STATE INTERVENTION, CORPORATE GOVERNANCE AND INDUSTRIAL RELATIONS IN MALAYSIA

Jomo K. S.

Rapid growth of the Malaysian economy in recent years has attracted considerable international attention. Since the ongoing economic boom from the late 1980s was preceded by some economic liberalization, there has been a strong tendency to attribute the rapid growth entirely to this liberalization, and to conclude that deregulation is generally desirable for sustained rapid growth and industrialization. This article offers a more nuanced and complex interpretation of the Malaysian experience, by comparing and contrasting the different implications of various government interventions and regulatory changes for corporate governance. Besides reviewing the changing nature of government-business relations since independence in 1957, the article will also consider relations among businesses as well as enterprise governance, focusing particularly on industrial relations.

Government-Business Relations

After independence, during the 1960s, Malaya, and then Malaysia achieved an impressive growth rate, considerable infrastructure development, some economic diversification in both agriculture and industry, and some improved social services. State intervention also grew from the 1950s on. By and large, the interests of the elite have been reflected and furthered by the development policies contained in the various regulations and plan documents. Development policies, government regulation, plan allocations (as well as implementation) have reflected the changing nature, role, and orientation of the state, as well as politically influential business interests and their political and economic priorities.

The changing nature of the state has obviously influenced state intervention, but certain features are common to all phases of Malaysian development after independence. Early development planning reflected the interests and priorities of the colonial state. The post-colonial Alliance government's development strategy reflected the interests and political compromise it represented. The early post-colonial government was committed to defending British interests in Malaya, and also enabled the predominantly Chinese local businesses to consolidate and strengthen their position. Consistent with this compromise, the state pursued a basically laissez faire development strategy with limited state interference to promote diversification of the colonial economy and to ensure conditions suitable for rapid capital accumulation. Economic diversification efforts to reduce Malaysia's over-reliance on tin and rubber were carried out. The state also encouraged import-substituting manufacturing by offering incentives, providing infrastructure, and other supportive economic measures.

In contrast to colonial policy, however, post-colonial Malayan and Malaysian governments actively sought to promote industrialization. While early industrialization efforts sometimes appeared erratic and haphazard, government policies from the late 1950s clearly favored import-substitution industrialization, with government intervention involving the provision of tariff protection, infrastructure facilities, tax exemptions and other incentives. The strategy sought to encourage foreign investors to set up production, assembly and packaging plants in the country to supply finished goods previously imported from abroad. To promote such import-substituting industries, the government directly and indirectly subsidized the establishment of new factories in industrial zones and with new industrial financing facilities provided by Malayan Industrial Estates Limited (MIEL) and Malayan Industrial Development Finance (MIDF) respectively.

After the exhaustion of import-substitution strategies by the late 1960s, government efforts to attract and encourage export-oriented industries were implemented by the early 1970s. Various new measures were introduced to facilitate and encourage manufacturing by Malaysians for export, mainly using imported equipment and materials. The government opened free trade zones (FTZs) in 1972 to ensure better security, coordination and control for export processing activities. The development of export processing industries in Malaysia was rapid in the 1970s. Tax incentives also shifted from import-substituting to export-oriented firms. Lucrative incentives — such as pioneer status and investment tax credit for periods of between 5 to 10 years — attracted such export-oriented firms. When pioneer status expired, firms were easily given investment tax credits for additional periods of five years while other firms enjoyed accelerated depreciation allowances. When these expired, some firms opened new plants or introduced new products to enjoy new rounds of incentives. In addition, foreign firms producing exports have been allowed to retain full ownership. Hence, though import-substituting industries continued to enjoy high tariffs, new incentives were directed at export-oriented firms. With a favorable investment climate, generous fiscal incentives, and an English literate labor force, Malaysia set off on its industrial growth path. Such export-oriented industrialization was certainly consistent with the emerging new international division of labor, with transnational enterprises globally relocating various production, assembly and testing processes to secure locations offering reduced wage and other production costs.

Announced in 1970 after the post-election race riots of May 1969, the New Economic Policy (NEP) sought to create the socio-economic conditions for ‘national unity’ through massive economic redistribution programs to achieve it’s twin prongs of ‘poverty eradication’ (i.e. reduction of the proportion of households earning less than the poverty line income), and 'the restructuring of society' to achieve greater inter-ethnic economic parity, especially between the predominantly Malay Bumiputeras (indigenes) and the mainly ethnic Chinese non-Bumiputeras. The NEP’s Outline Perspective Plan for 1971-1990 (OPP) envisaged declining poverty over the next two decades, while ‘restructuring society’ basically referred to efforts to achieve greater inter-ethnic parity in occupations and corporate wealth ownership, and thus “eliminate the identification of race with economic function.” The OPP also expected to raise the Bumiputera share of corporate equity from 2.5% in 1970 to 30.0% in 1990.

Policies in the 1970s (after the declaration of the NEP) saw the partial abandonment of laissez faire policies in favor of greater state intervention in public resource allocation as well as public sector ownership and control of business enterprises. The 1970s saw the rapid growth of the public sector and increasing state intervention in the name of the NEP. Especially in the 1970s, the state established a large number of public or state-owned enterprises in all sectors, sometimes in collaboration with private capital. The number of public enterprises rose from 10 in 1957 to over 1000 enterprises by the mid-1980s.

By then, however, there was also growing dissatisfaction with the government due to its policy responses to fiscal and debt problems as well as more general economic and political crises (Jomo 1990). By this point, large Malay-controlled business groups had already emerged in the corporate scene, and were calling for a less regulated economy. Indeed, some of them saw excessive intervention as slowing growth, and hence, counter-productive to their interests (Khoo, 1992). The turning point for government policy, in terms of economic liberalization and policy reversals, occurred around 1986. Greater liberalization in the late 1980s has been a boon to the corporate sector, with most businesses benefiting, and hence supportive of further selective liberalization. By this time, politically influential corporate groups had developed various new ways and means to advance their interests while appreciating the greater flexibility offered by reduced regulatory constraints required by public accountability.

'Malaysia Incorporated': State-Business Corporatism

The role of the Malaysian state in relation to business interests was redefined by the NEP in the 1970s and again by the Mahathir administration, especially in the mid-1980s and again in 1991. Especially during the heyday of the NEP in the 1970s, the bureaucracy in Malaysia had considerably more ‘autonomy’ from vested business interests. However, its interventionist measures reflect a strong preoccupation with inter-ethnic redistribution rather than other policy objectives. Hence, the objectives of Malaysian government interventions involving industrial policy have been quite different from those of industrial policy elsewhere (for example, in the East Asian NICs). The NEP was primarily intended to achieve inter-ethnic parity and not to gain international competitiveness for new industrial activities. For example, the 1975 Industrial Coordination Act (ICA) is generally viewed as singularly concerned with redistributing manufacturing assets to Bumiputeras, and can be said to have been primarily responsible for the decline in private domestic investments, especially in the decade 1975-84, when capital flight was estimated to be about US$12 billion (Jomo 1990). On the other hand, the ICA has failed to serve as an effective instrument of industrial policy, but has instead associated industrial policy in Malaysia with inter-ethnic redistributive interventionism. Not surprisingly then, most of the predominantly ethnic Chinese domestic private manufacturing enterprises have been wary, if not resentful of Malaysian state intervention generally, and industrial policy in particular.

After the rapid ascendance of the Malay-dominated state with the NEP in the 1970s, Mahathir reversed this trend by advancing the ‘Malaysia Incorporated’ slogan in the early 1980s in an effort to improve relations between the government and the ethnic Chinese-dominated private sector, by getting the government to revert to its 'traditional' role of serving private business interests instead of the heavy handed regulation which had grown in the 1970s and early 1980s. The term ‘Malaysia Incorporated’ was adapted from the originally pejorative ‘Japan Incorporated’, which had emerged in the industrial West in the 1970s to refer to the closer relations between the Japanese state and private business interests than in the West.

The origins and nature of Malaysia’s problems relating to government-private sector relations were quite different, however. Malaysia Incorporated nevertheless provided a useful reminder of the nature and role of the state desired by much of the private sector in the Malaysian context. In Malaysia, the slogan came to refer to efforts to curb and rectify excesses associated with over-zealous implementation of the NEP by Malay officials, mainly resented by Chinese business interests.

Most Sino-Malaysian businessmen do not even dream of government support for their business activities, and hence, espouse a 'second best' preference for minimal government interference, which translates politically and ideologically into support for libertarian free market conservatism. Most small Sino-Malaysian businesses see themselves almost like 'guerrilla capitalists' in the face of a 'predatory state'. Not surprisingly in these circumstances, there is little evidence — except among the politically more influential Chinese businessmen — of much desire for a Malaysian nationalist corporatist economic project to try to emulate Taiwan, Korea or Japan, with the state playing a crucial role in supporting, and sometimes even leading industrialization. Such a benevolent and supportive role for the state is generally considered far-fetched and inconceivable for most Chinese Malaysian businessmen (after years of ethnic discrimination under the NEP); they would be quite happy if only the government were to get out and stay out of their affairs. Since their limited experience with industrial policy (for example, with the 1975 Industrial Coordination Act and the early 1980s heavy industrialization policy) has generally been considered disadvantageous for private non-Malay capital, no policy is deemed preferable.

This distinct idiom of Chinese capitalism seems to have developed in response to varying degrees of perceived, if not real hostility by states in Southeast Asia as well as elsewhere. The relations between business and government in Malaysia is therefore quite different from those obtaining in the Northeast Asian economies of Japan and Korea, especially in terms of the absence of strong corporatist institutions and arrangements. This idiom has taken on some characteristics of what might be described as insurgent capitalism, based largely on informal institutions, arrangements and practices based on culture and community sanction, rather than systems of law and regulation enforced by the state. However, some of the very features of this idiom of Chinese capitalism, which have enabled it to survive and thrive in adverse circumstances, have also limited the scope and development of such business enterprises precisely because they cannot rely on legal sanction, the rule of law and 'rational' bureaucratic behavior. Business uncertainty stemming from such insecurity tends to encourage short-termism (which is generally inimical to the long-term commitment required for most productive investments, especially in heavy industry, high technology, and research and development, as well as investments in marketing such as brand-name promotion) as well as 'hedging one's bets', by not 'putting all one's eggs in one (national) basket'. In such circumstances, therefore, economic liberalization may actually open up new opportunities for capital outflows, thus facilitating and contributing to capital flight where previous capital controls effectively encouraged reinvestment within the national economy.

The notion of Malaysia Incorporated entered Malaysian discourse under these particular circumstances in the early 1980s. The notion hinted at the urgent need for national unity, a shared sense of national purpose or a national vision — particularly for achieving socio-economic progress. In Malaysia, ethno-populism has thrived on the basis of communal mobilization and claims to ethnic corporatism since the repression and elimination of the parliamentary left in the mid-1960s.

This is inimical to and consequently has undermined nationalist corporatism, which Prime Minister Mahathir seems to have wanted to promote since he came to power in the early 1980s, first with his Malaysia Incorporated slogan, and at least since 1991, with his commitment to build a 'bangsa Malaysia' (Malaysian nation). In the Malaysian context then, espousal of the concept implies recognition of existing problems between the Malay-dominated government and the predominantly Chinese domestic private sector, exacerbated during much of the NEP's OPP period (1971-90), and the desire to urgently overcome them in the interest of greater economic growth and dynamism.

After it was first announced, the Malaysia Incorporated concept was enthusiastically welcomed by the private sector generally, especially by the Chinese business community and the Chinese-based political parties in the ruling BN coalition. Although there were no public objections to the concept, some politically influential Malays — including politicians and bureaucrats — have privately noted that the policy reversed previously growing Malay political hegemony, long associated with state dominance, and the growth of government regulation and public sector expansion to advance ethnic redistribution in the Malay interest. The popularity of such views among the influential Malay middle class probably accounts for its rather apprehensive and lukewarm reception of the Malaysia Incorporated concept compared to most other Mahathir policy innovations. Even Mahathir himself and Malay cabinet ministers closely associated with him were somewhat reticent to espouse the concept. Even after the 1991 Vision 2020 announcement, the policy has mainly been emphasized by Chinese politicians and business leaders, and more rarely, by the occasional Malay politician or bureaucrat addressing non-Malay businessmen. The slogan is rarely if ever invoked in the context of relations between the state and the ethnic Malay business community which has grown rapidly since the 1970s with considerable support from the state.

Much of what was hoped for with the Malaysia Incorporated concept has actually been achieved with the various economic liberalization and supply side-oriented policies implemented by the Government since the mid-1980s, especially after the onset of the 1985-6 recession. These initiatives have involved many policy changes favored by private capital, including:

- new investment incentives, especially with the Promotion of Investments Act, 1986
- higher Industrial Coordination Act (ICA) exemption levels to reduce the onerous consequences of the legislation on non-Bumiputera capital accumulation
- initially reduced wage costs owing to high unemployment in the mid-1980s, greater labor flexibility and the availability of cheap migrant labor
- less emphasis on ethnic redistribution, especially after Mahathir's announcement that NEP requirements had been suspended due to the mid-1980s recession
- reduction of public (federal government), especially development (capital) expenditure, thus reducing the 'crowding-out' effects of state investments
- reform of the government bureaucracy to be more responsive to private business needs and requirements
- restraint of most public or state-owned enterprise expansion
- some bureaucratic deregulation as well as new regulations to attract investments
- privatization of the more lucrative public enterprises,
- contracting out of some government services
- allowing private enterprise to build and operate public amenities previously provided by the public sector.
- a depreciated ringgit for export promotion

Resistance from the bureaucracy to executive-led reform was surprisingly weak. In the early NEP period, the bureaucracy was very much in control of conceiving and implementing policies, and in the process, often built up their own domains within the public sector. Given this kind of entrenched bureaucratic development for over a decade, one might have expected greater bureaucratic resistance to change. Bureaucrats, who were relied upon in the early period of the NEP to develop and implement NEP restructuring and policy eradication, lost influence under Mahathir. They were now required to cooperate with and support the very private sector which they once regulated. However, as with other situations encouraging free-rider behavior, rather than directly oppose change and bear the likely adverse consequences of doing so, those affected generally tried to protect and preserve their own privileges while hoping for others to carry the flag of the *status quo ante*. Several other factors also contributed to the declining influence of the bureaucracy including the following:

- the ascendance of new Malay social groups, notably ethnic Malay politicians and business executives
- the emergence of alternative sources of technical and other competencies, thus depriving the bureaucracy of it's previous ‘monopoly’ of knowledge, capacity and ability; the availability of publicly-funded think-tanks, besides private (including foreign) consultancy services may well have accelerated this erosion
- the inefficiencies and wastage associated with past state intervention and public sector expansion, especially in the early 1980s, undermined the standing of the bureaucracy, which was generally blamed for such failures
- the official ethnic bias of much of this intervention meant little support for them outside the politically dominant Malay community
- the attractive exit incentives as well as opportunities available to bureaucrats leaving the civil service, especially with privatization and other contracting out policies, encouraged exit besides weakening and compromising potential resistance from the bureaucracy to these developments.
- the international ideological atmosphere in the 1980s and the academic training as well as socialization of many bureaucrats also favored economic liberalization.

Successful politicians, especially from the dominant United Malays National Organization (UMNO), and particularly those favored by the executive, have generally been rewarded (i.e. patronized) with various pecuniary benefits, usually linked with appointments to and control of ministries, state agencies (for example statutory bodies), and other public enterprises. Others have also been allowed to buy stock in government-owned enterprises at prices well below market values, thus reducing their opposition to the vast changes taking place in government-business relations.

As in the rest of Southeast Asia, the boom in Malaysia from the late 1980s has benefited greatly from investments from the East Asian economies experiencing rising production costs, due to tightening labor markets as well as stricter environmental restrictions. The withdrawal of privileges under the Generalized System of Preferences (GSP) from the East Asian NICs in February 1988 also encouraged relocation to those countries which still qualified. The effective depreciation of the ringgit lowered production costs in Malaysia as real wage costs declined over the mid-1980s with the rise in unemployment as well as new labor policies and laws weakening organized labor's bargaining position and enhancing labor flexibility. The sharp decline in Malaysia’s real effective exchange rate was accompanied by a relaxation of the guidelines imposed under the 1975 Industrial Coordination Act (ICA) — for example, the requirements for local shareholdings were relaxed — and the increased incentives under the 1986 Promotion of

Investments Act. Together, they made Malaysia an even more attractive place for investment. These factors, combined with favorable new international conditions, resulted in a resurgence of export-oriented manufacturing, largely under the auspices of foreign capital.

Since the late 1980s, incentives for exporting firms have been extended in the form of export abatement allowances and double deduction exemptions. The new trend in foreign investment from East Asia since the late 1980s has resulted in some technological deepening and greater linkages. In 1988, the double deduction for training incentive (DDTI) was introduced. Since 1991, a local sourcing condition has also been included for firms applying for pioneer status and investment tax allowances though this will be under threat with the new GATT rules. Since 1993, firms with more than 50 employees have been required to participate in the Human Resource Development Fund. Double deductions for tax purposes have also been introduced for R&D expenses.

Thus, the policy changes of the mid-1980s appear to have been successful. The coincidence of the policy changes with the economic turnaround has encouraged the attribution of the latter to the former. However, as the preceding account suggests, several different developments were occurring at the same time, and while all may well have contributed to the recovery, it is impossible to disaggregate their respective contributions. After all, almost all the economies of Southeast Asia seem to have accelerated at around the same time (i.e. from the late 1980s), and though most also introduced economic liberalization measures around the same time, there is no evidence that the most successful or fastest growing have been the most liberalized economies or even those which undertook the most drastic liberalization measures.

However, until 1991, there remained a widespread perception that the mid-1980s' government policy changes tended to favor foreign, rather than Sino-Malaysian investors. Although there was little firm evidence of such a preference in existing government policies and regulations, this view was widespread, not only among local non-Malay businessmen, but also among many Malay government officials. This was reinforced by a common view that long-term Malay interests are better served by encouraging foreign, rather than domestic Chinese investment (i.e. by policies of 'ethnic bypass'). Since 1991, however, Sino-Malaysian business sentiment has shifted in favor of the Government, partly because of growing cultural liberalization (e.g. greater use of English, greater opportunities for private tertiary education in Malaysia), ostensibly in the interest of modernization. This was clearly reflected in the outcome of the April 1995 general election when the ruling coalition's share of the total vote rose to 65 percent from 53 percent in 1990. As the proportion of Malay votes for the coalition did not change much, it is generally accepted that the gain was mainly due to a significant shift in Chinese electoral support for the Mahathir administration.

The Example of Human Resource Policies

Malaysia has decent primary education, high rates of literacy and widespread acquaintance with English. It also has rising enrollments at higher levels of secondary and tertiary education. This provides a trainable and efficient basic workforce, which has sustained industrial development quite effectively so far. However, this level of formal skill creation is not sufficient to meet the technological needs of the expanding high technology sector, or to manage a large increase in the technological levels of SMEs. There is growing evidence of skills shortages at all levels, particularly in technical fields. Most manufacturing firms complain of the constraints to upgrading and deepening posed by the lack of particular skills, and by high turnover rates for mid-level skilled employees.

Although Malaysian government expenditure for education has long remained relatively high, and a great proportion of it is spent on tertiary education, education policy has long been preoccupied with achieving inter-ethnic parity in educational attainment, even at the expense of limiting overall educational development. Liberalization of education policy since the mid-1980s has not served to resolve the human resource shortages because private investments in education have tended to offer relatively low-cost offerings leading to educational credentials associated with high remuneration (e.g. in law and accountancy), rather than higher cost offerings (e.g. engineering courses) desirable for accelerating industrialization but not in such great demand by students because of relatively less handsome remuneration compared to the student effort and costs involved. By not allowing officially recognized tertiary-level credentials outside of the state-owned universities, private credentialing is effectively and profitably monopolized by foreign institutions at unnecessarily high cost to Malaysian students who pay them rents to acquire the desired credentials.

Tertiary-level enrollment rates in Malaysia underline the skills gap. Comparing tertiary enrollment, especially in technology related subjects, as well as vocational training, Malaysia is well behind the larger NICs and Japan in providing human capital for an economy with considerable high technology activities. Even Thailand, which has a lighter industrial structure and less hi-tech exports, is better off. Despite one of the highest government education expenditures per capita in the region, Malaysia’s higher educational structure neglects industry's technical needs. There are large gaps between demand and supply at all levels of skill and for all types of education.

Many other reforms of the education system are urgently required. For example, the facilities for training mid-level technical human resources are still limited. Remuneration levels and career prospects in government service, state-owned enterprises and recently privatized enterprises still favor academic credentials at the expense of developing actual technical capabilities or competence, thus adversely affecting educational preferences throughout the economy. Also, the educational and remuneration system as a whole still tend to emphasize credentials rather than actual capabilities, which might be developed through less formal means and experience. In view of the magnitude and dimensions of the problem, bold new initiatives are urgently needed to achieve the major breakthroughs which are essential for sustaining Malaysia’s industrial transformation.

Inter-Firm Relations

There are a variety of inter-firm relations in Malaysia which need to be considered. This is partly due to the relative importance of FDI in Malaysia compared to most other developing countries. Western (primarily British, then American) foreign investments have given way to Japanese and other East Asian investments in the last decade. Changing comparative costs and competitive advantages have also reshaped the international context — including regional divisions of labor, and involving new production, supply and marketing arrangements. Compared to its ASEAN neighbors, it might be said that collective action by business firms in Malaysia exceeds that in Indonesia, but is less than what one finds in Singapore, the Philippines and Thailand. In Indonesia, the virtual absence of civil society is also reflected in the weakness of professional associations. While the same might be true in Singapore, business associations have been allowed to develop in Singapore in order to ensure feedback mechanisms for Singapore-style corporatism and also to encourage collective action and coordination among businesses. In Malaysia, the historical preponderance of Chinese businesses in the face of a colonial and then an ethnic Malay dominated government has limited the role of business associations dominated by the ethnic Chinese community. In the colonial period, British business associations were very influential while Malay business associations (such as the Malay Chamber of Commerce and Industry) have become increasingly important in recent years; in 1995, the Chamber elected a favorite of Prime Minister Mahathir as its new president.

Business associations in Malaysia are organized on several bases. The most prominent are the various ethnically based chambers of commerce, which are organized at both national and state levels. The International Chamber of Commerce and Industry was historically dominated by British interests, mainly in trading agencies, plantations and mining, but this too has changed over time. There are also specialist business associations representing particular industries and manufacturing sub-sectors. More rarely, some of these are also organized on an ethnic or national basis, e.g. the US-based electronics firms in Malaysia. While ethnic Malay business associations seem to be the most influential, the more export-oriented foreign investors also exercise considerable leverage due to their option of relatively easy ‘exit’ (their reputed ‘footlooseness’). While tolerated, business associations dominated by ethnic Chinese claim to have been noninfluential, especially since the 1970s, though there is evidence of increased influence in recent years as ethnic Malays have taken leading positions in such organizations.

While such business associations seem to have considerable influence in special pleading for their particular interests, there is little evidence of collective action or coordination with respect to industrial policy beyond requesting protection. This seems to be quite different from the Japanese or even recent Thai experience, where the responsible government agencies are said to have performed an important coordinating role in response to initiatives by individual firms or even industry associations. With economic liberalization and the launching of Malaysia's privatization policy from the mid-1980s, there is considerable evidence of politically influential businessmen in Malaysia securing state intervention on their behalf to advance particular business interests.

Besides the sale of government assets at discounted prices to such businessmen, they have generally been allowed to preserve the monopolistic nature of the former public monopolies or secure some other kind of lucrative protected oligopolistic privileges. It might be mentioned that the capture of such rents has involved relatively little rent dissipation due to rent-seeking behavior. However, unlike some other East Asian economies, the award or allocation of such rents has rarely, if ever, been accompanied by conditions to achieve broader national objectives, as for example if effective protection was conditional on export promotion. Nevertheless, privatization has provided considerable incentive for the businessmen concerned to improve the efficiency of their business operations to maximize the return on their investments.

Privatization, the active governmental promotion of the stock market and the limited government commitment to anti-trust and competition policies have encouraged mergers and acquisitions resulting in the rapid emergence of new conglomerates dominated by these politically influential businessmen. However, their activities have exacerbated the volatility of the stock market and encouraged short-termism, exacerbated by the dominance of the heavily protected and hence very lucrative financial sector. Such short-termism has tended to undermine the long-term investment perspective crucial to the development of the real economy, especially productive investments. The dominance of the financial sector has encouraged popular as well as governmental attention to company financial indices rather than, for example, the contribution of the financial sector to productive investments. It has also stood in the way of the financial repression or regulation in some East Asian and other economies which have ensured the subordination of finance to industry, which has been crucial for ensuring industrial financing, especially of manufacturing projects requiring long-gestation periods.

Recent trends in industrial development — particularly heavy industrialization in the mid-1980s and industrial relocation into Malaysia, especially from Japan and the first generation NICs — have also had important implications. These trends have accentuated the trend towards industrial agglomeration, with various implications for inter-firm relations due to proximate location. In so far as some of this involves extending supplier relations originally developed in the country of origin (usually Japanese or Taiwanese), many features of such relations have been replicated in Malaysia, though there is also evidence that such replication is often only the first step for subsequent development of the subsidiary firms with little reference to historical relations or relations in the country of origin. Needless to say, such relations have been reflected in growing inter-firm linkages as measured, for example, by input-output tables. However, the replication of such relations also appears to have undermined and pre-empted the development of Malaysian supplier firms. In response, the Malaysian government has intervened on a limited basis to develop Malaysian supplier firms through various ‘umbrella’ and ‘vendor’ schemes but these have mainly been effective when the ‘anchor firm’ is under Malaysian control, as in the case of Proton, the national car manufacturer.

Industrial Relations

Malaysian workers have little opportunity to participate in decision-making, let alone control their working lives. Relatively few workers in the manufacturing sector are unionized. There has never been minimum wage legislation in Malaysia. Instead, the Malaysian Industrial Development Authority (MIDA) has been known to assure prospective investors in pioneer industries of safeguards against “unreasonable demands” from unions during their first five years of existence, or for “any such extended period”. While there is no legislation actually prohibiting unions in pioneer industries (as is sometimes mistakenly alleged), it is indeed suggestive that over 150,000 electronics workers — who would be able to form the largest industry-based union in the manufacturing sector — have not been allowed to register a union for more than two and a half decades since the first electronics factory was set up in Malaysia in the late 1960s.

Most amendments to the labor laws since Independence have mainly been at the expense of labor rights. The Malaysian labor laws inherited from the late colonial period were amended in late 1969, during the state of Emergency in the aftermath of the race riots, to more effectively control labor in the desired labor-intensive, export-oriented industries, e.g. by strengthening the Registrar of Trade Unions' discretionary powers, by allowing previously prohibited night shift work for women, by further restricting the right to strike, and by otherwise limiting trade union activities and rights.

Meanwhile, it has become increasingly evident that the establishment of the Social Security Organization (SOCSO) in 1969 — to compensate victims of industrial accidents regardless of responsibility — has actually absolved employers of responsibility for industrial accident compensation and hence for safety at the workplace even if they have been negligent. Furthermore, since compensation payments have been kept low, SOCSO has become an additional source of cheap financing for the government. Total SOCSO membership rose from 1.7 million workers in 1980 to 2.4 million in 1993. With the wage ceiling increased from RM500 to RM1000 per month from 1984 and then to RM1500 more recently, SOCSO membership has grown to over three million.

During the 1960s and 1970s, there were several government efforts to portray itself as a neutral arbiter standing above and mediating between management and labor, though by and large, the state generally favored the former (as reflected, for example, in various amendments to the labor laws or the government’s role in industrial relations). In contrast, the Mahathir administration has, by and large overtly favored employers over labor. This is reflected in various amendments to the labor laws as well as the government's role in industrial relations and labor policy.

The 1980 amendments to the labor laws not only reflected government reaction to the protracted Malaysian Airlines System (MAS) industrial dispute of 1978-79, but also envisaged the government’s view of an even more subordinated role for labor. Unlike the admittedly half-hearted efforts in the early and mid-1970s to promote tripartism and other reforms to co-opt moderate trade union leaders with the semblance of a new social contract for labor, the new initiatives sought to further limit labor’s political and legal rights while providing some economic benefits from the buoyant circumstances prevailing then. After tightening up the labor laws in 1980, the industrial relations machinery and labor policies have also changed, largely at the expense of labor. The 1980 amendments thus represented a somewhat systematic effort to anticipate and curb possible threats to the envisaged industrial order desired by the government.

Since the 1980s, the anti-labor character of the state has become even more apparent as shown in surveys of more recent labor policies (see Jomo and Todd 1994; Jomo 1995). Ironically, while many of these policies have been presented and justified as part of the official Malaysian effort to emulate the Japanese economic miracle, it will be shown that the resulting industrial relations on the shopfloor have been quite the opposite in substance, if not in form.

Soon after Mahathir’s ascendancy to Prime Minister in mid-1981, he announced his ‘Look East’ policy. This policy was initially widely believed to refer to changing Malaysia’s orientation in a variety of foreign economic matters. Looking East seemed not only to refer to efforts to emulate specific aspects of the Japanese and Korean economic miracles, especially late industrialization (e.g. by state intervention to develop heavy industries), but also to efforts to establish Japanese-style *sogososha* trading agencies as well as improved relations between the public and private sectors (Malaysia Incorporated) and privatization. For a time, looking east was also believed to mean favoring Japanese and Korean firms bidding for Malaysian government tenders. Criticism, not least by those who stood to lose from the new policies and some very costly failures (for example, the heavy industries and Malaysian *sogososha* experiments) forced the government to backtrack. However, it soon became obvious that replicating Japanese or other institutions without understanding the particular context and problems they were introduced to address simply resulted in superficial imitation without developing a coherent and superior set of institutions.

After considerable and protracted confusion about what the Look East campaign was all about, Mahathir sought to clarify matters by emphasizing that it was intended to advance Malaysia's economic development and industrialization by adopting and imbibing Japanese-style work ethics. He emphasized that Japanese and Korean labor discipline, work ethics and productivity had been crucial to their economic miracles, and hence, needed to be emulated by Malaysians, especially Malay workers. Although there were perfunctory efforts at emulating Japanese management styles (e.g. by getting managers to dress more like blue collar workers rather than like Western office executives), most emphasis was given to raising worker productivity and work (as well as product or service) quality by exhortation and emulation of Japanese-style industrial relations, by promoting quality control circles (QCCs) and their variations, for example.

It was in this connection then that another key element of the Malaysia Incorporated concept was initially articulated. Malaysian workers were urged to serve their companies as if they were serving their country, with service to the country and company compared to the family. Greater worker loyalty in large corporations has been secured through a combination of coercion and material reward. Job security (in the form of guaranteed life long employment) and wage increases linked to seniority have long encouraged company loyalty, particularly in big corporations. However, little attention has been given to the fact that company loyalty has been ‘bought and paid for’ and not secured by mere exhortation or even through sole reliance on peculiarly Japanese cultural characteristics.

Mahathir’s labor policies have also sought to shift the very basis of trade unionism away from the collective representation of workers in order to contain their discontent, and render them more pliable and committed to the achievement of employer objectives. Malaysian trade unions, already docile by international standards, were to be further circumscribed. In 1983, the government announced that it would officially encourage the growth of in-house unions as part of its Look East policy.

This policy of promoting in-house unions over national, industry-wide unions represented a significant departure from previous labor policy. Enterprise unionism in Malaysia has a history which long predates the Look East policy, having previously been associated with public enterprises, especially statutory bodies, and to a lesser extent with employers seeking to undermine or preempt national trade unions. Following the adoption of the Look East policy, however, the entrenchment and promotion of in-house unions have been transformed into a coherent strategy of enterprise unionism, albeit by administrative means and facilitated, but not enforced by law. Officially, the Look East policy is said to promote enterprise unions without adversely impinging upon the activities of industrial unions.

However, lest it generate too hostile a response, enterprise unionism has not been required by law. Rather, the state has sought to avoid confrontation with existing national industrial unions by simply bypassing them. The policy seems primarily intended to accommodate new demands for unionization by the more than 80% of the wage workforce, mainly in the private sector, which remains unorganized. More specifically, the policy actually caters primarily to Japanese employer preferences since American employers generally seem more antagonistic to any kind of unions, including the in-house variety, while European employers appear more tolerant of national unions. It should also be noted that some employers have not been averse to taking advantage of the new official policy to undermine difficult national unions by encouraging in-house unionizing efforts.

Despite ostensible government support for in-house unions, few new enterprise unions have been registered where no unions existed before, except for some in the electronics industry. Instead, in-house unions also seem to be encouraged to displace ‘troublesome’ national (industry-wide) unions already in existence. The government's encouragement of in-house unions worked to further fragment the position of national unions, thus undermining the collective strength of workers. Recognizing this, some employers even initiated the formation of in-house unions to preempt their workers' involvement with stronger, more-established national unions.

It has become apparent that the objective is to cut the ground from under the feet of existing unions as far as possible. In particular, the intention is to contain the emergence of autonomous organizations among workers in relatively recently established industries with many employees. What this has meant in particular is that registration has generally been denied to new national industrial trade unions except in exceptional circumstances. Both capital and the state are determined to contain resistance among the industrial workforce by undermining existing national trade unions. However, they have generally hesitated to face the possible consequences of total suppression of existing national trade unions. The current policy and its implementation suggest a less confrontational strategy of encircling existing national unions with restrictive laws and regulations, besides preventing their further expansion.

Also, if the government enables or allows enterprise unions to develop links and form federations, it might set in motion the emergence of a more grassroots-responsive and reinvigorated industry-oriented unionism. Thus, while the attempted Japanization of the Malaysian trade union movement undoubtedly represents a concerted threat to workers’ collective organization, it simultaneously opens the door to new possibilities. In seeking to contain the trade union movement, the government may find that the enterprise unions fostered under the Look East policy may yet give rise to a more vibrant, accountable and responsive workers’ movement built on the very enterprise unions set up to preempt this.

Cuts in public spending and a package of new amendments to existing labor legislation were introduced in 1988 after the recession of 1985-6. Some of the inducements introduced in the 1980 legislation, notably higher remuneration rates for overtime work, were reduced while other amendments were designed to encourage the establishment of in-house unions and to facilitate the introduction of more flexible wage systems. Coming after the 1985-6 recession and the economic liberalization policy reforms of that period, the 1988 labor legislation is generally perceived as intended to enhance labor flexibility and to strengthen management prerogatives and control over labor without significantly protecting labor's interests.

With the trade union movement divided and weakened by a combination of government manipulation and co-optation, management intransigence, and petty personal rivalries among unionists, there was little organized resistance to the new legislative changes. The 1988 reforms were justified by invoking the supposed requirements for economic recovery after the recession and high unemployment of the preceding years. They also clearly reinforced the economic policy reforms by the Malaysian Government from the mid-1980s (Jomo 1989). However, since managerial prerogatives were already so established and so difficult to challenge, such legislative reforms may have made little difference in practice, only officially reflecting the new bias of the government.

A further dilemma for the government is that a fragmented union movement is an unwieldy, if not clumsy, instrument for the pursuit of any form of administratively directed incomes policy, requiring institutions for centralized collective bargaining, as suggested by the 1993 Budget Speech announcement of an impending National Wage Council. The existence of trade union centers and large union bureaucracies opens the way for co-opting labor into a corporatist framework. Indeed, with ethnic Malays now a majority in terms of union membership, this option seems increasingly realistic and attractive. Already, this has been partly realized in the public sector through the Congress of Unions of Employees in the Public and Civil Services (CUEPACS) and is potentially embodied in the Malaysian Trade Union Congress (MTUC)'s commitment to a tripartite corporatist relationship with the state. Perhaps recognizing the potential of corporatist trilateralism, the government appears to have switched its trade union policy in the mid-1990s. After failing to gain much legitimacy for the subservient Malaysian Labor Organization (MLO), it encouraged the MLO to merge with the more independent MTUC, which the government had increasingly marginalized since the 1980s.

With the rapid economic growth of the 1970s, especially the expansion of labor-intensive, export-oriented manufacturing and the public sector, unemployment declined, raising real wages within the country. With considerable emigration of Malaysian labor to Singapore and elsewhere (especially the Middle East), increasing in the mid- and late 1970s, real wages actually rose and pockets of labor shortages emerged, usually in activities offering low wages, poor work conditions and the option of out-migration.

To offset the pressure on wages, and ostensibly to overcome these labor shortages, the government adopted several measures. It has been alleged that the Malay-dominated government also sought to strengthen itself demographically by increasing the number and proportion of ethnic Malays, through the immigration and assimilation of foreign labor (especially of Muslim Indonesians). The increased use of illegal contract labor and immigrant workers primarily from Indonesia, Southern Thailand (especially to the northern states of Peninsular Malaysia) and the Southern Philippines (to Sabah) has depressed real wages. Relatively poorly paid immigrant workers have become increasingly widespread in plantation agriculture, land development schemes and construction. Tacit official approval of massive labor immigration adversely affected wage levels, especially for the mainly Malay and Indian unskilled and semi-skilled workers. The actual magnitude of this mainly illegal labor immigration is difficult to measure, with estimates varying from one to two million by the mid-1990s — an astonishingly high figure given a national population of barely twenty million and an official labor force of less than eight million.

The recession, as well as government attempts to freeze and reduce the size of the public sector in the mid-1980s resulted in rising unemployment and concurrent downward pressures on wages. The late 1980s saw a clear trend towards greater fluidity of worker job security (Standing 1993). With rising unemployment through the mid-1980s, real wage levels were depressed until the late 1980s. Since then, labor shortages (especially of skilled workers) have driven wages up, though growing employment of foreign labor continues to serve as a depressant. In such circumstances, it is not surprising that worker loyalty has been difficult to secure.

Thus far, the Malaysia Incorporated concept for economic nationalism is limited to relations between the public and private sectors, or more specifically, between politicians and bureaucrats on the one hand and business on the other, rather limiting the scope of and social base for corporatism in Malaysia. Hence, to gain broader acceptability and social support, Malaysian economic nationalism must necessarily be more corporatist, securing the crucial support of workers, especially organized labor. In this connection, the state cannot be seen to blatantly side with management against labor, as it has in the past, ostensibly to lower production costs in the interest of international competitiveness.

The Malaysian authorities should not continue to attempt to depress wage levels by encouraging or allowing the continued, poorly regulated inflow of immigrant labor, job insecurity and increased labor flexibility (mainly for 'rents' for politically selected labor agents) nor should they attempt to undermine the bargaining position of workers, especially unskilled and lowly skilled labor. Instead, they should concentrate on building a better-trained and more productive labor force with which, Malaysia can continue to upgrade its industrialization process.

The country needs to return to the concept of tripartism — embodied in the Code for Industrial Harmony. A feeble attempt at tripartism (among employers, employees and the Government) in the first half of the 1970s died with Malaysia's second Prime Minister, Razak, in 1976. More recently, Malaysia's fourth Prime Minister, Mahathir Mohamad has been associated with two different variants of corporatism. On the one hand, he has sought to promote company-level corporatism, particularly by encouraging in-house or company unions. On the other hand, he has been associated with the Malaysia Incorporated concept, popularly understood as an attempt to improve government-business relations.

But neither of these initiatives can be regarded as truly national corporatist projects. The former is limited to complying enterprises, while the latter only involves bureaucrats and business elites, and not the rest of the population, especially the 'popular' sectors. Mahathir's Vision 2020 reiterates the importance of national corporatism, albeit narrowly understood (Jomo 1994). In this connection, it is important to recognize the differences between industrial relations in Korea and Japan, with the former more blatantly repressive, while the latter has been corporatist at the company level, thus ensuring competitive advantage on the shopfloor (Lazonick 1991).

Closing Remarks

It is precisely such collaboration which is necessary if Malaysia is going to enter the ranks of the NICs with its own industrial capacity and dynamism (Jomo 1993), rather than relying almost exclusively on MNCs manufacturing for export in the country, as has been the case since the

1970s. After all, in terms of simple national income growth criteria, Malaysia already crossed the threshold of US$2,000 per capita in 1984. Growth performance and industrialization since 1987 has been very impressive but almost entirely due to foreign (increasingly East Asian) investment. Initially, this growth was heavily based on the successful export of raw materials, including some non-renewable natural resources, but increasingly, a limited range of manufactured exports have become more important.

Domestic industrial linkages have improved since the late 1980s, but mainly because recent economic and technological changes and relatively lower production costs have made it worthwhile for foreign firms to relocate more production processes in Malaysia and to subcontract the supply of inputs locally, often on a just-in-time (JIT) basis, to minimize inventory costs and risks. Unlike Korea and Taiwan, and even Hong Kong, Malaysian industrialization has been heavily dependent on foreign capital, technology and markets. A great deal more needs to be done to develop the sources of industrial dynamism in Malaysia, and this can only be achieved through collaboration between the state and genuine Malaysian industrial entrepreneurs from the domestic private sector in the interest of nationalist industrialization.

Renewed interest in the implementation of the Malaysia Incorporated concept with the announcement of Vision 2020 in early 1991 provided an opportunity to try to move the nation forward solely on the basis of improved government/private sector relations. A broader-based national economic strategy would require involving labor (and the peasantry) more fully in national development efforts. Such participation will only be forthcoming if better deals are offered to these two large, productive, but disadvantaged groups. Tripartism and generally improved conditions for labor would go some way in securing labor support for a national development strategy. Such a national vision of development is not only necessary to achieve continued and sustainable progress in the late twentieth century, but would also go a long way towards improving ethnic relations, and hence, the security and stability of the Malaysian nation. Developmentalism — including late industrialization — need not be based on dirigist authoritarianism or ‘bloody Taylorism’, but could be better and more firmly constituted on the basis of a popular, democratic, and nationalist social corporatism.

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