicts were and how they would backfire on ordinary people if they did not back the government. Slowly but surely the government's campaign worked, especially amongst non-Malays who were wary about the economic situation. The irony again here is how the Malaysian multi-racial community, when the chance presented itself, did not unite and oppose the government entirely on claims of corruption, nepotism and cronyism which were especially levelled at pro-Malays policy. It again shows how among non-Malays, economic stability remained important. The Chinese, being more dominating in the private sector, were not ready for a period of political instability which might jeopardise the *status quo* and the quality of life they had enjoyed. This was despite deprived of political supremacy, as they claimed, under the NEP. So in a way, this attitude among the Malaysians benefited the government and enabled it to continue and maintain all its policies and laws.

### **9.3.3. The Socio-Cultural Factors and the Ethnic Issues**

The next discussion aims to highlight the significance of the socio-cultural factors in Malaysian IR and to analyse whether they were still important in the 1990s. In the past, these factors became the underlying forces that helped shaped the Malaysian IR. It explains the way Malaysians prioritised and reacted to crisis during the NDP period.



The contention here is that socio-cultural issues, such as ethnic cultural values and political culture, influenced the way IR was developed during this ten-year period apart from the dominant role of the state over its legislation, administration and implementation of policies, as already discussed above. Here, the question of ethnic that concerned the plural society is also raised, to see whether the government was influenced by that factor as well, in their decisions. In the 1990s, there was still a decreasing number of disputes even in times of economic and political crisis. The disputes decreased even after the first full year of economic crisis with to a lower 442 in 1998, as compared to 476 reported in 1996 (economic boom). Only the disputes in the manufacturing sector slightly increased from 182 in 1997 to 216 in 1998, and this was not surprising as it was still the biggest sector in Malaysia, thus generated more disputes in times of crisis. However, the increase of industrial disputes in the private sector, as seen in Table 9.7, was still small.

**Table 9.7. Industrial Disputes  
Cases By Sector, 1993 – 1998**

SECTOR	CASES					
	1993	1994	1995	1996	1997	1998
<b>Agriculture, Forestry, Livestock and Fishery</b>	150	146	95	66	70	67
<b>Mines and Quarry</b>	9	2	6	3	11	11
<b>Manufacturing</b>	203	198	175	210	182	216
<b>Construction</b>	1	-	-	2	3	2
<b>Electric, Gas and Water</b>	-	-	-	-	5	0
<b>Wholesale and Retail, Restaurant and Hotel</b>	-	-	-	-	24	20
<b>Finance, Insurance, Real Estate and Business Service</b>	105	81	114	86	21	14
<b>Community Service, Social and Personal</b>	-	-	-	-	17	11
<b>Transportation, Storage and Communication</b>	66	76	121	109	130	101
<b>Others</b>	-	-	-	-	-	-
<b>Total</b>	<b>534</b>	<b>503</b>	<b>511</b>	<b>476</b>	<b>463</b>	<b>442</b>

Source: Industrial Relations Department.

An explanation by Gomez and Jomo (1999:4) helped give an insight on how Malaysia was able to record a low percentage of industrial disputes even during economic crisis. They argued that from the 1980s, Malaysians were 'socialised' to accept and even appreciate authoritarian rule, norms and institutions. They cited Lucien Pye (1985) who argued about an 'Asian political culture' that emphasised loyalty to the collectivity over individual freedom and needs, shunned adversarial relations and favoured order over conflict. This explained the Malaysian IR situation too, as every now and then the government has used that as a weapon to call for unity to or support of its policies or decisions, or whenever threats towards 'national unity or national interests' occurred. It has been used by the highest level political leader, the PM, and even by government civil servants, such as the DGTUA or DGIR. References have always been made to the fact that Malaysia was a multi-racial society and therefore open conflicts will encourage a recurrence of 13<sup>th</sup> May 1969.

This view concurs with what Asma (1992) claimed as Malaysian ethnic values, which affected the way relationships are formed in Malaysian management system, which can also explain the IR scenario. Even though she claimed that there were different ethnic values between Malays, Chinese and Indians, generally they shared common values that in the context of this study helped explain the relationship between the government and employees, and unions for that matter. Because the government dealt more with the minority of trade union leaders from the MTUC, rather than individual unions, their relationship with these leaders, which represented the general character of the Malaysian workforce, explained how government managed to determine and retain the old IR system. Asma noted that the Malays, for example have 'respect for elders', 'friendly', 'polite', 'not aggressive', 'co-operative', 'obedient', 'compliance',

'accommodating' and most important of all in the context of this study, 'non-confrontational' (Asma, 1992: 8). The Chinese were regarded as 'hardworking', 'perseverance', 'believe in meritocracy', 'pragmatic', 'risk-taking', 'entrepreneurship', but also 'respect for hierarchy' (Asma, 1992:8). While the Indians were 'modest', had a 'sense of belonging' and 'brotherhood', 'participative', 'loyal', 'harmonious', but also could be 'champion of causes' (Asma, 1992: 8). Even though Asma was originally analysing Malaysian managers, her views related to the scenario that affected relationship between employers, employees and the government. She noted several general characters of Malaysian workforce that may be used to explain the 'docile' attitude of employees during the NDP period, even though when chances to change things for the better presented itself, such as during the economic and political crises. For example, Asma observed that generally Malaysian subordinates would not argue with their superiors, eager to please, difficult to say 'no', and while extremely dedicated to doing a good job, they may not insist on their rights. They have respect for hierarchy, can tolerate authoritarian style of management, prefer compromise to confrontation, seek consensus and harmony, and prefer collectivism, rather than individualism (Asma, 1992: 9). The lack of industrial disputes and the failure of the workforce to champion their causes when they had the chance can be related to these values. This is not to underestimate the importance of the legislation, the mechanism and policies implemented by the government as already discussed above, but as contended in this study, these factors have collectively influenced the development of Malaysian IR.

The Senior Director of Labour believed that the government took into consideration the multi-racial society as an important influence in developing Malaysian IR system:

‘...no better way than uniting the society. The workforce population is based on the multi-racial components. Anything we want to decide we must emphasise on the three races and religions, Islam, Buddhists, Hindus...Even the labour law was also to benefit the races and the religion, for example public holidays for Hari Raya (Eid Festivals for the Muslims), Thaipusam, Deepavali and Chinese New Years, are based on these. Other influence is also from the (13<sup>th</sup> May) 1969...this racial trouble made us think of unity as very important. In fact from 1969 until now we based on this....even at school level we should give this as due consideration....’ (Interview: Mohd Abdul Wahab, 2/3/99).

This view coincided with the government’s action whenever problems regarding the economy or the nation arose. During the 1997, economic crisis the government called for unity and loyalty from the Malaysian people. This was not unique to Malaysia, as any country might call for its people to unite in times of crisis. However, in Malaysia, unity among ethnic groups was always crucial to ensure economic, political and social stability. The government was quick to relate the importance of unity as compared to the absence of it and its consequences. The 13<sup>th</sup> May 1969 incident again has been used for gaining the support of the Malaysian people. The political crisis of 1998 saw the government branding the dissent group as ungrateful. The people were often reminded that the 13<sup>th</sup> May 1969 would recur if people succumbed to demonstrations or called for open debate on sensitive issues, which most appropriately referred to Malay and *Bumiputera* rights.

The sacking of Anwar reflected two things: one, on how Malaysian society prioritised when faced with crisis; and second, that their reaction towards crisis of this kind reflected their overall attitudes towards the government, which could be translated to IR matters. The reason behind the reactions could again be attributed to beliefs in culture, politics, history, as well as social and economic stability. Even though there were *gerakan reformasi* by Anwar’s supporters and opposition parties, on the whole

Malaysian people took heed of the government's advice to stay calm and not to create any social dissent. Realising that both the political and economic status quo were at risk, Mahathir called for unity and support from the masses. Having both major unions that represented the private and public sectors on its side, the government continued in all its plans to revive the economy. In other words, the fundamentals of the Malaysian IR system were unaffected. After pledging loyalty to the government, the unions' efforts continued in the manner it knew best, through co-operation with the government. As we can see, the unions could make headlines or become vocal, but the outcome was really up to the government.

However, the trade unionists rejected the idea that ethnic issues were important in Malaysian IR in the 1990s. Under the NDP, the *Bumiputeras* or basically the Malay issue, was continued with several efforts consistently monitored, such as the BCIC. However, the Malay issue was not really an important enough factor for the government to change the restrictive measures as seen under the IR system. Some trade unionists argued that if the government was really thinking of the Malays, it would have supported the MTUC's efforts to unionise electronics workers since most of the workers were Malay women, or return negotiating power to the public sector (Interviews: Syed Shahir, 9/1/2001; Arunasalam, 22/11/2000). Their argument was that most of the Malaysian workers were not aware enough of the 13<sup>th</sup> May to be bothered with the outcome anymore and they were not aware of the need for the *Bumiputeras* to be helped to better themselves economically. To them the government created the fear, and used the 13<sup>th</sup> May to discourage industrial disputes to their advantage. The view that demonstrations would be too dangerous because Malaysia was multi-ethnic was rejected. It was seen as an effort that only benefited the

government (Interview: Syed Shahir, 9/1/2001). The government's argument that restrictions on strikes were in the 'national interests' was also strongly rejected. This was more so when all these companies were foreign investors and MNCs who did not have the Malaysian people's interests at heart, except making profits (Interview: Syed Shahir, 9/1/2001).

To summarise, it is clear that socio-cultural factors were important in influencing the development of the Malaysian IR system during the NDP period, apart from the government's role through legislation, administration and policies. It is important to note that the Malays, who were described as 'non-confrontational' were now the majority of union members, in the private, and especially in the public sector. The political culture of Malaysians also affected the relationship between unions and the government and their employers, and this was seen by the small increase of disputes during the economic and political crises. However, the campaigns by the government were disputed by union leaders as baseless, especially when the government warned that upsetting the status quo might lead to the end of pro-*Bumiputeras* policy, or the recur of racial clashes. Union leaders believed that some issues were only created to instil fear and to suppress dissent. Overall, the government was alarmed by the impact of the economic and political crises on investors, since, as already discussed earlier, Malaysia depended on them to generate the Malaysian economy, and thus also created employment opportunities for Malaysians. Therefore, while unions accused government of creating false alarm, the economic reasons at least looked genuine.

#### **9.3.4. Weak, Docile and Divided Trade Unionism**

The weak, docile and divided trade unionism during the NDP period gave the government a better chance to be dominant and suppressed any opposing views. The next discussion explored how the Malaysian trade union movement, faced with crisis in leadership and various unresolved issues, failed to sufficiently pressure the state in support of their causes during the NDP. Armed with legislation, a loyal administration, and several policies, the federal government retained the trade unions as they were during the NEP- weak, docile and divided. Meanwhile, internal conflicts such as the leadership crisis further weakened the movement and exacerbated the failure to solve old and new issues until the end of the NDP in 2000. However, even though the MTUC was not really a threat, its relationship with the government was not easy.

Since the MTUC was not registered as trade unions as required under TUA1959, its effectiveness as a trade union centre could always be politicised when it was viewed as stepping out of line with the government. The threat of de-registration was not alien to the MTUC, as seen in 1993, when the Registrar of Societies gave notice asking it to show why its registration should not be cancelled over 'certain irregularities' at its last biennial delegates' conference, thereby forcing the congress to conduct fresh elections (MTUCAR,1993/94). As at January 1998, the MTUC had a membership of 130 affiliating unions in the private sector (293,554 members) and 37 from the public sector (109,609), with a total number of 403,163 members. In 1997, union density was

only 8.86%.<sup>93</sup> By comparison to the total number of employment, numbers of workers organised were still very low.

By the 1990s, the majority of active members of unions were Malay. This was in line with the increased participation of Malays in the commercial economy. The racial composition of the MTUC in 1999 was 64% Malays, 16% Chinese, 17% Indians and 3% others (MTUC 50Years Report). The top leadership of the MTUC also saw the Malays as the majority, with the President, Zainal Rampak, at the helm from 1986 (MTUC 45 Years). All the trade unionists interviewed denied ethnic factor was ever a problem in their struggle. However, Zainal, a Malay and now an UMNO member and senator, differed in views and actions compared to his Secretary General, G. Rajasekaran. Trade union leaders admitted that the relationship between unionists now were more formal than before (Interview: Syed Shahir, 9/1/2001). 'Brotherhood' as previously practised was gone. When an affiliating union, the NMMPEU, criticised the MTUC President and called for his resignation from the MTUC leadership over his failure to make an impact and raise awareness of the EPF blunders, Zainal sued them (Interview: Syed Shahir, 9/1/2001). Although the issue concerned workers and was not a personal attack, it was regarded as one.

Meanwhile, from 1989 to 1996, the MTUC was challenged by the Malaysian Labour Organisation (MLO) as it tried to become another alternative as 'national labour centre', especially for private sector unions. However, apart from the National Union of Bank Employees (NUBE), the other 25 affiliates of MLO were small unions (The

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<sup>93</sup> See <http://www.mtuc.org.my/statistics/TRADES%20UNIONS%20IN%20MALAYSIA>.



Sun, 31/12/1994). The 'tug-of-war' between the government and the MTUC accelerated after three of its top leaders stood as opposition candidates in the 1990 general election. In 1994, the government declined to recognise nominations made by the MTUC for its representatives to tripartite bodies such as the EPF Board, Socso Board and the NLAC, and chose their own representatives (The Sun, 21/11/1994). In 1995, Zainal Rampak, the MTUC President faced court charges, which according to the secretary general, G. Rajasekaran was related to Zainal's comments and criticisms of the government at international meetings (The Sun, 7/7/1995). The MLO was only dissolved in 1996 when 18 of its affiliates returned to the MTUC. It should be a positive sign for the national labour centre but as discussed below, leadership struggle further weakened the movement in the late 1990s and some causes that were championed by MTUC since its formation more than 50 years ago remained unsolved at the end of 2000.

The MTUC President admitted that he would like to see the MTUC regarded more of a 'partner' in the tripartite body NLAC, even though he still saw the relationship as 'positive' when unions still had 'free hands to discuss issues'. He quoted the readiness of the government to accept the MTUC proposals towards amendments to the IRA. However, he admitted that more could be done to better relationship of unions with the MNCs, with a more open, transparent system between the three parties, to balance power between them. When the government regarded NLAC members from the unions as advisors, then decisions were actually up to Parliament. There were views by the NLAC that were overruled by the cabinet, such as certain amendments to the IRA 1967. The MTUC realised this as the government preferring FDIs, therefore putting workers interests after economic reason (Interview: Zainal Rampak, 7/1/1999).

The union also took the initiative to fight for the public sector employees on a number of occasions, for example, concerning the issue of retirement age and the five non-affiliated agencies (Interview: Premesh Chandran, 23/2/2000). By 1999, in conjunction with their 50<sup>th</sup> anniversary, the MTUC urged the government to hasten action on various outstanding matters that concerned workers and trade unions. In a memo sent to the PM, the MTUC asked for his urgent attention to tackle pressing issues such as wages, housing, workers' rights to organise, inefficiencies in the privatisation programmes and to form the NRS (MTUC Press Release, 18/8/1999):

'MTUC positively responded to the PM call to support government efforts and plan to effectively address the economic crisis. We are pleased to report that despite mounting pressure from union members, MTUC affiliates heeded our call to adopt restraint and maintained industrial peace. We are indeed pleased that the measures taken by the government has helped to turn around the economy within a short time. We therefore urge the government to take positive steps to address the issues affecting working people'.

The MTUC called the government to revise the salary of civil servants every three years (instead of every 5 years as now). For the plantation workers, the government was urged to support a monthly wage scheme, while the employers were requested not to deny or delay collective bargaining negotiations. The PM was called personally to implement his pledge of introducing a minimum wage of RM1200 for all workers in Malaysia, a promise he had made earlier. The MTUC also wanted the government to set up a proper bipartite mechanism to discuss and decide on labour matters and tri-yearly salary revisions in the corporatised agencies. It also urged the government to ratify ILO Convention 87 on the Freedom of Association and the Right to Organise and resolve the 20-year dispute on the unionisation of electronics workers. The MTUC called the government to bring all laws and government practices in line with

ILO Conventions 87 and 98. However, until the end of 2000, these calls were still unanswered.

#### **9.3.4.1. Leadership Crisis in MTUC**

Leadership split, as discussed below, became one of the reasons that further weakened the MTUC. It also reflects the underlying differences of perspectives among trade union leaders in the movement. During the 1997 economic crisis, the MTUC showed its willingness again to co-operate with employers, much to the disagreement of some of its own leaders, and officially went to pledge support and co-operation from employers to help each other. Some of the efforts were received favourably, like the MTUC's co-operation with another employers' federation, the Federation of Malaysian Manufacturers' (FMM) joint effort to find jobs for some 40,000 retrenched workers by setting up a joint database of vacancies and unemployment, and by an exchange of information for mutual benefits. FMM advised of existing vacancies in the industrial sectors, while the MTUC provided FMM with information on retrenched workers and new job-seekers. Both organisations sourced the necessary information from their respective affiliates. The MTUC President claimed that the MTUC had moved on to another level of communication when it was able to co-operate with employers too for the needs of workers. He claimed the centre had expanded its role and his appointment as an UMNO Senator to the *Dewan Negara* (House of Senate) has made him more effective as a union leader (Interview: Zainal Rampak, 7/1/1999), a view that was not shared by some others. This, and some other issues further weakened the effectiveness of the national labour centre during the NDP and contributed to the stronger position of the government, and also the employers.

The different stand taken by the MTUC leaders was always debatable, especially when the leadership became part of the government of the day. A Singapore Minister and senior trade unionist claimed the Singaporean workers had gained from a close relationship with the government (Interview: Mathias Yeoh, 29/1/2001). The MTUC President claimed the same benefit for Malaysian workers since he was now in a better position to be heard in the *Dewan Negara*. His enthusiasm, however, was not well received by his own colleagues in the MTUC, and his Secretary General did not believe that the movement had benefited since he had become a senator (Interview: Rajasekaran, 6/2/2001). He said two things remained the causes of bitter disagreement between them: the Annuity Scheme, and the withdrawal of disablement benefit from a maximum RM30,000 to a flat rate of RM2,000. The leadership split at the highest level of the MTUC in the 1990s, and especially between Zainal and Rajasekaran, saw the two taking different approaches to MTUC issues. While the Secretary General was more vocal locally and abroad, the President became more subtle in his actions. The Secretary General became the target of constant criticism from the government on not just one occasion. As an example, leading newspapers in Malaysia in May 1998 reported the HRM Minister as angered by the Secretary General's criticism towards him as often setting aside decisions made by NLAC.<sup>94</sup> He was accused of ridiculing the Malaysian IR system abroad and giving misleading information in an international forum that involved the World Bank and ILO in the United States in May 1996.

In a more recent EPF issue, the President was again seen as giving a different opinion to the masses regarding the MTUC's stand on the Annuity Scheme. While he said the

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<sup>94</sup> See [http://www.jaring.my/bharian\\_fri\\_ne1002.htm](http://www.jaring.my/bharian_fri_ne1002.htm).

MTUC members should accept it if it benefited them, the Secretary General was issuing press releases urging members to reject the proposal. One member in fact urged the President to resign for not recognising the negative impact of the proposal on fellow workers. The President, in reiteration, sued the unionist for RM200 million. Another more recent issue involving the EPF was an amendment that was made to the EPF Act that robbed workers of RM28,000 each (Refer 9.3.1.3). In 1997, members raised their frustrations over the matter of salary adjustment of EPF and another five non-affiliated agencies. The EPF, SOCSO, The National Savings Bank, *Lembaga Urusan Tabung Haji* and *Lembaga Tabung Angkatan Tentera* complained of unfairness and injustice over the salary adjustment issue and urged the government to adjust their salary scheme, which since 1992, had been separately managed from the rest of the public sector, through the corporatisation policy. Another issue that became a contention was when the President was accused of concerns that were considered a 'waste of efforts' (Interview: Kamaruszaman, 29/1/2001), such as when he ventured into issues of consumerism (Interview: Zainal Rampak, 28/11/2000, 7/1/1999). Some unionists thought it was a wasted exercise while there was still so much that the MTUC should have concentrated on (Interviews: Syed Shahir; Kamaruszaman, 29/1/2001; Abdul Halim, 23/2/2001). Many now thought the union should have a strong leader, one not 'used' by the government:

'There were times when unions were ready but the leaders were not. When this happened, it only strengthened the state' (Interview: Syed Shahir, 9/1/2001).

He claimed that workers gave concessions to the state but the state did not reciprocate. This was especially true in 1995 and 1996, when the economy was still good, yet nothing was gained by workers. However, during the economic crisis, the government called for the workers' help, understanding and loyalty, while when the

economy was good, workers rights' were still restricted (Interview: Syed Shahir, 9/1/2001).

These views present a picture of the ineffectiveness of MTUC, especially during the NDP and economic crises. This enabled the government to proceed its top-down management faster and without hassle from unions. In the case of the amendment to EPF Act, there were five representatives from MTUC who sat on the EPF Board, including the MTUC and CUEPACS presidents. The argument is that the state contributed to the disunity of unions by 'buying' its leaders and thus further weakened the unions from becoming effective pressure groups to the government. During the economic crisis, MTUC and CUEPACS leaders openly pledged support for the government and Mahathir (CUEPACS Convention, 2<sup>nd</sup> December 1998 and MTUC Biennial Convention, 3<sup>rd</sup> and 4<sup>th</sup> March 1999). There were two issues here; either they felt they had to voice their support so that the unions would stay in the government's 'good book' (for survival) or they were doing it out of self-interest. While the MTUC President was already a *Dato* and a senator in the House of Senate (therefore he must first be an UMNO member), the CUEPACS President recently also received the honorary title as an acknowledgement of his contribution to the society, from the one of the states' government. While both might clearly deserved the titles, their position as trade unions' leaders made the situation awkward, to say the least, while they themselves admitted that there were still a lot the unions should have achieved.

#### **9.3.4.2. MTUC Lost Causes**

The weaknesses of the MTUC were again, as discussed below, seen in several issues that remained unsolved for these ten years. The MTUC as a national labour centre

failed either to curb the powers of DGTU or change the tedious process of getting union recognition in the 1990s. In-house unions became a more prevalent phenomenon because trade unions failed as a pressure group, and workers' right to join a union of their choice remained severely restricted. The minimum wage issue remained as old as the existence of the MTUC itself, while new issues such as the NRS and EPF were totally beyond the MTUC's grasp. It was up to the government to determine changes in the MTUC, and this was not going to happen, as long as the government was committed to regard economic progress as the official development ideology.

When faced with issues that concerned employers and employees, the MNCs were given priority by the government, as seen by the classic example that was still unsolved: the issue of the HATWU. The case dragged on from 1988 and is still unresolved until today (Interviews: Bruno Pereira, 26/1/2001; Izhar Harun, 16/1/2001; Mohd Zubir, 16/1/2001). This unique case, whereby the union had to change its name three times, had its officials intimidated, harassed, thrown out and persecuted highlighted the helplessness of the MTUC. It also revealed the weakness of unions when they were in-house unions, such as faced by the HATWU. High-powered union-busting lawyers were brought in from the US to scheme up ways to destroy the union, and in fact religion was used as a strategy to instil fear so as to deny support (Interview: Bruno 26/1/2001; HATWU Report). The union was also made to incur debts of hundreds of thousands of *ringgit* to face the company in a series of litigations at the IR Court, High Court and Court of Appeal. The unions' demands to negotiate on terms and conditions of employment were evaded (New Year's Message, 31 December 1999). In other words, the unions' power was not on a par with the power

of the MNCs or in the HATWU case, the electronics companies which were protected by the government's policies. It also showed that unless the government changed its legislation and policies to more favourable ones towards workers, the case might repeat itself. In fact, in the case of the HATWU, the DGTUA himself admitted that the government could not intervene as the case had become a court case (Interview: Izhar Harun, 16/1/2001).

Meanwhile, another issue that concerned the Malaysian estate workers remained unresolved as they had struggled to be given monthly wages. On May 27<sup>th</sup> 2000, at the MIC's 54<sup>th</sup> General Assembly, the PM made a commitment that had been agreed on by the Cabinet in principle. Then again, the government postponed its implementation until the end of the year. This prompted estate workers to lodge a police report against the MoHR on 3 June 2000. They claimed a study sponsored by the employers' association MAPA was unlikely to be sympathetic towards them. The other issue concerned the NRS, which was suggested by the MTUC as a result of the economic downturn in 1997, for each worker and employer to contribute RM1.00 a month to a fund to enable retrenched workers to get allowances from it if they did not secure jobs within three months. While the idea was received positively by the unions, employers and the government were not impressed at all. On 26<sup>th</sup> May 1998, the MTUC submitted a memorandum to the PM, for consideration of the government in view of the escalating levels of retrenchments in the country (MTUCAR, 1997/1998: 55). It argued that there were cases of companies voluntarily winding up their operations, closing down business without giving prior notice, and being put under receivership or relocated to other countries. These became issues when such companies reneged on their legal and contractual obligations to their workers by defaulting on statutory



contributions to the EPF or SOCSO, as well as payment of retrenchment benefits based on Employment (Termination and Lay-Off Benefits) Regulations, 1980. Sometimes it happened that terms and conditions stated in collective agreements were dishonoured (MTUCAR, 1997/98 Report). Since more than 85% of the affected workers were not union members, they could not mobilise any effective collective action to protect their interests. The MTUC claimed that enforcement procedures towards employers were often long, slow and inadequate. If the companies had relocated operations to other countries, had their assets foreclosed by creditors or directors or had been declared bankrupt, the chances for employees were even slimmer. Therefore, the MTUC suggested that the NRS to be managed by SOCSO, whereby the small contributions, together with 5 million SOCSO members, would yield RM10 million per month, and RM120 million a year. The Fund would be invested in government guaranteed securities and proceeds from these investments could be utilised to pay retrenchment benefits, or they could consider giving them a fixed monthly allowance to support their families until they found a new job.

The FMM, although it promised to study the feasibility of the plan, was later rather apprehensive about the idea, and worried that it might be 'a social welfare scheme' (The Star, 29/6/1998). The employers claimed they did not want the employees to take time to look for jobs, or refused to adapt to the changing environment by not learning new skills, or worse still, if workers abused the system, by claiming joblessness despite finding new employment. By June 1999, the government had sided with the employers and rejected the idea of the fund. It claimed that the guideline called 'The Guideline on the Implementation of Retrenchment' was enough to solve retrenchment problems. The guideline again based its measures on ensuring 'industrial harmony',

therefore clearly putting the guideline under the government's terms. The MTUC was not impressed and criticised the PM who, in a, earlier meeting with them, 'appeared sympathetic and supportive' of the proposal. In fact, the cabinet was reported as having accepted the proposal and the Social Security Department was requested to carry out a detailed study on it. The MTUC then asked the government to reconsider its decision, but until today, there was no positive reversal to the government's decision. Just like the minimum wage issue, this was again MTUC failure that saw the reversal of government's promise.

The electronics industries meanwhile, still the biggest contributor to Malaysian economy, were still denied the right to form national unions, and the permission to form even in-house unions were scarce. As in 2000, there were only 8 in-house unions in the electronics sector, representing only 5,509 members (MoHR unpublished data, 2000). This was despite claims that there were more than 100,000 workers in that industry (IMF1994/95 Report). The government's fear that investors would run away from Malaysia was quite genuine, as there were threats of pulling out of the country from American companies in the 1980s, when the government expressed its permission to form national unions in the sector (discussed in Chapter 8). The term 'electronics' remained very vague, and trade union leaders accused the DGTUA of having the power to determine whether an industry was 'electronics' or 'electrical' in order to grant the registration of unions, a claim disputed by the DGTUA (Interview: Izhar, 16/1/2001). He said it was up to another ministry, the MITI, to decide as such. The DGTUA could only decide on whether the industry deserved the recognition of the trade unions if the application fulfilled the criteria, and it did not matter whether the industry was electronic or not. However, he admitted that the government wanted

to give protection to enterprises that it thought needed it, such as the electronics sector (Interview: Izhar, 16/1/2001). Here, it was clear that the government gave priority to the national economic objectives, and the DGTUA was held responsible to guarantee this at all times. His position was to ensure the formation of unions would not affect the economy since Malaysia depended on the electronics industry and, as already seen in Chapter Eight, foreign investors disliked unions. Trade unionists supported this view and claimed that applications were turned down by the DGTUA because the government wanted FDI to come to and remain in Malaysia (Interview: Mustafa Johan, 24/12/1998).

However, the DGTUA insisted that the rate of rejection for the registration of unions was very small, while in-house unions, even for electronics workers were still registered if they fulfilled the criteria set by the government (Interview: Izhar, 16/1/2001). There was no record kept of how many electronics industries there were in Malaysia either by the ministry or the MTUC, making it harder to analyse the situation. However, by 2000, there were only 8 in-house unions registered for the electronics industries (Interview: Izhar, 16/1/2001; unpublished data from the TUAD). The DGTUA claimed that since the electronics industries were given pioneer status for five years and the workers were offered a collective agreement, the latter felt no necessity to form unions. With pioneer status, the companies gave better terms and conditions, further discouraging the workers from taking the initiative to form unions, and it was only when the relationship turned sour between managers and workers did they seek to form them. The argument was that it was up to the unions to ensure the unionisation of workers:

‘If there were no actions from the unions, the government had no right to intervene’ (Interview: Izhar, 16/1/2001).

In other words, the better the management treated the workers, the less the need for workers to form unions. In this case, in-house unions had the advantage over national ones in that:

‘national union officials were in fact strangers to the workers, so if the management was okay, they (the workers) were okay’ (Interview: Izhar, 16/1/2001).

However, the trade union leaders disputed this claim. One trade unionist claimed that the government had been consistently curbing unionisation, and especially from the electronics sector since the 1970s, and more so during the present government (Interview: Rajagopal, 23/1/2001).

To summarise, it was clear that if trade unionism was ever to function effectively in Malaysia, it needed to be either strong as individual unions, where even without the MTUC they could function effectively; or have a very strong and effective MTUC. So far, they have failed to gain prominence in any area; as in-house unions they were small and weak and disunited, under the MTUC, the centre itself admitted it failed to effectively champion workers’ issues.

### **9.3.5. The Employers’ Dominant Position**

By comparison, as discussed below, the employers were in a very strong position. As already emphasised earlier in the chapter, their position was protected by the government under the IRA, when their ‘managerial prerogatives’ could not be challenged, even by the courts. In the 1990s, several issues show an imbalance of

power between employees and employers with the government almost always siding with them, a position that the employers had almost taken for granted.

During the economic crisis in 1997, retrenchment became a heated issue. Many companies closed down without giving prior notice of a month, as required under the EA1955 (The Sunday Star, 16/1/2000). In one case, the MTUC urged the MoHR to obtain a court order to stop the Applied Magnetics company's executives from leaving Malaysia following the sudden closure of the factory, until the welfare of the 2,400 workers was resolved. The MTUC urged the Labour Department to auction off its assets to pay the workers. This was one of the loopholes under the EA1955 that benefited the employers. In 2000, against Section 9(4) of IRA1967, there were reportedly 40 cases where employers threatened to dismiss workers who refused to dissolve their unions, which had already been recognised by the MoHR (BH, 3/1/2000). The fact was generally, employers were not supportive of the formation of unions, even in-house unions. This was on top of the tedious process under the law whereby workers had to seek recognition from employers before a union could commence collective bargaining. The established practice was that unions had to have enrolled 50% plus one of the eligible employees as members before seeking recognition. In the event whereby the employer refused recognition, the one and only course of action open to the union was to report the matter to the DGIR (not directly to the DGTUA). If he failed to settle the dispute amicably, he had to refer it to the Minister, whose decision was final and conclusive. It could be a very long time before the decision was made. During the process, the concerned union was prohibited from resorting to strike action to coerce the employer to accord recognition. This discouraged trade unions activity, making it difficult and time-consuming (Interview:

Mustafa Johan, 24/12/1998). The interference of the DGIR on top of the final and binding decision in the hands of the Minister, made the process even more tedious.

Even so, employers complained of 'no benchmark' for productivity levels (of how to measure against wage), and they viewed the minimum wage issue as a 'no-no':

'All employers close shop if the government force minimum wage' (Interview: Mohamed, 9/2/2001).

However, Malaysian collective bargaining exercises were already curtailed by 'managerial prerogatives' under Part IV IRA1967, as negotiations had to exclude matters of promotion, transfer, employment, termination of service, dismissal and assignment or allocation of duties. To the trade unionists, the government 'regulated' rather than 'facilitated' for economic reasons, basically for the FDI.<sup>95</sup> Even with the advantage of employers over workers, the MEF as the biggest employers' federation in Malaysia still had some reservation over its relationship with both trade unions and the government. The MEF preferred the flexible wage system that was accepted by the NLAC in 1997 to collective bargaining (Interview: Shamsuddin Bardan, 11/12/1998). It meant wages would depend on productivity and the economy. Unions questioned whether employers would give higher wages in times of economic prosperity (Mustafa Johan, 24/12/1998). In 1998, the MTUC reported cases of large companies that took the opportunity to deny workers their annual bonus rightfully due to them. These were the workers who trusted the management promises and accepted the 'productivity linked bonus system'. The case proved the MTUC's doubts and fears over the

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<sup>95</sup> This was based on interviews with Mustafa Johan Abdullah, Syed Shahir, A.H. Ponniah, K. George and G Rajasekaran. All opined that the government put the priority on economic development. However, all opposed the government's claim that it was for the people or national unity, as stipulated by the NDP. Instead they claimed that the government's priorities on the economy with privatisation and various other policies benefited only a few close business people.

ineffectiveness of the flexible wage system favoured by employers and the government (MTUCAR,1997/98: 10).

The MEF did, however, offer training to members, focused on the compliance with the laws, two-way communication with employees and the use of 'humanity' when making decisions. This was in line with what the government called for, showing the mood for co-operation with the authority. Nevertheless, it still commented on the lack of consultation with the government and claimed that policies or decisions were already made before calling the MEF 'to talk' (Interview: Shamsuddin Bardan, 11/12/1998). These were the same comments from unions, and marked the failure for the tripartite system such as the NLAC to function effectively (Interview: Mustafa Johan, 24/12/1998). The MEF, however, claimed to have maintained good relations with the MTUC or individual unions, such as NUPCIW, which asked the federation to train them on labour law (Interview: Shamsuddin Bardan, 11/12/1998). The MTUC, despite its comments over the imbalance of power between workers and employers caused by the government legislation, reciprocated the MEF opinion. The general feeling was that employers and employees in Malaysia, under their representatives the MTUC and MEF, tried to work things out within the system. Again, as a body that was recognised by the government as representing employers, the MEF, just like MTUC, was invited to tripartite bodies and asked their opinions by the MoHR (Interview: Shamsuddin Bardan, 11/12/1998). However, the MEF believed in maintaining a good and harmonious IR system in Malaysia by advising members 'to be reasonable' when dealing with employees (Interview: Shamsuddin Bardan, 11/12/1998). This stand by the employers' federation further strengthened the government's position in Malaysian IR.

### 9.3.6. The External Forces

The Malaysian government, as discussed below, retained its 'love-hate' relationship with external forces. When the government adopted HRD as a tool for producing skilled workers, and aimed to become a developed country by the 2020, Malaysia looked set to embrace international standards in labour relations as well. However, as further discussed, this was not to be. The ultimate objective of the NDP was still national unity, but the focus in the plan has changed. This shift was actually generated by internal pressure on the NEP as the government would lose votes of the other ethnic groups if it continued with the NEP without modification. Towards the end of its implementation, the NEP was criticised for its very pro-Malay policies (Jomo, 1994, 1995; Gomez, 1991). Therefore the NDP was also a political move, offering a different emphasis. It ventured into HRD, exploring the full potential of Malaysian workers through 'developing the necessary skills' (OPP2, 1991:5). However, the catch was this was to be achieved by 'creating a productive and disciplined labour force' (OPP2, 1991:5). This is the irony that creates the paradoxical situation faced by Malaysia in the 1990s, as seen from discussion on issues below.

Malaysia was always against any intervention from international bodies to its internal affairs. During the 1990s, these challenges were stronger with the rapid globalisation process and the mushrooming of NGOS in Malaysia (Rachagan and Tikamdas, 1999). The government did not like to admit that they had succumbed to some external influences. Nevertheless, both internal and external forces became more apparent as globalisation became a force that Malaysia had to contend with. In this case, the PM was seen trapped in his own policies. The Malaysian government initially encouraged Malaysia to respond to the global changes positively, and especially information



technology (IT). The government invested in education, emphasising on science and technology, while the age of IT spread the latest developments in global changes and hence information about anything, including IR development. The encouragement towards IT development saw the introduction of big projects such as the Multimedia-Super-Corridor (MSC) a la Silicon Valley in the USA. Aware of the effects of globalisation on Malaysians, the PM urged them to 'pick and choose' western values, and commented on the 'Asian democracy' (BT, 20/5/1995):

'Some, of course, still equate modernisation with total Westernisation, total acceptance of all the norms and even the idiosyncrasies of the West. But the likelihood is that Asian countries of the future will be democratic but different, not only in relation to the West but even in relations to each other' (BT, 20/5/1995).

He made himself very clear over the right of strikes in Malaysia when he said:

'Disruptive strikes and riots undermine the economy and make life difficult for the citizens...But what is the basis of strikes? It is nothing more than a trial of strength between employers and employees, a trial to see who can withstand the most amount of damage' (BT, 20/5/1995).

Both views emphasised the paradoxical trait of the PM, who while was welcoming modernisation and change, highlighted the authoritarian tendency of the government. His emphasis on Asians being different referred to the government's commitment to retain the old ways of managing the Malaysian IR. In fact, by 1999, the PM was having second thoughts over globalisation. He urged Malaysians to be selective, and choose only values that were suitable and would benefit them as Malaysians (BH, 17/11/1999). This general stand taken by the top leader confirmed the belief of unionists that now the government preferred the 'employer-employee relations', rather than the 'traditional functions of trade unions' (Interview: Sivananthan, 2/2/2001). Good employee-employer relations would definitely replace the trade union's traditional role. The globalisation process highlighted the significance of employer-employee relations and the government embraced that as seen under the NDP. In

comparison with its neighbouring countries, except perhaps Singapore, Malaysian workers were better off economically. Unwittingly, the MTUC looked more and more towards imitating Singapore's NTUC, except that it was not in the same league. In Singapore, the NTUC has become part of the government, even though this was denied by its leaders (Interview: Matthias Yeoh, 29/1/2001). One of the leader, Matthias Yeoh insisted that the NTUC used a democratic channel to be the workers' representatives and get elected, not 'chosen' by the government. The MTUC President, Zainal Rampak was chosen by the government as a senator, but insisted that he had 'a lot of inside information' since then (Interview: Zainal, 7/1/1999). The NTUC leaders became ministers in the PAP government and discussed 'sensitive issues' behind closed doors, much like the 'elite accommodation system' practised in Malaysia. However, in Malaysia, trade union leaders did not enjoy that level of relationship yet, and looking at the situation that the MTUC and CUEPACS are in right now, it was a very unlikely scenario. However, Malaysian workers did enjoy a better position than Indonesian, Thailand or the Philippines workers. It is just very unlikely that the freedom enjoyed by Indonesian people in expressing themselves in the open was to happen in Malaysia. The only choice open to trade unions right now was to be totally accommodative to the government in the hope of becoming accepted and treated the way the NTUC was treated in Singapore. However, to do that they had to totally let go the old confrontational approach and drop their claims.

The MoHR insisted that the ratification of core labour standards had to be in accordance with the spirit and intention of the Philadelphia Declaration, which acknowledged differential socio-economic realities and technical capabilities of member states. In 1997, the minister said Malaysia needed a more pragmatic approach

by the ILO to enable member states to ratify core labour contentions through technical assistance (*Buletin KSM*, 1 August 1997). He expressed regret when the ILO Director General proposed a number of initiatives ‘which are inclined towards linking labour standard with international trade’, an attempt by some quarters that was resisted by various member countries. To some trade unionists, the ILO was a ‘toothless tiger’ (Interview: Sivananthan, 22/2/2001). It failed to help trade unionism in Malaysia except perhaps by retaining its existence, therefore giving Malaysia a better image internationally. In 1997, Malaysia ratified two more, that is Convention No. 100 - ‘Concerning equal remuneration for men and women workers for work of equal value’ and Convention No. 138 - ‘Concerning minimum age for admission to employment’ (*Buletin KSM*, 1 August 1997). As in January 2000, Malaysia has ratified 22 ILO Conventions making it double the total of Conventions ratified in 1984 (see Appendix II). However, a few core Conventions were not ratified. By ILO standards, there are seven ‘Core’ Human Rights Conventions. These are Freedom of association and collective bargaining (No87 and 98); Forced Labour (No29 and No105), Non-discrimination (No 100 and No111); and Minimum Age (No138).<sup>96</sup> Out of the seven, Malaysia has ratified three: Convention No98 in 1961, No29 in 1957 and No100 in 1997. Malaysia still has not ratified Convention No87, which guarantees the right of workers to organise and engage in collective bargaining. This is despite the fact that 122 countries have ratified out of 174 ILO members, with even Indonesia joining the group in 1998. In fact, Indonesia has ratified the seven core conventions, receiving applaud from ILO. In a way too, it showed the government’s resistance to succumb to external forces, such as the ILO.

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<sup>96</sup> See <http://www.ilo.org/public/english/bureau/inf/pr.1998.26.htm>.

#### **9.4. Conclusion**

The foregoing discussion revealed that the government still regard high economic growth as the most important factor to help Malaysia achieve other goals, such as the Malay issue, and the developed country status as envisioned by Vision 2020. Therefore it has given the private sector a higher position as a catalyst to generate growth, with the help from an efficient but acquiescent public sector. The NDP period saw the government gaining a stronger position, by keeping all the legislative framework, but with an enhanced campaign through the MoHR and other supportive policies. It highlights the irony of the situation, whereby the government was quite committed in bringing change to the private sector, for example by setting the HRDF and skills training, encouraging tripartite system with more dialogues, however, reluctant to liberalise the laws, or some other harsh policies, like discouraging unionisation in the electronics industry. The government was also reluctant to agree to the minimum wage regulation or to protect foreign workers in the Malaysian labour system, obviously for economic reasons. Meanwhile, political factors were also another consideration, and political stability was still deemed important. It still used reasons such as 'national unity' and 'national interests' for the restrictive labour and other laws that it vehemently defended. The restrictions were proven very beneficial to the government during the economic and political crisis in the latter half of the 1990s. It again proved that the preservation of the old legislative system was a wise decision for the government and helped it to curb open conflicts and political dissent, especially caused by Anwar's sacking. Since the private sector was viewed as the catalyst for economic growth, very low strike level and other industrial disputes, even during economic crisis, were good for the foreign investors. However, the government's strong position as compared to unions was achieved not just through the

restrictive measures taken by the government as legislator, administrator and participant. Other factors, such as socio-cultural factors, the political culture, weak trade unions and dominant position of employers in the private sector all contributed to this. The imbalance of power between the government and employers of the private sector on the one hand and employees on the other should be borne partly by the trade union movement. The MTUC as the national body failed to unite with CUEPACS to form a strong enough pressure group to influence the status quo. In fact, union leaders, no matter how 'aggressive' or vocal they were, claimed they believed in the conciliatory ways. The fear of confronting the government was partly genuine as past experiences showed that open conflict drove the government to use the ISA. However, during the NDP period, the capabilities of MTUC or any individual unions were not fully tested. This was either because the leaders really felt the unions might cease to function if the government took a totally anti-union stand, or because they were more concerned with their own personal interests. There were accusations that the top leaders of MTUC and CUEPACS had failed the movement, and became too accommodative towards governments' policies for their own personal benefit. However, generally, unionists believed there needed to be effective two-way discussions, and industrial action, such as strikes, even as a last resort, should not be restricted as the case was at present. There was also no need for the government's discouraging stand over the formation of national unions, the unionisation of electronics workers, the tedious process of registration of trade unions or the vast powers of DGTUA or the minister. Other than that, the tripartite system had to be proved to be functioning, not just in name. If not, cases like the EPF issue would be repeated.

The next chapter analyses the public sector IR during the same period under the NDP. The contention is, especially to strengthen the position of the private sector, the public sector has to be supportive, and therefore affected the development of its IR system.

## CHAPTER TEN

### PLAYING THE SUPPORTIVE ROLE: THE PUBLIC SECTOR INDUSTRIAL RELATIONS UNDER THE NDP

#### 10.1. Introduction

Chapter Nine showed that under the NDP (1991-2000), the government regarded the private sector as the engine of economic growth to accelerate the process of eradicating poverty and the re-structuring of the multi-racial society with an ultimate objective of achieving national unity. The NDP continued most of the NEP's planning but with new strategies to help Malaysia become a developed nation in its own mould, in line with Vision 2020. With that, the public sector's role was also re-defined under the NDP, to facilitate and create a conducive economic environment in which the private sector could play its role. This, as discussed further in this chapter, put the public sector in a supportive role, albeit an important one.

This chapter examines public sector IR under the NDP from 1991 to 2000. It looks into whether there were actually changes in the government's approach, through its policies of corporatisation/privatisation and the introduction of the new salary system, the New Remuneration System (NewRS). Under the NDP there was a renewed emphasis on both the public and the private sector to play hand in hand to achieve the NDP's objectives under the 'Malaysia Inc' concept, which introduced in the early 1980s. Here, the role of the PSD as an equivalent to the MoHR for the private sector is explored. The purpose is to examine the government's relationship with public sector employees, and its claim that there now existed a 'symbiotic working relationship' between them. The next discussion analyses the role of the Joint

Councils as another mechanism of communication between the government and the public sector employees. Also explored is the role of the PST until its demise in 1999. Lastly, the relationship between the government and CUEPACS as the national union body for the public sector employees, and issues that concern CUEPACS itself, become the focus of discussion. Here, the government's claim that the body of public sector employees was now its 'smart partner' is analysed. The discussion on the 1995 claim for salary review by CUEPACS and the political relationship between CUEPACS and the government provide insights into the nature of the relationship between them. This chapter offers a deeper understanding of how the government played its role as an employer to the public sector employees under the next stage of Malaysian national development policy, the NDP, and at the same time explores factors that have influenced this role.

## **10.2. The public sector under the NDP**

The sub-discussions below explore the affirmative action taken by the government to ensure the public sector IR was developed in line with the NDP. Here, the approach taken towards the sector for the ten-year period is analysed. Also analysed are the renewed emphasis on the corporatisation and privatisation policy, and the NewRS as two examples of the government's determination towards achieving the objectives of the NDP.

### **10.2.1. The government's pragmatic approach**

The discussion below focuses on the administrative approach taken by the government towards the public sector for the ten-year period under the NDP. Since the 1960s, the Malaysian government has claimed that it has taken a 'pragmatic approach' towards



the public service's role (PSDAR, 1991/1992). This study shows that the sector was developed in line with every stage of Malaysian development planning. In the 1960s, it was a 'maintenance administration', while in the 1970s it was orientated to 'development administration' where all mechanisms in the public service were aimed at achieving the NEP target. In the 1980s, still under the NEP, its role was strengthened to help the smooth running of the many developmental policies, such as the Malaysia Inc, Privatisation and Industrial Master Plan, among others. During the NDP, as discussed below, again the government tried to ensure the public sector worked in line with the major development planning amidst the various factors that influenced this role. Therefore, it is interesting to note how this affected the public sector IR.

Under the NDP, the public sector was to be 'facilitative, supportive, advisory, coordinating, regulatory, monitoring and evaluating' (PSDAR, 1991/1992). This actually reveals part of the 'corporatist' nature of the Malaysian state. In other words, the government wanted it to be more supportive towards the private sector, which has been entrusted with a heavier role. In line with that, in 1991 the government introduced the Special Committee of the Cabinet on Salaries for the Public Sector (SCCSPS, 1991) and shortly afterwards the NewRS, a new productivity-linked wage system. Throughout the NDP there was a more intense privatisation policy, as well as a commitment to reduce the sector, make it more efficient, highly developed and modern.<sup>97</sup> The new role of the public sector was outlined clearly both in the Cabinet

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<sup>97</sup> The general perception in Malaysia was that the quality of public service was poor compared to the private sector. In 1999, it was revealed that the public sector had yet to achieve the ISO9000, the standard already achieved by the private sector a few years back (BH, 28/4/1999).

Committee Report and under the NDP (SCCSPS, 1991: 18). The public sector's structure, roles, capabilities, process and procedure were now developed to ensure the private sector was given all the support to play a dominant role in the Malaysian economy. To the government, the private sector had a competitive edge to play a more dominant role, therefore the public sector was to help in co-ordinating, regulating and monitoring it (SCCSPS, 1991). The idea of mutual co-operation between the private and the public sectors, as already envisaged by the Malaysia Inc concept, was given a new emphasis in the 1990s. In 1996, the PM said:

‘But if privatisation is to succeed, cooperation from the civil service is essential. They must be prepared to re-examine their roles and their way of doing things. They have to put the interest of the private sector above those of the bureaucracy. They have to remove bureaucratic impediments to the success of privatised entities...’ (Mahathir, 22/4/1996).

From that speech it was clear that the government took privatisation and the private sector seriously as the catalyst for economic progress. The importance of economic progress under the NDP still was inextricably linked to the ethnic issues, to overcome the *Bumiputeras* economic impediment. Even though the NDP stated new strategies, the ethnic question was nevertheless a central issue when the OPP2 still emphasised the creation of a BCIC:

‘An efficient public sector will be able to continue to play an important role in the effective implementation of programs aimed at eradicating poverty, reducing regional imbalances and creating a viable BCIC. In this regard the public enterprises are expected to play a more effective role in creating and supporting the BCIC’ (OPP2, 1991:20).

Again, the government regarded the public sector as a mechanism to achieve the objectives of the NDP, which still had the *Bumiputeras* issue at heart. The government expected the public sector to support this policy. At the same time, it was committed to reducing public expenditure and encourage efficiency in the economy, thereby

intensifying the privatisation of a number of government agencies and public sector-owned commercial enterprises (OPP2, 1991; MP7, 1996:200). The government hoped to achieve higher efficiency in the public sector and ensure its resources were distributed to implement the high priority programs under the NDP (OPP2, 1991:20). In the 1990s, the *Bumiputeras* still formed the majority of the public sector employees, making up of about 560,300 (65.9%) employed in the government services as compared to 214,800 (25.3%) Chinese and 69,300 (8.2%) Indians (OPP2, 1991). At the end of the NDP, the Malaysian public service was still more than 850,000 strong, and the government remained the biggest employer in the country (Interview: Bagh Singh, 11/12/2000). This was despite its effort to cut more than 100,000 employees from the public sector through the Privatisation policy (See 10.5.2).<sup>98</sup> From 1983-1996, it was reported that 53 government agencies with 108,431 employees had been privatised (UM, 5/10/1999). The intention was to reduce the sector, so that it was not burdened with financial problems, as it had once faced during the policy of expanding public enterprises in the 1970s.<sup>99</sup>

Apart from that, the government tried to improve its services in the 1990s, following criticisms from the public.<sup>100</sup> It started with programs to enhance the capability and image of its agencies in providing quality services.<sup>101</sup> It was within this campaign that

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<sup>98</sup> See <http://vs02.tvsecure.com/~vs021b5/faqs/PrivatisationQ&A.html>, an official web-site of the Malaysian National Economy Action Council (NEAC). This one here contains an interview between the Director General of the Economic Planning Unit, Iskandar Dzakurnain Badarudin with NEAC on the implementation of Privatisation policy for the last two decades.

<sup>99</sup> See Gomez and Jomo (1999: 75- 116). It explored on the privatisation policy and related it to the issue of *Bumiputeras*, patronage and politicisation of the policy.

<sup>100</sup> Therefore several programs to improve the quality of its employees, regarding their service to customers were taken. For example, in the 1990s, programs introduced include the Manual of Office Procedures and Desk File, Improvement in the Quality of Counter Services, Quality Control Circles (QCC), Micro Accounting System, Total Quality Management (TQM) and Clients' Charter.

<sup>101</sup> In 1996, the government circulated the 'Guidelines for implementing MS ISO 9000 in the Civil Service' to all Secretaries General of Ministries, Heads of Federal Departments, Heads of Federal

the government expected the 'employee-management' relationship to flourish. In the major outline of OPP2, no mention was made of the role of the trade unions. Instead, the government set up programmes to enhance HRD, and encouraged the private sector to provide greater on-the-job training so that changes in the structure of output were accommodated by retraining and not through retrenchment (OPP2, 1991: 91). A 'closer partnership' between the public and private sector in formulating training courses was promoted. The government expected both sectors to play their roles in line with the 'bigger picture', the national development planning objectives. This was emphasised by constant encouragement from political leaders towards the 'smart partnership' between the private and the public sector, which became more evident during the economic and political crises from late 1997 onwards.

The above discussion shows that the government launched a massive and meticulous plan to transform the public sector within the wider spectrum of the NDP. The salary system was changed, privatisation revived and campaigns increased on a 'symbiotic working relationship' and 'smart partnership' basis to encourage closer relations between the private and public sectors, and for them to regard the country as one big company. This was a pro-Japanese management view, in line with LEP, as already discussed in Chapter Nine. This coincided with a new emphasis on training, the roles played by the PSD, PST and the Joint Councils, while at the same time maintaining the present legislation, therefore ensured government's success. It showed a government fully committed to achieve its goal to bring Malaysia to a higher level of economic development. As discussed in earlier chapters, the government believed that

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Statutory Bodies, State Secretaries and Local Government Authorities (Development Administration Circular 2/1996).

after the 13<sup>th</sup> May 1969 racial riot, a more just, economic distribution between the multi-racial population must be continued. The belief that the private sector was able to help to accelerate that process encouraged the government to intensify the corporatisation and privatisation of the public sector under the NDP.

### **10.2.2. Corporatisation or Privatisation?**

The discussion looks into how the government renewed its efforts to corporatise and privatise during the NDP, and how the policy affected public sector IR. From the start, public sector unions voiced their concerns over the policy, especially in terms of assurance over employment benefits. In the 1990s, especially in 1995, when the policy was accelerated, it became a bigger issue. The idea of corporatising institutions of higher learning, starting with the University of Malaya, the oldest one in the country became a heated issue until end of the NDP. The plight of five corporatised bodies also worsened the issue, revealing a lack of preparedness on the part of the government over its own policy and also the weakness of public sector unions to counter the issues.

The government stressed the economic benefits that it could reap that could only be achieved through privatisation. By 1994, it claimed that 120 projects had been privatised including 80 government-owned ones, 29 new projects and 11 public enterprises, thereby it saved RM47.95billion (RM5.05billion operational expenditure, RM42.9 billion capital expenditure) and proceeds of sales of government interests in privatised entities contributed RM10.8billion. Moreover, the government wage bill shrank since 92,700 civil servants joined the private sector. As for market gains, 17 privatised entities were listed on the Kuala Lumpur Stock Exchange (KLSE), resulting

in a market capitalisation of some RM132billion (as at the end of October 1994) (BT, 26/11/1994). Besides relieving the government of its financial burden, the move also helped to meet the NEP's, and from 1991, the NDP's targets. Again, this pointed to the efforts to restructure the society, and helped the small and medium-sized industries through 'vendor' and 'umbrella' development concepts. This clearly referred to the *Bumiputeras* in particular. The argument put forward here is that there existed other reasons behind the government's policy, apart from purely economic ones, and in this case again the ethnic issue referring to the *Bumiputeras* arises. The government's IR policy thus was closely related to this underlying objective to ultimately help the *Bumiputeras*. In other words, to fully understand Malaysian government's policies this ambiguous concept should always be looked into as well. In 1994 too, while the PM praised the privatisation policy and emphasised the government's determination to continue he revealed:

'Since the government allots a majority of the shares to *Permodalan Nasional Berhad* (PNB) and other *Amanah Saham Bumiputera* (ASB) companies, the privatisation programme has enabled three million *Bumiputeras* to be shareholders in giant companies... 'The project has also brought out the commercial and management ability of *Bumiputeras* which is on a par with non-*Bumiputeras*...' (NST, 9/9/1994).

The determination to continue with policies that were pro-*Bumiputera* was heavily influenced by the continued belief in the need to preserve their support politically as well as preserving their constitutional rights as embodied in the Malaysian constitution. The importance of *Bumiputeras*' political support was never taken lightly and should not be underestimated in this context of this study. It meant ensuring the majority of votes that will guarantee the continued status quo, which was the UMNO/Malay political domination in the country. The general acceptance was that UMNO must remain the dominant party in the *Barisan Nasional* for it to remain as

the de facto party in Malaysian politics, a place jealously guarded since Independence in 1957.

In 1995, encouraged by the high economic growth, the government declared its intention to accelerate the process of privatisation to include more than 250 government agencies (NST, 19/9/1995). The PM assured workers that the Malaysian way of privatisation did not involve a termination of services, but an increase in salary. In fact, they were given the choice of whether to accept this or opt to remain in the old scheme. However, the ones opting for the old scheme would not get the benefits that came with privatisation such as bonuses and the facility to buy shares. The PM claimed that unlike other countries, there was no opposition from employees in Malaysia towards corporatisation or privatisation. This, however, was not true. In Kota Baru, in the eastern state of Kelantan, 500 workers from the water supply division of the Kelantan Public Works Department staged a workout during a briefing on privatisation by the management in August 1995. The privatisation of the *Lembaga Bekalan Air Kelantan* was scheduled for October 1995, and should have been carried out by Kelantan Water *Sdn Bhd*, a joint venture company between the Kelantan Darulnaim Foundation and Thames Water, a British firm (BT, 22/8/1995). Due to this protest, the then Deputy PM, Anwar Ibrahim, urged state governments to conduct a feasibility study for every privatisation project and to give special emphasis to the interest of workers. In 1995, too, the Rubber Products Employees Union called on consumer associations and other NGOs to pressure the government not to privatise health service (The Sun, 30/3/1995). The plan to corporatise the government health service actually started in 1985 (BT, 14/8/1999). In 1995, when the matter was again raised by the government, an NGO, the Consumer Associations of Penang (CAP),

issued a statement calling upon the Ministry of Health to reconsider its plans to privatise government health services (NST, 2/3/1995). In July 1999, the MTUC joined hands with CUEPACS in condemning the government's intention to privatise government's hospitals. The Nurses's Association, Malaysia Medical Associations and Estate Assistant Hospitals' Association also voiced their worries over the matter (UM, 26/7/1999). In August 1999, the government dropped the plan (BT, 14/8/1999) and instead promised to step up investments to improve the facilities of government hospitals and clinics. In a way this again showed that a concerted effort by NGOs and unions could play a positive role in offering to check and balance the government's policy. The government, on the other hand, was not friendly towards the mushrooming of NGOs in Malaysia, especially when they slowly but surely intervened in policy matters. The implementation of corporatisation and privatisation policies became another government's political tactic to monitor the public's response towards their policy, especially in sensitive areas such as health and education. When confronted with opposition, the government was not totally averse to change their stand. Here, it depended on how far the other party was ready to pursue their causes.

There were contrasting views on the benefits of privatisation with the PM making promises that once privatised, public sector employees had the right to choose between the government and company pay-schemes. They would face no retrenchment and enjoy wages at par with the private sector (NST, 30/7/1996). The PSD claimed that the income of lower level government servants, inclusive of various allowances and perks, was comparatively better than that of their counterparts in the private sector (The Sun, 17/5/1997). CUEPACS claimed otherwise, saying that the 130,000 vacancies in the public sector, mainly on the technical and professional side



had not been filled up due to the government's failure to offer perks and other incentives, as this has forced workers to turn to the private sector (BH, 3/5/1997). The government, in response ordered a comparative wage study but excluded union representatives, much to the disappointment of CUEPACS (NST, The Sun, The Star, 17/5/1997). This incident marked one of the weaknesses of CUEPACS, whereby financially it could not afford an independent study of its own, but depended on the government to let them be part of the study team (NST, 18/5/1997). That being the case, CUEPACS remained reactive and mostly responded to issues that concerned public sector employees in a submissive way.

CUEPACS lost many members because of the privatisation of public sector agencies. As membership also ensures strength and solidarity, this brought certain negative effects on CUEPACS. Union members on the industrial side, for example, the Malaya Railway Workers' Union and the Government's Printing Department Union, were lost. The government also privatised certain units of government agencies, much to the disappointment of CUEPACS. The privatisation of individual units of government agencies, such as the Vehicle Examiner Unit in the Road Transport Department and *Alam Flora* (a company) which had taken over the collection and demolition of waste from the Kuala Lumpur City Board (UM, 2/9/1997) was opposed by CUEPACS. The union strongly requested to be included in negotiations in the corporatisation or privatisation of government agencies (The Star, 20/10/1997). The non-package privatisation of several agencies was already a loss to trade unionism as only part of the agencies were corporatised or privatised, thus making it difficult for unions to be established.

The other issue raised from this policy was the lack of understanding by public sector employees over the difference between privatisation and corporatisation. One trade unionist claimed that there were government officials who were still confused over the term, making it more difficult for employees who should be given a full understanding before agreeing to a particular salary scheme after their department or unit were corporatised/privatised (Interview: Mohd Jamil, 29/12/1998). Generally 'privatisation' referred to total change of ownership from the government to firms that engaged in commercial activities, where the employees were given private-sector based salary schemes. Apart from that, terms and conditions of service were now subjected to collective agreements or the EA1955, while their trade unions were allowed to claim for recognition, and unionised employees were given rights to negotiate and arbitrate. This, in contrast, differed from 'corporatised' bodies, where the agencies' identities and entities did not change in function, but they now operated commercial activities with the intention of gaining maximum profits (Mohd Jamil, 1996). The salary structure was still subject to the public sector scheme, only alienated. The terms and conditions of service should have been better than while serving as public sector employees, but still monitored by the PSD. The trade unions, however, were not allowed to claim for recognition, and employees still did not have the rights to negotiate or to arbitrate. The only change was that they were offered better salary schemes because the agency had now become financially self-reliant, even though not totally free from the government's authority. The 'commercialisation' of the agencies's activity did not imply the presence of employees' rights like in the private sector.

As an example, discussed in the issues of corporatisation of the educational sector and the five statutory bodies below, the government continued a policy of top-down management, despite its proclaimed policy of 'smart partner' and a 'symbiotic working relationship'.

#### **10.2.2.1. The Corporatisation of the Educational Sector**

As already discussed in chapter Eight, through the NEP quota system, Malay students gained places in local public higher institutions, and mostly enjoyed government's scholarship. Therefore, the issue to corporatise national universities was bound to be met with a special interest by the community. Corporatisation of the educational system meant higher costs for students, thus the worry was that Malays who came from poor backgrounds could now not afford them, as fees were clearly going to be higher. On the part of employees, concern naturally fell on terms and conditions of service. The discussion below explores the government's handling of the matter and how it reflected the true nature of Malaysian public sector IR.

In 1995, the government stressed the need to reform the educational sector in line with the nation's objective to be developed by 2020. The government passed a number of educational bills and amended existing ones, such as in the Universities and University Colleges (Amendment) Act 1995; Private Higher Education Institutions Act 1996; National Council on Higher Education Act 1996; National Accreditation Board Act 1996; and Institute of Technology MARA (Amendment) Act 1996 (Ahmad Zaidee, 1997). In 1995, the Minister of Education defined the objective of the corporatisation of higher learning institutions by stating that:

‘As far as the government is concerned, the idea of corporatisation of universities is to provide for quality university education with modern education facilities yet at affordable cost’ (Najib Razak 1995 as quoted in Ahmad Zaidee, 1997).

The government wanted higher learning institutions to be able to increase efficiency in their management; to be more accountable to the stakeholders; optimise utilisation of resources; and to operate with less funding from them. They should be more customer-focused and market-driven where courses offered must be relevant to the needs of industry. The overall goals would see an efficiently managed organisation, with staff having a better scheme of service, the students could expect quality education and at the same time, the industry could count on well-trained graduates. Corporatisation here must not be confused with privatisation as the bodies still belonged to the government. The government tried to impress upon the public the difference between the two, most of all the corporatisation of the education sector, an aspect that to most Malaysians, especially the Malays, was held dear. The Malays were the ones who were more concerned since most of them were government-sponsored students who attended public universities. The government wanted an administration that would imitate the private sector in terms of competitiveness, efficiency, and profit. Apart from that, other incentives such as the appointment, salary and promotion of its employees would be dealt with according to the private sector competitive factor. A prominent Malaysian scholar, Rustam A Sani, stressed that to be able to do this the government must also offer a ‘public sector’ reward or salary scheme. Only then, the best candidates would offer themselves in the corporatised departments of the public sector and the government would achieve its goals (UM, 6/6/1994). As discussed in depth below, corporatisation of the government education sector was more difficult than other government agencies, because it was

regarded as more than just an economic matter, but also included issues of the indigenous community, especially the Malays.

The corporatisation of the University of Malaya met with substantial opposition by the public. When the idea first arose, the PM assured the public that the government was not about to release the corporatised institutions. In 1995, the University of Malaya Student's Association delivered a memorandum to the Education Minister, urging the government to give ample time to students, academicians and the university staff to discuss the matter and to be given the right to participate in the decision-making process. This was beyond the student grasp as decision-making for corporatisation, as with other policies was a top-down policy. The Vice-Chancellor of the university then broke the news that a near seven-fold increase in fees would have to be paid by undergraduates under a corporatisation plan. Much higher fees were also to be paid by Masters and Ph.D. degree candidates (The Star, 5/5/1995). Aware that many Malays were affected by the move and could not afford the fees, the PM insisted that the corporatisation of universities would ensure academic staffs higher pay in line with their colleagues in the private sector. He promised that students who could not afford to pay the higher fees would be helped by the government through scholarships, loans or financial assistance (UM, 8/8/1995; MM, 23/7/1995). The government planned to push ahead with the plan in January 1998, despite opposition from academic and non-academic staff (The Star, 1/7/1997). The three University Malaya unions and associations; the UM Academic Staff Association, UM General Staff Union and the University Hospital Staff Union expressed their dissatisfaction over the new remuneration package, besides complaining of not having ample time to study it before being finalised. The 20 to 22.8 per cent increase was compared unfavourably to

other corporatised government agencies like the Inland Revenue Board, which saw a salary increase between 27 to 34 per cent. The first time the management met the three unions was in April 1997, two years after the idea materialised (The Star, 10/4/1997). However, these agreed plans between management and employees were disrupted by the economic downturn at the end of 1997. The cabinet withdrew the new remuneration package which meant that the option papers distributed to the University of Malaya's staff about a fortnight earlier, some of which have been signed and submitted, may have been invalid (The Star, 18/12/1997).

The Education Minister explained that it was not 'right' to go ahead with the 17.7% agreed pay rise 'when governments servants in the Group A and B had had their pay frozen' due to the economic downturn. The university staff were urged then 'to remain calm and accept the government's decision in good faith as it was unfortunate, unavoidable, unimaginable, unthinkable and done under most extreme circumstances' (The Star, 18/12/1997). This is one classic example of the 'special relationship' established between the Malaysian government and the public sector employees as proposed by the researcher. Again, the government servants showed restraint, perseverance and acceptance in the face the sudden decision to put the programme on hold after much publicity that it was about to be implemented and promises of better salaries and perks. They were only saved by the economic downturn, proving that economic considerations was again a deciding factor in the government's moves. Pleas and threats by public sector employees, their unions and even students failed, but the economic downturn abruptly put the programme on hold. There were no aggressive and militant moves by public sector employees as again they showed restraint and voiced their united stand behind the government to take any positive

moves towards restoring the economy. The same pattern recur during another issue that affected public sector employees, also as a result of corporatisation, as discussed below.

#### **10.2.2.2. The Plight of the Five Statutory Bodies**

The discussion below highlights the misunderstanding caused by corporatisation and the weakness of CUEPACS to champion the public sector employees causes. Here, five statutory bodies, the EPF, SOCSO, the National Savings Bank, the *Lembaga Tabung Angkatan Tentera* (Armed Forces Fund Board) and the *Tabung Haji* (Pilgrim Fund Board) were separated from the rest of the public sector in 1992 with the start of the corporatisation programme (Interview: Mohd Noor, 3/3/1999). These five bodies, with 10,050 employees, were financial institutions which did not directly rely on the taxpayers to pay the salaries of their employees. Instead they invested funds and a portion of the income paid for their wages. Without explanation they were not given their salary adjustments/increases along with the rest of the public sector who received theirs in 1996. So they went to the MoHR with their predicament and threatened to resort to industrial action such as picketing if the government did not take any quick measures. The Minister promised to take the matter to the Cabinet, asked the PSD to look into it and urged them not to picket.

As discussed before, in 1971, the government appointed a Royal Commission to standardise the salaries, as well as terms and conditions of service of employees in all Statutory Bodies and Local Authorities. The criterion given to the Commission required that when making recommendations, to bear in mind the salaries and allowances that were being paid to government employees at the time (refer Chapter

Eight). The Commission nevertheless made certain recommendations, which were more favourable than those given to government employees. When the Cabinet Committee made upward salary adjustments for all employees in the public sector in 1995, including employees in Statutory Bodies and Local Authorities, the five 'corporatised bodies' were left out. The result then was that all employees in the public sector were paid the same salary for doing the same type of work (NST, 18/3/1999). In March, the Chairman of the informal Joint Council of Unions of the Non-Affiliated Agencies expressed his frustrations over the delay and asked for help from the MTUC, instead of CUEPACS (Interview: Mohd Noor, 3/3/1999). In protest, the employees wore tags, demanded settlements and threatened industrial action, such as picketing again (NST, 2/3/1999). The PM himself directed the PSD to prepare a report on the demand as soon as possible (UM, 5/3/1999) but here, the PM's intervention was evidence that it blurred the relationship between the government's existing machinery and the unions. CUEPACS however welcomed this interference. Even though there was no positive outcome as yet, it had already commended the Cabinet's move to discuss the matter (Utusan Melayu, 6/3/1999). The Minister even protested over the wearing of the badges to work by the five agencies, but the chairman argued that the move did not affect work and threatened to continue as such until the government showed some positive development (Utusan Melayu, 6/3/1999). In April 1999, the government promised that the issue would be settled before June (UM, 28/4/1999). However, until the year 2000, the matter had not been resolved, yet the unions did not picket, showing the ineffectiveness of the formal or informal mechanism in the public sector IR.



To summarise, it was shown that both CUEPACS and the MTUC failed in their bid to champion the workers' course in the corporatisation issue. The government took its time in handling the matter and employees, in their ignorance left it in the hands of CUEPACS and the MTUC. The two issues revealed that the government was able to practice 'trial and error' with new policies without worries of serious opposition from public sector employees. The lackadaisical attitude was simply the natural outcome of public sector employees who were denied means of threatening actions like staging strikes. Even threats to picket were withdrawn, enabling the government to make the final judgement. In these two cases, the government's most deciding factor was based economic considerations. On both issues the government's reluctance to succumb to public sector employees was influenced by financial calculations. This was again seen in another unilateral decision to alter the salary system of the public sector for good in 1992, with the introduction of the NewRS. Here, financial considerations, coupled with the weakness in its implementation saw public sector employees again subjected to the government's unilateral management.

### **10.2.3. The New Remuneration System**

The NewRS was a brave attempt by the Malaysian government to structurally change the salary system of the public sector. It was a productivity-linked wage system, introduced to coincide with the new role of the public sector under the NDP as a supporting mechanism to the private sector. It marked the government's effort to upgrade the standard of the public services by giving due acknowledgement to hard work by deserving public sector employees. The radical change was deemed necessary to create a more reliable, efficient, committed and forward-looking public sector. It was an integrated system and the most radical of the revisions thus far, bringing about

many changes to the structure, system and processes in the public service, such as a greater degree of flexibility in areas of salary progression and promotion, and also in job functions. The government regarded this change as acknowledging the diverse labour force, who were becoming more educated and qualified. Moreover, it was a reward system to maintain quality workers in the public sector (Interview: Bagh Singh, 11/2/2000). Generally, trade unionists agreed that the system was good.<sup>102</sup> However, it turned to be a controversial issue among the public sector employees.

With the implementation of the NewRS, the salary structure was changed. The previous salary scale of the entire public service was based on a fixed one-line salary system where the entry requirements were very rigid i.e., the emphasis was more on academic qualifications alone, rather than on skills or talent. In other words, the old scheme was said not to give due recognition to those who possessed special skills and talent when deciding the initial salary at the point of entry into the service, or when it came to promotions. There were 574 schemes of services and an equal number of salary scales. Salary structures overlapped between schemes. In short, there was over-specialisation, over-complexity and inflexibility. The new scheme of service under the NewRS now was reduced to 274 only. In addition, it introduced a Matrix Salary Schedule (MSS) to replace the old linear salary scale (Interview: Bagh Singh, 11/2/2000).<sup>103</sup> This allowed various salary progressions, depending on performance. Under the NRS, there were now only three main categories of public servants, i.e., the

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<sup>102</sup> Interviews with trade unionists in the public sector revealed that they generally agreed on the philosophy that deserving and more able workers should be rewarded accordingly. The NRS was accepted with enthusiasm initially, but the acceptance waned after a few years when many felt heads of departments were not objectives in their appraisals, and the percentage put on those who would achieve the vertical or diagonal salary progression which made a difference in their yearly increment were a low 5% and 2%, respectively. That discouraged workers from working and achieving high marks as it did not make any difference once the 2% or 5% limits were met.

Top Management Group, the Management and Professional Group, and the Support Group. Consideration for promotion, salary increments, training, placement (of officers) were to be more directly based on factors such as performance-on-the-job, contribution towards department objectives and the public service in general. Thus, the foundation of NewRS changed from the old scheme that was based more on seniority to one that valued performance.

To realize the ultimate goal of the NewRS, i.e., to motivate public officials to be more productive and to produce quality output, a new Performance Appraisal System was introduced, effective on 1<sup>st</sup> January 1993. The new appraisal method, described by the Service Circular No.4 of 1992, encouraged positive competition among public officials, as part of the effort to improve the quality and the productivity of the public service. It introduced a more systematic, transparent and reliable measurement of the performance system, lessening subjective elements in these crucial management activities of making performance appraisals, awarding promotions, or determining responsibilities. There were five components to be assessed, based on activities and contributions, work output, knowledge and skills, personal qualities, and interrelationship and co-operation.<sup>104</sup> In line with the basic principles of the NewRS which emphasise a performance-based pay system, higher marks of 70 out of 100 were given to the work output over other components. The rest went to activity and

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<sup>103</sup> Mr Bagh Singh Sandhu was one of the officials directly involved with the drafting of NRS.

<sup>104</sup> For Activities and Contributions, recognition is given for involvement in voluntary activities outside official duties such as sports, professional associations and other social activities beneficial to the organisation, society and the country. Work Output is the aggregate output produced by an officer that can be measured quantitatively and qualitatively. This is an important criterion which relates to the achieving of organisational objectives. For knowledge and skills, an officer is appraised for his/her knowledge and skills as well as for the wisdom utilizing that knowledge and skill. Personal Qualities refers to personal characteristics and values of an officer such as Integrity, Commitment, Caring, Fairness, Discipline and Leadership. As for Interrelationship and Co-operation, good personal qualities such as team spirit, an ability to close ranks when appropriate would be recognised and appraised.

contribution (5%), knowledge and skill (10%), personal quality (10%) and interrelationships and cooperation (5%).

Annual Work Target (AWT), Mid-year Review and Actual Work Achievement were three important also factors considered when appraising the performance of staff. AWTs were discussed and mutually agreed on between the appraisee and the appraiser after taking into account the department's work plans. It took the form of work plans such as projects, activities, goods and services that were measurable either in terms of quantity, quality, cost effectiveness and/or timeliness. Therefore, the AWTs had to be reasonable, measurable, achievable and realistic (Interview: Bagh Singh, 11/2/2000). The AWT for every officer was established after the Head of Department determined the organizational goal, objectives, strategies, and programs and activities of each division, section and unit of the department. The determination of departmental goals, objectives, strategies and programs took into account national policies, plans, financial and manpower resources, and other factors. Here, again the bigger picture of the government's objective was never far away from its implementation by the heads of departments, again giving the heads of departments that extra authority when making decisions. Though the process looked exhaustive, it was more comprehensive and transparent than the old system of an automatic yearly salary rise. The work targets set at the beginning of the appraisal were reviewed mid-year to gauge an officer's progress. This served as an early warning system should there be shortcomings during implementation. In circumstances where work targets were unrealistic, the AWTs could be rectified. The appraisee had to record all amendments to be made to the content of the AWT form. At the end of the appraisal system, the appraisee was required to record the actual work achievement against the

AWTs. If the work targets were partly/not accomplished, the appraisee was required to explain. The government claimed there was objectivity and transparency of the system, saying it was comprehensive and closely linked to overall corporate planning. It was mutually agreed AWT and a clearly developed and precise assessment criteria. However, there were weaknesses and drawbacks mainly due to human factors. The most obvious was the element of subjectivity which was difficult to totally eliminate and it could only be minimised.<sup>105</sup> The Performance Appraisal System provided four types of performance-based salary-movement or progressions, i.e. static, horizontal, vertical and diagonal. Public sector employees complained of favouritism by heads of departments in giving marks to employees, thereby discriminating against who deserved the much-sought vertical or diagonal progression. This was made worse by limits placed on both salary movements i.e. 5% for vertical and 2% for diagonal, for every department or unit. Therefore, many of those who achieved very high marks still failed to achieve those two salary progressions. By 1994, CUEPACS had enough evidence about weaknesses of the NewRS and especially of the Performance Appraisal System. The PSD refused a proposal to form an appeal body to handle appeal cases over the appraisal officer's decision. The argument of the PSD was that the department could not afford to handle such cases if they arose in masses. On 19<sup>th</sup> September 1994, a new proposal was sent to the government, urging it to consider that the appraisal system should not be related to salary increases, instead it should just be used to determine strength and weaknesses of the officers. It was suggested that the appraisal should also be used to give a yearly reward and other incentive payments.

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<sup>105</sup> Steps suggested for example-continuous appraisal throughout the year, do not refer to previous year's performance, do not appraise hastily, no favoritism, not too strict or too lenient, avoid central tendency-i.e. awarding points on a moderate scale and do not focus too much on recent incidents/events that may distort the overall appraisal system.

CUEPACS wanted the government to stop the internal agreement whereby officers were rewarded on a rotation system. Instead CUEPACS suggested that those who achieved the target should be given the reward and the 2% quota system should be abolished.

Other proposals included a chance for those who failed to achieve the target to defend themselves. Moreover, no officers of the same grade should appraise another. Also, an officer who had been unjust in his appraisal should be brought to a disciplinary hearing. In the CUEPACS Convention, 29<sup>th</sup> March 1995, a resolution was made that while it understood the government's intention to upgrade the quality of work of employees and also encouraged positive competition among them, the system demotivated the majority of public sector employees. CUEPACS wanted the NewRS abolished since after three years of implementation it showed no positive change. Again, the PM was urged to intervene. CUEPACS in fact threatened to picket but the government was adamant that the system was the best to determine performance. The Remuneration Director defended the NewRS system as saying that:

‘anything that is new has its weaknesses. At least it should take 10 years for us to see it... The NewRS is one of the kind/ excellent system in the world. It will lead to quality and productivity and encourage workers to work harder, in line with paying for performance’ (Interview: Musa Taib, 24/2/2000).

On 21<sup>st</sup> February 1995 the PM promised to look into the matter but by the 30<sup>th</sup> October 1995, he announced that the system was to stay. In 1996, the PSD suggested a ‘360-degree assessment’ where in addition to the superior, colleagues would also contribute to assessing the officer. CUEPACS was quick to praise the suggestion, saying that it fit the current situation (UM, 15/9/1999). The difficulty in implementing the NewRS and the ‘subjectivity’ of its appraisal system was admitted by the

government (Interview: Musa Taib, 24/2/1999). In fact, there were departments that succumbed to the 'alternate system' or 'take turn' systems (Interview: Musa Taib, 24/2/1999). He blamed the heads of department who sometimes, while understanding the philosophy behind NewRS, 'were not objective' enough. However, this is quite debatable as even with the most objective superiors, there must be some degree of subjectivity. This debate still went on until the end of this study.

To summarise, here was one attempt by the Malaysian government to entirely change the structure of the public sector. If it became a success, the aim to reward better employees would certainly benefit the sector which had the biggest number of employees. However, looking at the weakness in its implementation and the failure of the authority to win the trust of public sector employees, the NewRS was already in jeopardy. At the end of this study, the NewRS became a major factor that demotivated public sector employees who felt cheated by its failure to deliver its promise that it would reward deserving employees. The government's admission over its weakness but its slow response to change exacerbated the employees' disappointment in the government and CUEPACS as their representative. The NewRS, just like corporatisation, need to be improved, and for a start, the government could begin by considering the feedback from the public sector employees themselves. In other words, the problems faced could be lessened if the policy was more of an outcome of the tripartite system, either at the NLAC, or the PSD level.

### **10.3. 'Symbiotic Working Relationship'?**

From the start of the NDP in 1991, the government claimed that it had promoted a 'symbiotic working relationship' with its employees through the PSD, the Joint

Councils and also its relationship with CUEPACS. The discussion below explores this relationship and how it affected CUEPACS as the sole representative of public sector employees. The discussion offers insight into the nature of the power-play within public sector IR during the NDP. The system initially showed that it coincided with what Ozaki (1988) observed as 'the intermediate system', one that provided machinery for joint consultation between public servants and the government, in the absence of the recognition of the workers' right to bargain collectively.

### **10.3.1. The Public Service Department**

The PSD is the most important federal agency, which serves as the 'human resource department' of the federal government and therefore oversees every aspect of public sector employees' working life and even thereafter (Ayadurai, 1998: 236). At the start of the NDP, the government was already planning changes to the Malaysian public service as the outcome of outside global influence and demands from public sector unions and staff associations (PSDAR, 1991/92; Interview: Musa Taib, 24/2/1999). Here, an examination on the role of the PSD as the most important mechanism entrusted by the government to implement its policies as well as serving the needs of the public sector employees is made.

As noted earlier, employees in the public sector may group themselves in unions or in associations and still enjoy some of the benefits of union representation (unlike in the private sector where they must group themselves in trade unions to enjoy any benefits of union representation). Thus, at the time, all public sector employees, regardless of whether or not they were members, automatically enjoyed any negotiations or arrangements worked out by CUEPACS. In the wider context, Malaysia was facing



new challenges from globalisation. There was the rapid change in the domestic environment as well as a growth in new technology, IT, telecommunication and multimedia, which encouraged the pragmatic government to consider changes in the public sector. It chose to preserve the present legislative framework but widened 'two-way discussions' and conciliation with representatives of the public sector employees, in particular CUEPACS as the recognised national union body. Instead of regarding the public sector unions and staffs associations in a confrontational manner, now it claimed that it opted for a 'strategic alliance' with them. It was clear that the government wanted to create a positive image internationally, which was important for foreign investment, and that it expected the public sector employees to embrace this change with enthusiasm and without question. The government talked of the need for them to understand how their unconditional and full support played the most important role to ensure the success of the government's policies as drafted under the NDP. It was stressed that the ultimate objective was to create a just, united and developed multi-racial Malaysia. Therefore, negative reports in the ILO conventions or any other international events, by foreigners, or worse still by local trade unionists, were resented.

To achieve the new level of relationship, in the mid-1990s, several mechanisms for a 'symbiotic working relationship' were instituted'.<sup>106</sup> There were forums allocated for two-way communications between employees and management, through the Joint Councils, the NJCs and the DJCs. However, this was only within the context of the present law, and calls from CUEPACS to amend several provisions in the TUA and

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<sup>106</sup> See Bagh Singh (1999) and also an interview with him, 11/2/2000. He is the Deputy Director, Remuneration Division at PSD, also involved with the drafting of the New Remuneration System.

IRA were still ignored. The PSD, which was originally established to service only the federal public services, then serviced the entire public sector (except for armed forces and, to a certain extent, the police force). It administered the wages system, and oversaw the operation of the Joint Councils.<sup>107</sup> The National Institute of Public Administration (INTAN), the public sector training institution conducted courses for all levels of public servants, carried research activities, provided consultancy services to ministries and departments, and acted as a think-tank unit for the government. The Remuneration Division formulated and interpreted principles and policies regarding salaries, allowances and other benefits and advised the Federal Cabinet as well as implementing all cabinet decisions on these matters. It also looked into the operation of the NJCs and the DJCs and officers from this department represented the federal government in all three NJCs. This department was directly involved in the determination of wages and conditions of service of the public sector employees, managing the public sector IR, making it by far the most important division as far as public sector IR was concerned (Interview: Mohsin Mohd Khir, 4/2/1999). The Negotiation Division conducted 'negotiations' with individual public officers or public sector trade unions and staff associations over anomalies allegedly arising from the implementation of the recommendations of various salary commissions and

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<sup>107</sup> The other departments under the PSD are the Administrative Divisions, which looked into the administrative part of the PSD while the Service Division formulated, implemented and interpreted personnel policies in the public services generally. That covered recruitment, promotion, transfer, discipline, termination and re-employment of public sector employees. The Training and Career Development Division was given the task to perform acquisition of trained professional required by the public sector. It conducted manpower development surveys and planned manpower development. In-service training courses, awarding of scholarship and fellowships to public sector employees to either further studies locally or abroad also fell under their management. The Establishment Division evaluated requests or proposals by ministries or departments to create or re-grade posts, and ensured posts were properly graded and categorised. It also formulated the schemes of service in the public sector, besides evaluating and recognising degrees and diplomas vis-à-vis the public services. The Pensions Division was responsible for the formulation and implementation of policies on superannuation benefits and accident and death-in-service benefits and also responsible for the disbursement of pensions, and resolved all related problems.

committees. It represented the government in any dispute over an alleged anomaly referred for arbitration to the PST. In short, the PSD became the most important agency for the government in catering for the needs of public sector employees, from their recruitment to their retirement. More and more, it became the agency that ensured the 'harmonious relations' between employees and the government.

However, the PSD lacked authority in making decisions and during the NDP became a body that ran daily affairs rather than determining the machinery for the public sector. It did not reflect the comprehensive nature of the department with its various divisions, a fact worsened by the absence of bargaining rights. Moreover, the PSD never made decisions for demands that concerned salaries, or terms and conditions of service. That was left to the higher authority, the Cabinet, or to be more exact, since the 1980s, the PM. The Director General of the Remuneration Department admitted as such:

'the big cases CUEPACS could always go directly to Daim (the First Finance Minister) or the PM...the smaller ones to NJC' (Interview: Musa Taib, 24/2/2000).

This approach altered the relationship between CUEPACS and the government to one that was much more political. A trade unionist summarised the PSD attitude towards the public sector employees as:

'I know what is good for you, you don't know what is good for the nation' (Interview: Jamaludin Mohd Isa, 30/1/2001).

In other words, the government's claim that there was 'symbiotic working relationship' between the two was questionable. Again, CUEPACS was resigned to the idea that to survive at all they had to conform to the government's decisions.

Denied the right of collective bargaining, they relied on the PSD in matters that they thought could be resolved at that level. Meanwhile, they used the personal relationship with the higher authority, in this case usually the PM, to solve bigger issues. So far, apart from regaining the collective bargaining right for public sector employees and relaxing some of labour laws or other restrictive legislation, CUEPACS' personal relationship with the higher authority did not totally fail. However, as discussed below, it kept CUEPACS always at the receiving end and forced it to maintain leaders that appealed to the government in order to benefit from the relationship.

### **10.3.2. The Joint Councils**

The discussion below concerns the role of the Joint Councils as the government's mechanism to promote a harmonious relationship with public sector employees and the effects of the re-structure made by the government on the NJCs in 1992.

Services Circular No 2 1992 was effectively implemented on 1st January 1992, replacing the previous NJCs, in accordance with the implementation of the NewRS.<sup>108</sup> Instead of the former five grouping of public employees as before, there were now only three broad categories of public sector employees; Group 1, The Top Management Group; Group 2, The Management and Professional Group; and Group 3, The Support Group. With this announcement, the five groups of NJCs under the previous Services Circular No 2 1979 were dissolved. The change, claimed the government, was to make the function of the NJCs more effective (Working Paper,

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<sup>108</sup> See Services Circular No 2, 1992. Before that the proposal was tabled by the PSD to the Co-ordination Committee (Staff Side) of the NJCs. See Working Paper, 1/92 on the proposal to reshuffle the NJCs from 5 groupings to only three, in line with the NewRS.

1/92). The three new NJCs now represented employees in the Management and Professional Group, with the other two representing the lower Support Group in the Science and Technology Group and the General Workers' Group. Even though it was said to make the NJCs more effective, the functions were quite similar to the old ones:

- '1) to give views and discuss the principle of salaries, allowances, perquisites, terms and conditions of service for employees in the public sector. The discussions are of general nature and not on individual employees; and
- 2) to enable the employer to put forth suggestions and provide information about recent changes and developments and solicit views of the employee representatives before being taken for consideration by the Government '(Circular, 2/1992).

In other words, it was clear that the NJCs were still just there for giving views and were not a negotiating machinery. The PM chose the Officer Side, representing the government, and the unions affiliated with the respective NJCs chose representatives for the Staff Side, representing the employees' side. The other members of NJCs were the Secretary-General of Ministries, Heads of Department and Secretaries of State Government as well as Heads of Statutory Bodies and Local Authorities. Fifteen government officials were appointed to every NJCs. The Director General of the PSD was the President of the NJCs whilst the Remuneration Division provided the secretariat service. The Deputy President was the head of the employee representatives/Staff Side of the respective NJC. The Joint Secretary for NJC on the Officials' Side was the Director of the Remuneration Division, whilst the Joint Secretary on the Employees' side was chosen by the respective employee representatives. The NJC members were elected for two years and could stay in the posts until new members were chosen or elected. The NJCs allowed for affiliation from the biggest number of public sector union/staff associations based on their respective Service Classification. The structure of NJCs at this level reflects that the interests of all services were represented. To facilitate the operation of the Secretariat

of the Staff Side, the government allowed six positions to be seconded with costs borne by the government (Interview: Bagh Singh, 11/2/2000). This allocation by the government raised two issues. One, it showed the thoughtfulness of the government in tackling issues concerning its employees and management side, the other shows how far the government would go to ensure the 'special relationship' between government and the unions was established. There were now two representatives for the NJC for Employees in Management and Professional and Employees in Science and Technology (Support Group), with three representatives for the Employees for the NJC for Employees in Support Group. These representatives were chosen by the union, but approved by the PSD, after obtaining approval from their own heads of departments. They would hold office from two to a maximum of six years, paid by the government and had their offices at the CUEPACS building in Kuala Lumpur. With the NJCs representatives paid by the government, it was almost impossible for them not to be acquiescent to the government. Here, the famous Malaysian Malay proverb that says 'never bite the hands that feed you' accurately reflects the situation faced by these seconded representatives. With the limited term (two to six years in office) allocated to them, it was not worth being on the confrontational side. It also shows the effectiveness of the government's system in ensuring that the employees/Staff Side used the mechanisms made available to them by the government, so that nothing on the employees' side escaped its knowledge.

However, this does not mean that the NJC was not advantageous to the employees' side at all. In its limited capacity, the NJC for the staff side tabled 188 working papers from 1993 (the start of the new NJCs) until 1999. Out of that, the NJC for Management and Professional tabled 59 working papers, with 53 papers completed.

Out of the 53 papers, 17 proposals (29%) were accepted by the government, 25 (42%) rejected, 3 postponed (5%) and 8 dismissed (14%) (Ramona, 1999). For the NJC for Science and Technology, 48 working papers were tabled, out of which 32 papers were completed (67%). Out of the 32 proposals completed, 16 (33%) were accepted by the government, while 11 (23%) were rejected and 5 (11%) dismissed. For the NJC for the General Group a total of 81 working papers were brought to the NJC. 56 papers were completed (69%), and out of that, the government accepted 24 proposals (30%), while the same number was rejected. 2 (2%) were postponed while 6 (7%) were dismissed. Admittedly, the average period needed for the Official Side to settle issues took between two to five years (Interview: Zainal Rahim, 2/2/1999; Ramona, 1999). Despite a very high percentage of attendance by the Staff Side, that of the Official Side was just 'satisfactory'. This was especially true when referring to attendance by officials who came to NJC meetings in their own capacity. The Chief Secretary of Ministries and Director General of Departments delegated their subordinates to the meetings. However, the Director General of the PSD and the Director of Remuneration Division recorded a 100% attendance. Their attendance, however, was inevitable since both were the Chairman and the Secretary of NJCs respectively.

Many trade unionists criticised the NJCs functions as being only an avenue for consultation, not negotiation (Interview: Ahmad Nor, 6/2/2001). There was no negotiating right, and decisions were already made before being brought to discussion in the NJCs. The helpless state of the NJC was evident when looking back to the Salary Review of 1995 that was agreed between CUEPACS and the PM, and which totally defeated the purpose of the NJCs. According to the ex-General Secretary of CUEPACS, A.H. Ponniah, the very reason for the direct consultation and discussion

with the PM was to regain the 'collective bargaining' power (Interview: A.H. Ponniah, 22/1/2001). However, he admitted the tactic soured the relationship with the PSD as the secretariat of the NJC (Interview: A.H. Ponniah, 22/1/2001).

The DJC was maintained under the Ministry/Department/Statutory Bodies/Local Authorities, as long as there was a Head of Department taking care of the administrative affairs of the department, the control over employees, and financial affairs. Any Ministry/Department/Statutory Bodies/Local Authorities who applied to have a different kind of DJC, apart from the ones suggested by the PSD, could do so. Any head of departments who had just formed their DJCs could always send a copy of the Constitution to the PSD with the names of their members. The Head of Departments referred to the PSD any indecisive matters or decisions made by the DJCs that differed from the government's decisions. In comparison, there was no change at all for the structure of the DJCs in the Circular 2/1992 with the instructions for the formation and running of DJCs in Circular 2/1979.

The DJCs functioned primarily to secure the greatest measure of co-operation between the ministry/department/statutory body/local authority involved and its salaried officers over matters relating to work efficiency and staff welfare. Second, it became the machinery for dealing with issues affecting conditions of work; and third, generally it collated the points of view of the employees concerning those of the official representatives of the ministry/department/statutory body/local authority. It discussed and decided on matters affecting conditions of work which had a bearing on the administration concerned, except any matter affecting individual employees. It also provided employees with greater opportunities for participation and



responsibilities as regards matters affecting their work and observance of the conditions under which their duties were to be performed. Apart from that, it was to encourage employees, through participation in discussions, to expand their knowledge of the administration of the various departments. Lastly, it provided the means for the improvement of office machinery and organisation, and the opportunity for the consideration of suggestions and recommendations made by the staff on this subject. Membership of DJCs varied, but were usually equally divided between the Official and the Staff sides. The two sides, the chairman, the vice-chairman and the joint secretaries were selected for the NJCs, but the DJCs were required to hold meetings at least once every three months. Decisions reached by the NJCs had to be arrived at by agreement between the two sides. The decisions then had to be implemented by the ministry/department/statutory body/local authority concerned, unless it affected other departments or contravened government policy, in which case it had to be referred either to the department(s) concerned or to the PSD (Interview: Bagh Singh Sandhu, 11/2/2000).

The above discussion showed that the government widened the scope for two-way discussions but clearly the Joint Councils, either the NJCs or the DJCs, were just forums for discussions not negotiations. They did not decide on matters pertaining to employees of the public sector as they should have done. Even though there was a significant number of working papers approved by the government, they were not major issues, like the question of salary structure or increase, or the pension scheme. The more important issues were tackled by unions outside the Joint Councils. Their role therefore followed the Service Circular 2/1992, confined to giving views only, with the higher political authority in the government deciding on those important

issues. Even the authority to discuss within its scope was limited. For example, while the NJCs might discuss the principles affecting remuneration and allowances, they could not discuss the salary structure set out under the CCR. The absence of authority to negotiate on salaries and other terms and conditions of service became a reason for unions to urge the government to revise the machinery. However, the government insisted that the Joint Councils were an effective enough tripartite body. Efforts by trade unionists to change the function of the Joint Councils and regain their negotiating right did not materialise. It showed that public sector unions were outmanoeuvred by the government even when the councils were represented by the leaders of CUEPACS. In the late 1990s, the CUEPACS President headed the Support Group, while two more from other CUEPACS affiliating unions headed the other two NJCs. The PM turned out to play a very significant role instead of leaving the discussions for wages, allowances, facilities and conditions of the services of the public sector to the available mechanism, the PSD and the NJCs. As long as he was the deciding factor, issues of the public sector employees always grew more political, subject to the government's considerations, and always at their expense. This made the NJCs ineffective as mechanisms to solve public sector issues.

### **10.3.3. The Demise of the Public Service Tribunal**

The discussion here centres on the role of the PST as a mechanism to solve 'anomaly' cases for the public sector employees. Despite its shortcomings, the PST had for some time functioned as the Industrial Court for public sector employees until its demise in 1999, 'when all the cases were solved' (PST Bulletin, 1977-1999). Its jurisdiction while still in operation was urged to be expanded, to resolve trade disputes in the public sector.

In 1996, the Secretary General of CUEPACS aired his dissatisfaction over the role of the PST which only functioned to solve cases such as grading or anything that arose from the Cabinet Committee Report or the Salaries Commission (NST, 11/1/1996). He agreed with the PM that there should be either a third party with a new law, or they should amend the IRA 1967 or the PST Act 1977. This would allow public sector employees to appeal to a higher authority if they were not satisfied with arbitration. Although the IRA 1967 allowed a public servant to seek redress in the IR Court, one could only do so if he 'gets the approval from the King if he is a Federal civil servant, or the Sultan in the case of a state civil servant...However we (public sector employees) have never been given the approval so far' (Interview: Jamaluddin Md Isa, 30/1/2001). Nevertheless, from 1977 to 1999 the government reported that the PST had solved more than 600 anomaly cases, arising either from the CCR or NewRS (PST Bulletin, 1977-1999). It consisted of a chairman and a panel of persons 'who have experience and knowledge in matters of administration', appointed by the King, and removable from office only by him. Once a dispute was referred for negotiation or arbitration, the PST Act made it unlawful for any 'aggrieved person', or for any member of a trade union or staff association which is an 'aggrieved person', to go on strike or to do anything described in the Act as a 'proscribed industrial action'. This provision worked along the same lines in the private sector, when a dispute once referred to the IR Court made strikes illegal. The decision made by the PST was 'final and conclusive, and shall be binding on the Government and on all parties to the anomaly, and (shall not) be challenged, appealed against, reviewed quashed or called in question in any court'. The PST had considerable powers to summon witnesses to give evidence or produce documents in their possession, including the power to issue

an arrest warrant if any person failed to appear. It could also receive any evidence, written or oral, that it thought necessary or desirable, even if such evidence were inadmissible in a court of law. Just like the IR Court, in making decisions the PST Act required the Tribunal to have regard to 'the national interest, the financial implications and the effect of the decision on the economy of the country'. The Act also declares that:

'No public officer shall be liable to produce any document in proceedings before the Tribunal, which in the opinion of the government is not in the public interest to produce. The decision of the government in this regard shall not be liable to be questioned or reviewed by the Tribunal or any court or any authority'.

It was clearly an effort for the government to stop any official information to be aired in public. There were also other matters which the Act construed as 'managerial prerogatives', which could not 'be raised or be made a subject-matter of any negotiation or any reference to the Tribunal by any aggrieved person', namely a) the creation and grading of posts; b) the creation and grading of schemes of service; c) the promotion of a public officer from a lower grade to a higher grade; d) the transfer of a public officer; e) the appointment of any person in the event of a vacancy arising in the public service; f) the termination of the services of a public officer by reasons of redundancy or re-organisation; g) the dismissal and re-instatement of a public officer; and h) the assignment or allocation of duties in the public service.

However, the PST, just like the IR Court, was not a court of law and therefore was not the final authority on questions of law. Hence it was subject to the supervisory jurisdiction exercised by the law courts over subordinate courts and tribunals. To help the public sector employees, in 1992, and in accordance with the implementation of

NewRS, a guide was issued by the PSD on how to claim for anomaly cases under the PST Act.<sup>109</sup> After its demise, the government considered the idea to establish an arbitration tribunal for the public sector (UM, 21/1/2000). The only avenue left for public sector employees now was the PSD, which, as already discussed, failed to deliver the most sought after function by public sector unions, to negotiate on behalf of their members. This forced public sector unions to rely on CUEPACS, rather than on individual efforts which, as discussed below, though at times succeeded, made the relationship with the government more political than ever.

#### **10.4. The State and CUEPACS, 1991-2000**

Barbash (1984:75) noted that:

‘Management and union differ not only in their interests; they differ organizationally. The union is primarily a bargaining organization; if it isn’t that, it’s nothing’.

With that view in mind, the next discussion explores the relationship between the federal government with CUEPACS as the national union body for trade unions in the public sector. It analyses the government’s claim that it acknowledged the importance of CUEPACS as ‘smart partners’, despite the absence of any bargaining power or negotiating right, working together towards achieving the national objectives. It also explores factors that concerned trade union leadership, and the government’s general policy that seriously dominated the relationship during the whole of the NDP. As a senior government official remarked:

‘In the public sector, it is more an employee-management relationship and not IR’ (Interview: Mohsin Mohd Khir, 4/2/1999).

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<sup>109</sup> See ‘A Guide to claim for anomaly under the Public Services Act 1977, Public Services Act Amended) 1992 on New Remuneration System’.

He viewed the relationship differently from the private sector employees view their employers, as for one thing, no industry was involved (Interview: Mohsin Mohd Khir, 4/2/1999). Public sector employees, he insisted, were dealing with government who made policies for the general public, and therefore the foundation of the relationship could not be compared with the private sector, which was more profit-oriented. The government, he said, only had the interests of its people at heart and so it deserved the support of public sector employees. Therefore a good employee-management relationship was more appropriate for the government-employees, rather than the traditional confrontational approach. While what he claimed was true, there existed a working relationship between the government and its employees which offered rewards in financial terms and a high expectation of quality service from the employees. This expectation was more evident during the NDP, especially the second half of the 1990s, after Malaysia faced economic and political crises. CUEPACS, on the other hand, at the end of the NDP in 2000, had yet to win its struggles over several issues, most important of all, the right for collective bargaining.

As in the private sector, the government stressed again the need for employees to remember the bigger picture; the national development plan that was designed to solve Malaysians' socio-economic problems. They were urged to always remember the nation's ultimate objectives in adopting the NDP. In fact, the expectations were much higher of the public sector employees. They were expected to be loyal, and support the government's policies without question. The government expected the trade unions to conduct their demands in a non-confrontational way and to focus on other issues, not only on salary and conditions of service. In his 1992 speech to the CUEPACS Convention, the PM urged trade unions to also be aware of and sensitive

to issues of the economy, productivity, quality, consumerism and environment. He also asked trade union members to be aware of the market economies, and the developed nations' pact 'to obstruct economies of the Third World and other developing nations, including Malaysia'. The understanding is important he said, since the Malaysian economy which relied on the international market, would suffer and the nation's income would diminish and affect the income of workers in the public or the private sectors.

In 1992, CUEPACS amended its Constitution to enable the affiliation of unions from the statutory bodies and local authorities (*Suara CUEPACS*, 1994). CUEPACS in fact had tried to increase its membership from 1989. At least with the new membership from Sabah and Sarawak and the Statutory Bodies and Local Authorities, things improved a little. In 1994, ANULAE, the biggest statutory bodies union, which actually embodied several other unions, joined CUEPACS. This clearly delighted CUEPACS since automatically about 21,000 union members were brought in (*Suara CUEPACS*, 1994). ANULAE thus became the second major member besides the NUTP, which brought in 50,000 members. ANULAE however was 'alienating itself' from 1992-1994 that is from the period NRS was introduced, since 'there was no council especially for them' (*Suara CUEPACS*, 1994). ANULAE also had no intention to affiliate with CUEPACS from 1992 to 1994. Since ANULAE was not a splinter union, and CUEPACS also could now help the statutory bodies directly, this affiliation benefited both parties. By 1995, CUEPACS membership soared to 183,000 with 111 unions, as compared to 89,544 with 54 unions the year before.

On 29 March 1995, CUEPACS threatened the government that it would picket if the Performance Assessment System of the NRS was not abolished. CUEPACS wanted the government to calm the discontent and dissatisfaction among public sector employees and insisted that the PM intervene (CUEPACS Triennial Report, 1992/1995). However, this picket did not materialise. In 1998, the five statutory bodies that were alienated from the 1995 salary increase for public sector employees also threatened to picket when their demands were denied by the government. However, after the government promised to discuss the matter, the picket was not realised. The two incidents proved how altered the attitude of public sector employees could be when faced with certain issues compared to the era under Ahmad Nor in the early 1980s. The reluctance to proceed with industrial action benefited the government but made CUEPACS more hesitant to act on its threats in the future. In fact, there was no serious threat at all during the NDP.

There was, however, a difference following the 1997 crisis whereby there was an open debate as to whether the crisis was also political as well as economic. It was a well known fact that Anwar, the DPM was more in favor of IMF prescriptions on how to save Malaysia from the crisis. His stance differed from the PM's views, causing rumours that that had become one of the reasons for his sacking from the government. The relationship between the government and CUEPACS was dragged into the political arena when their loyalty to the government of the day was called for. Three sub-discussions below highlight the relationship between CUEPACS and the government during this challenging period. They are based on the government proclaimed policy of 'smart partnership' with its employees, the 1995 salary review, and the political factor. All three revealed the nature of the relationship and factors



that shaped the employee-management relationship between government and public sector employees.

#### **10.4.1 'Smart Partner'**

As mentioned earlier, in 1996, the government announced that it acknowledged CUEPACS as a 'smart partner', a proclamation well received by CUEPACS leaders (Interviews: A. Rahman Manan, 9/1/1999; Siva Subramaniam, 4/1/1999).<sup>110</sup> The analysis below explores how both the government and union perceived this idea, and whether it actually materialised.

The government pledged that under the tripartite system in Malaysian IR, unions were one of the partners working together for mutual progress. Therefore, from 1996 there were union representatives in government trade missions to foreign nations, alternately between CUEPACS and MTUC. As a member of the tripartite body NLAC, CUEPACS, like the MTUC was involved in discussions between the government, employees' and employers' representatives over matters pertaining to labour. They were also made 'partners' on the EPF Board and National Economic Action Council (NEAC) apart from the Joint Councils. This, and the absence of a deadlock, prompted some trade unionists to conclude that the relationship between the government and public sector employees was 'good' (Interviews: Abd Rahman Manan, 9/1/1999; Siva Subramaniam, 4/1/1999; Mahendraraj, 10/1/1999). Some were indeed satisfied with the ongoing two-way dialogue between CUEPACS and the government. 'Issues such as the NewRS were still open for discussion' (Interview: Mahendraraj, 18/1/1999). This view was held despite the fact that CUEPACS

received a number of complaints about the NewRS. Some believed it should be abolished altogether while others hoped its implementation, especially regarding the appraisal system, should be improved (Interview: Jamaluddin Isa, 30/1/2001). The 'good' relationship meant that CUEPACS was the party at the receiving end, where most policies concerning public sector employees were implemented first before being discussed by the tripartite bodies. The CUEPACS Secretary General revealed the nature of relationship between CUEPACS and the government:

'CUEPACS would try to understand the government's position in making demands...we hope the public sector will work in line with the government's policy...all the final decisions are taken by the Prime Minister, he played an active role in decisions... normally there is freedom to decide but the final decisions depend on him because he is accountable to the government' (Interview: Abd Rahman Manan, 9/1/1999).

This submissive stance infuriated some veteran trade unionists who thought that CUEPACS leadership today was much wanting and weak (Interviews: A.H. Ponniah, 2/1/2001; Ahmad Nor, 6/2/2001; K. George, 7/2/2001; A.J. Patrick, 1/2/2001). However, they admitted that one of the reasons that CUEPACS was under pressure was the strong leadership in the government, particularly the present PM, Mahathir Mohamad, who was generally considered not to be in favour of unions, and would not hesitate to act on aggressive union leaders. This was experienced by Ahmad Nor who gave 24 hours' notice and resigned as CUEPACS president in 1986, and A.H. Ponniah who was called 'radical' by the PM in 1996, the year he left as the Secretary General of CUEPACS (Interviews: Ahmad Nor, 6/2/2001; AH Ponniah, 22/1/2001). Ponniah infuriated the PM over the wage issue and was pressured by the MoHR, attacked by colleagues in CUEPACS conference, and forced to leave (Interview: A.H. Ponniah, 22/1/2001). The fate that befell Ponniah showed the 'eager to please' attitude of the

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<sup>110</sup> Abdul Rahman Manan is CUEPACS Secretary General, while Siva Subramaniam is the President.

bureaucrats in MoHR and of his own colleagues in CUEPACS who, instead of rallying behind him, sided with the PM. Several felt that the present trade union leaders were pressured to 'satisfy' Mahathir's wishes and vision for Malaysia, thereby demolishing the democratic institutions and participative views by unions and bureaucrats who were accused of being 'eager to please' the government as well. This view was proven when trade union leaders steered their attention away from the core issues of workers, such as regaining the negotiating right for public sector employees and the fight to have equal rights as enjoyed by private sector employees. To be effective as a labour centre for public sector employees, CUEPACS needed to re-think its priorities in its struggle against the strong government. They also needed to have strong, committed leaders and try to reach out to the working community at large.

However, an ICFTU-APRO official felt that Malaysian IR were not as bad as some other Southeast Asian countries, though culture plays a part in influencing the relations between government and employees:

'Malaysian IR stands much better compared to other South east Asia countries such as Indonesia, Philippines or Thailand, where unions were oppressed... Since we are Asians, we have the tendency to be more feudalistic, we don't like arguments and like to implement policies directly, that is the only problem in Malaysia, and the mishandling of the Deputy Prime Minister (Anwar)' (Interview: Sabur Ghayur, 1/2/2001).

That 'only problem', however, cast doubt over CUEPACS capability as a 'smart partner', as claimed by the government. The view that generalised Asians as people culturally adverse to arguments or open conflicts was agreed on by Malaysian trade unionists (Interview: Jamaluddin Isa, 30/1/2001; see also Chapter Nine). However, the reluctance to upset the status quo was more prevalent in the present public sector. The

effect was CUEPACS' failure to win its oldest struggle, to uphold the collective bargaining rights, as well as relaxing several restrictions on public sector employees.

In fact, CUEPACS under the NDP became a promoter of government policies. In 1997, CUEPACS welcomed the government's call for unions to put a new clause into their constitutions, that was to increase productivity in line with the Malaysia Inc concept (UM, 9/7/1999). When the economic crisis broke out in 1997, the government exercised salary cuts, first to ministers (10%) and top civil servants (3%) (The Star, 13/12/1997). CUEPACS quickly supported the move to cut the entertainment allowance and overtime claims of officers on the Super Scale A and B Group because, as acknowledged by its President, 'we in CUEPACS understand the current economic problem faced by the government' (cited in NST, 15/12/1997). In 1997, in line with the implementation of the 'Electronic Government' concept, and the move to the new administrative centre at Putrajaya, as part of the Multimedia Super Corridor (MSC) a la Silicon Valley project, the government launched a comprehensive information technology training scheme (NST, 14/6/1997). This massive project was implemented in phases; to train 133,500 civil servants to be computer literate, able to use the Internet, word processors, power point, spreadsheets and statistical packages. As a comparison, therefore, the government proved to be quicker to silence criticisms from its employees, as it proved again to be a forward-looking government, committed to bring positive change to Malaysia as a whole, as promised under the Vision 2020.

CUEPACS consoled itself by building a good rapport with the PSD and maintained a good relationship with other labour centres and NGOs, such as *PEMADAM* (An NGO for anti-drug abuse), Institute for Strategic Studies (ISIS), National Trade Council and

National Council of Women Organisation (NCWO). Internationally, CUEPACS was affiliated to the Public Services International (PSI) and the International Federation of Building And Woodworkers (IFBWW) (Triennial Report, 1992/1995). Relationships with other international organisations, such as the Commonwealth Trade Union Council (CTU) and Friedrich Ebert Stiftung (FES) were maintained. Through cooperation with ILO, CUEPACS gained the opportunity to form relationships with other nations in the education and skills training programs. Such relationships had some positive influence on CUEPACS but not as much as they wished. With PSI and IFBWW, CUEPACS could not afford to pay its membership fees, and this therefore affected their chances in training, conferences and other international activities. Other CUEPACS affiliates were also free to form their own affiliation with IFBWW<sup>111</sup> and PSI. Several have already done so. One such a union is the Malay Forest Officers Union (MFOU), which has about 2500 members on the Malaysian Peninsular.<sup>112</sup> The MFOU, while affiliated to CUEPACS and NJC, is also affiliated to IFBWW. Through its relations with the international body, it learned about sustainable development and succeeded in persuading the government to acknowledge an organization called International Tropical Timber Organization which is headquartered in Tokyo. The government then formed the National Timber Certification Council to administer and ensure contractors in Malaysia followed criteria set by this organization. Assessors were appointed to 'check the ground' and if the standard criteria were not met, the

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<sup>111</sup> IFBWW now represents 11 million workers all over the world, from 124 member countries and 284 trade unions. See IFBWW News (24/1/2001) IFBWW. No.1.

<sup>112</sup> Interview, Jamaluddin Mohd Isa, 30/1/2001, the Executive Secretary of MFOU, who has been involved with trade unions in Malaysia since early 1960s. He has been the General Secretary of MFOU for 27 years (1964-1991). Now the executive secretary since 1991, he was the Secretary General of CUEPACS 1967-1986, Secretary for Staff Side NJC 1970-1986, panel member of the Industrial Court 1970-1986.

buyers could refuse to purchase Malaysian timber. The main importers of Malaysian timber were Japan and South Korea (Economic Report, 1999/2000). In a way, it showed a positive sign by the government who, in 1999, exported RM1,648.5 million sawn logs and RM1,628.2 million sawn timber from a total of RM24,834.0 million worth of primary commodity exports for the period from January to August 1999 (Department of Statistics). This individual venture by the MFOU was the type of activities encouraged by the government, since it did not pose any kind of threats to the status quo, but instead contributed to Malaysian development programmes generally.

The financial restraint faced by CUEPACS affected its ability to function effectively and independently from the government. It tried to change by proposing to those unions affiliated to international bodies through CUEPACS to pay their fees or contribute a certain amount (not necessarily a full amount of the fees) to CUEPACS. However, this was opposed, as has been admitted by its present Secretary General (Interview: Abdul Rahman Manan, 9/1/1999). With just a meager RM1.80 as the yearly fee for each member from a union (with a maximum for a union of RM7500 to be paid to CUEPACS no matter how many the members were) it was hard to imagine that CUEPACS could survive until today. This reluctance to pay an extra or higher fee can be traced back to the people who actually were trade union activists today in Malaysia. Under Section 27 TUA1959, there were restrictions imposed on public sector employees, such as the police, prison service, the army and officers engaged in a confidential or security capacity, or holding posts in the managerial and professional group to join unions. This discouragement of managerial and professional group to join unions has been a cause for concern among trade unionists or workers in

Malaysia in general. However, trade union leaders were either ignorant of the fact, or they were quite happy without 'interference' from public officers or people from Group A, who were actually enjoying a higher salary and perks as compared to the lower group. From the government's side, less participation from Group A employees, who at least had to be graduates from higher learning institutions, was indeed a blessing to it. Most active trade unionists were now from the lower groups who, though very experienced, would benefit if actively supported by employees with a higher educational level. In the midst of that flaw, the government made it clear that it was up to CUEPACS to manage themselves (Interview: Mohsin Mohd Khir, 2/2/1999). This was the same view adopted by government officials regarding private sector employees. The stance was that the government had given the avenues for CUEPACS to become involved in the tripartite decision-making process that benefited all members and non-members alike. CUEPACS was regarded as able to deal with discussions and 'negotiations' with the government regarding their demands (Interview: Zainal Rahim, 2/2/1999). However, government officials admitted that CUEPACS still needed to be educated to be 'more intelligent or more globalised since members of CUEPACS are normally from the lower rank...' (Interview: Zainal Rahim, 2/2/1999). He insisted that the government's intention were genuine as it could not afford to have bad relations with unions as 'they are assets to the government' (Interview: Zainal Rahim, 2/2/1999). What this implied was that while admitting that public sector unionists were of the lower rank who could benefit from the contributions of higher educated ones, if permitted or encouraged by the government, it has no intention to do so.

In 1998, the PM again stressed that the right to organise and take industrial action was important only in the old capitalist system where workers were oppressed (Mahathir, 2/12/1998). The speech, a year after Malaysia was hit by the economic crisis and a few months after the sacking of Anwar Ibrahim, warned CUEPACS delegates of the 'new-capitalism' as more dangerous than the old colonial and traditional one. Mahathir claimed that 'new capitalists' just needed a handful of people to help them gather such a vast amount of wealth and thereby destroy other nations' economies, turning millions of workers jobless, and hence worse than those old capitalists who came and built factories and created jobs for locals (Mahathir, 2/12/1998):

'Faced with these new phenomena, trade unions should use a new method. They should work together, hand in hand with the employers, vice versa, to save the industries and the nation's economy. The government should also contribute to this co-operation. With this approach, a strong foundation is established to prevent the attacks from the money traders and short-term investors who never cared for the workers...'

Mahathir urged trade unions to play only a constructive role and be on the same side as the government. The public sector workers were praised for not turning to industrial action in times of crisis. The people's united stand behind the government was regarded as paramount to ensure the economy bounce back to its level in the years before the crisis. While the present CUEPACS President felt the system was satisfactory, some felt unions had become meaningless without a collective bargaining right and a court to hear public sector disputes (Interviews: Siva Subramaniam, 4/1/1999; K George, 7/2/2001). Some viewed the parliamentary democratic system in Malaysia as incomplete without public sector basic rights (Interview: Mustafa Johan, 24/12/1998). Others felt union leaders had to resort to 'begging' and when the government refused, they had to accept it without question as the government 'knew best for the people' (Interview: K George, 7/2/2001). The government did not agree



when unions urged that high economic growth become the foundation for a salary rise but it had no hesitation in freezing or cutting salaries during the economic downturn, as it did in 1998. This further encouraged the political method that CUEPACS reverted to every time unions felt they needed to make a point over any issue.

Even so, the unions had limited success. Any pressure from CUEPACS was more likely to succeed if seen as a concerted effort made by all the other parties, such as individual unions, staff associations, NGOs and the like. However, that seldom happened as more often than not, unions had different agendas and priorities. This was evident through the rivalry between CUEPACS and the MTUC. While the MTUC felt the need to be aggressive (to a certain extent) about their issues, CUEPACS had conformed to the 'discussions' culture. This was because CUEPACS leaders felt that was the only way to win over the government in the midst of restrictive laws and regulations, like the General Order and the IRA imposed on them. CUEPACS' submissive stance and refusal to seriously challenge the government encouraged the latter to regard it as part of the government's machinery. The honorary titles conferred to both trade union leaders confirmed their positions as part of the government machinery and inevitably make it harder for them to be neutral from the government. Some viewed the post and title as a way for the government to silence confrontational views from union leaders (Interview: Syed Shahir, 9/1/2001) Some agreed that while the provision of no strike in the public sector was justified, a collective bargaining right must be returned with the provision that any dispute could be settled by a tribunal or an arbitration (Interview: K. George, 7/2/2001). Without that, the claim that there exists now a 'smart partnership' between government and public sector employees remains a political rhetoric.

#### **10.4.2. The Claim for Salary Review**

After five years of the last review, CUEPACS proposed to the government Claim For Salary Review in 1995, to demand a more justified salary for workers in the lower income group (Triennial Report, 1992-1995). Among others, CUEPACS demanded a few amendments to wages, a wage review every three years instead of five and a review of the pension and housing allowance for the rest of the public sector that had not enjoyed it before. Where wages were concerned, CUEPACS demanded that for the years 1992 to 1994, since the officers in charge could not practice an efficient and just appraisal system, the government should not relate the performance appraisal with a yearly increment reward. Since the government did not approve this demand, CUEPACS asked for a neutral committee to be its representation. It made a point that under the new revised scheme the lower income group did not really benefit from it. The new scheme changed the yearly increment from between RM10 to RM200 to RM 11 to RM940. In this case, CUEPACS asked for an increase of at least RM30 for the minimum. In the claim for the D Group, CUEPACS made a comparison to the highest paid group in the public sector. Under the NewRS, the lowest paid group received RM324-RM498 (as compared to RM300-RM450 under the old scheme). The allowance they received was RM65. The highest pay in the public sector was RM7770-RM10,340 with an allowance of RM10,500. To make the comparison clear, let us look at Table 10.1 that illustrates the starting pay of both groups from 1970 to 1992:

**Table 10.1 Comparison between lowest and highest paid group  
In the Public Sector, 1970-1992(Pay)**

<b>Starting pay Lower income group</b>	<b>Starting Pay Highest Income Group</b>	<b>Rates</b>
1970 RM140	RM4250	30times
1976 RM195	RM5350	27times
1991 RM300	RM6460	21times
1992 RM324	RM7760	23times

Source: Triennial Report, 1992-1995

As a comparison too, Table 10.2 shows us the difference in allowance. Clearly, CUEPACS argument has its basis. It proved that the gap between the highest and the lowest income in the public sector has risen and not lowered under the NewRS. Indeed, in the privatised government agency, the pay level for the lowest income group was higher than the ones paid by the government. CUEPACS then insisted on a rise to RM60 for all Group D. In the claim, CUEPACS demanded an across-the-board increase of RM80 for all categories of employees in the public sector.

**Table 10.2 Comparison between lowest and highest paid group  
In the Public Sector, 1970-1992**

<b>Allowance, Lowest paid Group</b>	<b>Allowance Highest Paid Group</b>	<b>Rates</b>
1970 -	RM 600	-
1976 RM30	RM 600	20
1980 RM35	RM 4,500	128
1991 RM65	RM 4,500	69
1992 RM65	RM10,500	161

Source: Triennial Report, 1992-1995

However, the PM on 20<sup>th</sup> February 1995 criticised CUEPACS for referring to the inflation rates faced by the country. The PM's remarks showed his attitude of ignorance towards the plight of CUEPACS. Without having any foundation (like

economic considerations) to base their pressure on the government, CUEPACS position was at the government's disposal.

Among the most prominent demands made by CUEPACS was a change in the calculation for the pension scheme. CUEPACS wanted the maximum 300 months for calculating the pension for the public sector to be abolished and replaced with a new formula:  $1/600 \times \text{total months in service} \times \text{the last pay}$ . While for reward, CUEPACS agreed to lower the percentage from the 20% raise to only 7.5% since the government only allocated 2 billion for the whole 1995 Claim for Salary Review. CUEPACS also demanded that the government consider a housing allowance of RM85 for all employees in the public sector, until now only enjoyed by the Top Management Group, in the top Management and Professional Group and the army, police, fire brigade and the prison officers. In making this demand, CUEPACS promised not to make another until 1998.

Actually, as early as March 1994, CUEPACS had already made a claim for a pay rise, especially for Group D, for a minimum wage of not less than RM500. The Director General of the Public Services gave an answer that there was no pay revision in the NewRS and it reminded CUEPACS that these were managerial prerogatives. Thus, CUEPACS went to the Prime Minister instead. This 'special relationship' with the PM began during the Abdul Razak era, when the CUEPACS representative went and met him over wage claim (refer Chapter Seven). Though the PSD was the department that administered the public sector IR, CUEPACS knew that the final decision was in the PM's hands, which became more evident during Mahathir's era. The direct relationship that CUEPACS enjoyed with the PM was not always smooth. During the

20<sup>th</sup> February 1995 meeting, CUEPACS was criticised for the making demands that pay rise should be based for the increase of prices of goods. In that particular meeting, the PM promised to abolish the Performance Appraisal System, which was related to the Yearly Pay Increment in the NewRS, one persistent complaint by the public sector employees. The PSD made an estimation of 12 billion over the CUEPACS 1995 new demand, and claimed that this would push the government almost to bankruptcy. Therefore, CUEPACS was asked to produce lower estimates, to which they responded with a new claim worth RM4billion. The government asked CUEPACS to again send a new memorandum, which the union did on the 1<sup>st</sup> August 1995. The PM gave the answer that the government could only allocate RM2billion. CUEPACS again sent a counter proposal of RM3billion to the government on 20<sup>th</sup> October 1995. A meeting between CUEPACS and the PM on 30<sup>th</sup> October 1995 saw the government stand with the RM2billion offer. At this stage, the PM, the Minister of MoHR and the Government Financial Adviser asked CUEPACS to accept the RM2billion offer. It also asked CUEPACS to make a bigger allocation to the lower group if it felt that this needed to be done. In other words, it was up to CUEPACS to solve the problems of allocation as long as it was RM2billion as offered by the government. The only option left to CUEPACS was to accept the offer. On 7 November 1995, the union sent a letter of acceptance to the Prime Minister. On 28<sup>th</sup> November 1995, CUEPACS sent the PSD a calculation on costs and sent a letter regarding the same on 14<sup>th</sup> December 1995. This was despite CUEPACS receiving feedback from member unions who were dissatisfied with the outcome of the demand. After a meeting and a national forum, CUEPACS asked the government to validate claims that had been given due consideration. The PM and the Minister of Human Resources claimed that the delay was because CUEPACS did not accept the government's offer. This shocked

CUEPACS, since they had given feedback to the government's proposals and had submitted details and had yet to receive an answer from the government. This merry-go-round revealed the flaws within the system and the need for real negotiations power between CUEPACS and the government. It showed the need to change the nature of relationship to make the PSD or the NJCs the negotiation machinery instead of relying on meetings with either the PM or other ministers. In fact, as discussed above, the PSD, especially the Remuneration Department was very capable, provided the government trusts them with the task. What the 1995 claim revealed was that public sector union leaders needed to maintain the good rapport with political leaders to 'succeed' in their dealings. Unless the negotiating right was returned the political relationship would prevail.

Finally, CUEPACS accepted the government's offer of RM2billion. The government added another RM96 million to it and CUEPACS, who originally insisted on at least RM3 billion, said 'it was an offer one could not refuse' or the 'deal of a lifetime' (The Sun, 4/2/1996). There were several details that pleased CUEPACS and the public sector. For example, the government agreed to the idea that more should be given to the lower group. 88% was in fact allocated to the lower group and a minimum basic salary of the public sector employees was set at RM500 (The Sun, 6/2/1996). That caused the MTUC President Zainal Rampak (The Star, 2/2/1996) to ask government to also extend the minimum wage to the private sector (the minimum wage is one of the main issues that the private sector unions had failed to resolve).

However, there were objections regarding the pension scheme. The NJC for Staff Side (Science and Technology) under its Secretary, S. Santhasamy had prepared for the

proposal of a new pension scheme in 1993. The pension scheme has not been reviewed since 1976, when it was only to continue at the 1970 rate (The Sun, 7/4/1996). Santhanasamy's effort was incorporated into the CUEPACS memorandum for the Salary Revision. On January 31<sup>st</sup> (after two years of 'negotiations') CUEPACS agreed to the government's offer of RM2.096million, a moment hailed as 'history' and 'success' for the public sector employees. 315,000 pensioners were to enjoy the benefits as well, since the ceiling of period of service was extended. Instead of the pension formula being calculated up to the 25<sup>th</sup> year of service, there would be no limit to years of service. On February 1<sup>st</sup> 1996, the then Secretary General of CUEPACS, Siva Subramaniam confirmed that pensioners who had served for more than 25 years, regardless of when they retired, were eligible for the new pension formula. That means, most pensioners (except ones with less than 25 years who would receive the present rate of payment) could look forward to additional increment to their pension (between RM50 to RM200) as early as July 1996. However, this joy was short-lived as within weeks after the concluded and already made public announcements, the PSD 'suddenly realised' that something was wrong with the calculations for pension. The government now claimed the pension bill expected for 1999 would be RM3.133 billion. By scrapping the new formula, the government could reduce the cost to RM1.656billion for 1995 and RM2.638billion for 1999. Therefore the government would save RM1.964billion over the next four years. The CUEPACS leaders, despite not having a consensus of its members over such an important matter, agreed to the government's decision. In April 1996, pensioners and members alike criticised CUEPACS leaders. The president, Mohamad Mat Jid, when asked why it was carried at the pensioner's expense had this to say:

‘...because the Congress does not only concern with itself but the welfare of everybody, including the government’ (The Sun, 7/4/1996).

The mistake made by the PSD and the CUEPACS leaders’ decision to succumb to the government was senseless in itself. It only further enhanced the view of how weak the leadership and the union were as a whole and how easily manipulated they could be. The President argued that dissenting CUEPACS affiliates had to abide by the ‘majority decision’ (The Star, 4/4/1996). This was one area that became the concern of veteran trade unionists who claimed that in their years of service to CUEPACS such a mistake would not be tolerated (Interview: Jamaluddin Md Isa, 30/1/2001). The PSD Director General of the time, Mazlan Ahmad, admitted that the government had failed to realise the ‘full financial implications of the formula, which no longer limited the years of service when calculating the pension’ (The Star, 2/4/1996). If implemented, he claimed it would equal the national salary allocation for five years. The National Union of Government Office Workers and the Malaysian Pensioners Associations were among the unions against the idea (NST, 11/6/1996). In CUEPACS itself, major unions affiliated to CUEPACS such AUEGCAS, ANULAE and MNU, together with other 30 affiliates, teamed up together to prepare for a memorandum to the government. It was chaired by the ex-General Secretary of CUEPACS, A.H. Ponniah (The Sun, 6/4/1996). However, by 14 April 1996, the PSD declared that the ‘pension issue is closed’ and would not entertain anymore attempts to revive it. CUEPACS again accepted the decisions.

This incident once more proved several points that concerned public sector IR. The absence of a collective bargaining right, the failure of the PSD to function as the negotiating table for CUEPACS, and the demise of the PST, had all contributed to the



weakening of CUEPACS to its lowest level. The only choice left depended on a good rapport with government leaders, a relationship that was fragile and totally depended on the balance of power between the two, which as already discussed were always in the hands of the government. It was almost impossible for CUEPACS to win in any 'negotiations' on their terms against the strong government. So what was revealed through the 1995 Salary Claim was totally expected, and in fact accepted as a 'success' by some CUEPACS leaders. The fact remains that they did not really have any other choice, apart from taking a more aggressive stance, a view that no one since Ahmad Nor's short era was willing to take.

#### **10.4.3. The Political Relationship**

As discussed in the preceding chapters, political considerations were also one of the priorities that influenced the government's role in IR. The economic and political crises of the second half of 1990s saw the political leaders making concerted efforts to win people over to their line of thinking, to support the government, acknowledging the fact that the sacking of Anwar brought a split in loyalty, especially among Malays. The leaders focused on trade unions to gain support and loyalty, especially from public sector employees whose majority were Malays/*Bumiputeras*. The next discussion explores how politics has sometimes influenced Malaysian public sector IR.

During the crisis, Malaysian political leaders made nationwide tours to explain the situation to the people. In September 1999, while in Sabah, in East Malaysia, just two months before the general election, the PM praised the Malaysian army and police for their loyalty to the government of the day. He said this reflected their professionalism,

even if ‘some of those in the administration may be inclined to certain parties...’ (The Star, 18/9/1999). The fact was army and police personnel were denied access to unions, and therefore there was never really any threat, as this prevented them from creating any industrial unrest. In fact, throughout Malaysian history the army and police have stayed loyal to the government of the day. The government’s bigger worry was obviously other groups in the public sector that were capable of bringing pressure on the government, especially trade unions and NGOs. Amongst the education community, dissent was more evident. The government was alarmed by reports in the media over criticisms of government officers, especially teachers, lecturers and professors. He urged them to be loyal to the government, to maintain their professionalism and to ensure each government plans were implemented for the people’s benefit, ‘thus at the same time avoid turmoil in the country’ (BH, 22/9/1999). The PM slammed teachers, lecturers and professors who instigated students to hate the government and influenced them towards opposition parties. The students were instead urged to be grateful for the government’s contribution to them and be responsible towards the society. He reminded the civil servants:

‘When government programs fail, it is the *rakyat* (people) who will suffer’ (NST, 22/9/1999).

Teachers, upset that they had become the targets of attacks by ‘overzealous politicians’, pledged their loyalty. The President of the National Union of the Teaching Profession (NUTP), Abu Bakar Shaukat Ali, denied that teachers were involved in anti-government activities and declared that 95% of the 280,000 teachers were in the clear. The NUTP, the biggest teachers’ union, with 90,000 members, promised to investigate every allegation even though it was sure that those implicated were in fact private religious schoolteachers (The Sun, 8/9/1999; UM, 8/9/1999).

However, in October, it was reported that twenty teachers had been reprimanded for spreading their political views in schools (The Sun, 15/10/1999). In one particular incident, a teacher who used names of politicians and certain people in his monthly test questions defended it as only a joke, but the government was not amused. The Deputy PM was in the opinion that it was a big offence and the teacher would be indicted under the Officials Act.<sup>113</sup> This highlights the government's aversion towards not just open conflicts, but any implication towards conflicts itself, especially if they came from public sector employees, such as shown by teachers.

The tradition to invite the PM to the CUEPACS Conventions was in itself ironic. It was like inviting any multi-national company CEO to officiate at MTUC conventions and just showed the eagerness on the part of CUEPACS to maintain the 'special relationship' with the government, which brought contradictory views from trade unions themselves. While some cherished the 'close relationship', others thought CUEPACS should distance itself from the government and be a 'real' trade union (Interviews: K.George, 7/2/2001; Ahmad Nor, 6/2/2001). However, CUEPACS was not in a position to distant itself from the government without having the foundation that enabled it to negotiate, so for the whole of the NDP period, it has become more and more accommodative.

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<sup>113</sup> The 'serious' offence by the teacher happened in the Prime Minister's own state of Kedah, whereby he mischievously inserted names of politicians and people involved in the Anwar- related issues in the monthly mathematics test for the Form Four and Five pupils. He also related questions to the injury inflicted on the ex-deputy Prime Minister and his claims of being poisoned in prison (BH, 25/10/1999).

It appeared that Mahathir's speeches in the 1990s made less reference towards racial harmony and race relations in general. However, the ultimate goal of the OPP2 and the NDP was national unity. However, what the government actually meant by that was quite vague as there were no concerted efforts made and implemented towards the achievement of such, apart from using economic growth as an instrument. One thing was certain though, looking at the NDP's objectives, it was obvious the government was still trying to achieve the 30% *Bumiputeras*' shares in the nation's wealth, as envisioned in the old NEP. The foundation then was the same, that as long as the *Bumiputeras* were not functioning in the modern economy, the government would continue helping them. Though the shift in strategy happened, the fact is 'more attention would be given towards strengthening the capacities of the *Bumiputera* to effectively manage, operate and own businesses rather than on achieving a specific numerical targets of equity restructuring and ownership' (OPP2, 1991).

This belief in the need to correct economic imbalances between *Bumiputeras* and non-*Bumiputeras* is an historical-based issue and a very political one as well. Though outwardly the IR policy showed no direct relations with the issue of socio-politics, racial or history, the NDP highlighted a government that was committed to maintain its *status-quo* politically. In the broader economic plan, the question of race persisted. For example, in order to encourage more *Bumiputeras* to partake in the mainstream economy, the Privatisation Policy was further enlarged. The direct effect on the public sector was when government agencies and departments were privatised or corporatised, and the *Bumiputeras* were automatically brought into the private sector, thereby giving them chances for better perks and wider opportunities to venture out in the open economy. Under the NDP, the private sector, which had the competitive

edge, was regarded as the catalyst for economic growth in the country. Therefore even though privatisation was criticised by CUEPACS as the reason it lost the more lucrative agencies to the private sector, the government's intention to make the public sector smaller but more effective and efficient was generally accepted.

The last confrontational approach taken by CUEPACS was when Ahmad Nor was the President in 1985. The succeeding presidents seemed to outdo each other in showing their allegiance to the government and the PM never failed to praise CUEPACS for any effort they showed in support of government policies. In the same vein, the PM also never failed to condemn trade union leaders whom he thought went out of line. For example, in the CUEPACS 19<sup>th</sup> Convention, the Prime Minister praised CUEPACS for its effort in 'maintaining the good IR' with the government, acknowledging 'responsible, mature, considerate, not extremists' CUEPACS leaders, who were sensitive towards the national interests. In the same speech, he berated those leaders who were 'more interested in politics and willing to ignore the nations' interests':

'Therefore they slander their own country among international trade unions. They did not care whether their action affected the economy or the Malaysian workers' (Mahathir, 22/6/1992).

It was obvious that the Prime Minister was commenting on the MTUC as some of its leaders, especially the Secretary General of that time, V. David, had been vocal in their opinions over the government's attempts to split the labour movement (MTUC Biennial General Council Report, 1991/92). During early 1991-1992, the MTUC faced a challenge by the MLO, the government-backed splinter union (see Chapter Nine). The then CUEPACS General Secretary, Jamaludin Mohd Isa, also did not

agree to the approach taken by V. David (Interview: Jamaludin Mohd Isa, 30/1/2001). He preferred to discuss with the government any issues regarding the workers' problems, and not abroad in front of 'foreigners', such as the ICFTU-ILO. He also disapproved of the era when the MTUC leaders were courting the opposition parties. Needless to say, he was an UMNO man. It seemed to be in the tug-of-war game between the MTUC and CUEPACS to win the government's recognition, in which the latter has won the government's approval. The wrath shown by the government towards the MTUC whenever it went out of line taught CUEPACS a lesson or two. Without the collective bargaining power, and the government as its employer, CUEPACS chose to be on the safer side, that is, the government's side. However, Mahathir's speech further divided the relationship between CUEPACS and MTUC, which, while a loss to CUEPACS, was a gain to the government. When Mahathir praised CUEPACS and condemned MTUC publicly, he was giving a clear warning to CUEPACS not to resort to means that the government were averse to. Also, when in 1992, Mohamed Mat Jid, the MLO President was elected as the new CUEPACS President, the chances of reconciliation between CUEPACS and MTUC were further eroded. As such, the trade union movement in the 1990s looked set to remain weak, docile and divided, and therefore receptive to government's manoeuvrings.

In 1996, the PM again highlighted the 'Malaysia Inc' concept that encouraged close relations between the private and the public sector. He commented that while the Communist, the Socialist and the 'welfare state' systems were still highly regarded by the West, Malaysia had moved on to privatise government departments and agencies. Malaysia has implemented the NEP, eliminated tax on luxury imported goods, and prevented traders from marking up prices as they wished. These radical moves

contributed to the economic growth enjoyed by the government until the second half of the 1990s. The PM urged trade unions and employers alike to replace strike and lock-outs with a 'more civilised' method, i.e. the arbitration by a third neutral higher party, with an option to refer the case to a higher authority if that still failed. He was therefore only referring to the available mechanism in the private sector. However, while the private sector had collective bargaining and collective agreements that could be reviewed every three years, the mechanism was absent in the public sector, and the salary review could only be performed every five years. Even that, as was argued earlier did not necessarily depend on the economic environment of the nation.

In 1998, following the economic crisis, CUEPACS and MTUC Presidents were appointed as council members of the NEAC. CUEPACS was headed by the President, and each of the thirteen states was represented by a union representative, except Kelantan (the state under the opposition party) (CUEPAC SAR, 1995/1998). This, and the opportunity to join the international trade missions, was regarded by CUEPACS leaders as an honour and a mark of the government's sincerity to make trade unions a 'smart partner' in the tripartite system (Interview: Abd. Rahman Manan, 9/1/1999). In fact, both MTUC and CUEPACS leaders regarded the appointment as an honour (Interviews: Siva Subramaniam, 4/1/1999 and Zainal Rampak, 7/1/1999). With trade union leaders now invited to participate in many of the government's other policies, 'there are now more ways to state trade unions' views...' (Interview: Siva Subramaniam, 4/1/1999). The present CUEPACS President believed that the relationship with the government was 'quite close' (Interview: Siva Subramaniam 4/1/1999). He claimed that the government recognised the trade unions '...in a society like Malaysia, we have to be careful with our ways of doing things...'

(Interview: Siva Subramaniam, 4/1/1999) and dismissed claims that accused the present trade unions as less aggressive:

‘...the discussions are always heated discussions...the relationship is good....sometimes both agree to differ...politicising is bad for the nation’ (Interview: Siva Subramaniam, 4/1/1999).

He believed that the relationship with MTUC was also good and that both ‘CUEPACS and MTUC now are led by good leaders...but before...when CUEPACS was under the leadership of Ahmad Nor, that was different’ (Interview: Siva Subramaniam, 4/1/1999). What the president implied was that in a plural society such as Malaysia, open conflicts should be avoided. He was in fact using the same line of thought as the government, who always highlighted the 13<sup>th</sup> May as an example that Malaysia needed to preserve ‘harmony’ between races, and therefore avoid open confrontations. When he commented that politicising was bad for Malaysia, he failed to see that that had exactly been the relationship that was established between the government and CUEPACS.

The present view of the CUEPACS President and its Secretary General clearly influenced the way CUEPACS dealt with public sector employees’ issues. In February 1999, the MTUC President Zainal Rampak called for the government to review salaries and expedite terms and conditions of service for public employees of the five alienated bodies<sup>114</sup> now that the economy was back on track, as promised by the government in 1995 (UM, 21/2/1999). When confronted by reporters on CUEPACS stand over the matter, the CUEPACS President took a more lackadaisical approach.

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<sup>114</sup> This centres on issues of the Armed Forces, EPF, SOCSO, Pilgrimage Fund and the National Savings Bank.



He stressed that 'CUEPACS understood the current situation, especially the economic downturn that brought the *Ringgit* value 60% lower as compared to the US Dollar' (UM, 22/2/1999). 'CUEPACS did not want to create a hue and cry over the matter as it was aware of the economic situation and the problems faced by the people' (The Star, 22/2/1999). He stressed that CUEPACS would only propose a salary review at a suitable time to avoid financial strain on the government (Utusan Melayu, 22/2/1999). This 'deep understanding' over problems faced by the government should be looked at from other angles. First, it was clear that CUEPACS wanted to distance itself from the MTUC in terms of its approach with the government. Also, it did not want to be upstaged by the MTUC, which represented mostly private sector unions (apart from some affiliating unions from the public sector) as the spokesperson for the public sector. CUEPACS was adamant to keep the 'open line', with the government free from elements that might sour the relationship. It was aware that the government abhorred ultimatums or confrontational approaches, and believed that discussion was the only available mechanism. This approach has been proven more fruitful in its limited capacity than the confrontational manner. As the union federation for the public sector, CUEPACS liked to be seen in a better light than the MTUC, ensuring its members that the union's top leaders said the right thing at the right time, especially when the government (its employer) was faced with political and economic turmoil.

So serious was CUEPACS in defending its position as the sole spokesperson for the public sector employees, that in early 2000 it urged the MTUC to stop representing separate claims on any issues that concerned public sector employees. The Secretary

General said the union would appreciate it if the MTUC would 'support' any memorandums over claims by CUEPACS to the PSD:

'CUEPACS is the national body for the public sector in their dealings with the PSD. What is proposed by CUEPACS are the inspiration and wishes of its members collectively. If there are two claims then it will confuse the government and complicate efforts to get settlements since there seems to be conflicting issues...' (UM, 31/1/2000).

He was referring to the MTUC proposal to the government that public sector employees' retirement age should be raised from 55 to 60 while CUEPACS was making proposals that the age should be raised but to 58 (The Sun, 31/1/2000).<sup>115</sup> This 'love-hate' relationship between CUEPACS and MTUC had gone on since their earliest existence as two bodies that each represented the public and the private sector. When the two most important trade union bodies were not united in voicing their opinions regarding the employees' plight, the situation most definitely benefited the government. So bad was the relationship that in 1997, CUEPACS considered asking 20 of its affiliates to leave the MTUC, though in its recent elections, several principal CUEPACS officers won key positions in the former union. The President at the time, while denying any problems said:

'But we have to consider in the long term whether we will still be able to maintain our identity and fight for causes without being overshadowed' (The Star, 17/1/1997).

Not all agreed with the idea as some felt that it was against the principle of freedom of association as unions have the right to choose. However, there were views that principle officers of CUEPACS should refrain from holding on to major posts in the MTUC so as to prevent conflicting interest. However, here again it showed that

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<sup>115</sup> In September 2001, the government agreed to raise retirement age for public sector employees, but only to 56.

personal bickering between CUEPACS and MTUC leaders further damaged the chances for employees in Malaysia to be united and win their causes.

The Malaysian government abhorred pressure from unions, as shown in the way it responded to the question of a yearly bonus to public sector employees. CUEPACS argued that since the economy had been good for many years, it was time to introduce a yearly bonus rather than make an ad hoc decision (it has been awarded once in 1975). The government refused, again saying strong economic growth should not be the basis, and a bonus should not be accepted as part of pay, but in recognition of good work. However, in 1993 and 1994, the government's servants received a half a month pay bonus. Things improved when the government gave a month's bonus for the years 1995, 1996 and 1997, with a minimum that also increased from RM500, 600 and 700, respectively. However, in 1998 there was none due to the economic crisis, except RM400 to help with 'school children's needs'. In 1999, just before the election, while the country was still said to be suffering from the economic crisis, a month's bonus was given in four installments (with a minimum of RM1000). This prompted accusations of political buy-out, which were strongly denied by the government. However, in 2000, when the economy was said to be better and after much debate, only a half-month bonus was given. It again caused criticisms that the 1999 bonus offer was indeed political, especially when there was a lot of dissatisfaction, especially among the Malays (the majority of public sector employees) over Anwar Ibrahim's sacking from the government and his subsequent jailing.

Again, even though the government dismissed the relation between its policy and political influence, the events that unfolded in Malaysia during the crisis proved

otherwise. In September 1999, the government gave incentive allowances to police personnel and reinstated allowances for civil servants that had been cut because of the 1997 economic crisis (The Star, 18/9/1999). The Chief Secretary to the government brushed aside accusations that the government was fishing for votes in the general election and insisted that the economic recovery was the sole reason for the reinstatement. However, it can not go unnoticed that the government's announcement for approval of the long overdue incentive for nearly 10,000 police personnel serving with the General Operations Force and Federal Reserve Unit coincided with the November 1999 general election. Nor the fact that until 2000, Malaysia was still struggling to regain its once high economic growth.

### **10.5. Conclusion**

The above discussion revealed several important conclusions regarding the public sector IR in Malaysia during the NDP period. Just like the private sector, the public sector was developed in line with a more macro-based development planning, the NDP. It has been shown that because the NEP had still not achieved its targets, the government planned to continue with the same under the NDP, but with new strategies and emphases. With that, it went on to outline the public sector roles in line with the NDP, starting with the legislation, its administration and its policies. As the biggest employer, the government has shown that it has managed to ensure that public sector employees, and especially CUEPACS leaders, understood its aims and objectives. CUEPACS has shown that it has accepted the government's way of dealing with them, i.e. a lot of discussions, some through the tripartite bodies, and the more important ones through direct relationship with the higher authority in the government, but still no negotiation. With that, CUEPACS was in a subservient

position. This was not helped by the fact that CUEPACS maintained its rivalry with MTUC, instead of making it its own 'smart partner'. Weak finances and a lack of strong leaders further compounded its position.

The PSD on the other hand functioned as the government's extended arm, to ensure that both its officials and employees abide by the government policies. The mechanism it offered, the NJCs and DJCs, and later with the demise of PST showed that the PSD was no other than what the government ascribed them to be, to make sure that all the policies were enforced, and they did. In other words, the PSD has proven to be the government's strong arm as compared to the CUEPACS failure to its members. Several issues discussed showed that CUEPACS was not left with much choice, either they accepted the government's offer or had nothing at all. This was especially the case for the claim for a salary review in 1995. Other decisions were unilateral, like the NewRS, which until now had not been satisfactorily solved. It again showed the ineffectiveness of the tripartite bodies, which became more of instruments for the government to hear views of the employees through their representatives, but they were under no obligation to accept these views. All throughout the NDP, the government consistently used the reasons it had always used before in the NEP. It stressed the help towards the Malays/*Bumiputeras*, especially to silence opposition towards privatisation and other policies, leaving not much choice for the Malays who were the majority in the public sector. For the Malays to oppose the government was like a betrayal of its own people. However, the recent political and later economic crisis, especially the Anwar issue, succeeded in putting the government in the defensive against accusations that they had been practising cronyism, nepotism and mismanagement. There was now a lot of attention directed

towards reform, especially in the public sector. The crises also showed the government that they had made some wise decisions in retaining all the restrictive rules, the culture of top-down administration and its pro-harmonious relationship policies. It paid off in that there was no dramatic rise in disputes during times of economic and political turmoil, either in the private or the public sector.

The next chapter offers a comparative analysis on the role of the state in the private and the public sector IR in Malaysia for the whole period under study.

## CHAPTER ELEVEN

### A COMPARATIVE ANALYSIS OF THE DEVELOPMENT OF PRIVATE AND PUBLIC SECTOR INDUSTRIAL RELATIONS IN MALAYSIA

#### 11.1. Introduction

One of the objectives of this study was to compare the state's policies towards private and public sector IR. The foregoing discussions in Chapters Nine and Ten showed that the state implemented different IR policies to each sector during the NDP period, primarily because of the pivotal role given to the private sector in the Malaysian economy. The government maintained an official development ideology that high economic growth was an important factor for Malaysia to achieve its ambition to become a fully developed nation by the year 2020. This view affected the government's relationship with employers and employees in both sectors, and subsequently its IR policies. Since the private sector was increasingly regarded as the engine of economic growth, the public sector was expected to play second fiddle, as a supportive role to the private sector, further affecting the development of IR in both sectors.

This chapter looks back to compare the development of private and public sector IR in Malaysia during the period under study. Thus, the next analysis focuses only on the comparative element of the role of the state in the private and public sector within this. Here, the focus is on two issues: one, on the balance of power in both sectors; and two, on the factors that influenced the development of IR within these.

## **11.2. An Analysis on the Balance of Power in Both Sectors**

The most important finding on the analysis of the public and private sector IR in Malaysia is the increasingly dominant power of the state, especially in the public sector. The state's dominant role in IR was very much influenced by its active role in the economic development of the country, which started after independence, but became more prominent during the NEP. The state's active role in the economy encouraged its subsequently more restrictive roles in IR in both sectors, especially through legislation, administration and various policies.

The state has continually used economic, social and political reasons for its interventionist role in the economy, especially after the 13<sup>th</sup> May race riot. The most controversial part of the NEP was the affirmative action taken to correct the economic imbalance between races, and especially between the Malays and Chinese. The active role of the state in the economy, and the repressive and paternalistic IR policy during the NEP, and also later, was possible because there has only been a single ruling government from independence in 1957, the *Alliance/Barisan Nasional* government. This factor is significant in ascertaining continuity to the development of Malaysian IR, in private, and particularly in the public sector, since the government is the sole employer. A strong, stable government, fully in charge of the legislative framework, administration and also other supporting policies, enabled it to woo both sectors to support the official view that strong economic growth was important for Malaysia to achieve its economic objectives, and therefore helped solve other socio-political issues. The development of IR policies in both sectors was also influenced by an increasingly authoritarian government, which abhorred open conflicts.



The state's dominant position was much ensured by its political strength too, as in 2000, the *Barisan Nasional* coalition government was still composed of racially-based parties, the most dominant of which was still UMNO, the position it gained after the 13<sup>th</sup> May riot. It now represented the *Bumiputeras* interests instead of just the Malays, therefore giving it the advantage of broad-based political votes. The Malays' 'special rights', which were brought to the fore when the government officially spelled out the second prong of NEP to 're-structure the Malaysian society', were continued in the NDP. The reason was that the objective of 30 percent corporate wealth ownership was not met, therefore the policy was to be maintained, but on a subtler level than the NEP. Therefore, to ensure continuity in economic policies, legislation was a crucial instrument to face any opposition to the government's official views. Clearly, economic objectives were still viewed as important to achieve economic-parity between races, and the ultimate objective, of 'national unity'. In both sectors, therefore, the state ensured that IR policies were in line with the national development plans. The discussion below analyses the comparative element of the state's policy towards both sectors.

The NDP period confirmed the establishment of two different IR policies for each private and public sector in Malaysia. The different roles expected of them exacerbated the situation, making united action by unions impossible. While the private sector was given a larger and heavier task, the public sector was to be supportive so that the NDP's objective was achieved. In other words, even though the NDP showed some new strategies to achieve a developed Malaysia, the government's stand towards IR in general did not change at all. The only change was seen on the administrative and policies sides. There were more talks, campaigns, forums and

'involvement' in tripartite bodies, but it was pale in comparison to what was actually needed by Malaysian employees in general, that is, the right to negotiate in the public sector, and overall more liberal trade union rights for both sectors. It is clear that since the NEP and the NDP, the balance of power, especially in the public sector, fell increasingly into the hands of the government. In the private sector, the government conceded to the pressures from the capital, such as the restriction on electronics industries, where the government clearly favoured employers (FDI) over local workers. Under the NEP, and the NDP, public sector employees were more subjected to the government dictation, while the Malays, who bore the bulk of government servants to the government, were specifically affected. The contention here is that the state, especially the independent one, imposed policies that were thought to help uplift the Malaysian economy. High economic growth, more so after the 13th May riot, was thought to be the primary answer to bring Malaysia together to unite and prosper, and for all races to be able to live together harmoniously. Although there were many scholars who were cynical towards the government's effort, the fact that the NEP and NDP were implemented along this line proved that it was committed in its belief that economic prosperity would solve part of Malaysia's problems. Moreover, the government believed that a strong economy would win people over, especially in a multi-racial community such as Malaysia, where racial sensitivities were ever present. However, the state was not immune to other internal and external forces that encouraged it to retain some policies while it improvised or eliminated others. On the whole, the state retained a dominant hold over the development of Malaysian IR in both sectors.

The government's strong position during the NEP and the NDP was achieved through a long process of amending laws, administration and policies. By 2000, the voluntary system in both sectors, as once practised during the colonial period, was long gone. Now the system has become compulsory, while in the public sector, it has become a totally different system altogether. The present government has preserved the legislative framework, which originated from a desire to control militant labour movement, especially the Chinese and Indian immigrant workers. If, during the colonial period, ensuring political stability was prioritised, it still is now, but with different aims.

The public sector employees seldom showed strong labour movement during the colonial period, as compared to the private sector ones, and this trait has been retained until today. Since losing their collective bargaining rights, they increasingly relied on their personal relationships with top political leaders in the country, hence the politicised relationship, which depended largely on a good rapport with the government. Therefore, the public sector employees, now collectively represented by CUEPACS have 'preferred' to preserve the 'cordial' relationship, rather than upsetting it. They have seen the extent to which the government was prepared to go if it thought the labour movement had become a 'nuisance', such as resorting to the ISA. The tradition that public sector employees need not be members of unions to enjoy the benefit of negotiations contributed to another reason why they were reportedly quite ignorant of their rights and depended more on the 'negotiations' that CUEPACS had with the government. This attitude further strengthened the government's position in the relationship with public sector employees. The tripartite bodies, like the NJCs and the NLAC, and the mechanism available, like the PSD, functioned more as forums for

discussions where union views were heard, but not necessarily accepted. The decisions that related to public sector employees in general were mostly unilateral.

In part, Malaysian history, and especially the experience of the 13<sup>th</sup> May encouraged the increasing power of the government, enabling it to use the law to restrict labour movement in times of social and political uncertainties. Apart from the laws, the government was supported by its own media mechanism, which was incomparable to the strength of opposition or unions. Once a moderate labour movement replaced militant unionism during the colonial period, the increasingly restrictive legislation in the name of 'national security' was used and reinforced by the independent government so that the labour movement, either from the private or the public sector never again became a threat. There was a real fear of open conflict shown by the government, so a strong labour and other legislation, like the ISA, ensured events such as the 13<sup>th</sup> May would be very unlikely to occur again in Malaysia. Without strong opposition and an effective labour movement as pressure groups, the government could ensure 'social and political stability', both considered as very important to guarantee that the economic environment was conducive for investors. In turn this provided capital for industrialisation, which was becoming an increasingly important tool in the Malaysian development process.

In the early years of independence, the industrialisation process was left more to the private sector, but now the government was committed to encourage FDI and MNCs to stay in Malaysia, especially when it was being challenged by other countries in the region. The TUO1959 ensured that there were no large federations of trade unions of general character, which might threaten the economic environment with industrial

disputes. Moreover, the government has managed to prevent the formation of large strong unions, especially through a policy of in-house unions in both sectors, as well as from preventing left-wing unions altogether. The DTUA and the ministry wide discretionary powers, to the extent of defining companies as 'electronics' or 'electrical', were retained. Clearly, the independent government had no intention of liberalising labour laws inherited from the British, but instead emphasised the restrictions, based on its present needs. There were of course a number of social and political reasons to support government's actions. In 1965, now using the Indonesian Confrontation as one reason for amendments, several more restrictions were imposed on labour. This time 'essential services' were prohibited to take strike action, which included government servants. Even though these regulations were subsequently withdrawn, the Essential (Trade Disputes in Essential Services) Regulation 1965 was promulgated, which retained, restricted and ultimately ended the British voluntary system. Compulsory arbitration now became the order of the day, in the name of the 'nation's interest', as well as economic and political stability. When the IRA 1967 was passed, all previous laws concerning industrial disputes were now consolidated. Meanwhile, the Act excluded several important provisions from applying to public sector employees, thereby already differentiating between the two sectors. It also meant that the public sector employees were denied the rights enjoyed by private sector employees, which further restricted their chances to be involved in the IR process. IRA 1967 effectively excluded Section 49 of the original IRA, Parts II, III, IV and V from applying to government service. These included the rights to form unions and to take part in collective bargaining with an employer. The right to strike, and other chief provisions such as recognition, organization, conciliation and arbitration were denied to them. Public service disputes now needed the *Agong's* consent (the

King) to be referred to the Arbitration Tribunal (synonym with IR Court for private sector), a right they never exercised. Their terms and conditions of service were centrally determined by Salaries Commissions or Committees, which without the negotiating right meant a unilateral decision and largely depended on the government. On the whole, the public sector IR lost more than the private sector in the course of 'national interests'.

### **11.3. An Analysis on Factors that influenced the Development of the Public and Private Sector IR**

Generally there were three broad factors that have influenced the development of the public and private sector IR during the period studied, namely politics, social issues and economics, but as analysed below, the factors were often intertwined. Political factors refer to political stability and political leadership. To ensure political stability, craved especially after 13<sup>th</sup> May 1969, labour laws tended to be more restrictive. Meanwhile, political leadership, especially under Mahathir, was shown to be a prominent factor as well. The stand taken by each political leader tended to become the nation's official position, and compelled the unions to accommodate. Meanwhile, social factors, including ethnic and cultural issues also aggravated some of the matters faced by Malaysian IR. In addition, economic factors, which refer to the government's obsession with economic growth, further influenced the development of IR in both sectors. The economic issues proved to be a dominant and obvious one, since officially and publicly, this had been emphasised by the government to win over Malaysians to its way of thinking. So, even though Malaysian IR practiced tripartism, effective participation from employees especially was much needed. On top of that, Malaysia still depended heavily on FDI and MNCs, and was therefore forced to ensure

a conducive economic environment and keep labour costs low. As a fast developing nation, it was also open to external forces, such as the process of globalisation. All these interrelated factors, as analysed below, influenced the development of both sectors.

During the British colonial era and the Japanese short occupation, economic and political factors merged to influence the government's policies more than social factors, even though both colonial powers had already acknowledged the Malays 'special position'. The immigrants were regarded as temporary workers, and even after the Malayan Union 1946, and The Federation of Malay States 1948, when ethnic issues, especially citizenship and economic disparity between Malays/non-Malays, were debated, there was no policy to unite the emerging plural and complex society. To be able to gain as much economically, the British, and the Japanese to a certain extent, maintained a stable political environment in Malaya. After 1957, the independent government also had the same considerations, but now the social issues had become central. Under UMNO, the Malays gained much after independence, as the more politically dominant force, and the British supported this. Ethnic issues, particularly involving the relationship between the Malays and Chinese over time, proved fragile. Therefore, it is contended and proven in this study that this was one key historical factor that has influenced the government's policies. The Malays were threatened by the economic prosperity gained by the Chinese in the short time they were in Malaya, particularly their domination of commercial activities. The Chinese on the other hand, were not satisfied with the pro-Malay policy implemented by the British and later their political dominance after Independence. Over time, the relationship worsened, exacerbated when the Japanese also imposed a 'pro-Malay'

policy compared to their treatment towards the Chinese. This saw the racial clash immediately after the war by the dominantly Chinese MCP. The Malays opposed the Malayan Union idea, as although it would unite Malaya for the first time into a centralised entity, it would also cancel the 'special position' of the Malays and reduced Malay rulers to figureheads with no authority. What alarmed the Malays most were the liberal citizenship regulations towards the immigrants and the equal rights proposed to all those who considered themselves as Malaysians. The Malays, for the first time, wholly opposed this and from thereon UMNO emerged as the Malays' champion, a position that it was committed to retain to this day. Even though UMNO was conservative and led by English-educated Malays who believed in maintaining good relationship with the British, it believed that the Malays 'special position' should be preserved. With the 1948 Federation of Malaya, the traditional role of the Malay Sultans was restored, while the Malays and non-Malays settled for the 'ethnic bargain'. The Malays accepted that those qualified under the new agreements would be Malayan citizens while the non-Malays accepted that the Malays were indigenous peoples with 'special rights'. These provisions were later included in the 1957 independent Malayan Constitution. However, the 'ethnic bargain' did not please the left, who gained support from the trade unions for a few years before going for the 'guerilla warfare'. The British enforced strict labour laws, and encouraged 'new unionism'. This slowly saw the erosion of support from the Chinese towards trade unionism. Thus, from then on Malayan trade unions were dominated by the Indians, and much later, by the Malays.

The social factor, particularly the ethnic issue, came to the fore again after the 13<sup>th</sup> May 1969, which became a watershed in modern Malaysia's history. The NOC used



the argument that the riot was caused by the dissatisfaction of the Malays over their economic backwardness, and that with that, 'national unity' was impossible. This argument legitimised the government's move to implement the NEP which, even though it contained many resolutions to economic problems in Malaysia, had a specific plan to help the Malays overcome their economic backwardness. This became another major setback in the Malaysian economic plan and race relations as it saw opposition from the non-Malays/non-*Bumiputeras*. It was during the NEP that the government took affirmative action to bring the Malays into mainstream economy, either through 'positive discrimination' in the public or the private sectors. When this objective was not fully met, it drove the government to continue with the pro-*Bumiputeras* clause in the NDP, even though there were a few changes, which placed more on economic development in general as well as a larger role to be played by the private sector. This proved that the government still considered a historical-based factor to influence its policy. However, political considerations were also significant, whereby the government knew from feedback that the non-*Bumiputeras* were wary of the pro-Malays affirmative action plan. Thus, the NDP stressed more on enhancing Malaysia as a developed and united nation, especially in line with Vision 2020. Nevertheless, it did not mean the *Bumiputeras* issue was discarded, as it still received considerable attention, but not as much as under the NEP. This was a positive forward-looking policy held by the government. However, in its obsession to rely on economic growth to solve other socio-political problems as well, the private sector was given one even heavier task of uplifting the economy. This highlighted the government's reluctance to permit the same rights to public sector employees, even though the Malays formed the bulk of the public sector. The government was adamant that public sector employees enjoyed more benefits and privileges than those in the

private sector, even without the negotiating right. It was also averse to open conflicts that might destabilise the status quo, and discourage investors, especially the FDI. Here we saw that ethnicity was not an issue anymore (since the majority of the public sector employees were Malays), but economic and political stability was.

So, it is apparent here that the economic factor was an important influence in the role of the state in Malaysian IR. However sometimes, there were exceptions. For example, just before the 1999 general election, the government showered public sector employees with a month's bonus and a 10 per cent across the board salary increase, even though the economy faced the worst downturn after many years and had not totally recovered. There were accusations from the opposition parties that the government was buying votes from public sector employees, although the government denied this. However, it confirmed the politicised relationship faced by CUEPACS with the government as employer, and showed a pragmatic government, which would resort to any policies that solved the problem at hand. It also showed the fundamental need for CUEPACS to regain its lost negotiating power.

During the three Emergency rules experienced by Malaysia, the government officially named socio-political stability as a reason for the restrictive labour laws that applied to both sectors. The first Emergency (1948-1960) saw the restrictive labour laws implemented under the TUO1948, and during this time there was a real threat from communist influence. Again, restrictive measures were taken during the Indonesian Confrontation in 1964. The 13<sup>th</sup> May 1969 racial riot also gave another reason for the government to implement emergency rule and to strengthen control over labour issues, proving that political and social issues were closely interconnected. Political

leadership as an important factor was more apparent during Mahathir's years, made possible by his long years as Premier. Several of his decisions affected the direction of Malaysian IR, proving that political leadership had become a strong determinant in Malaysian IR. It was also encouraged by the political culture in Malaysian politics which discouraged open conflicts, and was more submissive. Mahathir consistently aired his views on labour issues and stressed terms such as 'nation building' and the 'nation's interests' to gain support from unions. He made no distinction between public servants and government employees, expecting total loyalty.

A tripartite system existed in Malaysia, but decisions were often top-down. In the private sector, the MoHR was given considerable power to monitor IR, while the PSD had a more limited role, because of the absence of the negotiating power of unions in the public sector. The machinery in the PSD functioned more on daily issues rather than policy matters, which over time were decided upon by top political leaders, especially the PM. CUEPACS therefore did not succeed in functioning as champions of public sector union issues. From the very beginning, it failed to be a free independent union, partly because the authoritarian government was the employer, but partly also because of its own weaknesses. To survive, CUEPACS learned to be accommodative in order not to jeopardise its existence. On top of that, it lacked the financial resources to be freer, therefore limiting its independence from the government. CUEPACS also did not have independent leaders who were able to lead away from the government's influence, partly because they themselves were government servants subjected to all the rules and regulations set by it. MTUC, on the other hand, managed to administer its own affairs quite freely financially from the government. However, the state was always dominant in the power play between the

three parties in the private sector, except in a few incidents. In the electronics workers' plight, the government was happy to play 'second fiddle' to the employers, when it let the issue drag on until today and played the helpless 'victim' to the situation. This in fact showed the government's dependence on foreign investors and thus its victimisation of local employees. While in another issue, in 1978 and 1979, the government showed that it was ready to use whatever means available to counter dissent from MAS employees, even resorting to the ISA. However, internal politics was another challenge that impaired the MTUC. When leaders were accused of having their own agendas, and power was in the hands of a small number of trade union leaders, the MTUC failed to realise its full potential as a national labour centre. It also did not manage to manipulate its relations with CUEPACS to the workers' advantage. In other cases, the MTUC was just as dependent on the government as was CUEPACS, when this should not have been so. This was more evident during the NDP, when the MTUC President, at least in the eyes of his own colleagues, disappointed the movement. Based on several issues, such as the EPF and the annuity scheme, he was accused of conceding to the government. His readiness to accept the post as senator, (and therefore he had to join the UMNO, the dominant party in *Barisan Nasional*) further fanned such accusations. The MTUC was more than accommodative to the government giving it full access to both labour unions in the public and the private sectors. In fact, the MTUC and CUEPACS both fell into the government trap during the MLO affair. The government, either unbeknown to them or intentionally, had played CUEPACS against the MTUC. Even though when MLO merged into the MTUC, the movement never managed to manipulate the affair to workers' advantage.

During the NDP, in both sectors, political factors were important considerations that influenced the state's roles. A stable political environment was believed to be one crucial factor for encouraging foreign investors, and therefore it was kept at all costs. This makes it more evident how political and economic factor were intertwined, whereby only through political stability could the investors be thought interested to come and invest in Malaysia. This led the state to retain old legislation because it worked in guarding against unwanted conflicts, which was beneficial for attracting investors. In other areas, such as administrative and participative policies, the government made efforts towards a better private and public sector IR. However, because the legislation was mostly unchanged, the outcome of efforts in the administration and IR policies was dampened by the imbalance of power between the state and the other actors, namely the employees and their representatives. Apart from that, because public sector employees lacked several rights given to private sector employees, they were impaired, and their relationship with the government as their employer was more political than the private sector employers, and in fact more complicated.

#### **11.4. Conclusion**

Ironically, it is the independent state and not the colonial one that imposed two separate IR policies on both the Malaysian public and private sectors IR, whereby it was the independent state that stopped the negotiating right once enjoyed by public sector employees. After the 13<sup>th</sup> May 1969, the government felt the need to protect the Malaysian economy from influences that it thought would jeopardise economic growth, which was considered the most important weapon to achieve 'national unity' for the multi-racial community. During both the NEP and NDP, the government

placed a high priority on economic development, and therefore influenced the direction of IR in both sectors. In 2000, there were already two systems of IR in Malaysia, one for each sector. This was seen by the different legislation applied to each sector, the different mechanism used in administration, and also the different sets of IR policies. Increasingly, the government prioritised economic growth, placing it in the hands of the private sector. Because of that, it was obvious that the government was capital-friendly and protected the employers' position using legislation, administration and IR policies. This, as already discussed, impacted upon both the private and public sector IR. In the private sector, even though employees did have some rights, such as covered under the TUA and IRA, several restrictions, obviously to protect a conducive economic environment from unwanted industrial disputes, put them in a weak position. In the public sector, even though there were efforts to improve relations by involving unions in the tripartite bodies, the government's reluctance to relax several restrictions imposed on them defeated the purpose. The absence of a negotiating power for public sector unions mocked their presence in all the tripartite bodies, and made the relationship with the government very political, especially during the NDP. This was partly due to the strong political leadership under Mahathir Mohamad, but partly also because public sector unions were left with no choice. The success of the relationship depended heavily on a 'good rapport' with the government and the willingness to co-operate with it even though at the expense of workers. The government argued that public sector employees enjoyed a better package than private sector ones. This referred to the period of economic downturn when retrenchment was prevalent in the private sector but not in the public one. However, this is a lame argument, an excuse for not agreeing to the basic right of a negotiating power for the public sector. The fact was, in a very authoritarian

government, freedom for the public sector is quite rare. In this case, the private sector unions were left on their own as long as their movement did not go beyond the line set by the government. Here, legislation was already present to ensure such limitations. If they crossed the line, the government had no hesitation to counter such moves, especially in the name of the 'nation's interests'. During the NDP, it has been proven that the MTUC never crossed the line anymore and therefore the relationship was quite 'cordial', even if at the expense of workers.

## CHAPTER TWELVE

### CONCLUSION

#### 12.1. Introduction

The preceding chapters have discussed and analysed the development of Malaysian IR based on the themes and issues relevant to the role of the state, covering from the earliest period of wage labour until 2000. This chapter first presents an overview of the study. Second, five key findings of the research are presented. Third, there are three sections that focus on the contributions and limitations of the study, and some directions for future research on Malaysian IR in particular, and developing countries in general.

#### 12.2. Overview of the Study

As noted in Chapter One, the study has six objectives. The first is to analyse the state's roles in Malaysian IR from the colonial period until the end of the last major national development plan, the NDP, in 2000. In this context, the roles explored use Ayadurai's (1998) categorisation, that is, as legislator, administrator, participant, and, in the public sector, as employer. The contention here is that the current state and trends of Malaysian IR cannot be analysed without knowledge of its historical evolution and its social, political and economic context. Second, the study examines all the factors that influenced the role of the state, especially non-economic ones, as mentioned briefly in all previous studies on Malaysian IR. Third, it examines the changes in the role of the state during the period studied and if any, how this can be attributed to internal and external factors. Fourth, this study makes a comparative analysis of the state's policies towards the private and the public sectors' IR. Fifth, the



study determines certain factors that have changed or remained unchanged over the years, and lastly, it examines the balance of power between the state and the other two primary actors of IR, the employers (as represented by their institutions) and employees (as represented by their unions' centres).

Wu (1995:xix) notes that 'many characteristics of the IR system of Malaysia are rooted in the past' and part of the initial interest in this study was encouraged by such views. Previous scholars of Malaysian IR (Jomo and Todd, 1994; Arudsothy, 1990, 1994) agreed on the significant role of the state in the development of Malaysian IR. However, only Jomo and Todd (1994) attempted to offer a clearer and more comprehensive picture of the role of the state, though related purely to trade unions. It confirmed that the state played the most significant role in Malaysian IR but it did not analyse the significance of historical factors, as attempted in this study. While Arudsothy gave a more critical analysis of the evolution of Malaysian IR system, he did not relate to the 'diminishing autonomy of trade unions' and 'the growth of authoritarian corporatist tendencies' to the Malaysian socio-political system (Arudsothy, 1990: 327).

Generally, there has been a lack of research and debate on the development of Malaysian IR and therefore much less discussion of the link between its past and present. However, there were some studies that suggested new ideas, such as Sharma's (1985) 'stages of development' model and Kuruvilla's (1995,1996,1998) 'shifts of industrial strategy' as points of departure for exploring IR in developing countries in South East Asia. Both ideas belied the view that the role of the state was shaped by the history of each countries, as argued in this study. However, Sharma's

and Kuruvilla's views are not ignored as they help us understand certain aspects of Malaysian IR, especially its obsession with 'stages of economic development' through 'industrialisation', as seen with its ISI, EOI and heavy industries strategies. Like most developing countries, Malaysia incorporated both stages of development and industrialisation into its national development plans, the NEP and NDP. Nevertheless, it is too simplistic to analyse the development of Malaysian IR without looking at the country and its people's experience as a whole, which this study did in Chapters Four and Six. The difference between Malaysia and other ASEAN countries was that Malaysia had 'legitimised' its 'historical past' in national development plans, which have brought considerable strength to the nation's economy and enabled it to become one of the NICs in the South East Asia region. The Malays' 'special positions' were incorporated in both the NEP and NDP, which encapsulated other national policies, including IR. This position, later politically termed *Bumiputera* rights, is another legacy of the British colonial administration, which was retained although it remained a 'thorn in the side' of the fragile race relations, especially between the Malays and Chinese. It is therefore important to see whether the historical-based pro-*Bumiputeras* policy also became a factor that shaped the development of Malaysian IR.

This study has ambitious objectives, since it attempts to cover all the major turning point periods in Malaysian history up to the end of the NDP in 2000 (see Chapter Four which outlines these major turning point-periods). In addition, it offers a comprehensive view of the development and processes of Malaysian IR and addresses the research questions. However, it was made possible only by selecting themes and issues that were relevant and which have affected the development of Malaysian IR. Therefore, to cover such a long period of time, the chapters were based on only these

important events. The approach taken has enabled the researcher to analyse issues and themes from the colonial era when the relationship between the state, employers and employees first became significant in terms of wage labour and commercial activities (1874-1957). Next, emphasis was placed on the twelve years (1957-1969) of independence before the watershed of 1969, the year the race riot occurred, changing Malaysian history and legitimising the Malays'/*Bumiputeras*' special position in the subsequent national development plan, the NEP (1971-1990). The last two chapters highlight the NDP years (1991-2000), still with pro-*Bumiputeras* policy, but with some new pro-active strategies. The discussions and analyses have highlighted Malaysia was a pragmatic and forward looking country, but at the same time retrospective.

### **12.3. Key Findings**

Five major findings presented below address the research objectives of this study. The first reveals that the historical factors, whether economic, social or political were important to the development of Malaysian IR. Second, the study agrees with Arudsothy's (1990) view that Malaysia has a corporatist IR system. Third, the state, for mostly economic reasons, applied a different policy to its private and public sector IR. The fourth finding highlights the contending factors that influenced the state's roles in IR, emphasising the complexity of the Malaysian multi-racial society, one of the foundations behind the state's national economic policies. Here, the finding also answered another research question that the contending factors changed or remained unchanged, depending on the situation that Malaysia faced. The fifth finding highlights the balance of power among IR actors in Malaysia, which as contended, remained in the government's hands.

However, generally three intertwining issues have emerged in this study that explain the nature of the development of Malaysian IR. First, the continued active and interventionist role of the state in the economy resulted in it heavily influencing the development and direction of Malaysian IR. Second, the largely unchanged attitude of the government towards the labour movement as a whole for the period under study was much contributed by the continued authoritative political system which still saw the political dominance of the Malays under UMNO, that enabled the continuance of policies. Third, the Malaysian political system and its status quo remained because each community in the plural society was determined to preserve its individual traits and interests, and has 'supported' the racially-based parties in the coalition government until today. With the government actively involved in determining the direction of the Malaysian economy and 'nation building' in a plural society, where each community jealously guarding its interests, the Malaysian IR system is unlikely to change. On the whole, the development of Malaysian IR was very much influenced by its past and present social, political and economic factors thus ensuring its continuity.

### **12.3.1. The Importance of the 'Historical Past' in the Development of the Role of the State in Malaysian IR**

This study has shown that Malaysia's historical factors, including its social, political and economic experience, influenced the role of the state in IR more deeply than acknowledged by previous scholars. One of the most important issues was the definition that the Malays/*Bumiputeras* are the 'indigenous' people, and therefore deserving of the 'special rights'.

Undoubtedly, this has contributed to the complexity of Malaysian society, and has complicated government policies, especially economic ones as the major development policies, and therefore also IR. Rather than let go and treat Malaysian citizens as equals, the clause has influenced the government's policies, especially under the NEP, and later again under the NDP. Some of the effects were direct, such as the pro-Malay policies implemented under the NEP that saw the emergence of the Malays as important contributors in the economic sphere, and especially as public sector employees. Indirectly, but just as important, the desire and capability of the dominant party in the coalition government, UMNO, to retain the clause, affected the unchanged political system, which was preserved without effective opposition (except in 1969). Because of the strong, stable government, the IR system inherited from the colonial era was only improvised to suit the country's need at the time, especially its legislative framework, because it was seen as effective to suppress dissent. The TUA1959 today is more restrictive than TUO1948, implying that the government believed its usefulness would counter industrial conflicts and protect a conducive economic environment. Political stability was increasingly deemed very important, while fragile race relations were protected using laws, campaigns and supportive public sector. The 13<sup>th</sup> May 1969 event became a historical landmark, not just because there were amendments to labour laws, but also because the watershed year saw the government taking full charge of the economy with the implementation of the NEP, and with the affirmative action that legitimised the Malays/*Bumiputeras* 'special rights'. Before that, the IRA1967 encapsulated all previous regulations on IR, and from then on IR and labour issues in Malaysia were very much regulated. The ISA, originally established to control and counter communism, and in fact, originated from the Emergency Regulations, was retained, even though that issue and other political

threats, such as the *Konfrontasi*, were long gone. In other words, even though the government, and this was emphasised by the officials interviewed, provided the democratic ways and two-way discussions, the restrictive legislation had to be kept as a pre-emptive measure to counter attempts to disrupt the status quo. With the state now playing an enlarged role in the economy (the NEP and later NDP), with greater political and bureaucratic control, it is clear that Malaysian IR was an outcome of a system quite similar to its political one, which, despite democratic institutions, was quite authoritarian.

The NEP and the NDP affected other Malaysian national policies, including IR, with the NEP using the history-based factors, that is the Malays 'special position' as the indigenous people, to implement a twenty-year affirmative action plan to correct economic imbalances between races, especially between the Chinese and Malays. For twenty years, Malaysia's other complementary policies were encapsulated by the NEP, with the main objectives for the Malays to acquire 30 per cent corporate wealth. In 1990, statistically there was some positive development, but only 20.3 per cent was achieved (OPP2, 1991: 12). However, the Malays had already made some progress with more participation in mainstream economic activity, especially in the public sector. The fact that the Malays formed the bulk of public sector employees after the affirmative action of NEP should not go unnoticed. It was a crucial factor that has enabled UMNO (the dominant Malay party in the coalition since 1957), to remain in power and also influenced the public sector employees' attitude towards government policies, in particular its IR policies in the public sector. Again, the *Bumiputeras* clause was included in the NDP, though with a few new strategies that won the support of Malaysians, such as a focus on HRD. Moreover, the *Bumiputeras* clause

showed that the pro-*Bumiputeras* policy was continued. The argument here is that, because both the NEP and the NDP were core policies, their objectives affected the transformation of the Malaysian IR system. Even though there were other factors that contributed to the role of the state, Malaysian politics were very much influenced by this historical-based factor. After the 13<sup>th</sup> May, the government adopted the official line that strong economic growth was the answer to all Malaysian problems, especially the tension between races. Based on that, until today Malaysia has been enmeshed in its own belief that the nation has to preserve its own IR system for it to be able to become a fully developed country, but 'in its own mould'. Herein lies the contradiction. As much as Malaysia was committed to 'change' and 'development' and having its own identity, the significant foundation of the system left by the British colonial state, that is, its legislation and administration, were retained. This simply confirmed the pragmatic stand taken by the coalition government towards problems that it faced, especially race relations. However, that was only possible with the preservation of a very strong dominant government, and Malaysia has proven that with a continuous hold over the country by the same coalition Alliance/ *Barisan Nasional* party since independence in 1957. Even though Malaysia has aimed to be a fully developed country by latest 2020, the *Bumiputeras* clause remained. The old argument was that only when the economic imbalance between races has been met and redressed will there be 'national unity', the official and ultimate objective. As discussed in Chapters Eight to Ten, both the NEP and NDP affected the way IR policies were implemented in that they were developed to ensure the success of these economic plans.

The 'politicised' relationship between the state and unions, especially in the public sector, was also another British legacy, which started after WWII, when the colonial government 'tamed' the militant labour movement. To marginalise and replace them permanently, the government encouraged moderate trade union leaders to participate in the government. Their efforts to incorporate trade unions into the mainstream community succeeded in that the unions proved to be more accommodating towards the government. This generally supportive attitude of trade union leaders either in MTUC or CUEPACS continued during the NEP, with a few exceptions when the relationship soured. But subsequent union leaders, for personal or inevitable reasons, again developed a 'cordial' relationship with the government. The trade union leaders fully understood the imbalance of power between them and the state, and the practice of the Malaysian political culture. Being confrontational did not bring the desired result, as the state already ascertained that the legislative framework would take care of any dissent. The Malaysian public was continually reminded of the effects of economic, social or political instability, as experienced in 1969. Therefore, the amendments made to TUA and IRA have always been related to 'national interests'.

In this imbalanced relationship, CUEPACS had more to lose from sour relations, therefore it became more and more accommodative towards the government. In 2000, CUEPACS depended on its 'cordial relations' with the government to survive, thereby eliminating any chance of regaining its once-enjoyed collective bargaining or negotiating rights. As for MTUC, its limited role as the centre for mostly private sector unions was also restricted by the various laws and regulations. It failed to bring its position to prominence, much less to unite with CUEPACS and become a major



labour force in the country. In fact, both let the government pit them against one another, and therefore ensured its dominance. At the end of 2000, only these two labour centres were recognised by the government. MTUC, however, enjoyed affiliating unions from the public sector, while CUEPACS retained itself only for public sector unions. While CUEPACS and MTUC savoured this position, it actually gave individual unions a far less relevant roles where making decisions was concerned. While the government gained tremendously, individual unions lost out in the power play, unless they were united under the two main ones. Without having to counter many federations of trade unions, it was much easier for the government to control the two main labour centres. With ordinary union members showing lackadaisical attitudes towards unionism, the government's good rapport with union leaders benefited them greatly. On the other hand, these leaders who were anxious to retain their hold as office bearers seemed to have returned the government's favour by being less confrontational and more agreeable on important matters. Both labour centres, especially CUEPACS, also faced their own limiting problems, such as financial strain, forcing them to adopt a more co-operative attitude towards the government.

### **12.3.2. The Corporatist State**

No matter how hollow it may sound for Malaysia, the government has succeeded in incorporating the actors into a 'corporatist system', and this move began with Independence. This study has shown that the Malaysian government as legislator, administrator, participant and in the public sector as employer has created a new Malaysian IR system that was thought to suit the country based on its own political, social and economic experience. With an increasingly authoritative political set-up,

especially during the latter half of the NEP and the whole of the NDP, the corporatist system has looked set to remain.

Sharma (1996) has argued that the 'least-industrialised countries' adopt a 'political-paternalistic pattern' of IR. If we follow Sharma's arguments, Malaysia, as a country that has moved to a 'semi-industrialised' nation status, should adopt a 'repressive-confrontative pattern'. However, based on evidence and analysis presented in this study, this was not the case for Malaysia, for its IR remained close to the first pattern, that is, 'political-paternalistic'. Here, the government has succeeded in incorporating the employers, represented by MEF, and the employees, represented by CUEPACS and MTUC into its own 'tripartite system'. All trade union leaders, MEF and the government officials interviewed revealed that these parties believed in the relevance of the system, but admitted there needs to be change for it to function effectively. Therefore structurally the system has changed, but because of the nature of the socio-political system in Malaysia, the change has been more in form, rather than in substance. The government's position is that economic parity between races must be achieved first before any structural change occurs in the present economic plans. Therefore, since the NEP, privatisation, FDI and industrialisation have been increasingly important and regarded as the catalysts of economic growth. This accounts for the government's reluctance to concede to the unions' demands. Therefore, some issues from the past remain issues in 2000, such as a minimum wage, the establishment of national unions for electronics workers (or even in-house unions), and the absence of negotiating rights for public sector employees. Terms such as 'national interest', 'national unity' and 'nation building' have been consistently stressed.

The government's official development ideology was that economic progress will ensure that other national development's objectives and socio-political problems are solved. This was made very clear in both the NEP, and the NDP. However, the underlying principle was that trade unions and industrial disputes are viewed as 'detrimental' to economic progress. In line with this ideology, a low wage, for example, is good for investors, therefore the reluctance to alter the minimum wage policy. The reluctance to change on the part of the government was also facilitated by the unchanged political leadership. Since 1957, the same government has ruled a stable Malaysia, only disrupted by the 13<sup>th</sup> May 1969 racial riot. Since then, apart from a few global recession and the recent economic crisis, Malaysia has generally enjoyed a robust economy, an important factor to help guarantee stable socio-politics in a multi-racial society. From 1981 to 2000, Malaysia has had the same PM, who has shown his determination to bring out the best in Malaysia and Malaysians, especially the *Bumiputeras*. His views on trade unionism and workers' rights from his early days until today have been consistent, further contributing to an influence on the balance of power in Malaysian IR. That explains why some old issues fought by the MTUC are still current issues after 50 years (such as minimum wage and housing for workers). The government has enjoyed support from the employers, particularly their biggest employer's union federation, the MEF.

The same government with the same political leader in power has been able to sustain support from bureaucrats in the civil service, with unwavering support from the defence system and the police. The PM, Mahathir Mohamad, has been perceived by many as always ahead of time, very pragmatic and more importantly, has won over the non-Malays' trust as a visionary Malaysian leader. He has been seen as able to inspire

people to regard Malaysia as a company that needs loyalty to succeed, forming part of his Look East policy. When he has talked of the 'national interest', 'nation building' and the need for 'national unity', he has actually asked for total agreement with the government of the day. For him, the elected government of the day must be given the full mandate and full support to implement policies that were meant for the Malaysian people. The outcome of the interviews of the officials at PSD and MoHR has reflected the bureaucrats' belief and full endorsement of the system, in line with the concepts of 'industrial harmony', 'industrial peace', 'national interests' and 'nation building' that were promoted by the state. It only confirmed the government's dominance as administrators of and participants in its own policies. Mahathir has had an uncompromising stance over the roles that should be played by workers, and emphasised this with his Look East policy, which urged Malaysians to regard the country as a 'company'. His consistent view was that workers should make sacrifices for national development. During Mahathir's era, the extent to which the government was prepared to go in order to maintain the status quo in general and IR policies in particular, was proven. The MAS strike in 1979 that saw several trade union leaders arrested under the ISA, more restrictive amendments to TUA, and the more arrests made during *gerakan reformasi* era in the late 1990s proved this. With the strong support of the civil service, the defence and police, the legislative, administrative and participative policies ran rather smoothly for Malaysia, even in times of economic and political crises, as shown in 1997.

It is suggested here that the Malaysian corporatist IR system meant that the trade unions 'agreed' to restrain their pursuit of their members' interests as part of a strategy to further 'national interests'. The government succeeded in moulding the labour

movement into its goals and aspirations. Since the development of moderate unions after WWII, either MTUC or CUEPACS failed to be independent from the government's influence. Moreover, in the 1970s, they were encouraged to be involved in business. Trade union leaders were given 'concessions' as members of almost all tripartite bodies in Malaysia, even though the extent of their effective participation has been questioned even by union members. At the end of 2000, Malaysian trade unionists had cordial relationship with the government. They can be very vocal, but have not presented a threat to the state. Publicly, the state's aspirations have been regarded as their own aspirations, enabling the former to proclaim success on the 'smart partnership' and the 'harmonious IR system'. With that, it was only acceptable, and in fact expected, to have fewer strikes and other industrial disputes in the country, even in times of economic hardship, as in the second half of the 1990s.

In retrospect, an economic and political crisis need not necessarily bring change to the present Malaysian IR system. For a dramatic change to materialise, both the government and unions need to contribute towards it, which, by looking at the most recent crises, did not happen in Malaysia. One of the biggest factors that dampen change is the reluctance of each community to let go of their interests, particularly the Malays of their political dominance. As the politically dominant group, the Malays were able to protect their interests through policies that were based on history, such as their position as indigenous people. As long as that position is protected within the Malaysian Constitution, the political and administrative system looks very unlikely to change. This has been shown by the government's success in claming the Malaysian society through one of the worst economic and political crises during the latter half of the 1990s. After three years (1997 to 2000), the government regained its ground and

Malaysia continued with its old economic and political processes and systems. Malaysia simply lacked the conditions needed for the change to happen, such as experienced in Indonesia, where independent unionism have emerged out of its own reformation movement. The social cohesion, where there was the culture of deference and the presence of loyalty to the status quo, much influenced by each community's interests, ensured the government's strong hold over many policies in Malaysia. Like many fast developing countries, Malaysia faced opposition with the presence of, for example, the Alternative Front<sup>116</sup>, but the national objectives as championed by the government were shared by many Malaysians, and under the present condition, inevitably, also by trade unions. The legislative framework, and the propaganda mechanism owned by the government was no match for the disunited, 'docile', and ignorant labour force. There was no ideology-based party, like the Labour Party, for example, to represent workers' issues. The government is staunchly anti any left-wing movement, real or imagined, which until today have been oppressed. Moreover, there was no avenue for any legitimate oppositional ideas to prosper in Malaysia, therefore, 'left-wing' ideas, or any ideas not in line with the national objectives have no ground. Trade unions, with the history of militant movement under the British, were constantly reminded and warned not to resort to the 'old ways', which were considered detrimental to Malaysia's future. Moreover, the people were continually reminded of the need for the country to become an independent, respected nation in the region, as compared to some of the more unstable ones, like Indonesia or the

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<sup>116</sup> The Alternative Front is a coalition party, formed by almost all opposition parties in Malaysia after the sacking of Anwar Ibrahim in 1998, but is very much under the influence of PAS and KeAdilan (Adil) party, both Malay/Muslim-dominated. Recently, in October 2001, the DAP (Chinese dominated 'multi-racial' opposition party) pulled out of the coalition over a disagreement on the 'Islamic State' concept. It is very unlikely that multi-racial parties in the true sense of the word would gain prominence in Malaysia, as Malaysians generally still believe they need to be 'protected' by their own race-based parties, such as UMNO, MCA and MIC.

Philippines. All these campaigns by the government, coupled with the factors discussed above, ensured the continuation of the present system.

### **12.3.3. The Different Policy towards the Private and the Public Sector IR**

One of the objectives of this study was to examine the state's policies towards the public and private sectors. Ironically, but unsurprisingly, it is the post-independence state that changed the policy towards each sector, more prominently during the NDP. At the end of the NDP, in 2000, Malaysia already had two IR systems, one in each sector, with increasingly different legislation, administration and policies. As the private sector has now been given a more important role in the Malaysian economy, the public sector has to play a supporting role, and this therefore has affected their relationship with the sole employer, the government. As argued already in Chapter Ten and Eleven, the relationship between the government and public sector employees, in the midst of the absence of rights for negotiations, has become more and more 'political'.

### **12.3.4. The Contending Factors**

This study has revealed that economic considerations have remained the most important factors that influenced the role of the state in IR. The general view that there was a very close relationship between the economy and IR is especially true in Malaysia. However, such were also influenced by the socio-political ones. Officially, Malaysia has taken the stand that high economic growth is the most important fact to be achieved first before others. However, there have been times when the socio-political considerations have overridden the economic considerations, especially when

the government thought it important for winning political votes, as in the case sometimes with CUEPACS.

The complexity of Malaysian history and the plural society has directly, or indirectly affected the development of Malaysian IR. The government has been accused of fishing for votes in particular from public sector employees, who were predominantly Malays. Moreover, the government was able to manipulate the relationship because of the absence of negotiating rights in the public sector, which diminished for good in 1979, causing the relationship between them to become more political. Even the MTUC was trapped into this type of relationship. The effect was that after 40 independent years, trade unions have failed to exert effective pressure on the government to change several restrictive labour laws. Political stability has officially been regarded as significant by the government, to be preserved at all costs, despite the fact that there were accusations of the over use of the term as a political rhetoric. Ostensibly, the government used the argument (to ensure support from the masses towards their top-down and unilateral decisions) that without their full support the nation would lose its sovereignty to outside forces, using terms such as 'new colonialists'. Even trade union leaders fell for this, and either genuine or based on their vested interests, were more than eager to voice support for the government. The accusations that they actually have vested interests rose when the leaders were criticised by their own colleagues. In the case of public sector unionism, their position was more fragile than the private sector trade unions. The fact that as trade union leaders they have gained a better position in society encouraged them more to retain their hold over trade unions, even though it was shown that the interest of the masses towards the latter has not really increased since independence. The way trade union



leaders managed the unions largely affected unionism, making them dependent on the government, even for their survival. Even though Malaysia has been independent for many years, whereby changes have occurred in the economy and employees have become more skilled, the labour movement has not changed significantly from its state in the early years. Today, its role is diminishing as a pressure group or a champion of workers' issues as there is no dividing line between them and the government. In fact, CUEPACS has increasingly acted in line with the government, while the MTUC, which should be freer, has failed to bring the role of the private sector unions to prominence. This has enabled the government to continue with its old, repressive legislation and unilateral IR policies and change only when it suited them, for example to gain political votes.

Social factors explored in this study concern certain ethnic and cultural issues. The study has demonstrated that race relations, especially between Malays and non-Malays, as well as, after the 13<sup>th</sup> May 1969 and NEP, between *Bumiputeras* and non-*Bumiputeras* have influenced the government's development policy. Political culture has also influenced the relationship of unions with the state. When Malaysian politics have practiced an 'elite accommodative system' it has affected other areas of Malaysian life, most particularly in this case the way IR actors have based and conducted their affairs. Open confrontations with the state have been avoided, and in the public sector there was the GO that ascertained the public sector's submission to the government, encouraging their ignorance of IR issues that affect them. Even during economic and political upheaval, such as faced by Malaysia in 1997-2000, the unions failed to manipulate the situation to their advantage. In fact, both public and private sector unions are more accommodative now towards the government. The

contention here, therefore, is that as long as the Malaysian political system is preserved, the IR system also stays. This study has proved that the state has succeeded in moulding Malaysian IR into its own model that it thought to be 'suitable' for multiracial Malaysia.

The employers' position was enhanced because the government believed that strong economic growth was only possible with their active intervention in the economy, and therefore offered them a lot of leeway and managerial prerogatives. It was shown that there were times the private sector employers abused this position. In the public sector, the government was more repressive, and the bilateral relations ensured that employees were not able to free themselves from its dominance. FDI is still regarded as very important to the Malaysian economy, thus the government's reluctance to permit national unions, for example, in the electronics industry. The MEF, representing private sector employers, has supported the government's stance over many IR issues simply because these have benefited them. The present imbalance of power between the employers and employees in both the public and private sectors is largely attributed to the government's unilateral policy.

New influences, such as HRD, globalisation and the NGOs have affected the private sector more, but still failed to make any significant inroads. The government, whether they like to admit it or not, has succumbed to some pressures, but its dominant position was never seriously threatened. The attitude of Malaysian workers who were docile and for the most part ignorant, and the union leaders who failed to bring union movement into prominence, have all contributed to the continued dominance of the state. Being a very pragmatic and forward-looking government, Malaysia planned to

become a fully developed nation by the year 2020 at the latest. During the NDP, the government was under pressure between the obligation to satisfy local demands and the need to please the private sector, which was dominated by the MNCs and the FDIs. Therefore, though the government never admits it, their IR decisions were influenced by both these internal and external forces. Nevertheless, the public sector was affected more, having the state as their employer, with the NDP's designed to place preference on the private sector for a more important role in the economy. This saw the retention of all the legislative frameworks, but, ironically at the same time, introducing several policies aiming at creating a 'harmonious IR' with the public sector employees who were denied basic negotiating rights as enjoyed by private sector employees. This paradoxically led to a more bilateral relationship with more unilateral decisions, even though tripartite institutions existed.

Crouch (1996) has argued that a government can become more responsive and more repressive at the same time. He argues that in Malaysia, both democratic and authoritarian characteristics are inextricably mixed. This was the case in Malaysia, which has an essentially democratic political system, where elections are held regularly, parliament is upheld and the judiciary is constitutionally independent. But the democratic framework is accompanied by a wide range of authoritarian controls that make it difficult for opposition to defeat the ruling party. When the Alliance was in power, the promise to uphold a strong, free and democratic trade union movement became merely lip service. The MTUC, already regarded as the representative of private sector unions, became the government's machinery to counter any militant labour movement. Even though there was then the tripartite body, such as the NJLAC, the roles played by unions were dictated by the government.

The coalition *Barisan Nasional* government has held on to power until today. The argument in this study is that the same long political system has considerably affected the development of IR system. In addition, the relationship between the state, employers and employees has been affected by how the political system in the country has been run. Moreover, regarding the political system, it has been discussed in Chapter Four and several chapters after that, that since the Tunku's era Malaysia has practised the 'elite accommodation system', where discussion behind closed doors has been preferred to open conflict. The dislike of open confrontation was a cultural issue and this was seen in other aspects of life, even in the workplace (Asma, 1992; Asma, 1996).<sup>117</sup> It has affected the way the public sector IR has been managed more than the private sector because of the direct relationship with the government as the sole employer. The bilateral relationship in the public sector, compared to the tripartite one in the private sector, affected the former more than the latter sector, partly explaining the politicised relationship between the two. So the contention of this study is that the public sector was more affected by the Malaysian political system than was the private sector. Meanwhile, since the government prioritised the private sector as the catalyst for economic growth, especially during the NEP and NDP, employers were represented by large corporations like the MNCs or the FDIs.

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<sup>117</sup> Asma Abdullah wrote extensively on the Malaysian management and how culture affects the Malaysian workforce. See Asma (1992) and Asma (1996) for further discussions on the cultural dimensions of Malaysian society.

### **12.3.5. Balance of Power**

The study has shown that the state has played a prominent role in the Malaysian economy, which, as argued above has subsequently influenced its dominance in Malaysian IR. Thus, the balance of power between the state and the other two actors, employers/management, and employees/trade unions, in Malaysian IR is quite unequal. Compared to employees/unions, employers/management have enjoyed a far more influential position because the state gave them a higher priority in the economy. This was especially during the privatisation process, which officially started in the 1980s and accelerated during the NDP. Because FDI was always considered important, the 'managerial prerogative', suppression of industrial disputes, wider power of the DGTUA and the Minister as stated in IRA1967, even though opposed by MTUC, remained in place. The argument that has been developed in this study in Chapter Eleven, emphasised that high economic growth had to be sustained at all costs, even when it meant extending less or no power at all to employees, particularly in the public sector. During the NDP (1991-2000), this policy was further emphasised, when the private sector was officially given the leading role in the economic development.

### **12.4. Contributions of the Study**

This study makes several contributions to the broader literature on the role of the state in developing countries in general and the role of the state in IR in particular.

First, it offers an insight into the experience of a very fast developing nation. It confirms the arguments of modernisation theory as proposed by Hoogvelt (1997: 35) that relate to problem-solving and policy-oriented theories of social change and

economic development. Malaysia has planned and implemented very structured development policies, in an attempt to achieve a developed, diversified and sustainable economy, using industrialisation as an important tool. However, this study has also confirmed another argument of modernisation theory, that the transplantation of capital and technology alone would not succeed in bringing the desired change in economic development unless accompanied by wider and consistent social, cultural and political changes. This was one area clearly lacking in Malaysia. The government experimented with a Look East Policy, as discussed in Chapter Eight, but after twenty years, the policy was no longer at the centre of government policies, and regarded as 'political rhetoric', rather than a genuine effort towards change. This shows that to effect change in a developing society, especially when it involved diverse culture and worldviews such as held by ethnic groups in Malaysia, understanding and acceptance by these groups is gained first, and not 'forced' upon them. The failure of the Look East Policy, and other policy initiatives by government, such as the 'Clean, Efficient, and Trustworthy' campaigns, were frustrated by the negative role that traditional culture plays, as argued by Hoogvelt (1997, 1997: 35). The Malaysian government under Mahathir Mohamad had several attempts at cultural diffusion and introducing new technology from the outside world, but up to the end of the period studied, the government admitted that more should have been achieved in this respect. However, as this study has contended, the 'comprehensive social and economic change' that is needed in Malaysia is almost impossible without change in political culture, which is very unlikely, given how significant historical factors still are for the Malaysian people, especially the Malays. The reluctance of Malaysia to adopt a comprehensive change that involves political change probably marks the end of the significance of modernisation theory for understanding Malaysia. The Malaysian experience does not

support the view proposed by modernisation theorists that ultimately less-developed societies will converge with the advanced industrial economies of the Western world.

This study also offers a comprehensive analysis of the development of an IR system in a post-colonial society, and how the legacy of colonialism impacted on the future of a developing country. This partially explains why Malaysia has not moved on from its 'political-paternalistic' pattern of IR to a 'repressive-confrontative' pattern, as argued by Sharma (1996), even when its stages of industrialisation have changed. It shows that a generalised application of modernisation theory for developing countries is not possible without examining the different experience of each country. This thesis has attempted to do this and show that different experiences result in different outcomes, again indicating that convergence theory is of limited applicability.

The study explores and analyses significant issues that concerned the role of the state in Malaysian IR from the earliest period until the end of the second major development plans, the NDP. Therefore, it contributes to a wider timeframe that enables an overall analysis of possible factors that influenced the role of the state in Malaysian IR. It explores non-economic factors that were only mentioned briefly by previous scholars, but which made a significant contribution to the development of Malaysian IR. As argued in Chapter One, it is premature, for example, to generalise and draw conclusions about Malaysian IR without looking at the major historical turning-point periods, and analyse the contending factors that affected and influenced the development of the role of the state in Malaysian IR.

This research confirms that for economic reasons primarily, during the NDP period, the last Malaysian long-term development plan, the government implemented a clearly different IR policy for the public sector. It reveals that even though the government was planning for a fully developed nation with new approaches under the NDP, and less emphasis on ethnic-based issues, it was not ready to relax the restrictive legislation, especially for public sector employees, whom it regarded as the pillar of the government's strength. It was ready to forge a better relationship with employees using several pro-industrial harmony policies, but not amending the legislation. Therefore, the measures taken to improve the relationship with employees in the tripartite bodies, and various campaigns aimed towards 'industrial harmony' was more in form than in substance and will remain so until the legislative framework is relaxed and liberalised.

### **12.5. Limitations of the study**

However, like all studies, there are some limitations. First, this study has purposely concentrated on the role of the state, therefore placed less emphasis on the roles of the other two primary actors, the employers/management and employees/unions. Especially lacking is an analysis of the role of employers in the development of the Malaysian IR system, which, as has been noted in the study, is a very significant player, when directly or indirectly they have pressured the government to concede to their demands. This was shown in the reluctance of the government to permit the unionisation of electronics workers, even in the form of in-house unions. Therefore, this aspect could be explored further, and in this case, it can be divided into at least two sub-areas: the MNCs, which are mostly foreign companies; and the small and medium industries' employers, which are mostly local. It is also important for future



research to conduct case studies to test the generalisations made about the role of the state in IR in developing countries.

There are also some methodological limitations due to the broad nature of the study. This arose from the large amount of data collected, from primary and secondary sources. Since the study covered a long period of time, the large data set gathered posed analytical problems when using qualitative techniques. This was despite dealing with the data as early as possible by using categorisation (by coding and thematic analysis) as discussed in Chapter Five. Nevertheless, it was still a tedious process, which, in hindsight, could be assisted by using programmes such as Nudist.

The researcher had to be aware at all times of biases arising from interviewees as key informants that this study relied largely upon, particularly IR policy makers from the various government agencies, who tended to represent the view of government. Even though when compared to the PSD officers, the MoHR officers who dealt more with private sector IR were willing to talk more openly, generally they were anxious about going 'over board' or giving away information that was considered 'sensitive' or 'government's secret'. Therefore, their line of argument did not really differ from the officers in the PSD, in that the policies implemented, no matter how flawed or in need of change, are necessary to achieve the broader Malaysian national objectives as outlined by the government. Even trade unionists, either in the private sector, or more so in the public sector, generally were influenced by the official line promoted by the government, that practices in Malaysia suited local needs. The researcher has had to deal with this by probing further, and using other sources to triangulate the claims made. Other available sources were also limited and mostly from government-

influenced and controlled sources such as the media, including newspapers, which this study relied upon quite substantially. Therefore, future researchers should also try to gather and use more primary data including minutes and proceedings and not just interviews, as this contains biases that a researcher should always be aware of while analysing the data, in order to minimise validity threats.

### **12.6. Directions for Future Research**

As stated above, one of the areas that could be studied further is the role played by employers in the development of Malaysian IR in particular, or developing countries in general. The major IR players would benefit from such research, especially if it concerned multi-national corporations, which are the dominant investors in developing countries. With case studies based on companies, the IR system in practice would clearly highlight the significance of the role of employers found in studies such as presented here.

This study has offered insights into the development and processes of Malaysian IR focusing on the role of the state. It therefore contributes to a better understanding of a very fast developing country, which adds to the limited literature on these countries. This study has implied that Malaysia has a different system that was very much influenced by its own historical experiences, and distinguishes it from, for example, Singapore or Indonesia. Therefore, it would be beneficial if in the future, a comparative analysis could be conducted, either between Southeast Asian countries, Asian countries, or with any other developing countries. This could provide a broader understanding of the similarities and differences between these countries and support or refute some of the generalisations made in this study.

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*Interview Schedule*

**General Questions**

1. What is the position of the industrial relations in Malaysia's economic objectives?
2. Is there a relationship between the state's policy towards industrial relations and its industrialisation stage?
3. The role of the state in industrial relations in Malaysia in general
4. The role of the trade unions and employer federation in industrial relations system in Malaysia
5. The role of the state in industrial relations before Independence  
the role of the state in industrial relations after 1957 until the present government (based on different leadership)
6. The present role of the state in industrial relations in Malaysia
7. The development of policies of industrial relations under different leadership
8. The differences and similarities of issues in the past and at present
9. The differences and the similarities of the role of the state in industrial relations (in managing the issues)
10. Factors that affect/influence the role of the state-internal/external factors
11. Roles of other players/actors in industrial relations system in Malaysia and their significance
12. Role of the non-governmental organisation(also their development from the past to the present)
13. How government manage conflict among parties involved in industrial relations  
the relationship between the government, the employee and the employer
14. Malaysian industrial relations system-collective bargaining system, etc.
15. The reasons on why the government play such a role in industrial relations system in Malaysia

**Set 1**

**(Human Resource Ministry officials)**

**A. On the role of industrial relations in general**

1. Is there a relationship between industrial relations system and the economic objectives/industrialisation process in Malaysia?
2. How do you explain the relationship?
3. What is the role of industrial relations in Malaysia?
4. Who are the key players in the industrial relations system in Malaysia?
5. What are the factors that influence the industrial relations system in Malaysia?

**B. On the role of the Ministry/the department in industrial relations system in Malaysia**

1. Please describe the role/roles of this Ministry/department in the industrial relations system in Malaysia.
2. Why do you have these roles? What are you trying to achieve through the objectives?
3. Who are the parties involved in this process within the ministry/outside the ministry?
4. How do you describe the relationship of this ministry/department with the other parties involved in industrial relations in Malaysia?
5. How does the role of this ministry/department being operated?



6. How do trade disputes managed?
7. Please describe the process and the development of collective bargaining.
8. Please explain the significance of the role of the specific department/officials.
9. What are the factors that influence the role of this ministry/department in industrial relations system in Malaysia?

**C. On the role of the state in industrial relations system in Malaysia**

1. What are the factors (internal/external) that influence the role of the state in industrial relations in Malaysia?
2. How do you describe the present role of the state in industrial relations system in Malaysia?
3. Do you think the state is influenced by any models of industrial relations system?
4. Or do you think the industrial relations system in Malaysia is distinctively a Malaysian model? Why do you say so?
5. Some scholars claim that Malaysia pursues a certain kind of industrial relations policy. Industrial relations system is said to be determined by the dependence on foreign direct investment and Malaysia's plan to become a developed country by the year 2020. What do you think of that statement?
6. Are there differences/similarities on the role of the state in industrial relations based on different leaders? Is leadership an important factor in determining policy/approaches in industrial relations in Malaysia?
7. Are there differences/similarities on policies/approaches taken by different leaders of the state? Why?
8. Are the issues concerning industrial relations the same/different in the past, compared to the ones under the present government?
9. What are the present issues concerning industrial relations in this country?
10. How do the government manage the conflict among the parties involved?
11. Why do you think the government needs to act the way it does in Malaysia?

**Set 11**

**(Trade unions, employer federation and other regional trade unions figures)**

**A. On the role of industrial relations in general**

1. Is there a relationship between industrial relations system and the economic objectives /industrialisation process in Malaysia?
2. How do you explain the relationship?
3. What is the role of industrial relations in Malaysia?
4. Who are the key players in the industrial relations system in Malaysia?
5. What are the factors that influence the industrial relations system in Malaysia?

**B. On the role of the organisation in industrial relations system in Malaysia**

1. Please describe the role/roles of this organisation in the industrial relations system in Malaysia?
2. Who are the parties involved in this process within the organisation?
3. How do you describe the relationship of this organisation with the other parties involved in industrial relations in Malaysia, especially the state?
4. What role does the government want them to play (the government's expectation)
5. How does the role of this organisation being operated?

6. Please explain the significance of the role of this organisation in industrial relations in Malaysia.

7. What are the factors that influence the role of this organisation in industrial relations system in Malaysia?

### **C. On the role of the state in industrial relations system in Malaysia**

1. What are the factors (internal/external) that influence the role of the state in industrial relations in Malaysia?

2. How do you describe the present role of the state in industrial relations system in Malaysia?

3. Do you think the state is influenced by any models of industrial relations system? Or do you think the industrial relations system in Malaysia is distinctively a Malaysian model? Why do you say so?

4. Some scholars claim that the Malaysian state pursues a certain kind of industrial relations policy. It is claimed that policies regarding industrial relations are determined by the dependence on foreign direct investment and Malaysia's plan to become a developed country by the year 2020. What do you think of that statement?

5. Are there differences/similarities on the role of the state in industrial relations based on different leaders? Is leadership an important factor in determining policy/approaches in industrial relations in Malaysia?

6. Are there differences/similarities on policies/approaches taken by different leaders of the state? Why?

7. Are the issues concerning industrial relations the same/different in the past, compared to the ones under the present government?

8. What are the present issues concerning industrial relations in this country?

9. What do you think of the way the government manages the conflict among the parties involved in industrial relations in Malaysia?

10. What do you think of the industrial relations system in Malaysia as a whole?

11. Why do you think the government needs to act the way it does in industrial relations in Malaysia?

### **Set 111**

**(Other key informants besides the above)**

#### **A. On the role of industrial relations in general**

1. Is there a relationship between industrial relations system and the economic objectives/industrialisation process in Malaysia?

2. How do you explain the relationship?

3. What is the role of industrial relations in Malaysia? How do you describe the development of industrial relations in Malaysia?

4. Who are the parties involved in the industrial relations system in Malaysia?

5. What do you think of the role of the other parties, except the state?

6. What influences/determines their roles?

7. What are the factors that influence the industrial relations system in Malaysia?

#### **B. On the role of the state in industrial relations system in Malaysia**

1. What are the factors (internal/external) that influence the role of the state in industrial relations in Malaysia?

2. How do you describe the present role of the state in industrial relations system in Malaysia?

3. Do you think the state is influenced by any models of industrial relations system? Or do you think the industrial relations system in Malaysia is distinctively a Malaysian model? Why do you say so?
4. Some scholars claim that the Malaysian state pursues a certain kind of policy. It is claimed that policies regarding industrial relations are determined by the dependence on foreign direct investment and Malaysia's plan to become a developed country by the year 2020. What do you think of that statement?
5. Are there differences/similarities on the role of the state in industrial relations based on different leaders? Is leadership an important factor in determining policy/approaches in industrial relations in Malaysia?
6. Are there differences/similarities on policies/approaches taken by different leaders of the state? Why?
7. Are the issues concerning industrial relations the same/different in the past, compared to the ones under the present government?
8. Are there other factors that influence the roles that the state play in Malaysia?
9. What do you think of the present issues concerning industrial relations in this country? What causes them? How should they be solved?
10. What do you think of the way the government manages the conflict/issues in industrial relations at present?
11. Why do you think the government needs to act the way it does in Malaysia?

**Interview Questions-Public Service Department  
Public Sector Industrial Relations-The role of the State**

1. Please describe the role/roles of this department/PSD in managing the industrial relations in the public sector in Malaysia. Why do you think the department/ PSD play these roles?
2. Could you explain how the system presently used in managing terms and conditions of service in the public sector work to the best of interests of the employee in the public sector?
3. Could you comment on the situation of the industrial relations system in the public sector in Malaysia in general?
4. What is your opinion on the effectiveness of the National Joint Council as one of the machinery used in the management of public sector industrial relations? Is the NJC meant only as forums for discussion, and not for negotiation (as is available in the private sector)?
5. Please describe the role of the Public Service Tribunal. What is your opinion on the suggestion that the functions of public service tribunal had to be strengthened to meet the demands of the public sector, as recently discussed by CUEPACS and The Minister of the Prime Minister's Department?
6. Based on the department's recent experience, do you think the national economic downturn has any effects over the public sector industrial relations? Why do you say so?

7. What are the most recent issues that arose in the public sector industrial relations? Do these issues differ from issues in the past?

8. Can you comment on the New Remuneration System? Do you think the NRS is a better scheme compared to the Cabinet Committee Report (CCR)? What changes could be made to better the scheme?

9. In general, what is your opinion on the role of the state in the industrial relations system in Malaysia?

10. Do you think there is a difference of policy in the industrial relations system implemented by the state towards the private sector as compared to the public sector industrial relations in Malaysia? Why?

11. What is your opinion on the role of CUEPACS as the main body of affiliated unions in the public sector industrial relations in Malaysia? Based on recent developments, do you think CUEPACS has played roles that benefit both the employees and the state? In what terms would you describe the cooperation between CUEPACS and PSD?

12. In your opinion, are there certain aspects of the public sector industrial relations in Malaysia that should be changed/ re-structured?

13. What do you consider as achievements of the public sector industrial relations system in the past few years?

**F.S. Circular No. 28 of 1950**

**BENHAM COMMITTEE REPORT**

It has become apparent since the publication of the Benham Report that its recommendations are not acceptable to certain sections of the Public Service. The government has therefore decided in accordance with its declared view that rates of remuneration are properly a matter for collective bargaining between employer and employee that an opportunity should be afforded to any service to give formal notification of its desire to negotiate its own salary scales in preferring to accepting whatever decisions may be arrived at by the Legislative Council. The recommendations of the Benham Committee in respect of any such service will be deleted from any motion moved in Council on the Report.

2. It is to be clearly understood that this offer negotiation is subject to the following conditions:

a) The negotiation will be de novo and will be conducted on the basis of the recommendations in respect of the particular service made by the Benham or any other Committee which has reported on salaries in the last three years. The officers affected will remain on their existing salary scales and whether or not any improvement is made on those scales will depend on the outcome of negotiations.

b) Negotiations cannot be entered into with individuals or groups of individuals. They will only be conducted with representatives bodies which are duly constituted as unions or associations and which include their objects of associations the advancement of the conditions of employment of their members.

c) The Government must be satisfied that any union or association electing to adopt this procedure is sufficiently representative of the staff comprising the service on whose behalf it purports to act as to justify recognition of its claim to negotiate on behalf of the service as a whole. Wherever such recognition is accorded the election will be deemed to be made for all the staff comprising that service including non-members of the unions or associations concerned. If any such services is organised in State, Settlement or regional unions, prior agreement must be reached between all such unions before the application is made.

d) There will be no negotiation on the date of implementation of any agreement reached. This will follow whatever resolution is adopted in Legislative Council on the Report of the Benham Committee.

e) If a number of services elect to negotiate, it will not be possible to set up the necessary machinery for all such services at the same time and while every effort will be made to press on with the matter, some delay must be expected. The resources of the Government are fully extended during the present Emergency and there is a limit to the staff which can be diverted to organise and undertake such negotiations.

3. Subject to the above conditions, any union or association representing a particular service (or any organised body representing two or more such unions) which elects to negotiate the salary scales applicable to that service in preference to accepting any award may so notify the Chief Secretary by filling up and forwarding the attached form. To give time for unions to ballot their members the closing date for receipt of applications will be the 15<sup>th</sup> November 1950. It is important that the form should be accurately and completely filled up. Copies of all applications received will be published for information in the Gazette.

4 The offer made under this Circular does not extend to staff on the Malayan Establishment who are not employed solely by the Federation Government whose terms of service are a matter of wider concern not does it apply to the Malay Regiment or the Police.

- 5 Heads of Departments are requested to ensure that the contents of this Circular are brought to the attention of all salaried staff in the Government Service.

E.B.David  
Acting Deputy Chief Secretary.  
16<sup>th</sup> October 1950.

**Federal Secretariat Circular No. 6 of 1951  
Report of the Benham Committee**

As a result of F.S. Circular No. 28 of 1950 a large number of applications for negotiation on salary scales have been received from different Services. It is apparent, from the volume of work which will be involved in preparation for, and conduct of, the negotiations which have been asked for and the very small staff which can be made available for this work at the present time, that a considerable period of time must elapse before they can be completed and that many officers would be forced to wait a long time before receiving any change in salary scale if revision is to await the conclusion of the negotiations.

2. It has, therefore, been decided that new salary scales in accordance with the recommendations of the Special Committee on Salaries, as accepted by resolution of Legislative Council on 23<sup>rd</sup> November, 1950, shall be introduced forthwith for all officers paid from votes in the Federal Estimates, 1951, with the exception of certain appointments in Divisions I and II, of common concern to the Federation and Singapore Governments, on which a decision has not yet been reached. The introduction of the Benham scales will be without prejudice to any further amendments that may result in consequence of any agreements reached by negotiation.

3. It is also clear that, in view of the work involved, the Government cannot commit itself at the present time to entering into full and formal negotiations with any but the larger services whose applications were made under F.S. Circular No. 28 of 1950. This will not preclude the consideration of representations, whether in respect of individual officers or of groups of officers, and in any case in which adequate grounds have been shown for adjustment, subject to the provision of the necessary funds, such adjustment will be made. This considerations will proceed concurrently with the conduct of the negotiations referred to above.

4. In compliance with the original resolution as amended in Legislative Council on 23<sup>rd</sup> November 1950, the effective date of the introduction of the new scales will be:

- a) 1<sup>st</sup> July 1950, for all officers in Division I of the Public Service and for officers in Division II who are holding posts scheduled on the Malayan Establishment,
- b) 1<sup>st</sup> August 1949, for those services listed in sub-para (I) of para 3 of the Minority Report on the Effective Date, and
- c) 1<sup>st</sup> January 1950 for all of other officers.

5. The negotiations accepted under F.S. Circular No 28 of 1950 will be conducted, after the new rates have been introduced, as quickly as available staff allows and as soon as the many outstanding problems arising from conflicting claims made by different organisations on behalf of the same officers, from doubts as to the representative nature of organisations which have submitted claims and from other similar difficulties presented by the applications, have been resolved. It is stressed that these negotiations will be concerned with basic salaries and, in accordance with the resolution of Legislative Council, the negotiations will be conducted on the basis of the principles set out and in relation to the general level of salaries proposed in the Report.

6. Full instructions regarding the implementations of this Circular will be issued separately.

By command,  
E.B. David,  
Acting Deputy Chief Secretary  
Federal Secretariat  
Kuala Lumpur, 18<sup>th</sup> January 1951.

## Conventions Ratified By Malaysia (as at January 2000)

Convention	Country	Ratification date	Status
C7 Minimum Age(Sea) Convention, 1920	Malaysia (Sarawak)	3.3.1964	denounced
C11 Right of Association (Agriculture) Convention, 1921	Malaysia (Peninsular)	11.1.1960(Malaysia) 3.3.1964(Sarawak)	ratified
C12 Workmen's Compensation (Agriculture) Convention, 1921	Malaysia (Peninsular)	5.6.1961(Malaysia) 3.3.1964(Sarawak)	ratified
C14 Weekly Rest(Industry) Convention, 1921	Malaysia (Sarawak)	3.3.1964	ratified
C15 Minimum Age(Trimmers and Stokers) Convention, 1921	Malaysia,(Sa-bah and Sa-rawak)	3.3.1964	denounced
C16 Medical Examination of Young Persons(Sea) Convention, 1921	Malaysia (Sabah)and Sarawak)	3.3.1964	ratified
C17 Workmen's Compensation(Accidents) Convention, 1925	Malaysia (Peninsular)	11.11.1957	ratified
C19 Equality of Treatment(Accident Compensation) Convention, 1925	Malaysia (Peninsular)	11.11.1957 Ratified by Malaysia(Sarawak)on 3.3.1964	ratified
C29 Forced Labour Convention, 1930	Malaysia	11.11.1957	ratified
C45 Underground Work(Women)Convention, 1935	Malaysia (Peninsular)	11.11.1957	ratified
C50 Recruiting of Indigenous Workers Convention, 1936	Malaysia	11.11.1957	ratified
C64 Contracts of Employment(Indigenous Workers)Convention, 1939	Malaysia	11.11.1957	ratified
C65 Penal Sanctions(Indigenous Workers)	Malaysia	11.11.1957	ratified
C81 Labour Inspection Convention, 1947	Malaysia	1.7.1963	ratified
C86 Contracts of Employment(Indigenous Workers) Convention, 1947	Malaysia(Sabah) and (Sarawak)	3.3.1964	ratified
C88 Employment Service Convention, 1948	Malaysia	6.6.1974	ratified
C94 Labour Clauses(Public Contracts) Convention, 1949	Malaysia(Sabah) and (Sarawak)	3.3.1964	ratified
C95 Protection of Wages	Malaysia	17.11.1961	ratified
C97 Migration for Employment Convention(revised), 1949	Malaysia(Sabah)	3.3.1964	ratified
C98 Right to Organise and Collective Bargaining Convention, 1949	Malaysia	5.6.1961	ratified
C105 Abolition of Forced Labour Convention, 1957	Malaysia	13.10.1958	denounced
C119 Guarding of Machinery Convention, 1963	Malaysia	6.6.1974	ratified
C123 Minimum Age(Underground Work) Convention, 1965	Malaysia	6.6.1974	ratified
C100 Equal Remuneration Convention, 1951	Malaysia	9.9.1997	ratified
C138 Minimum Age Convention, 1973	Malaysia	9.9.1997	ratified

Source: <http://www.mtuc.org.my/Statistics/ilo%20conventions.htm>