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FDI AND ITS IMPACT ON EMPLOYMENT AND SOCIAL POLICIES: THE MALAYSIAN EXPERIENCE

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Introduction

In the past 3 decades unions and workers were asked to believe that industrial peace will attract investment and create employment which will automatically lead to better wages, better labour standards and greater respect for workers rights. Absence of strikes and protests at workplace, did bring in FDI and help to create jobs but the promised improvement in standard of living and trade union rights is yet to materialise.

It is now clear that under increasing globalisation, corporations will be on the move chasing after cheap labour to maximise profits and there will be no gains without serious and concerted efforts for workers and trade unions.

Following the economic crisis, the Asian and Pacific Regional Organisation of the International Confederation of Trade Unions (ICFTU-APRO) highlighted the plight of millions of workers thrown out of jobs in the region and most countries had no social protection : Workers without jobs or wages were left to fend for themselves. It was reported that the economic and social impacts on their families were so devastating that increasing number of cases of children were taken out of schools. The long term effect of such economic and social deprivation will be reflected in the future development of the countries concerned.

Since 1998, MTUC has repeatedly emphasized the social partner role of trade unions together with employers and governments, and seek to develop better and meaningful standards for social development.

There are very few legal provisions on social safety nets in Malaysia and what exists is inadequate. Unlike employees in the Government service, who do not face retrenchment or termination, security of tenure in the private sector always remain a matter of serious concern. The 1997 east Asian economic crisis suddenly placed even greater pressure on trade unions to address this issue with greater urgency and persistence.

A decade of growth

Following a spiralling decrease of tin and rubber prices and stagnating global demand, Malaysia experienced negative economic growth in the mid-eighties. Between 50,000 – 100,000 workers lost their jobs, spread out across nearly all sectors.

The government responded by trying to boost investment and spending. To attract foreign investment, the government introduced new incentives under the Promotion of Investments Act 1986, cut down on red-tape, opened up new industrial zones and modernised the infrastructure. The government initiatives coincident with the revaluation of the yen in 1985 encouraging a large number of Japanese manufacturing firms to lower production costs by off-shoring production units to Southeast-Asia. In subsequent years, investment from Taiwan, South Korea and later Singapore followed suit. Foreign direct investment increased from just RM 1.7 billion in 1985 to peak at RM 17.2 billion in 1992.

On the back of foreign investment, the manufacturing sector grew by 329% between 1987 to 1997 and contributed 46.9% to the country's growth during that period. Foreign ownership of manufacturing increased from 33% in 1985 to 44% in 1995. Foreign investors also became dominant in crucial sectors, for example, owning up to 86% of the electrical and electronics sector. As of 1996, foreign owned firms controlled nearly 70% of our manufactured exports.

Limits to Growth

The large inflow of foreign investment, while very effective in reviving the economy, is not, by itself, a long term solution to economic development. At the primary level, it has to be accompanied by several domestic developments such as a transfer of technology to local firms, the development of local production capacity and sourcing of inputs and the development of local human resources. Generally, if indigenous enterprises fail to take advantage and benefit from foreign firms, then the economy may well get stuck as a labour intensive export-manufacturing platform for multinational companies.

Such a scenario, at least, partially exists in Malaysia. For example, the electronics industries, which contributes close to 65% of manufactured exports still imports close to all its inputs. In 1996, the sector actually ran a RM 400 million deficit in its trade balance, exporting RM 104.3 billion but importing 104.7 billion.

Suppressing Wages

For a country with a small population like Malaysia, inviting labour intensive foreign investment creates a tight labour market which threatens to increase labour costs. In 1979, Singapore dealt with the same issue by allowing wages to rise thereby pushing out labour intensive industries in favour of more technology intensive investment. This allowed for a general increase in wages and lifestyles of

workers and has, a generation later, produced a highly skilled workforce able to support high-tech instead of labour intensive industries.

The Malaysian government, on the other hand, responded to the labour problem by the large scale recruitment of foreign workers. Bowing to pressure from major corporations, about rising workers wages, the government began to import labour thereby slowing wage increases among blue-collar workers. By the end of 1996, the migrant labour population had reached an estimated 2.5 million.

According to the Ministry of International Trade and Industry (MITI) for the period of 1987 to 1995 total factor productivity (TFP) only increased by 1.8%. For the manufacturing sector, the increase was 4.7%. Growth has been mainly spurred by increase in capital and labour inputs. MITI reports that the contribution of various factors to average value-added growth was 53% capital, 31% labour and only 16% productivity.

EFFECTS ON LABOUR

Retrenchment and Reduction in Wages

Following the 1997/98 economic slowdown, to reduce production costs in response to decreasing demand, employers drastically reduced overtime work, lower or withdrew bonuses, froze salaries, cut allowances and wages and in the extreme case retrenched workers. There are also cases of employers who were not genuinely affected by the economic slowdown but used the opportunity to impose cost-cutting measures on staff. Retrenched workers were not re-employed, and those who found alternate employment found their earnings drastically slashed

In early 1998 several companies, especially those engaged in manufacturing construction related products closed down and shut their gates without due notice as required under the law. Employers responded to trade unions' criticism by reasoning that the provisions of the Employment Act (Termination and Lay off Regulations) permit them to retrench without notice so long as they pay wages in lieu of notice.

New Regulation To Monitor Retrenchments

Following MTUC's repeated complaints and public criticism, government introduced a regulation requiring employers to notify the nearest Labour Department at least 30 days before retrenching workers. Government also accepted MTUC's proposal to set up a tripartite workers retrenchment monitoring committee. MTUC proposed that the committee should go further than merely monitoring retrenchment and instead propose concrete measures to maintain employment.

Raise The Quantum Of Termination Benefits

MTUC asked the government to consider tax incentives to encourage employment, amending the Employment Act to increase coverage of the Act and the quantum of retrenchment benefits thereby discouraging retrenchment. At the same time, the government should continue to expand job creation programmes to absorb unemployed workers. The plantation and agriculture sectors should be forced to improve working conditions and quality of employment to enable local workers to take up the work. Re-training of retrenched workers should be a priority.

Strengthening the safety net

Following a series of discussions and extensive debate at the tripartite labour forum, The National Labour Advisory Council, in 1980, government introduced the termination and lay-off benefits regulations to impose a certain minimum safeguard and payment of retrenchment compensation ranging from ten to twenty days wages for each year of service depending on the length of service.

Quantum of retrenchment benefit is grossly inadequate and has remained without any change since it was introduced twenty years ago.

However organised workers in the private sector, unions have significantly enhanced the quantum of retrenchment benefits through collective bargaining. In the banking sector, unions negotiated special package for employees who volunteered to accept retrenchment, as high as two and a half months salary for each year of service. Union's effort helped to reduce anxiety and tension amongst affected workers.

Thousands Deprived Of Retrenchment Benefits

More than 10,000 workers who lost their job are still waiting for their retrenchment benefits, many pending for more than 3 years.

Disclosing a list of 10 companies, including MNC's, involved in manufacture of metal, plastics, wood, electrical and electronics products, MTUC highlighted Government's failure to act firmly to enforce the Labour Laws thus leading more employers to openly defy Labour Department's directive.

The Employment Act 1955 has specific provisions requiring employers to give 4 to 8 weeks notice prior to retrenchment and pay severance benefits ranging from 10 to 20 days wages for each year of service based on the length of service.

Receivers appointed to manage debt ridden companies, take refuge under the provisions of the Company's Act and refuse to comply with Labour Court Orders. Many frustrate the workers by challenging Labour Court's Awards at the Session Court, High Court and Court of Appeal.

Retrenchment & Unemployment Fund

Four years ago MTUC submitted a proposal to set up a National Retrenchment and Unemployment Fund. Employers and workers should each be required to make a statutory contribution of RM1.00 per worker per month towards the Scheme. The contributions will grow at the rate of RM2.00 per worker per month, and contributions from the existing 5 million SOCSO members will be able to yield RM10 million a month, RM120 million a year.

The funds as well as the proceeds from investments could be utilised to pay the retrenchment benefits of workers who have been deprived of such benefits. The quantum should be pursuant to the Employment (Termination and Lay-Off Benefits) Regulations, 1980, or according to the terms and conditions of their respective collective agreements.

The Fund should also consider paying retrenched workers a monthly allowance to support their families until they get a new job.

Retrenched workers should be required to register themselves with the Employment Exchange, as a condition to apply for fixed monthly allowance. MTUC proposed a waiting period of 3 months before they can receive unemployment relief.

Workers who refuse to accept suitable alternative employment offers, or made available to them by the Employment Exchange, will be disqualified from receiving any assistance from the Scheme.

MTUC's proposal to entrust the Social Security Board with the administration of the scheme would eliminate additional administrative costs. Government is supportive of the scheme, but in the face of vehement opposition by employers, Government seem to have back-tracked

Minimum Wage Campaign

Following an extensive study of more than 165 collective agreements from throughout the country, MTUC concluded that Government's support and intervention is urgently required to ensure a fair living wage for working people.

Currently the Employment Act which sets minimum conditions on annual leave, sick leave, public holidays, working hours and a few other terms and conditions is silent on the basic and most essential issue of wages. Absence of a specific provision on wages has led to widespread exploitation.

Minimum Living Wage

Minimum wages constitute an integral and a very important element of the trade union movement's holistic approach towards creating, sustaining and improving the quality of live of our workers.

MTUC's proposal of RM900 per month as minimum wage is based on the essential and basic needs of a single person.

Survey on Minimum Wage

A study of wage scales in 165 companies showed that even in major towns such as Penang, Ipoh, Shah Alam and Johore Bahru, unskilled general workers are paid as low as RM300 to RM350 per month.

Overall, the study shows that 46.2% of the company's involved are paying a minimum wage below RM400 per month, and only 15.4% of the companies pay more than RM500.

Responding to employers call to link wage increase with productivity MTUC agrees that a major portion of wage increase must be based on productivity: In order for such a scheme to be fair and effective, a minimum wage must be put in place before implementing productivity related annual wage increase. A minimum wage must take care of workers basic needs.

MTUC stressed that by setting and implementing a minimum living wage of RM900, Government will be able to effectively address:

- **industries need for manpower**
- **reduce dependency on foreign labour**

- **eradicate poverty**
- **improve purchasing power**
- **strengthen and increase manufacturing, and**
- **facilitate positive economic growth.**
- **foster fair competition among companies**

With 2 million foreign workers in the country Government is in a good position to discard and end the low wage regime.

Social Security

Social Security Scheme in Malaysia, started in 1971 essentially to take care of employment injury insurance scheme. Over the years trade unions have secured substantial changes to the social security act:

- to increase the scope and coverage;
- enhance compensation for permanent and temporary disablement due to employment injury;
- compensation for permanent disablement due to illness;
- compensation for dependants of workmen in the event of death due to illness or employment injury.

Health Care

Health care at Government hospitals and clinics is provided free of charge to government employees but it is available to all members of the public at reasonable cost. However quality of healthcare in government hospitals and clinic remains unsatisfactory.

In the private sector, unions' have negotiated for better quality healthcare at employers cost, predominantly for employees only and will be discontinued on retirement, retrenchment or termination. The need to improve healthcare and ways to finance this crucial service is imperative.

Impact of Freedom of Association And Collective Bargaining on Social Development

ILO convention No 87 on Freedom of Association and Protection of the Right to Organise was adopted at the 31st Session of the ILC in 1948 and it is reported that as of September 2001, 136 countries have ratified, and 149 countries have ratified Convention No 98 on the right to organise and collective bargaining, adopted at the 32nd Session of the ILC in 1949.

It is a shame that more than 50 years since these conventions were adopted, many governments still refuse to accord the most basic and fundamental rights to workers. And even countries which have ratified, have not promulgated appropriate legislations in line with the principles of these conventions.

Workers' Rights and Development

In spite of the effectiveness of collective bargaining as an important tool to narrow the ever increasing income gap, Governments are either convinced or intimidated by MNC's arguments that trade unions and collective bargaining rights will drive away investors. In the name of globalisation and competition, powerful corporations, both foreign and national, have restricted growth and influence of trade unions, removed well established minimum standards, blocked minimum wage legislations, weakened collective bargaining.

Improving Conditions Of Work And Life

Trade unions are the largest independent democratic non-governmental organisations in most countries of the world including Malaysia. They are structured to represent their members and working women and men generally at the workplace, by industry, sector and occupation, on a national scale; A common feature of trade union work is the goal of improving the conditions of work and life of working people. The means of achieving this goal include collective bargaining with employers at various levels, influencing government policies that impact on conditions of work and life, and providing direct services to members through the representation of grievances, legal assistance, and social welfare programmes. Perhaps the simplest way to describe the role of trade unions is that they aim to get the fears and aspirations of people whose voice in society would otherwise not be heard, understood and addressed.

Organised around the process of work, trade unions aim to exert a bargaining power on the contract of employment and the factors that affect it, so as to ensure that working people are treated with dignity and justice. Their goal is to counter-balance the inherently unequal relationship between individual workers and employers, thus enlarging citizens' freedom to influence a key determinant of their lives. In doing so they are expressing interests which can conflict with those of powerful groups in society but which can be resolved to mutual advantage and in the public interest where effective processes of industrial relations are built up. To quote from the 1995 World Development Report, "... *the probability of governments passing inefficient labour legislation may be higher when workers' right to representation is not protected.*

Social Stability And Progress

From its foundation in 1919, the ILO has sought to develop standards in the social and employment field which reflect the interest of all nations in social progress and the development of institutions which enable social problems and conflicts to be resolved. Its standards take the form of principles to be applied in national law and practice. They thus provide a framework which is clear in terms of objectives but provides sufficient flexibility to be adapted to national circumstances.

In recent years, as the interdependence of the world economy accelerated and respect for democratic forms of governance spread, the ILO was able to develop a large degree of consensus over the universal applicability of seven of its most basic Conventions. The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up, adopted by the International Labour Conference in June 1998, sets out the commitment of the international community to establish a social minimum at the global level which responds to the realities of globalisation. The seven Conventions specified in the Declaration are core labour standards which, where properly observed, create the foundations for a sound system of industrial relations in which trade unions, together with employers and governments,

can play a constructive role in working to ensure that social progress goes hand in hand with the progressive opening of markets to international trade and investment. ILO Conventions ratified by ASEAN member countries.

Core Conventions Ratified by ASEAN Member Countries

- C29 Forced Labour Convention, 1930
- C87 Freedom of Association and Protection of the right to organize Convention, 1948
- C98 Right to Organise and Collective Bargaining Convention, 1949
- C111 Discrimination (Employment and Occupation) Convention, 1958
- C182 Worst Forms of Child Labour Convention, 1999

Conventi on	Malays ia	Indonesi a	Singapo re	Thailan d	Philippin es	Vietna m	Cambod ia	Lao s	Myanm ar
C29	√	√	√	√			√	√	√
C87		√			√		√		√
C98	√	√	√		√		√		
C111		√			√	√	√		
C182	√	√	√	√	√	√			

The economic and financial turmoil of 1997-1998 which started in South-East and East Asia and spread to affect nearly all countries, has served to highlight the need for a new architecture to govern world financial markets. Its severe social impact on the most affected countries has also drawn attention to the difficulty of achieving financial stability without also ensuring social stability and progress.

CONCLUSION

Powers And Influence Of MNC's

In Malaysia birth and growth of trade unions are severely restricted. Unions were barred from the electronics industry during the early 1970s to encourage foreign electronics producers to locate plants in Malaysia. A no union policy along with tax holidays and other incentives, attracted dozens of world's largest electronics companies.

MNC's, mainly from OECD countries exert great deal of pressure on the Government to successfully ensure that independent industrial unions are not permitted.

Respect for freedom of association is central to the attainment of economic development and sustainable growth. The evidence from many industrialised countries - France, Germany, Japan, Norway, etc - indicates the positive link between increasing wages and obtaining better productivity by improving the motivation of workers. Higher wages also act as a spur to productivity improvements by obliging employers to try harder to make economies on other elements of their costs, so increasing the efficiency of the production process. Furthermore, setting higher social standards often forces employers to upgrade and so results in more efficiency and higher growth in the long run.

Trade unions play an essential role in the development process by achieving a sustainable distribution of income and wealth. Unions have played a crucial role in improving the wages and working conditions, so ensuring that the benefits of productivity growth are not confined to a small elite but are distributed more widely over the whole population. Productivity, growth and development all depend upon a generalised perception that the labour market is equitable. Where this does not exist, the consequence has either been stagnation - shown by the below-average long-term performance of many Latin American economies with extreme income and wealth inequality - or social and political instability which has undermined development efforts.

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