The Malaysian State and the Régulation of Labour: From Colonial Economy to K-Economy

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This thesis is presented for the degree of

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I declare this is my own account of my research. It contains as its main content work which has not previously been submitted for a degree at any university.
Abstract

This thesis explores the state-labour nexus emerging out of the processes through which governing authorities have attempted to maintain or regain political stability and rates of accumulation in Malaysia. Existing studies usefully highlight the extent to which repressive industrial relations legislation and ethnic communalism have weakened the trade union movement and segmented the labour force delivering the relative industrial peace attractive to foreign investors. Some suggest labour’s discontent at this repression has been successfully contained by Malaysia’s relatively strong economic performance. These approaches, however, only partially acknowledge the extent to which labour’s social reproduction under capitalist relations generates political and economic contradictions.

After an initial failure to address these contradictions in the early post-colonial era, the Malay-dominated government has since developed avenues through which to deliver economic and cultural concessions in a selective and paternalistic fashion. This economic paternalism has contributed to social stability but has diverted funds from economic development and now runs contrary to structural reforms that seek to address Malaysia’s declining international competitiveness. The transition towards a knowledge-based economy, referred to locally as the k-economy, therefore embodies efforts by the political elite to contain political and societal tensions emerging out of the reform process. This thesis demonstrates and analyses the dynamic, contingent and uneven nature of these efforts as the government seeks to establish new bases of legitimacy more closely linked to household consumption concerns than
ethnicity. Despite the relative absence of industrial disputation, labour’s location in Malaysia’s system of capitalism remains a contradictory one. Politically motivated social policies, although under pressure and likely to take new forms, will nonetheless remain pivotal in the attempt to resolve the tensions that threaten accumulation and political stability.
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*Terimah kasih banyak G.*
### Abbreviations and glossary

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<tr>
<td>ACCCIM</td>
<td>Association of Chinese Chambers of Commerce and Industry Malaysia</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>AMCHAM</td>
<td>American Malaysian Chamber of Commerce</td>
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<tr>
<td>APEC</td>
<td>Asia Pacific Economic Community</td>
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<td>APO</td>
<td>Asian Productivity Organisation</td>
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<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>BN</td>
<td>Barisan Nasional, National Front, the ruling coalition</td>
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<td>BNM</td>
<td>Bank Negara Malaysia (National Bank of Malaysia)</td>
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<td>Bernama</td>
<td>Malaysian Government official news agency</td>
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<tr>
<td>bumiputera</td>
<td>ethnic Malays and indigenous peoples of Malaysia, literally ‘the sons of the soil’. The vast majority are Malays.</td>
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<td>BT</td>
<td>Business Times, supplement to the New Straits Times</td>
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<tr>
<td>CUEPACS</td>
<td>Congress of Unions of Employees of Public and Civil Services</td>
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<tr>
<td>DAP</td>
<td>Democratic Action Party</td>
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<tr>
<td>Dewan Negara</td>
<td>Upper house of the Malaysian Parliament, literally the national house</td>
</tr>
<tr>
<td>Dewan Rakyat</td>
<td>Lower house of the Malaysian Parliament, literally, the people's house</td>
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<tr>
<td>EPF</td>
<td>Employees' Provident Fund</td>
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<td>FMM</td>
<td>Federation of Malaysian Manufacturers</td>
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<tr>
<td>FOMCA</td>
<td>Federation of Malaysian Consumers’ Associations</td>
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<tr>
<td>FTZ</td>
<td>Free Trade Zone</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<tr>
<td>Gerakan</td>
<td>Malaysia People’s Movement (political party)</td>
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<td>GSP</td>
<td>generalised system of preferences</td>
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<tr>
<td>HICOM</td>
<td>Heavy Industries Corporation of Malaysia</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development (The World Bank)</td>
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<td>ICA</td>
<td>Industrial Coordination Act</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMP</td>
<td>Industrial Master Plan (1985-1995)</td>
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<td>IMP2</td>
<td>Second Industrial Master Plan (1996-2005)</td>
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<tr>
<td>KBE</td>
<td>knowledge-based economy</td>
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<tr>
<td>KeAdilan</td>
<td>opposition political party formed around Wan Aziza Wan Ismail, the wife of deposed former Deputy Prime Minister, Anwar Ibrahim</td>
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<tr>
<td>k-economy</td>
<td>knowledge, or knowledge-based, economy</td>
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<td>LMW</td>
<td>licensed manufacturing warehouse</td>
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<tr>
<td>MAPA</td>
<td>Malayan Agricultural Producers' Association</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>MARA</td>
<td>Majlis Amanah Rakyat (Council of Trust for Indigenous People, formerly Rural Industrial Development Authority)</td>
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<tr>
<td>MCA</td>
<td>Malay(an)sian Chinese Association (member of BN)</td>
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<tr>
<td>MCP</td>
<td>Malayan Communist Party</td>
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<tr>
<td>MEF</td>
<td>Malaysian Employers' Federation</td>
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<td>MHR</td>
<td>Ministry of Human Resources</td>
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<tr>
<td>MIC</td>
<td>Malay(an)sian Indian Congress (member of BN)</td>
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<tr>
<td>MICCI</td>
<td>Malaysian International Chamber of Commerce and Industry</td>
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<td>MIDA</td>
<td>Malaysian Industrial Development Authority</td>
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<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
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<td>MPOA</td>
<td>Malaysian Palm Oil Association</td>
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<tr>
<td>MSC</td>
<td>Multimedia Super Corridor</td>
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<tr>
<td>MTUC</td>
<td>Malaysian Trade Unions Congress</td>
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<tr>
<td>NCBC</td>
<td>National Committee on Business Competitiveness</td>
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<tr>
<td>NEAC</td>
<td>National Economic Action Council</td>
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<tr>
<td>NITC</td>
<td>National Information Technology Council</td>
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<tr>
<td>NPC</td>
<td>National Productivity Commission</td>
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<tr>
<td>NST</td>
<td><em>New Straits Times</em> (national English language newspaper)</td>
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<tr>
<td>NVP</td>
<td>National Vision Policy (2001-2010)</td>
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<tr>
<td>PAS</td>
<td><em>Parti se-Islam Malaysia</em> (previously Pan-Malay(a)isia Islamic Party)</td>
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<tr>
<td>PIA</td>
<td>Promotion of Investments Act</td>
</tr>
<tr>
<td>PRM</td>
<td><em>Parti Rakyat Malaysia</em>, Malaysian People’s Party</td>
</tr>
<tr>
<td>RM</td>
<td><em>Ringgit Malaysia</em> (Malaysia’s currency, earlier, Malaysian dollars)</td>
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<tr>
<td>RIDA</td>
<td>Rural Industrial Development Authority (from 1966, MARA)</td>
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<tr>
<td>SUHAKAM</td>
<td>Human Rights Commission Malaysia</td>
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<tr>
<td>Star</td>
<td>English language national newspaper</td>
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<tr>
<td>Sun</td>
<td>English language national newspaper</td>
</tr>
<tr>
<td>UMNO</td>
<td>United Malays National Organisation (dominant party in BN)</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UNIDO</td>
<td>United Nations International Development Office</td>
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<tr>
<td>UNRISD</td>
<td>United Nations Research Institute for Social Development</td>
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*Wawasan 2020* Vision 2020
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Preface: The régulation of labour

Malaysia, formerly Malaya, has undergone a relatively rapid transition from a colonial economy dependent on the extraction and export of natural resources to its current status as a manufacturer and exporter of electronics goods with emerging export capacity in education, financial and health services. This has been facilitated by wide-ranging transformations in social and political relations. British colonial authorities, keen to exploit tin and rubber, oversaw an inflow of Chinese\textsuperscript{1} and Indian migrant labourers of such great numbers that, by the 1930s, immigrants comprised approximately fifty per cent of the population. While also recruited to assist in the development of transport infrastructure, such as railways, Indian workers were mainly concentrated in plantation agriculture. Chinese workers comprised the majority of tin miners but were also active in the trading and retailing sectors. Malays, for a number of reasons outlined in following chapters, remained largely disengaged from waged labour in the colonial era.

By way of preparation for decolonisation, a paternalistic relationship between the rural Malay population and the government bureaucracy was established in the early 1950s. This facilitated, firstly, the centralised coordination of reforms to agriculture to increase rice production. Secondly, it served as a means of placating the Malay elite who voiced concerns regarding the relative disadvantage of the Malay population. Thirdly, it was hoped that by preserving the idealised rural Malay lifestyle based on family and community co-operation,

\textsuperscript{1} Chinese tin mine operators were already active in the region but the British increased the scale of mining operations.
that the Malay population would benefit economically from agricultural reforms and require little in the way of further investment of public funds.

At Independence in 1957, the ruling coalition of three ethnically-based parties gave lie to a society and labour force segmented occupationally and geographically by ethnicity and by gender. The United Malays National Organisation (UMNO) dominated the ruling coalition, but British, and to a lesser extent, local Chinese, capital were the more dominant forces economically. The geographically uneven nature of economic development and a laissez faire approach to industrialisation by a government unwilling to risk disrupting the existing regime of accumulation exacerbated socio-cultural economic disparities.

While these imbalances intersected society on the basis of geographic and class location, they were popularly and politically portrayed as greatest between the predominantly Malay rural population and the more urbanised Chinese. Ethnic unrest in 1969 resulted in the suspension of the Parliament, the elevation of a new Prime Minister and the introduction of the New Economic Policy, the NEP. This twenty-year plan (1971-1990) was designed to restructure society to improve the position of Malays through access to better paid non-agricultural employment and greater participation in the business sector. Rapid and expanded economic growth rather than re-nationalisation or redistribution of existing wealth was an essential element in gaining the cooperation of non-Malay political and business elites. To this end, the Malaysian government became more deeply enmeshed in the economy to secure funding for NEP policies, to raise funds from investments, and to establish state owned enterprises that in turn
provided employment and access to government-linked business opportunities, in the main for Malays.

From the early 1970s, the government intensified efforts to encourage foreign investors. Free Trade Zones (FTZs) offered foreign employers a range of financial, infrastructural and labour-related incentives and provided relatively well paid, modern sector employment that alleviated high rates of unemployment and poverty. Centralised industrial relations and trade union legislation, much of it inherited from the colonial era, served to reassure local and foreign capital by actively discouraging independent unionisation.

Despite a resurgence of Islam from the 1970s that generated debates about the links between faith and participation in a capitalist economy increasingly dependent on ‘western’ technology, Malaysia’s manufacturing sector has since grown to absorb a quarter of the total labour force. Slightly more than forty per cent of workers in the manufacturing sector are women. Approximately half of the manufacturing workforce is Malay. Conversely, agriculture has declined in economic importance although it still provides just over twenty per cent of employment. Although Indian workers constitute a significant minority, the majority of agricultural workers are Malay, a continuation of the historical segmentation of the labour force.

Subsequent to becoming Prime Minister in 1981, Mahathir Mohamad unveiled various long term plans that linked industrialisation and economic progress with ‘Asian values’ said to encourage harmony, diligent work attitudes, and
commitment to family. Amongst these was ‘Look East’ which claimed to emulate the South Korean and Japanese models of economic development. Having established the central planning apparatus characteristic of the ‘developmental state’, Mahathir implemented a costly state-led heavy industrialisation program from the early 1980s. The less than successful outcome indicated that the political leadership and the bureaucracy had, as yet, a limited capacity to pursue economic development independent of competing ethnic and political considerations.

A sharp economic recession in 1986 fuelled factionalism within UMNO and a narrowly-defeated challenge to Mahathir’s leadership. While Mahathir responded in an autocratic and repressive manner, imprisoning political activists and reducing basic employment conditions, economic recovery in the late 1980s delivered employment and wages growth regardless of the legislation. This weakened opportunities for the trade union movement to generate any effective opposition to the government and its legislative reforms.

As the economy continued to recover in the late 1980s, employers in the plantation sector, but then widening to include those in the construction and manufacturing sectors, complained of labour shortages. Attempts to encourage more women into the labour force met with only mixed success despite the shortage of labour. In the 1970s, women’s labour force participation rates had expanded with the growth in manufacturing employment. These rates stagnated from the late 1980s under multiple pressures including low rates of pay, poor career advancement opportunities, lack of child care facilities, sexual
harassment, and increased competition from relatively low paid migrant labour. The political tussle between the Islamic party, Parti se-Islam Malaysia (PAS) and UMNO, was evidenced by an inconsistent policy stance by the federal government towards women’s economic and social location.

In the main, the shortfall in labour has been met through the use of semi-skilled migrant labour, formalised by agreements with Indonesia and other sending countries from the mid 1980s. Initially employed in the plantation sector, foreign workers are also widely used in the construction sector, in low skilled services such as hospitality and household-based domestic work, and in semi-skilled labour intensive manufacturing operations. It is difficult to be accurate regarding the number of workers given that up to half of the migrant workforce is undocumented. This situation lends a significant element of inaccuracy to employment and productivity related data and a large degree of vulnerability to the workers themselves. Available figures indicate that in 2006, temporary migrant workers constituted an estimated 20 to 25 per cent of the eleven million strong labour force, an outcome in complete contradiction to the government’s stated policy goals.

Since the mid-1990s, as part of the attempted transition to a knowledge-based economy (KBE), known locally as the k-economy, entrepreneurship, life long learning and a ‘first class mentality’ have been emphasised in official planning documents. Critical to the KBE transition is the availability of a suitably skilled workforce and reduced reliance on unskilled labour. Attempts to reform the education and training sectors have been stymied by complex intersections
between the use of education policy as both a means of development and as a means of pursuing pro-Malay policies. Long term investments in more skill-intensive labour processes and industrial technologies by private sector employers have been limited, exacerbated by strained relations between domestic small to medium Chinese-owned businesses and the Malay dominated state bureaucracy, and by the continuing availability of relatively low-cost migrant labour.

Abdullah Badawi, Prime Minister since 2003, chose the theme of ‘Striving Together Towards Glory, Excellence and Distinction’ when naming the Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006). As they are explained through multiple government publications and conferences and through the government controlled media, not only will such attributes protect Malaysians from unfettered globalisation, they will assist in producing a population with little need for government protection from competition. This is a furtherance of moves by the political leadership since the early 1990s to reduce the level of subsidisation of a wide range of goods and services including health and education, electricity and water, food stuffs and transport fuel.

As an economic institution, the family is now coming under increased pressure to fund health and education costs as well as saving for retirement, as the Malaysian government moves to privatisise or impose fees for services that were once provided freely. In a tight labour market situation, individual employers have used the provision of health insurance and other ‘perks’ as a means of attracting and retaining labour. Employer groups, however, have lobbied against attempts
by the government to shift more of the costs of labour’s social reproduction onto capital. Indeed, representatives of foreign firms based in Malaysia are lobbying for the implementation of competition policies that would be at odds with the government’s policy of fixing prices and regulating the supply of a range of household goods and services. At this current juncture in Malaysia’s political economy, therefore, political and economic pressures, generated domestically and internationally, threaten the current nature of the state-labour nexus.

Such a scenario is not unique in Malaysia’s history. The past eighty years of dramatic yet uneven transformation have been an ongoing challenge to the political and bureaucratic elite in the ethno-political and economic management of wide ranging issues relating to labour’s social reproduction. These include welfare, education, land ownership, food self sufficiency, housing, income and prices policies, in addition to policies more directly related to employment, such as wage determination, skills training, industrial relations and labour migration. Yet analysis of Malaysia’s history of ‘labour relations’ is often restricted to the formal arena of the organised trade union movement and their interactions with employer groups, political parties and state institutions. Citing the relatively low levels of unionisation and industrial disputation, the focus then shifts to an explanation of how and why the union movement was so effectively repressed, and the importance of this to Malaysia’s foreign funded transition towards export-oriented manufacturing. The political benefits to the Malaysian government of a weakened trade union movement are sometimes acknowledged but emphasis is more usually placed on the imperative to deliver the ‘disciplined’ workforce demanded by foreign capital. The descriptions of the colonial
administration and the post-colonial Malaysian government as politically repressive, and organised labour as politically excluded, resonate, but do not provide a broad enough account of how conflicting pressures were managed in a society with democratic institutions and a relatively strong record of economic growth.

Firstly, the fact of a repressed union movement does not provide an adequate basis from which to make claims about the nature of labour’s incorporation within (Malaya’s) Malaysia’s political economy. It is necessary to transcend the restricted reading of ‘labour’ as ‘worker’ or ‘union member’ in order to encompass the scope of social relations that characterise various forms of capitalist societies and labour’s roles within them. Workers also become consumers of public and private sector goods and services; they are taxpayers, investors, constituents and voters; they are gendered members of ethnic groups defined by politically and socially prescribed values. Secondly, and also related to the understanding of capitalism as a set of social relations, the sphere of industrial relations need not constitute the only, or even necessarily the most important, location in which state institutions exert influence in labour related conflicts. To assume that it does fails to acknowledge socio-political processes adopted in order to gain labour’s consent through hegemonic means, or through the use of income, pricing and welfare policies and state funded services that might offset political unrest and economic hardship.

This becomes apparent in analysing social welfare policies, which in the case of Malaysia, must be defined broadly given historically low levels of funding to
‘welfare’. It is necessary to look beyond the Department of Social Welfare to those ministries overseeing poverty alleviation and land redistribution projects in the Malay-dominated rural areas, and to the Ministry of Entrepreneurship and Cooperatives which extends low cost loans, subsidises property purchases and business start up costs and funds community initiatives. This spending is far from transparent, does not always find its target, and has been uneven in its impact. It has nonetheless been politically important in reinforcing the legitimacy of the Malay based ruling party. Clearly, the Malaysian and colonial governments have acted to regulate labour in sites beyond those more directly related to industrial relations and the sphere of production. Ultimately, the industrial relations-focused approach to capturing the nature of state-labour relations in Malaysia fails to make an effective contrast between the institutional capacities of the pre and post-NEP governments and the contribution of NEP policies to the management of labour-related political and economic conflicts.

The question of how conflict-ridden capitalist societies balance conflicting pressures underpins régulation theory (RT). RT is a macro-economic, macro-institutionalist and neo-Marxist approach that seeks to identify the historically specific factors that allow a level of correspondence between conflicting forces generated within capitalism. RT therefore bases the study of social transformations around class conflict. The word ‘régulation’, as applied in RT, refers to the ‘dynamic equilibration of complex systems’ (Delorme 2001:1) and therefore differs from the more limited use of the word ‘regulation’ in English. Far from being functionalist, RT theorists argue the processes that emerge out of attempts to resolve tensions may not prove to be solutions at all. State
Interventions may generate further tensions as there is no guarantee that the nature of the crisis has been understood or that the political elite has the autonomy to act in an effective manner. Indeed, the leadership may decide that it is not politically expedient to tackle the problem, preferring to implement short term compromises that later exacerbate the tensions. In the Malaysian case, delays in implementing legislative and institutional reforms are common strategies in situations where immediate action is deemed likely to generate public unrest amongst competing groups.

RT is usually a quantitative approach applied to the analysis of significant shifts in accumulation regimes in more economically developed countries, the classic study being Aglietta’s (1987 [1976]) examination of the crisis of Fordism in the US.

The contribution of régulation theory is to have brought to the forefront the idea that, in spite of its contradictions, the remarkable resilience of the capitalist mode of production is a result of adaptation and transformation … (Boyer 2002:73-74).

A mode of régulation ‘is an emergent ensemble of norms, institutions, organisational forms, social networks, and patterns of conduct that can stabilise an accumulation regime’ (Jessop 2001:7). These tools are methodologically useful although they are not applied here in strict RT terms. What is pursued here instead, is the study of the state-labour nexus which focuses on the role of the state in managing the sites of labour’s social reproduction.

One of the important contradictions of capitalism is the tension between wages as a cost of production, and the contribution of wages to the funding of labour’s social reproduction and to consumption demand. While RT would usually focus
on the quantitative expression of this contradiction at a macroeconomic level, here the focus is on specific political contests generated by this contradiction, and the economic and political resolutions that have emerged as a result.

In Malaysia, attempts to resolve contradictions arising from labour’s social reproduction have generated ‘economic paternalism’. This phrase encapsulates a complex set of economic and socio-political arrangements, many of which are embedded within the structures of the NEP, which legitimate and facilitate the delivery of public services and other transfers to households. These are delivered through an institutional framework that, in turn, enables the government to direct labour’s consumption options towards the pursuit of particular economic goals. By delivering economic concessions to labour that are not ‘wages’, such as soft finance and subsidised prices, but which nonetheless contribute to consumption demand, the government has assisted in delivering a low wage regime yet without depressing consumption. The economic ramifications of this are many. Most important perhaps in delivering social stability, is that, firstly, household consumption has expanded despite low wages. Secondly, inflation has been contained, which also has an impact on the household income of those reliant on wages and borrowings. Thirdly, private consumption has been enhanced as a counter cyclical tool that has hastened Malaysia’s recovery from the two most recent economic downturns (1998 and 2001).

Important to these strategies was the positioning of government actions within an ideological framework in order to enhance legitimacy. For example, during the height of the NEP, the government portrayed its role as the protector of the
Malays. Over time and facing a different set of domestic and international constraints, the government has attempted to shift the basis for its legitimacy. An appeal to economic nationalism underpinned Mahathir’s attempt to create a united Malaysia in the early 1990s. Within the rhetoric surrounding the attempted shift towards a KBE, the government depicted its role as that of a facilitator, encouraging self-reliance and entrepreneurship in order that Malaysia improve its competitiveness internationally. Currently concerned to reduce the levels of expenditure on the public provision of services and subsidies, we see growing institutional support for consumerism as part of which Malaysians are encouraged to view themselves as informed consumers making choices about where to allocate their spendings and their savings.

However, as is demonstrated through the thesis chapters, once particular strategies become institutionally and socially embedded, they can became difficult to dislodge, creating inconsistencies between government departments and policies. This highlights the potential for discordance between the régulation of labour’s social reproduction by various government institutions and the desires of capital for labour suited to the demands of the production regime.

The goals of this thesis are pursued through a theoretical framework that combines régulation theory and critical political economy. These in combination expose the development of economic paternalism as an important contribution to the régulation of labour in Malaysia. This approach is explored in the first chapter. The remaining chapters are in chronological order, providing an historical context in which to analyse various conflicts and contradictions.
generated by labour’s social reproduction. The earlier chapters examine existing literature. However, the theoretical approach adopted here emphasises a conflict-centred analysis that challenges existing depictions of the subdued role of labour in Malaysia’s political economy. The later chapters interweave original research with existing literature to explore the attempted transition to a KBE and the focus on household consumption as part of a shift in the state-labour nexus. The conclusion highlights the factors impinging on the sustainability of the present arrangements. While particular aspects of economic paternalism are shown to be clearly under pressure, a number of responses are already emerging.
Chapter One: Régulation, the state and the social reproduction of labour

Introduction

The role of the state in the social reproduction of labour is generally examined in the context of the demands of the labour market. Through state institutions with responsibilities for overseeing labour’s social reproduction, such as the education and welfare systems, labour is readied for its role in production. In this way, institutional coordination underpins the matching of labour to the regime of accumulation. State-capital tensions emerge when demands for labour of a certain quality, quantity, flexibility or price are not met. What are these occasions when state institutions have not produced labour as required by capital? Could it be that governments, individual ministries or political leaders, develop requirements of labour that potentially run contrary to those of capital?

This thesis suggests, firstly, that in relation to labour, political concerns and production demands do not always coincide, an outcome of the role played by state institutions in managing the conflicts associated with labour’s social reproduction. Secondly, it is argued that managing these conflicts results in compromises that have the capacity to transform institutions and policies, with implications for political stability and rates of economic growth. Thirdly, in order to locate these compromises, we must look beyond the labour market, industrial relations and the workplace. Labour occupies multiple roles in capitalist societies presenting governments with a range of potential conflicts beyond those related directly to production, and conversely, providing a number of spheres in which to address those conflicts. Despite the relative absence of industrial disputation in
Malaysia and the lack of a universal system of welfare, labour’s location in Malaysia’s system of capitalism is a contradictory one, and social policies have been important in resolving tensions that have threatened accumulation and political stability.

In order to explore this thesis, Malaysia’s relatively rapid socio-political and economic transition over the past 80 years is examined. It is a period marked by social upheaval and economic and political re-ordering, as well as, since the late 1970s, relative political stability and generally high rates of economic growth. The dynamic and contingent processes through which governing authorities in Malaysia have attempted to mediate the tensions generated by labour’s social reproduction have resulted in particular institutional forms that support economic paternalism. Malaysia is not a welfare state and the government rejects the notion of universal income support. The redirection of economic benefits to labour has occurred unevenly and selectively, initially as the outcome of the government’s self-proclaimed role as the defender of the Malay people. This claim justified the New Economic Policy (NEP) of 1971-1990. During this period the form of the state in Malaysia was institutionally remodelled to facilitate broad ranging interventions into the economy and society. This was justified by the government as necessary to address the relatively disadvantaged socio-economic status of the then predominantly rural-based Malay population.

Shifts in government policies have since been negotiated around the ability of the dominant political party, the United Malays National Organisation (UMNO), to maintain its role as the defender of Malay cultural and economic aspirations. The
ruling coalition, the Barisan Nasional (National Front), also comprised of ethnically-based parties representing the Chinese and Indian minorities, is now increasingly dependent on the votes of middle income earners of all ethnic groups in order to retain its two-thirds majority in the Dewan Rakyat, the lower house of the Federal Parliament. It is this majority which delivers the coalition the ability to pass its legislative agenda with little scrutiny or interference from opposition parties. Therefore, while UMNO has continually sought and gained legitimacy from its Malay constituency on the basis of appeals to issues surrounding ‘ethnicity’, more recently, political legitimacy has also been based on the ability of the government to deliver economic goods, such as price subsidies and fixed interest rates, to the growing multiethnic urbanised population of middle and upper income earners.

A shift in demographics and upward levels of consumption of state-provided or state-subsidised goods and services, has made this an increasingly expensive means of regulating labour. The costs of subsiding petrol, water, electricity, agricultural inputs and food products has diverted a significant proportion of funds from expenditure more consistent with the government’s stated policy of developing a knowledge-based economy (KBE). The extent to which the delivery of subsidies requires government intervention in the market has also generated a conflict with international pressures for competition policy.

Given these complexities, the literature under review and the theoretical approach adopted here extend beyond that of industrial relations and employment legislation. In the main, the works reviewed analyse societal
transformations in a critical fashion, as an outcome of conflictual social relations. They therefore provide useful insights into the various mechanisms through which the political leadership and various agencies of the government have sought to defuse or otherwise manage conflict. Few of the studies, however, engage directly with the potentially contradictory interdependencies that characterise the state-labour nexus. Important amongst these interdependencies are the linkages between the consumption and savings patterns of labour and their contribution to state revenues and rates of economic growth. Another is the electoral process in which labour becomes the constituent. Conversely, labour seeks institutional protections in a wide range of matters, including employment but extending to cultural and religious expression, human rights, property and consumer issues and the provision of public services and goods such as housing, health and education.

This speaks to the need for including within the scope of this study a range of government institutions that seek to exert influence over the multiple sites of labour’s social reproduction. In doing so, this thesis attempts to bring to prominence the conflictual and thereby transformative nature of labour’s participation in Malaysia’s economic and political history. Secondly, it aims to more completely capture the wide range of state responses engendered by that conflict. Thirdly, it demonstrates the influence of those responses on policy decisions.

The dialectical nature of these processes is clearly highlighted through the use of régulation theory (RT) which recognises capitalism as a complex set of
contradictory social relations. There is nothing inherent in capitalism that acts to mediate these contradictions. Particular instances of crisis and periods of stability can, therefore, be usefully examined to identify the contributing factors and the political processes through which mediations are attempted, and subsequently, the flow on effects of the mechanisms and processes utilised in the attempt to restore economic growth and political stability. The contingent nature of politically determined outcomes means ‘the state’ is a dynamic set of relations that are captured and given structure in the form of institutions. This provides an understanding of the institutional forms of the state as acted upon as well as constituting a set of actors. Institutions are both the sites and the outcomes of attempts to resolve conflict. ‘Institutionalised compromises’ are the resultant mechanisms that bear the potential to stabilise certain conflicts under particular circumstances, but which can later become destabilising under shifting social, political and economic pressures.

RT is a multidisciplinary approach that benefits from the contributions of critical work in political economy, economic sociology and labour geography. Analysts adopting this approach seek to identify a ‘mode of régulation’, the dynamic complex of processes, institutional arrangements, norms of behaviour and economic conditions that allow a degree of accommodation between conflicting tensions such that economic growth is supported and political stability maintained. The retention of the French form of the word régulation serves to differentiate it from the relatively narrow and static meaning of the word in English. The application of RT to the study of state-labour relations in Malaysia was challenging given its usual reliance on long term quantitative data. While it
may certainly be possible to produce such a study of Malaysia, the RT approach is modified here to provide a qualitative analysis. This proved more than worthwhile, supporting a disciplined engagement with a number of contrasting explanations for the nature of labour’s participation in Malay[a]sia’s political economy.

This chapter is structured to provide a review of the literature that contrasts the nature of labour’s involvement in the colonial economy with that in the period since Malaysia’s political independence. The chapter concentrates, secondly, on competing explanations for the longevity of capitalist societies, and within this, the importance of the means adopted to ‘regulate’ labour. Thirdly, the discussion engages with competing accounts of the role of social policies in Malaysia’s economic development. This highlights the historical importance of Malaysia’s economic paternalism in the régulation of labour, and emerging challenges to the form it currently takes. The limits to the thesis and the sources utilised are outlined in the final section of this chapter.

**Labour in Malaysia’s political economy**

To claim, as Kuruvilla and Erickson (2002:194) do, that ‘[t]he primary focus of colonial labor policy in Malaysia was the elimination of communist…unions and the establishment of compliant and “responsible” unions’, is to understate the complexity of labour-related arrangements undertaken by the colonial administration. Emerson 1964, Parmer 1960 and Stenson 1970 are amongst those who offer more critical accounts of the introduction of industrial relations (IR), employment, immigration and social welfare legislation in colonial Malaya.
These authors demonstrate the competing and shifting interests of British plantation owners, local British administrators, the Colonial Office in London and the Government of India and the resultant impact of their varied interests on the formation of policy and the extent to which policy became practise.

For example, Rudner (1994:349) suggests that prior to WWII, ‘the main objective of labour policy had been to encourage an adequate inflow of immigrant workers for Malaya’s expanding economy, with the Labour Department acting as “protector” of labour from the more obvious social and economic evils’ (see also Parmer 1960:249-253). The earlier efforts at ‘protecting’ labour, such as the 1923 Labour Ordinance, were undertaken largely at the request of the sending governments and had a limited impact on worker welfare (Ramasamy 1994).

While legislation played a role, as Daud 1977a, Kaur 2004a and Lee 1989 explain, a range of local level controls were exerted over labour, which, in addition to the vulnerability of workers to deportation, effectively constrained industrial action, apart from sporadic localised uprisings particularly during economic downturns and periods of inflation. Workers were often geographically isolated, ethnically segregated and trapped in dependent socio-cultural hierarchical relationships that involved debts and bonds.

In summary, this approximates what Burawoy (1985, chapter three) described as a despotic labour regime, a system of labour control that rested largely on physical coercion and income insecurity. Burawoy (1985) explains how, under
such a regime, a critical labour shortage is likely to emerge if labour’s conditions are reduced to the point of being inadequate to support social reproduction (see also Peck 1996:36). Further, Wolfson (2002) notes the tendency for an economic crisis of under-consumption when labour’s conditions fall too low. Neither of these concerns is directly addressed in the historical works mentioned above but enough clues are provided to develop at least a partial answer as to how capital accumulation was sustained despite the appalling conditions experienced by labour. Colonial Malaya was not a closed labour market; an essential role of the colonial authorities was to oversee the importation of fresh labour supplies and the repatriation of excess and ‘decrepit’ workers. Labour shortages did occur, which encouraged employers to hoard some labour during economic downturns in readiness for an upswing, but by and large, the crisis foreseen by Burawoy as a result of despotic labour conditions did not emerge. Neither was there a crisis of under-consumption.

The reasons for this are found in the particular characteristics of the economy at that point, and in the means through which labour’s reproduction was funded. Malaya’s economy was geared towards natural resource extraction for export. The colony’s earnings came in the main from taxation on imports and exports. There was little in the way of local production for the market.

The export sector in British Malaya was unusual in that it did not depend on the indigenous subsistence sector for any essential inputs. Tin and rubber, the principal exports, were produced by imported labor subsisting on imported rice (Kratoska 1982:282).

The majority of the colony’s rice needs were usually able to be imported at relatively little cost in comparison with the prices gained for tin and rubber exports (Kratoska 1982; Rudner 1979). For the most part, domestic consumption
demand was not an important source of income to the British.\(^1\) Exposing the immigrant labour force to the vagaries of the market did not, at this point in history, generate economic or political instability. To the contrary, the prevailing economic and political circumstances *supported* rather than being destabilised by the low wage regime. In the social relations of the colonial economy, the role of the immigrant labour force was effectively reduced to that of ‘worker’, allowing insecurity to function effectively as ‘the main tool of capitalist control over labour’ (Picchio 1992:58).

However, these underlying economic conditions were changed by political interventions. In the late 1930s, the degree of exploitation of Indian workers caused the Government of India to impose a ban on further labour transportation. Immigrant workers were then encouraged to settle permanently within Singapore and Malaya to guarantee the future labour force. This raised issues regarding food self sufficiency and land distribution (Kratoska 1982; Rudner 1979). A greater proportion of the labour force was able to participate in other social and economic roles, engaging in household formation and placing a strain on existing amenities, particularly food, housing, health and education resources. The reliance on repression and coercion alone became less tenable, politically and economically. The destabilising pressures foreseen by Burawoy (1985) came to the fore and the Malayan Communist Party (MCP) grew in strength.

In the post-WWII era the British sought to eradicate the MCP through a military offensive known as the Emergency (1948-1960), and through amendments to the

\(^1\) There are some important exceptions to this that are raised in the following chapter.
Trade Union Ordinance in 1947 that rendered approximately fifty per cent of existing unions illegal. However, it was a much debated decision amongst those in the colonial administration whether or not to allow any further unions to form (Stenson 1970:140-141). The election of a post-war Labour government in Britain was an influential factor in this decision. So too was the ability to exploit ethnic identity by encouraging Indian leadership of the moderate trade union movement established in 1950, ‘…because of the belief that unions peopled by the smallest and last influential of the ethnic groups would not pose a threat to industry’ (Chin 2000:1041).

Forced into greater reliance on the local labour force, increased public expenditure was allocated to health and there was increasing evidence of plantation employers paying a maternity allowance (Manderson 1999:105). The authorities entered into often acrimonious discussions with employers over arrangements to fund labour’s social reproduction in order to ensure a future labour supply and food supplies, and to contain political activism (Rudner 1994; White 1998). To fund the campaign against the MCP, which included the provision of housing and amenities for incarcerated Chinese squatters in ‘new villages’, and the re-housing of estate and mining workers so they could be more closely watched, corporation taxation was imposed on an unwilling business community (White 1998). A levy of five per cent of employee salaries was also imposed on employers by way of contributing to a retirement fund for low income workers, thus creating in 1951 the Employee’s Provident Fund (EPF). This was followed closely by the employer-funded Workmen’s Compensation Act in 1952. The pooled resources of the EPF were to be available to the
government to fund Malaya’s development once the British had departed (International Bank for Reconstruction and Development 1955:201-202). While Chin (2000:1041) describes the ‘decolonization process…[as]…marked by contestation over which ethnic group would eventually assume control of the state apparatus and the country’, less frequently mentioned is the extent to which it was marked by debate over the future funding of labour’s social reproduction.

In the period following political Independence in 1957, UMNO dominated the coalition of ethnically-based parties called the Alliance. Having few economic resources, however, UMNO was forced to a significant extent to allow foreign, mainly British, and domestic Chinese capital to organise accumulation. What little funding was directed towards poverty alleviation was focused on increasing the productivity of the agricultural sector in which the majority of the Malay population were located. Hasan (1980:32) notes, however, that most of these projects had long gestational periods and coincided with a downturn in commodity prices. They did little to improve household incomes in that sector through the 1960s. Meanwhile the small but growing urban Malay population expressed dissatisfaction with their degree of access to the business sector (Kahn 1999).

Ethnic rioting in 1969 led to the suspension of the Parliament and a declaration of Emergency until 1971. However, as Jomo and Gomez (1999) explain, the economy in 1969 was not under any immediate threat. Rather, the May 1969 events heralded ‘the political exhaustion of the economic system…’ (Jesudason 1989:74). By way of accounting for this, Missen (1986:84-86) and Stenson
(1980) agree that UMNO was never in a position to fulfil Malay expectations and hence the structure of the Alliance was fundamentally flawed. The value of their analysis is that it exposes, amongst other economic and political shortcomings, the inability of the government to regulate labour’s social reproduction to the degree that met societal expectations. There was in particular a disjuncture between the claims of UMNO to represent the Malays and its ability to achieve that outcome.

Resolution took the form of the New Economic Policy (NEP), released in 1971. The NEP represented an expansion in the institutional capacity of the government. Social policies and economic development became linked institutionally and ideologically, initiating a process that would eventually see the embedding of an economic paternalism that was still in its infancy in the 1960s. The political leadership justified the government’s expanded economic role as necessary to ensuring social and political stability. As argued by the newly installed Prime Minister, the societal divisions that threatened Malaysia’s future were caused by the unequal distribution of wealth and opportunity amongst the three main ethnic groups.2 ‘The Malay community saw state sponsorship and assistance as essential forms of protection given their historical experience of exclusion from the modern sector of the Malaysian economy’ (Khoo 1995:104). Structural changes in the financial sector enhanced the government’s control over the banking and finance sectors, while oil revenues in the post 1975 period delivered greater financial resources with which to

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2 This view was not shared amongst all the coalition partners. Heng (1997) provides a particularly useful account of the efforts by members of the Malaysian Chinese Association, including the then Minister of Finance, to tone down both the language and the policies that emerged with the NEP.
implement NEP policies. Rates of contribution to the EPF were increased, expanding the pool of domestic funds available to the government. Importantly, this avoided the need to impose a higher rate of taxation which would have risked further alienating Malaysian Chinese on whom the burden would have fallen most.

This description of the NEP, and the more detailed discussion in later chapters, seeks to expose the mechanisms within it that acted to contain potential conflicts associated with directing greater support to the social reproduction of Malay labour. Importantly, NEP policies were imposed without seriously undermining Chinese capital (Heng 1997) or reducing employment opportunities for non-Malays. In sharp contrast, one factor contributing to the demise of Fordism as the regime of accumulation in the United States was the degree of political resentment generated by the use of income taxation to fund the rising costs of welfare. In stark contrast, Malaysia’s system of welfare has delivered funds to the government.

Malaysia’s Free Trade Zones (FTZs) have attracted considerable academic attention (McGee et al. 1986; Kelly 2002). Researchers have exposed the repression of unions within the FTZs (Barnard 1992; Casperz 1998; Kuruvilla 1996). Importantly though, this repression did not rely on the use of overt physical force (Barraclough 1985). The government was careful to justify its actions in ways that were consistent with its paternalistic role towards Malay labour (Ariffin and Lochhead 1988; Bhopal 1997). FTZs are also locations where the Government sought to create modern sector employment opportunities for
the mainly rural based Malay population. They provided a means through which the state could pursue NEP objectives by imposing restrictions on foreign employers that required them to adopt employment quotas that favoured Malays. ‘The promotion of free trade zones and the pursuit of the NIC strategy can be seen as a response to…growing discontent and stratification in the countryside’ (Johnston 1997:399). In this way Malaysia’s participation in international economic relations has been influenced by an institutionalised compromise forged through the attempt to manage state-labour relations.

The participation of women in Malaysia’s FTZs has been considered the outcome of a deliberate development strategy to deliver low cost labour to MNCs (Casperz 1998). Yet, while firms in the FTZs initially attracted large numbers of younger, rural, Malay women into the non-agricultural labour force, Chin (1998, 2000) concludes this was a situation largely unexpected by the Malaysian government which was, at the time, more concerned about high rates of male unemployment. There was little institutional support for women’s participation in paid employment despite MNC preferences for relatively low-cost female labour. The resulting stagnation of women’s labour force participation rates suggests that women’s role in the economy is less the outcome of policies pursued by a ‘developmental state’ and more the product of a government unable to negotiate conflicting ethno-cultural, political and economic concerns.

In the early 1980s, newly elected Prime Minister Mahathir appeared impatient with the extent of economic and societal restructuring. He involved his
government much more deeply in the economy to develop labour-absorbing heavy industry. This period is generally portrayed as one in which the government cracked down heavily on ‘labour’ (Ayadurai 1993; Jomo and Todd 1994). But Khoo’s (1995) apt description of the ‘paradoxes’ of Mahathirism more closely captures the reality. Amendments to employment and industrial relations legislation introduced in 1980 reflected both Mahathir’s paternalism towards Malay labour and his antipathy towards the union movement. There is little doubt that Mahathir was acting against organised labour, as evidenced by the 1980 amendments to the Trades Union Act and the Industrial Relations Act, but entitlements for lower paid workers were improved in the amendments to the Employment Act. It was not a coincidence that they were introduced as Malays increased their participation in waged labour. In the rush to depict Mahathir as anti-labour this paternalism has been overlooked, yet it provides another example of UMNO’s attempts to manage its relationship with the Malay workforce in ways mediated by political expediencies. Cognisant of this, Ariffin (1997:53) explains the legislative push for in-house unions as a compromise position rather than an all out attack against the union movement. The government was certainly hoping to retain legislative control over the union movement, and was keen to present such an image to foreign investors, but it ultimately did so in a manner less likely to generate direct confrontation between the Ministry of Human Resources and Malay labour or Malay union officials.

A number of labour geographers (Coe and Kelly 2002; Jonas 1996; Kelly 2001a, 2002) have examined FTZs as specific locations where local labour and
international capital intersect. They have succeeded in capturing the ways in which foreign firms relied on local factors in order to control labour.

...labour control is actually a process that is constituted in the relationships at multiple scales between various dimensions of local capital, the local state, family units, and individual workers. Thus, while the demands of global capital provide the ideological justification for the suppression of labor rights, it is within highly localized and geographically differentiated systems of repression that labor control is constituted, and not just in the direct relationship between global capital and local labor (Kelly 2001a:2).

Kelly’s (2002) study of industrial workers in Malaysia, Indonesia and the Philippines highlights a ‘spatialized politics of labour’. This approach is particularly useful for identifying mechanisms of control that operate to physically divide and isolate workers, either as individuals, or as employees of separate workplaces or industrial parks, thus encouraging in-house as opposed to industrial unions, and fostering ethnic rather than class identification. Where workers might congregate outside of the workplace, the provision of company housing or social activities restricts the possibility of politically motivated collective action.

By extending their reach into local communities, employers have divided workers and diluted antagonisms through the provision of concessions such as health and financial services, transportation and education facilities, and scholarships. Backing up these mechanisms are institutional arrangements including influence over high-school curricula and the tacit approval by local-level government authorities to ignore the illegal exclusion of union representatives. Utilising local power networks and reinforcing existing stereotypes of gender and ethnicity, firms can institute effective control over the
labour force and labour market largely relying on the hegemonic nature of social norms.

Gendered regimes of control within the factory setting are not only constructed by MNCs, but are produced in relation to localized social power relations and inequalities (namely, ethnicity and class) that are, ultimately, the product of political construction… (Elias 2005:206).

The types of labour control mechanisms that emerge with this local level approach are therefore ‘not necessarily…brutally coercive’ (Kelly 2001a:13) and this goes some way to explaining why they were able to be implemented and sustained.

The absence of unions and limited industrial disputation is not cited as evidence of an absence of conflict or as the result of repressive industrial relations. Instead, Kelly’s (2002) examination indicates that conflict has been mediated, partially through the [mis]application of industrial relations legislation and workplace controls, but also through the imposition of controls over sites of labour’s social reproduction consistent with existing societal values. ‘It is precisely the prevention of labour collectivity that constitutes the politics of labour in such circumstances’ (Kelly 2002:408).

The relevance of this discussion to the development of a theoretical approach that seeks to highlight the contradictory nature of labour’s participation in capitalist societies is two fold. Firstly, as emphasised by Kelly, levels of industrial disputation are not the only indicator of labour-related conflict. This sounds a cautionary note regarding the claimed dominance of industrial relations legislation in ‘successfully controlling’ labour to achieve industrial peace.
Secondly, what becomes more apparent through Kelly’s work are the means of managing labour through the extension of controls over sites of labour’s social reproduction. Acknowledging that such efforts are ongoing, and that they contribute to the prevention of conflict, foregrounds the conflictual nature of labour’s social reproduction within capitalist economies.

The mediations that prove effective in managing these conflicts are culturally, geographically and temporally specific and require local or company level studies to be exposed as such (Chan and Kelly 2004:129). However, as Elias (2005:206) also notes; ‘…one needs to acknowledge the role of the state in the construction of gendered and racialised labour markets for productive labour’. The meso-level rather than workplace focus of this thesis, identifies institutional and ideological structures, mediations and processes that are played out at the national level which may prove useful to employers in the management of conflict. However, they may also present obstacles. For example, while foreign employers in many instances welcomed the willingness of the Malaysian Government to repress independent unionisation, particular businesses have expressed resentment at the Government’s imposition of ethnic based employment quotas.

In contrast to these observations, Kuruvilla and Arudsothy (1995:174) conclude:

In sum, it is clear...[the] state’s role as an employer and its dependence on foreign investment for its manufacturing, particularly in its most important electronics industry, has created a labour relations system that is repressive and government-dominated. The shift from ISI to EOI was the primary catalyst for the tightening of labour relations policies, and the specific cost containment policies were determined by the government in
response to pressure from foreign companies on which it became dependent.

This position is developed further in Kuruvilla (1996), and Kuruvilla and Erickson (2002). In summary, with reference to Malaysia specifically, the authors argue:

There is a consensus in the literature that the demands of the export-oriented strategy and the need to continually attract foreign investment were the prime motivations for the government’s repressive IR policy (Kuruvilla and Erickson 2002:195).

Their conclusions can be contested in a number of ways. Firstly, Kuruvilla (1996:646) makes only a brief mention of the complex socio-political arrangements necessary to the government’s ability to implement a repressive industrial relations regime. Secondly, while arguing the dominant factors in determining the nature of industrial relations systems are economic, the authors acknowledge

that there have been many differences in the ways the various Asian nations sought to attain this goal of industrial peace…And [sic] it is also true that the goal of maintaining labor peace was influenced strongly by political considerations in some countries (Kuruvilla and Erickson 2002:175).

These comparative variations and the political considerations that have contributed to them deserve to be given much more consideration before an assumption can be made regarding causal linkages. For example, in contrast to the dependent relationship between the Malaysian Government and foreign employers described by Kuruvilla and Erickson (2002), Jesudason (1989:167-168) argues that foreign firms provided an important source of investment funding and employment and also delivered UMNO a level of independence from domestic Chinese capital.
The difficulties facing the Malaysian political leadership as it sought to deliver economic growth, attract foreign investment and retain the support of voters, have impacted on the nature of labour-related legislation. The political implications of ignoring constituents were made only too clear in the 1969 riots. ‘As an electoral regime, the pressure of mass demands could not be so easily dismissed as in more authoritarian societies’ (Jesudason 1989:168). In focusing on industrial relations legislation alone, Kuruvilla and Erickson (2002) have overlooked the complexities of state-labour relations and given little consideration to the role of the state other than its presumed ability to impose a repressive industrial relations environment on behalf of foreign capital.

Given that a wide range of government institutions have responsibility for different aspects of labour’s social reproduction, there is considerable opportunity for their mediations to run counter to those preferred by various fractions of capital. Another example of this, expanded upon in a later chapter, relates to public higher education. The Ministry of Education embodies a range of political and socio-cultural compromises in existence since Independence but further strengthened in the NEP era. These compromises served at the time to contain Malay nationalism, for example by requiring the use of Malay language rather than English in the education system. This has since resulted in Malay graduates lacking attributes preferred by private sector employers. State-labour compromises that have emerged outside of employment relations have, therefore, generated tensions in state-capital relations. The inability to resolve those tensions is one indicator of the extent to which UMNO remains beholden not

3 In 2004, the Ministry of Education was restructured resulting in a separated Ministry of Higher Education with the continuing Ministry of Education responsible for non-tertiary public education.
only to its Malay constituency but also to the emerging middle income stratum of society who also benefit in various, if uneven, ways from the government’s continued interventions in the economy.

The critical studies above incorporate ‘those social and institutional considerations which orthodox economics [and industrial relations] shunts into the background’ (Peck 1996:16). This complex array of institutional, political, socio-cultural and macroeconomic factors in various ways contribute to a more complete understanding of why and how labour’s participation in Malaysia’s political economy has generated tensions and conversely, how it has been sustainable and reproducible over some decades. The question becomes how to harness these approaches to an examination of the shifting nature of the attempted mediations developed historically through and by the institutions of the state in response to the many layers of tension and conflict arising in response to labour’s social reproduction under capitalist relations.

*Régulation theory and systems of labour control*

Many analysts have searched for the mechanisms that support the reproduction, transformation or adaptation of capitalist societies. For Polanyi (1947), this was the ‘double movement’ in which civil society emerged as a counter measure against the worst injustices of the market, allowing the emergence of social protections. In contrast, Gramsci (1971:80) argued that the institutions of the state expanded and extended, creating ‘civil society’ and thereby providing a platform from which the political elite were able to exercise hegemonic control, reinforced where necessary by the coercive apparatus of state institutions.
Situated somewhat between Polanyi and Gramsci, Burawoy (2002:60) concluded that

…instead of destroying itself, as classical Marxism had predicted, capitalism had created institutions and organizations in the space between state and economy that prolonged its existence, containing and absorbing the contradictions….

If classical Marxism is based on an evaluation that capitalism sows the seeds of its own destruction on the path to socialism, then régulation theory (RT), in positing reasons for the ability of capitalism to reproduce itself despite its inherent contradictions, is perhaps better classified as neo-Marxist.

RT emerged out of Aglietta’s (1987 [1979]) search for the factors that underpinned post-war economic growth in the United States. Fordism, as a regime of accumulation, was regulated by a labour-capital accord in which wage demands were argued collectively and linked to productivity, guaranteeing a level of stability in the rate of profit. In return, labour received job security and access to consumer finance which, in combination with prevailing ideologies of progress and growth, facilitated increased domestic consumption and household formation. There was therefore a degree of separation of labour’s reproduction from the market, a role performed by the US variant of the welfare state and by tariffs that protected domestic production. The level of support for labour’s reproduction stimulated mass consumption and supported mass production in the protected domestic market, at least for a time (Boyer 2000:280).

In regulationist terms, the demise of Fordism in the US is attributed to an economic failure compounded by the inability of the social and institutional forms of régulation to secure a new regime of accumulation. Capital suffered a
crisis of profitability, as the cost of wages and welfare driven by inflationary pressures outpaced improvements in productivity. Wages were therefore increasingly depicted as a production cost rather than as a stimulus to production through increased consumption. As described by Lipietz (1987a:34), ‘the potential of the regime of accumulation has been exhausted given the prevailing mode of regulation’. The institutional structures that had developed in support of Fordist social values, such as tripartitism and a strong organised labour movement, largely prevented attempts by capital to reorganise employment relations such that labour costs could be lowered. Particular fractions of capital therefore searched off-shore for opportunities to relocate labour intensive manufacturing thus interrupting the coherence of the nexus between productivity and wages at the national level.

Since the late 1970s, RT has developed so that it is more truly a range of approaches than one theory. However, all of these approaches are underpinned by a central focus on explaining the adaptive capacity of capitalist societies despite their inherent contradictions:

…the most fundamental question raised by regulation theory was: how can capitalism, as a highly fragmented society characterized by competing and struggling individuals, enterprises, and opposite classes, be stable at all and how does it reproduce itself? (Hirsch 2000:103).

In asking such a question, functionalism looms. Looking back at an historical period it is possible to identify the features that gave balance to an era. It would be flawed however to assume that an outcome occurred because of the functionality it provided (Robles 1994:84). As noted by Deyo (1987:193), ‘…the functions of social phenomena do not explain their causal origins’. It is necessary
to demonstrate the contingency of such outcomes, and the processes through which they emerged. Here the French meaning of the word ‘régulation’ is important. As applied in RT, it refers to the ‘dynamic equilibration of complex systems’ (Delorme 2001:1) and it therefore differs from the more limited use of the word ‘regulation’ in English.

Regulationists analyse economies at varying levels of abstraction, the most abstract being the mode of production, of which capitalism is an example (Boyer and Saillard 2002:38). Less abstract is the regime of accumulation, which can be understood as, ‘a complementary pattern of production and consumption which is reproducible over a long period’ (Jessop 1993:330). Five institutional forms coalesce under particular conditions to define a regime of accumulation; these are, money and credit, competition, the socio-technical system, forms of state intervention, and international economic relations (Guttmann 2002:57). Long term econometric data are utilised in determining the relative contribution of each of these forms to accumulation. Contributing to the maintenance of the regime of accumulation is a meso-level concept, the mode of régulation:

A mode of regulation is a set of mediations which ensure that the distortions created by the accumulation of capital are kept within limits which are compatible with social cohesion within each nation (Aglietta 1998:44, emphasis added).

The ‘mode of régulation’ is the concept most relevant to this thesis and therefore receives more consideration below.

Institutions represent the history of previous compromises or mediations between the conflicting and contradictory pressures inevitably exerted within capitalist
social relations. Institutions are therefore shaped by their role as sites and outcomes of societal conflict and its mediation.

Institutionalised compromises result from situations of tension and conflict between socio-economic groups over a long period, at the conclusion of which a form of organisation is established, creating rules, rights and obligations for those involved. Institutionalised compromises act as frameworks in relation to which the population and groups involved adapt their behaviour and strategies; their founding principles remain unchanged over the long term. These types of arrangements prove to be particularly resistant to change and exert a decisive influence over public intervention (André 2002:95).

In regulating labour, and capitalist social relations in general, the role of the national form of the state is considered vital. However, the ‘state’ is not perceived as guaranteeing capitalism. Conflicts shape state institutions, meaning the role undertaken by the state in the régulation of labour is contingent, not pre-determined by the ‘needs’ of capital. This contingency becomes one of the factors that generate further contradictions as different aspects are overseen by a number of institutions. These may act in a contradictory fashion, creating institutional mismatches that can themselves generate further political and economic instability. Therefore, the institutions of the state are considered as possessing their own social and economic logic in the sense of being locations in which, and through which, compromises become embedded or institutionalised, which may or may not be compatible with the demands of production regimes (Hirsch 2000:104; Nadel 2002:34 citing Theret 1992).

This acknowledgement makes more apparent the potential for conflict between various government bodies and particular fractions of capital in issues of labour control. The resolution of crises is contingent upon historically specific factors
that shape the nature of political conflict within a particular national space. Thus, while a number of countries may exhibit similar levels of technological and industrial development, it does not necessarily follow that each will share common state-labour-capital relations (Lipietz 1987a:47).

**National and international pressures**

One of the more detailed critiques of the various practitioners of RT has been produced by Robles (1994). He suggests that RT theorists faced a dilemma in focusing so heavily on the role of the national form of the state in an era characterised by internationalisation. He questioned the ability of a mode of régulation to emerge and be effective given the porous boundaries of a nation state. Probably the most sustained critique of RT, however, has come from within the RT school itself (Grahl and Teague 2000). Boyer (1996, 2000, 2005), Aglietta (2000) and Lipietz (1995, 1997), for example, have all provided reconsiderations of their earlier assumptions and conclusions in response to the greater preponderance of multinational firms and the internationalisation of financial markets particularly.

According to Hirsch (2000:105-106), however, ‘…the connection of “national” with “international” accumulation and regulation…depends upon social processes and conflicts unfolding at the national level’. Therefore, even while these processes and conflicts are themselves subject to international pressures, it is within the institutional framework provided by the national form of the state that a mediation of conflict is attempted. Furthermore, the history of previous compromises, being the outcome of political processes that may be far less
concerned with the international sphere, also acts to create an inertia in responding to international pressures (Vidal 2002:114).

As an illustration, Boyer (1996) identifies trends emerging in industrial relations and wage bargaining arrangements that can be linked to international pressures, but he nonetheless observes that particular governments have responded in different ways to such pressures. As is argued here with reference to Malaysia, openness to the international economy has provided options as well as constraints. Political leaders have developed powerful ideological responses to justify closing off certain aspects of the economy to international competition while simultaneously arguing the requirement to be internationally competitive as the basis for structural reforms in other economic sectors. For example, the Malaysian Government has been subject to pressure to allow greater participation by foreign firms in professional services under the General Agreement on Trade in Services (GATS). To date the government is resisting this pressure as a means of protecting the Malay professional services sector in which it has invested considerable resources and political credibility. In contrast, demands by the union movement for a national minimum wage have been rejected on the basis that it will introduce rigidities into the labour market that will discourage foreign investors.

There is, as is further discussed by Boyer (1996), an observed discrepancy between the claims made by governments to various actors in the international community regarding future policy directions, and their eventual ability to convert these claims into domestic policies. With regard to the future of
industrial relations, Boyer (1996:10) emphasises the need ‘…to clearly distinguish intents and statements from actual practices and transformations’. Again, Malaysia provides a clear example of a mismatch between stated intention and practice. In accounting for this, institutionally embedded political mediations, many of which emerged through the NEP, have since presented obstacles to the government’s ability to respond to demands by employer groups or international agencies. While international pressures clearly exist, they are negotiated within a national institutional framework in a manner shaped by domestic political and economic imperatives. Therefore, state institutions remain important locations in which competing pressures act upon existing mechanisms of mediation. However it is acknowledged that ‘…the particular relationship with the international political economy influences policy options and functions as a direct and indirect pressure on the state’s ability to respond to societal pressures’ (Schmidt 1998:41). This tension is discussed later with regard to the economic ability and political willingness of the Malaysian government to continue to fund subsidised health services, discounted consumer prices and other goods, the withdrawal of which poses domestic political risks.

**The wage-labour nexus, systems of labour control and social regulation**

The concept of a wage-labour nexus is central to RT. Boyer (1990:38) has defined the wage-labour nexus as:

the type of means of production; the social and technical division of labour; the ways in which workers are attracted and retained by the firm; the direct and indirect determinants of wage income; and lastly, the workers’ way of life.

Controls extended over labour at the point of production and in sites of labour’s social reproduction are encapsulated within this definition.
For régulation theory the wage-labour nexus is defined by the complementarity of the institutions framing the employment contract and their compatibility with the current mode of régulation. As a result, the wage-labour nexus varies historically and geographically, with configurations that differ according to economic performance (Boyer 2002:72).

The differentiation between the goals of this thesis and the notion of a wage-labour nexus is one of focus. Firstly, RT attempts to define ‘brands’ of capitalism based on various combinations of the regime of accumulation and the mode of régulation (Boyer 2005). This requires the compilation of extensive economic data relating to all aspects of the economy. As I have focused only on state-labour relations and thus excluded capital to an extent, this precludes my use of RT terms such as the mode of régulation given that I am only exploring a portion of possible contributions.

Secondly, efforts undertaken by governments in managing labour’s social reproduction to an important degree take place in institutions not directly linked to production, for example, through government ministries responsible for education, health, welfare, housing, finance, and national unity. There is, therefore, ‘…no guarantee of conformity between accumulation possibilities and the actual regulation mode’ (Grahl and Teague 2000:161-162). This thesis, rather than ‘proving’ the economic contribution of features comprising the mode of régulation, instead makes concrete those occasions where ‘conformity’ is lacking and highlights specific actions by particular government agencies or political figures that run contrary to the demands of accumulation. This addresses to an extent the concerns raised by Elgar and Edwards (1999:5) that RT ‘tends to

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4 These are ‘market oriented’, ‘meso-corporatist’, ‘statist’ and ‘social-democratic’. The characteristics of each is provided in Boyer 2005:530-532, citing Amable et al. 1997.
overstate the functional integration of regulatory apparatus and accumulation in periods of growth and to relegate conflict to moments of transition between regimes of accumulation’.

Deyo and Agartan (2003:56) define labour systems as:

the institutionalized social processes through which particular types of labor are socially reproduced, protected, mobilized and allocated via markets or other social arrangements into productive activities, managed and motivated at sites of production, and valorized into profit or surplus.

This definition is similar to that of the wage labour nexus. Deyo and Agartan (2003) extend their focus beyond the workplace to acknowledge that sites of labour’s social reproduction provide an opportunity for exerting control. The basis of the typology of labour systems is the production regime. For example, Deyo (2001) suggests labour systems in South-east Asian economies can be termed ‘developmental’, to explain the re-orientation of labour controls away from the earlier political imperatives of nation building and towards ‘economic strategies and initiatives’ (2001:265). This, Deyo observes, was particularly evident during the shift towards export oriented industrialisation (EOI) which required an inflow of foreign investment and exposed previously protected industries to international pressures. Deyo and Agartan (2003:56) argue, therefore, that labour systems ‘harness society to the requirements of economic accumulation’.

Suarez (2001:57) claims that Deyo (2001) fails to emphasize that labor control strategies are not only associated with the requirements of a new economic strategy, but follow a political logic that in many cases represents a continuation of prior labor relations policies.
In terms of methodology, Deyo offers a more politically nuanced account of labour control strategies than is suggested by Suarez and this is particularly apparent in the more recent work (Deyo and Agartan 2003). Tensions and strains within institutions become the drivers of change as governments, responding to global economic pressures, attempt to implement labour reforms. These in turn generate political dissatisfaction for which some level of accommodation is required in order to regain stability. The resolution of these tensions, if such is reached at all, and the nature of that resolution, is politically and economically contingent. The description of transformative political processes as emphasised by Deyo and Agartan (2003) avoids the functionalism of claiming that the state acts in certain ways because it is necessary to the regime of accumulation. Hence their critical political economy approach, while qualitative, has a theoretical consistency with that of RT without recourse to the need for extensive econometric data. I believe their qualitative critical political economy approach to be particularly useful in the study of the situation in Malaysia and it has, therefore, been adopted in the arguing of this thesis.

However, Deyo and Agartan’s (2003) definition of a labour system is geared towards the needs of a production regime. In contrast, this thesis, firstly, examines the many occasions where the ‘harnessing of society to accumulation’ is loosened rather than effected by the mediations organised through state institutions. Secondly, motivations other than the demands of production are highlighted for the interventions by government in capital-labour conflicts. For example, Deyo’s (2001:266) focus leads him to conclude that the ‘…twin pressures of cost-containment on the one hand, and multi-national locational
requirements on the other, encouraged governments to impose or enhance stringent constraints on labour’. However, as a later chapter of this thesis outlines, even as organised labour was more tightly constrained, the Malaysian government acted in other social policy areas in an attempt to contain and ameliorate the impact of the repression. The political elite in Malaysia, particularly in the post-NEP era, were conscious of the need to retain political legitimacy. Even where capital has been permitted to impose a high degree of workplace control or exploitation, the government has attempted to limit the social and political backlash through other arenas.

Therefore, while the critical political economy approach as outlined above is adopted, the focus is on the state’s institutional capacity to regulate labour’s social reproduction. This refers not only to the shaping of labour for employment but necessarily includes labour’s participation in political processes and labour’s contribution to consumption demand and sources of state funding. These are factors which provide the opportunity to highlight the contradictory requirements of labour demanded by particular state institutions and various fractions of capital.

Peck (1996:17) uses the term ‘social regulation’ to encompass a dialectical relationship between the market, government action, societal processes, behaviours and norms that ‘begins not by abstracting labor from its social context but by concentrating on the ways in which it is embedded in and shaped by that context’. Overall, Peck’s goals are not those of this thesis as he seeks to provide an analysis of the social regulation of the labour market. However, his
discussion of labour’s social reproduction (1996:37-43) is particularly helpful to
the approach being developed here. Firstly, Peck notes the inherent
contradictions between the processes of labour’s social reproduction and the
processes of capital accumulation, and secondly, the relative autonomy of the
sphere of labour’s social reproduction from the sphere of production. This leads
thirdly, to his conclusion that:

*Pressures* for regulation do not necessarily result in effective
regulation. The plethora of ways in which the state alone exerts an
influence on labor regulation – through the framework of
employment legislation, structure of the welfare and education
systems, policy interventions in industrial training and labor
market programs, regulation of marital and family life – are likely
to be associated with a myriad of intended and unintended
consequences...state intervention should be seen as not only
problem-solving but problem-creating (Peck 1996:41, emphasis in
original).

Therefore, while usefully acknowledging the importance of institutions, in
emphasising the contingency of institutional forms and responses, Peck’s
approach ultimately delivers a conflict-centred analysis. This serves one of the
goals of this thesis which is to highlight the contradictory nature of labour’s
participation in Malaysia’s political economy despite the effective subjugation of
organised labour politically and industrially.

Throughout the thesis, rather than attempting to identify a complete ‘mode of
*régulation*, which has a broader meaning in RT than this thesis can encompass, I
will instead refer to components which would *contribute* to the mode of
*régulation*. These are referred to as ‘structural forms’, ‘mediations’ and
‘institutionalised compromises’ (Grahl and Teague 2002:161; see also Elgar and
Edwards 1999). Rather than a system of labour control, or the wage–labour
nexus, reference will be made to the state-labour nexus, understood as a
dialectical interaction of political and economic outcomes emanating from institutional interventions in labour’s social reproduction.

The definition of the state-labour nexus combines the insights of the literature reviewed above with the critical approach of political economy, incorporating the spheres of labour’s social reproduction, and RT’s search for the factors that allow for an accommodation of the contradictory forces inherent in capitalism. The discussion moves now to examine a critical aspect of the state-labour nexus, economic paternalism. This term captures the politically motivated, yet economically vital, mobilisation and redistribution of state-controlled resources and is underpinned by the expansion and extension of the government’s institutional capacities in the régulation of labour’s social reproduction.

**Economic paternalism**

Jesudason (1996:129) describes the state in Malaysia as having developed a ‘broad array of economic, ideological, and coercive elements in managing the society’. The ‘economic elements’, he suggests (1996:134), are distributed on the basis of ‘regime calculations on the electoral pay-offs of these provisions’. This section explores how ‘economic elements’ have been mobilised within the state-labour nexus such that they have not only delivered ‘electoral payoffs’ but additionally, so that they have delivered economic benefits, and thus a degree of policy autonomy, back to the government. Herein lies the dialectical nature of the state-labour nexus,\(^5\) which I have attempted to capture with the term

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\(^5\) This description was influenced by Peck’s (1996:17) discussion of social regulation as a complex dialectic.
‘economic paternalism’. The following example accentuates the dialectical nature of economic paternalism.

Firstly, rather than income support, various government agencies dispense subsidies and low cost finance that have multiplier effects in the economy. These have been strategically and successfully utilised by the government under Mahathir to generate a significant counter cyclical impact during economic downturns. Secondly, low wages are ameliorated by facilitating household consumption and home ownership through access to low cost finance, often underwritten by the government. This has limited wage inflation but at the same time, has supported household consumption, particularly by the expanding portion of middle income earners. Thirdly, since the implementation of the NEP, the government has drawn on labour’s savings in the EPF in order to fund its social re-engineering program. This has been vital in delivering a level of policy autonomy by avoiding the political backlash likely to have been generated had the government been forced to increase income taxation. The capital mobilisation that results has also appeased the concerns of the business sector.

Economic paternalism however, exerts constraints, albeit unevenly, on both the giver and receiver of the economic goods being distributed. Its continuation as a means of regulating labour is dependent on the capacity of the political elite to garner sufficient funds for its politically motivated social spending without generating too great a degree of opposition. The nature of the spending must also, therefore, be consistent with existing bases of political legitimacy. These
constraints become apparent in the discussion below and bring into question the characterisation of Malaysia as a ‘developmental state’.

Welfare and development

Johnson’s (1982) initial claims regarding the ‘developmental state’ have since generated a wide range of responses. Essentially, Johnson described Japan’s economic rise as the outcome of the government’s active and successful pursuit of development while relatively insulated from political pressures and supported by a highly skilled bureaucracy. Societal improvements flowed from economic growth and from investment in health and education rather than ‘welfare’ spending. There are two aspects of the developmental state model that will be questioned here with regard to Malaysia. The first regards the extent to which social welfare has been subjugated to economic policies. The second relates to the extent to which the political leadership and bureaucracy were able to identify and implement economic policies free from political pressures.

Historically, the vast majority of what is formally termed ‘social spending’ in Malaysia is allocated to education; most of the remainder goes to health and housing. Very little of the budget is directed to ‘welfare’ or ‘social security’. This suggests that Malaysia can be encapsulated within the developmental welfare state model (Kwon 2005) or the productivist welfare model (Holliday 2000), each of which is consistent with the developmental state thesis.

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6 Onis (1991) provides a useful review of the literature as it emerged in the 1980s, including Johnson’s original text (1982), as well as contributions by Amsden (1989), Deyo (1987) and Wade 1990. In 2004, in the wake of the 1997/8 financial crisis, the concept was redefined as the ‘adaptive developmental state’ in a special edition of the Journal of East Asian Studies.
Table 1.1 Government development spending and allocations, Malaysia, 1965-1985 (per cent)

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<td>Social</td>
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<td>Security</td>
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<td>General</td>
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Table 1.2 Government development spending and allocations to social welfare, Malaysia, 1965-1985 (per cent of total allocations)

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<td>Education and training</td>
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<td>Health</td>
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<td>Housing</td>
<td>4.6</td>
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<td>3.7</td>
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<tr>
<td>Local authorities and welfare services</td>
<td>1.4</td>
<td>1.4</td>
<td>0.7</td>
<td>0.9</td>
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<tr>
<td>Village and community development</td>
<td>-</td>
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<td>0.6</td>
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Gough (2001:181) describes Malaysia as an example of ‘productivist welfare capitalism’ in that social policy has been ‘subordinated to economic policy and the imperatives of growth’. Analysing the impact of the 1997/8 financial crisis, Gough (2001:184; 2003:21) observed little evidence of innovation in social policy in Malaysia. Being based on a standard definition of ‘social policy’, this conclusion does not acknowledge a number of efforts in the early post-crisis period that, while not strictly ‘welfare’, nonetheless delivered economic benefits to labour as well as being of strategic political importance to the government’s relationship with labour.

As is explained in more detail in Chapter Five, income-enhancing initiatives were implemented in the post-crisis period that resulted from the leadership
battle between Prime Minister Mahathir and his former deputy and Finance Minister, Anwar Ibrahim. On sacking Anwar, who had overseen the implementation of an austerity program when the crisis initially emerged, Mahathir took on the Finance portfolio himself and brought down an expansionary budget that increased the allocations to health and education as well as delivering bonus payments to civil servants (Mahathir 1998). This assisted in the recovery of the rate of domestic consumption. In 1999, newly appointed Finance Minister Daim Zainuddin, a long term ally of Mahathir, announced a one per cent cut to the rate of personal income taxation (Daim 1999).

Most discussions of ‘social welfare’ spending are narrowly focused and therefore capture only what is strictly termed ‘welfare’ spending. Ramesh (2000:25-26), while acknowledging that the quantitative data he presents would be significantly altered if he included mandatory employer contributions to retirement benefits and workplace injury insurance, chose to focus only on ‘social security, health and education’. Data on ‘poverty alleviation’ in Malaysia is difficult to locate and far from transparent (Henderson et al. 2002:13-14). Crone (1993:256), for example, described the NEP as ‘an almost bewildering series of programs intended to extend social welfare’. Therefore, while there are understandable reasons for adopting the narrower approach, the conclusions drawn from it fail to capture a range of politically motivated yet economically important transfers to select sections of society that have contributed to the régulation of labour.
Addressing these issues, Chang (2001) rejects the notion that in favouring economic development, the East Asian region became a ‘social-policy free zone’. Chang (1998:88) cites the importance of ‘a range of measures to redistribute income’ in stabilising societies, measures that are overlooked in discussions that focus narrowly on ‘welfare’. Razavi and Pearson (2004) therefore argue for a broadened definition of social policy.

These states may not have nurtured European style welfare states, but they underwrote the low money wages paid to industrial workers with a range of implicit or ‘surrogate’ social policies…These implicit social policies included extensive land reforms, some protection of labour, public housing programmes, inter-ethnic income distribution and welfare provisioning by the corporate sector (Razavi and Pearson 2004:4).

Early post-NEP development plans (Government of Malaysia 1971, 1976) included the extension of low cost loans to farmers and purchases of land by the government at market prices then resold to small landholders at heavily discounted prices. In the Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006), funding to the Ministry of Women, Family and Community Development in which resides the Department of Welfare, constituted only 0.3 per cent of the total allocation. Yet the Ministry of Rural and Regional Development and the Ministry of Entrepreneurship and Cooperative Development, which oversee major poverty alleviation projects affecting the rural, predominantly Malay population, account for 8.4 per cent of the total allocation (Government of Malaysia 2006:530). As Gough (2001:169) notes, ‘welfare’ is not a positive term in many Asian countries and is more likely to be termed ‘development’ spending.
There are other problems in relying on the quantitative data alone. For example, Malaysia’s emphasis on funding to education would appear to be consistent with the productivist and developmental welfare models. However, the accommodation of Malay nationalism and the interests of Malay middle income earners have influenced the education system in ways which have made it *less compatible with the needs of production*. The use of Malay language in classrooms has produced Malay graduates unable to compete in the private sector economy where English language competency is expected. Of the 2.7 per cent of GDP allocated to tertiary education, a relatively high 0.6 per cent is directed to households in order to fully subsidise the educational and living costs of Malay students in public higher education (Department of Foreign Affairs and Trade 2005:51). In the case of Malaysia’s post-secondary education sector particularly, ethno-political influences have shaped education policy and spending such that it has not necessarily served the needs of capital nor produced graduates able to participate in the economy. An analysis of the ‘politics of social policy’ (Kwon 2005) alerts us to the need for a more detailed exploration of the quantitative data. In particular, we require an understanding of the social and political context in which policies emerge.

Gough (2001) does acknowledge that civil servants, including those in Malaysia, are in receipt of a relatively generous, publicly-funded pension. He suggests that this is a means of ‘securing loyalty’ (see also Ramesh 2000:154-155). It is argued here that the relatively favourable employment conditions of civil servants continue to exist, and take their particular form, for reasons beyond
'securing loyalty’ and are now embedded in the state-labour nexus for economic as well as political reasons.

Since Malaysia’s independence, the civil service, which contributes from ten to fourteen per cent of the formal labour force, has been staffed predominantly by Malays. There are currently (2006) in total more than one million civil servants in a labour force approaching 11 million. Their employment security, publicly funded entitlements, and the government’s ability to influence and direct their consumption, has ramifications for political stability, economic growth, budget financing and counter cyclical economic measures. To an extent, Malaysia’s civil servants provide the political leadership with a captive source of household consumer spending. The particular uses to which this consumption has been directed are described in the following chapters but have included, for example, supporting the sales of Malaysia’s first locally manufactured vehicle, the Proton. Civil servants are entitled to apply to their employer, the government, for low cost car finance. From 1982, approval of the loan became dependent on the purchase of a Proton.

This discussion highlights the dialectical nature of economic paternalism. Through the auspices of a number of ‘social’ programs, including many that are packaged under the NEP and available only to Bumiputera, but including others that are available to all ‘consumers’, the government is able to mobilise capital and direct private expenditure towards targeted economic sectors. This has included residential construction, domestic automobile manufacture, the retail sector, particular financial institutions and financial instruments and domestic
tourism. While the ruling party reinforces its claims to being ‘a caring government’ when delivering these measures, the economic impact has also been of vital importance.

State capacity and the politics of social policy

Ramesh (2000:154) describes the period since the mid 1980s as one in which UMNO has tried to distance itself from its traditional role as the ‘only party capable of furthering Malays’ interests’. This claim is consistent with the discussion of poverty in Malaysia’s most recent five-year plan, Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006) which also indicates an attempt to shift social benefits such as subsidies for housing, training and scholarships, away from entitlement on the basis of ethnicity, which is becoming increasingly expensive, and towards entitlement on the basis of economic need. This would result in far fewer households retaining eligibility for subsidies.

Table 1.3 Government development spending and allocations, Malaysia, 1985-2010 (per cent)

<table>
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<tbody>
<tr>
<td>Economic</td>
<td>58.8</td>
<td>50.6</td>
<td>47.6</td>
<td>38.5</td>
<td>44.9</td>
</tr>
<tr>
<td>Social</td>
<td>22.5</td>
<td>24.8</td>
<td>31.6</td>
<td>40.5</td>
<td>37.5</td>
</tr>
<tr>
<td>Security</td>
<td>11.7</td>
<td>20.1</td>
<td>11.8</td>
<td>13.0</td>
<td>10.6</td>
</tr>
<tr>
<td>General administration</td>
<td>7.0</td>
<td>4.5</td>
<td>9.0</td>
<td>7.7</td>
<td>6.9</td>
</tr>
</tbody>
</table>


However, this attempt to shift the basis of legitimacy from being pro-Malay to being pro-development has a long history having been a focus of Mahathir’s call in 1991 for a Bangsa Malaysia (united Malaysia). Secondly, while the official
data must be treated with some caution (see discussion above), they provide only limited support to the argument that ‘social’ spending is on the decline.

Table 1.4 Government development spending and allocations to social welfare, Malaysia, 1985-2010 (per cent of total allocations)

<table>
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</thead>
<tbody>
<tr>
<td>Education and training</td>
<td>13.9</td>
<td>13.4</td>
<td>19.9</td>
<td>25.7</td>
<td>20.6</td>
</tr>
<tr>
<td>Health</td>
<td>1.8</td>
<td>4.4</td>
<td>3.8</td>
<td>5.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Housing</td>
<td>4.9</td>
<td>3.3</td>
<td>3.4</td>
<td>4.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Local authorities and welfare services</td>
<td></td>
<td></td>
<td>1.3</td>
<td>1.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Village and community development</td>
<td>1.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1.0</td>
<td>1.3</td>
<td>1.0</td>
<td>1.1</td>
<td></td>
</tr>
</tbody>
</table>


Ramesh (2000:155) has argued that the ruling coalition has been able to ‘maintain an overwhelming dominance over the political system and devise policies relatively unencumbered by popular pressures’. Yet the mismatch between stated policy goals and practice is more suggestive of a government lacking the insulation from competing pressures that has been attributed to developmental states. The argument offered by Ramesh (2000) overlooks the political and social obstacles that must be overcome in order to shift UMNO’s legitimacy away from that of the Malay defender and more clearly towards that of a developmental state. Due to the constraints of previously embedded state-labour compromises, changes have been implemented only in a marginal fashion. Policies that indicate a greater commodification of labour, such as the
privatisation of public agencies and the legislative support for productivity linked wages, have been introduced only very gradually and in a modified form.\textsuperscript{7}

The direction of resources to social policies has been attributed by Crone (1993:256) to Malaysia’s relatively strong ‘state capacity’. Crone argues that the Malaysian government has broad coalitions of support. But this does not sit comfortably with the government’s long term limitations in addressing, for example, structural labour force problems that are the outcome of the previous support of Malay nationalism but which now present an obstacle to economic upgrading. It is argued here that the ‘policy autonomy’ demonstrated by UMNO in acting against the market in the pursuit of Malay nationalism and other politically motivated social policies, can be explained, at least in part, by the ability to source funding domestically and, from non-income taxing sources. This argument is outlined below.

| Table 1.5 Sources of federal government revenue as a percentage of total revenue |
|---------------------------------|-----|-----|-----|-----|-----|-----|
| Direct taxes                    | 38.3 | 43.9 | 35.2 | 44.5 | 47.1 | 50.3 |
| Indirect taxes                  | 37.1 | 35.2 | 35.5 | 37.2 | 29.1 | 25.4 |
| Non-tax revenue                 | 21.1 | 18.8 | 23.5 | 16.6 | 22.8 | 23.6 |
| **Total revenue (RM millions)** | **16,690** | **21,115** | **29,521** | **50,954** | **61,864** | **106,304** |

Source: Author’s calculations derived from BNM (2006b, table VII.2).

Taxation currently provides just over 75 per cent of federal government revenue. A significant portion of taxation revenue is derived from the government’s control of Petronas, the national petroleum company. For example, in 2005, this amounted to RM6,813 out of a total RM73,137 earned in taxation revenue.

\textsuperscript{7}Deyo and Agartan (2003:66) refer to this strategy as the ‘default option: slowing reform’.
Overall, oil related revenues contributed almost 40 per cent of total revenue in 2005 (Abdullah 2006a:5).

Non-tax revenue is relatively high, reflecting the level of government activity in the economy, and is earned mainly through investments, with contributions from the issuance of licenses and permits, as well as through rents on infrastructure (Ministry of Finance 2005:51).

The historically large pool of domestic savings, captured in unit trust funds and compulsory pension and insurance schemes, is available to the government to be borrowed for reinvestment. Since the mid 1980s, the government has been able to source most of its borrowings domestically (see Table 1.6) and so has been able to fund its programs without high levels of income taxation or foreign debt. Investment returns delivered almost a quarter of government revenue in 2005.

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</tr>
</thead>
<tbody>
<tr>
<td>Domestic borrowing</td>
<td>3,591</td>
<td>3,793</td>
<td>0</td>
<td>12,714</td>
<td>12,700</td>
</tr>
<tr>
<td>External borrowing</td>
<td>956</td>
<td>-767</td>
<td>-1,635</td>
<td>864</td>
<td>-3,503</td>
</tr>
</tbody>
</table>

Source: BNM 2006b:107, table VII.1

Historically, the finance sector was dominated by foreign banks (Liow 1986, cited by Lim 1996:8), but this has since reversed as part of the NEP policy to

---

8 *Petronas* provides both direct and indirect taxation revenue to the state. The bulk is income taxation, the remainder is export duties.

9 For example, taxation accounts for over 95 per cent of Australian and UK government revenue. These two countries have otherwise been influential in shaping Malaysia’s legislation.

10 National savings levels in Malaysia are high for a number of reasons, well explained by M. Zainudin Salleh and Zulkifly Osman (1982:127), including the forced savings into pension and social security funds.
increase *Bumiputera* equity in strategic economic sectors (Salleh and Meyanathan 1993). Not only has banking been profitable for the government, it has delivered the ability to influence lending patterns to meet national objectives.

The government has a strong influence on the financial system through its stakes in the major banks and development finance institutions which were established in the 1970s. Bank Negara’s guidelines on lending and the regulation of interest rates *shaped the direction and the cost of credit throughout the country* (Salleh and Meyanathan 1993:31, emphasis mine).

McKinnon (1996:55) has described access to domestic funds as vital to the Government’s ability to pursue NEP policies that would otherwise have failed to attract funding on purely economic grounds. The federal government holds effective control over national pension and insurance funds, including the EPF, the Social Security Organisation (SOCSO), the Pension Trust Fund, and the Pilgrims Fund Board: ‘…in spite of their legal status, the pension fund bodies in Malaysia do not enjoy functional autonomy’ (Asher 2000:Annexe B6:9). The amounts pooled in insurance, provident and pension funds constituted between 19 and 20 per cent of the total funds in the Malaysian financial system in 2000-2005 (Government of Malaysia 2006:172).

These funding arrangements have delivered a degree of policy autonomy that has not been available to other developing economies more reliant on foreign lenders (Bowie and Unger 1997), or to economies reliant on electorally unpopular income taxation. However, Malaysia’s oil and gas reserves are finite, and the funding directed to subsidies has grown rapidly in association with increases in consumption. Funds directed to politically important but economically unproductive spending are generating more resistance from capital and labour
elites as income taxation becomes a more important source of government revenue.

In summary, the language of recent policy documents indicates an attempt by the political leadership to gain legitimacy from the pursuit of productivist welfare policies of a type more closely associated with the ‘developmental state’. However, in contrast to the developmental state model, it has been argued here that Malaysia exhibits relatively weak state capacity (Henderson 2003). The government is forced to negotiate the ‘politics’ of policy changes, thus limiting the pace of reforms even as economic pressures for change have mounted. At times, political and societal stability has been valued over economic rationale. Such compromises, difficult to dismantle once they have become embedded, then contribute to the institutional mismatches and policy inertia discussed in the chapters relating to the attempted introduction of a KBE. The final chapter of the thesis, and the conclusion, examine in more detail the attempt to shift the emphasis of social policies and the basis of the government’s legitimacy.

**Sources and limitations**

This thesis grew initially out of an examination of the legislative inertia hampering the Malaysian government’s attempts to bring about labour force reforms to assist in the transition to a KBE, plans announced in the mid 1990s. There seemed to be little explanation for this inertia given the political weakness of peak labour organisations and low levels of industrial disputation. The goal initially was to uncover the obstacles to labour force reform in the attempted k-economy transition.
Interviews were therefore conducted in 2002 with staff in the Ministry of Human Resources (MHR) involved in negotiations with employers and unions in the drafting of amendments to employment, industrial relations and trade union related legislation. While most depictions of the National Labour Advisory Council, the peak tripartite consultative body, suggested it was largely ineffectual (Wangel 1999), MHR staff suggested the situation was more complex. They expressed concerns regarding the need for consensus decision-making. This in effect delivered more weight to the Malaysian Trade Unions Congress (MTUC) than could have been assumed from the low levels of unionisation (just under ten per cent) and the limited ability of the MTUC to garner media attention. These interviews therefore suggested a far greater emphasis should be allocated to the influence of labour in the policy-making arena.

This view was reinforced in semi-structured interviews with employer and industry lobby groups conducted in 2001 and 2002. The peak employer group is the Malaysian Employers’ Federation (MEF). In 2000, the 3,400 members of the MEF employed 1.3 million workers (MEF Annual Report 2000) out of the total labour force of approximately nine million. The Federation of Malaysian Manufacturers (FMM) represented approximately 1,960 businesses employing 1.6 million workers (personal correspondence FMM 2001). The Malayan Agricultural Producers’ Association (MAPA) is the other major domestic industry lobby group in addition to the three national level chambers of commerce and industry organised on an ethnic basis. The Malaysian
International Chamber of Commerce and Industry (MICCI) and the American-Malaysian Chamber of Manufacturers (AMCHAM) overlap somewhat in membership being the peak lobby groups for businesses with foreign interests or ownership.

Representatives of these groups were chosen because of their profile in the media, their membership of formal government think tanks and committees and their contribution to relevant government research and publications. This reflected their access to government-established decision-making forums (Biddle and Milor 1999) and would appear to have indicated their ability to influence the nature of the emerging k-economy and its surrounding discourse. Somewhat negating this assumption, in interviews (2001, 2002) the Executive Director of the MEF expressed concerns about the lack of influence employers were able to exert over education. Such views have been frequently echoed in the press by representatives of the FMM and MICCI. In this case, an important factor limiting their attempts to reform curricula was the historical use of the education system to forward the interests of Malay nationalism. The Malay-dominated government was now politically constrained by this historical compromise, meaning that calls to reform education, voiced from the 1980s by employer groups and international agencies such as the World Bank, had been of limited impact in influencing the public education sector.

The hesitancy in reforming the major pieces of employment and labour legislation, and the limited reform of the public education sector, was in stark contrast to announcements collected from a number of official sources, including
ministerial and parliamentary speeches, government departments and agencies. Many of these stated that the need for reforms to the labour force and the education sector were vitally necessary to re-establishing Malaysia in an international trading niche more suited to a middle income country.

In searching for a useful explanation for these apparent contradictions between stated policy and reality, a more historical view was then adopted. The attempted transition to a k-economy, although important, was only the most recent example of an attempted economic transition shaped by a strong socio-political agenda. Looking back at particular historical junctures, it became clear that the government’s role in economic development, particularly in the post-NEP period, was built around a political rationale with the potential to influence outcomes for labour beyond those indicated by economic demands.

In adopting the broader time scale, a more meso-level approach to each period eventuated. This precludes a comprehensive treatment of each era and relies instead on particular case studies to support the claims offered here. The treatment of the earlier period is relatively compact. Existing literature was reviewed and analysed using the methodology outlined above. The chapters dealing with the k-economy are also based on my own interviews and analysis as outlined below.

Initially, the analysis of press coverage was limited to the late 1990s and early 2000s and to issues relating to the k-economy transition. As the goals of the thesis shifted, so did the analysis of the press coverage. While I was able to
access original newspapers from the early 1980s, coinciding with Mahathir’s appointment as Prime Minister, in the earlier period, I have relied on secondary sources. The electronic databases of the official government media agency, Bernama, whose press releases strongly fashion the nature in which stories are reported in the mainstream print press, have been searched. Coverage by the mainstream English language press of topics such as legislative amendments and policy documents relating to the k-economy, industrial relations, labour issues and consumption was analysed. Data was collected from the web sites of political parties and the web based media. On return to Australia, the press coverage has continued to be followed using electronic versions. This has helped to construct the shift in emphasis of government concerns regarding particular economic problems and their proposed solutions.

Interviews were also conducted with the leadership and some officials of the peak private and public sector union bodies, the MTUC and the Congress of Unions of Employees of Public and Civil Services (CUEPACS), and with a limited number of Malaysian-based NGOs and opposition politicians concerned about labour conditions, consumer rights, censorship and intellectual property issues. I felt it necessary to interview these organisations given their limited coverage in the press relative to the widespread reporting of official government views.

Finally, given the importance of regional and international political and economic pressures, publications, texts of speeches, and policy related documents were also collected from the Association of South East Asian Nations
(ASEAN), the Asian Development Bank (ADB), the Asian Productivity Organisation, the European Community, the International Labour Organisation (ILO), the World Bank, and the World Trade Organisation (WTO).

Limitations

In the pre-war colonial period discussed here, the data and discussion includes Singapore until 1948 when it was excluded by the British from the newly created Federation of Malaya. In 1963, Singapore, and Sabah and Sarawak on the island of Borneo, joined the Federation. Chinese-dominated Singapore was then expelled in 1965 after which point the Federation was referred to as Malaysia. However, this study is restricted to the area of Peninsular Malaysia, also known as West Malaysia. Sabah and Sarawak, referred to jointly as East Malaysia, represent about 15 per cent of the total Malaysian population. They are ethnically diverse regions, with ethnic groups and ethnically based political parties that have no representation on the peninsula. The geo-political, economic and ethno-cultural histories of the two states differ considerably from each other and from the peninsular states. Since becoming part of Malaysia, Sabah and Sarawak have been governed by legislation on employment, labour and immigration matters that is separate to that governing Peninsular Malaysia.\footnote{Shafruddin Hashim (2001:71-73) provides a concise discussion of the historical background that explains the current status of Sabah and Sarawak within the Federation of Malaysia.}

There are of course regional differences amongst the eleven peninsular states, and to a degree, throughout the thesis, differences between rural and urban areas are noted. Tensions always exist between acknowledging the local and making claims for the national space over which a government attempts to exert
authority. My compromise position has been to exclude Sabah and Sarawak, being the two states most separate physically, historically and legislatively from the rest of the federation, and regarding which, least economic data is available (Lim 1988:100). On occasion, where data are only available at the national level, it will obviously include Sabah and Sarawak but this will be evident in the naming of the table or in footnotes.

The reliance on mostly English-language sources is a potential restriction on this thesis, the most obvious being the lack of access to scholarship in languages other than English. Daily newspapers in Malaysia are published in the national language of Bahasa Melayu (BM), in Mandarin, other Chinese languages, in Tamil and in English. English-language newspapers account for an estimated 40-45 per cent of newspaper circulation (Shahrin 2001:44). The three English language newspapers most utilised in the thesis are distributed nationally, but are less well read outside the urban areas and in East Malaysia. A significant (but unknown) proportion of the population do not read English. However, most of the media outlets publish both English and non-English publications. For example, The New Straits Times also publishes Berita Harian, Berita Minggu and Harian Metro in BM. According to local (multilingual) readers I spoke with, similar stories are published in each of the editions, partly due to the reliance on press releases from the government news agency, Bernama, published in both English and BM, which are frequently reproduced almost verbatim. Other analysts have made the comment that the mainstream press in all languages

12 ‘Only Peninsular Malaysia is covered because data for East Malaysia where labour market experiences have been very different are lacking’ (Lim 1988:100). Similarly: ‘Manpower information relating to the East Malaysian States is scanty’ (Government of Malaysia 1971:100).
largely reflects the views of the government, rarely offering critical comment (Kelly 2001:729). In his analysis of speeches given by Mahathir over the duration of the 1997/98 financial crisis, Kelly (2001:729) observed that Mahathir retained similar content whether the speech was delivered in BM or English, although there were some modifications for domestic audiences.

Another important impact of not sourcing materials in BM relates to my inability to access materials in which Islam has been used to generate particular values or consensus. Doling and Omar (2002), for example, have found that the appeal to Islamic values has been used by government agencies to reinforce a sense of family and community responsibility so that there should be little reliance on government agencies to support family members. The invocation of Islamic virtues has also been evident in references by Prime Minister Abdullah Badawi (Bernama 17 May 2006) to Islam Hadhari, which has been translated in English to mean ‘civilisational Islam’. While I have been able to follow this discourse where it has addressed an international audience and is therefore in English, its enunciation for a domestic audience is often in BM. I must therefore acknowledge that my reliance on English sources is a restriction.
Chapter Two: Colonial legacies

Introduction

This chapter identifies the defining features of labour *régulation* in Malaya, now Malaysia, from the late colonial era until 1969. These features emerged through processes of societal conflict and found expression in institutional arrangements, such as legislation governing industrial relations, labour migration, conditions of employment, social welfare, housing, consumption and education, as well as in the workplace relationship between capital and labour. This discussion does not focus on the workplace, production technologies or labour processes. Instead, the focus is at the macro level, examining the varying contributions of particular institutions to the *régulation* of labour. This role includes, but clearly extends beyond, managing the supply of labour for production purposes.

The colonial administration was able to maintain a harsh regime of labour control with little regard for the sustainable reproduction of labour given the use of an immigrant labour force in which the costs of reproduction were largely borne by the source countries, and in the absence of accountable democratic institutions. International criticism of Britain’s imperialism contributed to the introduction of basic welfare measures for the labour force. Generally, though, employers were able to rely on physical force and financial insecurity, in which they were often assisted and occasionally chastised by the colonial administration in order to maintain the economic advantages gained through the exploitation of Malaya’s physical resources.
The segmentation of the labour force, in which particular industries and occupations became closely associated with a particular ethnic group and gender, were divisions deliberately and effectively exploited by the colonial authorities. In contrast, in the post-Independence era, ethnic and social divisions that were once the tools of control instead contributed to growing social and political tensions linked to communal disparities in access to education, employment and health services. This situation was further complicated by the geographically uneven nature of Malaysia’s economic development. The chapter examines the rise in social and industrial unrest that emerged due to the failure of Tunku Abdul Rahman’s Government to develop means of regulating labour that were more suited to the demands of the newly independent, democratic industrialising nation.

Although many of the problems facing this first administration were the legacy of the colonial era, the laissez faire economic policies of the late 1950s and early 1960s exacerbated the poor economic and social situation facing the working class generally, and rural Malays particularly, ultimately proving politically unsustainable. While coercion of the predominantly immigrant labour force sufficed to deliver capital accumulation in the colonial era, the failure to implement alternative means of régulation in the independence period contributed to violent unrest and the suspension of Malaysia’s Parliament in 1969, twelve years after achieving political independence.
Colonial legacies: The segmented labour force

At the time of Malaysia’s independence in 1957, the British had been active in the region for more than 170 years,\(^1\) administering Singapore and much of the peninsula while overseeing the exploitation of tin and rubber resources and in doing so, attempting to control the multi-ethnic labour force, much of it immigrant. The Chinese had been active traders throughout the region, and from the 1850s, Chinese men\(^2\) had emigrated to work in Chinese-owned tin mines. The colonial authorities had only a limited role in recruiting and transporting Chinese workers given the highly organised nature of the Chinese clans overseeing employment arrangements (Todd 1998). An estimated six million Chinese arrived between 1895 and 1927, many as indentured labourers, with working class Chinese providing more than 90 per cent of labour for the tin mines. Approximately ten per cent of these mine workers were women. The petit bourgeoisie Chinese increasingly dominated the retail sector (Bhopal 1999:275). Von Vorys (1975:5) partially attributes this economic success to the ‘access to and control by Chinese businessmen of cheap labour. Whenever required, on short notice, a heavy stream of immigrants could be recruited’ (emphasis in original).

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\(^1\) The British had colonised the Straits Settlements of Penang, Malacca and Singapore between 1786 and 1819. The Federated Malay States, Perak, Selangor, Negeri Sembilan and Pahang came under indirect British control from between 1874 and 1888 and under official control from 1895. The five Unfederated Malay States were effectively bought under control from 1909. The Federation of Malaya existed from 1948 until 1963 when joined by Sabah, Sarawak and Singapore. Since Singapore’s expulsion in 1965, the country is officially known as the Federation of Malaysia.

\(^2\) Citing Purcell (1967:174), von Vorys (1975:48) provides a sex ratio of 1:10 for the Chinese population in 1900. Only the wealthy Chinese were able to bring the female members of their families along with them. According to the British Protector of the Chinese in the late 1880s, William Pickering, the few working class Chinese women in the region at the time were generally employed as prostitutes (Jackson 1965:92, cited in von Vorys 1975:48). This changed with the influx of Chinese women from 1933 to 1938 who arrived in greater numbers than men during this period due to an anomaly in immigration legislation.
Table 2.1 Population by ethnic group, Malaya and Singapore (‘000)

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<tr>
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<th>1911</th>
<th>1921</th>
<th>1931</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malays</td>
<td>1,438</td>
<td>1,651</td>
<td>1,962</td>
<td>2,211</td>
</tr>
<tr>
<td>Chinese</td>
<td>917</td>
<td>1,175</td>
<td>1,709</td>
<td>2,220</td>
</tr>
<tr>
<td>Indians</td>
<td>267</td>
<td>472</td>
<td>624</td>
<td>744</td>
</tr>
<tr>
<td>Europeans</td>
<td>11</td>
<td>15</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Eurasians</td>
<td>11</td>
<td>13</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Others</td>
<td>29</td>
<td>33</td>
<td>56</td>
<td>58</td>
</tr>
</tbody>
</table>


Chinese workers generally experienced harsh conditions, and were controlled by a combination of vulnerabilities caused by their remoteness from home, indebtedness to their employer, gambling, and the provision of opium \(^3\) (Andaya and Andaya 2001:178-180). The colonial authorities initially voiced concerns about the maltreatment and established a Chinese Protectorate, but in effect, little was done to ameliorate working conditions. In contrast, the administration demonstrated more interest in the political activism of leftist Chinese organisations as workers eventually garnered enough resources and local knowledge to establish unions.

…with their independent migration and employment systems, their tradition of worker combination, their determination to rise in the social scale and their capacity to take up other employment, the Chinese labourers threatened a system of production that needed their labour but feared their power (Stenson 1980:23). Concerns regarding political activism later led to restrictions on further Chinese immigration, over which the administration proved willing to clash with employers (Latiff 1977:82-83).

---

\(^3\) ‘One of the more unpalatable aspects of the colonial [sic] revenue system was the high dependence on taxing opium consumption (principally by the Chinese working class) to finance government expenditures. In the early twentieth century, as much as 45 per cent of revenues in the Straits Settlements came from opium, declining to around 30 per cent in the mid-1920s and 12 per cent in 1928’ (Li Dun Jen 1982:102-4, cited in Jesudason 1989:45).

71
The importation of Indian labour was organised jointly by the Indian Government and the colonial authorities mainly for work in the rubber plantations. The British viewed Indian labour as far more easily controlled than Chinese: ‘…from the point of view of the European employers, the main virtue of South Indian labourers as compared with the hard-working Chinese was their docility’ (Stenson 1980:17). Nonetheless, concerns were raised that unemployed Indian workers laid off during seasonal downturns might cause ‘trouble’. The Controller of Labour therefore actively encouraged employers to keep workers on even when this was not warranted by the work load (Parmer 1960:207). The exceedingly poor economic conditions in India at the time increased the willingness of Indian workers to tolerate harsh conditions in Malaya despite high death rates amongst estate workers. Largely at the insistence of the Indian Government, welfare measures and a centralised wage setting system were introduced via the 1923 Labour Code to improve the conditions for Indian workers and their families in Malaya (Ramasamy 1994:46). Amongst other facilities, the Labour Code required the provision of primary schools for the children of estate workers. However, as noted by Emerson (1964:477), the ‘governments have a direct interest in the maintenance of low wage rates and in ignoring the generally miserable conditions of the housing supplied to the labor forces…[being themselves]…large employers of coolie labor’.

Employment in rubber plantations provided work for men, women and children and so whole families were sometimes recruited. Between 1930 and 1940, Indian women constituted approximately 20 per cent of the female labour force with

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4 As noted by Ramasamy (1994:43-46), however, there were high rates of desertion of Indian workers from bonded labour in the 1910s and 1920s, and strikes were recorded in this period in
over eighty per cent of these employed in the rubber industry (Lee 1989:324). Complex hierarchies of intra-ethnic control existed on the rubber estates, whereby the *kangani*, or labour recruiter, was given direct control over the workers he recruited. These workers were socially dependent and often financially indebted to the *kangani* (Satyanarayana 2001:21), reducing the bargaining power of Indian labour. Being geographically isolated in employer-provided housing on the plantations, the ‘atmosphere of their combined workplace and home was stultifyingly paternalistic’ (Snodgrass 1980:40). These local level regimes of control were able to exist given the persistent failure of the colonial administration to enforce the provisions of the Labour Code (Jomo and Todd 1994:4-5).5

| Table 2.2 Distribution of estate population by ethnic group (per cent) |
|-----------------------------|-----------------------------|-----------------------------|
|                             | 1921                        | 1931                        | 1947                        |
| Malays                     | 10.2                        | 6.7                         | 12.8                        |
| Chinese                    | 19.0                        | 20.3                        | 27.8                        |
| Indians                    | 69.5                        | 71.7                        | 58.5                        |


The Malay population, which averaged just short of 50 per cent of the population in the first half of the 20th century (Lee 1989:318), remained concentrated in the non-commercial production of rice and agricultural staples (Stenson 1980:4).6 The Malay Reservations Enactment of 1913, later reinforced by the Rice Lands Enactment, effectively prevented Malays from selling their land to non-Malays

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5 There were instances of the Controller of Labour acting in support of employee complaints, however, and employers were given warnings against extreme maltreatment of workers. See Ramasamy 1994:43.

6 The extent to which Malays rejected waged employment should not be ignored. Snodgrass (1980:30) comments that ‘the plantations required disciplined low wage labour while the kampung economy, with its favourable land-man ratio, probably offered a comparable living standard within a more comfortable social framework’.
or utilising their land for the more profitable pursuit of rubber production. This
approach initially satisfied a number of issues for the British. Firstly, Malays in
_kampungs_ (villages) remained enmeshed in existing means of social control
exercised by the Malay royalty. ‘Colonial political rule over the Malays was
facilitated by preserving their social structure as much as possible and using the
cooperted Malay elite as a buffer between the government and the rest of society’
(Jesudason 1989:39). Secondly, as Malaya was only producing from between 20
to 40 per cent of its domestic rice needs, it was necessary that supplies be
imported to feed the Chinese and Indian labour forces. Malays however, by
remaining in subsistence agriculture were able to meet their own food needs at
little expense to the British. Thirdly, those Malays who did participate in waged
labour were able to fall back on the existing support mechanisms provided by the
_kampung_ and access to land. The colonial authorities were therefore able to avoid
the expenditure otherwise required for the reproduction of a local labour force.
This was to have a profound effect on the socio-economic status of rural Malays
in the post-colonial period.

The co-option of well connected Malays, including many of the male
descendents of the royal families, was pursued in part through their heavily
subsidised attendance at the English-language Malay Residential School,
established in 1905 in Kuala Kangsar (von Vorys 1975:41). The provision of
English-language education contributed to the formation of the Malay
bureaucratic elite (Bhopal 1999:275). Senior civil service posts in the Malayan
Civil Service were initially available only to the British. To circumvent Malay

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_7_ English educated Sri Lankans and Indians were employed in lower level civil service positions, while Sikhs were often employed as guards and police (Andaya and Andaya 2001:181).

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criticism of this, a Malay Administrative Service was created (Puthucheary 1978:52). Malays were eventually allowed to transfer from this junior service through the ranks to more senior posts (Emerson 1964:514-515). In contrast, the education system implemented in rural areas largely served to keep Malays in agricultural pursuits. ‘In order to avert possible “economic dislocation and social unrest”, government policy deliberately limited the provision of English education for Malays’ (Rudner 1994:285). This policy would prove a major obstacle to the movement of Malays into modern sector employment (Marimuthu 1986:151; Searle 1999:29; Snodgrass 1980:31).

By 1929, the population of the Malay Peninsular and Singapore was estimated at just over four million. The Depression resulted in widespread unemployment, a problem the authorities and employers chose to deal with largely through repatriation of migrant workers instituted under the Aliens Ordinance of 1933. However, rather than be returned to China, unemployed Chinese moved from Singapore onto the mainland, squatting on unoccupied land in order to grow food and cash crops. This failure to address the welfare of the unemployed was to become a major issue for the authorities in the post-war period as several hundred thousand Chinese had, by then, settled in remote rural areas and would constitute an ongoing problem during the war against the Communists (Caldwell 1977:234).

Commodity prices improved during the mid-1930s but wages did not, contributing to the formation of the Pan-Malayan General Labour Union

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8 Rudner is citing R. O. Winstedt 1942, *Education in Malaya*. ‘The phrase “economic dislocation and social unrest” was to become the conventional slogan in official publications for rationalizing
(PMGLU)\(^9\) in 1934, largely through the efforts of the Malayan Communist Party (MCP). Organised union activism became a more pressing problem for capital and the authorities in the mid to late 1930s as the bargaining power of labour improved due to the increased demands of war preparations and reductions in the inflow of migrant workers. Fear of the leftist nature of Chinese politics led the authorities to apply restrictions on the number of Chinese workers allowed entry (Morgan 1977:152), raising the ire of employers more concerned about the impact of a labour shortage (Latiff 1977:82). In 1938 the Indian Government banned the further transportation of Indian workers, a decision the British authorities were still trying to reverse at the outbreak of war (Parmer 1960:213). Unions remained active in Singapore and Malaya through the late 1930s proving able to work across the lines of ethnicity at times,\(^{10}\) and achieving some worthwhile improvements in conditions. Morgan (1977:153) describes the passing of the Trades Union Ordinance 1940 and the Colonial Development and Welfare Act 1940 as a belated effort by the British government to improve its image in the colony as war broke out (see also Jomo 1995:191).

*Post-War Malaya*

During the Japanese occupation of Malaya there was a widespread loss of lives, mainly Chinese and to a lesser extent, Indian, much of it due to forced labour in remote areas aggravated by inadequate supplies of food, housing and medical assistance. The closure of mines and the interruption of rubber production left

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\(^{9}\) The PMGLU became the Pan-Malayan Federation of Trade Unions in August 1946 in an effort to avoid registration under the restrictive provisions the Trades Union Ordinance (Morgan 1977:175).

\(^{10}\) As Missen (1986:79-80) notes, cross cultural co-operation by workers was, however, very difficult given language differences, the geographical and occupational segmentation of the
vast numbers without a source of income (Robinson 1956:16-17). The Japanese adopted a policy that favoured Malays above the other ethnic groups,\textsuperscript{11} and also encouraged anti-colonial nationalism amongst the Indian population (Andaya and Andaya 2001:260). On returning to Malaya in 1945, the British Military Administration (BMA) found it difficult to rely on previous cultural notions of European superiority in order to exercise control (Snodgrass 1980:20).

‘Perhaps more than in any other sphere of public policy, the effects of war engendered confrontation over the fundamental norms, policies and institutions of labour relations’ (Rudner 1994:361). In the absence of the British, the MCP had developed networks amongst Chinese workers and rural communities, and in the post-war period, attempted, albeit with limited success, to incorporate other ethnic groups within the organised labour movement. By 1947, at the peak of its power, the PMGLU had organised the affiliation of an estimated 80-90 per cent of all unions (Morgan 1977:170).\textsuperscript{12} Singapore (governed under a separate authority from 1948), the more industrialised regions of Penang, Selangor, and Port Swettenham (Klang), and the large rubber estates, were affected by ongoing labour stoppages from 1945, generated by spiralling inflation, rice shortages, poor housing conditions and declining real wages.\textsuperscript{13} The Price Control Act was introduced in 1946 which fixed the cost of basic commodities in short supply, labour force and the low numbers of Malays engaged in waged labour. These factors were actively enforced and exploited by capital and the Colonial authorities.

\textsuperscript{11} The Malay population suffered nonetheless, as food crops and other economic resources were confiscated and people were forced to abandon their villages, relocating to more marginal locations.

\textsuperscript{12} Andaya and Andaya (1982:257-258) suggest that the overall level of unionisation was around 21 per cent.

\textsuperscript{13} By forcing Malaya’s post-war money-cost structure to adjust to the pre-war sterling exchange rate, rather than the reverse, Malay plansers no doubt contributed to the political unrest culminating in the Communist Emergency that broke out in 1948, instigated in good measure by the post-war income deflation’ (Rudner 1994:10).
including rice. Overall, however, fiscal and monetary policy adopted by the BMA strongly favoured the sterling requirements of London. ‘The real burden of inflation was borne by Malayan wage labour and government salaried personnel, whose money incomes were still geared by policy to their pre-war scales’ (Rudner 1994:10). Keen to extract funds from the colony, London also proved reluctant to accede to employer demands for greater protection of mine sites and plantations. ‘…the protection provided by the government for British enterprises was often regarded as inadequate; and British firms suffered both higher taxes and the costs of defending private property’ (White 1998:153).

In 1946 the BMA was replaced by a civilian administration which attempted to bring the growing unions under control by requiring their registration under the Trades Union Ordinance, administered through the newly created Department of the Registrar of Trade Unions. John Brazer, a trade union advisor, was brought from the United Kingdom to help create a more compliant trade union movement. Brazer, and staff from the Department of the Trade Union Advisor, were utilised by employers in the attempt to reduce the incidence of strikes (Kaur 2004:12). While some employers were willing to pay higher wages in order to maintain productivity, the response by employers and the authorities to widespread worker activism became increasingly harsh, including the use of police and troops against striking workers. The sacking of striking workers received judicial support, giving employers license to dismiss union members and reduce wages (Morgan 1977:181). Plantation and mine owners were vocal in their criticisms of the administration in Kuala Lumpur for its handling of the unrest and industrial disputes (White 1998). However, newspaper closures,
deportations, the arbitrary arrest and detention of labour activists, the outlawing of union federations, raids on union premises, and the executions of the former President and the Vice President of the Pan Malaya Federation of Trade Unions in 1949, signaled an increasingly repressive response.\textsuperscript{14}

<table>
<thead>
<tr>
<th>Year</th>
<th>private sector</th>
<th>public sector</th>
<th>number of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>104</td>
<td>52</td>
<td>198,713</td>
</tr>
<tr>
<td>1950</td>
<td>84</td>
<td>84</td>
<td>54,000</td>
</tr>
</tbody>
</table>


The Trade Unions Ordinance amendments passed in May of 1948 ‘in effect destroyed Malayan trade unionism’ (Morgan 1977:185). ‘The only unions permitted to survive were the “tame” unions sponsored by John Brazier and approved by the Registrar of Trade Unions…’ (Stenson 1980:168). The ongoing repression of trade unionists, the jailing of 185 union leaders and the consistent accusation of association with Communism, resulted in a severe and long term decline in Chinese participation in trade unionism, and the loss of more than 65 per cent of trade union members (Jomo and Todd 1994:22). Although the British military had been willing to form an alliance with the MCP during the Japanese occupation, in the midst of labour unrest and the growing attraction of workers for leftist political parties, an ‘Emergency’ was declared in 1948 that allowed the British authorities to resume an armed battle against the Communists. This facilitated tightened control over organised labour.\textsuperscript{15} Employers, particularly

\textsuperscript{14} White (1998:169) however, provides examples of employers expressing dissatisfaction with the level of support from the authorities during strikes. In one, the Commissioner of Labour refused a plantation owner’s request to break a strike that had become violent, arguing that it was a security matter.

\textsuperscript{15} ‘This military offensive by labour was only quelled by legal and military force through the enforcement of Emergency rule in 1948-1960’ (Fatimah Halim 1981:294).
those on estates, were given policing powers through their participation in an armed Special Constabulary created in 1948 in order to prevent workers from supporting the MCP. These powers were used in effect to restrict the activism of Indian plantation workers (Stenson 1980:168). The impact of the new legislation and physical restrictions is evident in the strike data provided in Table 2.4 below.

It was during the Emergency that the government and employers were to face the legacy of inadequate welfare provisions for the large number of Chinese unemployed who, in the aftermath of the Depression, had settled on the fringes of Malayan jungles. In an effort to cut off supplies of food and personnel from these former workers to the now underground MCP, the British instituted the Briggs Plan from 1950. The Briggs Plan required the incarceration of approximately 462,000 Chinese squatters into prison camps (Sunderland 1964:45)\(^\text{16}\), euphemistically termed ‘new villages’ (Caldwell 1977:236). The ‘communities were protected by barbed wire from Communist predatory initiatives…By 1954 some 680,000 squatters were resettled into 600 new villages’ (von Vorys 1975:87). In addition, a plan to ‘regroup’ 650,000 estate and mine workers was also implemented. This meant in effect, re-housing the workers so they could be subject to curfew and their movements could be monitored to prevent any from giving assistance to members of the MCP (Sunderland 1964:50-52).

\(^{16}\) Snodgrass (1980:39) writes that 400,000 Chinese were held in the New Villages, while Hua (1983:208) quotes a figure of 1 million, mostly Chinese, residents by the early 1970s. Sunderland (1964) citing original documents, provides a figure of 461,822 of whom the overwhelming majority were Chinese.
Table 2.4 Strike action and working days lost, 1947-1956

<table>
<thead>
<tr>
<th>Year</th>
<th>no. of strikes</th>
<th>no. of workers</th>
<th>working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>291</td>
<td>69,217</td>
<td>696,036</td>
</tr>
<tr>
<td>1948</td>
<td>181</td>
<td>34,037</td>
<td>370,464</td>
</tr>
<tr>
<td>1949</td>
<td>29</td>
<td>2,292</td>
<td>5,390</td>
</tr>
<tr>
<td>1950</td>
<td>48</td>
<td>4,925</td>
<td>37,067</td>
</tr>
<tr>
<td>1951</td>
<td>58</td>
<td>7,454</td>
<td>41,365</td>
</tr>
<tr>
<td>1952</td>
<td>98</td>
<td>12,801</td>
<td>44,489</td>
</tr>
<tr>
<td>1953</td>
<td>47</td>
<td>7,524</td>
<td>38,957</td>
</tr>
<tr>
<td>1954</td>
<td>78</td>
<td>10,011</td>
<td>50,831</td>
</tr>
<tr>
<td>1955</td>
<td>72</td>
<td>15,386</td>
<td>79,931</td>
</tr>
<tr>
<td>1956</td>
<td>213</td>
<td>48,677</td>
<td>562,125</td>
</tr>
</tbody>
</table>

Source: Jomo and Todd 1994:49, table 2.16. Data relates to the Federation of Malaya.\(^\text{17}\)

As discussed by White (1998) and Sunderland (1964), these monumental efforts were funded in the main by the British Government. Funding allocated to ‘defense, police and emergency’ amounted to just over 42 per cent of the colony’s recurrent expenditure by 1952 (IBRD 1955:191). Funds were raised partially through the much-contested imposition of income taxation on corporations. Initially introduced at the rate of 20 per cent in 1947, this was raised to thirty per cent in 1951 (White 1998:173).\(^\text{18}\) Fortunately for the British, tin and rubber were again in great demand due to the Korean War and revenue earned from export levies helped to offset the costs of the plan. The inhabitants of the ‘villages’ provided the labour force for the tin mines and rubber plantations, many of which had been abandoned during the Japanese occupation.

The Malayan Trade Union Council (MTUC) formed in 1949. With the outlawing of the leftist union federations, the colonial authorities were initially undecided over whether to ban all union activity or to attempt to create a more compliant

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\(^{18}\) White (1998:173) provides a breakdown of some of the costs. He details complaints by local employers and owners generated by the refusal of the colonial government and London to bear the costs of ‘regrouping’ labour and protecting plantations and minesites.
labour movement. Despite the antipathy of most employer groups and local senior bureaucrats, including the Commissioner for Labour, under pressure from the Colonial Office in London the High Commissioner for the Malayan Union found in favour of developing a union movement (Rudner 1994:351). This was to occur largely through the sponsorship of Indian moderates (Bhopal 1999:277).

Weakened by restrictive labour policy and the generally repressive political atmosphere of the Emergency, the MTUC initially found it difficult to operate effectively. The Malayan Labour Department remained ‘ambiguous’ towards the union movement, placing numerous administrative obstacles in the path of new unions yet at the same time reiterating official support for a harmonious industrial relations environment based on collective bargaining and consultation (Rudner 1994:353-355). The MTUC was also hampered in the recruiting of Malay and Chinese workers by its overwhelmingly Indian membership.¹⁹ As Jesudason (1989:42) explains, this new organisation had little reason to court Chinese membership, wishing to distance itself from accusations of being Communist, and was not attractive to Malays, the majority of whom remained in rural occupations outside of waged employment.

<table>
<thead>
<tr>
<th></th>
<th>Malay (%)</th>
<th>Chinese (%)</th>
<th>Indian (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>30.9</td>
<td>58.2</td>
<td>86.3</td>
</tr>
<tr>
<td>Females</td>
<td>19.1</td>
<td>64.9</td>
<td>98.1</td>
</tr>
</tbody>
</table>


¹⁹ In 1950, 58 per cent of union members were Indian, 26 per cent were Chinese and 12 per cent Malay (Jomo 1995:210).
The provision of welfare was minimal. While a Department of Social Welfare had been established in 1945, a review by the International Bank for Reconstruction and Development (IBRD 1955:631) concluded: ‘The Federation needs a large number of new social welfare institutions, and some of the present facilities…are now meager, dilapidated, primitive and unsuitable’. Doling and Omar (2002:4) state that ‘from the very beginning, social welfare programs were viewed as burdens on public expenditure that detracted from the resources available for economic growth’.

| Table 2.6 Revenue and recurrent expenditure, Federation of Malaya ($ million) |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue Recurrent expenditure |       |       |       |       |       |       |
| Economic services  | 37    | 41    | 45    | 65    | 78    | 75    |
| Social services    | 54    | 57    | 93    | 118   | 131   | 159   |
| Defense, police, emergency | 82    | 101   | 217   | 287   | 296   | 250   |
| Other              | 155   | 152   | 181   | 209   | 237   | 219   |
| Total              | 328   | 351   | 536   | 679   | 742   | 703   |

Source: IBRD 1955:191

As part of the preparation for decolonisation and independence, in 1950 the Federal Government developed a Draft Development Plan which covered a range of welfare issues including that of food supply (Rudner 1979). Out of this, the Rural Industrial Development Authority (RIDA) was established, initially to develop the rural areas by overseeing the modernisation of food production. Rudner (1979) argues that at the same time, RIDA’S activities were also to preserve and promote idealised kampung values.

RIDA was to function, therefore, not so much as an instrument of public investment, though the provision of financial and administrative backing was of course not unimportant, but as a
revivalist agency for the reactivation of pristine Malay values of self-help and, particularly, co-operative effort (Rudner 1979:24).

The establishment of the Employees’ Provident Fund (EPF) in 1951 had a much broader impact than the limited operations of the Department of Social Welfare yet required minimal input of public monies. Contributions of five per cent from both employer and employee were held in the government controlled fund to be distributed to workers on their retirement. Eligibility was restricted to lower paid workers in formal employment in the private sector.\textsuperscript{20} Each member accumulated funds in an individual account, hence the amount received on retirement was determined by the length of the time an individual was in formal employment, and the level of wages received. Over 700,000 workers were registered by 1954 (IBRD 1955:161). Even at this stage, the EPF was considered to have a dual role. ‘It is expected that the bulk of domestic funds available for loans to the government would be from the Employees [sic] Provident Fund…’ (IBRD 1955:201-202).

The Workmen’s Compensation Act was introduced in 1952 which centralised and upgraded previous state-level legislation. It required employers to contribute towards a compensation fund for injured workers and gave increased powers to the federal government to ensure compliance. The Employment Act, which had been in the making since 1949 but strongly resisted by employer groups, was passed in much amended form during the final sitting of the Legislative Council prior to the first General Elections in June 1955 (Rudner 1994). The Employment

\textsuperscript{20} This did not cover domestic workers or the self employed.
Act, in specifying the minimum conditions of employment, also formalised maternity leave provisions (Bernasek and Gallaway 1997:96).

The Government Pension Ordinance was enacted in 1951 providing government-funded pensions for eligible civil servants; that is, permanent staff who had served for at least three years (Ramesh and Asher 2000:49). While the pension scheme was a relatively generous one, active bargaining on wages and equal pay for women had been rejected by the administration. ‘As a matter of principle, the colonial government had long taken care to avoid having its own position as Malaya’s largest single employer exert pressure on private sector wages’ (Rudner 1994:359). Following the British example, Whitley councils were established in 1953 to adjudicate on wage levels. As part of the preparation for political independence, a system to replace British civil servants was discussed. In 1950, expatriates, mainly British, occupied over 90 per cent of senior civil service positions while Malays held almost five per cent, Indians, two per cent and Chinese just over one per cent (Puthucheary 1978:53). Chinese and Indians were essentially barred from administrative roles, being largely restricted to technical and professional posts. The lack of formally qualified Malays had resulted in a predominance of Chinese and Indians in these areas.

The policy of ‘Malayanisation’ of the civil service was commenced in 1952. This allowed the entry of Chinese and Indians into the wider Malayan Civil Service.

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21 To the contention of an Indian member of the Federal Council in 1936 that “no distinction can properly be drawn between Malay and non-Malay subjects: they are all the subjects of the same sovereign and enjoy the same rights and privileges”, the new High Commissioner, Sir Shenton Thomas, replied in language worthy of precise analysis: “This is the sixth country in which I have served, and I do not know of any country in which what I may call a foreigner – that is to
but only in a ratio of four Malays to each non-Malay (Malaya 1954:17). In making this determination, the authorities were caught in a dilemma. To give too great a role to non-Malays risked the credibility of the United Malays National Organisation (UMNO) which had publicly campaigned on the matter in a bid to defend Malay privileges (Puthucheary 1978:54-55). But by keeping Chinese completely outside the fold, the opportunity to allow moderate Chinese to be co-opted would have been lost and Chinese resentment further aroused. In 1956, the Public Service Commission was established to further the implementation of the Malayanisation process in the civil service, replacing the role previously undertaken by London’s Colonial Office (Lee 1974:55). At the request of the British government, current serving British civil servants were allowed to serve out their time in Malaya, or alternatively, received ‘generous compensation’ (von Vorys 1975:124). At Independence, over 65 per cent of civil service posts remained filled by British expatriates (Abdullah 1997:60, citing Tilman 1964).

From amongst the Malay elite who had entered the civil service emerged many of the founding UMNO members (Bowie 1989:111). Moderates of the Chinese and Indian elites formed the other main parties of the Alliance, Malaysia’s first independent government. One of the opposition parties was the Pan-Malayan

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22 Eighty per cent of UMNO candidates for the 1955 elections were ‘former’ civil servants. The Pensions (Temporary Provisions) Ordinance of 1955 allowed for early retirement with full pension benefits. Thus civil servants were able to ‘retire’ in order to contest the elections (Puthucheary 1978:34-38).

23 The United Malays National Organisation was formed in May 1946, the Malayan Indian Congress in August 1946 and the Malayan Chinese Association in 1952. The All-Malaya Islamic Association also referred to as the Pan-Malaya Islamic Party, adopted the name Parti Islam Sa-Tanah (PAS) to contest elections in 1955 (Andaya and Andaya 2001:278).

24 It is significant that in a period that was otherwise marked by political repression, particularly against organised labour and the Malayan Communist Party, that these civil servants were given time during working hours to attend political meetings and were not punished for taking a
Labour Party, or Socialist Front. Established in 1953, it was an initially moderate grouping supported by the British. From its ranks emerged V. David who would later leave to form the political party, Gerakan, and, in the 1970s, became MTUC Secretary General.

The revival of the MTUC from the mid 1950s took place in a pre-Independence atmosphere where political parties actively sought the support of the population, including organised labour, in order to counter British plans for a Malayan Union. The positive economic impact of the rubber boom was becoming evident, and the Emergency regulations had been somewhat lessened (Rudner 1994:354). Throughout the decade trade union numbers again rose, from a low of 41,000 in 1949 to 222,000 in 1957 (Jomo and Todd 1994:23).

**Labour and economic development after Independence**

By 1957, the year of Malaya’s political independence, the population had increased to almost 6.3 million. In contrast to the immigrant status of the majority of waged labourers in earlier colonial era, by this point, 76 per cent of ethnic Chinese residents and 66 per cent of ethnic Indian residents were locally born (Bussink 1980:97). Malays comprised almost 50 per cent of the population while a further 37 per cent were of Chinese ethnicity and eleven per cent were Indian (Soman 1986:145). However, this distribution of the population was not reflected in employment patterns. ‘When colonialism ended, the three ethnic groups were entrenched in virtually isolated occupational and spatial
development, sharing little inter-ethnic cultural attributes’ (Rajah 1997:124). Table 2.7 below illustrates something of this uneven distribution.

The segmentation of the labour force was not only on the lines of ethnicity but also by gender. In 1957, the rate of labour force participation by women at 30.8 per cent, was considerably lower than that for men at 88.7 per cent (Kamarudin 1982:81). The Employment Act 1955 placed restrictions on the employment of women by, for example, barring their employment in underground mining and at night (Kaur n.d.:17). As Malay men were increasingly forced to participate in waged labour, to purchase new chemical fertilisers and other modern farm inputs and also due to the loss of small holdings, Malay women increasingly bore the load of household work. ‘By the end of the colonial period, Malay women were largely displaced from the “productive” sector’ (Kaur n.d.:17).

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, livestock, fishing</td>
<td>46</td>
<td>13</td>
<td>2</td>
<td>27</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>29</td>
<td>28</td>
<td>55</td>
<td>32</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
<td>13</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.4</td>
<td>0.4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Commerce</td>
<td>3</td>
<td>17</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Services</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Jomo 1988:294

While the working class within all three ethnic groups had considerable experience of poverty, Malays, being less urbanised, lacked access to the better
paid employment opportunities more likely to be obtained in urban areas (see tables below). This outcome, and the fear of ethnic unrest that might result, would later underpin the political, social and economic policies of subsequent administrations.

**Table 2.8 Income and ethnicity, 1957/8**

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>mean income per household ($/month)</th>
<th>Percentage of households with income less than $120 per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malays</td>
<td>139</td>
<td>55.7</td>
</tr>
<tr>
<td>Chinese</td>
<td>300</td>
<td>13.1</td>
</tr>
<tr>
<td>Indian</td>
<td>237</td>
<td>19.8</td>
</tr>
</tbody>
</table>


**Table 2.9 Percentage of population in urban areas by ethnic group**

<table>
<thead>
<tr>
<th>Census year</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>7.30</td>
<td>31.30</td>
<td>25.80</td>
</tr>
<tr>
<td>1957</td>
<td>11.21</td>
<td>44.73</td>
<td>30.73</td>
</tr>
</tbody>
</table>

Source: Kok 1986: 59, table 57.

**Table 2.10 Ethnic composition of the urban population by ethnic group, Peninsular Malaysia**

<table>
<thead>
<tr>
<th>Census year</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
<th>Other</th>
<th>Total urban population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>19.0</td>
<td>63.1</td>
<td>14.7</td>
<td>3.2</td>
<td>929,928</td>
</tr>
<tr>
<td>1957</td>
<td>21.0</td>
<td>62.6</td>
<td>12.8</td>
<td>3.6</td>
<td>1,666,969</td>
</tr>
</tbody>
</table>

Source: Kok 1986:59, table 56.

**Malayanising the civil service**

‘After Independence in 1957 the Deputy Prime Minister mounted a patient and unremitting campaign to modernize the civil service’ (Esman 1972:135). The Malayanisation of the civil service continued, with expatriate officers replaced by local recruits. The quota system favouring Malays allowed for their increased
participation in senior administrative positions. However, the greater availability of qualified Chinese and Indian applicants led to their continued domination of professional and technical positions in the senior levels of the bureaucracy. Sensitive to this, the newly independent Malay-dominated government encouraged the creation of more junior and middle level administrative roles as a means of increasing Malay representation.

Table 2.11 Ethnic representation in the senior bureaucracy, 1950-1962

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>1950</th>
<th></th>
<th>1957</th>
<th></th>
<th>1962</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no.</td>
<td>%</td>
<td>no.</td>
<td>%</td>
<td>no.</td>
<td>%</td>
</tr>
<tr>
<td>Expatriates</td>
<td>1,763</td>
<td>92.4</td>
<td>1,687</td>
<td>61.1</td>
<td>409</td>
<td>14.1</td>
</tr>
<tr>
<td>Malays</td>
<td>86</td>
<td>4.5</td>
<td>390</td>
<td>14.1</td>
<td>850</td>
<td>29.3</td>
</tr>
<tr>
<td>Chinese</td>
<td>22</td>
<td>1.2</td>
<td>366</td>
<td>13.2</td>
<td>987</td>
<td>34.0</td>
</tr>
<tr>
<td>Indians and others</td>
<td>37</td>
<td>1.9</td>
<td>318</td>
<td>11.6</td>
<td>656</td>
<td>22.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,908</td>
<td>100.0</td>
<td>2,761</td>
<td>100.0</td>
<td>2,902</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Esman (1972:75) argues that this strategy demonstrated the willingness of the UMNO-dominated government to compromise economic goals in order to achieve political needs.

So concerned were the Malays with maintaining firm control of the MHFS that in 1965, when there were a hundred vacancies due to an insufficient supply of Malay honours graduates, these posts were kept vacant rather than filled with qualified non-Malay...There can be little doubt the country paid a price in reduced administrative effectiveness.

The Congress of Unions of Employees of Public and Civil Services (CUEPACS) had formed in 1957 (Rohanna 1997:48), attempting to provide some unity for the 136, mostly very small, civil service unions already in existence, some of which were affiliated with the MTUC (Rohanna and Lochhead 1988:19). While the Whitley Councils had been created to formalise bargaining processes in the

---

25 M. Shamsul Haque (2003:247) provides a useful elaboration of the increasing complexity of the quota system after Independence.
public sector, in the wake of an economic downturn in 1958, the government rejected union claims and imposed a wage freeze until mid 1959. Rudner (1994:379) suggests that in the build up to the 1959 election, ‘the government relaxed a little and indicated its readiness to be “fair” with wage claims based on “efficiency and equity”’, allowing a slight pay rise. Rohanna and Lochhead (1988:30-31) note that by the early 1960s, a sizeable backlog of claims existed. Post-election, it appears the Whitley Councils were no longer allowed to operate with any independence.26

Cabinet effectively took over responsibility for public sector wages, establishing the Suffian Salary Commission in 1963. The government linked wage increases to concerns regarding the state of the economy and the risk of wage inflation in the private sector. This led to picketing and rallies by a number of the public sector unions in mid 1966. For example, a campaign led by the teaching profession unions for equal pay for women in the civil service gained government approval in 1964 but the implementation was delayed until after 1969. ‘If our country is in financial difficulties, we expect everyone, including women, to sacrifice a little bit’ (Khir Johari 1968, Straits Times, 5 July cited in Manderson 1979:265). Despite the size of the civil service, which was at this point approximately 310,000 in total, industrial action was largely unsuccessful given the fragmented nature of both the service itself and the multitude of unions that attempted to represent these workers. The Suffian Salary Commission finally reported in 1967, and its recommendations, by then dated, began to be

26 American academic Milton Esman, employed through the Ford Foundation in the early 1960s to devise a plan for administrative change in the Malaysian Civil Service, noted that the civil service unions were ‘virtually ignored’. Senior civil service staff communicated only reluctantly with ‘unions dominated by lower-status, non-Malay officers’ (Esman 1972:171-172).
implemented by 1970. Civil service employees now amounted to between ten and eleven per cent of the Malaysian labour force, which was relatively high (Esman 1972:70).

With Independence, the Trade Union Advisor’s Department had been dissolved and a new Department of Labour and Industrial Relations created. The Pioneer Industries Act of 1958 attempted to encourage foreign investors by, amongst other offerings, limiting unionisation. The moves were criticised by the MTUC and the Socialist Front.

Let no foreign capital think they could get cheap labour in this country; they must recognize that the trade union movement is a growing force and they are going to live in a community where trade unions have developed (MTUC President, P. P. Narayanan, cited in Rudner 1994:375-376).

The Trade Unions Act was introduced in 1959, which essentially revised and consolidated all previous legislation from the colonial era, continuing the requirement that trade unions must apply for formal registration and that their activities be subject to the scrutiny of the Registrar of Trade Unions. As a reward for shunning the advances of the Socialist Front and retreating from party political activities, the MTUC President, Dr P. P. Narayanan, was appointed a Senator (Rudner 1994:367). A mission by the International Labour Office (ILO) to Malaya in the late 1950s, requested by the MTUC, concluded that ‘public policy was a compound of paternalism in politics and laissez faire in economics’ (ILO 1962:26).
Table 2.12 Strike action and working days lost, 1957-1969

<table>
<thead>
<tr>
<th>Year</th>
<th>no. of strikes</th>
<th>no. of workers</th>
<th>working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>113</td>
<td>14,067</td>
<td>218,562</td>
</tr>
<tr>
<td>1958</td>
<td>69</td>
<td>9,467</td>
<td>59,211</td>
</tr>
<tr>
<td>1959</td>
<td>39</td>
<td>6,946</td>
<td>38,523</td>
</tr>
<tr>
<td>1960</td>
<td>37</td>
<td>4,596</td>
<td>41,947</td>
</tr>
<tr>
<td>1961</td>
<td>37</td>
<td>9,045</td>
<td>59,730</td>
</tr>
<tr>
<td>1962</td>
<td>95</td>
<td>232,912</td>
<td>449,856</td>
</tr>
<tr>
<td>1963</td>
<td>72</td>
<td>17,232</td>
<td>305,168</td>
</tr>
<tr>
<td>1964</td>
<td>85</td>
<td>226,427</td>
<td>508,439</td>
</tr>
<tr>
<td>1965</td>
<td>46</td>
<td>14,684</td>
<td>152,666</td>
</tr>
<tr>
<td>1966</td>
<td>60</td>
<td>16,673</td>
<td>109,915</td>
</tr>
<tr>
<td>1967</td>
<td>45</td>
<td>9,452</td>
<td>157,984</td>
</tr>
<tr>
<td>1968</td>
<td>103</td>
<td>31,062</td>
<td>280,417</td>
</tr>
<tr>
<td>1969</td>
<td>49</td>
<td>8,750</td>
<td>76,779</td>
</tr>
</tbody>
</table>

Source: Jomo and Todd 1994:48, table 2.16.

However, the nature of political control took a more repressive turn soon after. At the end of the Emergency in 1960, Tunku Abdul Rahman’s Government introduced the Internal Security Act (ISA) in order to retain a level of control over society in the event of a resurgence in Communist activity. The ISA provided the authorities with the power to detain without laying charges. The legislation was used to detain union officials involved in the 1962 strikes by the Railwaymen’s Union and the Cement Workers’ Union (Hua 1983:164). Both disputes were for the purpose of recognition of the union. Union membership grew considerably in the wake of the success of prolonged industrial action in 1963 by the railway workers which generated widespread support and activism amongst other unions affiliated with the MTUC. Prime Ministerial intervention was required to end the dispute. By 1965, official union membership had reached almost 333,000, over 30 per cent of whom were Malay while approximately 23 per cent were female (Jomo and Todd 1994:23-31).
Worsening tensions between Malaysia and Indonesia throughout 1963 and 1964, known as the ‘Konfrontasi’ (the Confrontation), resulted in another period of Emergency. These circumstances afforded the government an opportunity to restrict the increasingly militant activities of trade unions (see Table 2.12), including a threatened general strike by public sector unions. In 1965 the Minister of Labour, V. Manickavasagam, introduced the Essential (Prohibition of Strikes and Certain Prescribed Industrial Action) Regulations, which banned strike action by workers in any industry considered to be essential to the nation’s security (Stenson 1970:240). Soon after, the arbitration system moved from a voluntary to a compulsory system, effectively allowing the Minister to ban strike action in any industry (Suhanah 2002:73).

<table>
<thead>
<tr>
<th>Sector</th>
<th>1965</th>
<th>1970</th>
<th>1965%</th>
<th>1970%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1,350</td>
<td>1,454</td>
<td>52.1</td>
<td>49.5</td>
</tr>
<tr>
<td>Industry</td>
<td>389</td>
<td>456</td>
<td>15.0</td>
<td>15.5</td>
</tr>
<tr>
<td>Mining</td>
<td>66</td>
<td>64</td>
<td>2.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>217</td>
<td>270</td>
<td>8.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Construction</td>
<td>90</td>
<td>103</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Utilities(^a)</td>
<td>16</td>
<td>19</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Services</td>
<td>851</td>
<td>1,030</td>
<td>32.9</td>
<td>35.0</td>
</tr>
<tr>
<td>Commerce</td>
<td>287</td>
<td>340</td>
<td>11.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Transport, storage &amp; communications</td>
<td>101</td>
<td>110</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Other services</td>
<td>463</td>
<td>580</td>
<td>17.9</td>
<td>19.7</td>
</tr>
<tr>
<td><strong>Total employed</strong></td>
<td>2,590</td>
<td>2,940</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 1971:198, table 7.1. Data relates to West Malaysia. \(^a\) Utilities includes electricity, water and sanitation.

These, and other measures to control the activities of societies, including peak employer organisations, unions and political parties, were incorporated in the
Societies Act 1966, the Police Act 1967\textsuperscript{27} and the Industrial Relations Act passed in 1967. In 1969, regulations were added to the Industrial Relations and Trade Unions Acts which removed a number of issues from eligibility for negotiation under collective agreements and prevented managerial workers from joining the same union as non-managerial workers (Hua 1983:165; Jomo 1995:204).

During the same period, the government introduced several pieces of protective labour legislation, including the Children and Young Persons (Employment) Act of 1966, and the Factories and Machinery Act 1967 which sought to introduce safety measures in the growing numbers of industrialised workplaces. In 1969, the Employees Social Security Act was passed which attempted to address shortcomings in the administration and delivery of workers’ compensation entitlements. This Act required employees to contribute 0.5 per cent of their pay and employers to contribute 1.5 per cent of workers’ salaries to a centralised fund (SOCSO) overseen by the federal government. The provision of public low cost housing was commenced to facilitate home ownership among low income earners (Doling and Omar 2002:10). This became a more important strategy from the later 1970s as part of the effort to encourage more Malays into newly established urban areas to meet the growing demand for labour.

By the close of the 1960s, despite efforts to improve agricultural productivity and to encourage foreign investment in the industrial sector, the government’s policies had largely failed to generate widespread employment growth or to offer alternative employment opportunities outside of the agricultural sector. As

\textsuperscript{27}Importantly this piece of legislation gave the police the power to approve or deny applications for public gatherings, and to disperse any assembly deemed a threat to public security.
Bowie notes (1989:137-139), government expenditure allocated to industrial development was between 1.3 and 3.3 per cent of total development spending in the first three five-year development plans from 1957-1970. Meanwhile, the changing structure of ownership in the plantation sector from the late 1950s onwards led to widespread retrenchments of Indian labourers (Stenson 1980:204), and the subsequent radicalisation of some Indian-led unions (Bhopal 1999:278).

<table>
<thead>
<tr>
<th>Table 2.14 Labour force, employment and unemployment, 1965 and 1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>1965</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Labour force (millions)</td>
</tr>
<tr>
<td>West Malaysia: 2,730</td>
</tr>
<tr>
<td>East Malaysia: 516</td>
</tr>
<tr>
<td>Employment (millions)</td>
</tr>
<tr>
<td>West Malaysia: 2,550</td>
</tr>
<tr>
<td>East Malaysia: 498</td>
</tr>
<tr>
<td>Unemployment</td>
</tr>
<tr>
<td>West Malaysia: 180</td>
</tr>
<tr>
<td>East Malaysia: 18</td>
</tr>
<tr>
<td>Unemployment (%)</td>
</tr>
<tr>
<td>West Malaysia: 6.5</td>
</tr>
<tr>
<td>East Malaysia: 3.5</td>
</tr>
</tbody>
</table>

| **1970 (estimated)**                                        |
|                                                               |
| Labour force (millions)                                      |
| West Malaysia: 3,150                                          |
| East Malaysia: 618                                           |
| Employment (millions)                                        |
| West Malaysia: 2,990                                          |
| East Malaysia: 593                                           |
| Unemployment                                                 |
| West Malaysia: 250                                           |
| East Malaysia: 25                                            |
| Unemployment (%)                                             |
| West Malaysia: 8.0                                           |
| East Malaysia: 4.0                                           |


Unemployment generally rose throughout the 1960s, and was particularly high amongst younger people in urban areas, a product of laissez faire economic policies, post war population growth and the surge of urbanisation that followed the lifting of movement restrictions associated with the Emergency. In 1967, 75 per cent of the unemployed were under the age of 25 leading to government claims that the young, urban unemployed, many of whom had achieved ten years of education, were unrealistic in their occupational preference being unwilling to accept manual work (Government of Malaysia 1971:99). In rural areas, a greater problem was that of underemployment in low productivity agricultural occupations. For the bottom 40 per cent of households, mean monthly income had decreased in real terms by 13 per cent from Independence until 1970. For the

(Barracough 1985:810-811).
top 20 per cent, income had increased by 43 per cent (Snodgrass 1980:81, table 4.10).

Lobbying by the frustrated Malay business community generated government action in the holding of the first Bumiputera [sic] Economic Conference in 1965 with another held in 1968. In 1965, Bank Bumiputera [sic] was established and plans to create the Federal Industrial Development Authority (FIDA) were announced. This finally came into being as the Malaysian Industrial Development Authority in 1968, during which year the Investment Incentives Act was introduced, as part of which, employment of Malays by foreign owned manufacturing firms was rewarded with tax reductions. These were relatively tentative moves but they attracted the criticism of Chinese business representatives (Gomez and Jomo 1999:21).

The regime of accumulation that evolved under the Tunku’s leadership had, to this point, facilitated continued dominance by foreign capital and domestic Chinese capital. In this, Bowie and Unger (1997:76-77) suggest that the Prime Minister had little choice. While making some attempt to alleviate conditions in the Malay-dominated rural areas, UMNO ‘recognized that the Chinese and Indian communities’ acceptance of their political hegemony was conditional on the state not interfering in private commerce and industry’. Bowie and Unger argue further, that should the Government have acted to develop the industrial sector, this would have been perceived by the Malay electorate as benefiting the Chinese business community.

28 According to official data, almost 20 per cent of the estate work force was displaced in the period 1962-1967 (Government of Malaysia 1971:96-97).
Thus the constraints inherent in the interethnic settlement and in the nature of political relations between ethnic groups militated against the Alliance government adopting anything other than a market-led approach to industrial development (Bowie and Unger 1997:77).

However, rather than a ‘market-led’ approach, Stenson (1980:193-197) describes the progression of industrialisation as actively hampered by UMNO’s efforts to retain the support of rural Malays. Policies that allocated Malays land and other small scale economic opportunities frustrated the Chinese business community. Additionally, the uneven distribution of wealth, with wide scale poverty amongst the working class, meant that there was a very limited domestic market for goods produced by the fledgling manufacturing sector (Jomo 1990:12, cited in Gomez and Jomo 1999:17). Realising the need to shift production towards an export orientation, but not wishing to rely on domestic Chinese capital, the Investment Incentives Act in 1968 was a bid to attract foreign investors. While these initiatives would later have an impact on the economy, they came too late to quell public protests and rioting. These events have had a marked impact on government policy ever since.

**The contours of control fail**

Social unrest erupted in May of 1969, initially sparked by the release of preliminary election results that appeared to favour the Chinese opposition parties, suggesting that Chinese voters had rejected the Alliance and its underlying ‘bargain’. Rioting in the streets of Kuala Lumpur, reportedly by Malay youths who targeted Chinese homes and businesses, officially resulted in 196 fatalities and 439 injuries (Bowie 1989:166). The Parliament was suspended and another period of Emergency declared.
Explanations for the unrest vary. Mahathir offered the following explanation in a letter to the Prime Minister three weeks after the riots.

Your “give and take” policy gives the Chinese everything they ask for...The Chinese...regarded you and the Alliance government as cowards...The Malays in the Civil Service...have lost faith and respect for you...it is high time you resign as our Prime Minister and UMNO leader (Mahathir June 1969 cited in von Vorys 1972:373).

Mahathir had lost his own seat in the election. He had advised his Chinese constituents not to vote for him on the basis that he would not be able to represent their interests. As a result of his letter to the Prime Minister, Mahathir was expelled from the party until 1972. He then rejoined and was appointed a Senator until winning back his lower house seat in the 1974 elections.

Missen (1986:84-86), similarly to Stenson (1980), argues the Alliance was fundamentally flawed from the beginning. The credibility of UMNO rested on its ability to deliver economic growth and cultural dominance to the Malay population. Given that most economic resources remained in foreign and, to a lesser extent, Chinese, hands, it inevitably proved impossible for the Malay government to deliver broad scale development and opportunities to its Malay constituency. Missen therefore attributes UMNO’s poor electoral performance, particularly the loss of votes to PAS, to the inability of the Alliance to deliver

29 For example, von Vorys (1972:308), focuses on communal hostilities, describing, perhaps with some editorial license, the events that followed the initial release of the election results: ‘At the end of an arduous election night vigil, some, mostly Chinese and Indians, were in a high state of excitement...they celebrated with gusto what they thought to be their hour of victory...yet they felt no reassurance. More perhaps, than ever before, their political future appeared unclear, their security precarious...Underneath all the ecstasy and bravado they were afraid...Others, mostly Malays, were appalled and perplexed. They huddled with grave foreboding in their urban enclaves in and around the federal capital...Many had felt deeply that the Alliance was “too fair” to the Chinese and that the incumbent (UMNO) did not champion Malay communal interests vigorously and uncompromisingly enough.’
economic improvements to the majority of the Malay population. Over 40 per cent of the Malay population, including urban and rural dwellers, supported PAS in 1969 (von Vorys 1975:305).

Reintroducing a role for the ‘middle classes’, Kahn (1996:68-69) argues that the major policy response in the post-riot Government, the New Economic Policy (NEP),

while often said to be a direct response to the 1969 ‘racial riots’ in Kuala Lumpur, in fact had its origins in the pressure exerted by middle-level Malay bureaucrats and (to a lesser extent) businessmen at the Bumiputra [sic] Congresses of 1965 and 1968.

That is, he argues the influence of more urbanised and educated Malays whose aspirations remained unmet. Their rising educational opportunities were not matched by similar economic opportunities. Gomez and Jomo (1999:21-22) also highlight this factor, and, conversely, note the growing concerns of the Chinese business sector over moves made by the government in the mid to late 1960s to extend its reach into the private sector in order to appease the aspiring Malay business sector.

To Jesudason (1989), the hostility between the Chinese and Malays taking part in the riots was an expression of dissatisfaction with their ‘relative’ economic and cultural positions more than an expression of ‘underlying economic grievances’. Neither UMNO nor the MCA appeared able to convince its supporters that the policies of the government would protect their relative interests.30 The ‘agreement’ that Malay political dominance would not infringe upon Chinese

30 ‘The Alliance received approximately 54 per cent of the Malay vote and 43 per cent of the non-Malay vote in 1969. Comparable figures for 1964 are 67 per cent of the Malay vote and 48 per cent of the non-Malay vote’ (Snodgrass 1980:54-55).
economic dominance was viewed as under threat by Malays who feared that the Chinese now wanted to extend their dominance to the political sphere.

Conversely, the Chinese population began to see themselves as second-class citizens and came to resent a number of specific issues, such as high quotas allocated to Malays in the civil service, the preponderance of Malays in the army and police, their inability to get Chinese listed as an official language and to obtain greater assistance for Chinese education (Jesudason 1989:68).

Given their intersections, it is in fact very hard to disentangle the concerns of ‘ethnicity’ from those that might be termed ‘class’. Poverty was experienced by all ethnic groups (see Table 2.15 below) and was correlated with geographical location.

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>All households ('000)</th>
<th>Poor households ('000)</th>
<th>Poverty incidence (%)</th>
<th>Percentage of total poor households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malay</td>
<td>901.5</td>
<td>584.2</td>
<td>64.8</td>
<td>73.8</td>
</tr>
<tr>
<td>Chinese</td>
<td>525.2</td>
<td>136.3</td>
<td>26.0</td>
<td>17.2</td>
</tr>
<tr>
<td>Indian</td>
<td>160.5</td>
<td>62.9</td>
<td>39.2</td>
<td>7.9</td>
</tr>
<tr>
<td>Others</td>
<td>18.8</td>
<td>8.4</td>
<td>44.8</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,606.0</strong></td>
<td><strong>791.8</strong></td>
<td><strong>49.3</strong></td>
<td><strong>100.00</strong></td>
</tr>
<tr>
<td>All rural</td>
<td>1,166.7</td>
<td>683.7</td>
<td>58.6</td>
<td>86.3</td>
</tr>
<tr>
<td>All urban</td>
<td>439.3</td>
<td>108.1</td>
<td>24.6</td>
<td>13.7</td>
</tr>
</tbody>
</table>


Inequalities in the distribution of wealth were growing more rapidly within each ethnic group, strongly suggesting that economic policy was largely benefiting the urbanised elite of all ethnic groups, while leading to a worsening of conditions for the working class and small land holders in the rural sector (Snodgrass 1980, chapter 4). Malay and Indian households were increasingly

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31 For example, the Gini co-efficient in 1957/58 was 0.342 for Malays, 0.374 for Chinese and 0.347 for Indians. A decade later, these figures had widened to 0.400, 0.391 and 0.403, and by 1970 the figures had worsened again. While Snodgrass makes it very clear that these figures must
unable to earn a satisfactory income from agricultural pursuits. Working class households suffered a decline in real income under the prevailing economic system as unemployment worsened. Further, by virtue of their rural location and historical exclusion from modern sector employment and education, Malays were over represented amongst the poor. Chinese located in the semi-rural ‘New Villages’ also experienced high levels of poverty and underemployment (Heng 1997). Rural Indians located in plantation housing were likewise denied educational opportunities and received low and fluctuating wages. Conversely, the educated youth of all ethnic groups recorded some of the highest rates of unemployment, supporting Kahn’s (1996) observations of the frustrations facing urbanised, educated, middle income earners.

Despite the obvious contribution of economic conditions to the unrest, the collapse of the Alliance was not due to an economic crisis. Instead, Jesudason (1989:74) describes the May 1969 events as heralding ‘the political exhaustion of the economic system…On purely macro-economic terms, the laissez-faire system was relatively successful in generating national income and diversifying the economy…’). Gomez and Jomo (1999:19) also comment that levels of growth were steady and inflation generally low. This suggests that Malaysia would have remained economically viable by continuing along the same development path with limited government involvement in the private sector. In this understanding, the 1969 crisis can be better understood as a political one, generated by a lack of societal support for the nature of capital accumulation, in which wealth distribution was increasingly skewed, white collar employment opportunities be understood as flawed, he nonetheless finds them consistently pointing to an increase in inequality (Snodgrass 1980, chapter 4).
remained limited, and the communally based ruling parties were unable to deliver the cultural, political or economic advances demanded by their constituents.

This analysis is consistent with the understanding in régulation theory that a regime of accumulation\textsuperscript{32} requires a corresponding mode of regulation, ‘a set of mediations which ensure that the distortions created by the accumulation of capital are kept within limits which are compatible with social cohesion within each nation’ (Aglietta 1998:44). The ‘inadequacy of neo-colonial capitalism’ (Stenson 1980:192) was the inability to regulate labour in the sense of gaining or enforcing labour’s co-operation and participation in the processes of capital accumulation. ‘A new set of relations between capital and labour had to be negotiated that would allow for labour’s continued domination by capital’ (Loong 1998:10-11). Workers were now voters, with the ability to express their dissatisfaction electorally, a marked difference from the colonial era.

The suspension of Parliament ended ‘the least regulated phase of post-colonial Malaysian capitalism’ (Khoo 1997:53). Widespread economic, socio-cultural and political changes, encompassed within the NEP, supported the rise of a Malay business community and the rapid enlargement of Malay waged labour. The role of the NEP in reshaping and regulating the Malaysian labour force is discussed in detail in the following chapter.

\textsuperscript{32} The \textit{regime of accumulation} can be understood as, ‘a complementary pattern of production and consumption which is reproducible over a long period’ (Jessop 1993:330)
Meanwhile, UMNO’s leadership, now under the control of the National Operations Council headed by Tun Razak, took the opportunity to cast the unrest in ways which focused on inter ethnic differences. ‘The forces of class dissatisfaction were easily realigned into racial hatred and utilised by the Malay bourgeoisie in their struggle with their Chinese counterparts’ (Halim 1981:275). The ‘ethnic’ origins of the unrest were used to underpin greater involvement by the Malay-dominated administration in wide ranging aspects of the economy and society, arguably as a means of redressing the relatively poor economic and social position of the Malay population.

Conclusions

The regime of labour control that developed under the British colonial authorities and European employers was largely reliant on the immigrant status of the waged labour force. This meant; firstly, that workers were vulnerable to repatriation; secondly, that they lacked a local support base from which to organise politically; and, thirdly, that their employment contract was often tied to a specific agent or place of employment thus limiting freedom of movement. The uneven nature of early economic development, with the overwhelming reliance on tin and rubber, also provided employers with the upper hand in that workers, particularly less-skilled workers, lacked alternative employment opportunities. Deliberate strategies of dividing workers along the lines of ethnicity, and the use of existing intra-ethnic hierarchies to exert control over workers resulted in a geographically, ethnically and industrially segmented labour force (Missen 1986:8).
The labour control arrangements in place under the colonial authorities contributed to capital accumulation given political and economic realities particular to the era. Malaya’s economy was intricately linked to the imperial economy. Small scale local production was negligible in comparison with the economic importance of exports of tin and rubber. There was little economic reliance on consumption by the domestic market. This reduced the economic imperative on the authorities or employers to improve the welfare and income levels of workers. Given that the workforce was largely imported, there was also little pressure to keep wages above a level that would support labour’s social reproduction. The absence of democratic institutions meant few political pressures were placed on the colonial authorities to improve conditions for the labour force. Under the colonial arrangements, therefore, a coercive system of labour control was able to be maintained both politically and economically.

In the case of the majority of the Indian and Chinese working class, the nature of labour control is somewhat captured by Burawoy’s (1985) term ‘colonial despotism’: ‘...despotic, because force prevails over consent; colonial, because one racial group dominates through political, legal and economic rights denied to the other’ (Burawoy 1985:226). The colonial authorities extended considerable managerial prerogatives to employers who were legally allowed to use physical force against employees. Little was done to shelter workers from fluctuating economic conditions. Income insecurity was the norm for the majority of the Indian and Chinese working class, as wages were allowed to drop on a seasonal basis and during recessions, and workers were repatriated when no longer required. Hence workers were also exposed to ‘the economic whip of the
market’, as Burawoy (1985) described ‘market despotism’. However, colonial Malaya also differed from the situation Burawoy described, in which capitalism becomes unstable under a despotic regime when labour is undercut to the extent of failing to reproduce itself. In contrast, where an economy is able to import both a large immigrant labour force and cheap food supplies, labour can be exposed to the market without disrupting accumulation. In this way, the system of labour control that emerged in Malaya was dependent on the relatively poor economic and political circumstances facing labour in China and India.

Despotic and physically coercive means of labour control became less sustainable due to a range of factors. Political circumstances changed in China and India that limited emigration. This coincided with restrictions on the availability of food imports in the pre-war period. The decline of Britain as a colonial power and changing political, economic and socio-cultural circumstances in post war Malaya, signalled a shift in the balance of economic and social forces that had previously supported the regime of accumulation, and within it, the mode of régulation.

That the majority of the Malay population remained engaged in subsistence agricultural activities generally worked to the favour of colonial economic arrangements, as little was required by way of investment in local infrastructure to generate employment opportunities or provide public services. The failure to support the social reproduction of Malay labour contributed to growing inequalities and resentment that found expression in the rioting and social unrest of the late 1960s.
During the campaign against the MCP and in the build up to Independence, responses by the colonial authorities and some employers indicated an awareness of the need to direct greater resources towards labour’s social reproduction. For the soon to depart British, the motivations for doing so were political as well as economic. This was evidenced by the provision of basic infrastructure to the incarcerated Chinese in the ‘New Villages’, and by increased public expenditure on health services (International Bank for Reconstruction and Development 1955) and the provision of employer-paid maternity leave for women plantation workers (Manderson 1999:105-106). However, disputes between the departing colonial government, London and local employers over responsibilities for funding meant that much of the spending was ad hoc, reliant on private charitable organisations and unevenly distributed with a focus on urban areas.

The British embarked on the destruction of the Communist inspired labour movement in the post-war period, and, amongst divided opinion, sponsored a conservative union movement to manage worker activism. The MTUC was a legacy of international political pressures being brought to bear as Britain’s imperialism came under negative scrutiny in the period just prior to, and immediately following, the Second World War. A paternalistic relationship developed between the under-resourced, Indian-dominated, moderate MTUC and the institutions of the state, a role which at times emphasised industrial peace above the demands of particular businesses. Driven by the need to maintain the level of tin and rubber exports and concerned at the ramifications of drawn out labour disputes, the bureaucracy became involved in the resolution of deadlocked
disputes. The MTUC welcomed the government’s participation, as the union movement itself lacked the power to engage in collective bargaining with largely disinterested employer groups. Rudner (1994:360) argued that the MTUC similarly pushed for the passing of the Employment Act as a means of ensuring the government’s involvement in policing minimum conditions of employment.

The union movement never managed to assert itself as a partner in economic development, being disparaged by expatriate civil servants, considered ‘outsiders’ by Malay nationalists and shunned by many Chinese workers for fear of being labelled Communist. Reliant on the recognition granted by legislation enacted in the build up to Independence, the paternalism so central to the relationship between government and union movement was established early in the history of the MTUC and the institutions responsible for overseeing its activities.

One of the most important colonial contributions to the régulation of labour’s social reproduction was the introduction of the Employee’s Provident Fund. This served a dual purpose of providing a measure of retirement income for its members as well as a pool of domestic funding available to the government.

Once Malaysia had achieved independence, the accompanying changes in political circumstances were not adequately matched by changes to income, welfare and labour policies. Apart from continuing its surveillance of organised labour, and reducing the ability of leftist opposition parties to publicise labour issues, little was done to ensure labour’s support or cooperation in accumulation.
The segmentation of the labour force, by ethnicity, gender and location, once an effective tool of control under the British, became problematic during the laissez faire era of the late 1950s until the late 1960s. Little was done towards creating employment opportunities for the expanding post-war population.

Tentative moves towards widening economic support to *Bumiputera* outside of the agricultural sector were evident in the holding of the Bumiputera [sic] Economic Congresses in 1965 and 1968. An important outcome of the earlier congress was *Majlis Amanah Rakyat* (MARA, Council of Trust for Indigenous People) formed in 1966 out of a reorganised RIDA. While *MARA* would later become a significant institution for delivering benefits to Malays, other than these early efforts, welfare provision by the state was limited. Of all government funding allocated to ‘development’ in the mid 1960s, approximately 18 per cent targeted ‘social’ aspects and 63 per cent was directed to ‘economic’ aspects (Government of Malaysia 1971:70-71).  

33 Responsibility for retirement funds and workers’ compensation was placed on the employer and the employee, with little assistance available to those outside of formal employment relations. A notable exception was the state funded pension scheme and the provision of housing for federal civil servants, who nonetheless, were otherwise constrained politically and industrially. Modifications to the means of labour control throughout the 1960s acted in the main to increase the repressive aspects, as outlined above, but delivered only minimal concessions, opportunities or benefits to the working class and the rural population.

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33 ‘Social’ spending was defined by the Government of Malaysia as that relating to education, housing, local authorities, welfare services, and village and community development.
The institutions and ideologies through which societal conflict was regulated failed to garner adequate social support for the existing regime of accumulation (Aglietta 1998:44). In agreeing not to interfere in economic matters, the Alliance formula constrained UMNO’s ability to guarantee social cohesion; few options remained available to be utilised in the régulation of labour. Those means of labour control that were implemented did not adequately address or manage to contain the aspirations of the working class, and also contributed to a distancing between the institutions of the state and middle and upper income Chinese (Heng 1997). It similarly failed to deliver on the economic and cultural aspirations of those Malays who felt threatened and excluded by the economic dominance of domestic Chinese capital. That both Malays and Chinese moved away from the Alliance in the 1969 elections indicates that dissatisfaction with the economic and political situation was experienced across the lines of ethnicity. While the moves towards export oriented industrialisation in the late 1960s signalled a change in economic direction, it came too late to deliver either the economic benefits or the societal reassurance required to prevent unrest. The response to the social unrest, the NEP, embodied attempts to institute a new set of political and economic arrangements through which to manage these conflicting, and at times contradictory, demands.
Chapter Three: Embedding the régulation of labour

Our people of all races and all social groups should therefore regard the Second Malaysia Plan as a great opportunity to participate in the whole process of social change and nation-building. It is now, more than ever before, necessary for each member of our society, whether a politician, civil servant, farmer, employer, worker, trade unionist or journalist, to join in the common endeavour to ensure the progress and well-being of the community and the nation as a whole. The Government is determined that the Plan must succeed and, in the final analysis, it can only succeed with the acquiescence and enthusiastic support of the people (Prime Minister Tun Abdul Razak, preface to the Second Malaysia Plan 1971-1975, Government of Malaysia 1971:vii).

Introduction

In the aftermath of the May 1969 riots, the country was effectively ruled by then Deputy Prime Minister, Tun Abdul Razak, through a National Operations Council (NOC) that wielded considerable power under the Emergency provisions of the Constitution. By September 1970 Abdul Razak had become Prime Minister. He began his period of leadership with a concerted effort to redirect Malaysia’s economic development efforts towards addressing what was identified politically as an ethnically unbalanced distribution of wealth and opportunity. The government released a White Paper, Toward National Harmony, which stressed the economic and social inequalities between the ethnic groups as the root cause of the 1969 events (Firdaus 1997:191). In widely promulgating statistical data that emphasised inter ethnic inequalities, for example, in income, access to education, and occupational status, the government sought to justify the pro-Malay affirmative action policies contained within the New Economic Policy (NEP).¹

¹ The factors contributing to the relatively poor position of Malays have been widely discussed. Many conclude that inequalities of wealth were evident within each ethnic group and that poverty
The NEP (1971-1990) marked a period of increased government interventions in the economy and society, dismantling the previous political alliance which had left the economic sphere largely to foreign capital and to Malaysia’s Chinese business community. The emphasis now was on achieving a high rate of economic growth, and on redirecting a greater proportion of the benefits of that growth to the relatively disadvantaged Malay population. One goal of the NEP was the creation of a ‘Malay entrepreneurial community’. This was to be achieved through the expansion of share ownership and the direction of government-controlled licenses to Malay-owned businesses. The second major prong was the creation of non-agricultural employment opportunities that would flow predominantly to Malays (Government of Malaysia 1971:47). These goals presented a challenge given that the majority of the Malay population remained in rural areas and the economy remained dominated by British, and to a lesser extent, local Chinese capital.

Wide ranging policies were documented in the Government’s Outline Perspective Plan (1971-1991). Faaland et al. (1990:77) suggest this was the ‘highwater mark of the NEP’, being the document in which the NEP was most clearly presented as a long term strategy. Within the NEP, therefore, was the potential to develop a new state-labour nexus in the broadest sense. Yet it was also a strategy that raised tensions within UMNO and amongst its coalition partners, and more broadly between the government and many non-Malays. It

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was associated with geographical location and access to non-agricultural employment. Particularly useful discussions are available in Snodgrass 1980 and Bussink 1980.
was a strategy that delivered both control and constraints to the political leadership in the management of economic, political and socio-cultural tensions.

The *ideological* appeal by the state for all Malaysians to accept that the Malays were a disadvantaged group was an important aspect of the government’s post 1969 response. However, the authorities were not going to rely on persuasive arguments alone to ensure future social, political and industrial ‘harmony’. For example, while the *Second Malaysia Plan 1971-75* (Government of Malaysia 1971:266, 262) allocated $316.47 million Malaysian dollars towards Social and Community Services, in contrast $1,100.07 million was allocated for the Armed Forces and the Police Service and $21.51 million was allocated for prisons. The Sedition Act was amended before the resumption of Parliament in 1971 in order to make any criticism of Malay Special Privileges a punishable offence. This was to prevent further comments similar to those made by DAP parliamentarian, Goh Hock Guan in 1968. He was publicly critical of the pro-Malay civil service recruitment process. His comments were raised in the White Paper as directly contributing to the unrest between Malays and Chinese (Puthucheary 1978:65). In 1972 the Official Secrets Act was introduced and the Internal Security Act was further strengthened. The NEP era therefore signalled not only a greater economic role for the government, but also a strengthening of the state’s repressive apparatus, arguably to preserve stability and allow the pursuit of reforms.
Economic development and the régulation of labour

Firdaus (1997:201) describes Malaysia’s second PM as an ‘innovative’ leader who softened the impact of the ‘authoritarian’ NOC with the ‘consultative’ approach of a National Consultative Council (NCC). Mahathir (1999:34) also described the NEP as resulting from widespread consultations carried out by the NCC.

Representatives from all the major races were then brought together in a National Consultative Council to help formulate a new policy to restructure the economy in order to achieve a more equitable distribution of wealth.

The pro-Malay NEP clearly indicated a change in policy making arrangements within the federal civil service where economic planning had previously been dominated by the Economic Planning Unit (EPU). Heng (1997:265-267) describes in detail the behind-the-scenes tussles between the newly created Malay-dominated Department of National Unity and the MCA-controlled EPU in drafting the NEP. Torii (1997) and Lee (2005, chapter 2) highlight the disputes amongst UMNO members over the extent to which the Malay agenda could be pursued without generating social unrest or a flight of capital.

The new primacy of Malay interests was reflected in the reshuffling of cabinet positions in the broadened National Front (Barisan Nasional) coalition that governed from 1971. The weakened position of the MCA saw it lose important portfolios (Gomez and Jomo 1999:44). From 1971 the crucial Ministry of Trade and Industry was allocated to UMNO. With the retirement of MCA leader Tan Siew Sin in 1974, this was also the case for the sensitive Ministry of Finance. The Labour portfolio, renamed Labour and Manpower in 1972, has, since 1974, been held by the MCA. Newly appointed MCA leader, Lee San Choon, took
over the position in that year. The era also witnessed a growing politicisation of
the federal civil service, increasingly staffed by Malays, whose role it was to
advance and implement the pro-Malay policies of the NEP. Economic planning
powers were incrementally centralised within the Prime Minister’s Department.

The Prime Minister was upfront about the need to secure domestic funding to
enable the implementation of the NEP agenda.

…foreign financing alone cannot be relied upon to the extent thought possible…The experience of the last five years has shown
that preparing projects to met lenders’ demands is a difficult and
time-consuming process…The bulk of the funds is expected to
come from institutional sources. The Employees’ Provident Fund
alone is expected to provide more than one-half of the total. Other
major institutional sources will be the other provident and trust
funds, social security funds arising from the new Social Security
Act and the Post Office Savings Bank. Insurance companies and
finance companies, which are obliged to hold a certain portion of
local assets, are also expected to increase their purchases of
Government securities’ (Government of Malaysia 1971:76, 79).

EPF contribution rates were increased in 1975 from ten to thirteen per cent in

In 1972, sales tax was introduced, followed in 1975 by a services tax. As
employment opportunities expanded through the decade, so did revenue earned
through direct taxation of individuals and companies (see Table 3.1). A major
increase in government revenue came from oil discoveries. In 1974, the
Petroleum Development Act created Petroliam Nasional Berhad, the national
petroleum company known as Petronas. This legislation overturned the previous
concession arrangements in which foreign oil interests had considerable control
over Malaysia’s reserves of oil and gas. The government claimed the new
arrangements would ‘ensure that maximum benefits accrue to the country [and
be] consistent with overall national objectives’ (Government of Malaysia 1976:327). In 1975, income derived from the petroleum industry amounted to 7.8 per cent of total government revenue. By 1980, this would be approximately 20 per cent (UNDP 2006:29).

| Table 3.1 Federal and state government revenue by source (Malaysian $ million) |
|---------------------------|-----------|-----------|-----------|
| Direct taxes              |           |           |           |
| Companies’ income tax     | 489       | 1,166     | 2,276     |
| Petroleum income tax      | -         | 322       | 1,595     |
| Individual income tax     | 168       | 438       | 1,250     |
| Petroleum royalties       | -         | 78        | 295       |
| Others                    | 44        | 17        | 50        |
| Total direct taxes        | 1,299     | 2,555     | 6,457     |
| Indirect taxes            |           |           |           |
| Export duties             | 258       | 625       | 2,420     |
| Import duties and surtax  | 557       | 801       | 1,686     |
| Excise duty               | 249       | 450       | 994       |
| Sales tax                 | -         | 272       | 647       |
| Road tax                  | 169       | 241       | 378       |
| Others                    | 66        | 166       | 332       |
| Total indirect taxes      | 1,299     | 2,555     | 6,457     |
| Non-tax revenue           | 400       | 541       | 947       |
| Total revenue$            | 2,861     | 5,929     | 15,048    |


The post-1969 period also heralded changes in the education and vocational training sectors. The most immediate was the implementation of the policy replacing English as the language of instruction in the state funded education system (Snodgrass 1980:58). From 1970, Bahasa Melayu was introduced into primary schools, with English gradually phased out in all levels of education by the early 1980s. The number of universities in Malaysia increased from two in 1970 to five by 1980, with enrolment quotas and scholarships targeted towards Malay students. Considerable funds were allocated to increase the number of primary and, particularly, secondary schools. A stronger commitment towards
vocational training was attempted with the creation in 1971 of the National Advisory Council on Industrial Training.

### Table 3.2 Employment share by economic sector, 1970 and 1975

<table>
<thead>
<tr>
<th>Sector</th>
<th>'000</th>
<th>'000</th>
<th>1970</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1,786.8</td>
<td>1,936.8</td>
<td>53.5</td>
<td>49.3</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>87.3</td>
<td>86.6</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>289.9</td>
<td>398.2</td>
<td>8.7</td>
<td>10.1</td>
</tr>
<tr>
<td>Construction</td>
<td>90.6</td>
<td>113.2</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Utilities(^a)</td>
<td>18.6</td>
<td>23.9</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, storage &amp; communications</td>
<td>133.4</td>
<td>179.4</td>
<td>4.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Wholesale &amp; retail</td>
<td>379.9</td>
<td>495.9</td>
<td>11.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Banking, insurance &amp; real estate</td>
<td>26.8</td>
<td>32.7</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Public administration, education, health and defence</td>
<td>403.9</td>
<td>508.8</td>
<td>12.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Other services</td>
<td>122.3</td>
<td>152.3</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total employed</strong></td>
<td><strong>3,339.5</strong></td>
<td><strong>3,927.8</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td><strong>Total labour force</strong></td>
<td><strong>3,606.8</strong></td>
<td><strong>4,225.0</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 1976:140, table 8-1. Data relates to Malaysia. \(^a\) Utilities includes electricity, gas and water.

While the manufacturing sector had grown through the mid to late 1960s, it had contributed little by way of employment (Zulkifly 2001:7). The NEP aimed for annual employment growth of three per cent (Department of National Unity 1970, cited in Faaland et al. 1990:309). It was made very clear in the *Second Malaysia Plan* that the creation of employment opportunities was a major goal of the NEP.

Economic growth will also be pursued with an emphasis on employment. Investment incentives will be geared to take account of employment needs. In implementing development projects, particularly in the public sector, deliberate efforts will be made to use more labour-intensive techniques (Government of Malaysia 1971:5).
Additionally, targets were set for employment redistribution. ‘Bumiputera employment in agriculture, secondary and tertiary sectors were 66.2%, 12.1% and 21.7% respectively in 1970…The NEP aimed at restructuring these figures to 37.4% in agriculture, 26.8% in secondary and 35.8% in tertiary sectors respectively in 1990’ (Rasiah and Ishak 2001:59). The NEP also outlined employment quotas. Initially these were voluntary, rewarding firms employing a certain percentage of Malays with corporate tax exemptions via 1971 amendments to the Investment Incentives Act (Andaya and Andaya 2001:314).

The Government has declared that the employment structure in factories must reflect from top to bottom the multi-racial composition of the population. It is recognised that the Ministry of commerce and industry [sic] has imposed the condition of proportional racial employment on firms awarded pioneer status. However, it is now necessary to extend the condition to cover also non-pioneer firms (Department of National Unity 1970, cited in Faaland et al. 1990:314).

<table>
<thead>
<tr>
<th>Industry</th>
<th>Malays per cent</th>
<th>Chinese per cent</th>
<th>Indian per cent</th>
<th>Total '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry</td>
<td>68</td>
<td>21</td>
<td>10</td>
<td>1,406.0</td>
</tr>
<tr>
<td>Mining</td>
<td>25</td>
<td>66</td>
<td>8</td>
<td>85.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29</td>
<td>65</td>
<td>5</td>
<td>263.9</td>
</tr>
<tr>
<td>Construction</td>
<td>22</td>
<td>72</td>
<td>6</td>
<td>77.6</td>
</tr>
<tr>
<td>Utilities</td>
<td>48</td>
<td>18</td>
<td>33</td>
<td>16.6</td>
</tr>
<tr>
<td>Transport &amp; communication</td>
<td>43</td>
<td>40</td>
<td>17</td>
<td>119.4</td>
</tr>
<tr>
<td>Commerce</td>
<td>24</td>
<td>65</td>
<td>11</td>
<td>350.9</td>
</tr>
<tr>
<td>Services</td>
<td>49</td>
<td>36</td>
<td>14</td>
<td>474.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51</strong></td>
<td><strong>37</strong></td>
<td><strong>11</strong></td>
<td><strong>2,793.7</strong></td>
</tr>
</tbody>
</table>

As previously discussed, much of the disparity in income between Malays and non-Malays could be attributed to the low productivity agricultural occupations in which the majority of Malays remained engaged in the less industrialised, poorly serviced rural areas (Bussink 1980). The NEP therefore ‘...also aimed to eliminate identification of race with geographical location’ (Lucas and Verry 1999:56).

Malay migration of all kinds is being accelerated by the various government policies which encourage them to urbanise, commercialise and industrialise, with the intention of “catching up” with the non-Malays and of changing the present rural-urban ethnic balance (Nagata 1974:311).

While willing to relocate, the majority of rural-based Malays however preferred to remain in rural or semi-urban areas, finding employment in government projects and in enterprises newly established by Malay recipients of government-sponsored low cost loans, licenses and contracts administered by Majlis Amanah Rakyat (MARA) (Halim 1981). Over 45 per cent of internal migration during the decade was rural to rural. From the 1970s, plantation employers complained of the competition for labour created by government employment in rural areas (Ministry of Labour 1986:114).

Rural-urban migration accounts for between a quarter and fifth of internal migration recorded between 1970-1980 (Lucas and Verry 1999:41), increasing the urbanised proportion of the Malay population particularly. This group of Malays was more able to take advantage of new employment opportunities in existing urban areas and newly established semi-urban areas surrounding the

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2 This is clear when analysing intra-ethnic income differences. For example, plantation workers, many of whom were Indian, were notoriously poorly paid. Yet when expressed as an ‘ethnic’ average, their poverty was disguised by the higher earnings of formally educated, urbanised white collar and professional Indians. Similarly, there were pockets of poverty amongst Malaysian Chinese with the inhabitants of the ‘New Villages’ particularly disadvantaged.
Free Trade Zones (FTZs). However, Malaysia did not experience rates of urbanisation to the extent recorded in other newly independent nations where capital cities have drawn in vast numbers of underemployed rural workers. Many Malays in fact retained economic, cultural and social connections to *kampungs* and smallholdings, which continued to provide support during times of unemployment and hardship, an important factor in reducing the pressure on the government to do so. Conversely, urbanised family members repatriated income to family members remaining in rural areas (Jesudason 1989:179-180).

The Free Trade Zone Act was enacted in 1971 (Rasiah 1995:74) with Malaysia’s first FTZ established in the *Beyan Lepas* area on the island of Penang. By the early 1970s, fifty-nine Industrial Estates were established which included nine FTZs, located mostly on Penang and in the Sungai Wai region of the Klang Valley near Kuala Lumpur (Warr 1986:181). The NEP and the FTZs became complementary policies in terms of regulating the Malay labour force. Writing about the introduction of the NEP, Rasiah (1995:77) states:

> Efforts to uplift the livelihood of the poor, especially the Malays, restructure employment to eliminate occupational identification, and educate the population formed the basis for the formation of a massive reservoir of labour.

The FTZs were to provide modern sector employment opportunities for this emerging pool of Malay labour. Johnston (1997:399) views the renewed efforts to attract labour intensive foreign investment as both a political and economic

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3 The *Beyan Lepas* FTZ was in fact an initiative of the State Legislative Assembly in Penang as part of an effort to revitalise its economy. The Federal Government had established Licensed Manufacturing Warehouses which were similar in that they were effectively a customs free zone, but the FTZ format proved more effective for a number of reasons and so was adopted at the federal level. Warr (1986) provides useful historical background on Malaysian FTZs, while Kankesu Jayanthakumaran (2002) provides an overview of similar initiatives in several Asian countries.
response to the previous ethnic unrest. By the mid 1970s, an estimated 55 firms had employed almost 32,000 workers; by the early 1980s this figure would more than double with the majority of the workers employed in electronics firms (Warr 1986:190-192).

FTZs as sites of labour control

The FTZs have been the subject of considerable research given their prominence in the economic development of recently industrialised economies, including Malaysia. Harrod (1987:210) observes that ‘[t]he majority of FTZs are subject to special national legislation that either prohibits or severely restricts the activities of trade unions’. Depicting FTZs as repressive locations for labour, Kuruvilla and Arudsothy (1995) argue this as an outcome of industrial relations legislation shaped by the demands of economic policy. Their argument, briefly, is that the shift in Malaysia from import substituting industrialisation towards export orientation industrialisation encouraged the government to act against labour on behalf of foreign capital.

In sum, it is clear…[the] state’s…dependence on foreign investment for its manufacturing, particularly in its most important electronics industry, has created a labour relations system that is repressive and government-dominated. The shift from ISI to EOI was the primary catalyst for the tightening of labour relations policies, and the specific cost containment policies were determined by the government in response to pressure from foreign companies on which it became dependent (Kuruvilla and Arudsothy 1995:174).

In the case of Malaysia, the cordoning off of foreign-owned firms in the FTZs has afforded them with conditions differing from those outside of the FTZs. For example, being considered as Pioneer Industries under the Investment Incentives Act 1968, many firms in the FTZs were effectively sheltered from unionisation.
Under the same legislation, it is a requirement that conditions of employment in the FTZs cannot exceed the minimums specified in the Employment Act (Arudsothy 1990:324). This circumvents demands by workers or unions for greater benefits, thus reducing the attraction of union membership and collective bargaining (Casperz 1998:270). These are direct means through which government agencies have influenced the nature of labour control strategies within the FTZs. The absence of state legislation for minimum wages or anti-discrimination in remuneration has also indirectly extended control over wages to managers of FTZ firms, although this is also true of the employment situation beyond the FTZs.

In order to enhance the attractiveness of FTZ employment for Malays, the government began more strictly enforcing the ethnic employment quota with the introduction in 1975 of the Industrial Coordination Act (ICA). Licenses issued under the ICA to foreign-owned manufacturing firms carried with them the requirement to employ Malays at all levels of seniority in a proportion that reflected their representation in the general population. The government therefore directly intervened in the relationship between employers and employees in order to effect the increased participation of Malays in the industrial sector. Employers in many of the FTZ firms, but in Penang particularly, voiced concerns about their inability to attract sufficient numbers of qualified Malay workers to meet the ethnic recruitment quotas imposed (Warr 1986:198-199). In this regard, MNCs faced constraints not placed on domestic firms, an outcome of the ethno-political considerations driving the NEP. This

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4 The Employment Act does not specify minimum wage rates for any workers.
5 An exception to this is the setting of wages that cover a small percentage of private sector workers in a very few areas.
stands in some contrast to the claim that employment conditions in the FTZs were driven by the demands of MNCs.

**Unions in the FTZs**

In its attempts to control unionisation in the FTZs the government has faced domestic political constraints as well as international economic pressures. This is evident in the long running battle by electronics workers to join the Electrical Industry Workers’ Union (EIWU). The EIWU commenced organising amongst foreign-owned electronics firms in 1971, but efforts to enlist electronics workers as members were rejected by the Registrar of Trade Unions (RTU). The Director General of the RTU, citing the Trade Unions Act, initially argued that ‘electrical’ and ‘electronics’ workers belonged to different industries and therefore required different unions, a restriction which is also imposed outside of the FTZs. The EIWU then attempted to form a National Union of Electronics Workers (NUEW). The rejection of this claim for recognition by the RTU was justified, in the view of the government, on the grounds that allowing the formation of a national union would create an ‘unwieldy’ union and that foreign investors might be deterred. There was, further, the concern that ‘the workers could be subject to manipulation by trade union leaders, contrary to their own and the nation’s interest…’ (cited in Ariffin and Lochhead 1988:45). On occasion, replies from the Minister for Labour and Manpower indicated that electronics workers would soon be allowed to form a separate union. By the close of the 1970s though, the situation remained unresolved with the government unable to prevent outright the attempts by the EIWU to organise in the FTZs, thereby attracting criticism

Little ground was given to attempts by the union movement to organise electronics workers until the early 1980s when Ministers began making statements in the mainstream press to the effect that unions might be allowed. As is discussed in more detail in the following chapter, the government then announced in 1983 that in-house unions were considered conducive to economic growth (Jomo and Todd 1994:151). In a move that raised the ire of the multinationals (Business Week, June 1983), telecommunications manufacturer ITT was directed by the Ministry of Labour to recognise EIWU’s claims to organise its workforce (Barnard 1992:5).

The situation meanwhile headed towards a very public confrontation involving several players. The U.S.-owned electronics firms were represented by the lobby group, Malaysian-American Electronics Industry (MAEI). The MTUC, the International Metalworkers Federation (IMF) and the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) were involved for the union movement. The U.S. Government had been petitioned by the AFL-CIO to withdraw the Malaysian Government’s preferential trading status (GSP)⁷ because of its alleged repression of unions (Arudsothy 1990:324). Finally, ‘…a combination of recession, political instability, opening of the domestic political regime, and international pressure led the government to concede unionization in 1988’ (Bhopal and Todd 2000:203). Bhopal (1997:578) reports that in the period

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⁶ These included Monsanto, Matsushita, Motorola, Western Appliances and Digital (Ariffin and Lochhead 1988:42-43).

⁷ Referred to formally as the generalised system of preferences.
surrounding the announcement, the ‘state-controlled media’ provided extensive coverage critical of the multinationals and their alleged disregard for Malaysian workers.

However, this was not the end of it. After further pressure was applied by the MAEI and a number of Japanese firms (Mai 1989:2), and once the GSP petition was decided in favour of the Malaysian Government, the Minister for Labour, Lee Kim Sai, then announced that only *in-house* unions would be allowed to form. Lee further stated that the decision ‘may appear to contradict law, but it is policy’ (*Star* 21 October 1988, cited in Barnard 1992:5).

The government was clearly not in favour of union formation yet remained engaged in a protracted and very public dialogue with the union movement throughout the 1970s, even as this attracted the criticism and concerns of firms. This indicated the extent to which the government was constrained by domestic political concerns and hampered by the inability to confidently defend its decisions. The government was unable to simply give in to the demands of foreign-owned firms as it would have appeared unable to protect Malay workers (Bhopal 1997:576). Supporting Malay workers was central to the maintenance of UMNO’s post-NEP legitimacy. At the same time, the government was unable to exert control over the union movement to the extent of completely stifling their demands without acting beyond the bounds of its own legislation. In conclusion, far from being assumed as sites of multinational dominance, assisted by a state-imposed regime of coercive labour control, the FTZs in the 1970s can be more usefully examined as sites of contestation, the outcomes of which later
contributed to the emergence of a widened range of responses by the government to the challenges of labour régulation in the 1980s.

The NEP, FTZs and the regulation of women workers

Women remained concentrated in agricultural occupations in the early 1970s, with paid domestic work the second most important occupational category. Both were weakly regulated sectors of employment. Domestic workers were excluded from coverage under the Employment Act despite claims for recognition in the 1950s by the Domestic Employees’ Union and a threatened strike in 1963 by ‘amahs’, as female domestic workers were commonly known (Chin 1998).

<table>
<thead>
<tr>
<th>Occupation</th>
<th>1975</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional and technical*</td>
<td>5.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Administrative &amp; management</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Clerical</td>
<td>6.8</td>
<td>10.9</td>
</tr>
<tr>
<td>Sales</td>
<td>7.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Services</td>
<td>10.5</td>
<td>8.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>51.6</td>
<td>45.5</td>
</tr>
<tr>
<td>Production</td>
<td>17.5</td>
<td>17.3</td>
</tr>
</tbody>
</table>


The success of FTZs has been associated with the availability of a female labour force willing to tolerate low wages and mundane semi skilled work (Jomo and Edwards 1993).

When the New Economic Policy was launched, the Ministry of Labour already anticipated the growth in employment opportunities for women. As the Minister stated in a speech in 1973, there were ‘vast new opportunities for women workers’ in the manufacturing sector (Ariffin and Lochhead 1988:6).

Yet, it is difficult to understand why the government would have targeted the female population as a potential workforce when unemployment rates amongst men in the 1970s were still high (Zulkifly 2001:8).
Table 3.5 Employment in manufacturing sector by gender

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>235,377</td>
<td>453,599</td>
</tr>
<tr>
<td>Females</td>
<td>111,017</td>
<td>389,875</td>
</tr>
</tbody>
</table>

Source: Chin 1998, Table 3.1, citing ILO 1994. Data relates to Peninsular Malaysia only.

Arguments have been put forward that suggest women were preferred by multinationals *despite* the preferences and policies of the Malaysian Government.

That Malay women received the benefits of the NEP is accidental for there was no explicit recognition in the [NEP] policy that Malay women’s participation was equally important in the restructuring of occupations (Zainab Wahidin cited in Chin 1998, chapter 6). ⑧

It appears the relationship between the government, economic development and women was far from straightforward. While the availability, docility and dexterity of female labour has been used as a selling point by the government to attract foreign investment (Barnard 1992), the preference of MNC employers for young female workers created conflicts for UMNO. Its chief political rival for Malay votes was the Islamic based party, *PAS*, which was actively involved in the 1970s revival of an Islamic ideal of women as wife and mother. Further, the increasing participation of Malay women in factory work contributed to a shortage of women available to undertake paid domestic work, leading to complaints in the media from middle and upper income householders unable to locate domestic servants with a resultant increase in the recruitment of foreign maids, often illegally (Chin 1998, chapter 3).

⑧ A complete reading of the NEP policy statement, issued by the Department of National Unity in March 1970 (reprinted in Faaland et al. 1990:305-318) reveals no mention of gender imbalances in labour force participation. The focus is clearly on ‘racial’ imbalances with some attention given to geographical disparities such as the economic under-development of the East Coast relative to the West Coast, and of rural areas in comparison with urban centres.
Table 3.6 Female employment shares by industry (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>37.0</td>
<td>40.8</td>
<td>39.6</td>
</tr>
<tr>
<td>Mining</td>
<td>12.8</td>
<td>12.3</td>
<td>13.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>29.0</td>
<td>39.3</td>
<td>40.7</td>
</tr>
<tr>
<td>Utilities</td>
<td>5.2</td>
<td>3.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Construction</td>
<td>7.1</td>
<td>6.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Transport etc</td>
<td>4.2</td>
<td>6.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Finance, commerce</td>
<td>17.9</td>
<td>26.9</td>
<td>28.7</td>
</tr>
<tr>
<td>Retail &amp; wholesale trade</td>
<td>29.7</td>
<td>37.9</td>
<td>31.5</td>
</tr>
<tr>
<td>Other services</td>
<td></td>
<td></td>
<td>35.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31.8</strong></td>
<td><strong>34.5</strong></td>
<td><strong>33.5</strong></td>
</tr>
</tbody>
</table>

Source: Lucas and Verry 1999:51, table 3.11.

Institutionally, there is little to suggest that the government was prepared for the increased entry by women into non-agricultural, non-domestic waged labour. Ritchie (2005:751) refers to government efforts towards female employment as ‘truncated reform’, an outcome he ascribes to ‘religious and cultural reasons’. Apart from the 1969 amendment to the Employment Act which allowed women to work night shifts, and this required the written permission of the Minister (Rasiah 1995:77), little was done by the government to facilitate the move by women into the manufacturing sector. Rather than taking the lead in the restructuring of the female labour force, Chin (1998, chapter 3) argues that the government was just making the most of a situation that was largely the product of employer preferences, and the preference of women themselves for factory work over low status and poorly paid agricultural labour.

Table 3.7 Labour force participation rates by gender, Peninsular Malaysia, 1957-1976

<table>
<thead>
<tr>
<th>Year</th>
<th>Male (per cent)</th>
<th>Female (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>88.7</td>
<td>30.8</td>
</tr>
<tr>
<td>1970</td>
<td>81.3</td>
<td>37.2</td>
</tr>
<tr>
<td>1975</td>
<td>86.0</td>
<td>47.3</td>
</tr>
<tr>
<td>1976</td>
<td>85.3</td>
<td>46.1</td>
</tr>
</tbody>
</table>

The lack of consistent planning on the part of the government to facilitate women’s participation in waged labour is reflected in the labour force participation rates. These leapt in the first half of the 1970s from 37 to 47 per cent, but then quickly plateaued. By 2000, the rate of women’s labour force participation at 46.7 per cent, was only marginally different to that recorded in the mid 1970s. The short lived increase in participation rates is also evident in Table 3.5 which shows the proportion of female manufacturing workers increased from twenty-nine to over thirty-nine percent from 1970 to 1975, but only by another 1.5 per cent in the following five year period. The liberalisation in the use of migrant labour in the 1980s and 1990s increased the proportion of migrant workers in the manufacturing sector, suggesting these workers have to some degree displaced local female workers (Lucas and Verry 1999).

A number of socio-cultural and economic factors shaped the preference by manufacturing employers for female workers. Malaysia’s ‘confrontation’ with Indonesia in the 1960s had temporarily reduced the availability of Indonesian migrant labour. The largest increase in women’s labour force participation rates, recorded between 1970 and 1975, therefore coincided with a period in which migrant labour was in particularly short supply. Data on wages in the FTZs are contested, but all available data consistently points to a large wage differential between male and female workers in Malaysia generally (ESCAP 2002:96). This increased the attractiveness of female labour to employers in labour

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9 While Athukorala (2001) and Jayanthakumaran (2002:14) have argued FTZ wages in the 1990s are favourable in comparison with average wages elsewhere in the manufacturing sector, Jomo and Edwards (1993:27) argue that FTZ wages were relatively low, in part due to the large proportion of women workers in this sector.

10 For example, in Malaysia female wages were on average 57.9 per cent of male wages in 1998 while the same figure for Thailand was 63.9 and for the Philippines, 84.0 (ESCAP 2002:96, table III.14).
intensive, low skilled operations. Young, rural, predominantly Malay women
provided a pool of relatively low cost labour willing, for various cultural,
geographical and economic factors, to accept the repetitive, closely supervised, at
times unsafe, and often monotonous, work available in the manufacturing sector

Finally, and consistent with the discussion above that the control of labour in the
FTZs is a complex and contested situation, Bhopal (1997) suggests that the
government’s sensitivities on behalf of Malay workers were strongly gendered.
While the sacking of male Malay workers was likely to generate a political
fallout, existing social values that depicted women as marginal to the formal
labour force acted to dissipate political concerns regarding the employment
conditions imposed by employers over their female employees, Malay or
otherwise. This then added further weight to the preference for female workers,
and later, the shift to similarly marginalised foreign workers who also failed to
garner much sympathy from the Malaysian Government, the media, the union
movement or wider public.

The concentration of women in the FTZs and other low paid, less skilled
occupations, appears less the product of government legislation relating to
industrial relations or human resources, and more the outcome of the exploitation
by capital of existing social and cultural views that women were ‘naturally’
accepting of highly detailed, dextrous, repetitive work carried out under
paternalistic forms of supervision (Elias 2004:8-9). The pre-existing socio-
economic location of women was to the benefit of foreign and domestic manufacturers seeking low cost, ‘obedient’ labour.

The ways in which the state has historically reinforced these gendered values have been critically exposed by Casperz (1998), Chin (1998) and Elias (2004, 2005). However, this in turn generated political difficulties for UMNO. The régulation of women as workers is politically fraught for UMNO given the nature of its competition with PAS for Malay votes. These cultural and political constraints contributed to the emergence of contradictory policies towards women and subsequently undermined efforts to increase women’s participation in the labour force. This conflict is examined in later chapters as women’s labour force participation rates continued to stagnate despite consistent labour shortages from the late 1980s, and in the context of attempts by the government to increase household incomes yet without generating wage inflation. This is clearly a difficult task in one income households.

The NEP and the politicisation of the public sector

It is in the management of the civil service that the Federal Government was most directly involved in determining employment conditions. It was during the 1970s that major contradictions in this role were to develop, an outcome of both the opportunities, and the complications, that resulted from the NEP. Employment in the public sector grew at seven per cent during the Second Malaysia Plan (1971-75) providing increased opportunities particularly for Malays to gain employment. By 1975, government employees at all levels
accounted for over 13 per cent of the labour force in Malaysia (see Table 3.8 below).

<table>
<thead>
<tr>
<th></th>
<th>estimated employment ('000)</th>
<th>share of total employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>396.6</td>
<td>11.7</td>
</tr>
<tr>
<td>1975</td>
<td>555.8</td>
<td>13.1</td>
</tr>
<tr>
<td>1980</td>
<td>710.0</td>
<td>13.9</td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 1981:81, table 4.6

The ratio of Malays to non-Malays in the government sector was 5 to 3 in 1970 (Government of Malaysia 1971:38). By 2000, this would be approximately 8.5:1 (Turner 2003:13-14). This was an outcome of several factors including the determination in the late 1960s that Bahasa Melayu was the sole national language and would therefore be used in the civil service, and that qualifications gained in Chinese-language high schools were not considered valid in applications for public sector employment.

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>1969</th>
<th>1972</th>
</tr>
</thead>
<tbody>
<tr>
<td>马来人</td>
<td>36,618</td>
<td>45,617</td>
</tr>
<tr>
<td>华人</td>
<td>12,181</td>
<td>12,504</td>
</tr>
<tr>
<td>印度人</td>
<td>10,499</td>
<td>10,409</td>
</tr>
<tr>
<td>Others</td>
<td>986</td>
<td>932</td>
</tr>
<tr>
<td>Total</td>
<td>60,284</td>
<td>69,462</td>
</tr>
</tbody>
</table>

Source: Puthucheary 1978:56, table 5.6. The Federal Civil Service is one level of the Malaysian civil services.

With very limited bargaining powers, CUEPACS adopted a generally conciliatory relationship with the government, with rare but notable exceptions, and was in turn treated in a generally paternalistic fashion. Although CUEPACS was affiliated with some of the largest unions in the country, including those representing teachers and the communications and transport sectors, all were prevented by legislation from taking industrial action. In 1973, as a means of
managing wage demands, three national joint councils (NJCs) were created through which unions and the employer were to determine wages (Ayadurai 1977:66-68). In comparison with the private sector, union membership was high amongst civil servants. For example, in 1975, there was a combined membership of 191,837 amongst unions representing workers in the federal, state and local governments and statutory bodies (Jomo and Todd 1994:34-35), meaning that almost 35 per cent of workers were unionised.

Senior bureaucrats had been influential in the formulation of the NEP, the policies of which were then ‘…implemented by an army of experienced public servants…charged with a strong sense of nationalism’ (Firdaus Abdullah 1997:190). According to Esman (1972), by the late 1960s, a generational change in attitude was evident amongst the post-Independence civil service appointees.

The new official defines his role as the friend and tutor of the peasants. He is interested in knowing their needs and problems and in devoting himself to improving their welfare (Esman 1972:132).

Puthucheary (1978:48), writing a little later in the decade, offered the following assessment:

…civil servants are not expected to be completely impartial. The policies and programmes of the government are distinctly partial towards Malays and this has been accepted by the majority of the people who voted in favour of the Barisan Nasional. Thus the civil servants, in implementing these policies, are not expected to be strictly impartial but to consider the special position of the Malays as is also provided for in the Constitution of Malaysia. Thus emphasis is placed more on the ability of the civil service to achieve the targets of the government’s pro-Malay policies than on its ability to implement the laws impartially and fairly.

The politicisation of the civil service has since been argued as creating an obstacle to the development of the private sector. For example, Heng (1997:274)
claims ‘…there was a widespread perception that Malay government officials responsible for approving business permits and licenses were growing increasingly inflexible and uncooperative in their dealings with the Chinese business community’. Additionally, the greater use of *Bahasa Melayu* and the subsequent decline in the use of English by civil servants generated greater problems in communication between the predominantly Malay civil service and the largely non-Malay private sector. M. Shamsul Haque (2003:259, citing Lim 1999 and Stafford 1999), suggests that favouring ethnic preference rather than merit as the basis for recruitment into the civil service had negative implications for efficiency and discouraged potentially more able non-Malay applicants from considering the civil service as a career option.

In expanding the civil service in order to implement the NEP, the government had negotiated one set of labour issues, but in doing so, had generated resentment within amongst non-Malay employer and industry groups. The political and socio-cultural goals of the NEP which had been institutionalised within the civil service generated obstacles to the government’s later attempts at economic reform. The embedded nature of the NEP within the civil service would prove difficult to dislodge even when those arrangements presented an obstacle to later labour force reforms in both the private and public sector labour forces.  

By this point in history, Mahathir had re-emerged as a pivotal political figure. Abdullah (1997) credits Mahathir, then deputy Prime Minister, with the creation of the Malaysian Administrative Modernisation and Management Planning Unit.

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11 ‘The arrangements corresponding to these compromises are linked with specific problems created by a given historical context. Subsequent historical developments have led to a disjunction between the existing arrangements and new areas of tension’ (Andre 2002:99).
MAMPU was to be ‘…the unit for modern administrative reforms in the Malaysian civil service…established after Cabinet approval through Cabinet Paper no. 207/1079/97’ in 1978 (Abdullah 1997:66). In his dealings with the civil service, Mahathir was both critical and paternalistic. Throughout his premiership he would direct considerable attention to attempts at reform. As later case studies indicate, however, his efforts had mixed success, highlighted by the emergence from the 1980s, of quasi-state forums which effectively bypassed, rather than reformed the civil service and offered direct access by elite capital to senior bureaucrats and Ministers, fuelling patronage networks (M. Shamsul Haque 2003:259 citing Means 1986:114).

**Legitimacy and mediating mechanisms**

As becomes evident in the discussion to follow, the government was able to strengthen its repressive legislative apparatus and used the ideological appeal of tripartitism in an effort to discredit industrial disputes. These, however, proved inadequate to balancing the political and economic contradictions that emerged in the *régulation* of labour during the difficult economic climate of the early 1970s when the employment benefits of the NEP were yet to impact on a broad scale. Jomo (1995:209) has written that Abdul Razak was concerned that his government should ‘project a new consensus or social contract’ given the increased participation of Malays in waged labour. The tentative moves towards tripartitism by Abdul Razak did not amount to a reconfigured institutional compromise, but were rather a continuation of the paternalistic political relationship between the ruling elite and organised labour.
International economic circumstances contributed to high levels of inflation in
Malaysia in the early 1970s. According to the Ministry of Labour (1986:200) this
was the underlying cause of the rise in industrial disputes at the time. Rice
increased in price by more than 23 per cent between 1972 and 1973, and then by
a further 38 per cent between 1973 and 1974 (Government of Malaysia
1976:130). In November 1974, an estimated 12,000 rural dwellers marched in
protest against the high rice prices (Halim 1982:272). In December, university
students joined in the ‘hunger protests’. The Federal Reserve Unit and the Police
Field Force were used to end the demonstrations. Over 1,000 students and
academics were arrested. Others were threatened with the suspension of
scholarships and enrolments, while some were detained under the ISA
(Barraclough 1985:814). In an attempt to subdue further unrest the government
strengthened the Price Control Act, introduced taxes on excessive profits, offered
subsidies on basic food and agricultural items to the poor in rural areas, and paid
a ‘special relief allowance’ to lower-level civil servants (Government of
Malaysia 1976:130). To prevent further student activism, in May 1975,
Mahathir, then Minister for Education, put forward amendments to the
Universities and University Colleges Act, the impact of which, Khoo argues

As the recession deepened, the political leadership gave assurances that
retrenchments would be minimal. The Government insisted that in signing the
Code of Conduct for Industrial Harmony (CCIH) in February 1975, both
management and unions had demonstrated a ‘high sense of social
responsibility…The Code provided inter alia that retrenchment of workers
would not be resorted to except as a last resort’ (Government of Malaysia 1976:131). The ‘inter alia’ included an appeal to employers and political labour to work together in order to avoid industrial strife.

…only with an abundance of goodwill combined with constant consultation and communication…we can hope to contain the destructive expression of industrial conflict and encourage a more equitable and efficient system for the benefit of those involved and the community at large (CCIH).

Balakrishnan (2005:431) suggests three factors motivated the government towards creating the Code. Firstly, the goals of the NEP were premised on achieving high levels of economic growth. The increase in industrial disputation and social unrest in the first half of the 1970s was not conducive to this. Secondly, in placing the responsibility for industrial peace on employers and workers, the government was trying to reduce its own burden. Thirdly, by widely publicising the Code, it was hoped that a change of attitude might be achieved, creating a greater spirit of cooperation through improved workplace communications. The Code was signed by representatives from the Ministry, the MEF and the MTUC. The Code clearly suggested that industrial action would place at risk Malaysia’s economic growth and social stability.

…industrial peace is essential for a sound and stable economy, especially at a time of stagflation, and that a sound and stable economy is of paramount importance for achieving the objectives of the national development plans which are committed to the task of creating a united, socially just, economically equitable and progressive Malaysian nation… (CCIH).

Yet the Code was never enforced legislatively. Workers in the private sector were more affected by the 1971 inclusion to the Industrial Relations Act of Section 13, known as the ‘managerial prerogative’ section. This excluded a range
of personnel matters from collective bargaining, including retrenchment, where not caused by redundancy or relocation (Anantaraman 2001:12).

Tens of thousands of private sector workers were retrenched in 1974 and 1975. Although the MTUC would frequently cite the Code over the next decades, particularly with regard to retrenchment procedures, it was not legally binding. The National Joint Labour Advisory Council (NJLAC, later the National Labour Advisory Council) lacked legislative power and met infrequently (Ministry of Labour 1986:6; Ariffin and Lochhead 1988:14). The offer of involvement in the NJLAC did not extend any degree of influence to the MTUC other than that which the government and the Ministry were prepared to give. In 1976, the Minister of Labour and Manpower introduced amendments to the Employment Act that repealed some sections protecting workers’ rights to retrenchment and retirement benefits. More than 20,000 workers took part in official industrial action that year, more than doubling the number of working days lost compared with 1975. Nonetheless, these figures were still significantly lower than those recorded in the 1960s (see Table 3.10).

<table>
<thead>
<tr>
<th>Year</th>
<th>no. of strikes</th>
<th>no. of workers</th>
<th>working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>17</td>
<td>1,260</td>
<td>1,867</td>
</tr>
<tr>
<td>1971</td>
<td>45</td>
<td>5,311</td>
<td>20,265</td>
</tr>
<tr>
<td>1972</td>
<td>66</td>
<td>9,701</td>
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</tr>
<tr>
<td>1973</td>
<td>66</td>
<td>14,003</td>
<td>40,866</td>
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<tr>
<td>1974</td>
<td>85</td>
<td>21,830</td>
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</tr>
<tr>
<td>1975</td>
<td>64</td>
<td>12,124</td>
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</tr>
<tr>
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<tr>
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<td>28</td>
<td>3,402</td>
<td>19,554</td>
</tr>
</tbody>
</table>

Source: Jomo and Todd 1994:49, table 2.16.
Institutionalised compromises and economic conflicts

Here, three occasions are examined whereby the government, under Hussein Onn from March 1976 following the death of Abdul Razak, demonstrated a willingness to act against the interests of particular fractions of capital in order to attempt to resolve political tensions associated with the régulation of labour. In the first instance, that of the 1975 Industrial Coordination Act, the government imposed equity ownership levels and ethnic employment quotas on manufacturing firms. In the second instance, the government sought to improve the economic position of the predominantly Malay civil service by awarding wage rises unrelated to productivity increases. This invoked the criticism of private sector employer groups. Thirdly, in what was otherwise an attack on organised labour, a range of concessions was delivered to lower paid manual workers via amendments to the Employment Act in 1980.

The introduction of the Industrial Coordination Act (ICA) in 1975 indicated something of a victory amongst those in the cabinet who believed it was time for the state to deepen its control over the economy on behalf of Malays (Bowie 1989:202-203; Halim 1982:266). Notably, UMNO waited for the retirement of then MCA President and Minister of Finance, Tan Siew Sin before making moves to introduce the ICA (Heng 1997:263). The ICA gave increased powers to the Minister for Trade and Industry, a position now held by UMNO (Jesudason 1989:131), and essentially required the licensing of all larger manufacturing businesses. Although not initially stated in the proposed legislation, this power was to be used to enforce the goals of the NEP, including equity and employment
quotas for Bumiputera. According to Jesudason (1989:135) there was very little consultation with the private sector before the legislation was introduced and not surprisingly, the move was poorly received by the non-Malay business sector. The ICA was very publicly criticised by the Associated Chinese Chambers of Commerce and Industry (ACCCIM), the peak private sector lobby group representing domestic Chinese capital (Bowie 1989:203; Gomez and Jomo 1999:41). The Malaysian International Chamber of Commerce and Industry (MICCI) also appealed to the Minister for changes (Jesudason 1989:137).

In response to the flight of capital that resulted, Mahathir, then Deputy Prime Minister and considered to be less in favour of the statist position, chaired a quickly-established cabinet level committee on investment that re-affirmed its confidence in the private sector (Bowie 1989:204). Additionally, a Consultative Committee on Industrial Co-ordination was established that provided a (less public) forum in which business leaders and lobby groups could express their concerns. This led to amendments to the ICA in 1977. These amendments, and the conciliatory words used by members of UMNO, including the Prime Minister and deputy Prime Minister,\(^\text{12}\) ultimately failed to convince domestic Chinese business although it went some way towards placating international investors (Jesudason 1989:142). Consequently, Malaysia recorded somewhat stronger economic growth and a falling rate of unemployment through the second half of the decade.

\(^{12}\) Jesudason (1989:141) cites Mahathir’s address to the Federation of Malaysian Manufacturers in 1976 where assurances were given that ‘the Act will not be allowed to become a disincentive to private investment’, originally quoted in MICCI, Yearbook 1976/7:125.)
In this instance, the attempt by the government to deliver concessions to Malay business and labour through the imposition of share ownership and employment quotas clashed with the desires of domestic and foreign investors.

The NEP state was simultaneously an expansive provider, a determined regulator, and an aggressive entrepreneur. Its relationship with private capital – popularly seen as a relationship between a Malay government and a Chinese private sector – was seldom easy (Khoo 1995:106).

A further constraint on the government was its reliance on achieving high rates of economic growth in order to meet the goals of the NEP. The government faced a dilemma between its approach to the régulation of labour, encompassed with the goals of the NEP, and its relationship with capital, particularly domestic Chinese capital. Further, as Hing (2000:226) notes, it was not only the flight of domestic Chinese capital that threatened the economic aspirations of the government. The loss of Chinese professional and skilled workers also presented a dilemma between the goals of greater economic growth and pro-Malay affirmative action. The conflict split the cabinet (Bowie 1989:205), and caused considerable friction between UMNO and the MCA. In the final analysis, the government was willing to trade off some of the rights of labour in its efforts to win back Chinese and foreign capital but it was a far from straightforward decision, and one which would later be modified.

In 1980, at much the same time as changes were being made to private sector employment legislation, conditions for civil servants were improved when the Cabinet Committee reviewing their conditions awarded a ‘somewhat handsome and substantial’ increase in allowances (Pathmanaban 1980:7). The Deputy Minister of Labour and Manpower, Pathmanaban, was invited to address
members of the Federation of Malaysian Manufacturers (FMM) on changes to the private sector legislation soon after their introduction. A Committee Chairman of the FMM, Sopiee Sheikh Ibrahim, in making a ‘welcoming’ address to Pathmanaban, commented that he had ‘not the slightest doubt’ that the ‘amendments to the three principal labour legislations [sic] and the generous wage increases awarded to public servants’ had ‘created the momentum for an across-the-board upward adjustment in the wage level’ (Sopiee 1980:2). This in turn caused the Deputy Minister to devote a considerable portion of his speech to defending the increase to the civil servants.

He argued that the government was forced to award the pay increase to ‘avoid not only disenchantment and disillusion among Government employees, but also to ensure that it can recruit and retain the services of the better brains in this country’ (1980:7-8). However, Pathmanaban went further, arguing that the criteria of wage determination in the public sector necessarily differ from the criteria adopted in the private sector…the criteria of ability to pay and productivity must always be the chief basis on which private sector wage adjustments and wage determination is made (1980:8).

The Deputy Minister of Labour and Manpower was exhibiting signs of conflict in his defence of wage increases for public servants on the basis of retaining their services and containing their ‘disenchantment’, while at the same time insisting that wage increases in the private sector be linked to productivity. The emphasis on linking wages to productivity was driven by concerns about inflation but also due to the sensitivities about wage levels in attracting foreign direct investment (FDI) (Government of Malaysia 1981:167). As already noted, FDI was essential in developing the manufacturing sector, which, under the NEP, was to be the
main provider of employment opportunities. This mismatch in policy and practice was to continue in the 1980s and 1990s as the Ministry of Labour and Manpower struggled with conflicting roles and responsibilities. The NEP policies had similar implications for the Ministry of Education and the Department of Immigration, both of which struggled between their roles of meeting the socio-cultural and political aspirations of Malays while attempting to deliver the skilled labour force consistent with Malaysia’s economic development goals. As was neatly concluded by Snodgrass (1980:57): ‘The actions which the government took in the economic field after May 1969 were, as usual, conditioned by the need to make political compromises and were not wholly consistent with each other’.

In the third example of the state’s conflict between its political and economic goals, revisions to the three main pieces of labour legislation overseen by the Ministry of Labour and Manpower are analysed. The 1980 amendments have been described as heralding a new era in industrial relations. For example, Shamsul (1992:10) claimed: 'It was not difficult to notice that it was during Mahathir’s reign first as Minister of Trade and Industry and then, immediately after, as Prime Minister that authoritarian and anti-labour policies were brought in quick succession'. In reference to the same period, Jomo and Todd concluded that 'amendments to the labour laws…were largely to the detriment of labour' (1994:149).

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13 Mahathir’s antipathy to organised labour was made clear in *The Malay Dilemma* (1970:108). Here he argued against trade unions as useful to the creation of a competitive labour force. However, Mahathir also stated that an ‘impartial body’ should be established to protect the interests and welfare of labour.
In terms of the impact on the trade union movement, this was indeed the case. Both the Industrial Relations Act and the Trade Unions Ordinance were amended in ways that delivered greater control to the Minister for Labour and Manpower. This crackdown has been understood in part as a response to the industrial action taken by an estimated 4,000 Malaysian Airlines Systems (MAS) staff, whose 1978 dispute attracted international attention and caused the ruling party considerable consternation given many of the employees were Malay (Bhopal 1999:286; Jomo 1995:206). The union was subsequently deregistered, 231 of its members were sacked or suspended, and 11 union officials were detained under the ISA (Halim 1982:272). Under the amendments to the legislation, unions could be more easily suspended and strikes were more difficult to organise, requiring a secret ballot of 2/3 of the membership. Results then had to be filed with the Registrar of Trade Unions. Restrictions were placed on affiliations with ‘consultative bodies’ and additional occupations were defined as ‘essential’, thus prohibiting strike action by those employees. The period of notice before a strike was increased from 14 to 21 days, and further restrictions were placed on who could picket and where (Kirubanathan 1980:10-12). The amendments were clearly designed to restrict the ability of the union movement to represent its membership. The MTUC temporarily withdrew from all government consultative bodies by way of protest (Barraclough 1985:802).

However, the 1980 amendments also contained further evidence of the government’s paternalistic approach to labour. The amendments to the Employment Ordinance delivered concessions to lower paid workers that particularly benefited the growing numbers of Malay factory workers. For
example, more workers became entitled to public holidays; the rate of overtime payments was increased; limits were placed on the number of hours that could be worked consecutively and on the time span for split shifts; the rate of payment for working on public holidays was increased; maternity allowance entitlements were improved; contract workers gained entitlements; annual leave entitlements were increased; the amount of notice required to be given to a terminated employee was extended; and, the number of days of sick leave was increased (Diong 1980:13-16). These concessions can be understood in part as an attempt to encourage more Malays into the waged labour force and as a demonstration that the government, rather than the union movement, had the ability to deliver real improvements in working conditions. This paternalism underwrote the bargain between labour and the state evident in the quote below from the Deputy Minister of Labour and Manpower. He explained that the motivation for enacting the legislation was

…to shield this young nation and its growing economy from the undesirable influences of partisan politics and the infiltration from beyond our shores whereby we would let people come in here to exploit the tender basis of our economy or the basis of our labour relations… (Pathmanaban 1980:5).

However, as is explained in chapters to follow, in the aftermath of the economic recession and political turmoil of the mid to late 1980s that weakened labour’s bargaining position, the government withdrew several of these improvements.

*The position of labour at the close of the 1970s*

increase in union density from 7.4 per cent to 9.8 per cent. This increase related to the growth in employment share of the manufacturing sector, which recorded the highest rate of employment growth throughout the decade, and the growth of employment in government services, which averaged six per cent per annum (Government of Malaysia 1981:81). Related to the changing structure of employment was the shift in population from rural to urban areas. In 1970 approximately 29 per cent of West Malaysians lived in urban areas. This increased to 35 per cent by 1980 (Government of Malaysia 1981:78).

Wages data over the period are far from comprehensive. What data are available suggest that wages in the agricultural sector did grow but generally did not keep pace with inflation. Wages growth in the manufacturing sector kept pace with the high inflation of the early 1970s, and rose by over 5 per cent in 1978-79 (Government of Malaysia 1981:86). Construction sector wages also rose in the late 1970s (Ministry of Labour 1986:115). As Jesudason (1989:171) notes, however, these increases were from very low base rates, and the rises occurred in line with the lowering of the unemployment rate. ‘…the chief determinant of wage levels has been the market rather than the institutional role of unions’ (see also Jomo 1995:225). Despite the difficulties facing unions attempting to organise in the manufacturing sector throughout the decade, between 25 and 50 per cent of recorded industrial disputes were by manufacturing workers, including a series of wildcat strikes in the Beyan Lepas FTZ in 1980 (Jomo and Todd 1994:50). However, the number of disputes overall was markedly lower than occurred throughout the 1960s.
Largely due to the expansion of better paid employment opportunities, inroads were also made into the alleviation of poverty and a reduction in the socio-economic gap between rural and urban dwellers (Faaland et al. 1990:215). According to official data, the incidence of poverty in West Malaysia fell from over 49 per cent of households in 1970 to just over 29 per cent in 1980 (Government of Malaysia 1981:33, table 3-1). The 1970s had started with an unemployment rate for all of Malaysia of 7.8 per cent. By 1980, this rate had dropped to 5.3 per cent, but unemployment rates of over 15 per cent were experienced by job seekers under 24 years of age, in both rural and urban areas, and were closer to 20 per cent for those young people who had completed secondary education, suggesting that much of the growth in employment was for semi skilled or unskilled labour. There was an increase in the numbers of urban poor and urban unemployment remained relatively high at 6.7 per cent in 1978 (Government of Malaysia 1981:42). In 1970, the unemployment rate for the population of West Malaysia was 8.1 per cent for Malays, 7.0 per cent for Chinese and 11.0 per cent for Indians. In 1980, the comparable figures were 5.1 per cent, 5.3 per cent and 7.5 per cent.

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1976</th>
<th>1979</th>
<th>Annual growth rate</th>
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<tr>
<td></td>
<td>(S)</td>
<td>(S)</td>
<td>(S)</td>
<td>1971-76 (%)</td>
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<tr>
<td>Malay</td>
<td>56.76</td>
<td>101.95</td>
<td>140.35</td>
<td>10.3</td>
</tr>
<tr>
<td>Chinese</td>
<td>135.93</td>
<td>247.27</td>
<td>280.11</td>
<td>10.5</td>
</tr>
<tr>
<td>Indian</td>
<td>112.48</td>
<td>197.21</td>
<td>263.43</td>
<td>9.8</td>
</tr>
<tr>
<td>Total</td>
<td><strong>75.90</strong></td>
<td><strong>142.19</strong></td>
<td><strong>186.19</strong></td>
<td><strong>11.0</strong></td>
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<td><strong>10.5</strong></td>
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Source: Government of Malaysia 1981:37, table 3-3. Data relates to Peninsular Malaysia.

Overall, these numbers suggest a mixed outcome for the working class. The end of the decade witnessed the growth of a Malay middle income stratum, increased
numbers of Malays and women participating in higher education, and a moderate increase in the numbers of Malay professionals. ‘The most tangible benefit of the NEP was the creation of a larger Malay middle class and the shift of the Malay population from predominantly agricultural occupations to more diversified occupational activities’ (Jesudason 1989:111). More Malays, including younger females, found work in the non-agricultural sector, particularly in manufacturing, although many of these positions were at the lower end of the pay scale with few opportunities for career progression or skills training.

The 1970s witnessed the implementation of institutional changes that would later deliver the political leadership the ability to influence household income and consumption. Restructuring of the finance and banking sector would contribute funding for government policies as well as delivering subsidies to sections of the population. A number of ‘development’ banks that targeted specific economic sectors or particular NEP goals were established by the government in the late 1960s and early 1970s. For example, in 1974 Bank Simpanan Nasional was established in a take over of the colonial era Post Office Savings Bank. Deposits increased from $276 million Malaysian dollars in 1970 to $1,084 million in 1980. In the words of the government, the bank ‘played an important role in mobilising savings among the general population [and was] an important means of financing development needs in the country’ (Government of Malaysia 1981:306). In 1978 Permodalan Nasional Berhad (PNB) was created to fund the purchase of shares on behalf of Bumiputera. In practice, funds pooled in PNB became a useful domestic source of debt financing. Greater control over the private banks was achieved by strengthening the powers of the central bank,
Bank Negara Malaysia (BNM). From 1976 BNM was able to direct banks, and soon after, finance companies, to comply with regulations on the direction of loans and other forms of financing (Government of Malaysia 1981:305). Amongst other major industrial development strategies, this power would also be used to increase the access of low income households to housing finance.

The government also increased its commitment to the provision of housing, particularly from the mid 1970s with the establishment of the National Housing Department (Government of Malaysia 1981:361-362). The housing program was to cater ‘…to the needs of the low-income groups of all communities irrespective of race’ (Government of Malaysia 1971:257).\(^{14}\) In one scheme, $400 million Malaysian dollars was borrowed from the EPF and directed to low income earners at fixed rates of interest through the Malaysian Building Society. Public sector employees were also able to access low cost loans through the Government Officers’ Housing Company established in 1971 (Government of Malaysia 1981:363-364). This early development of networks between government agencies, finance, housing and individuals indicates the emergence of economic paternalism as a central aspect of the state-labour nexus.

**Competing bases of legitimacy**

Under the NEP, UMNO’s legitimacy rested not just on the delivery of economic growth, but on the visible redirection of some portion of that growth towards the Malay population yet without destabilising societal relationships with non-Malays. Determining exactly how large the redirected portion should be, and

\(^{14}\) Agus 2002 and Drakakis-Smith 1979 provide examples of political influences on the allocation of housing.
what form it should take was a political process as much as it was an economic one. Despite the institutional responses introduced through the 1970s, Halim (1982:273) argues that the disjuncture between political and economic goals was yet to be securely addressed:

…while international capital and the national bourgeoisie have been able to expand their interests they have not been able to organise accumulation and redistribution of surplus in a way that permits stable domination.

Although presenting a slightly different focus, Khoo (1995:104) concurs with this. ‘On balance, the NEP’s implementation during its first ten years generated inter-ethnic tensions even as it was designed to dissipate them’. This chapter closes by reviewing those tensions most closely related to the state-labour nexus.

The incorporation of Malays in the waged workforce created a new set of challenges for the government. The targeting of Malays in order to deliver affirmative action was previously possible on the basis of their separate location geographically and occupationally. How was the state now to direct preferential treatment when Malays were incorporated within the working classes alongside other ethnic groups? The disciplining of the union movement was a more straightforward matter when the MTUC had been dominated by the marginalised Malaysian Indians, and previously, the Communist Chinese. It was a more complicated matter for the government to discredit a union movement in which significant numbers of Malays were participating as members and organisers. A similar dilemma arose in the rejection of the claims by Malay workers for better conditions when UMNO had proclaimed itself the defender of Malay interests. The ethno-political commitment to the advancement of working class Malays
often contradicted the economic arguments and the political desirability of subduing labour.

The resentment of non-Malays was expressed in the outflow of both capital and people, particularly skilled and professional non-Malays whose departure added to the already serious shortage of skilled labour. Poor working relations between the increasingly Malay-dominated civil service and the non-Malay private sector contributed to structural imbalances in the economy. Increasingly, businesses preferred to invest in areas that were beyond the reach of the bureaucracy (Ritchie 2005:748), adding to the development of patronage networks that bypassed formal civil service arrangements. In 1980, ACCCIM displayed its dissatisfaction with the NEP by developing an alternative national economic framework entitled, ‘Towards faster growth and greater national unity’. This document has been interpreted as effectively ‘a dismantling of the NEP’ (Faaland et al. 1990:169. See also Heng 1997).

Rather than relying on local Chinese funds, the government sought foreign investors to create labour intensive industries, a decision driven by ethno-political sensitivities. It was a decision that delivered employment growth that was then deliberately directed towards Malays. However, by inviting foreign investment, Malaysia became incorporated within an international division of labour that generated another set of political and economic tensions. ‘Yet, despite their favored position, MNCs were not immune to the NEP’s redistributive reach’ (Ritchie 2005:748). Finally, in becoming the single largest employer of Malays through the expansion of the civil service, while easing Malay poverty
and unemployment, a further set of challenges in the regulation of labour was created.

The institutional framework and political rationale of the developmental state was taking shape, but was yet to be fully embedded, politically or economically. There was a consolidation of various utilities including the water and power authorities, a vast increase in the size of the civil service, and the creation of public enterprises and statutory authorities. Current expenditure grew an average of almost 19 per cent per annum throughout the decade (Government of Malaysia 1981:130). However, lacking adequate domestic funding and revenue sources at this stage, the government was forced to borrow extensively in order to fund its agenda (Yeoh 2002). The bulk of domestic funding was sourced from the EPF, but commercial and foreign borrowings were also substantial and attracted much higher rates of interest.

Worsening terms of trade and inflation in the early 1970s led to demonstrations by farmers, workers and students with protests erupting again in response to inflationary pressures in the late 1970s. Legislative responses to political labour under Abdul Razak were in the main repressive. In a bid to appeal to the growing proportion of Malays in the workforce and amongst union membership, an invitation to participate in the National Joint Labour Advisory Council was extended, but this move was not reflected in institutional arrangements. In uncertain international economic conditions, the benefits of institutional measures to enhance household incomes and living standards were yet to emerge. The political and economic constraints imposed by adherence to the
NEP created contradictory pressures that challenged the ruling party and created conditions that were favourable to the emergence of a new leader presenting as strong yet adaptable.

As Minister for Education and Minister for Trade and Industry, Mahathir had already demonstrated a willingness to repress political activism amongst students and by organised labour (Jomo and Todd 1994:146). Due to the ill health of Hussein Onn, Mahathir was acting Prime Minister in 1980. He oversaw the amendments to the Trade Unions Ordinance, the Industrial Relations Act and the Employment Act. Once in the position of Prime Minister, he moved quickly to ensure labour’s compliance with his two main economic aims: the further development of export oriented manufacturing, and the establishment of heavy industries, in which the government would take a lead through the Heavy Industries Corporation of Malaysia Berhad (HICOM) and through a set of policies collectively termed ‘Look East’.

To achieve these policies required a number of changes to the labour force, socially, politically and geographically. Mahathir therefore began his leadership with a two pronged approach to the control of labour: his approach was paternalistic towards labour in general, particularly Malay labour, but overtly repressive when dealing with organised labour, the repression being carefully legitimated through legislation (Barraclough 1985). Look East, as it unfolded, contained elements of both paternalism and repression. According to Bhopal (1999:286), Look East represented ‘the state’s strategy for a Malay-oriented

15 ‘Referring to the powers of the Societies Act, in 1979, Mahathir warned that any society or political party which carried out activities detrimental to the nation’s stability would be deregistered’ (Barraclough 1985:809).
industrial relations policy’. Jomo similarly argues (1995:186) ‘the Look East policy emphasis from the outset was clearly on labour….Malaysians, especially Malay workers, were exhorted to work harder to raise productivity’. Mahathir was under pressure to keep wages attractive to international and local employers, to deal with the looming labour shortage, to increase and broaden skill levels, and to contain the labour movement and the Islamic opposition party, PAS, while maintaining the support of Malays for UMNO. Look East will be discussed in the following chapter as the new attempt to incorporate labour within Mahathir’s plans for Malaysia’s economic progress.
Chapter Four: Controlling labour in Mahathir’s Malaysia

Introduction

In the 1980s, the contradictions and tensions inherent in the NEP became disruptive to the extent that some resolution was required to ensure the high rates of economic growth which in turn provided funding for the government’s policies. Structural imbalances in the labour market were emerging as a result of the government’s approach to industrial development under the NEP which was geared towards the expansion of employment opportunities. There was little emphasis directed towards the use of labour saving technology, labour processes that encouraged productivity, or the adequate provision of technical training. Political concerns had also arisen. A growing proportion of Malays was now dependent upon income derived from participation in the waged labour sector, some of this employment being directly controlled by various levels of government. A revised approach to the management of industrial relations issues became politically necessary as UMNO attempted to negotiate these ethno-political sensitivities.

From the early 1980s, employers in export-oriented manufacturing faced shortages of skilled labour that frustrated their attempts to upgrade production technologies under the pressure of international competition (Rasiah 1995:78). Closer enforcement of employment quotas for Malays from the mid 1970s had discouraged professional and skilled non-Malay workers who recorded high rates of outmigration (Andaya and Andaya 2001:314) thereby further exacerbating the

1 Khoo (1997:61) refers to the period from 1981 as the Mahathirist Phase.
skills shortage (World Bank 1995:83). There was evidence of a growing
disenchantment amongst those non-Malays who felt that educational and
employment opportunities were being increasingly denied to themselves and
their families. Employers in the plantation and construction sectors also faced
labour shortages, due in part to the loss of rural populations to urban areas, but
also due to competition with government funded projects in rural areas that
provided Malays with better income and conditions than generally prevailed in
the plantation sector.

Under the *Fourth Malaysia Plan 1981-85*, economic development expenditure
allocated to the industrial sector increased to over twenty per cent. By 1980,
manufacturing contributed 20.5 per cent of Malaysia’s GDP and employed
almost 16 per cent of the labour force, which equated to slightly more than
800,000 workers (Government of Malaysia 1981:293-294, see Table 4.1). While
positive economic growth was recorded in the early 1980s, it was largely driven
by state expenditure funded by high commodity prices and the exploitation of
newly discovered oil reserves. This ultimately proved unsustainable, leaving
Malaysia vulnerable to less favourable international economic conditions,
resulting in a recession in the mid 1980s (Jesudason 1989:196). When Malaysia
emerged from recession and political infighting in the late 1980s, labour related
legislation had been significantly amended. However, while Ramesh (2000:155-
156) describes the ruling coalition as powerful enough to embark upon the shift
away from the NEP and towards a greater focus on economic development, this
chapter describes the attempted shift as negotiated and partial.
Before changes could be successfully implemented, previous institutional compromises had to be reworked. This included significant shifts in the ideological and structural means of labour control, including those that delivered concessions to the Malay population. It was the continuing tension between managing its identity as a party dedicated to improving the lot of Malays and that of being a strong economic manager, that presented UMNO with some of its greatest challenges in the *régulation* of labour. This chapter will focus on the major instances of conflict and resulting institutional changes, and the shifting means of labour regulation embedded within them. Clearly, political and economic concerns were both relevant factors in shaping labour related policies and institutions.

**Looking East to control labour**

Mahathir’s early premiership has been variously described as a period which saw ‘The unions in retreat’ (Jomo and Todd 1994, chapter 8) and as the ‘Year labour took a beating’ (*Star* 1 January 1982). Reflecting back on the period, Mahathir had the following to say about Look East, first announced in late 1981.

The single most important factor in Japan’s meteoric postwar rise appears to have been their work ethic…Thus, our Look East Policy focused primarily on learning and implementing Japanese and South Korean work ethics…I was very enthusiastic about this attempt to enhance the attitude of the Malaysian people towards work…the Japanese work ethic we aimed to emulate also included a dedication to quality and to keeping deadlines…there seems to be very little conflict between the workers’ unions and corporate management and this leads to stability and builds trust in the organisation. Japanese corporations are obviously quite paternalistic towards their employees, and the workers reciprocate this with loyalty towards the corporation (Mahathir 1999:84-86).
Back in 1981, however, the concept seemed less certain and the announcement somewhat premature. ‘At first it was unclear what was intended and government spokesmen were kept busy issuing clarifications and explanations’ (Means 1991:92). Besides this fluidity, the promises of industrial harmony, and the positive emphasis on so-called ‘Asian’ cultural values made Look East initially a difficult set of policies for the union movement to criticise. Look East was couched in terms that appeared favourable to working people and even to organised labour. Further, as Khoo (2002) noted, Look East was packaged as part of a plan that sought to reassure the public on a range of political concerns, rather than focusing on the labour movement exclusively.

…when Mahathir became prime minister, he launched several policies and campaigns – ‘Look East’ bersih, cekap dan amanah (‘clean, efficient and trustworthy’), kepimpinan melalui teladan (‘leadership by example’), and penyerapan nilai-nilai Islam (‘the assimilation of Islamic values’) – which collectively constituted an attempt to reform and reorientate the values, attitudes and outlook of not only Malaysians in general and the Malays in particular, but also politicians from the ruling coalition, bureaucrats and businessmen Khoo (2002:55).

The policies of Look East capture the contradictions and paradoxes of Mahathirism (Khoo 1995, 1997) while giving some indication of the difficulties faced by the union movement in challenging the policies of the administration. From a regulationist perspective, the variety of policies that emerged as part of Look East can be understood as an attempt to institute a new range of institutional compromises and ideological arguments in order to deal with

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2 As the intent behind the policies became more obvious, the MTUC became more critical. For example, at a conference on labour legislation in 1985, Narayanan, President of the MTUC, was sharply critical of the government’s push for in-house unions. He argued that it could ‘only lead to splinter groups which may lead to disunity and indiscipline [sic] amongst the nation’s work force’ (Narayanan 1985:125).
emerging labour control issues, economic, socio-cultural and political, that faced the newly appointed Prime Minister (PM) in 1981.

Dr Mahathir had been acting PM during 1980 due to the illness of Hussein Onn. He was officially appointed to the role in June 1981 in a transition of power Brown (2004:4) has described as the ‘most ordered political transition in Malaysia’s history’. CUEPACS’ president, T. Narendran, welcomed the new PM while calling for more dialogue sessions between the government and the civil service unions. Zainal Rampak, Deputy President of the MTUC, was more circumspect, expressing ‘the hope that the Government would be more sympathetic to the problems of the trade unions’ (NST 30 June 1981).

Earlier in the year, both the MTUC and CUEPACS had been in dispute with the government over a variety of issues. CUEPACS raised concerns regarding restrictions that prevented higher level staff from joining unions, a ruling that was overturned in the union’s favour (Star 7 February 1981). The MTUC managed to garner media attention on several issues including complaints about the increasing number of foreign workers (Star 28 February 1981), an attempt to include a cost of living clause in collective agreements, (Malay Mail 6 May 1981), and an ongoing protest against the 1980 amendments to labour legislation and the Societies Act (NST 24 March 1981; NST 12 April 1981). The MTUC had also criticised the Fourth Malaysia Plan 1981-85 arguing it ignored the interests of labour (Star 20 March 1981). The MTUC and CUEPACS had also argued with each other, leading to the acrimonious departure of CUEPACS-affiliated unions from the MTUC.
As Mahathir was aware from his previous tenures as Deputy Prime Minister (from 1976) and as Minister for Trade and Industry, the Malaysian economy, despite the immediately buoyant conditions, faced a number of challenges including constraints on the structure of the labour force.

Table 4.1 Employment share by economic sector, 1980 and 1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>2,066.9</td>
<td>1,738.0</td>
<td>40.6</td>
<td>26.0</td>
</tr>
<tr>
<td>Industry</td>
<td>1,205.0</td>
<td>1,841.0</td>
<td>23.7</td>
<td>27.5</td>
</tr>
<tr>
<td>Mining</td>
<td>89.6</td>
<td>37.0</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>803.1</td>
<td>1,333.0</td>
<td>15.8</td>
<td>19.9</td>
</tr>
<tr>
<td>Construction</td>
<td>262.86</td>
<td>424.0</td>
<td>4.0</td>
<td>6.3</td>
</tr>
<tr>
<td>Utilities(^a)</td>
<td>49.5</td>
<td>47.0</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Services</td>
<td>1,821.6</td>
<td>3,107.0</td>
<td>35.7</td>
<td>45.6</td>
</tr>
<tr>
<td>Wholesale and retail trade,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>hotels and restaurants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport, storage &amp;</td>
<td>193.2</td>
<td>302.0</td>
<td>3.8</td>
<td>4.5</td>
</tr>
<tr>
<td>communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance, insurance, real</td>
<td>52.1</td>
<td>258.0</td>
<td>1.0</td>
<td>3.9</td>
</tr>
<tr>
<td>estate &amp; business services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other services(^b)</td>
<td>927.8</td>
<td>1,329.0</td>
<td>18.2</td>
<td>19.0</td>
</tr>
<tr>
<td>Total employed</td>
<td>5,093.5</td>
<td>6,686.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total labour force</td>
<td>5,380.0</td>
<td>7,042.2</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


Realising the importance of labour issues to future economic development, the government released the first Labour and Manpower Report in 1981. Minister for Labour and Manpower, Richard Ho, claimed the plan ‘would end ad hoc solutions to labour issues’ (NST 28 April 1981). Wage inflation and the relocation of rural populations had increased pressure on the government to allow foreign workers to be employed in the plantation sector where the presence
of undocumented foreign workers was already making media headlines (Star 28 February 1981; NST 27 May 1981). According to Ho, local workers were prejudiced against blue collar work (NST 13 March 1981), and appeared reluctant to take on work in the plantation and construction sectors. Labour force participation rates for males remained fairly stable while those for women increased only marginally, falling short of the level forecast by the government (World Bank 1995:vi; see Table 4.2 below).

| Table 4.2 Labour force participation rates, Malaysia |
|----------|--------|--------|--------|--------|--------|--------|--------|
| Male     | 87.6   | 87.4   | 87.5   | 85.6   | 85.9   | 85.6   | 85.3   |
| Female   | 43.1   | 44.3   | 44.2   | 47.5   | 47.7   | 46.7   | 47.8   |
| Total    | 65.3   | 65.8   | 66.1   | 66.5   | 66.8   | 66.2   | 66.5   |


Meanwhile, employers in the manufacturing sector lodged complaints about job-hopping and unrealistic wage demands (Rasiah 1995:78-79). Further industrial deepening was frustrated by the low wage regime, which, along with a poorly coordinated tertiary education system, was contributing to the lack of skilled workers, particularly those with technical skills (Fold and Wangel 1998; Rasiah 1995:80; World Bank 1995). The new PM therefore came to the job with a number of policies designed to deliver the labour force required for his economic and cultural vision of Malaysia. 'We have all the basic ingredients that will make it possible for Malaysia to become an important industrialized country in Asia…something more is needed…the work ethic' (Mahathir cited in Khoo 1995:69).

The PM promoted Look East as an alternative to the social and economic ills allegedly responsible for the decline of the West (Khoo 1995:42-44). According
to Mahathir, ‘looking east’ provided an Asian model of industrial development in which the government adopted an interventionist stance, based on the success stories of Japan and South Korea (Biddle and Milor 1999:14). Initially then, Mahathir’s vision received the public support of P. P. Narayanan, President of the MTUC, and Tan Lee Leng, secretary-general of the National Union of Teaching Professions, who commented favourably on the employment security and welfare provisions said to characterise Japanese employment relations.\(^3\)

Employers were more positive regarding the productivity implications of the shift which was considered by then-president of the Malaysian Employers’ Federation (MEF), Tan Sri Ubaidulla, as the path to increased wages and ‘a better standard of living for all’ (NST 22 December 1981).

However, the Look East policies have also been understood as a direct attack on the organised labour movement (Ayadurai 1993; Jomo and Todd 1994; Jomo 1995; Wad and Jomo 1994). According to Wad and Jomo (1994:219), ‘it has become apparent that the objective is to cut the ground from under the feet of existing unions as far as possible’. Similarly: ‘The real thrust of the campaign appears to be the promotion of labour discipline through reorganizing industrial relations to promote company loyalty…increase productivity…and reduce losses’ (Jomo 1994:8). Western style unionism was held up as a negative example that Malaysian workers were urged to avoid. As Khoo (1995:43), citing page numbers in The Challenge (Mahathir 1970), summarises:

> For example, workers in the West have abused the ‘right to go on strike to prevent oppression by employers’ and turned it into ‘a

---

\(^3\) Wad and Jomo (1994:222-3) have written that it was the MTUC and larger, more conservative unions that initially welcomed Look East, with smaller manufacturing unions being more critical from the outset. However, as the potential impact and intent of Look East became more obvious, the MTUC also became more critical.
weapon used to oppress others’ (p. 102) …‘certain groups of ['self-seeking'] workers…do not even listen to their own leaders’ (p. 138).

Ayadurai (1993:87) suggests the policy of Look East ‘provided the government with an ideological standpoint to press for the establishment of in-house unions’ which the Ministry of Labour had linked to higher rates of productivity.

In-house unions are deemed to be predisposed to increase productivity in that they are particularly more appropriate for the establishment and operation of quality control circles (QCC) in industries much needed in a rapidly industrialising economy like Malaysia’s…the prevalence of national unions in the Malaysian context is not conducive to sustain industrial growth and expansion (Labour and Manpower Report 1983-84, Government of Malaysia 1985:180, cited in Ariffin 1997:54).

Wad and Jomo (1994) consider Mahathir’s positive endorsement of in-house unions a significant departure from his previous wholesale rejection of trade unions. They see this as evidence of his awareness that the larger industrial labour force emerging as a result of industrialisation and the NEP required a new means of containment. ‘…the new labour policy sought to shift the very basis of trade unionism away from the collective representation of workers to new relations which should ensure their systematic cooptation…’ (Wad and Jomo 1994:217).

It was not simply the increase in the overall numbers of industrial workers that created concerns for the government, but the changing ethnic structure. Malays by then comprised 45 per cent of workers in the production and transport sectors (see Table 4.3) and from 1980, constituted fifty per cent of Malaysia’s 503,686 union members (see Table 4.4). This figure rose to 57 per cent by the mid 1980s (Jomo 1995:210).
Table 4.3 Employment by occupation and ethnicity, 1980 (per cent)

<table>
<thead>
<tr>
<th></th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional &amp; technical</td>
<td>50</td>
<td>37</td>
<td>11</td>
</tr>
<tr>
<td>Administrative &amp; managerial</td>
<td>32</td>
<td>57</td>
<td>6</td>
</tr>
<tr>
<td>Clerical &amp; related</td>
<td>55</td>
<td>36</td>
<td>7</td>
</tr>
<tr>
<td>Sales &amp; related</td>
<td>23</td>
<td>70</td>
<td>8</td>
</tr>
<tr>
<td>Services</td>
<td>48</td>
<td>40</td>
<td>12</td>
</tr>
<tr>
<td>Agricultural</td>
<td>70</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Production, transport &amp; others</td>
<td>45</td>
<td>43</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 1981:59, table 3.11

Bhopal (1999:286) therefore describes Look East as ‘the state’s strategy for a Malay-oriented industrial relations policy’. The government promoted in-house unions as part of a new strategy to discipline an organised labour movement and industrial workforce no longer dominated by Indians or Chinese (Ariffin 1997:53).

Table 4.4 Union membership by ethnicity (per cent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>27.0</td>
<td>23.0</td>
<td>49.0</td>
</tr>
<tr>
<td>1978</td>
<td>38.2</td>
<td>27.2</td>
<td>33.3</td>
</tr>
<tr>
<td>1980</td>
<td>50.6</td>
<td>21.6</td>
<td>26.9</td>
</tr>
<tr>
<td>1985</td>
<td>56.6</td>
<td>17.7</td>
<td>25.0</td>
</tr>
</tbody>
</table>


The Ministry of Labour attempted to avoid an outright confrontation over the issue by making in-house unionism voluntary, while simultaneously placing legislative impediments in the way of the formation of the less desired national unions (Ariffin 1997; Bhopal and Todd 2000:207; Wad and Jomo 1994:220). In the same vein, Mahathir resurrected the former National Joint Labour Advisory Council in 1983, renaming it the National Labour Advisory Council (NLAC). This tripartite body was initially established in 1957 but had met only irregularly in the intervening period and not at all since 1980 (Ministry of Labour 1986:6). Hence there was a nominal return to the notion of unions as partners in economic
development. In reality, this did not prove to be the case at all during the 1980s. Ideologically, Look East gave legitimacy to in-house unions while at the same time giving support to the repression of larger industry unions and political activism by organised labour on the basis that they were detrimental to productivity.

Despite this stance against organised labour, there is evidence of Mahathir’s commitment, albeit selective, to improving the conditions of Malay workers. Indeed, Bowie (1988:55) has argued that Mahathir’s heavy industry push and the establishment of the Heavy Industries Commission of Malaysia (HICOM) in the early 1980s was overwhelmingly motivated by a sense of frustration at the continuing poor economic and social position of Malays. ‘‘Look East’ contained Mahathir’s hopes of Malay advancement’ (Khoo 1995:74). In 2002 while on a visit to Seoul, Dr Mahathir stated: ‘It has been a success…I am very happy with the Look East policy’ (Star 24 May 2002).

**Foreign labour in the state-labour nexus**

The strong economic growth recorded in the late 1970s contributed to a shift of population from rural to urban areas. In 1980 approximately 34 per cent of Malaysians lived in urban areas. Over the decade, this would increase to 51 per cent (Government of Malaysia 1996:107). This both reduced the labour force available to the plantation sector and increased the demand for workers in the urban construction sector (Hing 2000:226). Malaysian employers and lobby groups such as the United Planting Association of Malaysia looked increasingly

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4 It is should be noted that population growth of itself increased the number of regions classified as urban so most data on rural urban migration in Malaysia is somewhat exaggerated.
to Indonesia for workers and lobbied the authorities for easier access (Ministry of Labour 1986:114), attracting criticism from the union movement: ‘We don’t need alien workers says union’ (Star 28 February 1981).

Between 1975 and 1980, 119,000 temporary labour migrants were officially approved to work in Malaysia (Government of Malaysia 1996:106). In 1981, the Minister for Labour and Manpower, in response to rising concerns about the undocumented status of many foreign workers, announced that a policy on the issue would soon be released, stating ‘it was the government’s view that there should be no exploitation of cheap labour, no matter where they came from’ (NST 27 May 1981). In 1982, Mak Hon Kam took over the portfolio (now renamed the Ministry of Labour), and by July of that year, formal approval was granted for the use of foreign workers in the plantation and construction sectors (UNESCO 1997).

The Medan Agreement of 1984 formalised temporary labour migration arrangements between Malaysia and Indonesia. At that point, the Malaysian government estimated that about 500,000 foreign workers were employed in Malaysia, mainly within the plantation and construction sectors (Pillai 1999:180). Wages data provided by the Ministry of Labour (1986:30) demonstrated clearly that in the construction sector, Indonesian workers, despite being considered the most skilled of the foreign workers, were paid less than local workers in the seven occupational categories surveyed.

\[ Some of this increase can be attributed to definitional changes that exaggerate the figure. \]
Table 4.5 Monthly wages paid in selected construction sector occupations by ethnic group, 1984 (RM)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Malay</th>
<th>Chinese</th>
<th>Indian</th>
<th>Indonesian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bar bender</td>
<td>690</td>
<td>889</td>
<td>688</td>
<td>645</td>
</tr>
<tr>
<td>Carpenter</td>
<td>765</td>
<td>878</td>
<td>690</td>
<td>635</td>
</tr>
<tr>
<td>Plasterer</td>
<td>769</td>
<td>1,015</td>
<td>723</td>
<td>509</td>
</tr>
<tr>
<td>Bricklayer</td>
<td>777</td>
<td>759</td>
<td>605</td>
<td>580</td>
</tr>
<tr>
<td>Concreter</td>
<td>739</td>
<td>758</td>
<td>631</td>
<td>564</td>
</tr>
<tr>
<td>Mason</td>
<td>728</td>
<td>925</td>
<td>727</td>
<td>652</td>
</tr>
<tr>
<td>Labourer</td>
<td>517</td>
<td>860</td>
<td>569</td>
<td>651</td>
</tr>
</tbody>
</table>

Source: Ministry of Labour 1986:30, table 5-1.

Wad and Jomo (1994) argue that employers used migrant labour as a means of undermining local labour organisations, with migrants viewed as a ‘reserve army of labour’ acting to dampen the wage demands of local labour. Zulkifly et al. (1998) provide some empirical support for this claim. They conclude that in the plantation sector, locals and migrants competed for the same jobs but that local workers were displaced by the availability of relatively cheaper migrant labour. Hussein Ali (1995:75) similarly argues that migrant labour ‘has been used by employers in the agricultural and building sectors to weaken unions, depress wages and even displace local workers’. Jomo (1995:228) agrees: ‘Since the late 1970s, plantation wages have been successfully depressed by the use of disenfranchised immigrant workers willing to work for lower wages’. Rasiah (1997:78-79) notes that a small but increasing number of migrants were employed within the manufacturing sector by the mid 1980s, being preferred over local workers who were considered more likely to be poached or to job hop. He concludes (1995:80) that the preference for foreign labour arose at least partly out of the concern to maintain a low wage regime: ‘In approving the utilization of foreign labour in manufacturing, the government not only helped reduce the problem of labour shortages but also reduced upward pressure on wages’.
The arrangements to allow migrant labour entry to Malaysia were criticised by the MTUC President who argued the union movement had been excluded from the discussions despite the reconstitution of the National Labour Advisory Council since 1983.

…the government has recently made decisions on labour issues without consulting or “informing” labour organisations. I am referring to a pact between Malaysia and a neighbouring country on the recruitment of labour. We in the labour movement were distressed to read about the pact in the newspapers. In whose interest was this agreement signed. We cannot but conclude that the government made this decision to satisfy a handful of vested interest groups (Narayanan, MTUC President, 1985:3).

After Mahathir was cited in the Malaysian media as saying ‘our workers are not willing to work’, the MTUC urged the government to investigate: ‘Is it because the working conditions and wages of these sectors is so low that it would be impossible for a worker to provide the basic necessities for his family?’ (Star 26 March 1985).

While Malaysians themselves are being retrenched we cannot see the logic on [sic] recruiting immigrant labour. This decision is not in the interest of the majority of the citizens nor good for the future social stability of the country (Narayanan, MTUC President, 1985:3).

The political sensitivities surrounding the use of migrant labour heightened particularly in the depths of the recession in the mid 1980s when local workers engaged in renewed levels of industrial disputation (see Table 4.7).

While Mahathir and his Minister had essentially blamed fussy local workers for the influx of foreign workers, in another example of contrasting institutional responses, the Labour and Manpower Report of 1984/86 (Ministry of Labour 1986:30), adopted a position critical of employers.
…the present influx of legal and illegal immigrant labour has led to a situation where employers particularly in the construction and plantation sectors prefer to employ migrant labour because it is advantageous to the employers themselves….illegal immigrant labour has also begun to displace Malaysians in petty trades and has led to some social problems as well…the influx of immigrant labour [is] a major issue requiring the attention of the Government…As for employers who are found to engage illegal migrant workers, such employers can be prosecuted under Section 5(1) of the Employment (Restriction) Act 1968…(Ministry of Labour 1986:30).

By September of 1985, with an estimated 450,000 Malaysians unemployed, the Ministry of Home Affairs upgraded the monitoring of migrant labour. In September 1986 the new Minister for Labour, Lee Kim Sai announced a ban on the further employment of migrant workers. After the press ran a series of complaints from families unable to employ maids, this ban was moderated by the Home Ministry to allow continued employment of foreign domestic workers (Chin 1998, Chapter 3).

As Pillai (1999) highlights, this short-lived crackdown on migrant labour was part of a pattern that would be repeated during times of economic downturn but rescinded as the economy improved and employers lobbied for more access to labour. The demand for foreign labour continued throughout the economic recession (Pillai 1999:180). An estimated 300,000 migrants were officially granted permission to work in Malaysia during the period 1986-1991 (Government of Malaysia 1996:106). In short, illegal labour was cheaper than legal labour, was more easily and more cheaply controlled, and increasingly, was widely available (Rudnick 1994; Ruppert 1999; UNESCO c1997).
Segmenting the labour force allows varied means of control

Malaysia’s foreign workers are generally marginalised in the labour market, being vulnerable to repatriation and with little recourse to protective labour legislation, an outcome reinforced by ineffective enforcement of this legislation by government agencies. Jonas (1996) has discussed the existence of ‘local labour control regimes’, which effectively permit forms of labour control not generally acceptable to the less marginalised workforce. This has been observed in a number of Western European countries for example, where foreign workers or other socially marginalised groups are used to undertake less skilled, low status work (Harrod 1987:204). The segmentation of the labour force, by citizenship as well as ethnicity and gender, has been a central means by which the Malaysian government has contributed to the maintenance of low wages. As noted by Coe and Kelly (2002:347), the state plays a vital role in providing the discursive and institutional supports that allow capital to treat some workers differently to others (see also Crinis 2006 and Kaur 2004).

Institutionally, the forms of governmental control exerted over migrant workers differ to those exerted over the local labour force (Rodgers 1994:11). The Ministry of Labour oversaw the legislation shaping labour relations, occupational safety and welfare amongst the domestic workforce. Migrant workers were often located outside of formal employment relations. They were more subject to the actions of private labour recruitment agencies and controls imposed by the Home Ministry, and within it, the Departments of Immigration and Police. Hence, the state’s actions with regard to migrant labour were predisposed to police and
security issues, rather than, for example, concerns regarding skill levels, training, social security and levels of remuneration (Liow 2003).

The lower rates of pay earned by this segment of the labour force have added significantly to Malaysia’s economic growth and thus contributed to meeting the cost of the concessions and benefits delivered by the Malaysian government and employers to local workers. Reminiscent of the colonial era, the temporary nature of the foreign labour force has allowed the government (and capital) to lessen its contribution to the reproduction of this segment of the labour force. Neither the Malaysian taxpayer nor Malaysian capital was required to contribute the expenditure in health, education, training, housing and other infrastructure that would otherwise be required to deliver a labour force of more than one million workers.

However, the presence of large numbers of low skilled, low paid migrant workers and the maintenance of a low wage regime has created dilemmas for the government. Apart from the political and social discontent, there were long term structural impacts on the quality and characteristics of the labour force. The constraints placed on wages growth contributed to high emigration levels by skilled and professional workers searching for higher wages and better conditions in nearby Singapore and further afield.

The emigration of Malaysian workers to Singapore is a definite loss to the country in terms of human capital. In fact labour immigration [sic] is partly responsible for the labour shortage situation (Ministry of Labour 1986:32).

Additionally, the low wage environment encouraged job hopping amongst local workers, and thereby discouraged investment in training by employers,
particularly those in small to medium enterprises. A World Bank (1995:ii) report on the nature of the Malaysian labour force identified what was termed a ‘disturbing trend’; a deterioration in the skill intensity of the labour force between 1985 and 1991. Rasiah (1995:78-79) therefore views the presence of low skilled, lowly paid migrant labour as an impediment to Malaysia’s shift towards more competitive, capital intensive manufacturing, a shift that would be reliant on the presence of more skilled labour. The dependence on migrant labour, while facilitating savings in the funding the social reproduction of twenty per cent of the labour force, contributed to labour market contradictions that remained unresolved into the 2000s.

The contradictions inherent in the NEP (Khoo 1997)

The mid to late 1980s were marked by economic recession, high levels of unemployment and rising state debt. Factional disputes within UMNO seriously threatened Mahathir’s leadership. Institutional mismatches emerged as a result of the competing socio-cultural, political and economic aspirations that drove labour policies. Jesudason (1989:200) argues that government policies of the NEP period generally did not deliver sound economic development but aimed instead at ‘short term political payoffs’. Lim (1992:111) similarly suggests that the ‘political imperatives’ driving economic management in the NEP period negatively influenced decision making. Khoo (1997:61-70) and Jomo et al. (1995:19-20) usefully outline a number of economic and political tensions emerging after the first decade of NEP policies. Here the focus is on the contradictions relating to the labour market and labour control issues.

Khoo 1997 uses a similar phrase.
On the education system

A lack of coordination amongst public technical training institutions was noted in a World Bank study of Malaysia’s labour needs published in 1995. Shortages of technical skills had affected the supply of labour throughout much of the 1980s and extensive recommendations for improving the efficiency of public training were made (World Bank 1995:92). In the case of the university sector, the situation was particularly complex given the role of the Ministry of Education (MOE) in the promotion of Malay culture and the implementation of affirmative action for Malays.

In the university sector, an ethnic quota system guaranteed fifty-five per cent of places to Bumiputera students. ‘Between 1980 and 1985 Malay students made up about 65 per cent of the total enrolment in Malaysian universities, as against 27 per cent Chinese and 6 per cent Indian’ (Andaya and Andaya 2001:312). In stark contrast, 63 per cent of Malaysian students studying overseas in 1980-1985 were ethnic Chinese (see Table 4.6). Chinese families able to afford it sent their children overseas to gain a university education, a move that commonly became permanent, thus representing a further loss of human capital. Hence the implementation of affirmative action on behalf of Malays risked the alienation of the non-Malay population with negative implications for increasing the proportion of skilled workers in the labour market. A further criticism of the quota system was that it resulted in places being allocated to students on the basis of ethnicity rather than academic merit, thus demeaning the quality of local university qualifications in the view of employers (Lee 2003:25-26).
Table 4.6 Students studying overseas by ethnic group

<table>
<thead>
<tr>
<th></th>
<th>Bumiputera</th>
<th></th>
<th>Chinese</th>
<th></th>
<th>Indian</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no.</td>
<td>%</td>
<td>no.</td>
<td>%</td>
<td>no.</td>
<td>%</td>
</tr>
<tr>
<td>1980</td>
<td>7,199</td>
<td>24</td>
<td>18,447</td>
<td>63</td>
<td>3,845</td>
<td>13</td>
</tr>
<tr>
<td>1985</td>
<td>8,360</td>
<td>24</td>
<td>21,428</td>
<td>63</td>
<td>4,463</td>
<td>13</td>
</tr>
</tbody>
</table>


Related to this were the high levels of unemployment recorded amongst Malaysia’s university graduates. Despite the overall shortage of labour, Malaysia’s university graduates were recording higher unemployment levels than they had a decade earlier, leading to an unemployment problem that initially was more of a political embarrassment than a serious economic problem.\(^7\) Employers were particularly critical of the lack of English competency amongst graduates with the introduction of *Bahasa Melayu* as the main language of instruction. As described by Jesudason (1989:187),

> …the educational system suffered from major weaknesses, especially at the tertiary level. It was preoccupied with questions of ethnic representation in the student body and faculty, as well as the use of the Malay language. Academic excellence and the development of a skilled technical cadre enjoyed low priority.

The role of the MOE as a vehicle for promoting Malay cultural values and delivering specific NEP goals continued to clash with the demands of employers for graduates with professional degrees and proficiency in English. It forms a case study in Chapter Six in which the MOE is analysed as an example of an ‘institutional mismatch’. In the 1980s, it appears that political leaders were either unwilling or unable to institute widespread changes to the university system,

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\(^7\) Secondary school leavers comprised a much larger proportion of the young unemployed (Lucas and Verry 1999:258).
prioritising the defence of Malay culture and NEP targets over the demands of employers for greater attention to employment-related skills.

*Regulating the civil service*

Lim (2002:190-195), citing evidence from Puthucheary 1978, Lim Lin Hean 1988, and Shamsul 1996, has argued that since the late 1970s the government has been able to exert only a relatively weak level of control over the civil service. This can be partially attributed to the role of the civil service in promoting the policies of the NEP. Expanding the civil service through the employment of Malays initially served a two fold purpose. Firstly, it provided the state with the institutional support to implement and police NEP policies. Secondly, the employment of vast numbers of Malays of itself went some way towards meeting the NEP goal of restructuring the labour force so that more Malays were in better paid occupations and industries. The expanding ranks of the civil service absorbed more than 20 per cent of new employment growth in the 1970s (Mazumdar 1991:32-33). The number of civil servants rose throughout that decade with the creation of an additional 313,500 positions (Government of Malaysia 1981:82). *Operasi Isi Penuh* (Operation Fill All Vacancies) was undertaken in the early 1980s as the government attempted to stimulate the economy away from recession (Jomo and Todd 1994:156). Yeoh (2002) describes the public sector in this period as the ‘employer of last resort’ for all unemployed *Bumiputera* graduates. In 1980, there were an estimated 790,000 civil servants. This represented approximately 14 per cent of the labour force. By 1985 the number of civil servants had risen to almost 900,000. The rapid
expansion of the civil service meant that by the mid 1980s, almost three quarters of civil servants were under the age of 40 (Ministry of Labour 1986:47).

The government had attempted to manage this labour force in a variety of ways, delivering a range of concessions largely unrelated to economic conditions in the private sector. Entry-level wages were not high relative to the private sector but security of tenure was guaranteed. Unlike workers in the private sector, civil servants received a government-funded pension on retirement at age 55 under the provisions of the Pensions Act. Low interest loans were available for the purchase of cars and housing.

While employment conditions were relatively generous, the industrial relations sphere was repressed. CUEPACS, the peak civil service union association, was not permitted to bargain, only to engage in consultation. From 1978, negotiation on issues such as wages was not allowed (Jomo and Todd 1994:156). Further, public servants do not have a constitutional right to union membership; technically they are granted permission by Malaysia’s titular head, the Agung (King). This right was generally granted automatically, however, and the rate of unionisation was actually higher within the civil service than in the private sector.

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8 The previous chapter discussed the rationale provided by the government in 1980 when delivering public sector wage rises unrelated to productivity and the criticism this attracted from the private sector.

9 In fact Biddle and Milor (1999:42), citing research by Campos and Root (1996:144), suggest that of all the high performing East Asian economies, the gap between public and private sector wages was greatest in Malaysia.

10 Consumer spending by civil servants became increasingly important to the Malaysian economy. For example, when a locally produced car, the Proton, became available, civil servants were allowed to access car loans only for the purchase of a Proton. During the recession of the mid 1980s, the construction and real estate sectors were especially hard hit as civil servants were less able to make purchases (Jomo 1995:228). The relationship between consumption and labour control is more fully explored in Chapter 8.
sector. The exception is that members of the police and armed forces and other security related positions are forbidden union membership. Technically, CUEPACS cannot actively bargain on behalf of its membership. The government found it useful, following the split between MTUC and CUEPACS in 1981, to promote CUEPACS over the more politically vocal MTUC in particular forums such as the ILO (Jomo and Todd 1994:157-158). As mentioned in the previous chapter, the relationship between CUEPACS and the government had been largely paternalistic.

However, sensitive to criticisms directed at the civil service by the private sector, and keen to pursue his development agenda, Mahathir often voiced a critical view of the civil service. ‘Dr Mahathir suggested that many civil servants were not pulling their weight and suggested that mismanagement and corruption were undermining government policies’ (Means 1991:84). A series of reforms aimed at producing a modern and accountable public service was therefore introduced.

Some of these were obviously designed to gain positive publicity and reassure the public; for example, through the introduction in 1981 of punch-in time clocks. Reflecting the paternalism of the relationship between the PM and some of the public sector unions, the move received positive comments from the Public Works Department Employees Union. ‘Our union strongly backs the energetic drive of the Prime Minister and his deputy and we welcome the move to make the punch clock system applicable to all’ (General Secretary, S. Santhanasamy, quoted in the Malay Mail 22 August 1981). The President of

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11 In 1985, 313,374 civil servants were union members (Asnan 1987:93).
CUEPACS ‘said the move would benefit civil servants as well as the nation’ (Star 13 August 1981). Civil servants were required to wear name tags so they could be identified by members of the public wishing to report any poor behaviour. The Malaysian Administrative Modernisation and Management Planning Unit (MAMPU), ‘… was located within the Prime Minister’s Department to give it sufficient political leverage to carry out directed programs of reform’ (Abdullah 1997:66). MAMPU was directed to raise the productivity of the civil service while the National Bureau of Investigation was to pursue corruption. The Public Complaints Bureau was reactivated to allow criticisms of the civil service to be aired and reviewed. The Anti-Corruption Agency was also reactivated, and senior civil servants were required to declare their assets (Means 1991:84-85).

While Look East has been described as a new means of regulating industrial relations in the private sector, Malaysia Inc., announced by Mahathir in 1983, was the means of ensuring ‘close and mutually supportive cooperation between the public and private sectors’ (Mahathir 1984, cited by Biddle and Milor 1999:15). Tensions were evident in the relationship between the civil service and the largely non-Malay private sector. Heng (1997:274) identifies a ‘…widespread perception that Malay government officials responsible for approving business permits and licenses were growing increasingly inflexible and uncooperative in their dealings with the Chinese business community’. As noted by Khoo (1997:61-70; see also Jomo et al. 1995), there was considerable distrust within the business sector of the discretionary power of civil servants. For example, the MEF was critical of decision making processes within the civil
service: ‘…government agencies are constrained by restrictive rules and procedures which are cumbersome and slow…In many instances, the decision making process is highly politicised’ (Abdul 1987:106).

According to interviews of former civil servants conducted by Biddle and Milor (1999:16-18),

…economic bureaucrats perceived themselves in an adversarial role vis a vis [sic] the business community. Their job was to closely scrutinize and regulate the business community. Furthermore, during the 1970s and 1980s, when the NEP was being implemented, the role of bureaucrats in monitoring and enforcing policies such as the Industrial Coordination Act exacerbated this social distance…

The response by the business sector, domestic Chinese capital particularly, was to bypass the state where possible, to appeal directly to politicians, and to adopt a ‘short-term investment outlook’ (Jesudason 1989:163).

While Jesudason (1989) attributes this to the failure of Chinese capital to form a satisfactory alliance with political elites, the antipathy between the civil service and the private sector was also an outcome of the government’s failure to manage civil servants in a manner that was conducive to economic development. Studies of the attitudes of civil servants towards Malaysia Inc. throughout the 1980s indicated very little understanding or support for the concept (Biddle and Milor 1999:17). It was not to be effectively institutionalised until the early 1990s (Government of Malaysia Circular No. 9/1991). Meanwhile, those departments more closely attuned to the needs of the private sector, for example, the Ministry of International Trade and Industry, formed consultative bodies that facilitated
direct access by business people and industry lobby groups to the most senior ranks of the civil service and to the Cabinet.\textsuperscript{12}

The predominantly Malay character of the civil service made it a politically risky undertaking to attempt significant reform. For example, Jomo and Todd (1994:156) report that when Daim Zainuddin, a long term Mahathir confidant who was appointed Minister of Finance in 1984, attempted to reduce the level of benefits delivered to civil servants, he was unable to gain enough support to push through his recommendations. Further, despite the worsening economic conditions of 1985, Mahathir conceded to CUEPACS’ long running and unusually acrimonious battle for a wage increase.\textsuperscript{13} ‘In 1985 a 6 percent [sic] wage increase was granted to about 800,000 category C and D employees - that is, those on the lowest two scales of the civil service’ (Jomo et al. 1995:29). While this was significantly less than had been requested, the outcome contrasted with the government’s rejection of the MTUC’s call for a minimum wage of RM500 for private sector workers (NST 1 May 1985).\textsuperscript{14}

Privatisation, announced as a policy direction in conjunction with Look East and Malaysia Inc. in 1983, would also appear to have offered the executive a means of wielding greater power over the civil service. However, not until 1985, during the recession, was the state ready to make the policy official. At an ILO-sponsored conference in Bangkok in February of 1987, the Malaysian Deputy

\textsuperscript{12} This tendency to bypass the civil service in favour of high level consultative groups is discussed further in chapters 6 and 7.

\textsuperscript{13} Jomo and Todd (1994:158), provide details of the pickets carried out by particular civil service unions in order to win their pay rise.

\textsuperscript{14} In 1981 the Deputy Minister for Labour and Manpower had advised that ‘this matter is presently being looked into’ (Star 6 November 1981, ‘Minimum wages: Not yet, but…’).
Minister of Labour, Asnan Bin Pi’i, stated that one objective of privatisation was ‘to assist in reducing the size and presence of the public sector’ (Asnan 1987:95). However, the rules governing privatisation specified that privatised employees would retain the same benefits, entitlements and security of tenure enjoyed by civil servants. Asnan argued (1987:97) that privatisation would in fact extend greater bargaining powers to the privatised employees, given the restrictions on unions in the public sector. He suggested privatisation would pose no problems to existing unions as ‘by merely amending its constitution [a union] can continue to represent the workers involved’ (Asnan 1987:97). Given that privatisation in the Malaysian context was to an extent a political exercise designed to meet the NEP goals of creating a Malay business elite, it did not constitute an attack on the civil service in the same way that privatisation exercises driven by a neo-liberal ideology can be understood. In Malaysia, neo-liberalism was not the dominant ideology and civil servants formed an important urban Malay support base for the Malay dominated ruling coalition.

Nonetheless, criticisms from the private sector regarding the size of the civil service continued. For example, the MEF voiced its disapproval:

The government has almost 900,000 employees...The Pension Scheme is by far the most generous in this region. It is anticipated that unless the number of potential pensioners is gradually reduced, the Treasury may not be able to find enough money to pay them by 2000 (Abdul 1987:105).

It was only during the height of the recession that Mahathir and Daim were able to move against the civil service without attracting much in the way of public

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15 This appears to have been an accurate prediction. In the case of Pos Malaysia, which was corporatised in 1992, and then privatised in 2002, union membership is over 98 per cent and the number of workers employed has increased (paper delivered to the 4th UNI-Apro Postal and Allied Services Sector committee Meeting June 6, 2002).
criticism given the harsh realities facing many in the private sector. Special housing allowances were withdrawn (Jomo 1995:227) and, as part of the 1987 budget speech delivered in late 1996, Daim announced a wage freeze. This delayed further wage adjustments for civil servants ‘…until a few months before the general election of October 1990 – after several years of sustained and impressive economic recovery…’ (Jomo and Todd 1994:157). Over the 1980s the civil service continued to grow in absolute terms but absorbed a declining proportion of the labour force (Mazumdar 1991:33).

The slow down in recruitment imposed upon the civil service and the resultant decline in the ability to absorb Malay graduates contributed to the emergence of another problem for the ruling party. As mentioned above, by the mid 1980s, several thousand Malay graduates were unemployed.

With state revenue in a perilous condition, the government’s role in providing employment for Malays in the bureaucracy and state enterprise sector was in jeopardy. Graduate unemployment became a serious matter… (Jesudason 1989:187).

Lucas and Verry (1999) discuss the situation as one in which young graduates, failing to gain attractive offers from the private sector, deferred taking lower status employment, preferring to wait for a position in the civil service. They concluded that, given the security of tenure, the prestige still attached to civil service posts, and the fact that;

from 1977 to 1984 the number of Civilian Public Servants expanded by a remarkable 90 per cent…it seems likely that expectations with respect to such jobs remained high among the large number of graduates emerging from the educational system (Lucas and Verry 1999:258-259).
The hiring freeze imposed on the entry level ranks in 1984 highlighted the dependence of these graduates on civil service employment as their unemployment rates worsened (Yeoh 2002). Lucas and Verry (1999:261) argue that the government contributed to this problem by creating the perception that entry to the civil service was a likely proposition for graduates. This encouraged graduates to delay searching for alternative employment.

The NEP and the disenchantment of skilled and professional non-Malays

Hing (2000:227-228) cites Pereira (1997:10), who estimated that 40,000 Malaysian professionals emigrated during 1983-1990, while only 600 returned. The World Bank estimates were similar, suggesting on average that 5,000 professional Malaysians departed annually throughout the 1980s (1995:83). It is further claimed that approximately 150,000 non-professional skilled Malaysians were working temporarily overseas, including Singapore, earning between 2-4 times the wages that could be earned in Malaysia (World Bank 1995:82).

However, departing professionals and skilled workers provided reasons other than low wages for their decision. ‘What the Malay politicians and intelligentsia tended to laud as the NEP’s affirmative action was apt to be resented as ethnic discrimination by many among the non-Malay communities’ (Khoo 1995:104). Affirmative action quotas to increase Malay participation in tertiary education were particularly resented by non-Malays (Hing 2000). Gunasekaran and Sullivan (1990:53, cited by the World Bank 1995:84) concluded that ‘…the predominantly non-Malay migration out of multi-racial Malaysia is hypothesized to be mainly the result of an uneven opportunity structure for non-Malays in
education and other government-related economic activities’. Adding to the
disenchantment, high school qualifications earned from Chinese Independent
Secondary Schools were not recognised by the Ministry of Education in
applications for entrance to public universities nor by the Public Service
Department in applications for civil service appointments (Lee 1999:76).

The NEP and the role of women
Despite a steadily worsening shortage of labour, women’s labour force
participation rates had plateaued from the early 1980s onwards. This was
discussed in the previous chapter as an outcome of the government’s conflicting
policy objectives towards women. Institutionally, little was done to facilitate
women’s greater participation in the paid labour force. Some attempt towards
this was made in 1976 with the establishment of the National Advisory Council

Chin (1998) discusses the government’s conflicting objectives in the context of
Mahathir’s pro-Malay National Population Policy (NPP). Announced in 1984,
the policy aimed for a population of 70 million by 2100, compared with the
existing population that was just short of 13 million. Chin (1998) argues the
government was therefore emphasising the role of women as child bearers. The
1985 amendment to the Employment Act increased from three to five the number
of births for which a female employee could claim maternity allowance. The
daily rate of the maternity allowance was also increased (Ministry of Labour
1986:6). Maternity allowance is funded by the employer.
The increase in maternity allowance seemed more closely linked to Mahathir’s population policy than being part of any coherent policy to increase women’s participation in waged labour. For example, Elias (2004:9) notes an absence of policy statements regarding women’s labour force participation until the publication of the *Sixth Malaysia Plan* (Government of Malaysia 1991). Even then, while women’s contribution to Malaysia’s economic development was acknowledged, stress was placed on their primary role as wives and mothers (Andaya and Andaya 2001:317; Elias 2004:9).

In the 1980s women’s labour force participation rates stagnated despite their increasing levels of education, reflecting a serious loss of human capital in a labour market already suffering from skill shortages. While recent research (Amin 2004) has questioned the extent to which the NPP influenced the employment decisions of married women, the point remains that the political leadership often demonstrated an inconsistent stance towards women and their involvement in the paid labour force, and proved unwilling to initiate institutional changes supportive of women’s participation in the paid labour force.

According to the World Bank (1995:v), the relatively generous maternity benefits required to be paid to female employees has, firstly, discouraged employers from employing women and, secondly, has pushed down female wages as employers seek some compensation for the higher non-wage costs associated with employing women. Hence the NEP emphasis on expanding the Malay proportion of the population and emphasising the role of women as child
bearers reduced the ability of women to compete in low cost sectors of the private sector labour market, despite a growing shortage of labour. In summary, the lack of clear direction regarding female labour force participation is not indicative of a ‘developmental state’ able to implement policies that support economic growth. Rather, this outcome is more suggestive of a government unwilling to directly challenge conflicting political and socio-cultural concerns.

**The mid 1980s’ recession: Trading labour rights for FDI?**

The recession of the mid 1980s hit Malaysia at a time when government expenditure had reached historically high levels as it funded the NEP and attempted the push towards heavy industrialisation through HICOM. The recession exposed a divide in opinion amongst Malaysia’s political and business elites as to whether the NEP’s emphasis should have shifted away from redistribution toward ensuring economic growth (Khoo 1995:106), a shift that would have amounted essentially to ‘holding the NEP in abeyance’. The ramifications of this debate for state-capital-labour relations are many and provide an opportunity to explore the responses of the Malaysian government to the pressures to contain labour costs and oppress labour rights as economic growth slowed. As is demonstrated below, it is possible for a government to act in a repressive manner towards organised labour, thereby assuaging the demands of foreign and local capital, yet simultaneously addressing domestic political and economic concerns by delivering concessions to labour outside the sphere of industrial relations. The emphasis in régulation theory on identifying the factors that de/stabilise capitalist societies proves useful here.
The recession

High levels of government spending and less favourable international conditions had placed the country’s finances under pressure from the early 1980s. ‘In 1985-6, the combination of the commodities collapse, diminished state revenues, reduced state expenditure, and a decline in private capital investment sent the Malaysian economy into a recession’ (Khoo 1995:138).

<table>
<thead>
<tr>
<th>Table 4.7 Government revenue by source (RM million)</th>
<th>1985</th>
<th>1986</th>
<th>1987</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies’ income tax</td>
<td>3,920</td>
<td>3,446</td>
<td>2,783</td>
<td>3,146</td>
</tr>
<tr>
<td>Petroleum income tax</td>
<td>3,130</td>
<td>3,072</td>
<td>1,533</td>
<td>2,208</td>
</tr>
<tr>
<td>Individual income tax</td>
<td>1,749</td>
<td>1,761</td>
<td>1,812</td>
<td>1,779</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>340</td>
<td>246</td>
<td>257</td>
<td>278</td>
</tr>
<tr>
<td>Others</td>
<td>120</td>
<td>128</td>
<td>83</td>
<td>97</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>7,441</td>
<td>6,029</td>
<td>6,006</td>
<td>7,200</td>
</tr>
<tr>
<td>Export tax</td>
<td>1,839</td>
<td>1,141</td>
<td>1,267</td>
<td>1,395</td>
</tr>
<tr>
<td>Import tax</td>
<td>2,518</td>
<td>2,066</td>
<td>1,934</td>
<td>2,406</td>
</tr>
<tr>
<td>Excise tax</td>
<td>1,376</td>
<td>1,410</td>
<td>1,310</td>
<td>1,536</td>
</tr>
<tr>
<td>Sales tax</td>
<td>1,234</td>
<td>992</td>
<td>1,090</td>
<td>1,456</td>
</tr>
<tr>
<td>Service tax</td>
<td>107</td>
<td>50</td>
<td>63</td>
<td>73</td>
</tr>
<tr>
<td>Others</td>
<td>367</td>
<td>360</td>
<td>342</td>
<td>334</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>3,975</td>
<td>4,356</td>
<td>5,134</td>
<td>6,623</td>
</tr>
<tr>
<td>Total revenue</td>
<td>21,115</td>
<td>19,518</td>
<td>18,143</td>
<td>21,967</td>
</tr>
</tbody>
</table>


With the decline in international demand for tin and palm oil came a dramatic fall in export earnings. The government’s response produced a deflationary effect as amongst other cost savings, concessions to public sector employees that had supported the real estate and construction sectors were withdrawn (Jomo 1995:227). High unemployment worsened the downturn in demand: ‘…the economic crisis of 1985-86, which was the culmination of a wide-ranging malaise from the early 1980s, accelerated changes in capital-labour relations…’ (Jomo 1995:228, emphasis mine).
A rise in the rate of unemployment was evident from the early 1980s as foreign-owned and local firms lost orders and the government reduced its expenditure (Jomo et al. 1995:27). The new Minister of Labour, Lee Kim Sai, citing officially registered redundancies, reported a loss of almost 45,000 jobs in 1985. Over 60 per cent of these were from the manufacturing sector, particularly from failed foreign firms established in the FTZs (Saravanamuttu 1987:54). In total, however, more than 450,000 Malaysians were unemployed, the numbers being swelled by the return of an estimated 60,000 Malaysians who had lost their jobs in Singapore (Jomo and Edwards 1993:33, citing Ariff and Semudram 1987:25). The recession challenged the bases of the government’s legitimacy as benefactor to the Malays and as a sound economic manager.

According to Saravanamuttu (1987:54), ‘the anger of workers was the source of great consternation for the government’. A larger number of workers participated in industrial action in 1985 but the increased activity was short lived.
Table 4.8 Strike action and working days lost, 1980s

<table>
<thead>
<tr>
<th>Year</th>
<th>no. of strikes</th>
<th>no. of workers</th>
<th>working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>28</td>
<td>3,402</td>
<td>19,554</td>
</tr>
<tr>
<td>1981</td>
<td>24</td>
<td>4,832</td>
<td>11,850</td>
</tr>
<tr>
<td>1982</td>
<td>26</td>
<td>3,330</td>
<td>9,621</td>
</tr>
<tr>
<td>1983</td>
<td>24</td>
<td>4,832</td>
<td>11,850</td>
</tr>
<tr>
<td>1984</td>
<td>17</td>
<td>2,437</td>
<td>9,269</td>
</tr>
<tr>
<td>1985</td>
<td>22</td>
<td>8,710</td>
<td>34,773</td>
</tr>
<tr>
<td>1986</td>
<td>23</td>
<td>3,957</td>
<td>14,333</td>
</tr>
<tr>
<td>1987</td>
<td>13</td>
<td>3,178</td>
<td>11,035</td>
</tr>
<tr>
<td>1988</td>
<td>9</td>
<td>2,912</td>
<td>5,784</td>
</tr>
<tr>
<td>1989</td>
<td>17</td>
<td>4,761</td>
<td>22,877</td>
</tr>
<tr>
<td>1990</td>
<td>17</td>
<td>98,510</td>
<td>301,978</td>
</tr>
</tbody>
</table>

Source: Jomo and Todd 1994:49, table 2.16.

Chin (2000:1045) accounts for ‘labour’s acquiescence’ in this period as the outcome of the harshness of ‘labour legislation’ and a poorly organised union movement. Kuruvilla and Arudsothy (1995:174) similarly describe Malaysia’s ‘labour relations system’ as ‘repressive and government-dominated’, an outcome of the need to contain labour costs for MNCs. Their argument goes some way to explaining the impact of the recession on the private sector labour force.

Firstly, it is clear that the government assisted capital in controlling wages and delivering labour force flexibilities, and this was particularly apparent during the recession. For example, by not properly enforcing the protective provisions of the Employment Act, and by placing administrative obstacles in the path of the union movement, the state further weakened labour’s bargaining position. This impacted unevenly on the labour force being particularly harmful to less skilled, low status workers. Amongst these were the younger women concentrated in the FTZs, as well as geographically isolated Indian workers in the plantation sector, and migrant workers, all of whom lacked the capacity to elicit public sympathy for their predicament.
As mentioned previously, the role of the government in allowing the migration of foreign workers to Malaysia has also delivered numerical\textsuperscript{16} and wage flexibility to employers. In addition to the 1984 agreement with the Indonesian Government, arrangements were made throughout the 1980s with the governments of Bangladesh, Thailand and the Philippines to allow recruitment of workers for employment in the domestic sector, in plantations and in the construction sector (UNESCO 1997). Given the tacit approval of illegal labour migration by the Malaysian Government, (Jomo and Todd 1994), ‘there was, by the late 1980s, a large reserve of illegal aliens in the country whom employers could recruit easily’ (UNESCO 1997.)

\begin{table}
\centering
\begin{tabular}{lllll}
\hline
 & \textbf{Average annual percentage increases} \\
\hline
Labour productivity & 14.6 & 1.5 & 5.1 & -1.6 & 6.6 \\
Average wages & 13.0 & 3.8 & 0.3 & 3.3 & 5.7 \\
\hline
\end{tabular}
\caption{Comparison of annual wage increases to productivity increases}
\end{table}

Employers were able to reduce wages considerably during the recession without breaching the employment contract or the Employment Act. The lack of a mandated minimum wage had allowed employers to develop the practice of keeping base rates of pay low but supplementing them with generous non-contractual bonuses. This allowed a high degree of wage flexibility, which

\textsuperscript{16} Numerical flexibility is a term that captures the ability of an employer to expand or reduce the number of workers employed and their hours of work. When numerical flexibility is high, this has implications for the security of the employment contract, the levels of variability in the hours of work and the span of hours worked. It also suggests an available pool of unemployed labour and high levels of income insecurity. Boyer (1998) provides a detailed discussion of competing views on flexibility. See also Deyo 2001 and Standing 2002.
meant, in effect, that employers could pay generously in a tight labour market but drop the bonus payment during downturns (World Bank 1995:51). Lower level employees in particular experienced high levels of income insecurity during the recession. For example, employers made increasing use of temporary, contract, and casual workers, and adopted practices such as extending probation periods in order to avoid making workers permanent and therefore eligible for redundancy payments (Kuruvilla and Arudsothy 1995:179 citing Standing 1991). Data from the Household Income Surveys demonstrate that production workers, along with most of the rest of the working class, suffered a loss of real income between 1984 and 1987 (Mazumdar 1991:34). The incomes of almost a quarter of a million plantation workers dropped from between 16 to 25 per cent (Jomo 1995).

In a further risk to political stability, Mahathir had been quoted in the media as willing to ‘hold the NEP in abeyance’ (cited in Khoo 1995:140). Further, the government was about to embark on a privatisation program which, one deputy Minister claimed, was motivated in part by the need to reduce the costs of maintaining the civil service (Asnan 1987). Mahathir, in the aftermath of a leadership challenge and resultant split in the party, initiated a repressive crackdown on civil society. Why then was there relatively little in the way of social unrest despite the harshness of the economic environment and the apparent abandonment by the government of labour and the pro-Malay NEP? The following sections examine these factors in more detail before summarising a range of initiatives that, while outside of formal workplace relations, were nonetheless measures that impacted on household income.
Holding the NEP in abeyance?

In August 1985 the Minister for Labour, Mak Hon Kam, forewarned employers and the union movement of the government’s plan to amend the Industrial Coordination Act to remove restrictions requiring that Malays receive a quota of shares. ‘As you are aware, Government is considering to amend [sic] several provisions in the Industrial Coordination Act to stimulate productive investment’ (Mak Hon Kam 1985:6).

Yet despite the pragmatic willingness to suspend the share quotas, Mahathir and his Ministers emphasised the government’s continued support for workers by retaining the requirement of firms that ‘employment in all work categories had to reflect the racial composition of the population’ (Jesudason 1989:189. See also Jomo et al. 1995:28). The Minister advised that the ‘creation of jobs for the unemployed is a priority’ (Mak Hon Kam 1985:6). In fact, concerned to retain the political support of the Malay working class, Mahathir justified his decision to ‘hold the NEP in abeyance’ on the basis that it would deliver more jobs when they were most needed.

NEP is not just equity distribution. It is equally important that job opportunities are also evenly distributed. In a situation where unemployment is rampant it is invidious to protect the interests of certain categories of investors at the expense of unemployment for workers. We will, therefore, modify the NEP conditions regarding equity in order to implement the stipulations regarding employment. The government is studying very specific conditions so that investors will not be left in any doubt as to when and how we are prepared to forgo equity participation in favour of jobs for Malaysians (Mahathir, Speech at the Annual Dinner of Financial Institutions, 25 August 1986, cited in Khoo 1995:142.

As the defender of Malay interests, UMNO risked a loss of credibility and a poor performance electorally had it failed to publicly express support for the Malay
workers suffering under the recession. The continued requirement of foreign firms that they meet the NEP ethnic employment quotas, even when other aspects of the ICA were modified, indicates the government’s sensitivity towards the issue of Malay unemployment.

Acting to offset some of the less favourable economic conditions were legislative amendments in March 1985 that extended the coverage of the Employment Act to an additional 100,000 lower paid workers (Ministry of Labour 1986:6). At the same time maternity leave provisions were enhanced. In 1988, shortcomings in the Factories and Machinery Act were acknowledged. The government committed itself to the implementation of more comprehensive occupational safety and health legislation (Ayadurai 1993:94).17

Similarly, Malaysia’s civil servants appeared to have been targeted in the Fifth Malaysia Plan 1986-1990 which was released in the middle of the economic downturn.

The high level of public investment, particularly during the late 1970s and early 1980s, imposed considerable strain on the financial resources of the Government. Steps will be taken to gradually reduce the size and role of the public sector as well as to ensure greater consolidation and efficiency in the management of Government departments and public enterprises...The Government will further enhance the implementation of the Malaysia Incorporated concept... (Government of Malaysia 1986, Fifth Malaysia Plan, cited in Asnan 1987:94).

However, as discussed above, plans to reduce the size of the civil service through privatisation, while slowing the rate of growth of the civil service, did not reduce its numbers overall. A wage increase ranging from one per cent to twelve per
cent was granted to civil servants in July 1985, although Jomo (1995:207) points out that this was below the percentage increase of the Consumer Price Index.

Repressive state legislation

The repression of organised labour has been a feature of Malaysian industrial relations from the colonial era. The nature of the control exerted has varied over time, since Independence being achieved more often through legislative and administrative means rather than the physical coercion that was apparent in the colonial period (Barraclough 1985). That the repression of union activities is governed by legislation is an important legitimating factor. Further, the repression of NGOs, unions included, is consistent with the paternalistic ideology of the Malaysian government that public debate on sensitive political issues threatens the delicate balance of societal wellbeing.

The repressive actions of the state that were directed at organised labour were backed in the 1980s by the ideological stance of Look East. This depicted politically active unions as a product of confrontational ‘Western-style’ industrial relations that threatened economic growth and undermined more harmonious Asian-influenced workplace relations. The attempt to ensure the union movement did not grow in strength as the industrial workforce increased was conducted in the manner least likely to create a politically awkward confrontation with the labour force. In this sense, while the promotion of in-house unions since 1983 was in part an attempt to keep organised labour weak (Jomo 1995:230), it was also a strategy that sought to avoid outright

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17 This eventually resulted in the passing of the Occupational Safety and Health Act 1994 and the
confrontation between the Malay dominated government and its working class constituency.

Mahathir acted in an increasingly repressive manner towards civil society throughout the 1980s. Amendments to the Societies Act, enforced from 1981, had provoked widespread protest by the MTUC, NGOs and professional organisations (Barraclough 1985:803). In 1984 the Printing Presses and Publications Act was implemented which imposed tighter control over media freedoms than had existed in the previous legislation of 1971 (Zaharom 2002:128). In November 1986 the Official Secrets Act was tightened. In December 1987 the Printing Presses and Publications Act was again amended along with the Police Act (Saravanamuttu 1987:69). In 1989 Mahathir sacked the Lord President of the Supreme Court and the Internal Security Act was amended to remove the opportunity for judicial review (Wu 1999:134). Although encompassing labour activists within its reach, restrictions on freedoms of speech were not directed at organised labour particularly. Party political factors account for the detention in 1987 of several labour activists along with a hundred or so other political figures under the ISA as Mahathir moved to defend himself against factionalism within UMNO.

However, the late 1980s appeared increasingly hostile for organised labour, with the government supporting the establishment in 1989 of an alternative peak union body, the Malaysian Labour Organisation (MLO). The rival organisation ‘enjoys the blessing of the government…the government’s support for MLO was

establishment of the tripartite National Council for Occupational Safety and Health.
largely to destroy union power in general’ (Rasiah 1995:81). Revisions to the Industrial Relations Act, the Trade Unions Act and the Employment Act came into effect in February and May of 1989. These effectively withdrew many of the improvements to worker entitlements that had been granted in 1980.

During periods of crisis, it is common for capital and the state to attempt to reverse the gains in wages and living standards made by labor during an expansionary phase, tipping the balance of power in favour of capital. In the process of restructuring, the contours of labour control are reworked and remade (Peck 1996:240).

This delivered increased flexibilities in labour arrangements to employers and further concentrated power in the positions of the Directors General of Industrial Relations and Trade Unions. Section 15 of the Industrial Relations Act was amended in 1988 to protect pioneer status firms in that no collective agreement could include demands for conditions better than those laid down in the Employment Act. There was, therefore, little reason for employees to join a union as it was illegal to make demands greater than those already guaranteed by the Employment Act. 18 ‘The 1989 Amendments were clearly meant to lower employment costs to enhance labour demand by foreign investors and others, both to enhance international competitiveness and to diminish unemployment…’ (Lucas and Verry 1999:251; see also Wad and Jomo 1994:216).

Yet for workers generally, the late 1980s marked a turnaround from recession (Khoo 1997:70) while tightening labour market conditions helped to shift wages upwards (Rasiah 1995:85, see Table 4.10 below). The market, rather than legislation, has been the most important factor in shaping wages in the private sector in Malaysia. Very little labour-related legislation deals directly with
wages, and private sector workers earning above RM2,000 per month are not covered by any employment legislation that relates to conditions of service.

<table>
<thead>
<tr>
<th></th>
<th>Nominal</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>5.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Garment</td>
<td>8.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Electric/electronic</td>
<td>5.9</td>
<td>3.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.9</td>
<td>3.0</td>
</tr>
</tbody>
</table>


Apart from rising wages, real improvements in levels of education and health were recorded by the close of the decade (Government of Malaysia 2000:138) and according to the World Bank’s research, income inequality in Malaysia narrowed (World Bank 2000b). A range of other policies implemented by Mahathir’s government throughout the 1980s also impacted on household incomes and consumption options. In 1981 the unit trust fund Permodalan Nasional Berhad (PNB) was established as an investment opportunity for Bumiputera, and, in 1983, the Islamic banking system was established. In 1982, with Mahathir’s commitment to HICOM, production of Malaysia’s ‘national car’, the Proton, commenced. This provided secure industrial-sector employment to a predominantly Malay workforce. Protons were made available to the public on finance schemes that charged very low rates of interest. Car ownership was made even more attractive by the government’s commitment to subsidising the pump price of fuel.

While the annual rate of inflation in the early 1980s had climbed as high as 9.7 per cent, by the mid 1980s it was under control at below one per cent and

18 The ILO considers this amendment a violation of ILO Convention No. 98.
remained fairly stable (from two to three per cent) even as the economy recovered from recession (Ragayah et al. 2002:9). In 1986, as part of the move to encourage home ownership amongst low and middle income earners particularly, the National Mortgage Corporation (*CAGAMAS*) was established which offered housing loans at low interest rates. Funding for these projects was largely sourced domestically through the EPF (Government of Malaysia 1981:131-132). Despite this, throughout the 1980s, the EPF returned a dividend of eight per cent or more to its members, above the rate of inflation (Asher 2000).^{19}

By 1990, with the assistance of favourable economic conditions internationally, and with most of his political opponents successfully marginalised or co-opted, Mahathir was more firmly entrenched in the positions of Prime Minister and UMNO President. His enhanced security was reflected in the number of broad announcements made in 1991, including *Wawasan 2020* (Vision 2020), Mahathir’s all encompassing plan to modernise Malaysia by 2020. As a result of the 1990 election,

…the Barisan Nasional was back in power, UMNO was dominant, and Mahathir was in charge… The critical year of 1990 having ended in twin economic and political triumphs for Mahathir, Mahathirism could now and truly look ‘beyond 1990’ (Khoo 1995:327).

However, in contrast to Ramesh (2000:154) who concluded that the political elite was able to ‘maintain an overwhelming dominance over the political system and devise policies relatively unencumbered by popular pressures’, the 1990s in fact presented Mahathir with new challenges in balancing conflicting political and economic goals. By the close of the decade, close to full employment was

^{19} Asher (2000) provides details of how EPF funds are invested and the rate of return.
recorded, again placing upward pressure on wages. The challenge of attracting FDI and maintaining competitive wage rates would continue to clash with the need to meet the aspirations of the urban middle classes and the growing importance of private consumption to government revenues.
Chapter Five: From Vision 2020 towards the k-economy

Introduction

The social engineering integral to Malaysia’s economic transformation had significantly enlarged the tertiary educated, urbanised, white collar, middle and upper income stratum of Malay society (Rahman Embong 2001). According to Crouch (1993:142 cited in Searle 1999:46), the proportion of Malay workers in ‘middle class occupations’ increased from approximately 13 to 27 per cent between 1970 and 1990. Their material success was not only symbolically important to the Malay-based ruling party, it was also increasingly important economically.

Yet the political and cultural aspirations of the new middle and upper income Malay population was difficult for the ruling party to discern and target, given the muted voice of civil society and the increasingly diverse range of occupations and industries in which urbanised Malays were now able to participate alongside ethnic Chinese and Indians in similar class locations. The integration of Malays into the multiethnic white collar and professional labour force therefore created new challenges in the control of labour by a ruling elite that had, as yet, to develop a consistent position on issues of national as opposed to ethnic identity (Nair 1999:93). Mahathir’s ‘Vision 2020’ speech, delivered to the Malaysian Business Council in early 1991, is discussed in the following section in terms of the appeal it presented to those educated and skilled workers most likely to participate in, and benefit from, Malaysia’s push towards becoming a fully industrialised economy.
Malaysia’s rural working class had also benefited economically during the previous two decades, but clearly had gained less than those able to take advantage of employment and education in the industrialising urban regions. The earnings gap between urban and rural dwellers, and between skilled and unskilled workers, widened in the 1990s, in contrast to the earlier improvement experienced from the 1970s until the mid 1980s (Fields and Soares 2002:1). While Look East and HICOM were policies in the early 1980s that clearly offered employment opportunities for less skilled workers, the appeal of Vision 2020 appeared limited for this group.

Less skilled workers instead found themselves increasingly subject to the vagaries of labour market and commodity market fluctuations as well as facing direct competition from foreign workers as labour migration arrangements were liberalised from the early 1990s (Edwards 1997:32-33). The government’s continuing refusal to impose a national minimum wage delivered considerable wage flexibility to employers. While the labour shortage situation delivered wages growth for many Malaysian workers regardless of the state’s efforts otherwise, during economic fluctuations, the lack of income security and welfare provisions impacted most heavily on less skilled and rural based Malaysian and foreign workers.

This outcome contrasts with policies contained within the Sixth and Seventh Malaysia Plans (Government of Malaysia 1991; Government of Malaysia 1996), each of which highlighted the importance of upgrading the labour force in order
to facilitate Malaysia’s move away from labour intensive operations into more value-added manufacturing. From the mid 1990s, with the announcement of plans to transform Malaysia into a knowledge based economy (KBE),¹ and with the commencement of construction of the Multimedia Super Corridor (MSC), the contradictions between existing labour arrangements and the visions for Malaysia’s future economy and workforce become even more stark. This resulted in a number of institutional mismatches and inconsistencies in policy, many of which remained unresolved by the close of the decade.

**Class and ethnicity in Mahathir’s Vision 2020**

With the official demise of the NEP in 1990, a new statement to inform Malaysians of their leader’s intentions regarding future social and economic direction came in the form of the ‘Vision 2020’² speech delivered by Mahathir to the Malaysian Business Council (MBC) in February 1991 (Shamsul 1992:11). It was a lengthy speech to an elite business audience. It attracted widespread media attention and made clear Mahathir’s goal of moving Malaysia to developed country status by the year 2020. There were obvious impediments to this transition, not the least of which was the structure of the labour force. Addressing this was therefore one focus of Vision 2020.

> In our drive to move vigorously ahead nothing is more important than the development of human resources…the most important resource of any nation must be the talents, skills, creativity and will of its people…Our people is our ultimate resource…Malaysia must give the fullest emphasis possible to the development of this ultimate resource… (Mahathir 1991:9-10, excerpts from The Vision 2020 speech).

¹ The knowledge based economy is commonly referred to within Malaysia as the ‘k-economy’.  
² Mahathir’s speech was officially entitled ‘Malaysia: The Way Forward’ but the Malaysian press picked up on the term Vision 2020 and it has since remained in popular use. Mahathir has himself adopted the phrase, commenting that the term has positive connotations in English, *Bahasa Melayu* and Mandarin (1999:43).
In terms of substance, Khoo (1995:327-331) noted that much of the speech was a reiteration of policies and values adopted by Mahathir since the mid 1980s’ recession. Gomez and Jomo (1999) largely agreed, although they, along with Khoo (1995:331), understood the mention by Mahathir of the need to create a *Bangsa* (united) *Malaysia* as a new attempt to invite the ethnic Chinese business community into a partnership with the predominantly Malay government and bureaucracy, a partnership that was now considered necessary in the face of international economic pressures.

However, Mahathir’s appeal for a *Bangsa Malaysia* was not only a pragmatic response to the fact of continuing Chinese dominance of the Malaysian economy. It was also a response to major societal changes that saw the growth of a multi-ethnic middle income stratum of society with whom a new means of engagement was required. State-labour relations had, since the early 1970s, been largely negotiated around ethnic communal concerns, but with the increasing move of Malays into middle income and white collar occupations in urban locations, Malaysia’s middle income group was becoming increasingly multi-ethnic. Economic growth had increased the percentage of professionals, managers and other middle to high income white collar workers to whom the government now attempted to appeal on the basis of their economic interests rather than ethnic identity.
Hence *Bangsa Malaysia* can also be understood as an ideological appeal to *Melayu Baru*, the ‘new Malay’, and the middle income urban Chinese whose political support was becoming increasingly important to the ruling coalition. However, too obvious courting of the Chinese population would have been politically risky for the Prime Minister.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional &amp; technical</td>
<td>4.3</td>
<td>16.7</td>
<td>5.2</td>
<td>11.0</td>
<td>4.9</td>
<td>11.4</td>
</tr>
<tr>
<td>Administrative &amp; managerial</td>
<td>0.5</td>
<td>1.8</td>
<td>1.8</td>
<td>4.8</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Clerical</td>
<td>3.0</td>
<td>10.5</td>
<td>6.3</td>
<td>11.2</td>
<td>8.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Sales</td>
<td>4.7</td>
<td>7.4</td>
<td>15.3</td>
<td>18.9</td>
<td>9.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Service workers</td>
<td>6.8</td>
<td>13.1</td>
<td>8.6</td>
<td>9.1</td>
<td>10.9</td>
<td>12.5</td>
</tr>
<tr>
<td>Agricultural workers</td>
<td>62.3</td>
<td>24.1</td>
<td>21.1</td>
<td>8.7</td>
<td>41.0</td>
<td>18.3</td>
</tr>
<tr>
<td>Production workers</td>
<td>18.0</td>
<td>26.3</td>
<td>41.6</td>
<td>36.3</td>
<td>24.7</td>
<td>38.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Year</th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>4.9</td>
<td>61.0</td>
<td>23.3</td>
<td>10.8</td>
</tr>
<tr>
<td>1975</td>
<td>6.7</td>
<td>64.1</td>
<td>22.1</td>
<td>7.1</td>
</tr>
<tr>
<td>1980</td>
<td>14.9</td>
<td>63.5</td>
<td>17.4</td>
<td>4.2</td>
</tr>
<tr>
<td>1985</td>
<td>22.2</td>
<td>61.2</td>
<td>13.9</td>
<td>2.7</td>
</tr>
<tr>
<td>1990</td>
<td>29.0</td>
<td>55.9</td>
<td>13.2</td>
<td>1.9</td>
</tr>
<tr>
<td>1995</td>
<td>33.1</td>
<td>52.4</td>
<td>12.9</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source; Jomo 1999:137, table 6.5. There are slight definitional differences between years.

Instead, as described by Williamson (2002), *Bangsa Malaysia* reduced the focus on communal identity by attempting to develop an ‘economic’ nationalism, describing a Malaysian society and economy in which dedication to a career or a

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3 The new Malay is understood as a middle to upper income, tertiary educated, urbanised first generation product of the NEP. Rahman Embong (1996; 1999; 2001) provides an in-depth qualitative and quantitative analysis. See also Kahn (1996) and Saravanamutta (2001).
business accompanied with appropriate social values would deliver a rewarding lifestyle and guarantee Malaysia’s future.

By the year 2020, Malaysia can be 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 and resilient (Mahathir 1991, excerpt from Vision 2020 speech).

*Bangsa Malaysia* as described in the Vision 2020 speech invites the participation of the growing section of the population whose cooperation was necessary in achieving the transition to a modern successful Malaysia; the educated, urbanised middle income white collar and technically skilled professionals of all ethnic groups. As understood by Gomez and Jomo (1999:169),

the policy envisaged a more competitive, market-disciplined, outward-looking, dynamic, self-reliant, resilient, diversified, adaptive, technologically proficient and entrepreneurial economy with strong industrial links, productive and knowledgeable human resources, low inflation, exemplary work ethics and strong emphasis on quality and excellence.

*Bangsa Malaysia* can therefore also be seen as reassuring to those in the business sector who felt the labour force was sheltered and required to be productive. In a *Bangsa Malaysia*, workers would be recruited and remunerated on the basis of individual merit and productivity.

At the same time, Vision 2020 attempted to reinforce the argument that special assistance to *Bumiputera* was no longer necessary. This was because ‘the welfare of the people will revolve not around the state or the individual but around a strong and resilient family’ (Mahathir 1991, Vision 2020 speech).
Doling and Omar (2002:6) note therefore, that Vision 2020’s goal of ‘establishing a fully caring society and a caring culture’ (Mahathir 1991, Vision 2020 speech) did not require greater public spending on ‘welfare’. This remained insignificant at less than one per cent of overall spending. A reduction of government support to low income earners was signalled in the *National Development Plan 1990-2000* (NDP) that replaced the NEP and in the *Sixth Malaysia Plan 1991-1995* (Government of Malaysia 1991) released soon after the Vision 2020 speech. Each forecast a reduced social welfare commitment by the state with increased emphasis placed on individual and family responsibility. Along similar lines, Henderson et al. (2002:11-12) identified within the NDP an increased emphasis on economic growth as the means of addressing poverty, especially for the hard core poor who were given increased access to micro finance in order to work themselves out of poverty. For example, in 1992, *Bumiputera* identified as ‘hard core poor’ were offered interest free loans of RM5,000 to be used for the purchase of unit shares in government-controlled *Amanah Saham Bumiputera*. According to the EPU (2004a:27), this initiative was not only

…another means towards increasing their income. More than that, their participation in the scheme gave them a sense of being part of the development of the modern sector of the economy even though they were poor.

As explained by the Minister of National Unity and Social Development, the National Welfare Policy released in 1990 is based on the belief that ‘…the strengthening of the family institution is vital towards contributing to and producing responsible citizens to face the challenges arising from rapid economic development…’ (Siti Zahara 2000:3). Families are encouraged to care
for their sick, disabled and elderly. Gough (2000:25) describes the family as the “missing link” in South East Asian welfare regimes.

Table 5.3 Government development spending and allocations, social welfare, 1985-2000 (per cent of total allocations)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and training</td>
<td>13.9</td>
<td>13.4</td>
<td>19.9</td>
</tr>
<tr>
<td>Health</td>
<td>1.8</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Housing</td>
<td>4.9</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Local authorities and welfare services</td>
<td>1.3</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Village and community development</td>
<td>1.8</td>
<td>1.3</td>
<td></td>
</tr>
</tbody>
</table>


Despite this, the data in Table 5.3 do not reflect a serious shift away from social welfare spending. As was discussed in Chapter One, spending allocated to ‘welfare’ does not capture the majority of spending allocated to poverty alleviation in Malaysia. Nor does it capture the full range of policies having an impact on household income and purchasing power. The federal government, while rejecting the direct provision of ‘welfare’, nonetheless remained active in the control of prices and interest rates, and in the delivery of subsidised goods and services.

In yet another example of the ‘paradoxes of Mahathirism’ (Khoo 1995), the Prime Minister sought to reassure his Malay constituency that their wellbeing was central to that of the nation.

…in the development of human resources we cannot afford to neglect half the population…the Bumiputeras…No nation can achieve full progress with only half its human resources harnessed (Mahathir 1991:9-10, excerpts from The Vision 2020 speech).
Therefore, despite the new focus on economic nationalism, concerns regarding the primacy of Malay cultural and economic status remained salient and could not be overlooked by political elites still unsure about the relative merits and appeal of national identity and ethnic identity:

...while the state had dealt with ethnic divisions by managing a compromise on the national question, an exclusionary discourse of “race” and ethnicity has emerged alongside a more inclusive discourse of nationalism. Both continue to be propagated by the state. Consequently, we find that official nationalist thought in post-colonial Malaysia reflects deep ambiguities and uncertainties… (Nair 1999:93).

The withdrawal of concessions for Malays therefore had to be negotiated in a graduated fashion. By placing the arrival of *Bangsa Malaysia* in a future where economic prosperity for all had been achieved, the ruling elite attempted to mollify any immediate negative reaction to the withdrawal of affirmative action for Malays. In the meantime however, government ministers selectively retained the practice of justifying government interventions in society and the economy as necessary to the support of Malays so that they could attain equal status with other Malaysians. *Bangsa Malaysia* therefore managed to retain crucial elements of ethnicity even while it heralded a future in which ethnicity would not be a determining factor. ‘The creation of a people known as the Malaysian nation…would require a definite time frame and societal engineering’ (Ghazali Shafie 1995, *Business Times* 19 August, cited in Williamson 2002:411).

Given the segmented nature of the labour force, the implications of Vision 2020 for labour and society were varied. While Mahathir appeared to emphasise the importance of modernising the entire labour force and delivering benefits to all workers, employment and training opportunities were focused on those whose
participation was required to achieve Malaysia’s further technological and industrial advance, and to select sectors of the Malay workforce, particularly the growing numbers of unemployed Malay graduates. Despite the rhetoric in Vision 2020 about the move towards a ‘mature consensual, community-oriented Malaysian democracy that can be a model for many developing countries’ (Mahathir 1991, Vision 2020 speech), few concessions were made in the first half of the decade to accommodate the trade union movement. ‘Mahathir’s difficulty in incorporating labor into his vision of Malaysia points to the limited space for poor Malaysians…’ (Williamson 2002:410). Not until the aftermath of the recession in 1997/98 when Mahathir’s political position was threatened by Anwar Ibrahim, the Deputy Prime Minister popular with many unionists and other pro-labour NGOs (Rowley and Bhopal 2005), were moves made to incorporate the organised labour movement.

**Controlling the civil service: The state as employer**

The active recruitment of Malays into the civil service provided an important vehicle through which the ruling party sought to contain and utilise the political, cultural and economic aspirations of Malays (Rajah and Ishak 2001). Given the civil service constituted almost 13 per cent of the entire domestic labour force in 1990, its effective **régulation** became integral to achieving a range of economic, cultural and political goals for the state. Firstly, in the 1970s and the early 1980s, the expansion of the civil service assisted to deliver the NEP targets of improving the socio-economic status of Malays and the promotion of particular aspects of Malay culture. Secondly, by controlling the terms and conditions of employment of civil servants, it became increasingly possible for the government
to direct the private consumption of civil servants towards counter-cyclical economic objectives, boosting demand for domestic goods and services, such as real estate, housing, cars and tourism during periods of economic downturn. Thirdly, in return for a broad range of financial perks and a high level of employment security, civil servants were expected to be loyal to the government (Lim 2002; RIAP 2001:118) and failing that, were anyhow prevented by the terms of their employment from making critical public comment against the government.

Given an ethnically divided civil society lacking effective public interest groups able to exert a checking role over the civil service (Lim 2002:177), the disciplining and control of public servants was largely the responsibility of the ministerial executive branch, particularly the Prime Minister who chaired the Cabinet Committee on Public Sector Employees' Salaries and Posts. Administratively, the Public Service Department has responsibility for recruitment and overseeing conditions of service including disciplinary procedures against civil servants. Being placed in the role of employer, however, generated a number of conflicts and tensions for Mahathir and the Cabinet. This section of the chapter examines the criticisms made of the public sector and the responses of the government to them. As the section concludes, the failure on the part of the executive to effectively control the civil service was not due to the bureaucracy wielding more power than the political executive. Rather, the

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4 Ramesh and Asher (2000:50) describe the retirement scheme for civil servants as ‘highly generous…compared to what is available to workers in the private sector’.

5 Lim (2002:189, citing Crouch 1996:62-62) notes that large numbers of lower level Malay civil servants, particularly in the rural areas, have been mobilised on behalf of UMNO during periods of political campaigning.
strategies adopted throughout the 1990s to rein in the public sector labour force were flawed by inconsistencies that could be attributed to the complex political, financial and socio-cultural pressures that constrained and divided political leaders.

**Contradictions in the régulation of the civil service**

The first point to be clarified is the nature of the problem. As Lim demonstrates (2002:171-172), this was not a situation whereby the political executive was unable to determine policy due to the presence of a powerful bureaucracy. Rather, the problem Mahathir faced was that of being unable to guarantee that the civil service would, at all levels, implement his policies. For example, noted in the previous chapter was the largely failed attempt of the Malaysia Inc. policy to improve relations between the Malay civil service and the predominantly ethnic Chinese private sector. Industry lobby groups remained critical of the attitude of civil servants. Also relevant here were the criticisms made by the World Bank (1995, 1997) and Mazumdar (1991) of the public sector higher education and industrial training sectors, the poor performance of which contributed to the structural problems evident in the labour force from the mid 1980s. While Lim (2002:172) partially attributes the uncooperative nature of the civil service to ‘slackness and incompetence’, research by Biddle and Milor (1999) suggested that many civil servants held values that had their origins in the NEP era, an era in which civil servants were actively and heavily involved in

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6 ‘…politics, however imperfect, is one of the main channels through which the mistakes of the state bureaucracy can be detected and corrected’ (Chang 1998:74).

7 For example, Abdul (1987:105) who represented the Malaysian Employers’ Federation at a tripartite conference on privatization, held in Bangkok by the ILO.
delivering assistance to working class and rural Malays. These values were now inhibiting their full cooperation with more recent policies introduced by Mahathir that appeared to challenge the goals of the NEP. It is no coincidence that two of the underperforming ministries, the Ministry of Education and the Ministry of Human Resources, had each played important roles in delivering NEP objectives.

Lim (2002) also examines another causal factor in the underperformance of the civil service and the inability to bring about reform; the lack of transparency that characterises the relationship between civil society and the operations of government. The constraints on political activism in Malaysian society, of themselves a tool of control over labour, have resulted in a lack of organisations or interest groups able to play a critical role in forcing the civil service to meet the goals laid out for it by government policy.

<table>
<thead>
<tr>
<th>Table 5.4 Civil service employment, 1990-2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size and percentage of the labour force</strong></td>
</tr>
<tr>
<td>1990</td>
</tr>
<tr>
<td>‘000</td>
</tr>
<tr>
<td>850.0</td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 1996:110, table 4-2. \(^a\) Forecast. \(^9\)

The second aspect of the problem relates to the relatively large size of the civil service and the cost and nature of benefits delivered to civil servants. By 1995, civil servants (including state and Federal levels of government) comprised over eleven per cent of the labour force, more than double the regional average (Schiavo-Campo et al. 1997:27; Yeoh 2002).

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\(^8\) Earlier research by Esman (1972, chapter 4) found similar results, whereby civil servants felt it was their responsibility to actively assist and support the Malay peasantry.
Employer groups questioned the generous nature of the public sector pension scheme and in the 1980s had welcomed Mahathir’s push towards privatisation in the hope of reducing this burden (Abdul 1987:105). However, Ramesh and Mukul (2000:50) note that the number of retired civil servants in receipt of a pension had increased from 107,490 in 1981 to almost 295,000 by the mid 1990s. In the early 1990s the payment of pensions amounted to almost RM two billion annually, all of which was funded by the government. Unlike private sector employees, civil servants were not required to make personal contributions to the scheme. The government defended the level of benefits, arguing they were necessary to retaining quality staff, and that the loyalty of civil servants should be rewarded (Public Service Department Malaysia, n.d.). Other benefits available to civil servants include low interest loans for housing, computers and education, and a range of medical, housing and educational benefits for family members.

The yearly bonus, usually a month’s salary or a minimum of RM1,000 for lower paid civil servants, has provided the Prime Minister with a means of chastising or rewarding the civil service. In the annual build up to the Budget, CUEPACS attempts to presents its case for the bonus through the media, to which the Prime Minister often responds with reflections on the state of the economy. ‘They (CUEPACS) can ask, we can only give what we can afford’ (NST Sunday 4

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9 The forecast figure of 894,200 in fact turned out to be an underestimate as later figures (Government of Malaysia 2001:620) indicate 911,000 civil servants were actually employed by 2000.

10 Unlike the Employees’ Provident Fund covering eligible private sector workers, the pension scheme for civil servants was non-contributory. Their entire pension benefit was drawn from government funds.

11 This was over RM4 billion by 2000 (World Bank 2000:12 citing Bank Negara Malaysia data).
Bonuses are sometimes reduced to a half month and sometimes postponed. The political leverage Mahathir attempted to exercise through his control over these optional payments is discussed in more detail below in the context of his attempt to regain popularity and credibility in the wake of the political turmoil that led to the sacking and arrest of popular former Finance Minister and Deputy Prime Minister, Anwar Ibrahim in 1998. It is an incident that highlights the political and communal sensitivities that impact on levels of remuneration and yet constrain the state in exerting control over labour.

From the early 1990s Mahathir introduced a flurry of measures designed to address the criticisms made of the civil service. Some measures involved a reworking of previous attempts at control, such as the formalisation of the Malaysia Inc. Policy in 1991. Others aimed to achieve an attitudinal shift amongst civil servants, being related to productivity and the importance of developing a ‘client focus’. The entire remuneration, appraisal and promotion system was restructured in 1992, new disciplinary measures were introduced and the shift towards privatisation intensified with the stated goal of reducing the size of the civil service. Later in the decade, further anti-corruption legislation was enacted. Each of these strategies invoked a mixture of controls; legislative, financial and ideological, combining punishments, inducements and concessions.

“We hope the bonus for civil servants will not be left out this year because it’s important for civil servants to prepare for their children’s schooling”, CUEPACS’ Secretary General Abdul Rahman Manan quoted in NST 3.3.2002.
13 For example in the 2002 budget a half month’s bonus was granted.
Despite some sounding similar to neoliberal strategies adopted in other nations, these did not constitute the same manner of attack on the civil service. Ultimately, civil servants remained sheltered from the economic conditions shaping private sector employment. More successful was the reinforcing of political constraints on civil servants, as will be seen in the discussion of each strategy that follows.

Malaysia Inc.

As outlined in the previous chapter, Malaysia Inc. was a largely unsuccessful attempt by Mahathir in the early 1980s to ‘improve’ the attitude of the civil service towards the private sector. Later research demonstrated that many civil servants felt it was consistent with the advancement of Malay interests to adopt a critical view of the Chinese-dominated private sector (Biddle and Milor 1999). The implementation of Malaysia Inc. had therefore been limited.\textsuperscript{14} In 1991 a further attempt to improve the interactions between the private and public sectors was made. The Chief Secretary to the Government issued a *Development Administration Circular (No. 9/1991)* entitled ‘Guidelines on the Implementation of the Malaysia Incorporated Policy’ (MAMPU 1991) in which the civil service was reminded that it was ‘… crucial that the public sector ensures the success of the private sector’ (MAMPU 1991:1).

One of the key recommendations of Malaysia Inc. was the creation of avenues and forums that increased the access of private sector and industry lobby groups to senior bureaucrats and Ministers. For example, each Ministry was to hold an

\textsuperscript{14} Specific reasons for the failure to successfully implement Malaysia Inc. in the 1980s were provided in the previous chapter.
annual ‘dialogue session’ with its key private sector constituents. One of the most enduring and high profile of these is the Annual Dialogue with the Ministry of International Trade and Industry (MITI), in preparation for which the major industry groups offer written submissions. Another important development was the creation of the Malaysian Business Council (MBC) in 1991 as a peak body that delivered direct access to senior level bureaucrats, deputy Ministers and Ministers for Malaysia’s business elite.

These high level forums bypassed rather than reformed the middle levels of the civil service and were, to an extent, an indication of the inability to bring the civil service effectively under control. The unwillingness to risk more widespread or punitive action against the civil service in turn contributed to outcomes that have created further contradictions for the government. For example, commentators noted a shift of power away from the civil service towards individual politicians and their personal business contacts, and the subsequent politicisation of senior appointments to government institutions (Leigh 1992:120; Searle 1999:47).

The inability to reform the civil service has restricted the ability of the state to engage with small to medium sized enterprises (SMEs), many of which have remained distant from the civil service, preferring to operate in the informal sector rather than engage with a Malay-dominated civil service that was perceived as biased against the Chinese dominated business sector.

…it has been the practice of the Chinese community to avoid…working with the Government…This hands-off attitude is a relic of Colonial times, but probably became even more entrenched during the New Economic Policy era (Wong 1997:15).
The poor relationship between the civil service and SMEs reduced the government’s ability to address the continued reluctance of SMEs to invest more heavily in skills training (Ritchie 2005:752).

**New Remuneration System (NRS) and disciplinary measures**

After an unusually acrimonious campaign by CUEPACS for wage increases in the mid 1980s, the government commissioned a study by the Special Committee on Public Sector Salaries in 1991 that resulted in the NRS, introduced in January 1992. The existing 574 job classifications were reduced to 274 (UNDP/MDGD 1998:24). Besides restructuring job classifications and establishing a separate remuneration scheme for statutory authorities, the NRS linked wage increments to individual performance through the Performance Appraisal System. Increments had formerly been granted automatically each year. The new scheme was therefore not well received by civil servants or their union, CUEPACS, which argued that under the NRS, only five per cent of civil servants would be entitled to receive pay increments or promotions.

According to Jomo and Todd (1994:157), the flexibility in determining wage increments allowed for greater sycophancy in the supervisor-subordinate relationship, rather than guaranteeing improved productivity. Political party *Gerakan* (2002) claimed the NRS had encouraged ‘gosok kasut’¹⁵ whereby employees felt they had to win favour with their departmental heads in order to gain salary increments and promotions. In this way, the NRS has been understood as a means of controlling individual behaviour rather than being an

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¹⁵ Translates roughly to ‘apple polishing’.
effective avenue through which to pursue productivity gains. Siva Subramaniam, then CUEPACS’ Secretary General, told the media the ‘system was open to abuse…the salary adjustment panel has been the judge, jury and executioner of the civil servants’ performances’ (NST 31 July 2002). A decade later the NRS was still the subject of dissatisfaction and debate, being replaced in November 2002 by the SSM (Sistem Saraan Malaysia or Malaysian Remuneration System).

The Public Officers (Conduct and Discipline) Regulations of 1993 aimed to increase the level of control over civil servants by broadening the range of offences for which a civil servant could be disciplined (UNDP/MDGD 1998:26-27). Punishments ranged from termination and criminal prosecution, to suspension, salary reduction, demotion or warnings. While dismissals from the civil service are, according to Siva, ‘almost unheard of’ (interview 2001), a small percentage of civil servants have been dismissed over time. The Research Institute for Asia and the Pacific (2001:130) reported that between 1977 and 1997, approximately 5,000 public officers were arrested after investigation by the Anti-Corruption Commission. This figure includes all public officers including politicians. The Chief Secretary to the Government, while addressing a public service seminar, stated that 5,015 civil servants had faced disciplinary action in 2000 and a further 4,531 were disciplined in 2001. However, the Chairman of the Public Services Commission criticised the leniency of punishments handed out, citing a case where a probationary staff member had received a pay cut and a warning after a year’s unapproved absence from work (NST 28 June 2002). In 1997 the Anti-Corruption Act was introduced, which
replaced earlier legislation and legally required civil servants to report the corrupt practices of other civil servants, thus broadening the range of offences for which a civil servant could be charged. It effectively placed civil servants in a surveillance role over their colleagues.

Privatisation and corporatisation

Privatisation of government owned agencies, although an official policy from the early 1980s, only began to be seriously implemented following the mid 1980s recession and was formalised in 1991 with the Privatisation Master Plan. The neo-liberal principles of small government and the assumption of greater efficiencies to be gained in a market environment have driven the privatisation of public agencies in Europe, North America, Australia and elsewhere. In Malaysia, however, the stated motivations for privatisation, and the actual processes by which privatisations have been undertaken, are driven by a complex mixture of social and political concerns that in many cases have resulted in a continuation of political control over the privatised entity. It is therefore important to place the political and labour implications of privatisation and liberalisation in a specific historical and geopolitical context (Jayasuriya and Rosser 2001:251). 17 ‘While not denying the importance of global forces, it is suggested that national institutions and values have shaped the form and pattern of privatisation [in Malaysia]’ (Tull and Reveley 2001:14).

16 This legislation was later used as a basis to enforce the signing by civil servants of the ‘letter of undertaking’, more commonly referred to as the ‘oath of loyalty’ or *aku janji* (I promise), introduced by the government in 2002 and 2003 (OECD n.d.:2). This is discussed in Chapter Six.

17 ‘…privatisation resulted in a shift of ownership from the public to the private sector, but control over the newly privatised assets was still dependent on links to the dominant political
The privatisation process in Malaysia has been promulgated by the government as a means of reducing the costs of civil service wages and pensions, but it has not significantly reduced the size of the civil service. While significant monetary savings have been claimed by the Malaysian Government as a result of the privatisation of 474 projects (DFAT 2005:12), this has only acted to slow the rate of growth of the civil service, not to reduce the absolute numbers. Since the onset of privatisation in the 1980s, an estimated 111,000 jobs have been transferred away from the public sector (EPU 2004, cited in DFAT 2005:12). Meanwhile, the civil service has continued to increase in size although its proportion of the domestic labour force has reduced from almost 13 per cent in 1990 to approximately 10 per cent in 2000 (see Table 5.4) As discussed in the previous chapter, the opportunities for cost savings are limited as the process of privatisation includes guarantees that pro-Malay employment policies must be adopted by the privatised entity, and staff being transferred must retain their previous level of entitlements.\footnote{\textsuperscript{18}}

\textit{Engaging civil society in the role of controlling civil servants}

From 1987, MAMPU, under the direction of Mahathir, established a Productivity and Quality Management Division (UNDP/MDGD 1998:23). A series of modernising reforms was initiated resulting in the release of numerous Administrative Circulars including, for example, \textit{Guidelines on Productivity Improvement in the Public Service} (No. 6 of 1991), \textit{Guide on Total Quality} party…In short…ownership of key strategic enterprises shifted from state to party’ (Jayasuriya and Rosser 2001:250-251).\footnote{\textsuperscript{18} The privatisation of strategic government agencies providing water, electricity and telecommunications, have certainly raised concerns in Malaysia but given the relative weakness of the union movement, public activism has been more focused on the consumer aspect rather than the employment issue.}
Management in the Public Service (No. 1 of 1992) and Public Service Excellent Service Awards (No. 2 of 1993), all of which sought to build on the ‘Excellent Work Culture’ incentives of the previous decade. Monetary rewards were offered to civil servants who developed initiatives that improved productivity. More than 500 individuals received prizes in the first 18 months of the scheme operating. By 1994, the Chief Secretary, Ahmad Sarji Abdul Hamid (cited in Commonwealth of Australia 1995:84), claimed a ‘shift in paradigm’ had been achieved amongst civil servants, a claim that would be somewhat undermined by compliance failures later in the decade.

Of interest here is the widespread publicity given to each of these announcements (Lim 2002:194) which contrasted with the usual lack of transparency that characterises state-society relations. The state has strictly circumscribed the extent to which people are able to be politically active. According to Mahathir (1995:8 cited in Oehlers 2000:208), ‘…once a government has been elected…it should be allowed to govern…’. One result of this is the reduced ability of the Malaysian public to exert discipline over the civil service. The political repression of Malaysian society had therefore contributed to yet another contradiction within the state-labour nexus: in repressing civil society, the government was less able to discipline the civil service.

The government then invited the public to scrutinise the performance of individual civil servants. From the early 1990s, the Public Complaints Bureau was given extra prominence with members of the public urged to lodge
complaints against civil servants. Complaints would be published in the media. From mid 1993, each government agency was required to develop a Client Charter (Abdullah 1997:72). According to Muhammad (1995:8), the introduction of this innovation reflects ‘the commitment of the Government to ensure that agencies are customer-focused’.

This extra surveillance of the civil service by the public was not meant to encourage more widespread political activism. Rather, members of the public were to consider themselves as clients or consumers, and to make their complaint on the basis of having received poor service. So, by invoking the image of citizens as ‘clients’, the extra scrutiny of the civil service by the public becomes a part of the government’s emphasis on the rights of the client or consumer.

Despite the high profile rhetoric though, the role of the ‘client’ in disciplining the civil service was still in a nascent stage. In 2000, the Chief Secretary to the Government reported to the media that twenty per cent of agencies had yet to develop a client charter while those that had often did not put them into practice (NST 14 August 2000 cited by Lim 2002:194).

**Constraints in the régulation of the civil service**

Despite undertaking a program of privatisations, the government did not put in place structural reforms to the civil service that would have resulted in job losses. The rate of growth of the civil service was reduced, but the number of civil servants has continued to increase each year. In earlier decades, political and communal sensitivities presented the greatest constraints to reforming the
predominantly Malay civil service. This remains a concern as there little guarantee that the private sector is willing to employ the Malay-speaking graduates of Malaysia’s public university system. Another factor has arisen that makes the continued defence of public servants’ conditions worthwhile. Increasingly, civil servants have come to constitute a sizeable pool of consumption power that political leaders have sought to utilise.

By the early to mid 1990s, wages to public servants comprised almost eight per cent of GDP (Schiavo-Campo et al. 1997:41). The present and retirement income of civil servants has been usefully targeted by the government in several ways. As discussed above, private consumption by civil servants has been used in counter cyclical budget initiatives, and to support domestic automotive manufacturing. In 1991, the government introduced the Pensions Trust Fund Act. This not only provides social security for approximately 300,000 retired or disabled former civil servants and their dependents, it has also created a pool of funds, the PTF, that is now available to fund policy objectives. Investments by the fund are overseen by an Investment Panel headed by the Minister of Finance. In the decade since its establishment, the total resources of the PTF have grown from an initial start up of RM500 million to just over RM15 billion (MOF 2000:137). ‘It appears that the domestic provident and pensions funds, such as the EPF and PTF, along with cash-rich and profitable state firms such as the national oil company Petronas, are to be used as major funding sources’ (Asher 2000:9).
The income and consumption of civil servants have also played a supporting role in the attempted shift towards a knowledge based economy. From the mid 1990s, with the announcement of the Multimedia Super Corridor (MSC), the government commenced a monumental construction undertaking that has resulted in the relocation of government departments from Kuala Lumpur to the new administrative capital, Putrajaya within the MSC. Housing has also been constructed for thousands of civil servants who are expected to relocate having been offered low interest loans for the purchase of accommodation.19 At the close of the decade, civil servants owed the state more than RM20 billion in housing loans to the government (Bernama 13 April 2002). The construction of Putrajaya, and nearby Cyberjaya, a ‘smart city’ which houses a university and provides accommodation for workers in the MSC, has provided a fillip to the real estate and construction sectors, reinforcing UMNO’s relationship with its business connections by injecting capital into the construction sector.20 The usefulness of being able to strategically direct the consumption patterns of civil servants is therefore one motivation for the continued defence of civil service ‘perks’.

However, the government actively pursued efforts to suppress any actions by civil servants deemed ‘political’ and introduced anti-corruption legislation that effectively obliged civil servants to keep watch on one another. Further crackdowns on freedoms of speech in the late 1990s and early 2000s contrasted

19 Media reports stated Putrajaya was to house approximately 500,000 people (Colmey, Times Asia, 4 December 1995).
20 Consultants attached to the project suggested that at least RM28 billion would be invested in the MSC over the following decade (Caspian Research cited in The Edge 2.6.1997), while journalists offered estimates of state spending of between US$4-5 billion (Chen, AWSJ, 22.2.2000; Mellor, AsiaWeek 17.8.2001).
with the free flow of information claimed by Malaysian Government’s National Information Technology Council (NITC) to be an inherent requirement of a knowledge based economy (NITC 1998). While CUEPACS took something of a stand against these measures, its activities appear to have had a minimal impact on the level of financial benefits or political freedoms directed towards civil servants. The organisation was involved in discussions with the state only on an ad hoc basis despite the existence of tripartite state machinery that would suggest otherwise. Increases in allowances were awarded to civil servants in 1995 during a period of strong economic growth, and again in 1999 in the aftermath of a politically destabilising row between the Prime Minister and his popular former deputy, Anwar Ibrahim.

The government and the private sector workforce

This discussion portrays the government as having a relatively limited capacity to implement changes to employment conditions in the private sector labour force. There is little argument that centralised and repressive industrial relations legislation as overseen by the Ministry of Human Resources has impacted negatively on the organising and bargaining abilities of the trade union sector (Jomo and Todd 1994; Kuruvilla and Erikson 2002; Peetz and Todd 2000). In this the government might claim it has been successful given declining rates of industrial activity.

However, the government proved less able to resolve structural labour market problems such as upward wage pressures and supply bottlenecks, relying instead on the continued use of low skilled migrant labour even though it was
acknowledged by the state that this strategy threatened existing economic and socio-cultural goals.

A prolonged reliance on foreign labour can generate social and political problems as well as give a wrong signal to industries that they can continue to rely on foreign labour without having to undertake strategic adjustments in moving towards labour-saving production technology (MOF 1995:39).

<table>
<thead>
<tr>
<th>Year</th>
<th>no. of strikes</th>
<th>no. of workers involved</th>
<th>working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990*</td>
<td>17</td>
<td>98,510</td>
<td>301,978</td>
</tr>
<tr>
<td>1991</td>
<td>23</td>
<td>4,207</td>
<td>23,448</td>
</tr>
<tr>
<td>1992</td>
<td>17</td>
<td>6,110</td>
<td>16,164</td>
</tr>
<tr>
<td>1993</td>
<td>18</td>
<td>2,400</td>
<td>7,160</td>
</tr>
<tr>
<td>1994</td>
<td>15</td>
<td>2,289</td>
<td>5,675</td>
</tr>
<tr>
<td>1995</td>
<td>13</td>
<td>1,748</td>
<td>4,884</td>
</tr>
<tr>
<td>1996</td>
<td>9</td>
<td>995</td>
<td>2,553</td>
</tr>
<tr>
<td>1997</td>
<td>5</td>
<td>812</td>
<td>2,396</td>
</tr>
<tr>
<td>1998</td>
<td>12</td>
<td>1,778</td>
<td>2,685</td>
</tr>
<tr>
<td>1999</td>
<td>11</td>
<td>3,452</td>
<td>10,555</td>
</tr>
<tr>
<td>2000</td>
<td>11</td>
<td>2,969</td>
<td>6,068(^{3})</td>
</tr>
</tbody>
</table>

Source: Maimunah 1999:179; Ministry of Human Resources website. * A national strike by the National Union of Plantation Workers accounts for 96,970 workers and 293,885 days lost (Jomo and Todd 1994:51).

Despite these concerns, the 1990s was in fact marked by a lack of legislative responses to long term structural labour market problems.

Although Malaysia’s industrial strategy has consequently shifted from primary EOI to higher technology-based capital investment, the Malaysian labour laws have not changed significantly over the period of these developments (Suhanah 2002:56).

The following section examines a range of factors limiting the government’s responses towards instituting the reforms widely suggested by a variety of international organisations including the World Bank, the Asian Development Bank, and various agencies of the United Nations, and those requested by domestic industry lobby groups.
Structural problems in the labour force

Two World Bank investigations of the Malaysian labour market (Mazumdar 1991; World Bank 1995) identified serious bottlenecks in the supply of labour, both in terms of quantity and skill level. These bottlenecks were considered as threatening to future economic growth, reducing Malaysia’s attractiveness to foreign investors. Between 1985 and 1991, the skill intensity of the labour force declined from 0.43 to 0.35, which, as noted by the World Bank (1995:7), was ‘in direct contrast to the government’s declared objective of upgrading the skill composition of the labour force to move to higher value added products’.

Research by the Asian Development Bank (ADB 1997:10-11) identified particularly that the education and training sector was failing to deliver an adequately and appropriately trained skilled labour force. Malaysian industry in general underinvested in training, SMEs particularly (Wong 1997:9). Also contributing to the low skill intensity rates was the continued influx of unskilled and semiskilled migrant labour and high rates of out-migration by Malaysian professionals.

<table>
<thead>
<tr>
<th>Skill level</th>
<th>1990</th>
<th>1995</th>
<th>Average annual growth rate 1991-95 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial/professional</td>
<td>50,281</td>
<td>88,219</td>
<td>11.9</td>
</tr>
<tr>
<td>Technical/supervisory</td>
<td>114,592</td>
<td>184,644</td>
<td>10.0</td>
</tr>
<tr>
<td>Clerical</td>
<td>88,840</td>
<td>129,250</td>
<td>7.8</td>
</tr>
<tr>
<td>General workers</td>
<td>53,620</td>
<td>63,600</td>
<td>3.5</td>
</tr>
<tr>
<td>Skilled</td>
<td>351,765</td>
<td>533,416</td>
<td>8.7</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>209,698</td>
<td>359,030</td>
<td>11.4</td>
</tr>
<tr>
<td>Unskilled</td>
<td>464,034</td>
<td>693,441</td>
<td>8.4</td>
</tr>
<tr>
<td>Total</td>
<td>1,332,829</td>
<td>2,051,600</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Malaysia’s rapid recovery from the recession of 1985/86 was evidenced by increasingly tight labour market conditions and wages growth of approximately ten per cent for skilled workers between 1987 and 1993 (Wong and Gill 2000:220). For unskilled workers, the increases were an estimated five per cent over the same period. According to the World Bank (1995:iii), the widening wage differential threatened ‘Malaysia’s excellent record on reducing income inequality’. The upward pressure on wages had received negative coverage in the foreign press. The Asian Wall Street Journal for example, carried the story ‘Wages rise 10% in Malaysia’ (July 13 1990).

Table 5.7 Labour cost and value added per worker in manufacturing (US$ per year)

<table>
<thead>
<tr>
<th>Countries</th>
<th>labour cost (wage)</th>
<th>value added</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>2,519</td>
<td>3,429</td>
</tr>
<tr>
<td>Thailand</td>
<td>2,305</td>
<td>2,705</td>
</tr>
<tr>
<td>Indonesia</td>
<td>898</td>
<td>1,008</td>
</tr>
<tr>
<td>Philippines</td>
<td>1,240</td>
<td>2,450</td>
</tr>
<tr>
<td>Singapore</td>
<td>5,576</td>
<td>21,534</td>
</tr>
<tr>
<td>Sth Korea</td>
<td>3,153</td>
<td>10,743</td>
</tr>
<tr>
<td>China</td>
<td>472</td>
<td>729</td>
</tr>
</tbody>
</table>


Yet despite the labour shortage, the labour force participation rate for women remained low at 47.8 per cent in 1990, dipping even further throughout the decade (see Table 5.9 below). Participation rates by older Malaysians (over 60 years) had declined rapidly from over 37 per cent in 1970 to 25 per cent in 1991 (Ong 2002:table 4.5).
Institutional responses

In 1990, the Ministry of Labour and Manpower was renamed the Ministry of Human Resources (MHR). Inagami (1998:36) suggests the new name heralded a change in direction towards the management of labour force issues given that Malaysia was officially recording full employment levels throughout the early 1990s ‘…leading to a strong awareness of the need to control the consequent pressure for wage rises on the one hand, and of the importance of human resources for a high value-added capital-intensive economy on the other’. In the following year, the National Labour Policy was released by MHR which suggested a more inclusive approach towards organised labour.

Unions and management must regard each other as partners in economic progress…The parties must also adopt a proactive approach to industrial relations which requires close rapport and consensus-building…There is a need for management to encourage worker participation through consultation such that workers are treated as members of the organisational family...Trade unions should promote positive work and productivity attitudes among the workforce… (Cited in Woodiwiss 1998:213-214).

The tripartitism this implies did not eventuate. The peak forum for tripartite labour discussions, the National Labour Advisory Council (NLAC) met on an irregular basis and was not empowered with decision making authorities. Wangel (1999:3) concluded that ‘[t]he labour laws are amended unilaterally by the government coalition after superficial consultations within a tripartite system of a purely formal nature’. Interviews with staff in the MHR suggest the situation is more complex in that the forum is valuable for unearthing and even addressing disagreements before they are more publicly expressed. Hence while the

21 When questioned why the change had occurred, then Minister, Lim Ah Lek, told reporters that the new name ‘sounded better’ (personal correspondence with Maimunah Aminuddin 2003).

22 In the following chapter, I discuss the NLAC as a forum in which the MHR seeks to ascertain the views of employer and union groups in order to avoid public debate and to present a
machinery for the incorporation of Malaysian trade unions was in place, the organised labour movement in Malaysia remained politically excluded. The government’s support for the Malaysian Labour Organisation (MLO), established in competition against the MTUC in 1989 (Bhopal 2001:12), was a clear attempt to further fracture the existing union movement, but as the MLO leadership proved unable to garner much support amongst the private sector unions and had largely failed to present a challenge to the MTUC, the Minister for HR advised the leadership to remerge with the MTUC in 1997 (Rowley and Bhopal 2005).  

Despite these machinations, the government did not have a lot to fear from organised labour, particularly in the realm of domestic politics and industrial relations. It was the international connections of the MTUC, including its affiliation with the ICFTU, its position in the ILO, and its role in pursuing the formation of a national union in the US-dominated electronics sector that caused the state embarrassment. This led to an awkward show down with the Malaysian-American Electronics Industry lobby group and the US Government. By making the issue a high profile one internationally, the MTUC was criticised in the media as lacking a ‘sense of patriotism’ (Editorial, NST 27 July 1992). Ghafar Baba, then deputy Prime Minister, told the press that ‘destructive methods were being used by a small group of unionists…who were not bothered consensual view to the public, thus enhancing the view of the government as a sound economic manager.

Rowley and Bhopal (2005:15) offer additional reasons for the involvement of the Minister for HR in the MLO’s re-merger with the MTUC including the need for MTUC President Zainal Rampak, newly recruited by UMNO, to gather more support against the popular MTUC Secretary General, Rajasekaran who favoured an alternative President for the MTUC.

The Malaysian-American Electronics Industry is a lobby group representing US owned electronics firms operating in Malaysia. It is also a standing committee of the American Malaysian Chamber of Commerce (AMCHAM 2003).
about peace and harmony and who placed their own interests above the country’s interests...’ (NST 29 September 1992). Kuruvilla and Arudsothy (1995:188) note that as a result of the negative international publicity generated by the anti-union decision, the ASEAN Labour Ministers met in early 1993, prior to the 80th ILO Conference, to devise strategies in order to ward off further international criticism, asking the ILO to give heed to the differing needs and abilities of developing economies to implement labour policies. At the Singapore meeting of the WTO in 1996, Malaysia’s Minister for International Trade and Industry, Rafidah Aziz, rejected, in agreement with other ASEAN members, the imposition of core labour standards on trade related arrangements.

Malaysia also rejects the use of trade measures to enforce labour standards, and reaffirms the stand that the comparative and competitive advantage of low-wage countries should not be put into question (WTO 1996).

Consistent with the Look East emphasis of the previous decade, Mahathir continued an anti-Western and anti-globalisation rhetoric that warned Malaysian workers of the dangers of ‘Western-style’ unionism. His address to the UMNO General Assembly at the close of 1993 described industrial action as ‘primitive’ and a ‘manifestation of shallow Western civilisation’ (cited in Wangel 1999:4). Similarly, ‘[t]he idea that “something can be had for nothing” permeates the present attitude towards work in all too many Western countries...workers blithely demand better pay and more benefits...’ (Mahathir 1999:85). The union movement was briefly courted by opposition party Semangat 46 in the lead up to the 1990 election, and then by Anwar Ibrahim, who, according to Bhopal (2001:12), was motivated by a desire to broaden his own support base within UMNO. Then President of the MTUC, Zainal Rampak left Semangat 46 and in
1996 joined UMNO. He was appointed a Senator in 1998. The MTUC was then forced to defend itself against claims that its leadership was beholden to the government (George 2004b). Given low rates of union coverage, limited access to the main stream media and internal disputes, it was clearly not the MTUC that presented the major obstacle to the government’s stated intention of reviewing labour legislation and restructuring the labour force in order to complete the transition towards a k-economy.

Figure 5.1 Unemployment rate, 1990-2000


As the local labour supply dwindled, the shortage of labour, particularly skilled labour, posed a far greater challenge to the state’s agenda for labour reforms. In 1989, recognising the need for stronger coordination of industrial skills training, the government had established the National Vocational Training Council. The World Bank (1995:92) expressed concerns at the effectiveness of the Council whose role placed it at odds with the Ministry of Education, and even the Malaysian Government admitted its education and training institutions were unable to cope with the demand for skilled labour (Government of Malaysia 1996:104).
Compounding the failure of state institutions to deliver a skilled workforce was the widespread reluctance of industry to invest in training given a labour shortage situation in which workers were ‘job hopping’, firms were ‘poaching’ and the wages of skilled workers were rising (MOF 1995:39; Wong and Gill 2000:238). The Human Resources Development Fund (HRDF) was therefore established in 1992 ‘…to stimulate private sector involvement in training and retraining of their workers’ (Government of Malaysia 1996:119). A decade later, the privatised HRDF was still unable to attract greater participation by SMEs (NST 9 May 2002).25

A clash between institutionalised compromises

Linking this discussion back to the strategies utilised in the régulation of labour and the difficulties this created in relation to other government policies, a number of existing features within the state-labour nexus can be seen to have impacted on the ability of the state to deliver a more highly trained labour force. Firstly, as discussed above, the use of MOE to implement government policies to deliver a contained Malay nationalism had compromised its role as a provider of suitably skilled labour for the workforce. Secondly, the perception that the predominantly Malay civil service was anti-Chinese discouraged Chinese business owners from registering in government schemes, including the HRDF. Thirdly, the government’s pursuit of low wages and political repression had contributed to the high rates of emigration by Malaysian professionals, some for better wages, others in pursuit of more social and political freedoms (Hing 2000). The emphasis on containing wages growth also encouraged high rates of labour

25 By mid 2002, a director of the company overseeing the operations of the HRDF stated that SMEs had not participated in the scheme in greater numbers, despite being offered an RM2
turnover amongst workers who were willing to change employers when offered slightly higher wages by competing firms (Rasiah 1995:78). Labour turnover raises the costs of training and therefore acts as a disincentive to firms. Fourthly, the government’s refusal to implement a welfare scheme for unemployed workers also exacerbated job hopping as employees sought employers willing to offer a wider package of benefits such as termination payments.

Failing to deliver trained workers, the chief governmental response to the shortage of labour in the plantation, construction and household services sectors was the liberalisation of labour migration, announced in 1991 as a temporary measure.

<table>
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<th>Table 5.8 Migrant workers in Malaysia by sector, 1991</th>
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<tr>
<td>estimated number ('000)</td>
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<tr>
<td>Agriculture and forestry</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Manufacturing</td>
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<tr>
<td>Non-government services</td>
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<tr>
<td><strong>Total</strong></td>
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By 1995 more than 600,000 foreign workers were legally working in Malaysia (Government of Malaysia 1996), a figure that increased to approximately 750,000 by 2000 (EPU 2001:153). Analysts commonly state that the true size of the foreign workforce is at least double that number, and possibly as high as two million given vast numbers of undocumented migrant workers (Azizah 2000; Menon 2001; Pillai 1999). By the close of the decade, official data indicated that subsidy for every RM1 spent on staff training (NST 9 May 2002).
migrant workers were no longer concentrated in the rural sector (23 per cent) but were instead increasingly employed in manufacturing industries (30 per cent). A further 20 per cent were women employed in housekeeping duties in private homes and hotels (Government of Malaysia 2001:90). Workers employed in private homes are not covered by the Employment Act. Edwards (1997:21), in analysing the varying estimates of the foreign labour force, forecast that by 2000 foreign workers would account for a quarter of the work force in Malaysia.

Athukorala and Menon (2001:11), summarise the dilemmas surrounding the use of foreign labour:

By limiting increases in real wages, migrant workers hold back structural shifts in the manufacturing industry away from labour intensive manufacturing activities and towards high-tech and human-capital intensive production. They also tend to jeopardise technology transfer as firms are less willing to invest in contract workers through training and development of labour skills. These influences, in turn, limit factor productivity growth in manufacturing. In addition, migrant workers are likely to contribute to a widening of economic disparity by depressing the incomes of local unskilled workers.

Many of these factors have already been acknowledged by the Malaysian government which raises the question of why the government has adopted what Pillai (1999) has described as an inconsistent and ad hoc response.

Migrant labour has been critical to Malaysia’s economic growth, contributing in ways that have now become embedded in the wage labour nexus. Fold and Wangel (1998) argue that employers, particularly in the manufacturing sector, have adapted to the labour and skill shortage by relying on imported production technologies that require minimal training and can therefore be operated by low paid, migrant workers. In addition to the fact that employers have been able to
pay lower wages to migrant workers, by virtue of the relatively vulnerable status of many migrant workers, this pool of labour is easily dismissed during economic downturns, operating largely as a reserve army of labour and therefore not entitled to termination or redundancy benefits or to be given notice. In this the state colluded by not consistently enforcing the protections of the Employment Act, by demonising migrant workers through the press (Crinis 2006) and by making unionisation difficult for foreign workers.

Tey (1997) provides examples in the mainstream media of migrant workers being accused of creating social problems in Malaysia, by allegedly spreading HIV and tuberculosis (*Star* 6 August 1992; *Malay Mail* 22 October 1992), by being a burden on the education and health system (*NST* 1 December 1995), by begging (*Star* 17 February 1996) and contributing to high levels of crime. Much of the data on which the stories were based was released by government agencies including the Ministry of National Unity and Community, the Ministry of Health, the Department of Immigration and the Malaysian police. ‘Public management of migrant identities has produced an ‘insider-outsider’ distinction in society that enables the employment of foreign workers, yet mitigates overall Malaysian support for legitimate migrant complaints and rights’ (Chin 2000:1047).

Both the Malaysian government and capital benefit from a large migrant labour force in that the costs of reproducing this labour falls on the home country rather than the Malaysian economy. This is also the case should these workers require welfare support during periods of unemployment. The super exploitation of the
migrant labour force has therefore allowed the Malaysian state to expend its funds in the pursuit of other policies, including the delivery of concessions to the domestic labour force. In contrast, the migrant labour force experiences high levels of income insecurity, subject to the type of labour control consistent with Burawoy’s description of *market despotism*. ‘One reason for the proneness to crisis of despotic capitalism was its tendency to undercut labor’s ability to reproduce itself…’ (Peck 1996:36). In Malaysia, despotic means of labour control can be effectively used against migrant labour given the poor economic conditions in the major sending country, Indonesia, and the limited impact of efforts made by the governments of sending countries to protect their workers abroad. The Malaysian government does not have to underwrite the reproduction of this labour force, and it is repatriated during periods of economic downturn.

However, Malaysia’s declining ability to compete internationally on the basis of labour intensive manufacturing altered this economic balance and created pressures for the reform of these arrangements and of the institutions responsible for overseeing the labour market. Government levies on the import of foreign labour were doubled in the 1996 Budget. Concerns that this would encourage greater use of illegal migrant labour (Edwards 1997:14) have since been borne out (figures are provided in the following chapter). The government delayed the introduction of more stringent restrictions on migrant labour until 2000 even though this was contrary to stated labour policy, but used the intervening time to strengthen its case against the use of migrant labour.
Contradictions in female labour force participation

The government had hoped to reduce some of the dependence on foreign labour by encouraging more local women into the labour force. Despite the labour shortage, the rates of labour force participation by Malaysian women were considerably lower than those for men, and lower than those recorded by women in neighbouring countries (Sen 1999). In searching for a reason, the government concluded, ‘The relatively low participation of women despite the increase in their educational attainment and the buoyancy of the job market was to a certain extent due to the lack of affordable and quality child-care services, and flexible working conditions for women’ (Government of Malaysia 1996:622).

<table>
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<th>Table 5.9 Participation rates by gender, Malaysia</th>
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<tr>
<td><strong>Labour force participation rates</strong></td>
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<tr>
<td>Male</td>
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<tr>
<td>Female</td>
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<td>Total</td>
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In 1989, as local sources of labour dried up, the National Policy on Women was released which emphasised the importance of women’s participation in Malaysia’s economic development. In 1995 the Government of Malaysia acceded to the UN’s Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW). The Employment Act was amended in 1998 which ‘provided for flexible working hours and…permitted women to be gainfully employed in part-time employment, while allowing them the flexibility to meet their family obligations’ (Government of Malaysia 2001:560). In 1999 a separate Ministry of Women and Family Development was established and guidelines to prevent sexual harassment were published. However, the government moved away from enforcing these guidelines through legislation;
employer groups, in particular the MEF, successfully lobbied for self regulation (*Business Times* 27 May 2000).

The government announced that tax exemptions were to be given to employers for the establishment of child care facilities near workplaces (Government of Malaysia 1996:111). Representatives of the union movement agreed that a lack of child care posed a restriction on potential female workers (interview with MTUC Women's Officer, June 2001; *Sun* 3 June 2001). In a debate played out through the mainstream media from the mid 1990s, the Minister for Unity and Social Development urged workplaces to provide child care, a demand rejected by the MEF which argued that the move would increase the costs of doing business in Malaysia (*Business Times* 2 August 2001; *Business Times* 23 August 2001). The debate continued into the next decade as the government refused to force these costs on to employers. In what was essentially a political process to determine the distribution of the costs of labour’s social reproduction, child care, and the employment of domestic workers, remained the responsibility of households.

**Summary**

Half way through the 1990s, the government had managed to implement only limited institutional and legislative reforms in labour-related areas. In 1994 the Occupational Safety and Health Act was introduced, establishing the National Council for Occupational Safety and Health and replacing the Factories and Machinery Act of 1967. Some care was also taken to reassure the public in response to criticisms raised by the MTUC about the EPF, where the retirement
funds of the workforce were being managed. The government relied on the increasing numbers of foreign workers in order to deal with wage pressures and the shortage of labour and skills. This was a partially successful strategy in that by the mid 1990s, wages growth had slowed somewhat (Government of Malaysia 1996:269) but it really did little in terms of addressing future labour needs or the rising rural/urban income divide. Rasiah (1995:90) argued that Malaysia in 1995 was ‘at a critical juncture’, having reached a ceiling in terms of further gains from labour intensive industries while yet to put in place the full range of policies required to move towards a higher value added, technology intensive economy. Strategies to address this situation were contained within the Seventh Malaysia Plan (Government of Malaysia 1996) but as will be discussed below, the economic and political turmoils of the late 1990s intervened.

**The Seventh Malaysia Plan 1996-2000 interrupted**

The Prime Minister, introducing the *Seventh Malaysia Plan 1996-2000* (Government of Malaysia 1996:vi), acknowledged the central importance of efforts to address labour shortages and to improve the skill levels of the labour force. In summary, firms were encouraged to move away from labour intensive production systems and to reduce their reliance on foreign workers. The public and private sectors were urged to be more productive, and plans were to be introduced to improve the science and technology related skills of the workforce. This, it was hoped, would enable Malaysia to improve its ability to compete globally. It signalled the government’s intention to undertake a major restructuring of the labour market, the labour force, the training sector and labour related legislation.
As a short term measure the government has allowed the import of foreign labour for certain sectors of the economy to relieve the problem of labour shortages. However the long term solution to this problem lies in utilising labour more efficiently and productively. This would require reducing the demand for labour through labour-saving techniques and processes. In this regard, the nation must move up the ladder of production from labour-intensive and assembly type of processes [sic] towards more capital- and technology-intensive as well as knowledge-based industries and processes (Government of Malaysia 1996:7).

Two proposals emerged in 1996 to address the issue of labour productivity and to increase the capacity of the higher education sector to deliver appropriately skilled workers. The first was a discussion paper on productivity linked wage schemes (PLWS); the second was the enactment of legislation that allowed the emergence of private sector universities and colleges.

In 1996, the National Labour Advisory Council published its Guidelines on Wage Reform System (MHR 1996) with the objective of introducing a stronger link between productivity and remuneration.26 The MEF was strongly in favour of PLWSs and was able to campaign for their introduction through a column written by MEF Director, Shamsuddin Bardin, and published in the Business Times (BT) insert of the NST (see for example BT 6 July 2000 and BT 7 September 2000). The MTUC rejected the idea, arguing for the introduction of a minimum wage as a first step in any reform process. While the NLAC operates only in an advisory capacity and has been derided as ineffectual, government members of the committee used the forum to assess the strength of the MTUC’s opposition (interview MHR staff July 2002) and, failing to reach a consensus,

26 The MHR offered two models for linking productivity to remuneration; the profitability and the productivity model. Each model has a fixed wage component but differs in the formula for calculating the variable component that comprises the employee's share of increased company productivity. See the Ministry of Human Resources (Kementerian Sumber Manusia) website for details of the proposed scheme, available at www.jaring.my/ksm
instituted only minor amendments to the *Employment Act* in 1998 that permitted rather than required employers to utilise bonus schemes in determining wages. The issue of PLWS then appears to have passed to the National Productivity Commission (Government of Malaysia 2001:116), a corporatised government agency which in 1999 published a more detailed guide, *A Handbook on Productivity Linked Wage System*. In the decade following, the government was still unwilling to force the issue and instead utilised the imperative of the k-economy to encourage reforms to wages schemes. This is discussed in the chapter following.

The passing of the *Private Higher Educational Institutions Act* in 1996 had a far more immediate impact. By the close of the decade, six locally owned private universities were established, three foreign universities had located campuses in Malaysia and more than 600 private colleges of varying quality were operating. A Private Higher Education Department was created within the MOE. The government’s stated aim in allowing the private sector to operate in this sphere was the increased availability of places but the reforms served another purpose. By allowing private sector institutions to offer university degrees, the state has been able to appease the concerns of those Chinese parents seeking a university education for their children who were unable to afford to send their children overseas and were unable to gain a place in local public institutions because of the quota system which set aside 55 per cent of places for *Bumiputera* students. It was estimated that over 80 per cent of students in private universities were ethnic Chinese (Lee 1999). Through privatisation, the government avoided some of the public debate regarding the merits of the current quota system and an
electoral backlash should it have dismantled the pro-Malay policies governing public higher education. The difficulties confronting the MOE, in bearing responsibility for important NEP policies as well as contributing to reforms in the education system as demanded by employer groups, are revisited in the following chapter given the implications for the producing a more skilled labour force.

Recession and political turmoil

From July 1997, Malaysia, along with a number of other Southeast and East Asian economies, experienced a currency and stock market crisis that broadened into a financial crisis. For the first time since the recession of 1985, the Malaysian economy went into recession, recording GDP growth of minus 6.7 per cent in 1998 compared with GDP growth of 7.7 per cent in 1997 (Rahman Embong 2000:137). One could assume that this was a period in Malaysia’s history where labour was particularly vulnerable, but despite the state of the economy, official unemployment data recorded only a modest rise from 2.6 per cent to 3.2 per cent in 1998, far less than the 6.4 per cent the government had predicted (EPU 1998:115). The true scale of unemployment was disguised somewhat by the number of workers whose contracts were not renewed as opposed to those officially made redundant and therefore included in the government’s unemployment data (Campbell c2000:12).

The brunt of the unemployment generated by the recession was borne by the migrant labour force, particularly undocumented workers who lacked contracts, many of whom were concentrated in the more vulnerable export and construction
sectors. In 1998 approximately 400,000 legal foreign workers were repatriated (World Bank 2000c:14). The World Bank (2000c:3) argued that the reduction in the migrant labour force ‘provided a significant safety valve for the domestic labor market’. Another factor differentiating Malaysia from neighbouring Indonesia and Thailand, was the flexibility of wage determination in the Malaysian labour market. According to the World Bank (2000:3), this prevented more widespread job losses as employers were able to reduce wages and thus retain staff even at lower levels of productivity. In the manufacturing sector, real wages fell by 2.4 per cent in 1998 and overall by 1.1 per cent. Other policy measures were implemented that sought to shelter the domestic labour force from the recession, including requirements imposed on firms that redundancies be reported to the government in advance, and that foreign workers be made redundant before local workers. By mid 1999, 407,800 Malaysians were officially recorded as unemployed, an indicator of real hardship certainly, but a significantly better outcome relative to the regional situation. This better than expected outcome had not appeared likely in the early days of recession as is discussed below.

By the end of 1997 important differences in policy direction had emerged between the Prime Minister and his deputy, Anwar Ibrahim, who also held the position of Finance Minister. As the initial crisis deepened into recession, Anwar instituted a contractionary reform package in December 1997 that not only threatened many of the existing relationships between big business and the ruling elite, but also posed a challenge to state-labour relations. Pay cuts for senior bureaucrats and a freeze on salary increments for middle to top level civil
servants were imposed, while consumption credit, including that for real estate, was to be squeezed.

The National Economic Action Council (NEAC) was established early in 1998, ostensibly to gain public input into the formulation of a recovery plan. According to the NEAC’s Deputy Chief, Victor Wee (1998:369), the team conducted

...extensive consultations with many people representing Federal and State Government leaders, senior and retired government officials, captains of industries [sic], representatives from industry groups, trade unions, professional associations, media, women [sic] organisations, and non-governmental organisations.

While making much of this ‘consultative’ approach, Mahathir also used the opportunity to bring back into prominence his former economic advisor and Finance Minister, Daim Zainuddin, who was appointed Executive Director of the NEAC (Gomez and Jomo 1999:188). The escalation in political and personal differences between Anwar and Mahathir led in September 1998 to the sacking of Anwar from both his ministerial post and UMNO. Anwar was later detained, charged, and eventually found guilty of a number of offences resulting in a prison term. Mahathir assumed the role of Finance Minister until he reappointed Daim to the position in 1999.

The NEAC published the National Economic Recovery Plan (EPU 1998) in August 1998. Included in its recommendations was an attempt to reduce Malaysia’s reliance on foreign labour. The domestic unemployment created by the recession placed political pressure on the government to take heed of the

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27 A detailed list of the individuals and organizations consulted with was included in the NEAC’s major report, the National Economic Recovery Plan (EPU 1998).
28 After a series of appeals, Anwar was released in 2004 although he was not cleared of all charges.
plight of local workers and also provided an opportunity to reduce the number of foreign workers. It therefore imposed tighter restrictions on foreign workers including a freeze on recruitment, the repatriation of unwanted foreign workers, and, for those allowed to stay, the imposition of charges for the use of medical or educational facilities (EPU 1998:125-126). Foreign workers were also required to contribute to the EPF, effectively increasing their cost to employers.

The NEAC did not adopt the more neoliberal economic direction suggested by the IMF (Henderson et al. 2002:15) nor the contractionary economic reforms recommended by Anwar. In fact, the original development budget in the Seventh Malaysia Plan (Government of Malaysia 1996) was increased from RM67.5 billion to RM89.5 billion, much of it directed towards poorer states with greater proportions of Malays (Nesadurai 2000:81-82). In accounting for this, Nesadurai (2000:75) argues that domestic political factors posed a restraint on the policy choices available to the ruling elite, chiefly the continuing political imperative of retaining the ethnic based redistribution program that relied on continued government interventions in society and the economy. However, additional political and economic factors constrained the cabinet. As noted by Gomez and Jomo (1999:200), ‘By December 1997, Mahathir’s position appeared weakened, with growing disillusionment setting in among the business and middle classes…’. With Anwar’s policy stance indicating a willingness to act independently of Mahathir, the Prime Minister moved to impose his own economic regime from June of 1998, following which he embarked upon a series of roadshows throughout Malaysia designed to shore up his personal support (Nesadurai 2000:97).
Delivering the 1999 budget speech in October of 1998, in the midst of recession and following close on the sacking and arrest of Anwar, Mahathir thanked public servants. Their allowances had been withdrawn since January but CUEPACS had made public statements of loyalty, stating that all claims on the government would be postponed until the economy improved (ICFTU-APRO Jan 20 1998). ‘The Government is deeply appreciative of the contributions of members of the public sector who have always shown their undivided support in the implementation of Government decisions and policies’ (Mahathir 1998:20). He also announced that public servants would receive a holiday on one Saturday of each month, to act as a fillip for the domestic tourism sector (Mahathir 1998:24-25). Likewise, Mahathir set aside RM783 million for the construction of quarters for public servants (Mahathir 1998:18), a move that supported the construction, real estate and finance sectors as well as delivering housing to teachers, members of the armed forces, customs and immigration staff and the police, the vast majority of whom were Malay. In June 1999, as Malaysia’s economy recovered, all serving and retired civil servants below the top level were awarded a RM600 bonus, while staff in statutory authorities were awarded a pay rise, moves designed to shore up Mahathir’s public standing (Abdul Rahman 2000:139) as well as to further stimulate domestic demand.

Workers in the private sector were not forgotten.

Unlike in other countries, workers in Malaysia and their organisations do not purposely make excessive demands at this time even though they face hardships in their daily lives. Allow me to say “Thank You” to them (Mahathir 1998, 1999 Budget speech).
This praise for both unions and workers was uncommon and signalled Mahathir’s concern regarding the allegiance of the union movement and working class, many of whom were expected to be supporters of Anwar (Bhopal 2001; George 2004b). While it was apparently Anwar who sponsored Zainal’s membership of UMNO (Bhopal 2001), the appointment of Zainal as Senator appears to have been orchestrated by Mahathir. George (2004b) writes that Mahathir requested a meeting with MTUC leaders in early August 1998. After reportedly agreeing with their claim for the imposition of a minimum wage (interview Zainal Rampak 2002), Mahathir then spent 45 minutes alone with Zainal, allegedly offering him the Senatorship, an appointment which was only made official in November, after Anwar’s arrest (George 2004b).

What Mahathir’s recovery policies also reflected was the dependence of the Malaysian government on both the private consumption and the savings of Malaysian and foreign workers. The increased proportion of professionals in the labour force, and high levels of employment, contributed to an increase in the importance of income tax to government revenues. In 1990, individual income taxes contributed approx 25 per cent of income tax. This reached about 31 per cent by 1995 (Government of Malaysia 1996:184). Sales and services taxes also expanded, partly due to tourism growth and the widening of the application of the tax to other services, but also due to increased domestic consumption. In 1990, sales and services taxes were 24 per cent of indirect taxation revenue, and increased to 31 per cent by 1995. The high level of domestic savings, available to the government through its management of the EPF, the PTF, the Pilgrimage Fund and profits generated by the state owned Petronas, were used to fund the
government’s recovery program (Gomez and Jomo 1999; Nesadurai 2000:103-104). During the 1997/98 financial crisis, the National Economic Action Council (NEAC) (1998:96-97), urged the Government to introduce legislation that would require foreign workers to pay into the EPF for the explicit purpose of increasing the funds available to the state to assist in the economic recovery. This was enacted from August of 1998. Mahathir implemented an expansionary program that encouraged credit and consumption, increasing government borrowings in order to issue tenders and contracts that generated economic activity and employment. A government-initiated Home Ownership Campaign between 12 December 1998 and 12 January 1999 generated RM3.5 billion of property sales, and was linked to policies that lowered interest rates. The increased liquidity that resulted eased household debt burdens and stimulated the domestic economy (Rujhan 2000:96). Mahathir also waived all tax on income derived in 1999, while also allowing losses to be carried forward, ostensibly to avoid any confusion in the introduction of a new taxation scheme to be introduced in 2001 (Mahathir 1998:22).

The impact of these policies on particular sectors of the economy and the bail outs of individual businesses has been discussed in detail elsewhere (Gomez and Jomo 1999, chapter 8; Jayasuriya and Rosser 2001:252), but the importance of the expansionary economic stance to lower and middle income earners has generally received less attention. In neighbouring countries affected by the crisis there were sharp hikes in the price of basic commodities, particularly fuel and food, and a surge in unemployment. This did not occur in Malaysia where
inflation was stabilised by the government and the brunt of unemployment was borne by the migrant labour force.

Conclusions

This chapter has explored the contradictions and constraints facing the Malaysian government throughout the 1990s as it responded to the imperatives of labour force reforms. Besides the continuing political saliency of ethnic considerations, the chapter also claimed that the economic importance to the government of the personal consumption and savings of the Malaysian workforce was exerting an influence on government decision making. While labour flexibility may suit particular employers, income security is linked to higher rates of consumption. The continuing reliance on the large pool of migrant labour, despite being contrary to state policy, also proved difficult to address. The exploitation of migrant labour effectively helped to fund the concessions delivered to the domestic labour force. Responses throughout the decade proved at varying times to be limited, contradictory, and ad hoc (Pillai 1999), reflective of domestic political and socio-cultural concerns as well as regional and international pressures.

DeSilva (1997:11) notes that pressure to restructure the labour force, particularly in open economies, is frequently depicted as an outcome of global economic forces that demand more flexibility. Kuruvilla and Erikson (2002:171), for example, argue that Malaysia’s concern to remain attractive to foreign investors has driven reforms to labour legislation that result in the casualisation of employment arrangements and increased employment insecurity. These
outcomes accurately capture the growing vulnerability of less skilled workers in Malaysia given continued employer preferences for temporary migrant labour.

However, this chapter has demonstrated a lack of reforms to labour legislation in Malaysia through most of the decade. The government, while active in industrial relations, has preferred that employers take the lead in determining the conditions of employment. In this sense, the government is able to avoid being embroiled in wage disputes.

Conclusions regarding employment conditions need also to take into account the segmented nature of the workforce. Civil servants, for example, retained their employment security and were largely protected from shifting economic pressures. While wage shifts were slight, allowances, free health care and access to low interest finance assist in expanding the consumption options of government employees. The segmentation of the labour market supports a range of labour control strategies beyond those contained in industrial relations legislation.

These pressures and the strategies of control adopted in response shifted throughout the decade. While Nesadurai (2000:105) concludes that ‘Mahathir has been unable and unwilling to fully dismantle the ethnic-based distributive policy that favours ethnic Malays with material entitlements’, even the predominantly Malay workforce at Proton suffered dramatic wage losses and a reduction of twenty per cent of the workforce during the 1998 financial crisis (Rasiah 2001a). There was therefore a noticeable disjuncture in the government’s
rhetoric towards the working class, particularly working class Malays, as opposed to the economic realities facing some of these workers. The widening of the earnings and income gap between rural and urban dwellers and between skilled and less skilled workers, amongst whom Malays remained over represented, and the widening of eligibility for schemes previously only available to Malays,\(^{29}\) suggested a real shift in strategy that favoured workers who would be of use in the creation of Mahathir’s vision for the future, the k-economy.

Mahathir introduced the notion of a *Bangsa Malaysia*, attempting to realign identification away from ethnicity. This strategy risked the previous Malay nationalism that underpinned the NEP. Williamson (2002:420) debated the risks facing Mahathir in his pursuit of *Bangsa Malaysia* when previous strategies of control had relied on a vertical division of society and labour along the lines of ethnicity.

…these changes pose several challenges to Mahathir’s rule. His corporate strategy aims to usher in an expanded, ethnically diverse bourgeois class. In doing so, there is every risk that these new coalitions might seek political liberties and power beyond what the Mahathir regime is willing to give.

The government appears to have recognised the potential for this. ‘With the development of a knowledge-based economy the acquisition, utilization, dissemination and management of knowledge will be more liberal and can be abused’ (Government of Malaysia 2001:117). In this sense, the k-economy rhetoric reflected the same tensions as *Bangsa Malaysia*. K-economy workers were empowered technopreneurs; they were individuals willing to invest in their

\(^{29}\) The share schemes previously created to increase *Bumiputera* share ownership rates were opened to non-Malays. Navaratnam (1998:45) refers to this as a ‘major breakthrough in our
own skills through the pursuit of lifelong learning. This emphasis on the empowered and knowledgeable individual was as an ideological justification for attempting to shift the increased costs of education onto households, but was not meant to extend into the realm of political freedoms.

The k-economy lifestyle was effectively linked to all manner of consumption options, from computers purchased through early access to EPF funds, to condominiums in high technology residential complexes. By the late 1990s, Malaysia’s poor were increasingly referred to as being on the wrong side of ‘the digital divide’ and a range of policy responses emerged to ‘change the mindsets’ of the poor, to encourage self-reliance and entrepreneurship (Government of Malaysia 2001:72).

The emphasis placed on consumption was reflected in government institutions from the late 1990s particularly. While Bangsa Malaysia and the k-economy were only ever partially embedded, culturally, politically and economically, in promoting a consumer economy, the government seemed on more sure ground. This claim is explored in Chapter Seven which describes the emergence of economic paternalism as an effective strategy in the régulation of labour.
Chapter Six: A workforce for the k-economy?

The quality of human resources will be the single most important factor that will determine the pace and success of the transformation toward the k-based economy (ISIS 2002:31).

Introduction

The transition to a knowledge-based economy (KBE) was originally presented by Mahathir in 1995 as a plan to reposition Malaysia internationally, to reduce its historical dependence on less skilled manufacturing processes, and to assist Malaysia in meeting the development goals of Vision 2020. Then Deputy Prime Minister, Abdullah Badawi continued with this theme several years later:

Our migration to a k-economy is imperative for our long-term competitiveness. Today we are stuck in an uncompetitive gap. We neither offer labour that is cheap enough nor skilled enough (Deputy Prime Minister Abdullah Badawi 2001, cited in NST 15 June).

The previous chapter described the mid 1990s as marked by labour market contradictions. Wage growth and labour shortages generated criticisms from employer lobby groups. At the same time, the highly publicised unemployment of Bumiputera university graduates threatened the economic and ethno-nationalist credentials of the Malay-based ruling party. Malaysia’s standing on indices measuring international competitiveness was declining and the country was ranked 33rd out of 47 countries in terms of the availability of skilled labour. The rural population was losing in the competition for work in the plantation sector to cheaper migrant labour. This contributed to a widening gap between urban and rural incomes.
The need to implement reform was widely articulated at conferences by major industry and employer lobby groups. Yet the proposed transition generated a range of political and economic tensions given the embedded nature of the existing institutional arrangements and the, at times, conflicting goals of the parties seeking change. Borrowing from régulation theory, this chapter argues that the awkward and ad hoc restructuring process was evidence of a situation in which particular institutional compromises that had previously acted to support socio-ethnic stability began to stymie structural economic reforms considered necessary to regain international competitiveness (Lipietz 1987:34). In the late 1990s and early 2000s, the political leadership was unwilling to enact labour force policies that would overtly deliver greater managerial prerogatives and lower wages to capital, and gave the appearance of acting in an uncoordinated fashion in the restructuring of the employment, training and educational systems to develop the labour force required for the k-economy transition (Vicziany and Puteh 2004). The instances of institutional mismatch that are examined in this chapter are cited as examples of the contradictions faced by the government in managing labour’s participation in the economy and society. These examples further illustrate the transformative nature of state-labour conflicts despite the political weakness of organised labour. To alter labour force, training and education policies would prove a complex political exercise regardless of the economic imperatives.

The following section seeks to capture the nature of the government rhetoric surrounding the k-economy from the late 1990s. The k-economy transition was consistently portrayed by key political figures as a necessity if Malaysia was to
avoid being caught in a high cost, low skill labour ‘trap’. Yet despite a raft of announcements, remarkably little eventuated on the legislative front. The delayed, and often contradictory, responses of particular government agencies to these tensions and the resulting institutional mismatches that have resulted are examined in the remaining sections of the chapter, using the examples of three government ministries with key responsibilities for shaping the labour force. These are the Ministry of Human Resources, the Ministry of Education, and the Home Ministry which is responsible for overseeing labour migration arrangements.

Reforming labour for the k-economy

Malaysia’s industrialisation from the early 1970s was initially underpinned by a low wage regime that was, along with Malaysia’s political stability, an important factor in attracting FDI from higher wage economies. Yet by the mid 1990s, within ASEAN, Malaysia’s labour costs were second only to Singapore. In 2001 at the 15th ASEAN Labour Ministers Meeting held in Kuala Lumpur, the Minister for Human Resources, Fong Chan Onn, argued:

The comparative advantage that our region has been enjoying in providing low cost labour is being slowly eroded by the introduction of new technologies. We have to embrace these changes with a view of facing up to the challenges and tapping the opportunities and we should prepare our labour force to meet this changing world economic order.

Emphasising the external pressures facing the country, in 2002, Fong told attendees at the National Human Resources Summit, again in Kuala Lumpur, that:

...a mere production-based economy is fast becoming history...Malaysia cannot escape from the imperatives of the new
economy and its impact on our human resources, particularly with
the marauding challenges of globalisation beating unceasingly
and incessantly against our shores.

The notion of an external threat was also evident in the 2001 budget speech
delivered to the Parliament by the Minister of Finance, Daim Zainuddin. He
informed Malaysians: ‘We must accept the realities of the k-economy. We have
no other alternative. We shall all become citizens of the k-economy’ (Daim
Zainuddin 2000a).

Yet it was the government’s intention to convince Malaysians that changes
within the country were being shaped by strong leadership, despite the pressures
of globalisation. Daim’s address to the Multimedia Asia 2000 Conference in
Kuala Lumpur acknowledges the shifting external environment but explains the
move to a k-economy and k-society as the government’s considered response, an
initiative

…to enable Malaysians to compete at a global level and to take
advantage of globalisation…The fear is that Malaysia and other
developing nations may be trapped in a quadrant not of our
choosing if a laissez faire attitude is adopted (Daim 2000b).

Analysis of the KBE models developed by the OECD (1999) and APEC (2000),
similar versions of which were adopted by the Malaysian Government (Ministry
of Finance 2000), suggested that in order to support the development of a KBE,
important structural changes were required.

The major challenge currently facing the Malaysian economy in
gaining economic maturity is the upgrading of the workforce to
create the resource base to enter world trade in high-tech and
human capital-intensive product areas (Athukorala 2001:51).

Three agencies were most clearly implicated as necessary to this change. The
Ministry of Human Resources (MHR) was responsible for overseeing
employment and industrial relations legislation, and the matching of registered job seekers with vacancies, as well as funding a range of subsidised training and retraining schemes for the unemployed and those who wished to upgrade their vocational skills. The Ministry of Education (MOE) was then responsible for most aspects of the state-funded education system, apart from public vocational colleges under the direction of MHR. Thirdly, the Department of Immigration within the Home Ministry held responsibility for labour migration. Whole scale changes such as these generated a number of plans, master-plans, conferences and seminars, and involved business lobby groups, NGOs, think tanks and government agencies.

Institutional mismatches

It has been argued earlier that institutions can be considered as sites of conflict out of which may emerge resolutions that, when embedded, take the form of institutionalised mediations or compromises. ‘Institutionalised compromises result from situations of tension and conflict between socio-economic groups over a long period…’ (Andre 2002:95). In embarking upon the structural reforms related to the k-economy, existing institutionalised compromises would be encroached upon. Given the importance of these compromises to the resolution of particular past conflicts and the potential difficulties associated with attempting to dismantle them, this was a politically risky endeavour. The three government ministries under discussion have each been incorporated within a set of stabilising mediations. Each is examined in order to highlight how these demands for reforms impacted upon existing compromises. In summary, the

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In 2004, the Ministry of Education was restructured to create a separate Ministry of Higher Education.
reform process was often protracted, marked by differing paces of change between agencies such that contradictory policy stances and institutional mismatches emerged, and there were clear gaps between policy and practice.

The Ministry of Human Resources (MHR)

In 2000, newly appointed Minister for Human Resources, Fong Chan Onn, outlined a timetable of legislative reform to restructure Malaysia’s labour force in order to meet the demands of the k-economy. The Employment, the Industrial Relations and the Trade Union Acts were all to be amended. The original timing for the introduction of these changes was September 2002 in order to have been funded in the 2003 budget. Writing in 2006, similar claims regarding the necessity of these changes still frequently appear in the press (Bernama 23 May 2006). Little in the way of reforms to private sector employment related legislation has been presented to the Parliament. In fact, the Minister for HR claimed only recently that ‘the work at home concept for Malaysian women was still at the infancy stage’ (Zulkifli 2006), despite it having been on the reform agenda several years earlier. Funding for the Ministry of Human Resources for the period 2006-2010 has declined slightly to 1.1 per cent of overall allocations (Government of Malaysia 2006:530), which does not indicate that the Ministry is about to undertake any major new initiatives.

The labour related legislation and institutions overseen by MHR embody both paternalistic and repressive aspects of labour control. The protective provisions of the Employment Act and the Industrial Relations Act are demonstrated in the decisions of the Labour Court and the Industrial Court. The repressive aspects
are clearly apparent in the Trades Union Act and Industrial Relations Acts, each of which acts to limit the organising capacity of the trade union movement. The National Labour Advisory Committee (NLAC), the peak tripartite advisory committee, also falls within the responsibilities of the MHR.

The NLAC has been criticised as largely ineffectual given its status as an advisory body rather than a decision making forum (Fold and Wangel 1998). However, it has functioned in part as a stabilising mechanism, by providing the Ministry with insights into the concerns of labour organisations and employer groups that it might otherwise be unaware of given the constraints on civil society in Malaysia. In other nations, an active civil society can alert governments to potentially destabilising issues. In Malaysia, bodies such as the NLAC provide a less public forum that nonetheless achieves a similar monitoring outcome for the government.

Staff within the MHR have expressed the view that the intent of the Employment and Industrial Relations Acts is to provide a level of protection to workers above that delivered by the employment contract (interviews MHR 2002; see also Anantaraman 2001:2, 29). This view is also evident in the comments of Justice Gopal Sri Ram in a decision handed down in an appeal to the High Court in 2000 on the Employment Act 1955:

The scheme of the Act thus when viewed as a whole, is to afford protection to persons employed under a Contract of service. Hence, the Act is designed to afford a degree of security of tenure that is not available to a servant at common law. It is therefore plain that the Act is a piece of beneficent social legislation. As such its provisions must in accordance with well settled principles, receive a broad and liberal interpretation that enhances its avowed object’ (cited by Muhendaran 2001:1).
Further, the decisions handed down by the Industrial Court and the informal nature of its procedures, are perceived as more favourable to workers than employers (Maimunah 2001:5).

Employer and industry lobby groups have sought wide ranging amendments to legislation overseen by the MHR. These include amendments to the Industrial Court, the removal of restrictions in the Employment Act relating to the employment of females, and some means of preventing staff in ‘sensitive’ positions from joining unions. Here the issues of flexibility, productivity, retrenchments and training costs will be discussed.

Labour force flexibility

Within Malaysia, the concept of labour force flexibility has been promoted by the National Productivity Corporation since the 1980s, but was revised in the 1990s as part of the attempt to address issues of competitiveness. The Malaysian Employers’ Federation (MEF) has been particularly vocal on the topic, presenting the views of its members through a regular column written by its Executive Director, Shamsuddin Bardan, in the Business Times, an insert to the New Straits Times.

Standing (2002:33) has identified seven forms of ‘flexibility’ that have emerged in labour arrangements as an outcome of pressures associated with economic internationalisation.
Figure 6.1 Forms of flexibility in labour arrangements

- organisational flexibility – more turnover of firms, more use of sub-contracting and production “chains”, and a tendency to contract out the employment function;
- numerical flexibility – more use of external labour, such as contract workers, outworkers, homeworkers, agency labour, temporary workers, and teleworkers;
- functional flexibility – more changes in work tasks, job rotation, and skill for individual workers;
- job structure flexibility – more changes in the structure of jobs, associated with changes in job titles, number of them, etc.;
- working time flexibility – more continuous working, flexible hours, etc.;
- wage system flexibility – a shift from fixed to flexible wages, monetisation of remuneration, greater use of bonuses, etc.;
- labour force flexibility – less attachment to sectors, companies or occupational groups, erosion of “collective labour”, and greater tendency for workers to move in and out of the labour market and labour force.

(Source: Standing 2002:33)

Of the seven forms, employers in Malaysia have focused largely on those that deliver increased managerial prerogatives in the workplace, as opposed to those that seek to dismantle a labour force characterised by a high degree of regulation. Deyo (2001) usefully draws the distinction between ‘static' and

2 This is arguably the case in the more industrialised capitalist economies where centralised regulation of labour has been a feature, but does not adequately capture the reality of the segmented labour market in Malaysia where many workers are employed in the ‘informal economy’ and are beyond the scope of legislation and regulation of employment conditions.
'dynamic' forms of flexibility. Dynamic flexibility results from the innovative utilisation of an appropriately trained, multi-skilled workforce, allowing firms to respond quickly and efficiently to ongoing changes in product demand. Innovation, as opposed to low labour costs, is the basis of competitiveness. This contrasts with 'static flexibility', which, according to Deyo, ‘focuses on short-term adaptability and cost-cutting…with…negative consequences for labour…[Static flexibility] predominates in many countries and industrial sectors in the region’ (2001:269).

In contrast, the government states it is seeking to achieve labour force flexibilities that will bring about the multi-skilled workforce associated with a k-economy. Minister Fong announced in 2001 (NST 11 July 2001) that the Employment and Industrial Relations Acts were being amended to allow for ‘flexi-time’. He described these changes as both progressive and ‘in line with the emergence of a new work culture in Malaysia, especially with the increased use of information and communication technology’. Fong argued the changes were necessary for the protection of workers:

We need to broaden the context and scope so that we can provide legal protection to employees in this new environment…The primary aim of the amendments is to offer them protection (NST 11 July 2001).

In doing so, he attempted to reinforce the perception that the Ministry was acting on behalf of labour.

When the term 'flexible' workforce was used in conjunction with the k-economy, it had many positive connotations. It envisaged workers who were autonomous and empowered to make decisions without supervision, and able to apply their
initiative and creativity. Employers would be willing to pay higher wages in order to retain these workers, and their knowledge, with the firm. This was the model of a worker that figured in the media and government rhetoric surrounding the k-economy. ‘The term knowledge workers is not just another new buzzword…this new breed of versatile, autonomous and highly skilled workers…genuinely add value to information to create new knowledge’ (Mah Yong Sun of Andersen Consulting quoted in NST 25 May 1999).

**Issues of productivity**

One area that had long been a target for change by employers was the means of calculating remuneration. Rejecting calls by the trade union movement for a basic wage, the government agencies and employer groups instead advocated the linking of productivity to wages. In 1996, as mentioned in the previous chapter, the National Labour Advisory Council (MHR 1996) published its *Guidelines on Wage Reform System*, with the objective of introducing a stronger link between productivity and remuneration. In 1998, the Employment Act was amended to ‘encourage employers to follow an incentive payment scheme’ (Suhanah 2002:77). It did not require employers to introduce such schemes but it did make their introduction possible.

Minister Fong, citing data produced by the National Productivity Council, claimed that over 50 per cent of Collective Agreements signed in 2000 included a productivity component. Press reports (*Business Times* 27 June 2001; *Sun* 21 July 2001) indicated that schemes were more commonly introduced in operations where employee output was most easily measured, such as in garment and soft
furnishings manufacturing, and in other production line and packaging operations, for example, medical supplies warehouses. Findings handed down by the Industrial Court in the late 1990s also supported this conclusion (see for example, Braun Medical Industries versus Kesatuan Pekerja-Pekerja B. Braun Industries, Case No. 2/2-114/97, Industrial Law Reports).

Another case before the Industrial Court in 2000 with interesting implications for the k-economy transition involved the financial services sector. The Court ruled in favour of the association representing employees of HBSC Bank, thereby rejecting the company’s bid to link wages with productivity. The judge questioned how each employee’s contribution could be measured, given the intangible nature of the output (Industrial Court Malaysia, Case No. 7/2-500/2000). This outcome indicated that productivity related schemes would need to operate under a different model for 'k-workers', whose output will often comprise services of an ‘intangible nature’, and will often be the product of collaboration, raising difficulties of individual measurement.

The MEF argued that linking wages to productivity benefited both workers and business owners. ‘The improvement of productivity is generally accepted worldwide as necessary for sustainable economic growth and for improving the quality of life of the citizen' (Shamsuddin 6 July 2000). Productivity linked wages schemes (PLWS) are promoted as essential to achieving the flexibility required to be competitive. On the other hand, collective agreements, which determine wages and conditions in unionised workplaces in the private sector, are seen as by the MEF as not affording employers the flexibility required to be
competitive. Enforced minimum wages are rejected for the same reason and additionally because they are argued to have a flow on effect that will lead to inflation (Shamsuddin 6 July 2000).

While the introduction of PLWS appeared to be progressing only in an ad hoc fashion, Dr Fong nonetheless stated that linking wages to productivity was vital to Malaysia's future competitiveness, and encouraged firms to adopt schemes. 'Such a move will allow bonus, increments and other employee benefits to be closely linked to the productivity of workers' (Sun 21 July 2001; see also Business Times 27 June 2001). The ideal model of PLWS was a protracted topic of discussion by the Ministry of Human Resources, the National Productivity Corporation, employer groups and organised labour in the early 2000s, with employer groups preferring the option of determining schemes at the workplace level.

As stated in the Third Outline Perspective Plan (Government of Malaysia 2001b:121), 'skills and knowledge become the main assets for the economy to gain competitiveness' in the k-economy. The more highly skilled labour force leads to flatter hierarchies and semi-autonomous work teams allowing ‘better interaction…and…active involvement of workers in contributing ideas and decision-making' (Government of Malaysia 2001b:121). These claims provide a contrast to the emerging experiences of lower skilled worker where, instead of increased skill levels becoming more important, it is the physical fitness and stamina of workers that will be relied upon to improve productivity, further enforced via the insecurity of wages and increased individual scrutiny of
workers. These contrasting realities indicate a divergence in direction between those government agencies at the forefront of promoting the k-economy, such as the National Productivity Commission and those actually charged with responsibility for overseeing labour related legislation, such as the Labour and Industrial Courts.

*Retrenchments*

Widespread retrenchment is an ongoing reality during periods of economic downturn, but consistent with its attempts to promote a ‘caring’ image, the government makes a highly publicised attempt to measure and control retrenchments through the provisions of the Employment Act and through the collection and publication of retrenchments data in the mainstream press. The 1998 amendments to the Employment Act required employers to advise the Ministry of Human Resources one month in advance of impending retrenchments and to retrench foreign workers before local workers (*NST* 3 April 2001). Relatively generous retrenchment benefits provided under the Employment Act are designed to discourage retrenchment.3

The practice of retrenchment has been a sensitive matter, industrially and politically, and there is still a strong sentiment amongst many workers that the firm and the government should look after workers (Hing 2000:239-240; Todd and Peetz 2001:1378). In the public sector retrenchments were rare (interview, Siva Subramaniam, President of CUEPACS, May 2001).
The rhetoric of the competitive demands of the k-economy was adopted by employer groups in an effort to challenge the societal antipathy and the legislative impediments towards retrenching workers (NST 18 August 2001). The model k-worker is personally responsible for keeping up to date with skills and will be uncompetitive in the labour market as the result of not maintaining relevant skills. The individual becomes increasingly responsible for their employment status, lessening the degree of responsibility placed on the firm.

Today, seniority no longer guarantees employability and better positions. The comfort zone has simply disappeared...In the era of the K-economy, the business environment seeks employees who have the abilities [sic] to learn and unlearn...The K-economy also demands employees who have a passion for personal development. The faster one learns, the better it will be for him or her (Fong 2002a, Opening Address to the National Human Resources and Development Conference).

In this case, there exists a degree of unanimity between the government and employer groups, for a number of reasons. For employers, it is an attempt to reduce costs associated with retrenchment payments, and to avoid so-called rigidities in labour hiring arrangements. For both employers and the government, it signals an attempt to justify shifting the costs of learning from the state or the firm, to the individual. Depicting k-workers as powerful and independent provides the government with a continued justification for rejecting demands for a minimum wages policy and for refusing to implement a more comprehensive welfare system.

...the government has expressed concern over the cost and negative work incentive efforts that such programs may entail. They prefer to rely on labor market flexibility and rapid adjustment combined with selective as hoc expenditures such as those included in the 1999 and 2000 budgets as a means of

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3 For employees with less than two years of service, the retrenchment payment amounts to ten days per year of service. Those with more than three years of service are entitled to twenty days per year.
minimizing the impact on the poor, and maintenance of higher long term growth rates and high sustained investment in education and infrastructure as the best way to deliver opportunities to the broadest spectrum of the population over time (World Bank 2000a:12-13).

Press coverage during the 2001 economic downturn was frequently used to remind unemployed workers that opportunities existed for their retraining, and that despite the high number of retrenchments, there were in fact more vacancies than unemployed workers. For example, the Minister for Human Resources stated that while 31,000 workers had been laid off if the first 10 months of 2001, there were 103,000 vacancies advertised in the same period (NST 24 October 2001).

When in 2001 the MTUC revisited an earlier proposal for a retrenchment scheme that would guarantee workers their entitlements if the firm should prove unable to pay, the idea initially received a positive response from the current Minister (NST 5 May 2001). The scheme would have imposed a levy of 0.15 per cent on employees and employers. The MEF criticised the MTUC proposal, arguing that existing protections were adequate (Business Times 1 August 2001). The scheme was not introduced and received less attention in the wake of the economic recovery.

Despite the efforts to encourage flexible working arrangements in the private sector, the events surrounding the restructuring of Malaysian Airlines Systems (MAS) offers some insight into the constraints felt by political leaders when required to directly intervene in employment matters. In this case, sensitivities
were heightened by the fact that the majority of workforce was Malay, and MAS was the national carrier.

In 2001 when MAS, experiencing a severe debt burden, proposed retrenching 3,000 members of its predominantly Malay workforce, the application was rejected by the government. Even in 2002, with the decision to sell MAS assets, the Minister for Transport moved to reassure workers of continued employment, although ‘employees are expected to follow and take up jobs in the companies buying over these branches of MAS’ (*Star* 10 January 2002).

Concerns that MAS was not operating on a profitable basis were proved by the release of quarterly data that showed huge losses in late 2004. In mid 2005 the Prime Minister reassured the public that plans were in place to address the problems (*NST* 16 July 2005; *Star* 16 July 2005). The Prime Minister met with representatives of the MAS Employees’ Union in early December. The union leadership looked to the PM to resolve the situation, telling the media: ‘Let us wait for the decision of the Prime Minister. Everything will be decided on that day’ (*Bernama* 28 November 2005). A new managing director was appointed to MAS in December 2005 but he initially refused to comment on the likelihood of staff layoffs (Sidhu 2005).

By mid 2006, management of the government-owned company announced that a serious rationalisation of its domestic routes was necessary. This required that its 22,000 strong workforce be reduced by approximately one third. According to the government newsagency, *Bernama*, (29 May 2006) workers were to receive a
payment of RM100,000, unused leave would be bought back, and both the worker and their dependents would receive free medical coverage for a year. Union officials reportedly agreed that the amount paid to workers who accepted the offer was greater than that laid down in the collective agreement (*Malaysiakini* 23 May 2006).

**Bypassing MHR**

By the early 2000s, employers had had only limited success in achieving significant reforms to labour related legislation, despite receiving considerable verbal support from the Minister for HR and the Minister for International Trade and Industry, Rafidah Aziz. The situation became one where the Ministry of International Trade and Industry (MITI) under the long term leadership of Rafidah, took on some of the restructuring agenda, as well as becoming involved in aspects of the higher education sector and industrial skills training. MITI was, in many respects, bypassing the MHR and the MOE where change had emerged too slowly for some employer groups.

Through high level forums such as the National Committee on Business Competitiveness (NCBC, established in July 2001), chaired by Rafidah, and through corporatised government agencies, such as the National Productivity Corporation (NPC), which reported to Rafidah, efforts were undertaken to implement or at least to lobby for, significant changes in the structure, skill base and remuneration of the labour force that had not been achieved through the Ministries of HR and Education (MITI 2002; NCBC 2002; NPC 1999, 2001). The NCBC established a working group on human resources, education and
immigration. Members included representatives of the major industry lobby groups (interviews MICCI 2002 and AMCHAM 2002).

This is not to suggest that MITI is sheltered from the political and social pressures constraining MOE and MHR. As mentioned earlier, the Industrial Coordination Act (ICA), overseen by MITI, was introduced in 1975 as a means of ensuring that foreign manufacturing establishments ‘conduct their operations in a manner consistent with the requirements of national objectives’ (Government of Malaysia 1981:144). That is, as part of licensing requirements, foreign firms were required to employ a given quota of Malays. Therefore, even while at the forefront of promoting Malaysia as a place for foreign capital to operate, MITI has played a role in securing socio-political objectives. However, during Mahathir’s term as Minister of MITI (1976-79), the ICA was twice amended in an effort to reassure concerned foreign and local investors that they would have an adequate level of autonomy in running their businesses. In 1979, MITI formed an Industrial Advisory Council which provided a forum for the private sector to raise concerns. ‘Through this dialogue disaffected Chinese business persons were invited to discuss their concerns directly with (then) Minister of International Trade and Industry, Mahathir Mohamad’ (Biddle and Milor 1999:16). This has since developed into the MITI Annual Dialogue held in the pre budget build up. It is another avenue through which capital can bypass the predominantly Malay civil service in order to access senior government bureaucrats and politicians. MITI has therefore been more closely aligned with the business sector than have other government ministries.
The current mismatch in policy direction between MITI and MHR is not unexpected in an economy attempting an economic transition. Nonetheless, the nature of the mismatch indicates the particular characteristics of compromises embedded within MHR. Firstly, MHR staff interviewed in 2002 expressed the view that it is the role of the department to protect workers, particularly lower paid workers to whom the Employment Act applies. This was especially the case given that the union movement is perceived by some staff as unable or unwilling to protect workers. Secondly, MHR staff expressed the concern that if they pushed forward with change without gaining the agreement of the MTUC and the Malaysian Employers’ Federation, a level of public debate would have emerged, leaving the Ministry open to criticism that it was unable to achieve consensus. Consensus, or at least the absence of public debate, is central to the maintenance of the perception of the government as a sound economic manager and a feature of the paternalistic relationship between MHR and the union movement. Thirdly, acceding to the demands made by employers had the potential to reduce the Ministry’s legislative capacity to intervene in industrial relations and employment matters when it was deemed necessary. The government has actively enforced its central role in industrial relations, which has delivered political as well as labour market goals. However, while the government is relatively less active in regulating employment matters, it is consistent with the notion of a ‘caring’ government that it retain a protective legislative role with regard to lower paid worker even if in practise, managerial prerogative remains high.

4 Interviews were conducted in 2002 with staff involved in the tripartite committee overseeing the amendments to the Ministry’s legislation.
Therefore, while only selectively utilising the legislative options available to it in the management of the labour force, the Government of Malaysia has demonstrated a reluctance to relinquish its legislative role in industrial relations. A 2001 study of Malaysian industrial relations concluded that ‘[s]tate intervention remains pervasive, managerial control in the workplace continues to dominate and labour's ability to bargain collectively remains constricted’ (Todd and Peetz 2001:1380). While it is the government’s clear preference not to be involved directly in workplace matters, it is nonetheless unlikely to dismantle the labour-related institutions currently in place, preferring instead that increased flexibilities be built into employment legislation.

The Ministry of Education (MOE)

The MOE has played a central role in achieving the social engineering goals of the NEP, but in doing so, has become an institution steeped in ethno-political sensitivities. The MOE has implemented various policies designed to contain Malay aspirations within acceptable boundaries by promoting their cultural expression in the education system. As noted in earlier chapters, a quota system was enacted that allocates 65 per cent of places in public universities to Bumiputera. English as the language of instruction in the public education sector was progressively replaced with Bahasa Melayu (Malay language) from 1971. Despite allocating twenty per cent of all public spending to the education sector, a relatively large proportion of this goes directly to households via subsidies to Malay university students (Department of Foreign Affairs and Trade 2005:51). These were concessions to Malay nationalism that in the aftermath of the 1969 riots were considered politically and socially necessary. Hence, these measures
can be considered as institutional compromises, strategies that emerged within particular socio-cultural and political circumstances and which are now embedded such that reversing them is understood as risking Malay support for the government (Lee 2003). However, the government’s increased dependence on non-Malay electoral support also made it an increasingly risky proposition to overlook the demands of non-Malays for greater access to educational opportunities (Heng 1997:277). In the privatisation of higher education, therefore, we witness not only a pragmatic, if partial, response to the inadequacies of the sector, but also a politically acceptable means of delivering greater access to higher education for middle income non-Malays.

According to employer groups, several features of the public university system limit the usefulness of public sector graduates to the current workplace. Athukorala (2001:47) summarises the criticism voiced by employers.

…the NEP, despite its remarkable achievement in improving general literacy, has had an unintended negative effect on the quality of tertiary education…The imposition of racial quotas in favour of bumiputeras [sic] meant favouring equity and distribution objectives over merit…and the introduction of Bahasa Malaysia (the national language) in favour of English…As a result, students graduating from local tertiary institutions are commonly unfamiliar with English.

Facing criticism from non-Malays regarding the ethnic bias in allocating university places, and under pressure by industry to modernise the education system to produce more ‘work ready graduates’, in 1996, the Government implemented the Private Higher Educational Institutions Act that facilitated the establishment of private universities. These institutions offer courses taught in English in professional areas deemed economically relevant. In 2001 various sources estimated that approximately 80 to 90 per cent of private university
students were ethnic Chinese (Department of Foreign Affairs and Trade 2005:55 citing EPU 2001; Lee 1999:81; NST 25 May 2001). Therefore, while the establishment of private sector universities improved the access to university education of middle income non-Malays and allowed the government to delay structural reform of the public universities, it is not a strategy likely to provide a solution to the problem of poorly skilled and unemployed Bumiputera graduates.

Figures released by the NEAC indicated that in 2002, approximately 25,000 graduates had registered with the government to participate in retraining schemes for the unemployed (Dzulkarnain 2002). The vast majority (94 per cent) of the students were Bumiputera. Executive Director of the NEAC, Mustapa Mohamed, was attributed with the following statement in the press: ‘This is basically a Malay problem. This shows that there are many Malay students who opt for arts courses which are not needed by the job market’ (NST 14 March 2002). One of the reasons that the government has been unable to redirect students from arts to sciences is the inability of the agency charged with translating from English into Bahasa Melayu the text books, technical and computer manuals, academic journals and other teaching and learning tools required (Yunggar 2005:336). Employer groups have stated that these graduates are not suited to the current job market and would prefer that industry had a stronger say the curriculum offered by public sector universities (Chua 2002; Shamsuddin Bardin, MEF, interview July 2002).

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5 This agency is the Dewan Bahasa dan Pustaka.
In 2002, an international conference on technical and vocational education held in Kuala Lumpur was addressed by Paul Low of the Federation of Malaysian Manufacturers. He claimed that local institutions were not producing students ‘suited to the business environment’ (Pacific Bridge 2002). In 2004, the Malaysian Education Summit was organised. This forum brought together representatives of universities and the major employer groups, MICCI and FMM, whose representatives repeated similar claims regarding the quality of graduates (Star May 2 2004).

In the past, many Malay graduates were absorbed in the Malaysian Civil Service. It is estimated that between 80 to 90 per cent of civil servants are Malay (Sun 3 June 2001; NST 11 July 2001). However, having made a commitment to reduce the rate of growth of the public sector, and given that more than 70,000 students now graduate from public universities each year, the government has found this option less effective. From the early 2000s, the MHR instituted a myriad of training and retraining programs for unemployed graduates, which, in addition to fully subsidising the cost of training courses, offered an RM500 per month allowance. Given that full time workers in semi-skilled factory occupations may earn as little RM400-600 per month, this was a relatively generous allowance. As the number of unemployed graduates grew to over 80,000 by 2005, so too did the allocation for training programs.

Concerns about the ad hoc nature of reforms to the university system emerged at an academic conference in 2004.

The Malaysian government’s objective in developing an export oriented K-economy with highly skilled, Malaysian labour
servicing the needs of domestic and foreign firms has been a national strategy but one articulated without any proper attention to the universities of Malaysia (Vicziany and Puteh 2004:18).

Institutional changes were being introduced in a tentative fashion. For example, in June 2001 it was reported that Cabinet had approved an Education Blueprint for the period 2001-2010. On a number of occasions since then, DAP opposition leader, Lim Kit Siang (2002, 2005) criticised the Minister claiming that he had still not presented the report to the Parliament. In 2003, English was reintroduced as the language of instruction in maths and science subjects commencing with particular years of primary and high school. In 2004, the MOE was restructured. The pared-down Ministry of Education retained responsibility for all non-tertiary levels of education and the Department of Islamic and Moral Education, while the newly created Ministry of Higher Education took on responsibilities relating to public and private sector tertiary education.

Lee Hock Guan (2003:26) suggests the government faces a clear policy choice between the pursuit of competitiveness or the retention of affirmative action in education matters: ‘…a policy that continues to favour Malays does not always serve the government’s larger economic vision to put Malaysia on the fast-track to developed country status’. In the case of education, Lee Hock Guan (2000:13) notes a growing pragmatism coupled with the recognition that Malaysia must forge a strong economic relationship with China. He suggests the government understands the usefulness of a sizeable population competent in Chinese-languages and with cultural or other ties to China and that this has been an impetus to allowing greater access by Chinese to private sector education.
While these economic factors may prove useful, political advantages have also accrued to the government. Allowing the establishment of private universities has gone some way to addressing the demands of Malaysia’s middle income Chinese community for access to university education. Importantly, this outcome has been achieved without incurring greater government expenditure to build new public universities, and without requiring the government to immediately take on the politically fraught challenge of dismantling the NEP-related aspects of the education system.

Secondly, the plight of unemployed Malay graduates is being given a full run in the press. While demonstrating that the graduates are being given every assistance by the Ministry, as a ‘caring’ government should, the criticisms of employers are simultaneously being used to garner support for changes. The employer groups voicing these criticisms would not normally resort to the media to make such claims as they have direct access to senior bureaucrats and politicians. Rather, by allowing this issue to run through the media, the government is attempting to influence opinion before embarking on what will still be a politically sensitive undertaking. The reforms are being linked to Malaysia’s competitiveness and the requirements of the k-economy.

If we wish to become a knowledge-based economy, if we wish to be a developed country and maintain that developed status, the development of human capital must be made a priority (Abdullah Badawi 2006b).

The new Minister for Education, Hishamuddin Tun Hussein, advised the media in 2005 that his Ministry planned to present a five year education blueprint by the year’s close (Star 3 September 2005). While there was no reference to this
blueprint in either the 2006 or 2007 budgets, funding for the education sector has been increased substantially (Abdullah 2006a). In releasing the Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006), efforts have been made to reassure those who might see in the move towards the wider use of English a devaluing of Malay language and culture. For example, in 2005, the ‘j-QAF’ programme was introduced at primary school level in order to teach Muslim students a number of skills relating to the practice of Islam, including the reading and writing of Jawi and recitation in Arabic of the Quoran (Government of Malaysia 2006:242).

Home Ministry (Department Of Immigration)

In 2001, the government announced the goal of halving the number of foreign workers in Malaysia by 2010, which would have reduced the foreign component of the labour force to approximately three per cent (Government of Malaysia 2001:153). In an attempt to modernise the argument against the use of foreign labour, the government linked continued access to foreign labour as an impediment to the development of a k-economy, arguing that businesses are discouraged from investing in new technology and training while they can continue to rely on cheap unskilled labour.

Efforts will be increased to optimize the use of local labour and further reduce dependence on foreign labour. The shortening of the period of stay for foreign workers will be strictly adhered to so that firms will take positive steps to move into higher capital-intensity production processes (Government of Malaysia 2001:115).

According to the government, easy access to cheap foreign labour had contributed to an environment where little was invested in training and technological advances, particularly by small to medium sized enterprises
(SMEs) despite the provision of incentives (NST 3 October 1999; NST 9 May 2002). Employers were warned that future access to foreign labour would be limited and changes to the Immigration Act were effected in 2002 which were designed to increase the level of control over labour migration and which imposed higher penalties on both workers and employers in breach of the Act.

Employers criticised the amendments. For example, arguing that restrictions on regional labour mobility would increase labour costs, the Malaysian International Chamber of Commerce and Industry (MICCI) stated that any crack down on the use of foreign labour would send potential investors to more ‘friendly’ countries (MICCI 2001:9-10). According to MICCI, local workers were unwilling to take on the jobs generally held by low skilled migrant workers.

Foreign workers provide a useful source of human resources for industries where working conditions or remuneration make jobs unattractive to Malaysians... Removing the foreign labour component from the Malaysian economy will have a serious implication for production costs since foreign labour is generally lower paid (MICCI 2001:9).

A number of other employer groups have raised similar fears regarding the loss of migrant labour.  

The fact that the government has at various time been willing to be persuaded to resume labour importation against the advice of some of its own agencies indicates the level of conflict it faces in trying to institute a new change in economic direction. Many employers, particularly SMEs in the manufacturing sector, and those in the plantation, construction and real estate sectors, have

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6 For example, the Federation of Sabah Manufacturers (Bernama 8.4.2002); the Malaysian Employers’ Federation (BT 7.8.2002); the Real Estate and Housing Development Association (BT 6.8.2002); the Master Builders’ Association (NST 24.6.2002)
benefited from the availability of migrant labour. These employer and industry
groups have successfully extracted concessions from the Government that allow
for continued access to foreign labour. With the support of the Construction
Industry Development Board (NST 9 August 2002) and the Minister for Human
Resources (NST 8 August 2002) who made submissions to the Cabinet
Committee on Foreign Workers, a new ‘fast-link’ process for the approval of
permits was reportedly established by the Home Ministry (Star 14 August 2002;
NST 18 August 2002).

However, while the economic reliance of fractions of capital on migrant labour
and their ability to influence government decision making is clearly evident,
there are other factors constraining the government from taking action to reduce
the use of foreign workers. Firstly, the availability of foreign labour has assisted
in delivering a low wage regime which has been important to the government’s
management of inflation and interest rates. Fold and Wangel (1998) have argued
that keeping a check on wages has been a central concern of the Malaysian
Government. ‘The use of foreign labour is the Government’s principal measure
to maintain a competitive labour market’ (1998:140). They argue that while
employment related legislation goes some way towards constraining wages
growth, it is in reality the competitive nature of the labour market that delivers
wage control. ‘The labour market is competitive to the extent that different
groups of workers are pitched against each other. Segmentation and polarization
persist’ (1998:145). Hence, particularly in a tight labour market situation, the
presence of a large pool of cheap labour contributes, at least in some sectors, to
keep wages under control.
This pool of labour is not only cheap because of its abundance, but also because of its marginalised location in the Malaysian labour force and society. Foreign workers are frequently depicted in a negative fashion in the local press (Dannecker 2004).

Editions of the government-controlled New Straits Times highlight problems concerning immigrants such as the spread of diseases in the squatter settlements as well as other social problems including drugs, violence, murder, rape and prostitution (Crinis 2006:100-101).

By contributing to the demonisation of foreign workers, the government reinforces the segmented nature of the Malaysian labour force. This segmentation facilitates the differential treatment of labour. Harsher, more coercive means of control can be exercised over lower status, less skilled foreign labour, particularly undocumented foreign workers. Little political or social backlash is generated. The concessions and protections that are extended to local workers are not required to be extended to migrant labour, reducing their cost to the state and employers. The use of migrant labour as a reserve army, by which is meant that they can be repatriated when not required, has provided a means of ‘adapting to economic fluctuations’ (Leithäuser 1988:179).

The poor public image of foreign workers also limits the effectiveness of the labour movement in Malaysia. Knowing that there is little sympathy for foreign workers who are often seen as competitors willing to undersell their labour (Hing 2000:230-232), the MTUC has found it difficult to garner support on their

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7 Rudnick (1996:44-53) argues that Bangladeshi workers are especially vulnerable to harsh physical abuse given their heavy debt loads and their poor reputation in Malaysia. In 1995 and again in 2000, the Malaysian Government announced a ban on further recruitment from Bangladesh. This has since been lifted.
behalf. While foreign workers are legally entitled to join trade unions, the MTUC has not made a serious recruitment effort. Yet the failure to recruit and organise these workers means the union movement is unable to achieve any improvement in the conditions faced by either foreign workers or lower status local workers. At the same time, while the MTUC has made statements that support the government’s efforts to control the number of migrant workers, the reality is that large numbers remain, undercutting the already poor bargaining position of the local workforce (Edwards 1997; Rudnick 1996:47-48).

Despite the 2001 goal of halving the proportion of foreign workers the outcome was a doubling in the proportion of foreign workers in Malaysia between 2001 and 2005 (Government of Malaysia 2006:250). Out of a total labour force of 10,894,800, in 2005 foreign workers numbered 1,777,600. Given that these figures only represent foreign workers who have been granted permits, and that estimates of the number of undocumented workers vary from a million upwards, Malaysia’s reliance on foreign labour becomes evident as does the unrealistic nature of the government’s earlier targets of drastic reductions. More recently, the government has softened its statements: ‘In line with the policy to shift to technology-intensive and higher values activities, there will be judicious use of foreign workers’ (Government of Malaysia 2006:250, emphasis mine).

It appears that, despite the attempted transition towards the k-economy, the government is unable to institute reforms that would significantly reduce the reliance on semi skilled foreign workers. Not only are employers in labour intensive sectors highly dependent on access to this labour, the government has
also benefited, economically and politically. Politically, the government has hoped to avoid the clash with capital that would result from withdrawing migrant labour. Economically, international labour migration arrangements have enabled Malaysia to avoid the welfare and education costs of approximately twenty-five per cent of the labour force whose social reproduction is borne by the source countries. Conversely, the use of migrant domestic workers has privatised the costs of Malaysian women participating in paid labour by allowing the government to avoid state expenditure on child care and other infrastructure that would support greater labour force participation by women.

In the light of the harshness that marked the repatriations of Indonesian labour in 2002, the Government of Indonesia has made demands of the Malaysian Government with regard to implementing some protections for Indonesian workers in Malaysia. Deportations took place again in 2005, but observers reported that this proceeded with far fewer incidents of abuse (Muhamad 2005:42-43). It is likely that the situation of intermittent repatriation of foreign labour will continue during times of economic downturn, with approval of large numbers of foreign workers during periods of high labour demand. That the government has such an inconsistent approach to the situation once again indicates a lack of autonomy in determining economic policies, a situation made even more complex by the need to negotiate conflicts arising out of the régulation of labour’s social reproduction.
**Conclusions**

Representatives of industry lobby groups have questioned the extent to which a pro-*Bumiputera* agenda can be reconciled with the need to be competitive and create a flexible workforce.

…we are constrained by the need to aim for ethnic balance in employment. Hence we may not be able to employ the best person for the most challenging jobs. Thus competitiveness suffers. Unless we increase our internal competition and liberalise internally, it will be difficult to compete externally (Ramon Navaratnam, corporate advisor to the Sunway Group, addressing a conference on global competitiveness in Kuala Lumpur, quoted in *BT* 27 October 2001).

In the past the government has defended affirmative action for *Bumiputera* on the basis that uneven economic development between the ethnic groups risks social turmoil. Given the emphasis on meritocracy and ‘technopreneurship’ evident in the government’s own k-economy rhetoric, the government was forced to defend ethnic employment and education quotas to critics yet at the same time reassure Malays of their continued support. Dr Mahathir encouraged Malays to become more independent. A headline warned: ‘GET READY: Be prepared for withdrawal of more privileges to face open competition, Dr M tells Malays’ (*Star* 21 June 2002).

It is clear that the Malaysian Government is willing at times to prioritise political concerns above economic ones. Nonetheless, care is taken to appease business leaders in various ways. For example, a World Bank investigation (Biddle and Milor 1999) has suggested increased opportunities emerged in Malaysia for business to influence the direction of policy making. From a regulationist perspective, the establishment of high level business-government committees
throughout the 1990s and early 2000s reflects a government strategy to provide mechanisms that diffuse some of the tensions emerging between particular government agencies and the more powerful industry groups such as the FMM. This may generate greater pressure on agencies to institute reforms to the labour market and education sector but at the risk of increased social and political instability unless alternative means of managing tensions associated with labour issues can be incorporated within the restructuring process.

The continued saliency of economic and cultural concessions for Malays continues to constrain policies as evidenced above. Even where such policies threaten economic growth, they have become embedded institutionally and ideologically. The late 1990s and early 2000s was therefore marked by a range of contradictory and ad hoc policy directions. The appeal of the k-economy was not as politically successful in restructuring the basis of UMNO’s legitimacy with the Malay population as Mahathir had intended.

However, a feature of Mahathir’s leadership was that he never relied on one strategy alone to achieve his goals. In the midst of claims regarding the ‘empowering’ qualities of the emerging k-society were a range of measures which sought to impose greater government surveillance and new forms of discipline upon particular groups of workers. In 2000, the Statutory Authorities (Discipline and Surcharge) Act was introduced to standardise disciplinary procedures in state authorities and the Public Officers (Discipline and Conduct) Regulations of 1993 were ‘streamlined to meet current requirements’ (Government of Malaysia 2001:621). In 2001 and 2002, civil servants were
required to sign a pledge of loyalty to the government. In 2003, anti-corruption measures were introduced, again targeting the civil service. The tool most linked to the k-economy, the networked computer, became another target of the government, reflecting ‘the dilemma of [countries] needing sophisticated information systems to upgrade their economies, while at the same time wishing to exclude people’s access to information considered to be too ‘liberal’ (de Silva 1997:13). In 2002, individuals accused of spreading rumours through email were detained by the police and in early 2003 a government raid was conducted on the offices of web-based independent media outlet, Malaysiakini (Brown 2005:49).

The twentieth century’s last decade witnessed state implementation of new strategies of garnering consent, and the invocation of old strategies of coercion that relied on the use of physical force and regressive legislation (Chin 2000:1046).

While this chapter suggests that contradictions, inconsistencies and institutional mismatches were signalling weaknesses in the mode of régulation, it is also the case that Mahathir generally managed to balance a range of institutional and policy contradictions for more than two decades. He had developed a powerful rhetoric that united and made sense of the seemingly paradoxical (Khoo 1995). When criticised for continued interventions in the labour market and the economy, Mahathir responded by rejecting neoliberalism as ‘western’ and uncaring. He developed a globalisation discourse in which Malaysia was depicted as a developing economy struggling against the neocolonialism of the industrialised capitalist economies. ‘To be able to manage the pace and direction of liberalisation and globalisation, developing countries must be allowed to effectively participate in the decision making processes in all international institutions’ (Dr Mahathir in a speech to the Malaysian-Russian Business Forum,
cited in *Bernama* 15 March 2002). At the same time, the threat of globalisation was used to exhort increased productivity and to remind workers of the dangers of industrial unrest: ‘Malaysian workers must be ready for globalisation’ (*Bernama* 30 April 2002). His view of ‘regulated globalisation’ (Salmy Hashim 2002) was utilised to defend the wide array of political and economic interventions adopted by his government in order to manage conflicting demands in Malaysian society and economy.

The extent to which Mahathir’s government had policy autonomy was strongly linked to the ability to source funding domestically without imposing high levels of income taxation. His government’s extensive use of the Employee’s Provident Fund for this purpose had attracted criticism in a society developing more awareness of financial accounting standards while also concerned to protect retirement incomes. At the same time, the social policies that ameliorated societal tensions such as free health care, subsidised water, electricity and fuel, were increasingly expensive to maintain yet politically risky to remove. This is addressed in the following chapter which again examines institutional mismatches but focuses more particularly on the economic aspects of the social reproduction of labour in the shaping of the state-labour nexus.
Chapter Seven: Economic paternalism: Embedded but pressured

…Dr Mahathir said Malaysians generally lead a comfortable life as the government has been able to keep the country’s economy under control to prevent high increases in the cost of living (Bernama 30 April 2002).

…as a matter of principle, the government cannot continue to nurture habits which reduce the incentive to increase efficiency and productivity. We cannot go on masking our true competitiveness in the global marketplace via subsidies and the like (Abdullah Badawi 2006b).

Introduction

Institutionally, some of the most extensive levers of control available to the Malaysian government in the régulation of labour are linked not to the workplace, wages or welfare, but to savings and consumption. The government has consistently avoided involvement in the determination of private sector wages and devotes a minute amount of the budget to what is strictly termed ‘welfare’. In contrast, government agencies, including the central bank, Bank Negara Malaysia (BNM), play a pivotal role in household consumption and savings decisions. This institutional capacity was expanded in association with the social re-engineering of the NEP, but the role has extended as the government negotiates its relationship with the growing proportion of Malay and non-Malay middle and upper income earners.

This chapter unravels some of the existing strategies that contribute to economic paternalism. In the main, these strategies represent the mediated outcomes of previous conflicts over responsibility for the funding of labour’s social reproduction. The establishment of the Employees’ Provident Fund (EPF) in 1951 was discussed as a case in point in earlier chapters. The EPF today remains
central to the maintenance of economic paternalism. It has been modified over time to allow early access to funds by members in order to purchase a home, to invest in annuities, and to cover approved educational and health costs. This spending has, however, exacerbated the problem of inadequate retirement income. While the EPF has served the government extremely well as a means of regulating labour’s current income and spending, and remains a vast pool of investment funding for the government, in terms of its original purpose of providing for individuals and their families during retirement, it has been seriously undermined.

Other aspects of economic paternalism are under pressure. For example, demographic changes and rising consumption levels have vastly expanded the costs to the government of subsidising consumer goods. Additionally, there is growing concern regarding the widening of the income gap evident since the 1997/98 financial crisis. Consumption-led ‘welfare’ appears inadequate as a means of assisting households in poverty, particularly if market pricing is introduced as a result of the privatisation of the water and power utilities, and if the planned introduction of fees for health services proceeds.

International agencies and local business groups representing foreign owned firms have lobbied for the implementation of competition policy that will directly challenge the government’s interventions in the pricing and supply of a range of commodities, and its extensive controls over the banking and finance sector. The European Community has used the General Agreement on Trade in Services (GATS) to request the Malaysian government to open to foreign
competition the currently protected professional, financial and business services sector. Each of these moves challenges the government’s ability to manage the economy in the ways necessary to the support of economic paternalism.

Funding for the distributional policies that reinforce economic paternalism is also at risk. Since the mid 1980s, government revenue has been expanded by petroleum-related income which, in 2005, contributed 40 per cent of total government revenue. Malaysia’s oil and gas reserves are finite in the near future; approximately 20 years in the case of oil, and 30-35 years for natural gas. To rely more heavily on revenue derived from income taxation will introduce new pressures on funding and may raise the level of opposition to distributional policies. It is a situation reminiscent of the divisions within UMNO and between the coalition partners in 1969 and 1970 regarding the extent to which NEP policies could be pursued without risking further political and social unrest (Heng 1997; Lee 2005). More than this, opposition by capital and labour to politically motivated spending is also likely to figure given their greater contribution to income tax revenue in the past two decades. Certain fractions of capital have, however, benefited from economic paternalism and the capital mobilisation it has encouraged. Changes to the nature of economic paternalism will, therefore, be mediated within a complex set of political and economic constraints.

The current situation therefore represents another period of uncertainty in determining the means of labour régulation. To explore this further, the chapter provides, firstly, some specific examples of the forms of economic paternalism
as they have operated in recent years. Secondly, the pressures that have rendered some aspects of economic paternalism inadequate and potentially destabilising are examined. Thirdly, in contrast to claims by Ramesh (2000:155-156) that the government has the autonomy to shift policy easily given its electoral dominance, the government’s mixed success in introducing new and modified forms of economic paternalism is made evident. Efforts to undo existing aspects of economic paternalism are thwarted by their embedded nature and by a lack of capacity on the part of the ruling elite to ignore popular pressures. Conversely, recent interventions in the financial sector look promising in terms of providing new sources of funding and revenue. These options may present the government with the means to continue with the use of politically motivated distributional policies as a means of regulating labour.

**Economic paternalism in the ‘caring society’**

The establishment of a ‘caring society’ was one of the nine goals of Mahathir’s Vision 2020. ‘Caring’, in the sense it has been emphasised by the government, is demonstrated by providing individuals with the opportunity to advance themselves through greater incorporation into the economy, through employment, retraining or small business creation, and through home ownership (Henderson et al. 2002).

The Minister for National Unity and Social Development, Siti Zahara, explained that the Social Welfare Policy implemented from 1990 was driven by the goal of ‘creating a caring society while inculcating the sense of independence and self-
reliance among her citizens’ (Siti Zahara 2000:1). A Director of the Department of Social Welfare described the department’s activities as focused on ‘…the attainment of self-reliance, equalization of opportunities for the less fortunate and fostering the spirit of mutual help and support’ (Mohd Rashid 2003). Rather than the Department of Social Welfare, most funding to assist eligible Bumiputera and the rural poor is incorporated into schemes overseen by the Ministry for Entrepreneur and Cooperative Development and the Ministry for Rural Regional Development with combined funding allocations amounting to almost RM17 billion (8.4 per cent of total allocations) over 2006-2010 (Government of Malaysia 2006:530).

**Funding**

Funding has been central to containing the potential backlash to the less than transparent ways in which government-controlled economic resources have been mobilised in the pursuit of political and social stability. Significantly, the Malaysian government has control over income derived from petroleum exploration by foreign companies and Petronas. Secondly, through a series of moves since the 1970s, the government now wields considerable control over the banking and finance sectors (Salleh and Meyanathan 1993). This facilitates access to funds held in unit trusts and pension schemes.

The greatest source of funding has been the EPF which holds almost 85 per cent of all pension funds in Malaysia, and which, by legislation, must invest the majority of its funds in government securities (Government of Malaysia

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1 The Department of Social Welfare was previously located under the Ministry for National Unity and Social Development. It is now part of the Ministry of Women, Family and Community Development.
In the mid 2000s, almost 50 per cent of government debt was financed through the EPF (BNM 2006:112). By the close of 2006, accumulated contributions within the EPF amounted to RM280 billion. MacKinnon (1996:46-47) therefore describes the EPF as having a dual role; that of a ‘provider of basic social security…and as the source of long-term investment funds for state-led initiatives’. The next largest source of domestic investment funds available to the Government is through Permodalan Nasional Berhad (PNB). PNB is a government owned unit trust manager which oversees a number of unit trust funds originally started in 1978 as part of NEP efforts to increase Bumiputera wealth through share holding. Investments in unit trusts, annuities and other financial instruments have become useful sources of debt funding for the government. By mid 2005 the net assets value of government unit trusts was just over RM52 billion (Ministry of Finance 2005:102).

The proportion of non-tax revenue has fluctuated from 17 to 24 per cent of total revenue over the past 25 years (see Tables 1.5 and 7.6). This reflects the extent of government activity in the economy, and is earned mainly from investments, with contributions from the issuance of licenses and permits, as well as through rents on infrastructure (Ministry of Finance 2005:51). Taxes derived from oil production and export constituted almost 23 per cent of the total taxation revenue in 2005 (Ministry of Finance 2005:xxix). In summary, these revenue and funding sources, being predominantly domestic and not reliant on income taxation, have provided some insulation and a degree of autonomy to the

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2 Petronas provides both direct and indirect taxation revenue to the state. The bulk is income taxation, the remainder is export duties.
government with regard to its spending on politically necessary but economically ‘non-productive’ policies such as price subsidies.

The government’s interventions in the banking and finance system serve another purpose, that of augmenting household consumption. Two principal ways in which this is achieved are, firstly, through arrangements that ensure a proportion of loans at low rates of interest are directed to low income households, and secondly, by encouraging Bumiputera to save and invest in government controlled unit trusts that deliver above market dividends. Access to low cost finance for consumption purposes has multiplier effects at the macroeconomic level. For example, in the case of the near-collapse of the residential construction sector in 1998 as a result of the financial crisis, government interventions underwrote a massive injection of capital into the sector that served a dual purpose. Access to home ownership for individuals was facilitated despite a fall in average incomes, and, businesses were relieved of an expensive oversupply of housing stock.³

Inserting Islamic principles into the Malaysian banking and finance system has also facilitated increased access to credit, finance and investment opportunities for the Muslim population.⁴ Syariah compliant insurance and annuity products, known as Takaful, an Arabic word meaning ‘joint guarantee’, are now available through agencies of the Bank Islam Group. These products are offered at fixed rates with dividends shared amongst members, thus removing aspects considered

³ The Ministry of Housing and Local Government (2001:6) estimated the oversupply to be 93,000 units valued at approximately RM13.8 billion.
⁴ Earning interest is against Islamic principles. Interest is replaced by a profit sharing arrangement.
non compliant with Islamic principles such as gambling, unfair advantage, exploitation and earning of interest (Takaful Malaysia 2005). Insurance and annuities can be purchased to cover the costs of education, health services and home mortgages. The introduction of Syariah compliant products commenced under Mahathir in 1983 and initially made only slow inroads into mainstream banking. However, at the close of 2005, Islamic banking accounted for just over 11 per cent (RM111.8 billion) of assets in the Malaysian banking system (BNM 2006a:15).

Given the emphasis on facilitating rises in living standards through access to consumer finance and mortgages, the control of inflation has been crucial. ‘A remarkable feature of the development process of the Malaysian economy is that the high growth rate throughout the period has been accompanied by low inflationary rates’ (Ragayah et al. 2002:123). The ability to keep inflation in check has facilitated the easy availability of credit, particularly low cost credit, which in turn contributes to economic and socio-political stability by softening the impact of low wages and downward pressure on wages (Guttmann 2002:60), as occurs in Malaysia during downturns in the economy. Mahathir used the low inflation rates to reject wage demands warning that higher wages would contribute to inflation and thus be negated.

Dr Mahathir said it was important to maintain high productivity and competitiveness rather than seeking high wages, illustrating that some developed countries saw inflation growing by 1,000 per cent, whereas in Malaysia, the figure was only three per cent (Abdul Razak and Lim 2001).
Paternalism and prices

The Price Control Act was introduced in 1946 in the aftermath of WWII. Officially, ‘interventions took place to rectify market imperfections and unwarranted price increases’ (EPU 2004a:29). Price subsidies have since been used to achieve a range of economic, political and social goals. Very early in the post-colonial era, subsidisation and fixing of prices was a means of supporting the advancement of Bumiputera without increasing taxation (Ritchie 2005:747-748). It was also a means of garnering political support.

Tariffs and quotas, and various farm subsidies were introduced to protect and subsidise rice farmers who traditionally supported the ruling United Malays National Organisation (UMNO) party within the National Front (Rasiah and Ishak Shari 2001:71).

Stabilised and subsidised prices have been important to controlling inflation, interest rates and wage levels and offsetting the hardships caused by the absence of a universal welfare system. ‘Growth with price stability is essential in improving the quality of life of the population’ (Government of Malaysia 2006:70). In conjunction with the Control of Supplies Act 1961, the Price Control Act fixes the price and supply of fuels, a number of metal products, cement, fertilisers, chemicals used in rubber processing, and a range of foodstuffs. Further to this is a list of food products controlled during the main festive seasons of Hari Raya and Chinese New Year.

Basic health care, albeit of varying quality, has historically been provided at low or no cost to the bulk of the population. Fees for particular services have been introduced although many people retain exemptions from these. All current and retired civil servants and their families are entitled to state subsidised health care.

5 See www.kpdnhep.gov.my for a complete list.
With the introduction of the New Remuneration System in 1992, free health care was also extended to the parents of civil servants (EPU 2005:53). Given the limited nature of public health services in Malaysia, the sector has not absorbed as great a percentage of the budget as it has in more economically developed countries. The government currently allocates from five to six per cent of overall spending to health services. A private health care system operates alongside the publicly funded system.

*Encouraging and facilitating domestic consumption as a counter cyclical tool*

Building on the experience of the 1997/98 financial crisis, the government’s response to the less severe 2001 economic downturn was also an expansionary fiscal budget that countered the negative impact on employment and earnings and attempted to stimulate consumption. Rappa (2002:192) cites an excerpt from Mahathir’s address to merchant bankers:

…under current economic conditions where growth will come from domestic sources, bank financing is crucial to lubricate the economy. Banks must, therefore, ensure that credit is appropriately channeled [sic] to stimulate consumption and investment (Mahathir 12 October 2001, speech to the Annual Dinner of the Association of Merchant Banks in Malaysia, Shangri-la Hotel, Kuala Lumpur).

The government, Rappa (2002:192) concludes, views consumption as ‘…the solution that will dissolve the recessionary pressures…[it]represents the salve of economic development…’.

To increase take home earnings, employees were given the option of reducing their contribution to the EPF by two percentage points. Consumption credit remained readily available and interest rates were contained. Rates of personal income taxation were reduced and the range of tax rebates broadened. Civil
servants had been granted an extra half day off per month during the 1998 crisis in the hope of bolstering the domestic tourism and retail sectors. A further half day per month was granted in 2001 for the same reasons.

**Housing**

From the outset, the Malaysian government, preferring to retain low rates of taxation, intended housing to be purchased rather than rented (Agus 2002:50). It was therefore necessary to ensure that access to finance be widely available despite low household incomes and significant levels of poverty. These efforts were stepped up from the mid 1970s (Drakakis-Smith 1979).

Through the central bank, *BNM*, the government directed the commercial banking system to allocate a fixed proportion of loans to individuals for housing, the rates of which were also mandated by *BNM* (Doling and Omar 2002:11). *CAGAMAS*, the National Mortgage Corporation, was established in 1986 and provides security to home loan lenders willing to assist lower income earners. Given the NEP goal of improving the socio-economic status of *Bumiputera*, differential pricing of homes and finance applies on the basis of ethnicity, usually being a five per cent discount for *Bumiputera* (Ong and Lenard 2002:7). Advertisements for housing developments in the Malaysian press typically display the different prices. Other loan funds administered by the Ministry of Housing and Local Government are available only to low income earners. From 1994, individuals have been allowed early access to their EPF account to assist in

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6 This in contrast to the stocks of housing owned and maintained by government authorities in ‘welfare states’ and provided on a rental basis to eligible applicants.

7 These funds hold minor amounts in comparison to the size of the housing finance market. For example, the Housing Loan Scheme for people earning under RM1,200 monthly has a rolling fund of RM70 million.
establishing a home loan, and in 2006, access was further liberalised to facilitate housing finance repayments.

The encouragement of home ownership obviously has flow on effects to the private sector and the economy more widely. Housing finance extended to individuals by commercial banks accounted for RM147 billion out of a total RM526 billion loaned as at the end of 2005 (BNM 2006:Table III.12:37). In the five years covered by the *Ninth Malaysia Plan 2006-2010*, the government has stated a need for 700,000 new dwellings. Of these, almost 40 per cent are planned to be low and low-medium cost houses. Overall, the private sector is expected to provide approximately 70 per cent of the future housing stock in a market assisted by the state’s backing of mortgages and capping of loan rates.

While the government’s interventions in the housing sector have reinforced particular relationships with capital, issues have arisen over the provision of low to medium cost housing. Included in each of Malaysia’s five year plans are targets for various types of housing to be constructed and made available to target groups, such as low income families, government employees, people in particular rural areas and those in urban squatter accommodation.

Housing and other social services continue to be a priority of Malaysia’s development programmes aimed at improving the quality of life and contributing towards the formation of a caring society (Government of Malaysia 2001:501).

Housing is classified according to relative cost, for example, ‘low cost’ or ‘low medium cost’, and is matched to applicants on the basis of their income. As explained by the Secretary General of the Ministry of Housing and Local Government, Umar bin Haji Abu (1996), in return for project approval, private
sector firms and state government agencies must dedicate 30 per cent of the project to low cost housing. The remaining 70 per cent of their project can be high cost housing, which effectively subsidises the building of the low cost housing. There have been ongoing problems with this arrangement with developers failing to build their required share of low cost housing. In 1982, builders were required to meet the government’s set price of RM25,000 for a low cost house. This price stayed in place for over 15 years until, in the wake of the 1998 financial crisis, it was raised to RM42,000 (NEAC 1998:177). Builders have also abandoned projects in less favourable economic circumstances. Sensitive to criticism on housing issues, in 2002 the Housing Development Act of 1966 was amended to give the Federal Government greater control over abandoned housing projects. A disputes settlement agency, the Tribunal for Homebuyer Claims, was also created (Government of Malaysia 2006:438).

To summarise, lacking direct control over much of the private sector labour force, the paternalistic relationship between the state and labour has been reinforced through the tools of economic paternalism. These examples of the government’s attempts to regulate labour’s social reproduction are not exhaustive but hopefully serve to indicate the extent to which state agencies can and do intervene in private consumption and investment decisions. Whilst many of these interventions have been justified by government as necessary to improving the lives of the disadvantaged, the benefits have not been delivered evenly.

Beyond the NEP’s employment quotas, which may only have facilitated its induction into manufacturing employment, the Malay working class has not enjoyed the forms of subsidies and state sponsorship which other classes of Malays have had (Khoo 1995:336).
The shortfalls of the consumption-based system of welfare are outlined in the section to come. The widening income gap between the wealthy and those in poverty undermines the government’s claims to be ‘caring’. However, this is but one of the challenges to the current means of enforcing economic paternalism.

**The costs of caring**

Although interrupted by the 1997/98 financial crisis, rates of poverty in Malaysia have otherwise been on an almost continual decline since the late 1970s. In 2004, however, over 300,000 households remained poor. Almost 70,000 were considered ‘hard core poor’ which means the household had an income that was inadequate to meet nutritional requirements (see Tables 7.1 and 7.2). Seventy per cent of these were in Malay dominated rural areas. The greatest reductions in the incidence of poverty were recorded by *Bumiputera*, with slight reductions recorded by Chinese households and negligible improvements for Indian households.

Table 7.1 Incidence of poverty and hardcore poverty

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Urban</td>
<td>Rural Total</td>
</tr>
<tr>
<td>Hardcore poverty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidence %</td>
<td>1.9 0.5 3.6</td>
<td>1.2 0.4 2.9</td>
</tr>
<tr>
<td>Households ‘000</td>
<td>91.7 11.9 79.8</td>
<td>67.3 14.1 53.2</td>
</tr>
<tr>
<td>Overall poverty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidence %</td>
<td>8.5 3.3 14.8</td>
<td>5.7 2.5 11.9</td>
</tr>
<tr>
<td>Households ‘000</td>
<td>409.3 86.1 323.2</td>
<td>311.3 91.6 219.7</td>
</tr>
</tbody>
</table>


Table 7.3 indicates that the average income of *Bumiputera* households increased at above average rates at 6.4 per cent. Despite this, in rural areas household incomes improved only marginally, and overall, *Bumiputera* households recorded lower household incomes than Chinese and Indian households. The
coincidence between ethnicity and poverty remains but is sharply intersected by economic sector and geographic location.

<table>
<thead>
<tr>
<th>Ethnic group</th>
<th>1999</th>
<th>2004</th>
<th>Average growth rate 1999-2004 %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bumiputera</td>
<td>1,604</td>
<td>1,984</td>
<td>2,711</td>
</tr>
<tr>
<td></td>
<td>6.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese</td>
<td>2,890</td>
<td>3,456</td>
<td>4,437</td>
</tr>
<tr>
<td></td>
<td>5.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indians</td>
<td>2,140</td>
<td>2,702</td>
<td>3,456</td>
</tr>
<tr>
<td></td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>1,284</td>
<td>1,371</td>
<td>2,312</td>
</tr>
<tr>
<td></td>
<td>11.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td><strong>2,020</strong></td>
<td><strong>2,472</strong></td>
<td><strong>3,249</strong></td>
</tr>
<tr>
<td>Urban</td>
<td>2,589</td>
<td>3,103</td>
<td>3,956</td>
</tr>
<tr>
<td></td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>1,326</td>
<td>1,718</td>
<td>1,875</td>
</tr>
<tr>
<td></td>
<td>1.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


‘If we do not address the grievances of those who have been left behind, then we risk leaving alone a time bomb’ (Abdullah Badawi, then Deputy Prime Minister, cited in NST 19 May 2001). Recent household income data indicates a widening of the gap between Malaysia’s rich and poor since the 1998 financial crisis. The top 20 per cent of income earners had, by 2004, increased their share of wealth to 51.2 per cent, while the share of the bottom 40 per cent had declined to 13.5 per cent (Government of Malaysia 2006:332). Bumiputera comprise over 75 per cent
of households in the bottom 40 per cent of income earners (Government of Malaysia 2006:345), a fact that undermines the successes claimed by the government on their behalf. UMNO, particularly in the 1999 elections, appeared vulnerable to assertions by PAS that crony capitalism and money politics had divided the Malays into rich (UMNO-putras) and poor (Stark 2004:58, see also Bhopal 1999:284).

While the consumption-based approach to welfare is challenged by persistent poverty and widening income inequality, conversely, the emergence of a much larger middle and upper income group is also placing economic paternalism under pressure. In 2005, more than 35 per cent of the labour force was comprised of white collar and professional workers.8 An estimated 18 per cent of the population held a university qualification, and over 50 per cent of the work force was located in the services sector. Civil servants numbered approximately 1,058,000 in 2005 (Ministry of Finance 2005:54). As indicated in Table 7.4, in the decade between 1995 and 2005, Bumiputera professionals increased in proportion from 27 per cent to almost 39 per cent of all professionals.

<table>
<thead>
<tr>
<th></th>
<th>Bumiputera</th>
<th>Chinese</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1995</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no.</td>
<td>10,659</td>
<td>21,298</td>
<td>6,653</td>
</tr>
<tr>
<td>%</td>
<td>27.3</td>
<td>54.4</td>
<td>17.0</td>
</tr>
<tr>
<td><strong>2000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no.</td>
<td>29,356</td>
<td>42,276</td>
<td>9,909</td>
</tr>
<tr>
<td>%</td>
<td>35.5</td>
<td>51.2</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>2005</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no.</td>
<td>42,414</td>
<td>53,297</td>
<td>11,556</td>
</tr>
<tr>
<td>%</td>
<td>38.8</td>
<td>48.7</td>
<td>10.6</td>
</tr>
</tbody>
</table>


8 This includes the occupational categories of senior officials and managers, professionals, technicians, associate professionals and clerical workers.
A growing proportion of households now earn above RM3,000 per month. Between 1995 and 1999, this grew from to 17.5 per cent to almost 25 per cent of households. Using the terminology of the Malaysian Government, ‘middle-income households’ are considered to be those earning from RM1,500 to RM3,500. This group expanded from just over 32 per of the population in 1995 to 37 per cent in 1999.

Table 7.5 Distribution of households by monthly income (per cent)

<table>
<thead>
<tr>
<th>Income (RM)</th>
<th>1995</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>499 and less</td>
<td>10.6</td>
<td>6.0</td>
</tr>
<tr>
<td>500-999</td>
<td>23.9</td>
<td>19.0</td>
</tr>
<tr>
<td>1,000-1,499</td>
<td>19.9</td>
<td>18.8</td>
</tr>
<tr>
<td>1,500-1,999</td>
<td>13.1</td>
<td>13.9</td>
</tr>
<tr>
<td>2,000-2,499</td>
<td>8.9</td>
<td>10.1</td>
</tr>
<tr>
<td>2,500-2,999</td>
<td>6.1</td>
<td>7.3</td>
</tr>
<tr>
<td>3,000-3,499</td>
<td>4.2</td>
<td>5.7</td>
</tr>
<tr>
<td>3,500-3,999</td>
<td>2.8</td>
<td>3.9</td>
</tr>
<tr>
<td>4,000-4,499</td>
<td>3.8</td>
<td>5.5</td>
</tr>
<tr>
<td>5,000 and above</td>
<td>6.7</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: Government of Malaysia 2001a:61

Overall, the impact of these demographic changes has been to rapidly expand the costs of subsidies to the government. For example, in the 2007 budget with a total allocation of RM159 billion, the Prime Minister claimed that in its efforts to contain inflation, which are linked to price subsidisation, RM19 billion ‘had been incurred by Government in the form of oil subsidy and tax forgiven’ (Abdullah 2006a:5). The Ministry of Finance (2005:7) claimed the level of subsidy on the pump price of fuel had become ‘untenable’. However, as is discussed in a later section of this chapter, attempts to remove, reduce or replace price subsidies have been politically difficult to negotiate.
Spending current funds risks retirement income

While Malaysia’s population is still relatively young, approximately ten per cent of people will be over 60 years of age by 2020 (Ong 2001:1). A mandatory retirement age of 55 increases the proportion of the retired population. In the absence of income support for the aged, and given the rates at which current spending of EPF funds has been encouraged by the government, this presents a future political and socio-economic policy dilemma. As noted by Gough (2001:173) ‘…the employee provident fund provides weak protection against poverty in old age…’. In 2002, almost five per cent of households headed by an elderly person were identified as ‘hard core poor’ (EPU 2005:72). In response to further EPF amendments in 2006 allowing withdrawal of funds to meet mortgage repayments, the presidents of both CUEPACS and the MTUC expressed their concerns to the media regarding the potential negative impact on retirement income (Samy 2006). The requirement that families take on the care of the elderly will generate an increased load as the population ages, particularly if more women are drawn into the labour force, and if health care costs rise in association with privatisation.

The health budget is coming under pressure from the costs of improved health technologies, the emergence of medical conditions associated with higher levels of economic development, and the ageing of the population (World Bank 2000c:49). The provision of free, or at least low-cost, healthcare has been integral to forging and maintaining paternalistic relations between the state and labour. This is now acting as a constraint on government initiatives to expand health services which is to be funded by the introduction of fees and the
privatisation of particular services within the public health care system. Barraclough (2000) suggests that the tentative nature of privatising health services and introducing charges in public hospitals and health centres is due to political concerns:

…Malaysians have grown accustomed to the government’s role in providing low-cost services. Moreover, UMNO must take great care not to alienate its principal constituency, the rural Malays, by appearing to diminish the welfare role of the government (Barraclough 2000:350).

Salleh and Meyanathan (1993:23) similarly note that privatisation has posed a policy dilemma for the government as it vacillates between concern for the budget and ‘…the desire to protect and promote Bumiputera interests…’.

**Competition and protection**

The central importance of the institutional capacity to control the supply and the pricing of a wide range of products is in complete contradiction to the neo-liberal basis of competition laws. In relation to World Trade Organisation (WTO) discussions on multi-lateral competition rules, this has caused Malaysia difficulties. Cassey Lee (2004:21) explains that to date, ‘[t]he Malaysian government’s stance has been to seek deferment of this issue’. While the Ministry of Domestic Trade and Consumer Affairs (MDTCA) was in the process of drafting national level competition legislation in 2004, Cassey Lee (2004:8-9) suggests that competition laws are likely to ‘come into conflict with some of the industrial and socio-economic policies that are implemented in Malaysia’. There will be real difficulties, she further suggests, in reconciling these social policies with an effective competition policy. A national competition policy is yet to emerge as at the close of 2006.
The extent to which the government intervenes in the finance sector is central to the maintenance of economic paternalism and indeed, to the management of the economy generally. In the context of economic paternalism, for example, the government is able to direct the private banking sector to adhere to wide ranging rules that effectively reduce the ability of Malaysians to invest their funds outside of the country, but which in return require that higher than market-level rates of interest are returned to investors. The Kuala-Lumpur based American Malaysian Chamber of Commerce (AMCHAM), has, with the U.S. Chamber of Commerce, been involved in the 2006 negotiations for a U.S. Malaysia Free Trade Agreement. Not surprisingly, their public submission (AMCHAM/U.S. Chamber of Commerce 2006, Section 7) recommends the liberalisation of Malaysia’s finance and banking sectors.

At a different level of control, ethnic quotas are applied to the membership of boards in the finance sector, which is also rejected as part of the above-mentioned submission.

While this is a very sensitive cultural and political area in Malaysia, AMCHAM and the U.S. Chamber believe that such composition requirements and racial quotas should not be mandated in any sectors in Malaysia (AMCHAM/U.S. Chamber of Commerce 2006:30).

AMCHAM has also expressed concerns regarding restrictions on the entry of skilled foreign workers in the finance sector, arguing that the shortage of local skilled workers hinders the ability of foreign firms to enter unless they are able to bring in foreign staff (AMCHAM/U.S. Chamber of Commerce 2006:24). That professional workers have been shielded from competition has also generated
Pressure from the European Commission and the World Trade Organisation to open up these sectors is being exerted under the General Agreement on Trades and Services (EC 2002). While the number of Bumiputera professionals has increased since the implementation of the NEP, they remain underrepresented. The Malaysian government has shown a reluctance to liberalise the sector and restricts the establishment of foreign businesses, but this is generating further difficulties in responding to the shortage of skilled workers that has become more pronounced with the decision to establish a KBE.

These are but some of the challenges to the existing means of enforcing economic paternalism that have emerged out of previously mediated political processes. The NEP made explicit that poverty reduction was to be achieved through an acceleration of economic growth. On this basis, Trezzini (2001:326) argues that ‘…the political stability of Malaysia and the government’s legitimacy were grounded in a delicate balance between achieving general economic growth (‘efficiency’) and responding to the contending special interests of diverse social groups (‘equity’)…’. Some shift in this balance since the early 1990s is evident in the language of the National Welfare Policy and Mahathir’s Vision 2020 statement. Policy statements emphasise ‘efficiency’, and use the discourses of ‘self reliance’ and ‘international competitiveness’, and, since the late 1990s, the requirements of the ‘k-economy’. This shift is not linear, uncomplicated, or
progressing evenly, nor are policies always matched with practice as has been made clear above and in earlier chapters.

Changes to economic paternalism essentially amount to an attempt to lessen the government’s contribution to the costs of labour’s social reproduction. In recognition of this, Gsänger et al. (1998:2) describe Malaysia’s ‘caring society’ as an attempt to ‘shift the responsibility for the provision of social protection to the market, the family and the community’. Yet this must be carefully negotiated. Economic paternalism, despite its costs, has served political and economic ends, and, as the following section illustrates, there is no guarantee that the political processes currently underway will yield a more sustainable means of régulation.

**Citizens, consumers and the politics of social policy**

This final section examines the politics of changing the strategies within economic paternalism that are now under pressure. Uniting most of the efforts is an attempt to reframe citizens and members of ethnic groups as ‘consumers’. In some cases the dialogue surrounding the efforts continues the economic nationalism of the early 1990s (Williamson 2002), but this is also shown to have been ineffective as an argument for encouraging people to do away with price subsidies.

*Institutionalising consumer rights*

Private consumption spending is forecast to increase by almost seven per cent per annum from 2006-2010, increasing its contribution to GDP to over 52 per
cent. The factors required to achieve this, in the government’s words, are ‘an increase in disposable income and continued improvement in consumer confidence underpinned by sustained employment growth…’ (Government of Malaysia 2006:70). Efforts to retain consumer confidence are evident in the examples examined below.

‘The creation of institutions is an essentially political act…’ (Aglietta 1998:53). Since the late 1990s, the Malaysian Government has been particularly active in the area of consumer rights and protection. The Consumer Protection Act was introduced in 1999. Efforts to protect people against ‘get rich schemes’ and pyramid selling drove the introduction of the Direct Sales (Schemes and Conduct) Regulations of 2001. According to the government, the implementation in 2002 of the National Consumer Policy was to ‘…empower consumers to be more aware of their rights and interests as well as promote consumerism’. Credit card users have access to the Finance Mediation Bureau while banks and financial institutions were directed to establish Complaints Units (Bernama 14 February 2002). There is also now a Tribunal for Consumer Claims and an Insurance Mediation Bureau. BNM is directing consumer education efforts particularly with regard to financial services and arrangements regarding deposits, insurance and loans. A 10 year Community Education Program, Bankinginfo, was launched in 2000 to inform Malaysian consumers about products in the banking and insurance sectors (Zeti Akhtar Aziz 2005).

An emerging governmental concern is the protection of consumers engaging in e-Commerce transactions. Consumer purchases online amounted to RM7.4 billion in 2005 (Government of Malaysia 2006:211). The Malaysian Government expects rapid growth in this sector and has planned the introduction of a raft of legislation to guarantee the safety of consumers undertaking electronic purchasing which generally requires the use of a credit card. The planned legislation includes the Electronics Transaction Bill, the Electronic Government Activities Bill and the Personal Data Protection Bill. In 2006, the government announced the expansion of existing consumer education programs and stated that the Consumer Protection Act was to be reviewed ‘to enhance consumer welfare’ (Government of Malaysia 2006:220), as it currently excludes e-commerce transactions (Kaur 2005:10).

The degree to which consumers are adequately protected by these initiatives requires case studies at a much more detailed level than this brief description of institutional responses by the state. The argument being put here is that the

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9 Kaur 2005 provides a useful outline of ASEAN level consumer forums including those relating to e-commerce.

10 This excludes business to business e-commerce which amounted to RM29.7 billion in 2005 (Government of Malaysia 2006:211).
institutional response and its associated media publicity were motivated to a degree by political concerns. The government is extending its reach into civil society in providing a public forum for ‘consumers’ to express their dissatisfaction and concerns regarding their treatment as consumers. This is noteworthy because it otherwise runs contrary to the restrictions placed on other public forums of debate and criticism.

In relation to this, a very public effort has been made by government agencies to work with NGOs active in consumer issues, such as the Consumers’ Association of Penang (CAP), the Federation of Malaysian Consumer Associations (FOMCA) and the Workers’ Consumer Movement overseen by the MTUC. For example, the Ministry of Domestic Trade and Consumer Affairs (MDTCA) has conducted seminars in conjunction with CAP and in 2001, the Secretary General of the Ministry officiated at the opening of a seminar on consumer rights conducted by the Workers Consumer Movement (Sun 26 June 2001). The Ministry then agreed to fund 50 per cent of the costs of a three-year program designed to train union leaders in issues relating to consumer rights (interview, MTUC August 2002). The Malaysia Consumer Day celebrations in July 2006 were jointly organised by FOMCA and the Ministry and involved school aged children in essay writing and colouring competitions relating to consumer issues.

The main objectives of these programmes is to create awareness and educate consumers on the existence of National Consumer Day as well as to inculcate smart consumerism. We hope that by participating in the various competitions and activities, consumers will be able to better exercise their consumer rights in order to create an ethnical trading environment leading to building up a prosperous nation (www.fomca.org.my).
This incorporation of NGOs into government activities stands in contrast to the marginalisation of the union movement in employment and industrial relations matters. There may be an effort to engage with these particular NGOs as they have been actively campaigning on the topic of privatisation. For example, the 2005 May Day rally in Kuala Lumpur was organised around the themes of opposition to the privatisation of health services and water supplies (Netto 2005b). Malaysian NGOs including CAP and FOMCA have campaigned against the privatising of electricity and water supplies on the basis of the negative impact it is likely to have on the poor. The government, as described above, has had to act very carefully to justify price increases and remains vulnerable on issues relating to the impact of economic changes on low income earners. It has tried to negate this by speaking instead about the rights of consumers, and emphasising that privatisation will lead to improvements in service delivery.

In a final comment on consumerism, it is also important to government revenue that investors be reassured of the safety of their funds and the likelihood of good returns. BNM commenced the implementation of the Financial Sector Master Plan and Capital Master Plan in 2001, expected to take ten years before completion. Included within these master plans is a wide range of initiatives aimed at improving the regulation of the banking and finance sectors.

Initiatives to empower consumers through the provision of appropriate information will be further intensified so that consumers can take responsibility for their own financial decisions. Measures to provide greater consumer awareness and activism will be further enhanced through more targeted consumer education programmes and by strengthening the overall consumer protection infrastructure. In addition, the regulatory and supervisory framework will be further strengthened to provide better protection for consumers and enhance supervision and oversight’ (Government of Malaysia 2006:181).
Similarly, those with shares in government linked companies have been advised that new standards of transparency and accountability will in turn deliver better dividends (Government of Malaysia 2006:29).

**Redefining poverty**

Trezzini (2001:340) argues that the language surrounding poverty alleviation measures has shifted as non-Malay electoral support has become more important to UMNO. He suggests the focus on generating income through the expansion of business opportunities for the poor, rather than on achieving set targets, served to placate the concerns of business oriented Chinese Malaysians. Henderson et al. (2002) noted a similar tendency in the language of the *Seventh Malaysia Plan 1996-2000* (Government of Malaysia 1996).

When presenting the *Ninth Malaysia Plan 2006-2010* to the Parliament, Prime Minister Abdullah Badawi revisited the societal violence of May 1969 and raised the spectre of further unrest. ‘If unaddressed, these disparities can threaten the harmony and stability we enjoy and consequently, thwart the country’s economic development’ (Abdullah 2006b). Attempts by UMNO and PAS to remain relevant to rural Malays indicate the continued political saliency of special privileges for Bumiputera and highlight class divisions within the Malay population.

That the government must carefully manage its role as the protector of Malays while at the same time attempting to reduce spending on government services and subsidies, is evident in recent budget speeches, in the *Ninth Malaysia Plan*
2006-2010, and in the media publicity and speeches that surrounded its release in April 2006. Reminiscent of the efforts made in 1970 to convince the population that NEP was necessary to future economic prosperity for all (see Chapter Three), in the Ninth Malaysia Plan 2006-2010, the government (2006:324) similarly contends that persistent social inequality presents a threat to Malaysia’s economic prosperity. The ‘balancing act’ between equity and efficiency is clearly visible as the government seeks to dispel concerns that Bumiputera are receiving too much, while still appearing to ‘care’ by providing assistance to those who need it.

The media proved helpful in broadcasting the government’s stance.

Has poverty increased in Malaysia?…Malaysia is about to re-engage in a war it thought was well on the way to being won. In the Ninth Malaysia Plan tabled on Friday, poverty eradication suffused every aspect of Datuk Seri Abdullah Ahmad Badawi’s policy framework for the next five years (New Straits Times, Editorial 3 April 2006).

The NST Editorial following the release of the Ninth Malaysia Plan quickly dispelled any notion that the government would be delivering charity or subsidies: ‘…the poor’s salvation lies in sustained and equitable economic growth – the overarching objective of the Plan’ (NST 3 April 2006). As the Prime Minister explained when presenting the plan to the Parliament:

The main focus of the poverty eradication programme is to build the capacity of the poor by improving their access to education and skills training, instil positive thinking and build self-confidence and motivation. This will encourage active involvement [sic] of the poor in economic activities… (Abdullah 2006b).

Lacking a universal welfare system, only…‘the elderly, the infirm, the disabled and the destitute’ (Abdullah 2006b), could expect to receive direct assistance
from the government. Eligibility for direct assistance will be based on income with the names of the poor entered into a ‘national poverty database’ (Government of Malaysia 2006:343).

Finally, high levels of inequality were depicted as a threat to social order and future economic prosperity which could only be avoided by a government willing to take ‘firm’ action.

The evidence from many other developing and developed countries suggests that persistent and growing inequalities may eventually cause systemic problems and social instability in an economy, unless addressed firmly, effectively and with great pragmatism and wisdom for the benefit of the nation as a whole (Government of Malaysia 2006:324).

Much of this language appears designed to shore up support for continued assistance to those in poverty by reinforcing the message that economic efficiencies will flow from doing so and economic growth is at risk from failing to do so.

**Taxing the people: Consumption and income related taxes**

A greater proportion of government taxation revenue is now earned from income taxation (see Table 7.6 below). The lowering of tariffs under international trading arrangements and regional (ASEAN) trading agreements has reduced the proportion of income earned from import and export taxation. Greater use of income taxation to fund social policies risks generating greater levels of political opposition from those on whom the tax burden will fall most heavily.

The loss of revenue previously earned by tariffs has in some cases been replaced by an excise tax on local resellers of imported products, particularly cars (from
2005). Excise tax has increased in importance and now contributes over 30 per cent of indirect taxation revenue. In other cases, excise taxes have been replaced by sales taxes, as with imported petroleum products (from 2000). Sales and service taxes now deliver almost 40 per cent of indirect tax revenue to the federal government whereas in the early 1980s they accounted for just over 13 per cent.

Table 7.6 Government revenue by source (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies’ income tax</td>
<td>42.3</td>
<td>43.2</td>
<td>51.6</td>
<td>47.7</td>
<td>49.3</td>
</tr>
<tr>
<td>Petroleum income tax</td>
<td>33.8</td>
<td>28.6</td>
<td>9.6</td>
<td>20.6</td>
<td>27.2</td>
</tr>
<tr>
<td>Individual income tax</td>
<td>18.9</td>
<td>27.1</td>
<td>27.3</td>
<td>24.1</td>
<td>16.1</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>3.2</td>
<td>7.0</td>
<td>9.7</td>
<td>6.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Others</td>
<td>1.3</td>
<td>1.2</td>
<td>1.8</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Indirect taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export tax</td>
<td>24.7</td>
<td>17.5</td>
<td>3.4</td>
<td>5.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Import tax</td>
<td>33.8</td>
<td>29.5</td>
<td>29.6</td>
<td>20.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Excise tax</td>
<td>18.5</td>
<td>20.9</td>
<td>27.8</td>
<td>21.1</td>
<td>31.9</td>
</tr>
<tr>
<td>Sales tax</td>
<td>16.6</td>
<td>22.5</td>
<td>25.7</td>
<td>33.1</td>
<td>28.5</td>
</tr>
<tr>
<td>Service tax</td>
<td>1.4</td>
<td>1.1</td>
<td>5.4</td>
<td>9.4</td>
<td>9.5</td>
</tr>
<tr>
<td>Others</td>
<td>4.9</td>
<td>5.7</td>
<td>7.0</td>
<td>10.6</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Non-tax revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>18.8</td>
<td>23.5</td>
<td>16.6</td>
<td>22.8</td>
<td>23.6</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>21,115</td>
<td>29,521</td>
<td>50,954</td>
<td>61,864</td>
<td>106,304</td>
</tr>
</tbody>
</table>

Source: Author’s calculations derived from BNM 2006b, table VII.2

As the following discussion highlights, the government has moved cautiously in formalising income taxation arrangements. For example, the Economic Planning Unit (EPU 2004a:29) states the many reviews of income taxation are driven by ‘the concern for the poor and lower income group to have a bigger disposable income…[and a desire]…for a reduced income inequality between this group and higher income group’. While the institutional capacity to recover income tax has been strengthened, the range of expenditures eligible to be claimed as rebates has simultaneously been broadened.
A more stringent application of legislation relating to individual income tax has been underway since the mid 1990s with the creation of the Inland Revenue Board (IRB) in 1996 and the imposition on employers to withdraw taxes directly from the wages of employees. From 1998, benefits given by employers, such as housing, cars, loans and the payment of school fees for dependents became taxable. Health benefits provided by an employer are not taxable. Since 2000, the number of staff employed by the IRB has increased from approximately seven thousand to ten thousand (IRB CEO Zainol Abidin cited in Star 30 April 2006). In 2004 and 2005, staff from the IRB created a further 800,000 tax files as a result of the stronger emphasis on the collection of income taxation revenue (Ministry of Finance 2005:62).

The amount of income tax collected from individuals has varied as the taxation system was reviewed and was subject to various exemptions during the financial downturns of 1998 and 2001. While rates of income taxation were lowered by one per cent during 2000, ‘as a measure to increase the disposable income in order to stimulate consumption’ (Daim 1999, Appendix 1), the overall amount collected has increased due to wider coverage. Taxation of income earned by companies contributed over 50 per cent of direct taxation revenue in 2005, up from 40 per cent in the early 1980s. As petroleum derived income expanded with rising oil prices in 2005-2006, individual rates of company taxation were lowered, from 28 per cent in 2005 to 26 per cent in 2008 (Abdullah 2006a:6).
Taxation revenue raised through the consumption of goods and services has become an increasingly important source of government revenue. The 2005 Budget contained proposals for a Goods and Services Tax (GST) to replace the current sales and services taxes, and was to be implemented from January of 2007.

The new tax…will be more comprehensive, efficient, transparent and effective…The introduction of the new tax will provide the Government with the opportunity to reduce corporate and individual income tax rates. The Government will also ensure that the low-income group will not be burdened by the implementation… (Abdullah 2004:6-7).

Yet there was no mention of the GST in the 2006 or 2007 budgets. The Ministry of Finance announced in February 2006 that the implementation of the GST had been postponed ‘indefinitely’ to allow the business sector more time to ready themselves (NEAC website citing Business Times [Singapore] 18 April 2006).

Consumers and price subsidies

The Minister of Domestic Trade and Consumer Affairs (MDTCA) announced in 2001 that the Price Control Act (PCA) would be abolished and replaced with legislation that reflected the government’s desire to be more ‘liberal’ in the market (Sun 19 May 2001). Yet in 2006 the PCA remains in force. In 2006, the government announced the goal of halving the subsidy allocation by 2010 (Government of Malaysia 2006:73). Subsidies were actually increased in the 2007 budget, funded by increased earnings from Petronas as oil prices peaked (Abdullah 2006a).

In the 2006 Budget, allocation was made for an additional 745 staff to be employed in the MDTCA to enhance the effectiveness of price monitoring
(Abdullah 2005:26). In the wake of the oil price rises, the Ministry approached larger retailing outlets and hypermarket operators, which are mainly foreign-owned, to request their participation in a six month campaign aimed at reducing price increases. Known as the ‘Keep Retail Prices Low for Malaysian Families’ campaign, the effort by the government to prevent costs being shifted onto consumers was criticised by employer lobby groups representing foreign-owned firms (AMCHAM and the U.S. Chamber of Commerce 2006:46). At the time of writing, little is known about the success or otherwise of this campaign, but it represents another occasion when the government has used its relatively greater institutional control over foreign-owned businesses in the attempt to impose a solution to shortcomings within the state-labour nexus.

The price of transportation fuels has been particularly sensitive in Malaysia and has been strictly controlled via extensive subsidies that saw pump prices frozen for more than a decade until 2000.11 The discounted price has become a firmly entrenched expectation amongst consumers. Increasing the price marginally in 2004, the government made reference to the expanding cost of the fuel subsidy, which had increased from RM1.5 billion in 1984, to RM9 billion in 2004 (Deputy Prime Minister Najib, quoted in Alexander’s Gas and Oil, June 29 2004). Prices were increased twice again in 2005.

In order to reduce its subsidy burden, the Government has increased the pump price of retail petroleum and diesel products …Even though those increases resulted in higher costs of fuel, retail prices within Malaysia are still amongst the lowest in the region (Ministry of Finance 2005:50).

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11 Price restrictions on petrol have occurred at times despite the wishes of retailers. Rohana Ariffin (1997:51) reports one occasion where the government refused to allow a price rise and retailers retaliated by restricting supply.
A moratorium on further price increases was put in place until the end of 2005 ‘…to ease the burden…and to cushion the effects…’ (Ministry of Finance 2005:50). To further compensate, road toll rate increases were deferred, and road taxes for smaller vehicles and for low income earners were waived. In August 2005, the NEAC posted a discussion paper to website of the Economic Planning Unit explaining the costs of the petrol price subsidy to the nation.

…spending on subsidies are one-off expenditures which do not generate further income for the nation and its people…If the rakyat [the people] and the Government can share the cost of rising fuel prices, thus reducing the need for subsidies, a part of the contributions from PETRONAS can instead be directed to generate new sources of income (NEAC 2005).

At the same time, the NEAC ran an online poll asking Malaysians whether the Government should continue with its subsidisation of oil prices even though this would require the ‘sacrifice of other development projects’ [emphasis mine]. Over 60 per cent of the 434 respondents voted ‘yes’ (NEAC 2005). A sense of economic nationalism had clearly not permeated those who responded.

In late 2005, Malaysians were warned that prices would need to rise again.

The Government is estimated to incur losses in tax revenue and subsidy amounting to RM16 billion for this year. This level is almost three times higher than the RM6.6 billion in 2003 and almost one and half times higher than RM11.9 billion in 2004 (Abdullah 2005:17).

In February 2006 the government allowed petrol pump prices to increase, this time by a greater amount. From January, civil servants received a range of increased allowances\(^{12}\) to offset the ‘rising cost of living’ (Abdullah 2005:25). The MTUC then demanded a cost of living allowance (COLA) be granted to private sector workers (Cruez 2006). In a February press release (MEF 2006c),

\(^{12}\) Note that the increases are ‘allowances’ which means they do not affect base rates of pay.
the Malaysian Employers’ Federation predictably rejected the call for increased wages arguing that employers had already allowed for increased living costs when determining current wage levels. But the MTUC had questioned the ability of the government to protect the standard of living of Malaysian workers, a point on which the government, as the protector of the people, was vulnerable.

Deputy Prime Minister Najib attempted to explain the government’s position in a specially screened television program (Bernama 1 March 2006). Najib’s responses were carefully aimed at shifting criticism onto unnamed non-deserving recipients of the fuel subsidies whose abuse of the system had made it too expensive to be continued.\(^{13}\) He mentioned that neighbouring countries no longer subsidised fuel prices. Najib encouraged people to use public transport as a means of offsetting the fuel price rise, but when questioned by the interviewer, he then found it difficult to reconcile this with the government’s encouragement that the people should ‘support the national car’.

Government figures showed that increasing car usage (from 47 per cent in 1985 to 71 per cent in 2004) had contributed to a decrease in the use of public transport from 34 per cent to 16 per cent (Abdullah 2004:10) overburdening the road network. The use of subsidies to maintain the paternalistic state-society relationship had, in this case, not only become expensive to maintain, but was effectively contradicting other government initiatives. In the previous year, the Prime Minister had outlined his Government’s commitment to reducing traffic

\(^{13}\) Media reports on the previous price hike in July 2005 listed fuel smuggling into Thailand and illegal sales of diesel to industry as major rorts of the system (AFP 2005, ‘Malaysia fuel price hike could hurt economy, say analysts’, May 5).

Prices of services such as electricity and water have also been extensively subsidised. Privatisation has been one means by which the state has sought to ease the burden of subsidies. Yet when the provision of sewerage services was privatised in the mid 1990s, the winning company, Indah Water Konsortium, was initially foiled in its attempts to increase charges to consumers. A highly successful campaign by the Federation of Malaysian Consumer Associations (FOMCA) saw the additional charges reduced and a more transparent billing system implemented (Jayasooriya 2004:23-24).

According to the Prime Minister, the Petronas-funded subsidy on gas for electricity production amounted to RM9 billion in 2004 (Abdullah 2005:17). Government-owned, corporatised electricity supplier, Tenaga Nasional Berhad (TNB), had not increased tariffs since 1997 when in early 2006 it attempted to get government approval to increase its rates by ten per cent. Tenaga argued that the costs of supplying electricity had risen by 23 per cent over that time.

People have forgotten that the last tariff increase was in 1997, and that since then there have been increase [sic] in costs of all kinds—fuel, TNB equipment and labour. We have been like a sponge, absorbing the costs but we have reached a level where we cannot go on anymore (Tenaga CEO Che Khalib Mohamad Noh cited by Bernama 15 April 2006).

The Tenaga CEO further hoped that incremental increases in the price could then be made every two or three years. After the claim was initially rejected by the Prime Minister, Tenaga responded with a proposal that would have maintained the existing price for lower income groups and low level electricity users...
meaning effectively that almost 40 per cent of customers would have been sheltered from the price hike (Bernama 15 April 2006). This would have created an outcome similar to that described in the 2006 Budget speech. Abdullah had stated there (2005:23), that electricity tariffs would ‘…need to be adjusted…in due course…However, the Government is committed to ensuring that there will be no additional burden, particularly for the lower income group…’.

Despite appearing entirely consistent with the government’s budgetary stance, TNB’s modified proposal was rejected. The Minister for Energy, Water and Communications, Lim Keng Yaik, told the media that in the wake of recent increases in petrol prices, an increase in the price of electricity was ‘too much for people to accept, so I have to hold on for a while’ (Business Times [Singapore] 15 April 2006). Adding to the political pressures influencing the government’s decision was the publication of a list of government linked companies with large debts to Tenaga (Star 13 March 2006).\(^\text{14}\) The government was concerned enough about a potential public backlash that it was willing to forgo the extra income that could have been earned from a tariff increase, and to step back from its stated aim of reducing the public’s dependency on subsidies, at least in the short term.

*Expanding sources of income*

This section looks briefly at some of the attempts to increase government revenue that may be effected through the government’s existing institutional

\(^{14}\text{Perwaja Steel for example, was cited as owing RM253 million to Tenaga.}\)
capacity in finance. The cases below focus on housing, Islamic finance, and unit trusts.

During the period of the *Eighth Malaysia Plan 2001-2005*, over 40,000 dwellings were constructed by the public sector for government employees. Approximately RM3.4 billion was allocated for this, while RM6.8 billion has been allocated during the period of the *Ninth Malaysia Plan 2006-2010*. Government employees are able to source subsidised housing loans from their employer, and in 2006 owed almost RM30 billion to the government. This amount was boosted by the construction of more than 9,200 new dwellings for civil servants in the new administrative capital, Putrajaya (Government of Malaysia 2006:439-441).

Government staff housing loans have now been developed into a new source of revenue by the Federal Government which appointed CAGAMAS in 2004 to oversee the initial release of RM2 billion of bonds based on the securitisation of these loans. Civil servants who are Muslim, which accounts for the majority of Malaysian civil servants, are required to take out a loan based on Islamic banking principles. In 2005, just over RM2 billion of the Islamic compliant accounts were converted to Islamic bonds (Ministry of Finance 2005:92-94). ¹⁵ Market reports described the scheme as a model for other governments who may need to offset the costs of providing subsidised housing finance to their employees (see for example, *Arab News* 1 August 2005).

¹⁵ Known formally as Islamic Residential Mortgage-backed Securitisation.
The Malaysian Government sees the move as beneficial to Malaysia’s attempt to become a hub of Islamic banking while also freeing up what were otherwise non-liquid assets (Ministry of Finance 2005:94). According to the Prime Minister (Abdullah 2006a:12), Malaysia has performed well in its attempts to attract investors wanting to access a Syariah compliant banking and investment environment. The government expects the Islamic banking sector to constitute 20 per cent of Malaysia’s banking and insurance sector by 2010 (Government of Malaysia 2006:184).

As mentioned above, PNB is a national organisation that oversees the management of unit trusts originally created to increase Bumiputera participation in the non-agricultural economy. More recently these funds have also been used as a means of encouraging Bumiputera to plan for retirement and to insure against health costs and to save for their children’s education. In addition to the original Bumiputera-only funds, in December 1996, Mahathir launched Amanah Sahan Wawasan 2020 (ASW2020), which was aimed at people under 40 years of age. It was the first scheme available to non-Bumiputera Malaysians. Described by Kassim and Saleh (2001:235) as ‘…just one of the numerous efforts made by the government to increase domestic savings in order to decrease our dependency on foreign funds and investments’, the move might also be interpreted as a renewed effort to incorporate the economic resources of non-Malays into the government’s sphere of influence.
The family as a unit of consumption

The emphasis on consumerism, individual and familial responsibility is being linked with government plans to reduce expenditure on the public provision of health through privatisation. The depiction of health care as a commodity available for purchase is replacing the previous understanding of health care as an instrument of social welfare capable of driving socio-economic improvements (Barraclough 2000). Rather, the privatisation of health is described in government literature as driven by the demands of sophisticated, educated, consumers for a greater variety of services.

Since the mid 1990s, tentative moves have been made towards the introduction of fees in the public health system and the privatisation of some formerly state-provided health services (Barraclough 2000). A National Health Fund established in 2002 exists to fund the use of private sector health services by patients unable to access required treatment from the public system. A national health insurance scheme has been suggested for some years. The most recent plans have been filtered slowly to the press in a sketchy fashion. For example, in December 2004, the Minister for Health announced the impending implementation of a National Health Insurance Scheme (NHIS). In the words of the Minister, the scheme would be

based on cost and risk-sharing across the population, with the rich subsidising the poor, the young the elderly, the healthy for the sick and the employed for the unemployed (Daily Express 16 December 2004).

The Minister explained that the NHIS was necessary ‘as the government could not continue to cover the rising costs of health expenditure’ (Bernama 16
December 2004). Articles in the mainstream media have assisted in spreading the message that free health care is an unfair burden on the government.

Our government is staggering under the burden of health expenditure, paying for the healthcare of approximately one million civil servants, 200,000 disabled people, half a million pensioners and a quarter of a million hardcore poor and unemployed…it is questionable whether the government can continue to sustain rising health care costs on public sector funds alone (Tee 2005 in *Sunday Star* 4 September).

In a 2005 media interview (Netto 2005a; Tee 2005), mention was made of a National Healthcare Financing Authority which would oversee the coordination of the public and private health sectors. These proposals have major implications for household budgets and for current employment contracts whereby employers provide health care as part of the remuneration package (Gross and Weintraub 2005:1).

Attempting to soften some of the financial impact of privatisation are changes to income taxation arrangements. Rebates for expenditure on health insurance were announced in the 2005 and 2006 budgets (Abdullah 2004, 2005). The medical costs of elderly parents can be claimed by their children as taxation concessions. Hence middle and upper income earners will be rewarded for adopting consumption patterns consistent with the state’s efforts to shift the cost of health to families and individuals.

Recent planning documents do not provide clarity on the amount individuals will be required to contribute to a national insurance scheme. The *Ninth Malaysia Plan 2006-2010* (Government of Malaysia 2006:433) reveals only that ‘[t]he implementation of the health financing mechanism will further enhance
accessibility and equity…the mechanism will encourage greater flexibility and freedom of choice in obtaining care…’. As Barraclough (2000) noted, statements regarding a need for greater individual contribution to health care have been made by the political leadership for more than a decade. It appears that in the case of health, the government will continue to adopt a cautious approach with regard to lessening its role as a provider. The difficulties of the public sector in attracting qualified staff, and the government’s refusal to increase the health budget significantly, are likely to drive the attractiveness of the private health sector to those able to afford it. Changes to the distribution of health care costs between individuals and the government may be effected in this manner rather than through a clear change in policy direction.

Building on previous initiatives, such as the Happy Families campaign of 1999 (EPU 2005:53), the Family First campaign was launched at the federal and state levels of government in 2003. As part of the stated commitment to the family, civil servants have now been granted a five day working week (Government of Malaysia 2006). A ‘caring’ government, in the understanding of the Malaysian Government, guides society towards the holding of values that strengthen the family unit so that is able to support its own members. This ‘family friendly’ initiative is relevant to the wider issue of women’s participation in the paid labour force. Rappa (2002) describes women in Malaysia as an ‘untapped economic resource’ whose greater participation in the formal economy is necessary for the Malaysian government to achieve its Vision 2020 goals. The rate of women’s labour force participation at 45.7 per cent in 2005 is below the level recorded in 1990 (Government of Malaysia 2006:282). It is important to the
government that greater numbers of women, particularly married women, participate in the labour force. This will have the effect of raising household income but without requiring significant increases in wage levels.

Thus far, however, little in the way of public spending has been allocated to overcoming the obstacles identified as preventing women from remaining in the labour force after having children. Owners of private child care centres are eligible for the range of tax concessions usually offered to pioneer industries, and employers have been encouraged by the Ministers for Women and Family Development and Unity and Social Development to provide work based child care centres and abide by Malaysia’s relatively generous maternity leave provisions.\(^\text{16}\) The number of child care places provided by employers is however inadequate to fill demand.\(^\text{17}\) Tax concessions are available to families using child care and for employers who provide child care, and the 2007 budget included one off payments to public service departments that undertake to build work based child care centres (Abdullah 2006a:18). The Prime Minister encouraged the private sector to do likewise but the government has refused to enforce legislation in this regard.

The greatest response to the need for child care and other domestic work has been the liberalisation of migration arrangements for foreign domestic staff.\(^\text{18}\)

\(^{16}\) Malaysian women are entitled to 60 days of maternity leave at full pay for up to five children. Maternity leave is paid by the employer, not through social security or unemployment insurance.

\(^{17}\) The available data states that 86 child care centres near or at workplaces were established in the period 2001-2006 (Government of Malaysia 2006:309).
public and private companies to establish child care centres in the workplace’ (Chin 1997:370).

A range of other initiatives, including reforms of the Employment Act and the Industrial Relations Act to address sexual harassment, are forecast in the *Ninth Malaysia Plan* but no funding details are provided. In total, funding to the Ministry of Women, Family and Community Development for the period 2006 to 2010 amounts to 0.3 per cent of budget allocations while the Ministry of Human Resources is to receive 1.2 per cent (Government of Malaysia 2006:530). These amounts are consistent with allocations in previous years and do not indicate the emergence of major new initiatives to prepare middle income families for any significant changes in their working lives. The Constitution was amended to make discrimination on the basis of gender an offence, but the government has simultaneously refused to address gender-based wage inequality through legislation.

In summary, for many middle income families, in a scenario where education and health costs are shifted onto the family, current levels of income and consumption will only be able to be maintained if both partners are in paid employment. The ‘consumerism’ discourse, much of it aimed at women (Rappa 2002), acts to encourage women into the labour force to bolster household incomes. Families are being encouraged to save and plan for the future through the purchase of insurance products, shares and annuities. The challenges for the Malaysian government are firstly, whether this discourse of consumption is considered ‘plausible’ (Rappa 2002) by the electorate. Secondly, there are
concerns as to whether households can sustain the reductions in income that will result from the loss of subsidies and the introduction of fees for services. Thirdly, these reductions are likely to create greater pressures for employees to demand wage increases and extra entitlements from employers. In the current labour shortage situation, these demands may well be met, but at the risk of creating the very inflationary pressures the government has acted to avoid. As the direct employer of civil servants, the government has enacted a wide range of responses that will shelter this section of the labour force. In the private sector, the outcome is likely to be a greater segmentation of the labour market and continued pressure by employers for access to migrant labour.

**Conclusion**

This chapter has bought into question the argument presented by Ramesh (2000) that UMNO’s electoral dominance since the mid 1980s has facilitated a clear shift towards economic spending and away from social spending. While his argument is consistent with policy statements by Abdullah Badawi, and previously by Mahathir, it fails to acknowledge the variations in policy implementation that have been forced on the government as it has attempted to negotiate conflicting and contradictory pressures.

Strategies encompassed within economic paternalism impact on the budget and particular sectors of the economy and therefore have the potential to trigger elite level conflict. Capital has supported many of the strategies because they have simultaneously generated economic growth and have been particularly useful during downturns. However, as has become clear, the current attempt by the
government to reduce its share of the costs of labour’s social reproduction, such as health and education costs, and the threat to do away with price subsidisation, has already generated moves by capital to avoid picking up these costs. It is likely that core employees will be able to bargain effectively for greater health and education benefits as part of the remuneration package, but this will be negotiated privately. The government has pledged greater support for those in society who are identified as in poverty, however, this leaves approximately 40 per cent of Malaysia’s working class in an uncertain position with regard to future entitlements. The government’s response has been to encourage greater participation in the Employee’s Provident Fund by previously ineligible workers, such as the self employed. It has also made it more attractive, through taxation relief and Syariah compliant banking, for households to invest in financial products designed to provide income protection. This is a project that will take time to mature. In the meanwhile, strong economic growth and close to full employment conditions provide a cushioning effect to the potentially destabilising political processes in play.
Conclusion: ‘Together towards glory, excellence and distinction’¹

…the Malaysian development experience…required the masterful management by the government of a myriad of balancing acts to meet the varied demands of a heterogenous population each seeking to maximise its share of the nation’s governance and growing wealth (Economic Planning Unit 2004a:42).

As societies and economies undergo processes of restructuring, we observe changes in employment relations and welfare systems that often appear to be to the detriment of the majority of the working class. Under such pressures, we wonder then, why more societies do not erupt into disorder and violence, or even more so, why governments overseeing these processes are returned to power by the electorate? This search for the mechanisms that allow for the adaptation and stabilisation of capitalist societies, despite their contradictions and inequities, is a central goal of régulation theory.

In resolving this dilemma,² I have attempted to reverse the usual order of questioning. Rather than asking how economic policy has impacted on labour, I have asked instead how existing state-labour compromises have shaped economic policies. In the response to this question we uncover both the destabilising potential of labour’s contradictory location in capitalism, and the attempts to modify those contradictions. Through these attempts, societies and economies may adapt and thereby accommodate, at least for a time, the contradictions inherent within capitalist social relations.

¹ Abdullah Badawi, Prime Minister since 2003, chose this as the theme for the Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006:vii). In Bahasa Melayu, this is referred to as ‘cemerlang, gemilang dan terbilang’.

² A dilemma which is essentially the question plaguing all who view capitalism as inherently unfair.
Adopting this order of questioning drove the examination of significant policy shifts in Malaysia’s political economy. The New Economic Policy, Free Trade Zones, Look East, Vision 2020 and more recently, the k-economy, were described as both the product of and an attempted solution to growing pressures within the state-labour nexus. Embedded within each were a combination of repression and concessions, the balance of which reflected far more than economic imperatives. The accommodation of Malay nationalism within the public education sector, for example, has not served the interests of employers.

Economic paternalism has become the distinguishing characteristic of the state-labour nexus having developed out of the growing institutional capacity that allowed the government to implement the policies of the NEP. Conflict over the funding of aspects of labour’s social reproduction, for example, the provision of low cost housing, health and education, public child care, retirement income, and the price of food, utilities and fuel, has shaped the nature of economic paternalism. These mediated outcomes and compromises have extended régulation options to the government but, in turn, have created expectations amongst the populace for certain economic goods. The government’s legitimacy amongst some of its supporters has come to depend on the delivery of subsidies in various forms. In this sense, the leadership is as dependent on the provision of subsidies as are the people in receipt of them and the fractions of capital that profit by them.

Since Mahathir’s Vision 2020 statement in 1991, the political leadership has tried to shift the basis of legitimacy away from its historical position as the
defender of the Malays. Vision 2020, and within it, *Bangsa Malaysia*, was an attempt to impose economic nationalism as hegemonic, replacing the existing ideologies of ethnically-based nationalisms (Williamson 2002). The populace is however, familiar with the inconsistencies of the ‘syncretic state’ (Jesudason 1996:131-134). This is a government that frequently makes policy statements which are then overturned, delayed or contradicted before ever being implemented. This is a government that is willing to intervene in the economy in ways that go against the dictates of its own policies.

The most recent attempt by the political elite to shift societal expectations away from subsidies has been to focus on consumerism, linking it where possible to images of a modern, entrepreneurial workforce and society. This is now clearly apparent in the effort to redefine eligibility for government assistance on the basis of poverty rather than ethnicity, a move which, if successful, would reduce the level of expenditure allocated to subsidies. Through this strategy the government hopes to modify the more expensive aspects of economic paternalism. Yet this must be achieved without depressing consumption and while also facilitating greater private contributions towards labour’s social reproduction. For example, an institutional response has been the provision of tax relief for those who contribute now to their future health, education, housing and retirement needs. This approach may eventually bear fruit for the government as middle and upper income earners become convinced that their investments will be less profitable under the conditions that support economic paternalism. As the income taxation burden becomes heavier, this too may generate electoral support for an increased focus on economic development and a decreased allocation to
‘non-productive’ spending. This would however, be difficult to reconcile with the clientelism and rentier arrangements embedded within state-capital relations.

Lacking the insulation from popular pressures that contributed to the success of the ‘developmental states’, the Malaysian leadership is currently reliant on existing distributional policies even though there are strong economic imperatives to do away with them. While fractions of capital, particularly those with overseas interests, have called for the implementation of competition policy, there is not a coalition of support for the dismantling of economic paternalism. Capital, labour and state agencies are enmeshed in the web of public-private transfers that have for the past three decades, contributed significantly to the stabilisation of Malaysian society even as they have generated other economic and political tensions.

These comments have emerged from the meso-level approach adopted in the thesis which has allowed the development of a national-level framework for analysis. One means of taking this research project further would be to focus on particular social sectors. For example, the government’s stated goal of encouraging more women into paid labour has a strong economic imperative yet this goal has been thwarted since the 1990s. Some of the failures in the mode of régulation that have contributed to this outcome were discussed but this question could be pursued in further detail. For example, are there ‘social’ policies emerging that will facilitate or, conversely, force more women into the workforce? Razavi and Pearson (2004:4) describe this as an under-researched area, particularly in the case of export-oriented economies where, as has been
argued here, social policies, broadly defined, may be more important strategies than wage setting policies.

Mention has been made here of concerns regarding the ageing of the population given the absence of income support for the aged. This issue is yet to create significant budgetary pressures in Malaysia but has the potential to do so given increased use of EPF funds in advance of retirement and a trend towards the elderly living apart from their families. There is a clear contradiction between the needs of those households living off investments, such as retirees, and the low rates of interest pursued as a social redistribution policy by the Malaysian government, a policy that favours households with mortgages and other debts. Responding to this, in 2004 BNM devised Merdeka (Freedom) Savings Bonds which have a guaranteed return of five per cent. These bonds are available to ‘senior citizens, retired armed forces personnel and Malaysians who have retired on medical grounds’ (Ministry of Finance 2005:79). In 2004, Merdeka bonds to the value of RM1.94 billion were released, with another issue of RM1.16 billion in 2005. Thus far, the concerns regarding a larger aged population have been addressed within the bounds of economic paternalism and the ideological reinforcement of ‘family based’ welfare. For example, health care costs incurred by the elderly can be claimed through the taxation system, a response that assists middle and upper income earners. This issue may be played out in a different fashion in less favourable economic conditions that expose greater numbers of elderly people to poverty.
It would be possible to use the approach adopted here to further explore intersections between geographical location and ethnicity in the state-labour nexus. More than 500,000 mostly working class Chinese were incarcerated in ‘new villages’ and subject to the ‘hearts and minds’ campaign orchestrated by the British in their post-war campaign against the Communists. The ‘hearts and minds’ campaign has been reviewed as a political and military strategy (Sunderland 1964) yet it could also be examined as a very particular form of economic paternalism. The remnants of this population now figure prominently amongst those rural households living in poverty, yet, in the early 1950s, the British claim to have provided housing, piped water, electricity and valuable land resources to these new villages to the extent that it raised the ire of the Malay royalty on behalf of Malay villagers.

The discussion here has focused on federal government employees, but two Malaysian states, Kelantan and Terengganu, have been led by PAS in recent times. The federal government determines funding allocations to state governments and also has constitutional powers over state level legislation. In effect these constitute further institutional locations in which the forms of labour régulation would be mediated. For example, when campaigning in the 1999 elections, Kelantan’s former Chief Minister and senior PAS representative, Nik Aziz, portrayed the development of a civil service in which adherence to faith and family would be a factor in deciding the weekly hours of work for civil servants. Wages for male civil servants were to be determined in part by their family size and whether their wives remained out of the paid workforce. The Chief Minister had already imposed reductions on allowances for bureaucrats,
including himself, as part of the wider program of Islamisation of the state-level administration (Stark 2004:60-61). Yet despite a radical program to reorganise employment conditions, the ability of the Kelantanese government to pursue these policies was clearly limited by a lack of funding and legislative autonomy. Political tensions between the federal government and state governments therefore impact on the régulation of government employment at the state level.

The structural changes underway in Australia’s industrial relations, employment and welfare policies present a possible comparative study with the nature of changes underway in Malaysia. While both Australia and Malaysia have centralised systems of industrial relations, Australia has had a more formalised system of employment relations that is currently undergoing a process of ‘deregulation’. While neo-liberal philosophies have proved politically effective in Australia, Broomhill (2001:127) identifies destabilising tendencies within neo-liberal employment relations that could threaten accumulation. Neoliberal ideology has not predominated in Malaysia where a more paternalistic approach has prevailed, reinforced institutionally through economic paternalism. In both cases, however, governments are attempting to redistribute the costs of labour’s social reproduction away from the government in a time of high employment and rising wages. This would appear to be counter intuitive as it would surely be more sensible to attack labour conditions when labour is at its weakest. Yet, when dominant segments of the labour force experience rising wages, households tend to increase their credit-based consumption which further

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3 Deyo and Agartan (2003) also explore the destabilising impact of labour market ‘deregulation’ and the potential for a return to social policies as a result. Their focus is East Asian economies. Jayasuriya (2006) explores social inclusion and the new welfare governance as ‘workfare writ large at a transnational level’.
entrenches them in wage relations. In Malaysia, this brings households within the orbit of state agencies that exert considerable control over banking, finance and distribution. This is less the case in Australia which indicates that other strategies are operating within the mode of *régulation*.

Neo-liberal economic goals in the shape of competition policy are amongst those presenting a challenge to the nature of economic management in Malaysia currently. This is not a new scenario given Malaysia’s long history of participation in international trading arrangements. The government has demonstrated the capacity to respond creatively to the demands and criticisms of international agencies, foreign governments and global markets. Mahathir took advantage of regional and international forums to defend his government’s right to pursue policies other than those dictated by ‘unfettered globalisation’.

It is in taking advantage of its regional and international connections that the government may be able to maintain economic paternalism or advance the pursuit of alternative stabilising mechanisms. *Petronas* now derives approximately 35 per cent of its income from activities outside of its Malaysian operations. Its ability to deliver funding to the Government of Malaysia, its single shareholder, is therefore likely to be extended beyond that of the lifespan of Malaysia’s oil and gas reserves. The government is also seeking international funding through the promotion of what it calls ‘health tourism’. ‘Health Malaysia’ is a joint effort between the Ministry of Health, the Ministry of Tourism and the Association of Private Hospitals of Malaysia. It has so far focused on promotions in the United Arab Emirates and China. Malaysia’s plan
to position itself as the ‘Global Hub of Islamic Banking’, if successful, will attract significant investment funds into a banking and finance system over which the government extends considerable control.

Finally, the EPF remains as a massive reserve of non-inflationary investment funds. These have been called upon to contribute up to RM20 billion of ‘private’ investment in the projects outlined in the Ninth Malaysia Plan 2006-2010 (Government of Malaysia 2006). The availability of these funds provides the government with an opportunity to further delay politically risky processes of structural change. As evidenced by the increased allocation to subsidies provided in the 2007 budget, an allocation that is in complete contradiction to the stated goal of halving subsidies by 2010, the political leadership continues to respond in an inconsistent and ad hoc manner to some of the more difficult policy decisions.

In explaining these inconsistencies in policy, some emphasise the constraints imposed by international pressures (Kuruvilla 1996). Others (Jesudason 1999; Lee 2005; Torri 1997) have highlighted the importance of factionalism within and between the coalition partners. Nesadurai (2000) has identified the continuing need to accommodate ethno-political concerns in elite decision making as a constraining factor.

The contribution of this thesis has been to highlight the impact of the contradictory nature of labour’s participation in Malaysia’s political economy and the compromises that have been generated out of the government’s attempts to manage this. As has been shown, exactly how these difficulties are managed is
a dynamic, politically contingent process which is simultaneously producing new social policies and new sets of conflict. This would not be readily apparent from examining the industrial relations environment or labour legislation alone as the Malaysian Government has preferred to limit state interventions in the employer-employee relationship. It is in sites of labour’s social reproduction beyond the workplace that we more readily identify the institutional responses that have facilitated stabilising adaptations within Malaysia’s capitalist social relations.
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