

Labour as A Source of Competitiveness in Selected Southeast Asian Countries

by

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This paper attempts to examine whether the management of labour resources promotes the external competitiveness of selected Southeast Asian countries using two approaches, the labour market approach and the industrial relations approach. The labour market flexibility index is employed in the analysis using the labour market approach. But the main thrust of the paper examines how trade unions can be developed to become a strategic partner in the quest for foreign investment. It shows that trade unions in Singapore are a strategic partner to the government in enhancing the competitiveness of Singapore, while trade unions in Malaysia and Thailand have not been a factor in attracting foreign investment to the respective countries, and the labour movements in Indonesia and the Philippines have been a liability in the attempts to enhance labour competitiveness in these countries.

There are two types of trade unions, micro-focused and macro-focused. Micro-focused trade unions aim to protect the interests of their union members. Their union leaders are thus pre-occupied with wages and other benefits for their union members. At the same time, they also demand employment stability for their union members. A typical result of micro-focused unions is that they use collective bargaining power to seek significant benefits and ignore unemployment in the economy.

Macro-focused trade unions aim to achieve full employment. They are prepared to allow wages to fluctuate to protect employment. Macro-based unions accept competition as a reality and do not object to capital outflows, as this is part and parcel of globalization. Consequently, such unions place significant emphasis on competition and training. In contrast, micro-focused trade unions object to capital outflow, which is seen as exporting jobs overseas. However, macro-focused unions face a free rider-ship problem, which is not the case with micro-focused trade unions.

This paper argues that macro-focused unions can help an economy compete in this era of globalization, which is especially important for the East Asian countries as they are export-driven. As international competition becomes increasingly keen, the need for the labour movement to be macro-orientated becomes more urgent. It shows that trade unions in Singapore are macro-focused and therefore are a strategic partner to the government in enhancing the competitiveness of Singapore. Trade unions in Malaysia and Thailand, on the other hand, are not macro-focused and have not been a factor in attracting foreign investment to the respective countries. The labour movements in Indonesia and the Philippines have been a liability in the attempts to enhance labour competitiveness in these countries.

Overview

Few researchers have studied the competitiveness and overall development of the countries in Southeast Asia. One such researcher is Lim Chong Yah (2001), who applies his EGON Theory, Triple C Theory and the S Curve to his assessment of the overall development of Southeast Asian countries and their competitiveness. Lim concludes that solutions to eradicate poverty must be country-specific and economy-specific. They include, among other things, “market-oriented economic policy and practice” (p. 349). The present paper assesses only 5 Southeast Asian countries - Singapore, Malaysia, Thailand, the Philippines and Indonesia - and focuses only on the labour market competitiveness of these countries. We are of the view that labour market competitiveness is a function of the overall competitiveness in each country.

Two possible approaches may be adopted to examine how labour is being managed for competitiveness. One is to take the labour market approach to see whether the rules governing employment are conducive to competitiveness, and the other is to examine relations between the government and the labour movement.

The present paper briefly discusses the labour market approach, but its focus is mainly on relations between the government and the labour movement in the industrial relations arena, which encompasses the rules governing employment.

The Labour Market Approach

The environment of the labour market can affect the ability of a country to effectively compete in the international market. The labour market must permit flexibility of hiring and lay-off of workers to enable firms to adjust to changing business requirements. For instance, if a firm experiences a fall in demand, it must be free to lay off workers or redeploy them to other areas of work in order to minimize losses and survive changes in demand. It must also be free to implement a wage payment system which is conducive to inducing higher productive effort from its workers. The conduciveness of the labour market environment to competitiveness is largely determined by institutional factors.

Employment protection can be one of the results of a certain type of relationship between the government and the labour movement, and it is one of the institutional factors which affects the conduciveness of the labour market milieu to competition. This is because employment protection makes it difficult for firms to re-deploy or even lay off staff should there be a change in business conditions and business outlook. Firms would hesitate to hire new staff if they know that they cannot re-deploy staff freely. This would not enhance competitiveness, and would result in high unemployment. Thus, in his (2005) study on the rules governing employment protection in Korea and other OCED countries, Park finds that countries in which employment protection is too comprehensive experience higher unemployment rates, while OECD countries which have limited employment protection rules, such as Korea and the US, register relatively lower unemployment rates.

Institutional environment is an important factor affecting the implementation of the wage system (Brown 2005). The environment in the USA, according to Brown, allows the firm to adopt a flexible wage system which is more efficient as it promotes higher productivity among its workers and at the same time permits the firm to adjust labour costs to changing business conditions. In the case of firms in Germany, the centralized wage agreements and works councils restrict the firm, preventing it from adopting the flexible wage system.

Another institutional factor which is seen to affect competitiveness is the prevailing labour standards in a labour market. Higher labour standards protect the interests of workers, but undoubtedly impose higher costs on firms and make it more difficult for them to compete internationally. Developed countries and the International Labor Organization (ILO), however, have been pushing for higher labour standards in developing countries because the differential in unit labour costs between developed and developing countries due to differences in labour standards have been blamed for the decline in job creation in the developed countries, and also because of the desire to promote labour rights. However, in their (1998) study, Raynauld and Vidal find that labour standards have not had any significant impact on the relative competitiveness of the countries covered in their study. This finding should allay the fear that differences in labour standards between developed and developing countries alone have contributed to the export of job opportunities out of the developed countries. Furthermore, it has been argued that as countries develop, the labour standards in their labour markets tend to improve. Therefore, many have argued that developing countries, including Southeast Asian countries, should be given the opportunity to develop their industries through appropriate wage levels, and have urged the ILO and the developed countries not to build obstacles to economic development. An article in the Economist states that “To build obstacles on the developing countries’ paths out of poverty would be the crime of the century” (*The Economist*, 1 October 1994, p.16). As one researcher (Fields 1995) puts it in his appeal: “Don’t push but pull them up through economic growth”. Singapore provides the best example of this statement.

Other institutional factors which can affect competitiveness are minimum wage laws and unemployment insurance/benefits, which exist in many developed countries. For instance, OCED countries have a minimum wage law and also an unemployment benefits scheme for workers. However, countries in Western Europe have an unemployment rate of around 10%. Even though per capita income in these countries is high, their labour-intensive industries shrink. While OECD countries may be able to afford strong employment protection rules, it is not wise for Southeast Asian countries to emulate this approach.

Based on the above factors, Lawson and Bierhanzl (2004) compile the labour market freedom index for more than 100 countries. Table 1 presents the index for some OECD countries.

TABLE 1
The Labour Market Freedom Index of selected OECD countries

| OECD Countries | Marginal tax rate (Low rate means high index) | Min wage (Low min means high index) | Hiring and firing practices (Easy means high index) | Centralised collective bargaining (Less rigid means high index) | Unemployment benefits (Low means high index) | Labour market freedom index |
|----------------|---|-------------------------------------|---|---|--|-----------------------------|
| USA | 7 | 3.8 | 6.7 | 8.4 | 7.0 | 6.6 |
| U K | 6 | 4.6 | 4.9 | 8.6 | 6.5 | 6.1 |
| Japan | 5 | 4 | 4.2 | 7.4 | 6.8 | 5.5 |
| Denmark | 2 | 4.8 | 6.5 | 4.9 | 4 | 4.4 |
| France | 2 | 4.5 | 1.7 | 5.5 | 3.2 | 3.4 |
| Germany | 2 | 4.6 | 1.8 | 2.3 | 2.5 | 2.7 |

Source: Lawson and Bierhanzl, 2004.

This index shows that the US has the most flexible labour market, despite having high minimum wage laws. Denmark has flexible hiring and firing practices, but this advantage is overwhelmed by her high tax rate and unemployment benefits. Seifert and Massa-Wirth (2005) state that, in Germany, pacts for employment and competitiveness effectively enable firms to adopt the flexible wage system. This new development will certainly bring the index up for Germany.

Among the East Asian countries, both Singapore and Hong Kong rank high in labour market flexibility (see Table 2). While Singapore has a compulsory CPF scheme, employers' CPF contribution rate has been reduced thrice over the past three decades to reduce labour costs (see Chew and Chew, 2004). We are not too sure that this aspect has been taken into account in arriving at the labour market freedom index for Singapore. Singapore also promotes the flexible wage system, which is not captured by the index (see Chew and Chew, 2005, on the flexible wage system in Singapore), and this might cause Singapore's labour market index to be higher than Hong Kong's if it were taken into account.

TABLE 2
The Labour Market Freedom Index of Hong Kong, Taiwan and Southeast Asian Countries

| Hong Kong, Taiwan & Southeast Asian Countries | Marginal tax rate (Low rate means high index) | Min wage (Low min means high index) | Hiring and firing practices (Easy means high index) | Centralised collective bargaining (Less rigid means high index) | Unemployment benefits (Low means high index) | Labour market freedom index |
|---|---|-------------------------------------|---|---|--|-----------------------------|
| Hong Kong | 10 | 4.3 | 7.6 | 9.0 | 7.7 | 7.7 |
| Indonesia | 7 | 4.6 | 3.2 | 6.2 | 5.8 | 5.4 |
| Malaysia | 8 | 4.5 | 4.0 | 7.5 | 7.0 | 6.2 |
| Philippines | 7 | 4.4 | 3.3 | 6.9 | 5.7 | 5.5 |
| Singapore | 9 | 4.6 | 7.2 | 8.4 | 7.5 | 7.3 |
| Thailand | 7 | 3.9 | 4.6 | 6.5 | 6.5 | 5.7 |
| Taiwan | 7 | 3.8 | 4.6 | 8.0 | 6.2 | 5.9 |

Source: Lawson and Bierhanzl, 2004.

The marginal tax rate in Southeast Asian countries is low, which contributes positively to labour market flexibility. Singapore has no minimum wage law, although there is a foreign worker levy. Indonesia, on the other hand, has a minimum wage law. In fact, the index indicates that all Southeast Asian countries, apart from Singapore, have some form of minimum wage law. It is necessary to review whether such a law is useful, as it may introduce distortions into the labour market. With regard to rules governing retrenchment, in all countries in Southeast Asia, with the exception of Singapore, it is not easy to dismiss workers. There is a need for countries like Indonesia, Malaysia, the Philippines and Thailand, to look into employment laws to see whether the rules governing retrenchment can be eased according to the needs of the labour market (but that would depend on the state of the industrial relations which will

be addressed later). Generally, the labor market freedom index for each the five Southeast Asian countries is respectably high, ranging from 5.4 for Indonesia to 7.3 for Singapore.

On the whole, the labour market freedom index of each of the Southeast Asian countries is not much better than that of the OECD countries, which are more competitive. This brings out the issue of whether the labour market freedom index is an important factor affecting competitiveness. Table 1 reveals that the US has a much higher labour market freedom index than Germany. Despite this, Germany still exports to the US on the basis of comparative advantage. It may therefore be argued that the fact that the US has a higher growth in GDP could be attributed to factors other than her higher efficiency in the labour market. However, it should be noted that a significant difference between the two countries is that, unlike the US, Germany has to cope with a 10% unemployment rate due to its inefficient labour market. Some may also point to the fact that China has enjoyed trade surplus with many countries despite the fact that the Chinese labour market has not been efficient, especially in the 1990s. Again, this may be countered with the possibility that the Chinese economy could have been even more competitive if the Chinese labour market had been more efficient. We are therefore of the view that labour market flexibility is an important factor affecting competitiveness. If a country has an inefficient labour market, it has to cope with a high unemployment rate, as evidenced in both Germany and China. The fiscal and related resources that will be used to reduce unemployment rate will erode the competitiveness of the country. Southeast Asian countries are developing countries and hence these countries should try to increase their labour market flexibility so as to enhance their competitiveness in the international market. As labour unions generally contribute to the inefficiency of the labour market in many countries, we shall now discuss the industrial relations approach to competitiveness.

Industrial Relations Approach

The labour market environment which determines the degree of labour market flexibility discussed in the preceding section is the outcome of the interplay of various factors in the industrial relations system. Hence, in this section, we present the industrial relations approach.

The industrial relations systems of different countries generally differ owing to differences in culture, in social, economic and political developments, and in government policies. These differences are reflected in the behaviour of the trade union, the employers' associations and the government, which are the three key participants in the industrial relations system of a country.

The behaviour of the government is of paramount importance to the type of industrial relations system that develops, especially in developing economies. An active government not only sets the ground rules for participation in the industrial relations system on the one hand, it can also affect the behaviour of both the employers' association and the trade union, on the other. The most extensive form of government intervention is in terms of regulation, which in the developing world defines the playing field for the labour movement.

The behaviour of employers' association is the least complicated. Firms maximize profit and are mobile. In other words, they go wherever they can maximize profits. In

the short run, employers feel the need to speak with one voice when they are confronted with a militant union.

The industrial relations system of a country is, to a large extent, dictated by the orientation of the labour movement at the macro level. This is because unions are able to influence the rules of industrial relations and these influences also reflect the interdependence between the government and the labour movement, in general, and the nature of government intervention or lack of it, in particular.

In the literature, Deyo (1989), for instance, categorized state-union relations in Asia as state corporate, state exclusionary and state collaborative. Singapore is state corporate as the state is strong and the union is suppressed but allowed into the decision making process; Malaysia, Thailand and Indonesia are state exclusionary, meaning that the state is strong and unions are excluded from decision-making in the industrial relations process (see also Kaur 2004). But the impact of suppression or subordination on competitiveness is not so clear.

This paper focuses on the impact of the orientation of the labour movement on competition in the selected countries in Southeast Asia using an approach which is quite different from Deyo's.

Trade Union Objectives and Strategies

With increasingly widespread globalization and rapidly advancing technology, trade unions generally are concerned about their impact on employment. Cormier & Targ (2000) find that employment growth under FTA and NAFTA has been limited. There have been substantial job dislocations in USA, Canada and Mexico; moreover, income inequality has also increased in these three countries. Trade unions therefore must find ways to cope with the new environment in terms of an appropriate political and economic role in the economy (see Lowie, 1994, for an analysis of trade unions' objections to NAFTA).

The political role exists because trade unions are a form of democratic institutions. They serve as a check and balance against government and big businesses. Before trade unions can play that political role, however, they must become established, efficient and democratic institutions themselves. Only then can they influence the government to pursue the more balanced policies that will ultimately protect the interests of the workforce. This political role of the trade unions is a means towards achieving the goal of raising the standard of living for the workforce, especially for the developing countries. Researchers such as Morris & Fosh (2000) attempt to measure trade union democracy. Some researchers, such as Smith et al. (1993), for instance, discover that union policy does not reflect the views of union members, indicating an absence of union democracy. Recently, in countries such as Central and East Europe, the labour movement has been involved in political reform (ILO, 2005). The political role of the labour movement in these countries outshines its trade union role. As a result, the policy of attracting foreign investment in Central and East Europe has not been too fruitful. As will be discussed later, Indonesia faces similar obstacles.

The extent and means by which trade unions fulfill the economic role depend on the orientation of the trade unions concerned. Traditional trade unions aim to protect the interest of union members in terms of a wage premium, which is obtained at the expense of growth in employment or employment level. Using US data, Budd & Na (2000) discover that the union wage premium is about 12%. Deere & Tracy (1994) find

that higher union coverage is associated with slower employment and sales growth, decreased productivity in non-manufacturing firm, lower profitability and less investment in R & D. Freeman & Kleiner (1999) find that trade unions do seek higher wage growth that will retard growth in employment but not to the point of forcing firms to close. The trade unions covered in the studies cited are characteristic of the traditional trade union. Such unions rely on the creation of a wage premium to induce workers to join unions. They therefore cause wages to rise in the unionized sector, inevitably bringing about the retrenchment of some workers (see Disney & Gospel, 1989, for the implications of the Seniority Model of Trade Unions). Retrenched workers will move to the non-unionized sector, depressing wages there and also forcing some of the retrenched workers to join the informal sector. Hence, traditional trade unions may be regarded as micro-focused as they protect union members at the expense of other workers.

Under increasing globalization, micro-focused unions can only achieve this rather narrow objective at increasing social costs. This threatens the survival of the firm and the security of jobs. As Booth (1995) implies, employers who face competitive pressure resent micro-focused unions more than those who have a technological lead over their competitors. This explains why micro-focused unions do not generally support the trade agreement, as is evident in Lowie's (1997) analysis of the US labour campaign against NAFTA on the basis of fear of job losses, unfair suppression of labour rights in Mexico, cross-border solidarity and international labour rights.

At the other end of the spectrum, other trade unions aim to promote employment stability. This type of trade union is macro-focused; that is, such a trade union aims to set wages at levels that will maximize employment. Macro-focused trade unions work closely with the government and firms to enhance competitiveness. With trade unions that are macro-focused, the standard of living will rise as wages rise in tandem with the prosperity of the country. Because of their emphasis on competitiveness, macro-focused trade unions help to ensure the survival of the firm and the security as well as creation of jobs.

Using standard labour demand and labour supply analysis, micro-focused trade unions would raise wages by moving upward along the demand curve for labour. In the case of macro-focused trade unions, the wage rate is determined at the point of intersection of the labour demand and supply curves. Macro-focused trade unions can only raise wages by helping firms to raise productivity, thereby shifting the demand curve for labour upwards.

Macro-focused trade unions, however, face a survival problem. Workers find no incentive to join the trade unions as they can free-ride. This is because workers can enjoy the benefits that are generated by the macro-focused trade unions without joining the unions. Although free-riding exists for micro-focused trade unions as well because employers do apply collective bargaining benefits to non-union members as Harbridge & Wilkinson (2001) show in their study, the free-rider problem is much more serious for macro-focused trade unions. Macro-focused trade unions therefore need to find other means in terms of non-collective bargaining benefits to induce workers to join the unions. In the micro-focused environment, some workers still join the unions, instead of free-riding, because of non-contractual benefits (Booth 1985; Naylor 1989, 1990; Olson, 1965). But in the macro-focused environment, non-collective bargaining benefits are expected to be, and indeed must be, much more substantial because there is no wage premium to serve as the main incentive for joining unions.

The Micro-foundation of the Macro-focused Labour Movement

Unions at the plant level are by their very existence micro-focused. As mentioned above, unions can attract membership through two avenues: by creating a wage premium or by providing non-contractual services to members only. By far the bigger incentive that attracts union membership is the creation of a wage premium, which Booth (1995) refers to as the “monopoly role of trade unions”.

Micro-focused unions face the problem of free riders because the collective bargaining agreement is a form of public good which is available to all workers regardless of union status. However, Booth (1995) argues thus: “The free rider problem is generally not considered insurmountable in small groups, as the benefits will not be achieved at all without cooperation, and it is easy with small numbers to subject potential beneficiaries to surveillance and control to ensure that they do not cheat. The larger the number of potential beneficiaries, the more difficult it is to overcome the free rider problem, because of exclusion and surveillance difficulties, and the less likely is the collective good to be provided” (p. 73). Hence, micro-focused unions rely mainly on the wage premium to attract members, and use non-contractual services to minimize the free rider problem. In other words, union members enjoy a wage premium even while the union tolerates a few free riders.

At the plant level, union leaders perceive that the union does not benefit at all by being macro-focused. That is, the perception is that attainment of full employment does not benefit the plant level union. At the same time, union leaders perceive that, by creating a wage premium at their plant, they will not affect the attainment of full employment because theirs is just one of many unions in the economy. Furthermore, if some unions in the economy are micro-focused, unions which are macro-focused would lose out. (This is the standard argument for imposing incomes policy (Meade 1982. See also Olson’s 1965 examination of this issue concerning collective action.) Hence, at the plant level, union leaders have the tendency to create a wage premium as the main incentive to attract union membership; moreover, they themselves benefit from it personally. Thus, they are by nature micro-focused. Similarly, at the affiliated level, union leaders tend to be micro-focused.

This implies that if the leaders of a macro-focused labour movement want to pursue the policy of not creating a wage premium at the plant level, they either subject the union leaders at the plant level to tight surveillance control and/or provide the unions at the plant level some specific private goods (non-collective bargaining benefits) which branch unions can use to induce workers to join unions and reduce or remove the incentive to create a wage premium. The latter is consistent with Olson’s (1965) observation that a large group can exist despite the free rider problem, provided that the group offers private goods and services accessible only to its members, with ancillary provision of the collective good as a by-product. Olson (1998) further adds: “Organizations that use selective social incentives to mobilize a latent group interested in a collective good must be federations of smaller groups” (p. 46). As the labour movement is a large group, in order for union leaders at the national level to be macro-focused, they must offer selective incentives to union leaders at the branch level as well as union leaders of affiliated unions to forgo the use of a wage premium to induce workers to join the unions.

In summary, the union federation must apply the following three steps to ensure that unions at the plant level be macro-focused: First, institute surveillance control.

This may not be as difficult as it appears. Next, provide non-collective bargaining benefits to union members, and also enable workers at non-unionized firms access to those benefits. Finally, impose some sort of incomes policy or wage-fixing mechanism to prevent unions at the plant level from being able to create a wage premium (see Chew and Chew, 1998, for details on these issues).

The above discussion shows that the macro-focused trade union is a strategic partner to the government in competing for foreign investment and in ensuring that labour is managed for competitiveness. The following section presents Singapore as a case study in which the macro-focused trade union model works to the advantage of the Singapore economy. We will use this case as a theoretical framework to examine how labour is managed for each of the four selected countries in Southeast Asia, namely Indonesia, Malaysia, Philippines and Thailand.

Singapore

The labour movement in Singapore is represented by the National Trades Union Congress (NTUC). NTUC is a macro-focused union for the following reasons: A symbiotic relationship exists between NTUC and the ruling party (People’s Action Party (PAP)) that has governed Singapore since 1959; it has been the tradition that the top leader of NTUC is at least a minister in the Cabinet of the Singapore Government; For instance, the present Secretary-General of the NTUC is Mr Lim Boon Heng and he is also a Minister Without Portfolio in the Cabinet of the Singapore Government.

As a macro-focused union, the NTUC promotes employment and training. This strategy is, as expected, well-supported by the government and the employers. NTUC has also openly supported the government policy of attracting foreign talents and foreign workers as this policy will induce more foreign investment in Singapore and consequently generate a number of good jobs. As Singapore is a small and open economy, her GDP and labour demand fluctuate in tandem with the state of the world economy. In the recessions that affected Singapore in 1985 and 1998, when Singapore registered negative GDP growth rates, the government had, with the support of the NTUC, used labour cost reductions as an effective solution to prevent retrenchment.

Thus, the industrial relations system in Singapore is employment-driven because the unions are macro-focused (Chew and Chew 1995). This means that the labour market bears the burden of adjustment in an economic downturn. The employment-driven industrial relations system has been effective in enabling Singapore to quickly recover from economic slowdowns.

This explains why the labour market freedom index for Singapore is very high. Indeed, if the CPF scheme and the flexible wage system had been adequately captured in the calculation, the index for Singapore might be the highest. And this is only possible with NTUC being a macro-focused union.

Using Singapore as a case study, the relationship between the orientation of the labour movement and competitiveness can now be summarized, as shown in Table 3.

TABLE 3
Trade Unions Regimes and Competitiveness

| | | |
|--|---------------|---------------|
| | Micro-focused | Macro-focused |
|--|---------------|---------------|

| | | |
|---------------------------------------|---|---|
| Objective | Promote interests of union members | Full employment |
| Wage increase | Collective bargaining outcome | Outcome of increase in competitiveness |
| Effectiveness in solving unemployment | Poor | Effective |
| Hiring policy | Conservative | Needs of the economy |
| Free ridership | None | High |
| Real-in-time system for factory | Impossible | Able to implement |
| Social security scheme | Unemployment benefits scheme | Employment-based, such as the CPF scheme |
| Exchange rate regime | Seeks to allow the exchange rate to float more freely | Seeks to avoid appreciation of the currency to ensure employment growth |

In order to ensure competitiveness, wage increases should be based on market forces rather than on collective bargaining tactics. Furthermore, if the industrial relations system is geared towards minimizing variation in employment, then the wage system would be sufficiently flexible and the hiring practices would also be demand-determined. On these three accounts, macro-focused trade unions do better than micro-focused trade unions.

If cordial industrial relations exist, then the real-in-time system, which is more efficient for competitiveness, can be implemented. Under micro-focused unions, however, it is not possible to apply the real-in-time system as it is possible for unions to blackmail firms since no inventory would be there to serve as a buffer for firms. In contrast, since macro-focused unions aim for greater efficiency in production in order to ensure higher demand for labour, firms can implement the real-in-time system with complete assurance that the unions will not use the lack of an inventory to hold them to ransom.

Where social security schemes are concerned, countries in which micro-focused unions operate have an unemployment benefits scheme that provides handouts to the unemployed. However, in countries where macro-focused unions operate, the social security scheme is employment-based, such as the CPF in Singapore. Because of this difference in the social security scheme, countries in which micro-focused unions operate can afford to permit the home currency to appreciate, which is not the case for countries in which macro-focused unions operate.

Malaysia

Malaysia was a Third World success story until the 1997 East Asian Currency crisis. For over two decades, Malaysia relied on both her natural resources and export competitiveness to achieve high GDP growth. In the Malaysian industrial relations system, the government is quite powerful, and the labour movement is fragmented. The main labour federation is the Malaysian Trade Union Congress (MTUC), but there are

other federations such as the National Union of Newspaper Workers and the Malaysian Labour Organisation, which has the support of the government (Kuruville and Arudsothy 1995). Syed (1995) states that “union leaders tend to be oligarchic, controlling several unions simultaneously in an interlocking manner and not fully committed to serving the interests of workers” (p.78).

Malaysian industrial relations have been overshadowed by political developments. Malaysia has three main ethnic races, namely the Malays, the Chinese and the Indians. In the 1960s, Malays constituted 54% of the population, while Chinese and Indians accounted for 37% and about 10%, respectively. While the Chinese have done well economically in Malaysia, politics is in the control of the Malays.

Following the communal violence after the 1969 elections, the Malaysian government, which is dominated by Malays, implemented the New Economic Policy, which was designed to increase the Malays’ share of corporate ownership from 2.4% in 1970 to 30% in 1990. Norrizan (1999) points out that “The economic disparities between the Malay and Chinese communities in the early days of independence led to the formulation of New Economic Policy (NEP)” (p. 307). NEP formed the basis of the Bumiputra policy of privileges for the Malays (Wad, 1998, also discusses this issue). This policy is supported by various regulations such as the following:

- An employment quota of 30% for Malays is a prerequisite to enable firms to qualify for import protection and tax holidays.
- Government contracts are reserved for Malay-owned firms, and all firms are required to set aside 30% of their shares for Malays.
- In addition to the policy of sending Malays students abroad to study on scholarship, 55% of university enrolment is reserved for Malay students.

One evidence of the Bumiputra policy is that Chinese and Indian employees are grossly under-represented in the public sector.

Many Chinese and Indian professionals have felt discriminated against and have emigrated, and many more work outside Malaysia. There are 200,000 Malaysians working in Singapore. Due also to the high birth rate among Malays, the population composition has changed in favour of the Malays. It is estimated that Malays at present account for over 65% of the population, while the Chinese account for about 28% or less.

The onslaught of globalization is expected to force the Malaysian government to modify the New Economic Policy to place greater emphasis on meritocracy for the following three reasons: Firstly, to effectively compete with other countries, especially China, the best brains and the best workers are needed. Secondly, it is not possible to compete successfully if some of the workers are not trained, or worse, if the best workers are driven away to work in other countries that compete against you. Moreover, as the proportion of Malays in the population increases, the Bumiputra policy becomes less and less relevant.

In summary, it can be said that labour market flexibility in Malaysia is adversely affected by the following factors:

- Wage payments can be said to be affected not only by collective bargaining tactics but by political factors as well, rather than by market forces alone.
- Employment is based to a large extent on the Bumiputra policy.

Thailand

Thailand was also a Third World success story until the 1997 East Asian Currency crisis. In Thailand's industrial relations arena, a serious problem confronting Thai labour unions is the lack of leadership and solidarity. The labour movement is more fragmented compared to the Malaysian situation as there are eight labour congresses in the country. According to Levine (1997), leaders of the congresses work for their self-interests rather than for the labour movement.

Hence, unions in Thailand are not only micro-focused, but weak, divided and fragmented (Brown 2004). In the 1990s, a few attempts were made to improve the effectiveness of the unions by focusing, among other things, on democratization of the unions to ensure transparency in decision-making and to ensure that leaders are more accountable to the rank-and-file, and emphasizing training and skills development programmes (*The Nation*, 28 Jan 1996).

Brown (2004) argues that at the turn of the Century, the Thai labour movement was in the process of revaluation, criticism and reorganization and also made a concerted effort to improve health and safety at the workplace.

Although multinational companies have been criticized in Thailand and in the west for exploiting Thai workers, they comply with the labour laws of the country and offer good pay and pension in Thailand. In fact, it is the owners of small firms who are the most common abusers of labour laws, and most of the hardship and privation fall on Thailand's 3.5 million women factory workers (Levine 1997).

With globalization, firms in Thailand face three options according to Levine: Relocate plants to China or other lower-cost regions; trim labour costs by using small firms which do not adhere to labour laws; and increase the skills level through training. Policy-makers see the third option as the only option. The government and the labour movement need to work together with employers to find niches for Thai exports by educating Thais and training Thai workers effectively. However before this is done, the quality of the Thai labour movement needs to be improved.

Thus, Thailand's labour market flexibility is adversely affected by the following factors:

- Unions are micro-focused and union leaders are more concerned with individual benefits than the labour movement or country.
- Wage payments are affected by collective bargaining tactics, especially in the smaller firms.
- There is a lack of good training schemes to improve skills of the Thai workforce.

Indonesia

According to Soeprbo and Tjiptoherijanto (2001), the changing government in Indonesia since the Soeharto Regime's downfall in May 1998 has brought about opportunities for more freedom in Indonesian economic and social life. As one pillar of economic development, the labour movement in Indonesia has also benefited from such a change. Through the abolition of the one-union policy, the new government has provide wider opportunities for unionists to establish free and independent organizations. Consequently, the number of unions and union members increased substantially since 1998.

Although the number of unions has increased, most of them are not well established and their quality is perceived to be low (Soeprbo and Tjiptoherijanto 2001). The

labour movement has improved in terms of quantity rather than quality and effectiveness. The FSPSI, formerly known as the only workers' unions endorsed by the government, is still superior to other unions, for instance in number of affiliates and provincial networking.

Unions in Indonesia are under transition in the much same way as is the country and the Indonesian government. The unions in Indonesia currently are micro-focused in terms of getting more members, but effectiveness is not high. They are more excited about enjoying the freedom of organizing. The unions are not democratically managed, and union orientation is dictated by leaders who may have micro interests in mind. The industrial relations system in Indonesia needs a stable political and economic environment before unions can play a significant role in the country (for more discussion on trade unions and the new Indonesia, see Hadiz, 1997).

In the case of Indonesia, labour market flexibility is low due to the following factors:

- The labour movement is fragmented and micro-focused. Unions are more concerned with labour rights than with competitiveness.
- A weak economic and political environment such as social and political unrest which makes it difficult for firms to operate.

The Philippines

The Philippines has the longest history of industrialization in Southeast Asia. But the Philippines economy has not been performing well (Sicat 1970; Ofreneo 1995). The Philippines industrialization started with import substitution in the 1950s and switched to export-oriented industrialization in the 1970s. However, both phases of industrialization met with a balance of payments crisis. Consequently, the external imposed Structural Adjustment Programme was adopted in the 1980s, which called for the wholesale liberalization of the economy or the removal of the remaining protection of import substitution industries. According to Ofreneo (1995), the timing of the SAP was a disaster. It coincided with the recession in 1980-83 and the depression in 1983-85. He concludes that both Export Orientation and Structural Adjustment Programme strategies failed to achieve the twin goals of greater industrialization and job creation for the Philippine economy.

At the same time, the Philippine trade union is badly divided. According to Ofreneo (1994), there are about 8 labour centres and 140 labour federations and thousands of independent unions. Inter- and intra-union rivalry is the worst in the Philippines. One has to conclude that unions in the Philippines look after their own narrow interests and few have the macro interest at heart. West (1997) examines whether unions should agitate for bread and butter issues or act as social movements as agents of broad social change in the context of the most militant contemporary labour movement in the Philippines. She further states that "The US was great at exporting forms of political democracy to the Philippines, but it did not export economic democracy" (p.202). But many countries in the region did enjoy economic democracy with, in the case of Singapore, the aid of macro-focused unions.

In terms of human resource development, the Philippines probably have done the most in South East Asia. Also, because their professionals speak English, unlike most of the other Asians, the Philippines have become the largest exporter of professionals to countries in Asia and beyond. The export of Filipino professionals in such large

numbers shows that the industrial relations system in the country does not operate to suit Filipino interest. With globalization and intensified competition, one would expect to see more Filipino nationals working aboard. Before the industrial relations climate can be modified to attract foreign investment, the Filipino situation calls for better law and order. The recent spate of kidnappings does not help to promote the country as an attractive place for foreign investment.

Philippines' labour market flexibility is therefore adversely affected by:

- Micro-oriented unions and inter- and intra- union rivalry.
- Poor legal and political environment.
- Lack of a conducive environment for economic development and productivity enhancement.

Conclusion

As globalization spreads, there is a tendency worldwide for unions to become macro-based. However, for unions to be macro-based, a common interest must be arrived at between the government and the labour movement. Attempts to build a common interest, however, may be lacking in some countries. Singapore presents a classic example of a country in which her unions are macro-based.

Trade unions in Malaysia and Thailand are not macro-based. The labour movement in these countries have not functioned as a tool for enhancing the respective country's competitiveness and hence for enhancing job opportunity. The chances of Malaysian and Thai unions evolving into macro-based institutions are possible in the near future, provided a common interest between the government and the labour movement can be established. In the case of Indonesia and the Philippines, the labour movements in these two countries have been a liability in attracting foreign investment.

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